NPN Profiles

Tideline Gives Path To Allocators In A Rapidly Changing Impact Investment Environment

By Nick Lioudis | February 2, 2017

Tideline's roots are spread across the spectrum of the financial services industry, yet all of its leaders have come together toward a single cause–giving investors the tools to implement an effective impact investment program.

Since Tideline was launched in 2015 by Christina Leijonhufvud, Ben Thornley and Kim Wright-Violich, the impact investment consulting firm has worked to provide institutional clients with the tools to develop impact investment programs and products.

"We created Tideline to address a gap in professional, non-conflicted advisory services in the marketplace," said Leijonhufvud, creator and former head of J.P. Morgan's Social Finance business.

The gap Leijonhufvud refers to is one centered around the conundrum that has proved difficult for institutions to solve–achieving programmatic goals through investments with (presumably) measurable returns. Tideline has also served as a resource to the wealth management and investment advisory communities, which are both working to bring the best resources to a growing demand for impact investment solutions, she added.

Christina Leijonhufvud

Tideline's presence in the marketplace comes as the impact investing sector is reporting unprecedented investment activity, reaching over $15 billion during 2015, according to *The Global Impact Investing Network*.

This makes impact investment consulting firms such as Tideline crucial to the sector, as they serve as a bridge for gatekeepers and investors such as foundations and endowments to access the tools to implement strategies, whether they take the form of ESG screens in their equity portfolio or direct commitments to real estate and private equity firms.

"Consultants can help asset and investment managers understand the ways they can initially experiment or develop more in depth strategies," said Wright-Violich, former ceo of Schwab Charitable. "I don't think you have to be far along in your consideration, but you have to be committed to spending some time and resources learning and defining what you want and aligning the key decision-makers and asset holders around that goal."

Yet, one of the headwinds that firms such as Tideline face is that institutional investors have been long considered slow adopters to any type of unknown commodity, let alone broader impact investment initiatives, with a few notable exceptions that include the Ford Foundation, McKnight Foundation and W.K. Kellogg Foundation. In 2015, foundations only accounted for approximately $260 million of the committed capital to impact investments, according to GIIN. In addition, US SIF reported that there is an overall $8.1 trillion in U.S.-domiciled assets held by 477 institutional investors, 300 managers and 1,043 community investing financial institutions to which ESG criteria are applied in investment analysis and portfolio selection, according to its 2016 trends overview.

That said, