



Q4 | 2021



The Colony Group

# Investing with Values

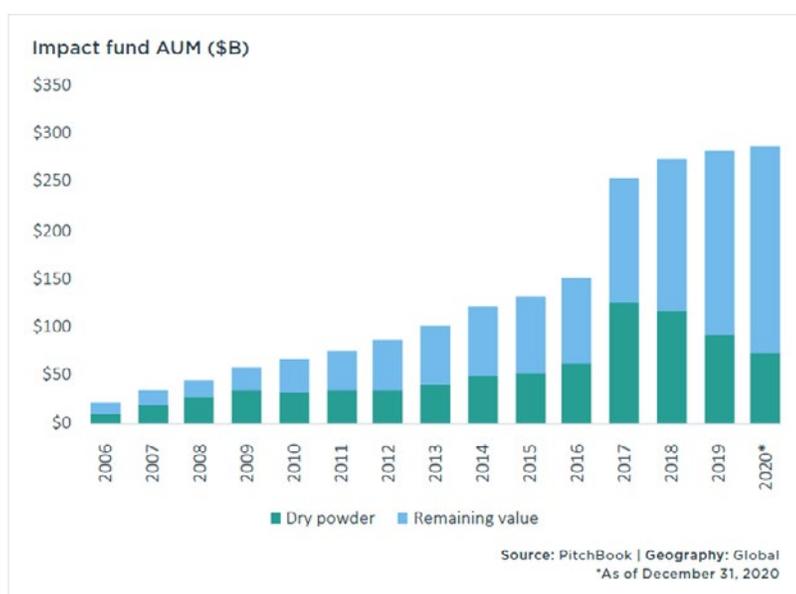


## Q4 Observations

This edition marks the eighth issue of our Investing with Values newsletter. In prior editions, we have covered a range of approaches investors can use to achieve impact with their capital. Examples include active ownership, thematic investing, and impact bonds. We have discussed how these approaches can help investors realize a wide range of important social and environmental objectives. However, thus far, we have focused exclusively on impact investments available in the public markets. We now turn our attention to impact investing in the private markets. Private impact investing is growing rapidly and allowing qualified investors to have a more meaningful and direct impact on issues that align with their values.

First, let's discuss the key differences between impact investments in the public and private markets. Material differences exist in both the liquidity and structure of the underlying investments. Publicly traded sustainable mutual funds generally hold individual stocks and bonds that are market traded and offer daily liquidity. An investor can sell all or a portion of her ownership in a fund and receive cash the following business day. However, a private impact fund will take direct stakes in private companies, projects, or assets aimed at achieving impact in a particular area, whether it be decarbonization, social justice, or economic development. These funds are often structured as a limited partnership, usually with a ten-year lifecycle. During this period, investors have little to no access to their capital. In exchange for this illiquidity, the investment manager of the fund identifies and invests in private assets seeking to achieve material and demonstrable impact within a targeted theme. Furthermore, private market investments have historically earned higher rates of return than equivalent investments in the public markets. This is often referred to as the "illiquidity premium," or the extra compensation an investor can expect to earn by accepting the risk of holding illiquid assets. Due to their complexity and illiquidity, private impact offerings are only accessible to sophisticated investors who satisfy certain income and net worth requirements. Minimum investments in private funds are typically much larger than public funds, and thus it's important to consider sizing and diversification when evaluating these opportunities.

While private impact funds have existed for decades, their growth (both in terms of the number of funds and overall assets) has accelerated sharply. According to PitchBook, there was \$286 billion in private impact assets under management globally at the start of 2021. This represented a nearly two-fold leap since 2015. This rapid growth has been supported by the understanding that policy and philanthropy alone are not sufficient to tackle the world's most pressing challenges and that private capital must also play a key role as part of an integrated solution. In terms of capital raised for impact funds between 2006 and 2021, private equity, real estate, and other real assets were the largest categories. Drilling down more specifically into impact themes, clean energy and sustainable infrastructure,



climate change mitigation, and access to quality healthcare have been popular. More recently, funds targeting financial inclusion have received increased interest. Within real estate, affordable housing has been a target area. Historically, institutional investors have been the primary adopters of private impact funds; however, other investor groups such as single- and multi-family offices and high-net-worth individuals have increasingly directed capital towards the space.

