



JBWere

What is Impact Investment?

Over many generations there have been people willing and able to give. However, there haven't always been the mechanisms to make capital available for a social purpose. Arguably if this capital could have been made available in broader ways than via the traditional construct of 'philanthropic grants', we would have seen greater progress in addressing some of society's most pressing issues.

In the first half of the 20th century, Australia saw a surge of traditional foundations. Many were established as will trusts due to favourable tax treatment conditions and are mainstays of today's organised philanthropic sector.

More recently the JBWere Philanthropic Services team has witnessed a shift in preference to giving in one's lifetime via vehicles such as Private or Public Ancillary Funds such as the JBWere Charitable Endowment Fund. These vehicles have the potential to significantly change the nature and demographic of giving in this country. Their increased utilisation also reflects recognition from Government (through changes in legislation and tax advantages) of the importance of encouraging private funding to support the community sector.

Today we are witnessing the emergence of another exciting opportunity for Australians to support the community sector in the form of 'Impact Investment'. This opportunity is being built on the back of strong international precedent and experience.

'Impact Investment' is any investment that generates for investors a combination of financial and social return, where the intent of the investment is primarily for a social purpose. Primary intent is important in otherwise distinguishing a similar investment made predominantly for commercial return that may have the bi-product of a social return. By definition we are talking about a spectrum of investments that sit in a range between being purely philanthropic at one end of the spectrum and commercial at the other end. We refer you to the Monitor Institute report 'Investing for Social & Environmental Impact', published in 2009. A copy of the report can be found at www.monitorinstitute.com/impactinvesting.

'Impact Investment' facilitates actions to address social and environmental issues by providing access to capital pools not normally available for this type of activity. The creation of investment opportunities and other forms of intermediation with commercial capital markets has led to significant benefits being achieved for the community now and potentially mitigating the cost of such social issues going forward.

A social investor may be willing to take a lower than normal market return for the risk they are taking on, in return for generating a 'social' return that may not be measured in the same form as a traditional investment. It should be pointed out that 'Social Return on Investment' is also not a new concept. However, social investors are now becoming more comfortable in giving up part of their financial return in acknowledgement of generating this social return.

'Impact Investment' offers capital markets and/or social investors a different way to think about the 'social' value created over and above that of traditional measurement of

investment return. It offers an opportunity for investors to support their community with funds they may not have been comfortable 'giving away' or that they had otherwise flagged for traditional investments. This additional source of funding is particularly important in times of uncertainty, as we have recently witnessed during the global financial crisis, when the demand for non-profit services was high but the willingness of individuals to part with capital was low.

'Impact Investment' has opened up 'new' capital markets to the non-profit sector. Industries like micro finance have seen significant growth via intermediation which has opened up access to capital beyond traditional grant funding to millions of those otherwise excluded from formalised capital markets. Another example of this access to deeper pools of capital for a community benefit is the International Finance Facility for Immunisation (IFFIm) Immunisation Bonds, a case study for which can be found below (see www.iff-immunisation.org for more information).

Over time, as 'Impact Investment' matures, we would not be surprised to see non-profit organisations evolve into stronger, more sustainable organisations. However, as 'Impact Investment' develops, so potentially will competition for capital amongst participants. This will create new challenges in how non-profit organisations work with other organisations, how they demonstrate the impact of their outcomes and whether they should even continue to exist or contemplate merging with other organisations.

We anticipate difficult and sometimes confronting discussions and decisions that we shouldn't shy away from. Social capital markets will demand efficiencies, accountability and transparency in non-profit organisations seeking funding. Such scrutiny may be a different experience from that which these organisations are currently used to from more traditional funding sources such as philanthropy or government funding.

Although challenging (and definitely not always the most appropriate funding source in all situations) such access to finance can be a positive stimulus to promote sustainability within the non-profit sector, breaching the gap between for-profit and non-profit.

'Impact Investment' has the potential to form part of any investment portfolio: be it a superannuation fund, personal investment portfolio, trust, charitable trust or managed fund. While it is not a replacement for philanthropy, nor the 'silver bullet' that solves every funding challenge, it does have the potential to complement and diversify the funding sources for non-profit organisations and allow supporters to further aid the community sector with capital otherwise not intended to deliver social outcomes.

