

MAKING AN IMPACT

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Justin Sykes, CEO and founder of Guernsey-based Innovest Advisory and a pioneer in impact investment, outlines the recent development of that sector.

How does impact address the eternal conflict of outcomes and returns?

The narrative around tension between returns and achieving non-financial outcomes, whether they be environmental or social, and the argument that if you want to achieve good, you have to sacrifice returns, well that paradigm is pretty much dead and buried.

As the sustainable thematic grows, so does the range of sustainable and impact investment opportunities, and those opportunities are expanding along a continuum of risk and return and impact.

It is possible to invest with no trade-off between impact and financial return. It just depends on the nature of the investment. Lower-risk investments can still achieve meaningful financial and environmental returns.

Often investors are willing to make an investment we call 'impact first' - the impact is the priority to them over the financial returns. It really depends on the investors' requirements.

Where is sustainable finance today?

Over the past few years we've seen a rapid broadening of the market and of the investor types interested or actively deploying capital into sustainable and impact investing.

This is seen as an opportunity for HNWIs to enhance their long-term philanthropic and charitable objectives. By investing in impact and receiving a return, they can grow the pot of wealth that can ultimately be deployed for philanthropy.

We're now starting to see asset managers and banks really looking at the sustainable finance market as an opportunity to identify new investments in emerging markets and to respond to a growing demand from clients to invest in a way that achieves positive impact for people and planet.

How can new structures enhance the attraction of this sector?

We are seeing very strong growth in the development of new instruments – funds, capital market instruments and frontline businesses we call 'impact SMEs', where there is exponential growth.

But when we look at financing the UN Sustainable Development Goals and achieving those targets, we need to move from the billions that currently flow from the world's richer markets to the poorer, to trillions.

We get there through innovative financing structures. Blended finance is really fascinating - a concept where, if an investment may create challenges for an investor on issues such as risk return or liquidity, you create capital stacks that bring different types of capital into the deal. But we need to get these structures operating at the level of not hundreds of millions, but billions.

Is it time for a standardised assessment framework?

With regard to climate, there's no question that that mandatory reporting is coming – the writing's on the wall.

If we go back five years, it very much was an alphabet soup of standards. Now we're starting to see coalescence around a smaller group of core standards that are starting to become industry practice. That's helpful to make signals to the market and for investors in making it easier to understand the space.

How important is measurement in this sector?

Measurement of impact is absolutely critical for us. It defines this whole space. If you are unable to measure a clear impact, outputs, and ultimately outcomes, it's very difficult to defend against greenwashing or impact-washing.

We sit down with the fund manager bringing a new impact or sustainable fund to market and have a tough conversation about authenticity and intentionality. If you put the words impact or sustainable in your fund, you are telling the market that you are planning to achieve a whole range of non-financial and financial returns. Immediately that language has weight, and consequences. You're holding yourself out to the market to, in effect, deliver a double bottom line, or even potentially a triple bottom line to investors. You are not only on the hook for financial returns but also for environmental and social returns.

Justin Sykes was speaking to Dr Andy Sloan as part of the [Guernsey Green Finance podcast series](#). Search 'Guernsey Green Finance' podcast in your podcast provider to find this and more than a dozen interviews with leading figures in the international green and sustainable space.

In association with the UN's Finance Centres for Sustainability, [Guernsey Green Finance](#) will be hosting its [annual Sustainable Finance Week in June](#). A fixture in the private wealth and sustainable finance space the event will be bringing together global policy makers, opinion formers and professionals from across the private wealth and sustainable finance to discuss private capital financing sustainability against the backdrop of CoP 26 later in 2021.

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