THE EVOLUTION OF ESG + IMPACT INVESTING: ARE YOU READY?

A report from JTC and OpportunityDb

MARCH 2023

JTC

STRONGER TOGETHER

EXECUTIVE SUMMARY

"At the end of the day, everyone wants to do two things," Paulina Stannard, Head of Impact at CI Private Wealth, said during a recent interview. **"Make money and do the right thing."**

In other words, as ESG and impact investing reach new highs, investors are in broad agreement on why they should get involved. What they may not agree about, as evidenced by the flurry of anti-ESG discourse and the profusion of different reporting standards, is how.

That's where JTC 2023 ESG + Impact Investing Report comes in. Drawing on the insights of nearly 300 advisors, fund managers, and investors across the U.S. and Europe, our research provides vital benchmarks and guidance for stakeholders in this space as they prepare for the crucial year to come.

The good news? Despite headlines to the contrary, investor perceptions towards ESG and impact investing are overwhelmingly positive, meaning interest in these areas remains strong even amid a slowing economy and rising energy prices.

At the same time, however, nearly two-thirds of respondents believe the two terms are interchangeable. That can spell trouble. As this burgeoning market takes on additional scrutiny, respondents are confused about the fundamental differences between ESG and impact investing – a confusion that our survey shows extends to measuring impact, adopting reporting frameworks, and understanding particular investor needs.

"In the simplest terms, impact investing is focused on private investments geared toward outcomes – investors can really see the direct connection between their investment and their impact," says Reid Thomas, Chief Revenue Officer of JTC. "ESG investing, on the other hand, is more about mitigating risk through analyses of a company's or fund's policies, processes, and procedures."

For example, ESG investors might contribute to funds that buy stock in companies who have made a carbon neutral pledge; the success of that investment is then determined by the rise or fall of the aggregate value of the individual company stocks held in the fund. By contrast, impact investors fund projects by investing in funds or companies, most often private, aimed at generating more specific and measurable outcomes, like cleaner air and water in a targeted local community – as well as a solid financial return.

Thomas says that as ESG and impact investing offerings continue to flood the market, the focus on particular, differentiated impacts that meet investors' personal passions will be key. A third-party fund administrator with specialty fund experience and purpose-built technology can help.

Our survey illuminates the above trends. Investors we surveyed have a wide range of passions, including improving access to healthcare, affordable housing, education, and more. They also vary in the degree to which they are willing to sacrifice financial return for high social impact, underscoring the importance of personalization when it comes to fund offerings and measurement.

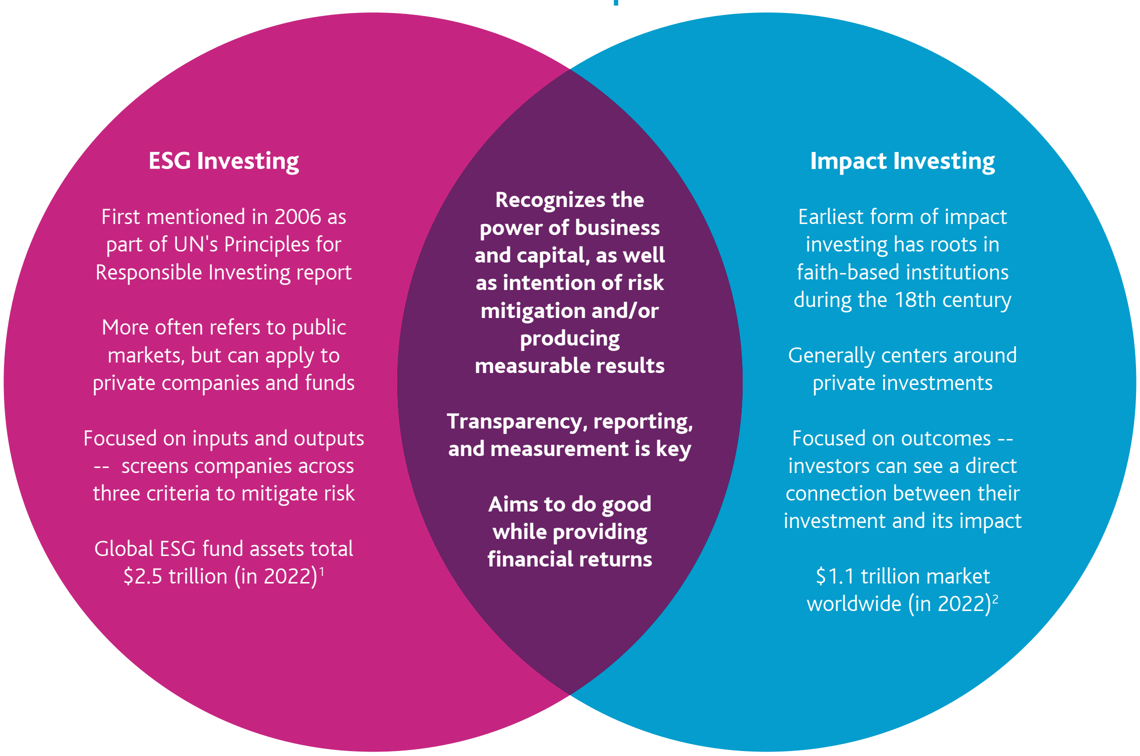
The survey also reveals challenges with impact investment reporting: nearly half of respondents found it difficult, with the top two obstacles being a lack of defined standards and access to data. Despite widespread adoption of reporting frameworks like the Global Reporting Initiative (GRI) and Impact Reporting and Investment Standards (IRIS), our findings support little movement towards any standardization in this respect – and significant uncertainty over what the variety of different frameworks actually entail.

Beyond these topline findings, this year's report analyzes data based on respondent geography (Europe vs. U.S.) and age group. These breakdowns offer important color to current hypotheses: that Europe is more mature – and therefore more discerning – when it comes to ESG and impact investing; and that younger generations care more about social impact than their elders.

Finally, this report builds off our 2022 Opportunity Zones (OZ) survey, revealing continued momentum for the government initiative as well as important year-over-year comparisons. As was the case last time around, respondents overwhelmingly hold positive views of OZ funds, see them as an equally important tax incentive and social impact investment vehicle, and expect to contribute more capital moving forward. That said, fund managers could still be doing more to communicate the impact benefits of these investments to prospective investors.

In what follows, we'll unpack these findings and provide a set of best practices for investors, advisors, and fund managers as they make plans for another year of ESG and impact investing.

ESG vs. Impact



Special thanks to Jeff Shafer, Co-Founder and CEO of CommonGood Capital, whose insights contributed to this diagram.
[1] https://www.morningstar.com/lp/global-esg-flows, [2] https://thegiin.org/research/publication/impact-investing-market-size-2022/

METHODOLOGY

From November through December 2022, JTC, together with OpportunityDb, distributed a 10-minute online survey to participants of a panel provider, clients, and friends of the firm. In total, 290 respondents completed the survey. Responses were analyzed in the aggregate. This year's survey included respondents from both the U.S. and Europe. Investors, advisors, and fund managers participated in the survey. Survey questions accounted for the differences in roles and geographies, as well as experience to date related to impact investing and Opportunity Zones (OZs).

	EUROPE	UNITED STATES	TOTAL
TOTAL	19%	81%	100%
FUND MANAGERS	28%	72%	100%
INVESTORS	15%	85%	100%
ADVISORS	18%	82%	100%
2021	0%	100%	100%

EUROPE REPRESENTATION
United Kingdom (90%+)
France
Italy
Jersey
Luxembourg

TOP 5 US LOCATIONS REPRESENTED
California
Florida
Illinois
New York
Texas

At the time that the respondents took the survey, and for the purpose of the results:

Gen Z + Millennials = Ages 39 and younger
Gen X = Ages 40 to 54
Boomers + = Ages 55 and older

KEY TAKEAWAYS

Perceptions of ESG and impact investing are overwhelmingly positive

Nearly 90% of respondents view impact investing positively, and roughly three-fourths incorporate ESG metrics and standards into their investment strategy more than half the time. Most (69%) also agree that accepting a lower financial return isn't usually necessary for achieving high social impact.

Europeans have a more tempered view, with only 31% viewing impact investing "very positively" (vs. 63% of Americans). Yet that skepticism may be drawn from additional experience: 66% of Europeans incorporate ESG metrics and standards more than 75% of the time, compared with 53% of Americans.

Most respondents believe impact investing and ESG investing are the same

About two-thirds of U.S. respondents (65%) believe the two terms are interchangeable, even as Europeans and older respondents (Boomers +) are slightly less certain. No matter the case, our findings reflect a persistent confusion around the differences between the two terms as both gain increasing traction in the marketplace – suggesting the need for more clarity, transparency, purposeful measurement, and focus.

Impact investors have a wide range of different passions, meaning personalization is key

For instance, when asked about the best markers of social impact for OZ investments, responses were widely dispersed (i.e., selected by more than 15% of respondents) across indicators including internet accessibility, improved access to healthcare, and decreases in food deserts and crime. The preferred markers also varied greatly by respondent age.

Furthermore, when it comes to impact funds, the majority of respondents (70%) prefer single asset funds to a blind pool fund – in other words, impact investors want to select the specific type of fund or cause in which they're investing.

Reporting remains a fundamental challenge – with little movement towards standardization

Less than half of respondents find impact investing reporting easy. Forty percent of Europeans, who face more related regulatory burdens, find it fairly (35%) or very (5%) difficult, compared with 26% of Americans. Top challenges include a lack of defined standards (58%), access to data (43%), and changes to legislation (42%), such as the Security and Exchange Commission's forthcoming climate disclosure rules.

When it comes to existing frameworks for ESG and impact investing reporting, respondents are using (or planning to use) a number of different standards, suggesting a lack of any widespread standardization.

Opportunity Zones continue to gain momentum

Sixty-four percent of advisors and investors are currently investing (or have invested) in an OZ, and 51% of fund managers have launched at least one OZ fund. These investors are interested in a wide range of OZ funds, from real estate to operating businesses to energy, and most describe the program (accurately) as both a tax incentive and economic development tool.

ESG + IMPACT: ACTIVITY, PERCEPTIONS, PASSIONS

At a cocktail party during this year's World Economic Forum meeting in Davos, one executive said the quiet part out loud: "I hope ESG just goes away." The sentiment is revealing. While the executive believes focus on ESG factors is vital, he also thinks the emphasis has "become too broad and distracting" – not to mention politically charged.

Florida, for instance, pulled $2 billion worth of its assets from BlackRock, with the state's CFO saying the move was because the asset management giant has "openly stated they've got other goals than producing returns." As unregulated ratings and frameworks proliferate, others have increasingly labeled certain ESG initiatives as "greenwashing" – citing corporations like Phillip Morris and Chevron that receive high ESG marks and funds like Vanguard's ESG U.S. Stock ETF, which is .9974 correlated with the S&P 500.

These critiques are likely to persist as these investment vehicles become increasingly popular. They also underscore the growing importance of measuring specific impacts (i.e., outcomes) in both ESG and impact investing.

Our survey adds important context to this debate, revealing that stakeholders view ESG and impact investing positively – even if there's still considerable uncertainty surrounding the complexities of this new landscape. For instance, over 60% of respondents agree that impact investing is the same as ESG investing.

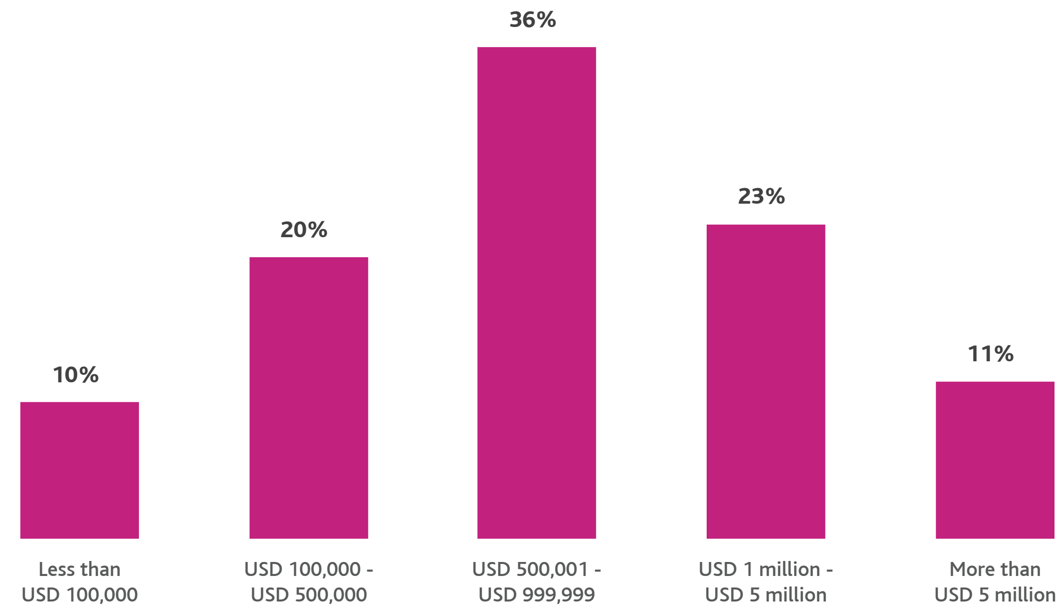
ESG and impact investing continue to gain momentum

About 90% of those surveyed view impact investing as very (55%) or mostly (34%) positive. On average, nearly 40% of respondents are investing between $500K and $1 million in impact funds. Roughly one quarter are investing between $1 and $5 million, and over 10% are investing over $5 million. For broader reference, the impact investing market this year grew to over a trillion dollars, according to the Global Impact Investing Network, and one projection forecasts ESG investing will increase 84% to $33.9 trillion by 2026.

Nearly 90% of respondents view **Impact Investing** as investing positively

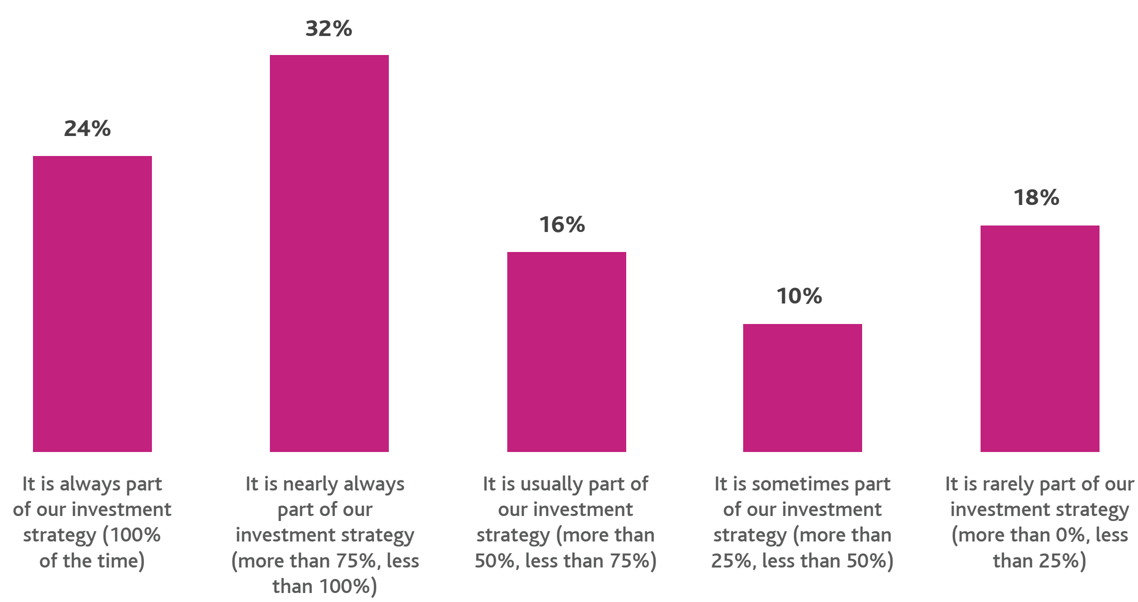
Investors are similarly enthusiastic about ESG investing. A new survey from PwC shows that ESG issues are now among investors' top five concerns, while Deutsche Bank research found that "more than half of investors (53%) regard climate change as the most important factor affecting their investment decisions."

How much money is invested in each impact fund, on average?



ESG metrics and standards are typically incorporated into investment strategies

To what extent do you incorporate ESG metrics and standards into investment strategy?

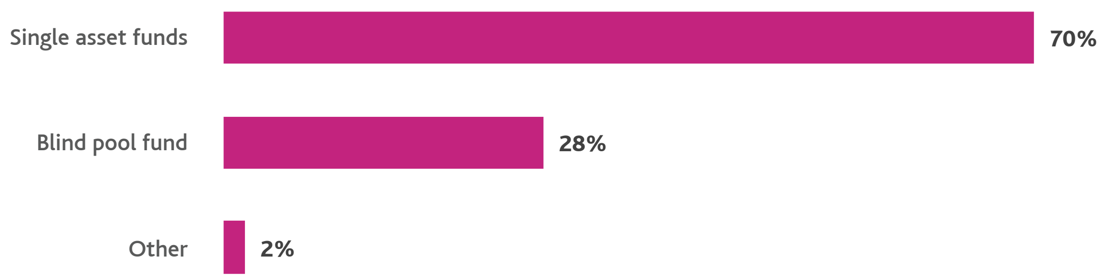


In our own survey, 72% of investors say that ESG metrics and standards are incorporated into their investment strategies more than 50% of the time; 32% of those respondents say it is nearly always part of their investment strategy, and another 24% say they incorporate such factors 100% of the time.

Relatedly, almost three-fourths of respondents say that ESG reporting is important in fund consideration. Of those who said otherwise, most (42%) said it wasn't important because returns always take highest precedence; only 16% of this subgroup (4% of all respondents) noted that it was because ESG does not have a positive connotation.

Impact investors overwhelmingly prefer single asset to blind pool funds

Which best describes the investment model of the impact fund(s) that you would prefer to be involved in?



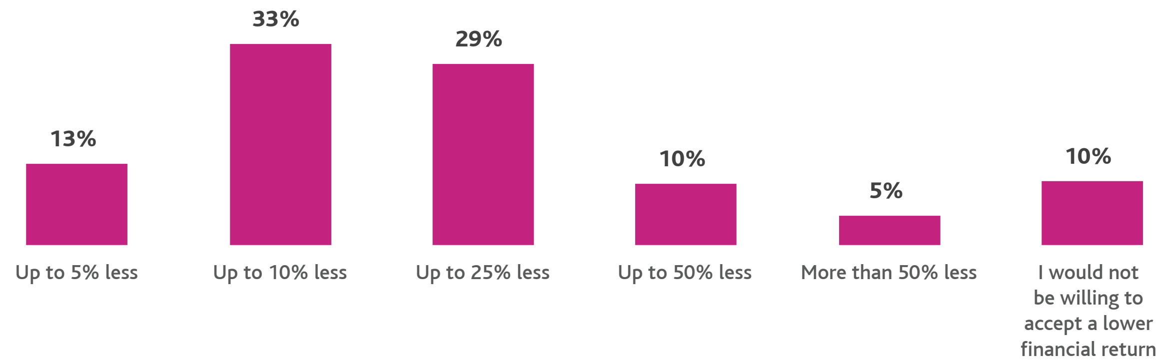
As we'll see in the Opportunity Zones chapter of this report, impact investors have a wide range of different passions – highlighting the importance of tailored, purpose-built reporting and measurement. It tracks, then, that when asked what best describes the investment model of the impact fund they prefer to be involved with, 70% said a single asset fund and less than a third (28%) said a blind pool fund. In other words, impact investors want to know the specific impact their capital will have and whether it aligns with what they care about.

And while most agree that accepting a lower financial return is not usually necessary for high social impact, respondents have different appetites for how much they're willing to sacrifice for good impact projects.

Roughly a third said they would accept an up to 10% reduction in financial returns, while another 29% said up to 25%. Ten percent said up to 50% less would be amenable for a good impact project and 5% would accept a more than 50% reduction. Only 10% said they would not be willing to accept a lower financial return.

"This is an area of confusion in the U.S.," says Jeff Shafer, Co-Founder and CEO of CommonGood Capital. **"There is a spectrum of returns for impact investing, from financial first to impact first. The most important factor, then, is to specify the goal of the fund or investment from the outset – rather than just assume it's concessionary."**

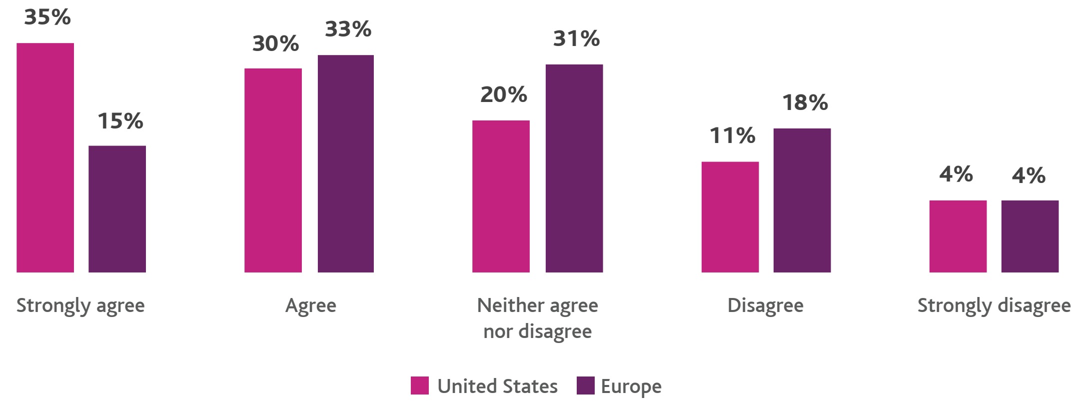
Provided that you were investing in a good impact project, what range of reduction in financial returns would be amenable to you?



For ESG and Impact Investing,

Europeans Are More Advanced, Boomers Are More Skeptical

Please indicate your level of agreement with this statement:
Accepting a lower financial return is not usually necessary for high social impact.



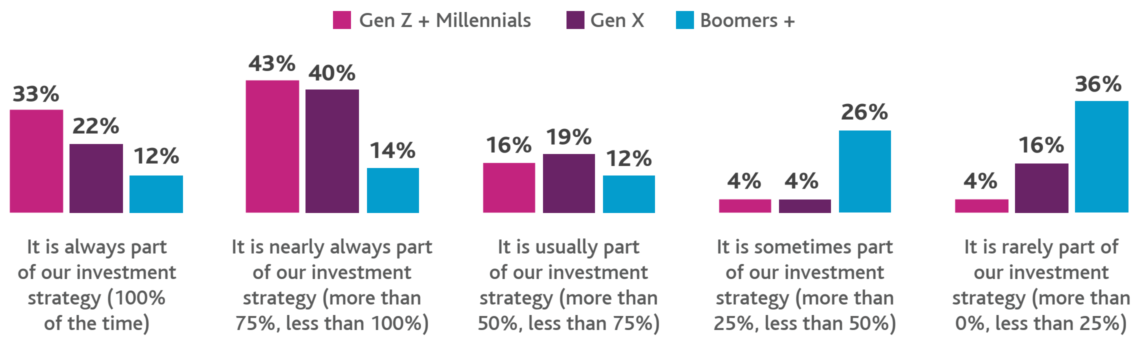
The EU and United Kingdom (where most of our European respondents are based) have long been ahead of the U.S. when it comes to ESG-related regulation and disclosure requirements. The EU's recently finalized Corporate Sustainability Reporting Directive, for instance, extends the scope of mandatory ESG reporting to all large companies and small-to-medium-sized enterprises listed on regulated markets – and goes beyond environmental issues. The U.S. has only recently started this process, though the SEC's climate disclosure rules are expected to be solidified in 2023.

It's no wonder, then, that European respondents are more likely to incorporate ESG metrics and standards into their investment strategies nearly always (more than 75% of the time) or 100% of the time: 66% percent of Europeans said as much, compared with 53% of U.S. respondents.

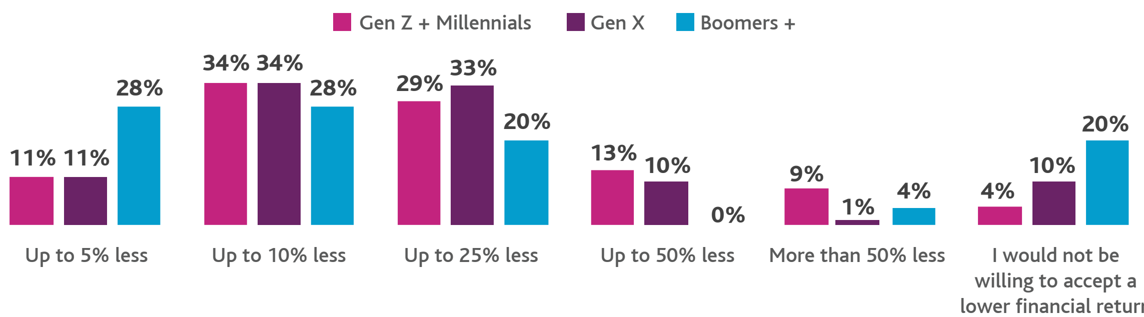
However, European investors we surveyed view impact investing less positively than their U.S. counterparts (82% vs. 92%) and are less likely to use the term interchangeably with ESG investing (48% vs. 65%). Their relative maturity in this space may make them more skeptical about the tangible benefits of impact investing and more discerning about the differences between the two terms.

The younger the investor, the more they care about impact

To what extent do you incorporate ESG metrics and standards into investment strategy?



Provided that you were investing in a good impact project, what range of reduction in financial returns would be amenable to you?



Younger generations of all geographies are more enthusiastic about ESG and impact investing. A resounding 76% of Gen Z + Millennial respondents nearly always or always incorporate ESG metrics and standards into their investment strategies, compared with only 26% of Boomers+ (36% of whom rarely incorporate such standards). Gen X respondents fall in the middle, but are much more closely aligned with the younger cohort.

Younger respondents are also more likely to take a reduction in financial returns for good impact projects – but their elders aren't too resistant. For instance, over 60% of both Gen X and Gen Z + Millennials would be willing to accept up to 10% or to 25% less, compared with 48% of Boomers+ (though 20% of the older cohort would not be willing to accept a lower financial return at all).

And while younger generations perceive impact investing more positively, very few respondents of any age group view it negatively (only 11%, 8% of which are Boomers +).

The bottom line? The younger the investor, the more they care about ESG and impact investing – and the more they're willing to sacrifice for a good project. This should be a wake-up call for financial advisors, particularly given the $80 trillion wealth transfer that's going to take place between older generations and their children over the next two decades.

Younger cohorts most often believe that having a positive social impact is more important than professional recognition or company profits," says Howard W. Buffett, Associate Professor at Columbia University and founder of the Impact Rate of Return® (iRR) methodology. "It's inevitable that these people will be running very meaningful organizations in the future – and fund managers and advisors who want to stay ahead of the curve should take note."

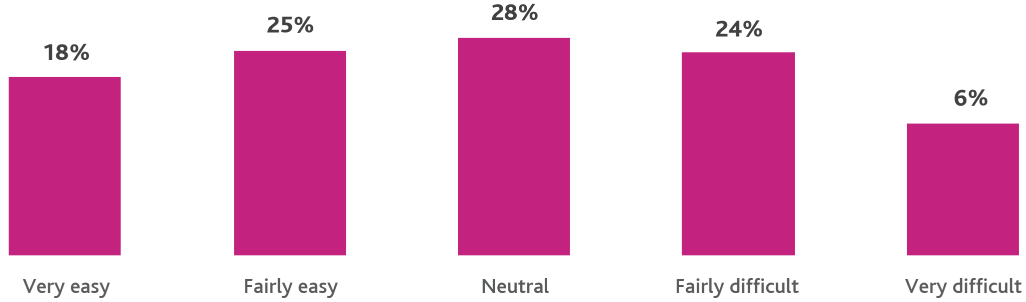
IMPACT REPORTING: MORE STANDARDS, MORE CHALLENGES

ESG and impact investing are under a magnifying glass like never before, which means accurate, transparent, and well-communicated reporting is critical.

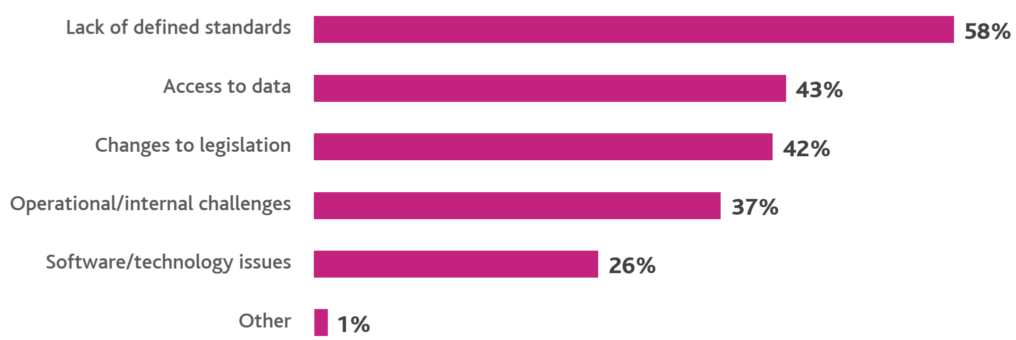
Only 7% of respondents said that ESG reporting was not important and a significant majority of respondents found it had a moderate or significant impact in a variety of different ways – from raising capital and providing better visibility into potential returns to facilitating interaction with local governments and enhancing community relations.

Impact reporting a challenge due to lack of standards, access to data

Based on your own experiences or observations, how difficult is impact investing reporting (including ESG frameworks and metrics, if relevant)?



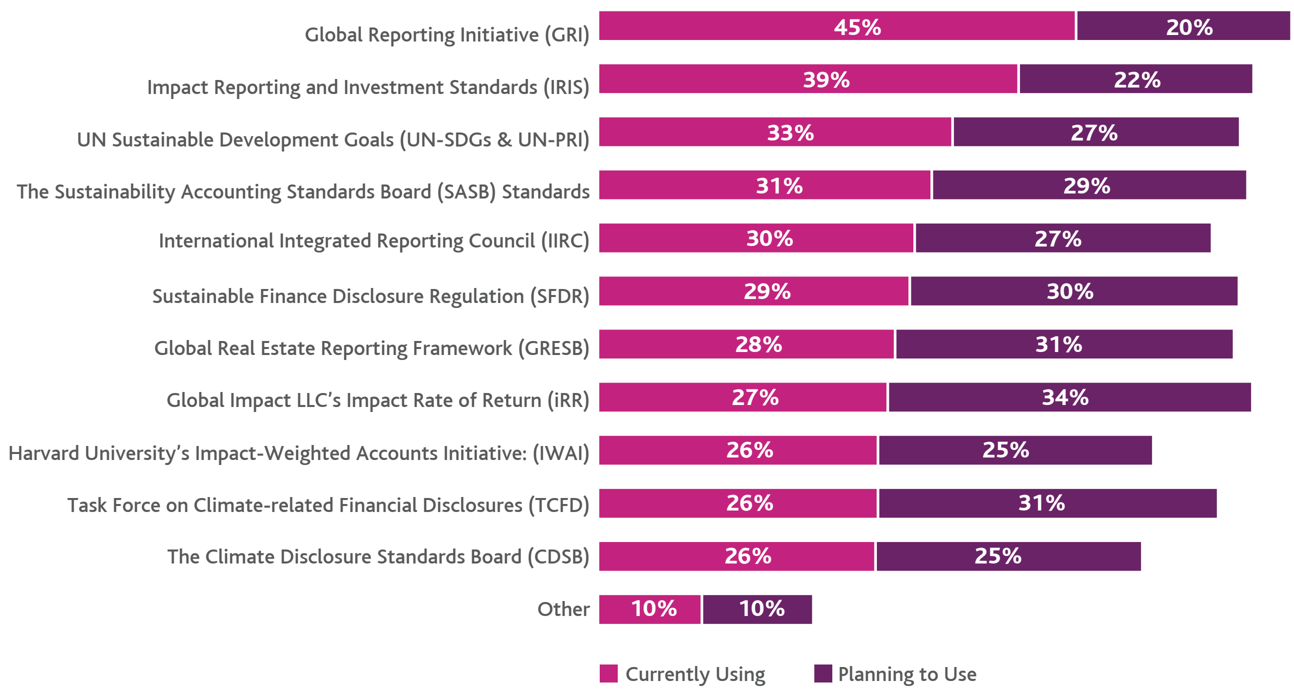
What factors contribute to any difficulties associated with impact investment reporting?



For various reasons, effective reporting remains a challenge. Less than half of respondents – and 46% percent of Americans – said it was easy. Those who didn't named a lack of defined standards (58%) and access to data (43%) as the top two factors contributing to difficulties in this respect; changes to legislation (42%), operational/internal challenges (37%) and technology issues (26%) were also selected by a significant amount of survey takers.

The most used ESG reporting standards

When thinking of ESG reporting frameworks/ standards/ methodologies what is your level of implementation of and/or familiarity with each of the following?



With an estimated 600 ESG reporting standards around the world, a lack of defined standards has long been a problem. On the plus side, our survey found that most respondents are using (or planning to use) 11 key frameworks, the Global Reporting Initiative and Impact Reporting and Investment Standards the most popular among them. Only 20% said they were currently using or planning to use others not listed.

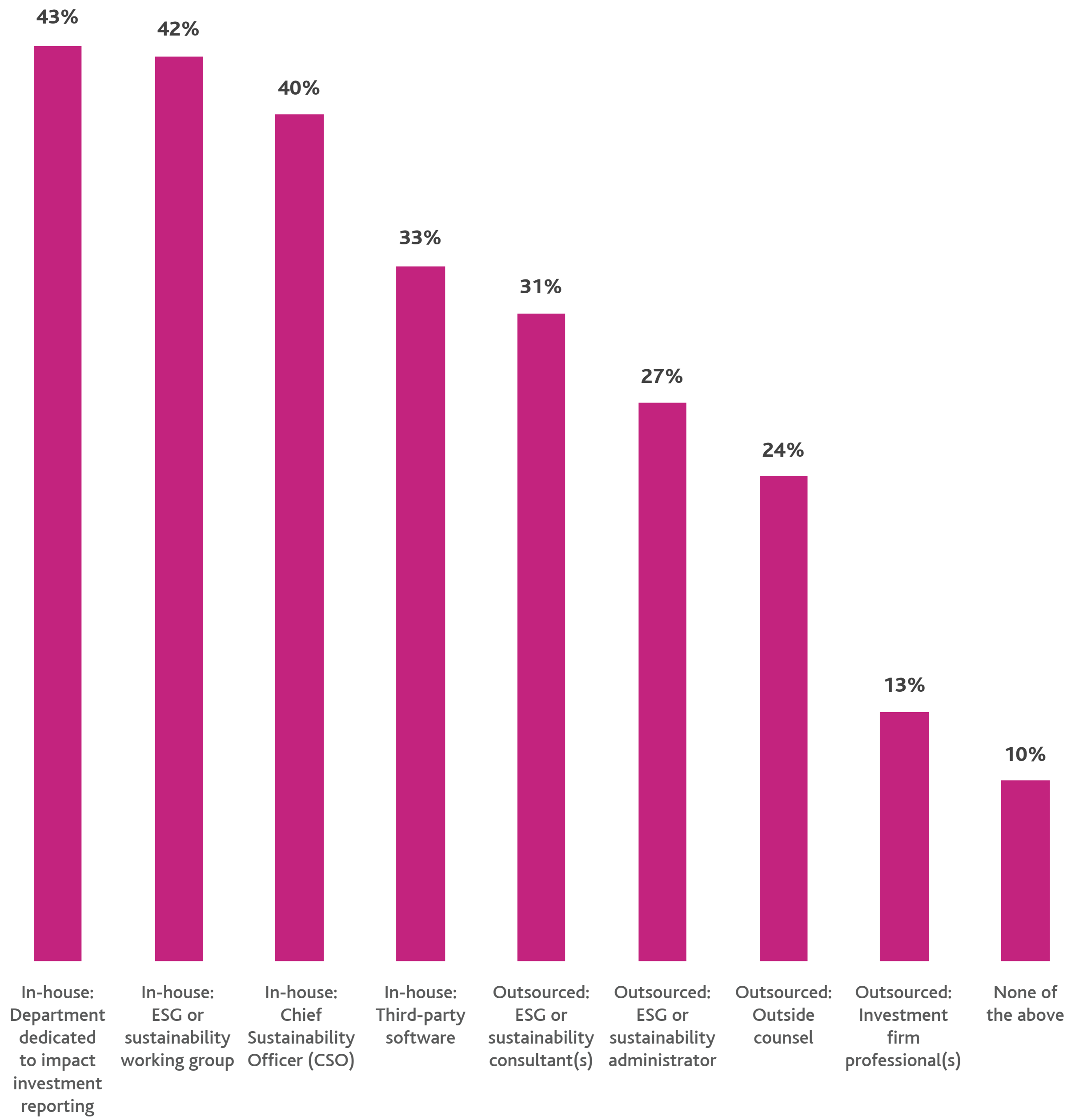
"This is all part of a growing and maturing industry," says Shafer. "Because ESG and impact investing started with foundations, development finance institutions, and other large institutions, standardization is much further along than most realize. Just look how long it took for there to be any clarity around non-traded real estate, for example."

With that said, the broad dispersion across these frameworks still suggests ongoing confusion. For instance, when it comes to understanding two key methodologies behind these standards – percentage rate of growth, which quantifies the efficiency of creating impact, and monetary value, which measures monetary terms that could be reflected on financial statements – survey data reflects stakeholders' lack of certainty as to which frameworks align best with each methodology, even as most respondents say they are using or planning to use both.

One key difference highlighted by our respondents? Monetary value methodologies are seen as better for enhancing relationships with investors, perhaps because they convert impact into monetary terms financial stakeholders – particularly less experienced ones – can readily understand.

Organizations deploy several in-house and outsourced functions to report impact

Which of the following, if any, is your firm currently engaging with in its impact investment reporting efforts?



Another aspect of the reporting challenge comes down to who at the organization (or outside it) is responsible for handling these efforts. Though most respondents report engagement with impact investment reporting happening in-house (via a department dedicated to it, an ESG working group, or Chief Sustainability Officer), nearly a third of all respondents also said they were outsourcing it to ESG consultants or administrators. Importantly, 33% also cited the use of third-party software. The use of different functions (or multiple ones at the same time) underscores the operational and data collection difficulties noted earlier in the report.

