Emerging Opportunities in Impact Investing

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In brief

The impact investing market is continuing to grow in Australia and across the globe. With double digit growth globally, there is a great opportunity for Australian businesses to benefit from this emerging trend.

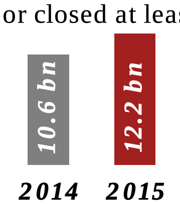
In detail

What is impact investing?

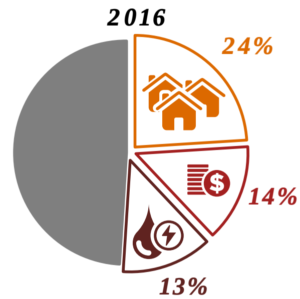
Impact investing is investing which aims for positive environmental or social impact while also achieving a financial return. Historically an investor would have to choose between a charity doing social good or an investment bringing a financial return. Impact investing aims to achieve both of these outcomes simultaneously.

Global Market

On 18 May 2016, JP Morgan and the Global Impact Investing Network released its annual survey of global market participants. The survey found that respondents (representing impact investment organisations rather than individuals, who have either committed at least USD 10 million in impact investments since their inception or closed at least 5 impact investing transactions) had committed more than USD 15 billion to impact investments globally in 2015 and plan to commit 16% more capital than that in 2016.[1] That is up on the 2015 survey figures which found that organisations planned to invest USD 12.2 billion in 2015, up from USD 10.6 billion in 2014.[2] Collectively the 2016 survey respondents managed $77.4 billion in impact investing assets.[3]



[1] JP Morgan and GIIN, Annual Impact Investor Survey, 2016, p.X
[2] JP Morgan and GIIN, Eyes on the Horizon – The Impact Investor Survey, 2015, p.5
[3] JP Morgan and GIIN, Annual Impact Investor Survey, 2016, p.XI



Housing was again the largest sector of assets under management (24%), with microfinance (14%) and energy (13%).[4] This is slightly down on 2015 where housing accounted for 27% of assets under management, with microfinance (16%) and financial services (11%), second and third respectively.[5]

Eighty-nine percent (89%) reported *financial* performance in line with or better than their expectations, and an impressive ninety-nine percent (99%) reported *impact* performance in line with or better than expectations. Interestingly, average gross return expectations for debt were 5.4% in developed markets and 8.6% in emerging markets. For equity, average gross return expectations were 9.5% in developed markets and 15.1% in emerging markets.[6]

Australian Market

In March 2016, Impact Investing Australia released a survey of the Australian impact investing market. The report surveyed 123 Australian investors (93 of who disclosed that they accounted for more than $333 billion of funds under management). Institutional investors held $331 billion, of the total $333 billion.

The report showed that there is a clear willingness and eagerness for institutional investors to participate in this sector, albeit these investors are being held back by a lack of potential products as highlighted by the few reported impact investment opportunities.

The key message from institutional investors is the lack of investment products available in the market and the ability for these products to be benchmarked. For example, QBE Insurance recently reported only having deployed a sliver of their $111 million social bond fund despite the capital having been earmarked 18 months ago.[7] To continue the momentum in the impact sector, supply of 'investable' deals must increase to meet rising demand.

Social and Affordable Housing Fund

Social and affordable housing still tops the list of potential impact investments. As heavily reported, earlier this year, the NSW Government launched a $1.1 billion Social and Affordable Housing Fund (SAHF). The NSW Government has recently announced the parties that have been successful in Expression of Interest phase. Nine organisations have been shortlisted to submit proposals to receive the funding through the SAHF. They include BaptistCare NSW & ACT, Compass Housing Services and Amber Infrastructure, FutureLiving, Link Housing Limited, Plenary Community Housing, SGCH Sustainability Limited, The Salvation Army (NSW) Property Trust, The Trustees of the St Vincent De Paul Society (NSW) and The Uniting Church in Australia Property Trust (NSW) for Uniting (NSW/ACT). The market is watching the outcome of this particular process very closely.

