# Value-Aligned Investments

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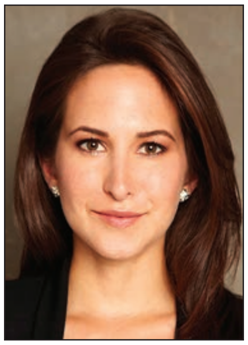

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**COMPANY BRIEF** *Madeira Global (madeira-global.com) is a leading advisory and analytics firm dedicated to ESG (environmental, social, and governance) research and reporting. By applying a proprietary ESG evaluation and scoring framework to new or existing portfolios, Madeira enables asset managers to satisfy increasing demand for transparency while supporting a more informed investment decision-making process.*

Concessionary returns can be found anywhere at any time, regardless of whether one is making socially responsible investments. Given the current volatile market, we all know this well. So why do we consider an investment approach that does extra due diligence (into environmental, social, or governance areas) to be more risky? It seems that such terminology suspends logic due to stereotypes. However, there are now multibillion-dollar portfolios comprised almost exclusively of values-aligned investments, many of which are achieving market and above-market returns; titans of industry – Pierre Omidyar, Mark Zuckerberg, Elon Musk, Charly Kleissner, Vinod Khosla, Jochen Zeitz – have implemented such thinking with great success.

We all know what a J-curve looks like: a concept that comes out strong, takes a dive perhaps due to the perception that it is a trend, and then skyrockets when it is proven and accepted due to its scalability and sustainability. Socially responsible investing has experienced a J-curve. Once an investment philosophy considered only by progressive foundation endowments, now private and institutional investors alike are seeking investment opportunities that consider a double or triple bottom line (financial as well as social and/or environmental).

Those opting to dismiss this investment approach as a fad may soon reconsider their position. Dollars are moving quickly and aggressively towards products, investments, and advisors that are taking this seriously. More than $40 trillion dollars, the largest transfer of wealth in history, is being inherited by the next generations. These individuals are 70 percent more likely to take a pay cut to work for a socially responsible company and 79 percent will fire their financial advisor upon wealth transfer due to lack of values alignment. As for the general consumer market, one in five individuals are willing to pay a premium for a product that is environmentally friendly. Clearly, it is worthwhile to take a minute to consider the significance of this demand and the magnitude of the business opportunities this creates.

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When one considers the expansive diligence considerations of a double (social) or triple (social and environmental) bottom-line investment, logic would suggest that such an investment would be more carefully considered than one based purely on financial return expectations. However, once the terms "impact," "values-based," or others come into the vernacular, credibility, at times, seems to be thwarted, and skepticism ensues.

Misconceptions are slowly being demystified by credible institutions publishing data as it pertains to the alignment of attractive returns, both financial and ESG (environmental, social, governance). Cambridge Associates, along with the Global Impact Investing Network, launched an impact investment benchmark study analyzing the performance of market rate private equity and venture capital impact funds, the results of which conclude that there is comparable financial performance across the board.

Opportunities can range from single-digit returns in pay-for-success models to double-digit emerging and frontier market opportunities. Traditional investment managers are responding to the demand for such investments by incorporating nonfinancial data into their reporting, providing investors' with greater clarity as to the impact of their investments.

When tracking the progress of sustainability considerations at the corporate level, 93 percent of the world's largest 250 companies issue annual Corporate Social Responsibility reports. What's more, there is growing interest from the investor community for these organizations to go beyond reporting on their philanthropic practices to include social and environmental considerations as part of their core business. Increasing efforts to do so and providing greater transparency in these areas is, of course, of mutual interest. This is especially true in an age where whistle-blowers have more capacity than ever to expose poor practices (think: Volkswagen's violation of the Clean Air Act, Apple's supply-chain labor violations, and Zenefits' alleged compliance oversights).

Whether taking additional considerations with one's portfolio is for headline risk mitigation, stakeholder alignment, talent retention, or improved performance, quantifying the impact of investments, many would argue, is both smart and strategic.

To what extent you heed these signals and consider impact investing is up to you. What is clear is that there is value in understanding the total outcomes of one's investments and that this is not a trend but rather a response. The money is talking and it is moving towards more than a singular bottom line. As business leaders, we must take into account the demand that is expressing itself loud and clear, and begin to supply more products and investment vehicles that meet the requirements of the trillions of dollars seeking a thoughtful and highly diligenced financial and nonfinancial bottom line. ●

  