How different monetary value frameworks can complement one another

Though a lack of standardization remains a challenge, the number of frameworks present opportunities, as well. Many complement one another, and while monetary value methodologies might be more legible for less sophisticated investors, percent rate of growth also has its benefits.

Consider this commentary from Rob Zochowski, President and CEO at The International Foundation for Valuing Impacts and Program Director for Impact Investing and Sustainability Special Projects at Harvard Business School:

At first glance, it can appear as if terms like Impact Rate of Return ™ (iRR), Impact Multiple of Money (IMM), Impact Monetization, and Impact-Weighted Accounts (IWA) refer to competing methodologies. However, this is absolutely not the case; these are complementary tools. At the most broad level, impact monetization refers to using a rigorous data- and stakeholder-driven approach to reflect the impacts created by any given economic activity or choice in monetary terms to enhance understanding and comparability.

The IMM/iRR and IWA serve complementary purposes, though have some distinctions stemming from their different use cases. Impact-weighted accounts use impact monetization and are distinguished by the aspiration that they directly supplement traditional financial accounts used in either financial or management accounting. For corporations, this is intended to represent total organizational value creation or destruction for all stakeholders. For example, before making a new product launch decision, management best practice dictates running a pro-forma profit and loss projection. In the impact economy, this analysis would be supplemented by pro-forma impact-weighted accounts to understand the total risks and benefits of the product launch decision – not just the financial returns.

Both iRR and IMM monetize impact, and are most often used as decision tools that can help investors understand the expected social and environmental impact of prospective deals and ultimately generate more impact per dollar invested.

Just as traditional financial analysis includes a huge variety of ratios and analyses to evaluate performance – such as Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), Return on Invested Capital (ROIC), Cash on Cash Return, and Return on Investment (ROI) – the impact economy will have numerous ways for judging total value creation. IMM and iRR both seek to contextualize projected or observed impacts based on the initial investment to understand whether there is a net creation or destruction of total value, including financial resources – with adjustments for time horizons, risk of the impact being achieved, and ownership. Importantly, this allows comparability between alternative investments, particularly in the pre-investment and diligence stage, as well as an intuitive measure of success or failure in the measurement and reporting stage.

**Please note that this contribution by the author(s) does not represent an endorsement, validation, or other representation beyond the words written here on the survey methodology, the results displayed herein, or of the distributing firm. No payments were received or made by the author(s).*

OPPORTUNITY ZONES CONTINUE TO GAIN MOMENTUM

Opportunity Zones are on a roll.

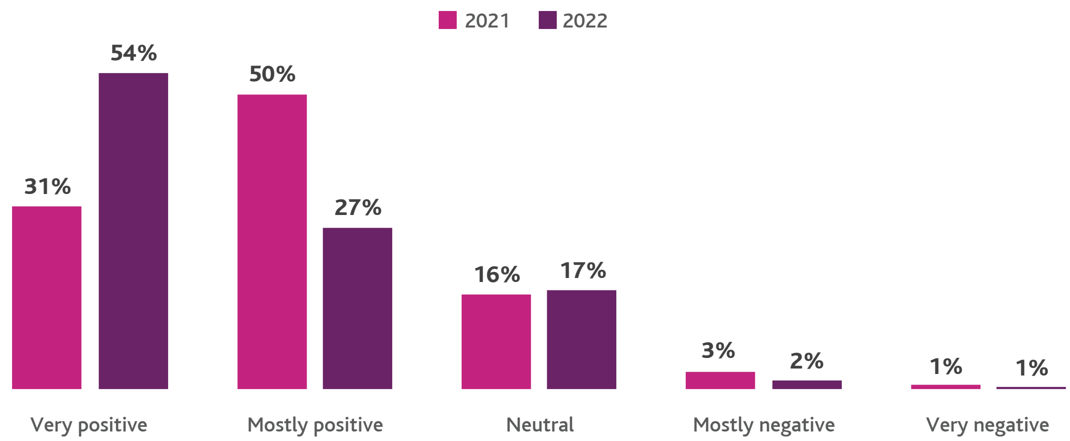
October 2022 data from Novogradac showed that Qualified Opportunity Funds the firm tracks were on pace to surpass a $10 billion single-year increase in equity for the first time since it began collecting the data. Brookings Institute research also shows that nearly 50% of OZ census tracts received funds by 2020 – a number that should only increase as more data surfaces.

Despite an expected economic downturn, 2023 is likely be another strong year for OZs. The Inflation Reduction Act, for instance, restored and enhanced nearly two dozen clean energy tax credits – making it easier to combine the OZ tax incentive with such credits. And there's hope that the Opportunity Zones Transparency, Extension, and Improvement Act will be reintroduced in Congress. If passed, it would help improve reporting and transparency, direct funds to communities most in need, allow for fund-to-fund investment structures, and more.

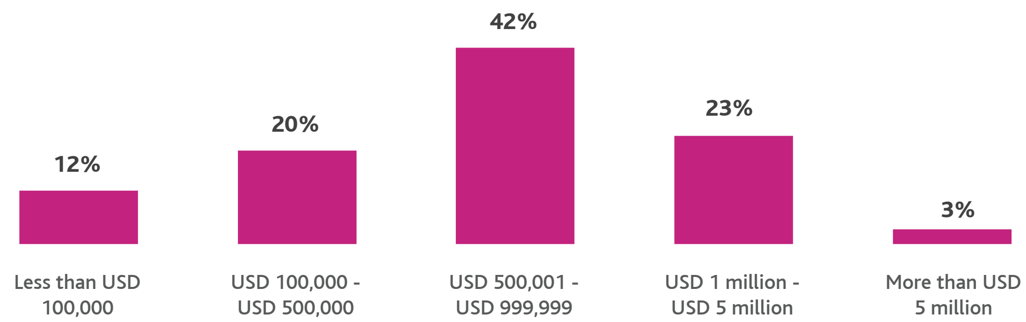
Our data, particularly when compared with last year's OZ survey, illuminates this positive outlook and offers new insights for fund managers.

Opportunity Zone investment continues to climb

What is your general perception of Opportunity Zone investing?



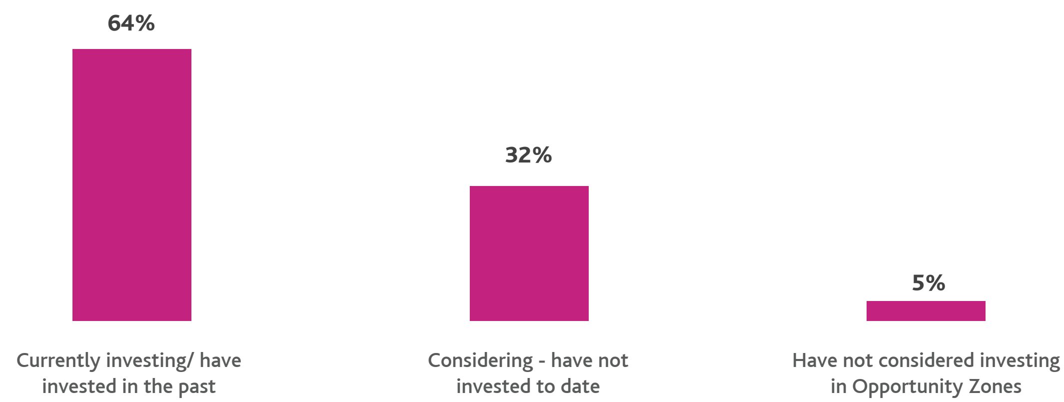
Investors & Advisors: Average investment per Opportunity Zone fund



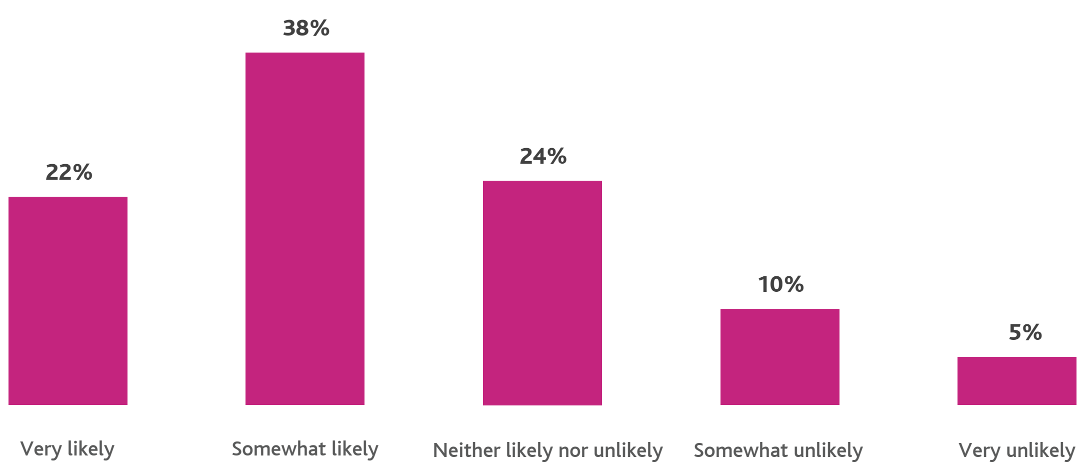
For instance, significantly more respondents viewed OZs "very positively" than in 2021 (54% vs. 31%) – and only 3% viewed it negatively. Fund managers also report a higher average OZ investment: in our previous report, 29% said average investments were over $500K; in our latest, more than two-thirds (68%) of investors and advisors reported average investments over $500K.

Most respondents have also participated in or are considering participating in an OZ fund: only 5% of investors have not yet considered an OZ investment (and 64% have already made one), while just 16% of fund managers have not considered launching an OZ fund (51% already have). Of those who are considering an OZ investment, 60% said that it's likely to happen over the next year.

Which best defines your status to date as it relates to Opportunity Zone investment?