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[4] JP Morgan and GIIN, Annual Impact Investor Survey, 2016, p.XIII
[5] JP Morgan and GIIN, 2015, p.6
[6] JP Morgan and GIIN, Annual Impact Investor Survey, 2016, p.XVI
[7] Australian Financial Review *Local demand for social impact investments pegged at $18 billion-plus*, 8 March 2016.

Renewable Energy

One topical and key developing area for those wishing to participate in impact investing, both globally and here in Australia, is large-scale renewable energy projects, such as wind and solar farms. There are ongoing positive governmental moves globally, including in Australia, in these critical areas of renewable energy projects. The 2020 Renewable Energy Targets and emissions reductions targets are at the forefront of drivers of change. Notwithstanding the current supply/demand imbalance which has seen an oversupply in the national market, in turn supressing the recent wholesale price of power, these medium to longer term targets seem to present plenty of opportunities. Although there are still some concerns amongst investors as to financial viability of such schemes where governmental funding may not be secured, there are a growing number of energy businesses and fund managers who are raising private funds (both domestically and overseas) with a significantly increasing number of impact investors looking for a suitable home for their money in large-scale renewable energy projects.

Even though a number of energy businesses are considering funding new projects on balance sheet, it would give greater impetus to energy businesses, developers and investors in this market to see more of the big banks entering the field in a significant way. The market will have been encouraged to see that Westpac has priced its first climate bond at $500 million, which will fund 12 Australian projects, including seven wind farms and five low-carbon commercial properties. Cornerstone investor, the Clean Energy Finance Corporation (CEFC), has committed $90 million to this climate bond issuance. Westpac Group head of sustainability Siobhan Toohill said the global market for climate bonds has expanded exponentially in recent years. She added that investments are to be certified under the Climate Bonds Standards, a part of the global Climate Bonds Initiative, who's Chief Executive and co-founder, Sean Kidney, said "A leading Australian bank, [with] all Australian assets, going to international markets with a best practice green bond offering is a major development. Westpac has a high global profile on sustainability issues; this move into green bond markets will add to that profile and encourage other potential bank based issuers to follow their lead."[8]

Perhaps not surprisingly, the traditional energy suppliers are also diversifying in order to balance risks. As reported in the AFR this week, AGL is looking to manage the risk of investing in new renewables capacity through its $3 billion Powering Australian Renewables Fund and for which it is seeking three or four co-investors to form a "coalition of the wiling," as AGL Energy chief executive Andy Vesey described it.[9]

When this is linked with the forecasted significant advances in battery storage technology over the short to medium term, new forms of energy storage and transfer coupled with large-scale land deposits creates the potential to expand opportunities for Australian projects and their investors, especially large-scale wind and solar, not just domestically but also beyond Australian shores.

Takeaway

The impact investing conversation is still developing in Australia. There are still key questions regarding measuring impact, benchmarking of investment products and financial viability of projects. Significant capital is yet to invest in this sector in a substantial way, but this seems likely to change. There are clear signs that institutional investors and third party managers are willing to invest. There are rapidly emerging developments in areas such as renewable energy projects, which ought to provide investment opportunities to the impact investing community and those fund managers who wish to connect capital with impact investment projects across Australia.

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[8] Financial Standard, *Westpac prices climate bond at $500m*, 26 May 2016

[9] Australian Financial Review, *AGL Energy's Andy Vesey sees batteries 'changing the world'* 24 May 2016

Let's talk

PwC's Legal, Tax, Capital Projects and Infrastructure and Real Estate Advisory teams work together to help clients in the funds management, capital projects and infrastructure and real estate sectors to understand the impact investment opportunity and to execute projects designed to position those businesses for growth. We have established and act for some of Australia's most prominent investment funds, renewable energy businesses, investors, developers, landlords and tenants, government agencies, sovereign wealth funds and lenders on all aspects of real estate and infrastructure projects across Australia.

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