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Impact Investing News

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Welcome!

Welcome to the inaugural issue of Impact Investing News.

Whether you're just hearing about Impact Investing for the first time, or you have been part of this movement for years, this publication will keep you on the front-edge of this rapidly evolving investment approach.

I'd like to start by level-setting on the taxonomy of impact investing.

- **Impact Investing** (aka Sustainable Investing, Values-Based Investing, Ethical Investing)

  Impact investing is an investment approach that intentionally seeks measurable financial return AND positive social or environmental impact. It's a common lens placed in front of investments across all asset classes (equity, fixed income, alternative), asset fund types (mutual fund, ETF), and industry sectors (tech, energy, consumer goods, ...).

- **Socially-Responsible Investing**

  Socially-responsible investing is a label used for an earlier generation, but related, approach of investing primarily using negative filters. The stock of companies profiting from tobacco, gambling, and other addictive industries (aka Sin Stocks) are filtered out of consideration.

- **ESG Investing**

  ESG refers to a set of factors used to classify and measure the degree of impact for a given business or investment asset. These factors are divided into 3 broad categories: Environmental, Social, and Governance (ESG). When scores are assigned to the ESG factors it allows one to compare relative impact between investments. Impact investors look for favorable ESG scores when selecting investments for their portfolios. While ESG factors and scoring are not standardized amongst rating agencies, the Securities Exchange Commission (SEC) is pushing things in that direction.

Monster Growth in 2019

Morningstar leaked some numbers from its upcoming 2019 Sustainable Funds report in a recent conference call and they are eye-popping. Inflows of new $'s into sustainable funds over the past few years hovered around $5 billion each year. Then in 2019 inflows jumped to over $20 billion. The U.S. investing public has woke!

Why this sudden interest in these impact funds in 2019? Record floods, record fires, record heat, record drought, record corporate corruption headlines, record income disparity…these global issues simply could no longer be ignored.

This awareness has expanded beyond a "progressive" agenda. Investors, broadly, are now seeing how environmental and social issues, such as climate change and employee treatment, are actually material risks to their investments. Businesses and governments can no longer afford to ignore ESG factors. Investors are beginning to demand transparency and measurement of environmental and social impact.

Now let's take a look at some of the latest impact investing headlines. I think you'll quickly realize you are part of a movement that is beginning to change the world for the better.

Climate Gets Its Day at Davos

The glitterati of the global business world recently convened at the annual World Economic Forum in Davos, Switzerland, in January. Most of the developed world now appears to see climate change as the greatest threat to our planet. After 50 years, climate change finally took the top spot on the agenda for this elite group that focuses on finding solutions to the greatest challenges the world faces. Unfortunately, President

Trump, who attended the conference, continued to play the contrarian and proclaimed climate change as being blown out of proportion.

BlackRock Shock

On the eve of the Davos conference, Larry Fink, CEO of BlackRock, the world's largest asset manager, addressing a letter to CEOs worldwide, stated climate change and sustainability risk factors are the planet's greatest threats to investments and the investing public. To paraphrase his message: "Wake up or become irrelevant." He spoke with an ESG intelligence like I have never heard from a CEO. Having spent much of my career working in the conservative world of banking and investments, this letter is a BIG deal. Mr. Fink does not mince his words. I can't even imagine the layers of in-house attorneys and corporate risk managers that weighed in and wrung their hands over this message. A letter such as this is hard to later walk back. I encourage you to read the entire letter.

Goldman: "No Women on Your Board? Nice-try-bye-bye."

OK this one is not about the environment, but I had to include it. At Davos, David Solomon, CEO of the world-renowned investment bank and asset manager, Goldman Sachs, said his firm will no longer take a company public in the U.S. and Europe if it lacks a director who is either female or diverse (he put Asia on notice). To paraphrase the firm's policy: Non-diverse corporate boards and management are not acceptable. It reminds me when a past Goldman CEO went out on a public limb with a video where he shared, "I'm Lloyd Blankfein, Chairman and CEO of Goldman Sachs, and I support marriage equality." Other big bank CEOs were expected to follow his lead and then left him blowing in the wind. Goldman deserves our admiration for its courage to take the socially-conscious lead without always having a net.