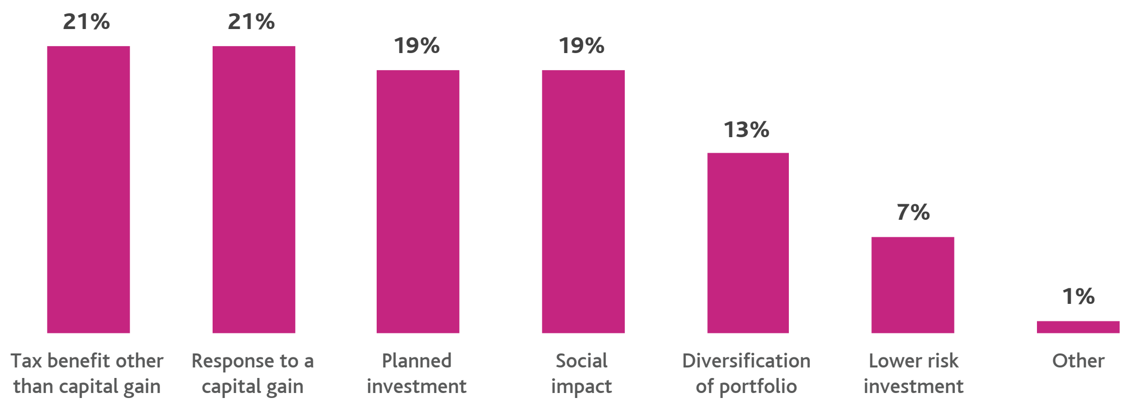


How likely are you to commit to an impact investment in at least one Opportunity Zone over the next year?

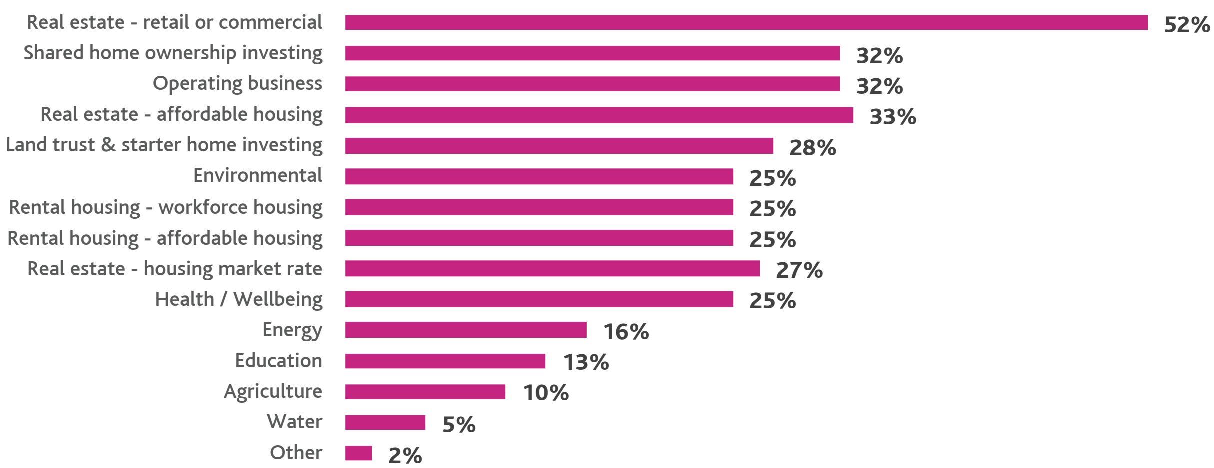


OZ investors have a wide range of different passions

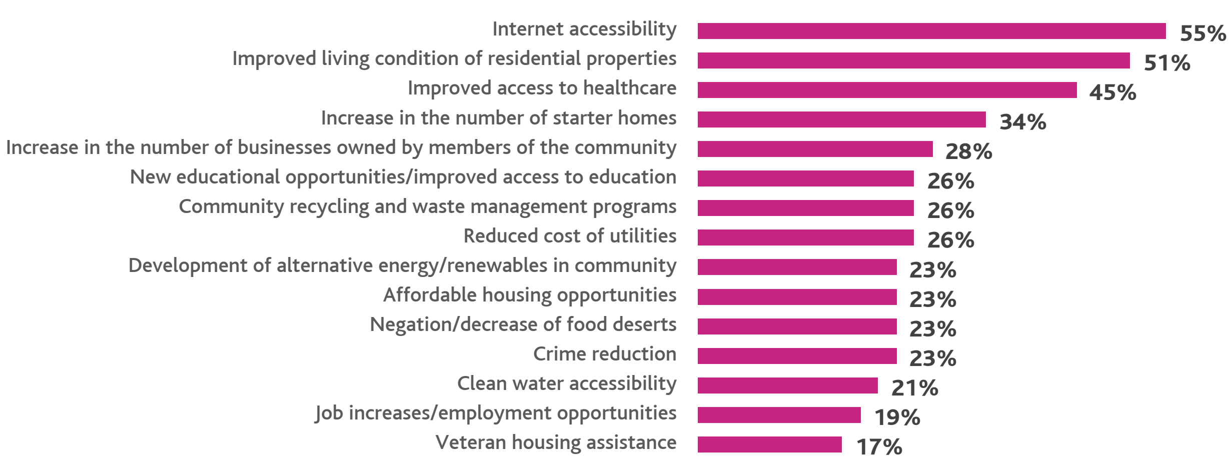
Which best describes why you are involved in Opportunity Zone fund(s)?



Which best describes the Opportunity Zone fund(s) that you are involved in?



You indicated that you find the social impact on the community as important when considering an Opportunity Zone investment. Which solutions would best serve as proof points in this regard?

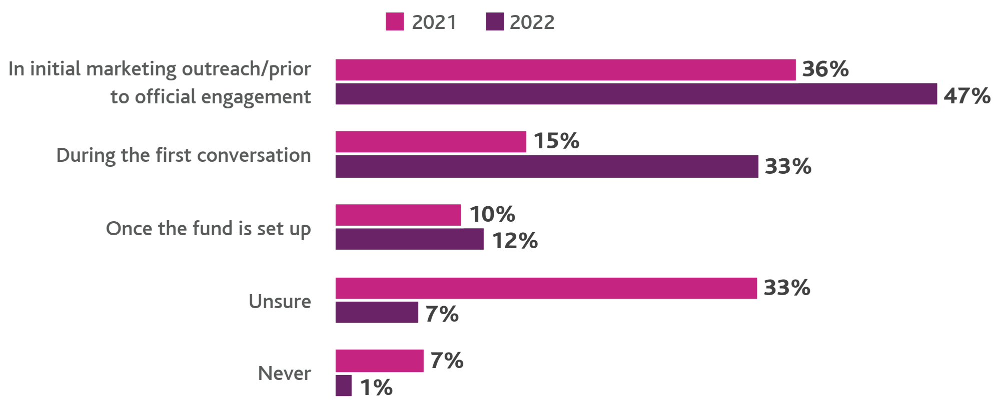


Participants' reasons for investing in OZs confirm an understanding of the program as both a tax incentive and an economic development tool. Tax benefits, response to a capital gain, planned investment, and social impact were all selected by roughly the same amount of those involved in OZs.

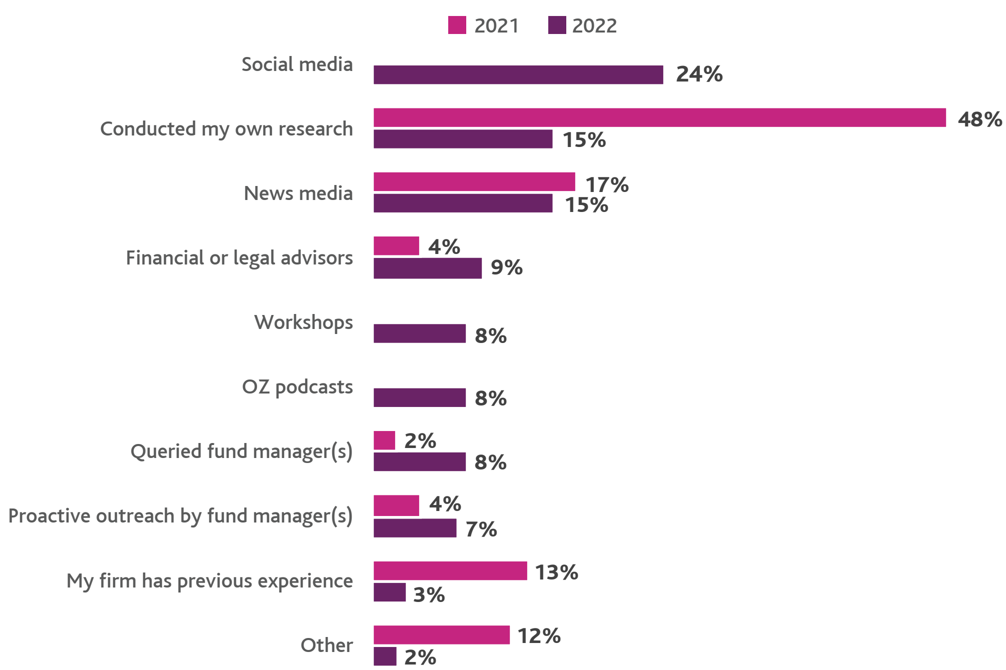
Yet while the overarching reasons for OZ fund involvement are relatively aligned, investor passions differ. When asked what best describes the type of OZ fund they're involved in, responses were dispersed across an array of different types – education, energy, operating business, and more, with real estate coming out on top. As for the best markers of social impact, everything from internet accessibility and improved living conditions, to an increase in businesses owned by community members, reduced cost of utilities, and new educational opportunities were chosen by a significant number of respondents.