Case Study Immunisation Bond

The Problem

Leading up to 2006, each year nearly 30 million infants born in developing countries weren't immunised against preventable diseases; more than 2 million would die on a yearly basis*. The provision of vaccines such as for hepatitis B, yellow fever and Hib, can help countries strengthen the fight against these preventable diseases. The most effective way to suppress these diseases is through mass vaccinations, something that required the sourcing of immediate and substantial capital.



The Initiative

European countries (United Kingdom, France, Italy, Spain, Sweden and Norway) had pledged various amounts of funding annually over a 10 year period. The International Finance Facility for Immunisation (IFFIm) saw an opportunity to utilise these country pledges to raise money in capital markets through a bond issuance. This innovative financial mechanism aimed to provide US\$4 billion in disbursements between 2006 and 2015 to help protect more than 500 million children from preventable diseases through immunisation*.

Today the money continues to be raised in the capital markets, with the bonds to be repaid over a 20 year period, under the terms of legally binding agreements.

The bonds offer investors:

- competitive market rates;
- highly rated AAA bonds;
- backed by mostly AAA rated governments;
- a virtually zero-risk investment that also saves lives; and
- the comfort of Goldman Sachs and Deutsche Bank as the two lead managers for the inaugural bond issue.

According to the IFFIm the investors in the bonds include:

- central banks and official institutions;
- fund managers;
- pension funds;
- retail investor;
- banks; and
- corporations and insurance companies.

The Outcome

The IFFIm states that the bonds have raised more than US\$ 3 billion*, with the bonds heavily over-subscribed. The financing plan accelerated contributions from donor countries, helping to bring 10 years of immunisation programs forward. This effectively locked in aid flows, which are usually erratic due to their dependence on annual budgets and political influence. The direct benefits seen through the bonds included:

- strengthening immunisation and healthcare delivery systems;
- boosting coverage with established vaccines (against diphtheria, tetanus, pertussis, tuberculosis, measles, and polio);
- introducing under-used vaccines where needed (hepatitis B, Hib and yellow fever);
- creation of a polio vaccine stockpile to protect against future outbreaks;
- ensuring immunization safety; and
- accelerating the development of, and affordable access to, priority new vaccines for developing countries (e.g. against rotavirus and pneumococcal disease).

By assuring stable, predictable and coordinated cash flows, the bonds look to help governments reach the nearly 500 million children that miss being immunised each year*.

The bonds demonstrated the power of capital markets to effect change in the community sector, helping to raise capital and bring forward change in an efficient, accountable and transparent manner.

* International Finance Facility for Immunisation

Information for this case study was sourced from www.iff-immunisation.org

About the Author

Christopher is the Executive Director of the firm's Philanthropic Services team, where his primary responsibilities include raising awareness of philanthropic issues, providing advice on investment and capital management to individuals and organisations wishing to implement a philanthropic strategy, and fostering relationships between interested parties in order to facilitate the giving process. Christopher has a long term interest in social finance and has participated in and hosted roundtables and forums on this topic. He also oversees research by JBWere's Philanthropic Services.

Christopher joined JBWere in 1984 and worked in Melbourne as a Retail and Institutional Adviser. In 1993 Christopher moved to New York as Vice President Institutional Sales. Upon returning to Australia in 1996 he was appointed Manager of JBWere's Queensland business, until returning to Melbourne in 2001. He was made a partner of JBWere in 1997.

Christopher has held a variety of senior management roles within JBWere's Private Wealth Management business, including business integration and strategy. In 2002, Christopher established the firm's Philanthropic Services division.

Christopher is a member of the Philanthropy Australia Council, Chairman of ShareGift Australia, the MLC Community Foundation Advisory Committee and the JBWere Charitable Endowment Fund Investment Committee, President of the Camberwell Grammar School Foundation and a member of the Centre for Social Impact Melbourne Advisory Council.

The JBWere Philanthropic Services team is committed to contributing to the ongoing development of the philanthropic and the non-profit sectors in Australia and New Zealand. Our team has been an integral component of JBWere's wealth management offering since 2001.

We work with individuals, families and businesses to help them develop and implement strategic philanthropy goals that meet their particular family, legacy, tax or financial situation.

We also work with non-profit clients on governance, on how to maximise investment outcomes and on how to appeal to donors. In further support of our clients, we conduct and compile research on best practice in the non-profit space and share these findings with our clients. Additionally, our team provides capacity-building seminars and events that provide educational opportunities for non-profit staff and board members.

To find out more about how our JBWere Philanthropic Services team can help you, please contact:

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