China: Commitment to Eliminate Single-Use Plastic

Did I hear this right? Yes, China is making this commitment (before the U.S.) to put policies in place to begin reducing their plastic waste. To give you an idea of the scale of its problem, China's largest dump, the size of around 100 football fields, is already full, 25 years ahead of schedule. Non-degradable bags will be banned in major cities by the end of 2020 and in all cities and towns by 2022. The restaurant industry will also be banned from using single-use straws by the end of 2020. This sounds like a great start. It's going to be important China actually walks this talk; its leaders are not known for their transparency.

Carbon-Negative Pledge from Microsoft

Hundreds of corporations, worldwide, are pledging to become carbon-neutral. Like the great businessman he is, Bill Gates isn't satisfied with "me, too" results. During Davos, Bill Gates announced Microsoft would become "carbon-negative" by 2030, thereby removing more CO_2 from the atmosphere than produced by the creation and use of its products. Experts say Microsoft will need to first incentivize their managers to squeeze out every CO_2 emission from their supply chain. But to go negative it will require bringing emerging technologies that capture CO_2 to market. Microsoft has pledged $1 billion to fund this innovation.

Latest in Transparency: Carbon Footprint on Food Labels

Move over Low Fat. Hello, Low Carbon. Quorn Foods, the maker of meat substitutes, will begin posting the carbon footprint of its food products beginning in June of this year. Food production is a major source of greenhouse gases, accounting for nine percent of the U.S. total emissions, according to the EPA. Quorn is counting on promoting the small carbon footprint of its products as a differentiator among the meat alternative producers. If consumers place a high value on this measurement (fingers crossed), it could drive a competitive industry towards a greater good.

Starbucks Faces Steep Climb

I feel guilty every time I forget to bring my reusable cup to Starbucks. As I'm putting milk in my Americano I get sick looking at the overflowing trash container full of single-use cups, and non-compostable lids, "bistro boxes", and straws. Starbucks knows it has a problem and they re-upped sustainability pledges at Davos. The global coffee company is targeting 50% reductions in carbon emissions, water withdrawal, and waste sent to landfills by 2030. The task is huge. This single stat speaks miles: Starbucks in 2018 was responsible for creating 868 metric kilotons -- more than twice the weight of the Empire State Building -- of coffee cups and other waste. It's tackling the problem on too many fronts to mention, but I really liked this one: In 2017 Starbucks sold $1 billion of bonds to help fund the green and ethical sourcing initiatives in its supply chain. But discouragingly, Starbucks offered a generous discount to UK customers who brought in their reusable cup and, still, only 5% of customers followed through. It looks like we need Gen Z's adoption of greener personal behaviors to influence old habits.

JetBlue First U.S. Airline to Address Flight Shaming

Over the past year, social pressure has been building in Europe to use alternative forms of transport to air travel due to its higher carbon emissions. European airlines have felt the pinch and are now touting their green initiatives in response. This "Flight Shaming" movement is expected to make its way to the U.S. shortly. JetBlue has decided to get in front of it by pledging to be carbon-neutral in 2020 on its U.S. domestic flights. They've been at this since 2008 when they began to invest in carbon offset programs, such as reforestation and alternative energy generation. Now JetBlue will begin to use biomass (sustainable) fuel for all its flights out of San Francisco.

Frankenstone – Mad Scientists Discovery Carbon Eating Concrete

You may not realize it but concrete is one of the world's biggest producers of CO2, so big that if it were a country, it would be the third worst emitter behind the U.S. and China. But bricks and mortar may never be the same, thanks to a group of scientists who have created a type of living concrete that may help reduce greenhouse gases. These new bricks are manufactured using biology rather than traditional chemistry, according to the scientists at the University of Colorado, Boulder, who recently published their findings. The process utilizes bacteria that capture energy through photosynthesis. That means that carbon dioxide is consumed during manufacturing, in contrast to conventional concrete production, which spews the greenhouse gas. Now they're tweaking the recipe to help create greater strength in the material to meet building standards.

Investors Ignore Trump; See Renewables as Future

U.S. investors don't appear to share President Donald Trump's doubts about renewable energy and climate change, pouring a record amount of cash into wind, solar and other clean power. Money flowed into renewable projects last year as companies rushed to take advantage of tax credits before they are reduced this year. Renewable energy sector spending in the U.S. jumped 28% to $55.5 billion last year as reported by Bloomberg. "It's notable that in the third year of the Trump presidency, which has not been particularly supportive of renewables, U.S. clean energy investment set a new record by a country mile," Ethan Zindler, head of Americas for BNEF, the research arm of Bloomberg. American investors appear to understand coal is NOT the future.

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