Fund managers can improve communications about OZ social impact, financial benefits

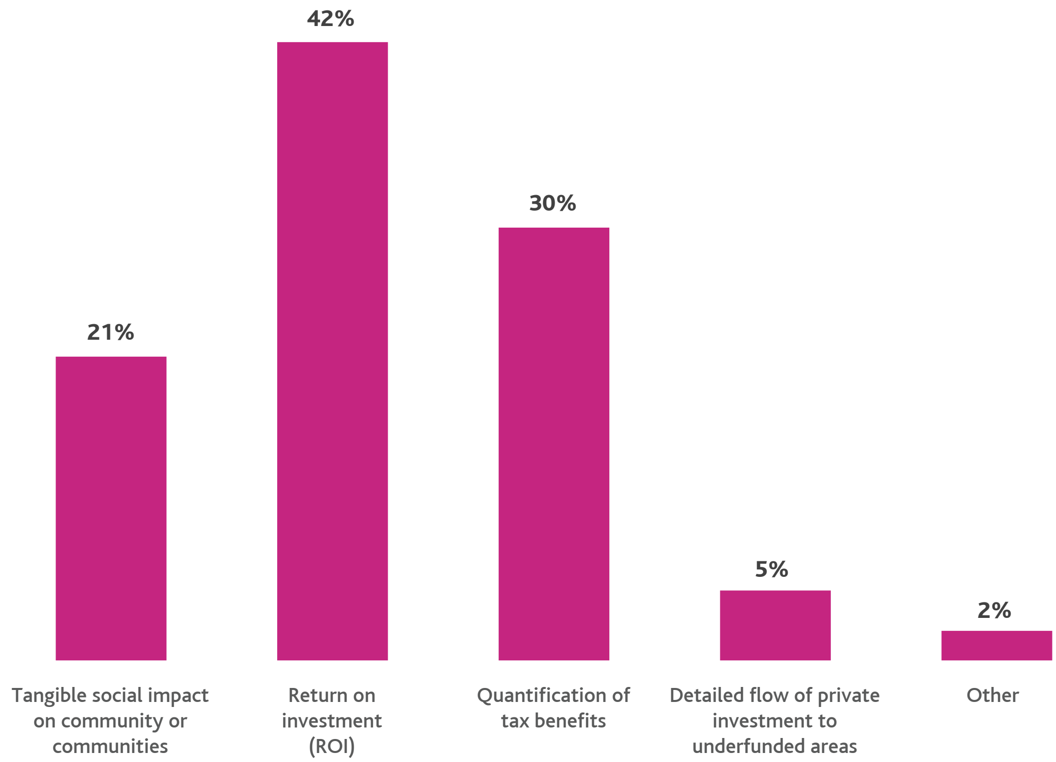
At what stage are Opportunity Zone fund managers communicating social impact to investors?



How did you first learn about Opportunity Zone funds?
Note: Question was framed slightly differently in 2021, including response options



What type of information is most persuasive or compelling in considering investment in an Opportunity Zone?



This is important information for fund managers, who will have to find ways to satisfy investors' varied passions. Fortunately, our research found they are getting better at communicating impact to prospective investors. Whereas in last year's report, roughly half of investors said that they heard about social impact from fund managers during the first conversation (15%) or in initial marketing outreach (36%), 80% of respondents this time around said the same (33% during the first conversation, 47% in initial outreach). Only 7% of this year's respondents said they were "unsure," compared to 33% in our previous report.

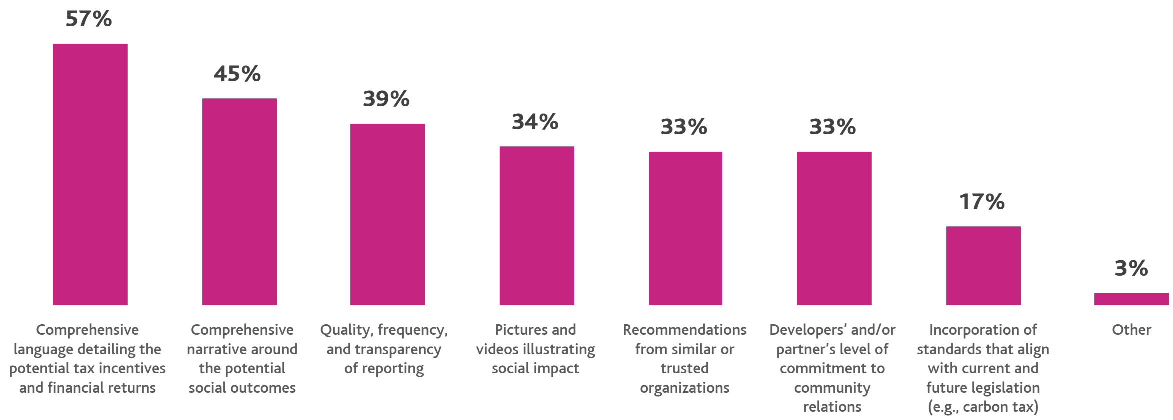
Just 7% of investors said they first learned about OZ funds via proactive outreach by a fund

Still, there's more work to be done on the communication front. Just 7% of investors said they first learned about OZ funds via proactive outreach by a fund. Most discovered it through social media (24%), or by conducting their own research or through the news media (15% for each). Importantly, of those who did their own research, most consulted fund manager websites (46%) and OZ project websites (40%).

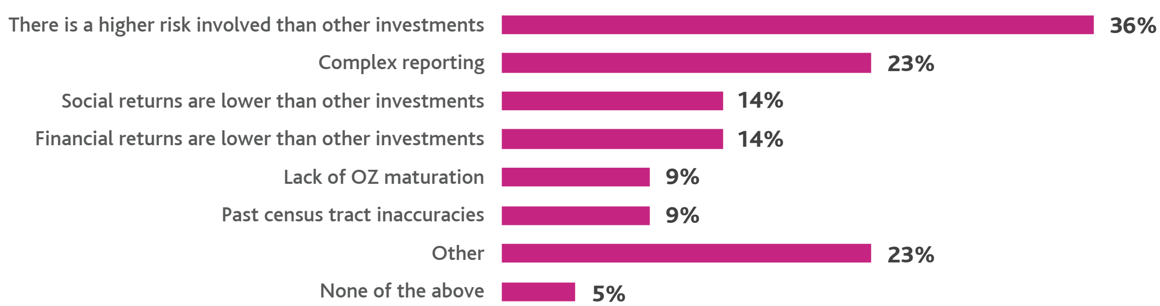
When it comes to what information would encourage OZ fund investment, financial benefits took precedence: nearly 60% said comprehensive language detailing the potential tax incentives and financial returns would make them more likely to invest. But social impact wasn't far behind. Forty-five percent selected "comprehensive narrative around the potential social outcomes" and 34% selected "pictures and videos illustrating social impact."

Reporting and transparency in OZ reporting is key

What information would make impact investors more likely to invest in Opportunity Zone funds?



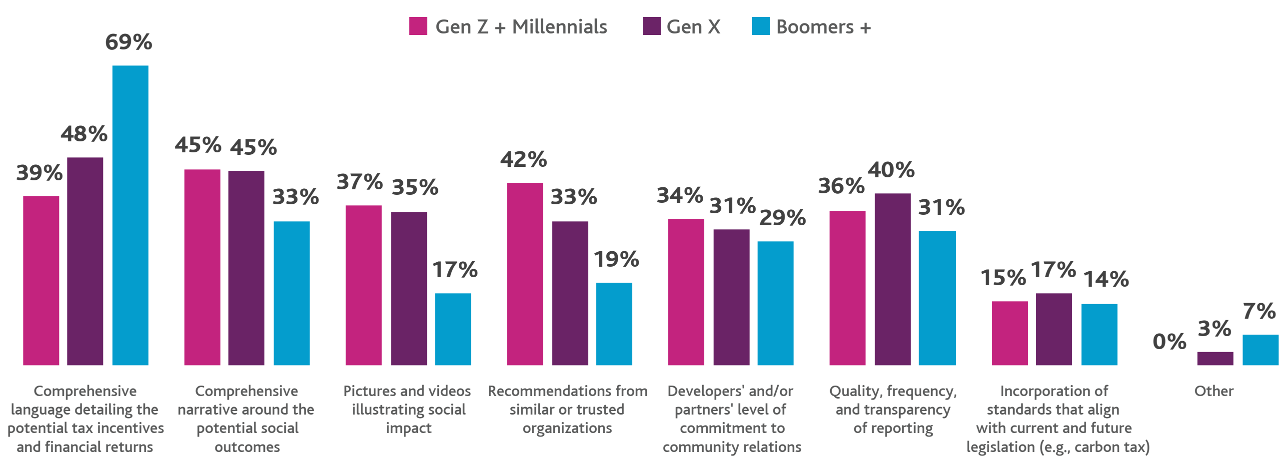
Chief reasons to not invest in an Opportunity Zone fund



