The point of view of an impact investor – redefining the concepts of risk and retour

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The notion of a trade-off between financial, social and environmental returns has dominated the impact investing debateuptonow. Bamboo Finance views these components in terms of a total return that needs to be maxi- mized and it does not believe that profits have to be sacrificed in return for a greater social and environmental impact. It claims that it is possible both to maximize profits and achieve social and environmental benefits by investing in the equity of businesses that provide essential products and services to low and lower-middle income consu- mers in emerging economies.

PS&D

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Low-income households in emerging markets are already consumers of essential goods and services (healthcare, energy, financial services, agriculture for example), but they often pay dearly for very poor quality. Access to new and / or improved products and services can have an immediate positive impact on their quality of life. The social, environmental and economic impact can be intrinsically linked to the products and services, and profit and impact objectives can be achieved simultaneously. A trade-off is not necessary.

It is important to note that impact investing is still in its infancy. Certain sectors are ripe for investment but others are still testing the viability of business models. Microfinance was among the first sectors selected for impact investment. New financial services models have emerged to serve the unbanked more effectively and financial services for low-income consumer remains a high growth, high value and high impact sector. Bamboo Finance's investment in the Mongolian TenGer Financial Group is a case in point (BOX) and there are also enormous social and environmental impact investment opportunities in clean energy, agriculture and healthcare.

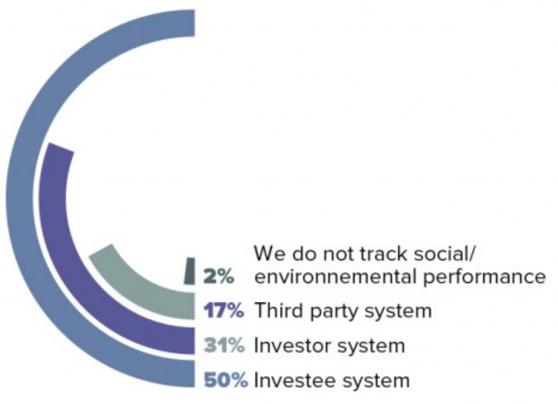
Bamboo Finance believes it is possible to generate a "total return" by narrowing an investment universe down to specific markets and sectors. By investing in companies that provide access to high quality, affordable products and services for low-income customers, profitability and impact performance can grow in tandem but, as with financial performance, impact performance needs to be measured consistently. This means liaising with an investee to determine the best approach and adapting this as necessary.

A success story of impact and return

In 2009, Bamboo Finance took a stake in the Mongolian TenGer Financial Group (TFG). Xac Bank – TFG's core business – started as a non-profit microfinance lender in 2001 and evolved into the fourth largest bank in Mongolia offering loans mortgages and mobile banking services to small and medium-sized businesses. By 2013, Xac Bank had become a fully regulated commercial bank renowned for its transparency, good governance and fair lending practices with over 500,000 customers in 21 provinces, 97 branches, and USD 800 million in total assets. The bank markets impact products (green loans, micro insurance and a wide range of savings products). TFG's growth enabled Bamboo Finance to exit by selling its stake to a group of investors led by ORIX Corporation, the largest leasing company in Japan and third largest world-wide. When it exited TFG, Bamboo Finance managed to double its money and exceed the targeted 20% Internal Rate of Return (IRR). Taken together, these metrics represent the "total return."

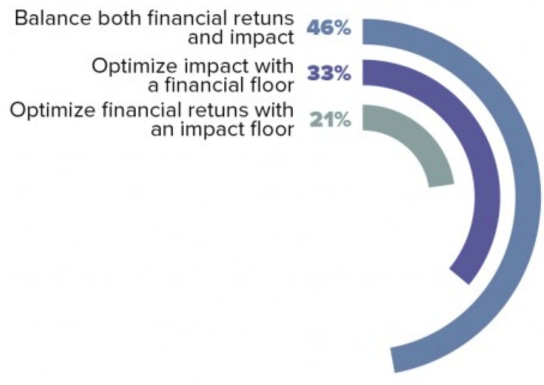
A FEW FIGURES ABOUT IMPACT INVESTORS

Impact measurement system



Source: GIIN, J.P. Morgan, 2011
Methodology: data were collected from 52 impact investors. They chose one answer.

Investment thesis



Source: GIIN, J.P. Morgan, 2011
Methodology: data were collected from 52 impact investors. They chose one answer.

When Bamboo Finance evaluates an investment opportunity, it assesses not only the potential financial risk and return, but the measurable social and environmental risk and potential for value creation. An investment with high potential profits but unsustainable social and/ or environmental approaches will be sub-optimal and will fail Bamboo Finance's impact investing "efficiency frontier."

To apply a “total return” approach, Bamboo Finance begins by determining whether a potential invest- ment provides essential goods and/or services affordably to unreached or underserved low-income communities and whether the product/ service enhances quality of life and/or efficiencies that translate into increased income or reduced costs for the communities in question. Once an investment meets these criteria, Bamboo analyzes the operations, business model, management, governance and financial performance as well as the macro-economic context (GDP growth, political stability and regulatory environments, etc.). It works with investee management teams to forge a shared vision of financial, social and environmental performance over the life of the investment (between 5 and 8 years for private equity investments).

Bamboo works with investees to map impacts and track these on a quarterly basis alongside financial performance. It sits on investee boards and committees and links its own performance as impact fund manager to the investee’s financial and impact performance. It also measures and monitors financial and impact performance at the portfolio level.

To reflect this vision in the organization, Bamboo’s performance incentive comprises financial carry and impact-based carry. It is also committed to pooling experiences and best practices. The time has come to redefine “risk” to include factors that are detrimental to the future of our planet and investments).
Bamboo works with investees to map impacts and track these on a quarterly basis alongside financial performance. It sits on investee boards continue to promote inequality and exclusion, and to redefine “return” to include the benefits of social and environmental factors.

A growing number of investors and their clients are starting to question the impact of their investees as witnessed by the growing momentum of the Divest/Invest movement and recent pledges concerning climate change and impact investing. Investment capital has a central role to play in the fight against global poverty, climate change and peace. Maintaining business as usual is a risk we can no longer afford.

REFERENCES :

Saltuk, Y., Bouri, A., Leug, G., 2011. Insight into the Impact Investment Market: An in-depth analysis of investor perspectives and over 2,200 transactions. J.P. Morgan and the Global Impact Investing Network. Décember

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