

The whys and hows of impact investing

By Sandra M. Schaufler, CFA, Managing Director, Sustainable Investing, Nuveen

Impact strategies are becoming more commonplace as investors push for greater change through their investments. With many institutional investors, consultants and wealth managers looking to meet client demands for impact investing, we explore what it is and what it brings to a diversified portfolio.

What are impact strategies?

An impact strategy clearly defines the purpose of its investments which are made with the intention of generating additional positive, measurable social and environmental impact, alongside financial returns. These outcomes can vary; they may target a specific goal or a combination of environmental or socially-orientated objectives. Environmental goals, such as carbon reduction, have become increasingly important for investors of all types.

However, some investors remain on the fence regarding impact strategies. Concerns persist about where to invest to achieve positive impact, what the effective metrics are for determining and measuring success and the perception that impact strategies may sacrifice financial returns. Nevertheless, demand for environmentally-friendly and outcome-oriented investments is on the rise, and there are solutions to these perceived barriers. Real assets, such as timberland, farmland and infrastructure have traits which make them an excellent platform for impact strategies.

Impact in action

Impact objectives are varied, with some more applicable to certain real assets than others. Real estate may focus on affordable housing, while farmland may be tied to biodiversity goals, and timberland to conservation efforts. Infrastructure can support the transition to a low-carbon economy by identifying emissions reduction pathways for energy, transport, while encouraging the expansion of the circular economy and more efficient use of water and waste management.

Understanding the true potential from an environmental and social perspective is central to an impact strategy.

Environmental goals for infrastructure impact strategies may include transitioning energy generation to renewable sources, while waste management may focus on recycling. Water management may consider how water is returned to the environment or the efficiency of testing and analysing contaminated water.

Social investment goals can result in operational changes, with an additional emphasis on job creation, executive and board positions for women, skills-based progression and community engagement.

Each asset class presents opportunities while maintaining the underlying benefits of real assets – such as inflation-hedging characteristics, steady cash-flows, low volatility and a supportive



regulatory/political environment. Using the inherent benefits of real assets, alongside the unprecedented support for sustainable infrastructure investments, impact strategies aim to tap into an investment's growth potential through positive environmental and social changes.

Impacting infrastructure

Many listed infrastructure assets operate essential services such as energy, water and waste management. These low-volatility businesses have demonstrated resilience and consistent growth across market cycles.

The essential nature of infrastructure usually translates into demand characteristics that remain stable over the economic cycle. The businesses are generally regulated to ensure fair pricing, which is often contractually linked to inflation. Often the industries are monopolistic, which can make the assets an attractive investment. For example, the sheer size and capital intensive nature of an electric grid creates high barriers to entry.

This regulated return stream — coupled with consistent demand and the long-term nature of contracts and concessions for the ownership and operation of the assets — leads to visible and predictable cash flows. We believe that these cash flow and income-producing dynamics provide inherent value and make infrastructure assets an attractive investment, while impact strategies can be used to unlock further value in these assets through positive environmental and social changes.

Partner for success

Nuveen, the investment manager of TIAA, offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. With \$1.1 trillion in assets under management and operations in 27 countries, we offer deep expertise across a comprehensive range of traditional and alternative investments through a wide array of vehicles and customized strategies.

With more than 30 years of experience in impact investing, we have deployed over \$10 billion in impact investing strategies that deliver measurable social and environmental benefits to people, communities and the planet. Our strategies pursue positive social and environmental impact alongside competitive financial returns across a broad range of asset classes, offering a range of investment opportunities that support positive outcomes, in both private and public markets. For more information, please visit www.nuveen.com/impact.

Source: Nuveen, 30 Sep 2022

nuveen
A TIAA Company