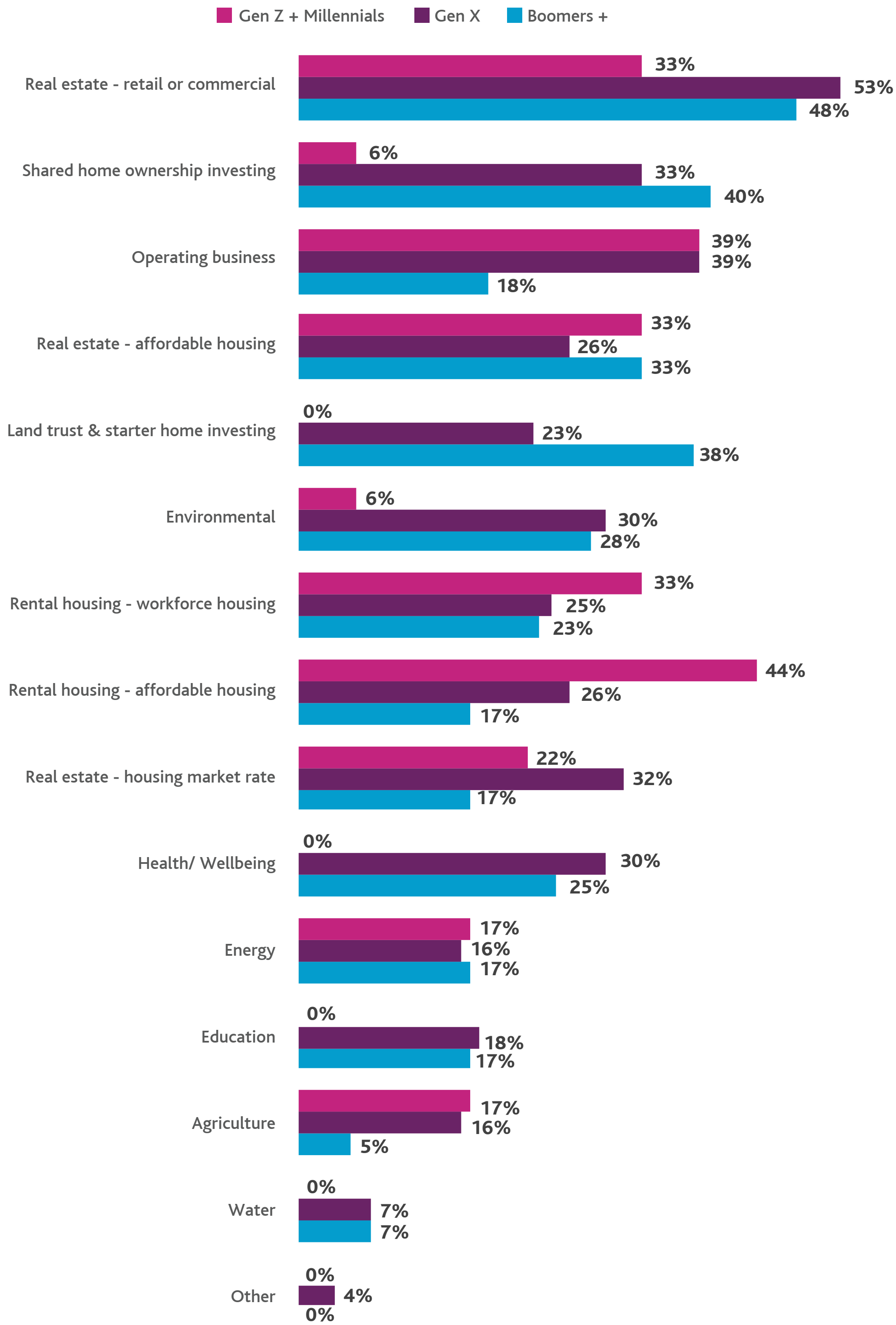
Fund managers can't forget about reporting and transparency. Nearly 40% chose quality, frequency, and transparency of reporting as a factor that would encourage OZ investment. What's more, of those not considering investment in an OZ fund next year, complex reporting was the number two reason, trailing only the notion that there is a higher risk involved compared to other types of investments.

What do different generations want from Opportunity Zones?

What information would make impact investors more likely to invest in Opportunity Zone funds?



Which best describes the Opportunity Zone fund(s) that you are involved in?



No matter their age, most respondents view OZs positively – but when it comes to what they know (and want to know) about OZs and their particular passions, important differences emerge. Unsurprisingly, younger generations are more interested in the program's social impact benefits than older ones. Fund managers should take note.

For instance, Gen X and Gen Z + Millennial investors are more interested than their Boomer+ counterparts in the OZ program's role as an economic development tool capable of creating social impact. While the return on investment and the quantification of tax benefits are the most compelling pieces of information when considering an OZ fund across all age groups, nearly a quarter of Gen Z + Millennials (24%) and 21% of Gen X respondents also chose tangible social impact – compared with only 7% of Boomer+ respondents.

This focus on social impact held when it came to the types of information that would most likely encourage OZ fund investment. Younger generations were more interested in a comprehensive narrative around potential social outcomes (45% Gen Z + Millennials, 45% Gen X, 33% Boomers+) and pictures and videos illustrating social impact (37% Gen Z + Millennials, 35% Gen X, 17% Boomers+). Younger respondents – especially Gen Z + Millennials – were also much more interested in recommendations from similar or trusted organizations (42% Gen Z + Millennials, 33% Gen X, 19% Boomers+).

Younger investors were also more likely to select social impact as the top reason for their involvement in OZ funds: 20% of Gen X and 20% of Gen Z and Millennials said as much, compared with only 6% of Boomers+. The latter group overwhelmingly selected response to a capital gain as the main reason (61%), while the number one response for Gen X was a tax benefit aside from capital gain (23%) and nearly a third of Gen Z + Millennials chose planned investment (27%). These younger generations are also looking at OZs to diversify their portfolios (15% for Gen Z + Millennials, 14% for Gen X); 0% of Boomers+ said the same.

In addition to younger investors' proclivity for social impact, these results might also simply reflect different stages in investors' careers. In other words, older investors might have more need for tax benefits, whereas more nascent investors might be proactively seeking out OZ funds as a planned impact investment.

Each age group also has different passions that drive their impact investing choices. When asked about their top markers of social impact, Boomers+ overwhelmingly chose job increases/employment opportunities (100%) and issues related to affordable housing and living conditions. Importantly, younger respondents' selections were more evenly dispersed – suggesting a wider and more diverse range of interests – though 70% of Gen X chose internet accessibility and 57% of Gen Z + Millennials chose improved access to healthcare.

BEST PRACTICES FOR MEASURING IMPACT

Measure outcomes, not merely inputs or outputs

Amid escalating cries of greenwashing, proliferating measurement standards, and a rapidly increasing number of ESG and impact funds, it's more important than ever that fund managers focus on outcomes when it comes to ESG and impact investing.

"To the extent investors incorporate existing ESG metrics into their investment decisions today, they are investing based on inputs or outputs, not impact, forcing an assumption that similar inputs produce equal impacts across funds," notes the Harvard Business School's Impact-Weighted Accounts website.

For instance, reducing carbon emissions is undoubtedly good for the environment. But if we don't measure the real outcome of those reduced emissions (for example, in curbing pollution or tangible benefits to consumers or communities), it's more difficult to assess the true impact of that action.

Translating impact into monetary values is one way to measure outcomes so that decision-makers can more easily evaluate, compare, and justify ESG and impact. Such a framework removes some of the subjectivity of non-financial metrics and makes impact more akin to recognizable accounting and financial reports.

Howard W. Buffett's Impact Rate of Return® methodology, for instance, takes this approach.

"In my experience, there has been a clear need to think about impact beyond just metrics and measures," Buffett says. "The organizations and communities I worked with wanted ways of understanding how their design and allocation decisions would affect the potential impact effectiveness of a given program or investment. Therefore, it seemed practical to me to devise a way to calculate an impact rate of return, in a similarly rigorous and applicable way as one would calculate a financial rate of return."

Tailor impact measurement to investors' individual passions

As evinced by our survey, investors have a range of different interests when it comes to ESG and impact investing. Around sustainability, for instance, one investor might be passionate about reducing carbon emissions, while the other is concerned with improving sustainable farming techniques to reduce hunger. Though both fall under the umbrella of "sustainability," they entail entirely different reporting and metrics.

At JTC, we've been doing targeted, focused impact measurement for years, creating purpose-built solutions for mission-oriented Opportunity Zone and EB-5 funds. That's no easy feat: reporting accurately at a smaller scale and measuring specific impacts to meet complex regulatory requirements can be a significant administrative burden.

As ESG and impact funds attract more scrutiny – and become increasingly targeted in their aims as a result – it's likely that they will start to look like more specialty funds. It follows that solutions built for specialty impact funds like OZs will be well-served to deliver the measurement and reporting their ESG counterparts need.

"The key to making ESG reporting cost-effective is to approach the sector with a view to 'Specialty Financial Administration,'" Thomas said. "Traditional fund administration solutions don't work. These funds have unique requirements that are best solved with purpose-built technology, and specialized expertise. In other words, you need to use the right tool for the job."

Improve data collection

Survey respondents said access to data was the second-most most critical roadblock when it comes to measuring impact, after a lack of defined standards. That makes sense: compiling accurate reporting requires sourcing a great deal of information from different areas of the organization and third-party vendors. It's no surprise, then, that respondents were relatively split when asked about who is responsible for reporting efforts – and that many use both in-house and outsourced solutions.

Some companies may have a natural "point person" to manage collection of impact data. But for those that don't, these tasks are frequently handed off to someone with no particular specialty or experience in ESG, and who already has a full-time job doing something else.

Facilitating a more seamless collection of this data is critical. For instance, JTC's vCSO (virtual chief sustainability officer) solution serves as an outsourced option to handle the cross-functional tasks of working with the client's management team, gathering and organizing the necessary data across different areas of the company.

Focus on security and transparency

In mature financial industries, the use of independent, third-party controls and record-keeping is standard – independent fund administration is not only a best practice, but a key factor in investors' investment decisions. Fund managers should therefore look for an administrator who undergoes frequent third-party compliance examinations and collaborate with them on managing and mitigating ever-changing cybersecurity risks.

Transparency is also key, especially in ESG and impact investing, where there may be more complex tracking and reporting standards. Investors naturally want to know where their money is, what it's doing, and when and where it's being invested. Finding a fund administrator with a user-friendly portal that offers regular reporting from any device, anywhere, can help.

ABOUT JTC

JTC is a publicly listed, global professional services business with deep expertise in fund, corporate and private client services. Every JTC person is an owner of the business and this fundamental part of our culture aligns us with the best interests of all of our stakeholders. Our purpose is to maximise potential and our success is built on service excellence, long-term relationships and technology capabilities that drive efficiency and add value.

www.jtcgroup.com