When committing capital to funds with a decade-long time horizon, investors are likely taking the long-view that sustainability is critical to both financial returns and societal impact. This patient-capital mindset can afford investors the ability to realize great impact in targeted areas - impact that is tangible, direct, and measurable. Private impact fund managers will often use a framework or roadmap that spells out the outcomes they seek to produce and the specific investments or activities necessary to realize those outcomes. In addition, the fund manager will likely measure, monitor, and report on how investor capital has yielded demonstrable benefits towards the fund's target theme or solution. These are often shared in annual fund impact reports. For example, a fund focused on climate change mitigation may report on specific investments or projects and detail the resulting reduction in greenhouse gas emissions or in energy or water usage. A fund focused on financial inclusion may highlight how its investments have increased access to services among underbanked populations, empowered underserved groups, or contributed to economic equality. Funds may also align their investments with global mandates such as the UN Sustainable Development Goals (SDGs) and track ongoing progress towards the realization of these goals. These motivations exist alongside financial goals and form the basis for evaluating a private investment's "double-bottom line."



**Select impact themes and sample metrics**

Impact theme	Sample metric
Access to essential services (financial services, healthcare, education)	<ul style="list-style-type: none"> <li># of individuals with bank accounts</li> <li># of patients served</li> <li># of students enrolled</li> </ul>
Quality jobs, income generation	<ul style="list-style-type: none"> <li># of jobs created</li> <li>Average income created</li> <li>Employee demographic</li> </ul>
Affordable housing, infrastructure development	<ul style="list-style-type: none"> <li>Units of developments completed</li> <li># of individuals housed</li> </ul>
Women's empowerment	<ul style="list-style-type: none"> <li>% of portfolio companies or investment funds founded or operated by women</li> </ul>
Environmental sustainability	<ul style="list-style-type: none"> <li># of trees planted</li> <li>Reduction in greenhouse gas from product or service</li> </ul>

Source: IRIS catalog, Global Impact Investing Network

A significant amount of capital is needed to address a variety of social, environmental, and economic challenges. The UN Development Programme estimates a \$2.5 trillion annual shortfall in funding needed to address global climate pledges and the fulfillment of the UN SDGs. As the private impact space continues to grow, we anticipate exciting new opportunities for qualified investors to further align their investments with their values.

# Colony Investing Solutions

Some statistics of interest from The Colony Group's Sustainable Investing Solutions global equity portfolio:

**0%**  
Tobacco Exposure

**34% Less\***  
Carbon Intensity

**74% Less\***  
Direct Emissions

**32% Less\***  
Indirect Emissions

*\*Relative to MSCI All Country World Index  
Source: Morningstar Direct*

For more on Sustainable Investing Solutions, read our [Sustainable Investing Primer](#) or our recent article in Worth magazine on [thematic investing](#).

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## Sustainable Investing in Action

### ENGAGEMENT

- > In 2021, Boston Trust Walden engaged with more than eighty companies on the disclosure of workforce composition. In addition, they filed shareholder resolutions for the 2022 annual meetings of Dollar General and SEIC Investments and withdrew those resolutions after both companies agreed to disclose EEO-1 reports annually.
- > Impax has successfully engaged with Citizens Financial since 2018 on the issue of pay equity reporting. Citizens has fulfilled its commitment to expand pay equity reporting over time, published the results of its gender and pay equity analysis in its 2021 proxy statement, and more closely aligned its demographic disclosure with EEO-1 reporting guidelines.
- > Green Century recently won the support of nearly 70% of Costco shareholders for a first of its kind climate change resolution. The resolution asked the company to set greenhouse gas emissions reduction targets for its entire value chain.

### CORPORATE RESPONSIBILITY

- > PayPal announced a \$535 million commitment to advance racial economic equity and support black and underserved communities. As part of this initiative, PayPal announced a \$25 million investment in SoLa Impact, a leading minority-led housing developer currently raising money for its Black Impact fund to build high-quality affordable housing in California's inner cities.
- > Google increased the length of its paid parental leave, caregiver leave, and minimum vacation days. The company also announced partnerships with AARP and Ford on workforce readiness and mentorship programming.
- > Mastercard invested \$5 million in Howard University's Center for Applied Data Science and Analytics (CADSA), which aims to eliminate racial bias in AI.

*Sources: Morningstar, Bloomberg, engagement reports & publicly available information from funds*

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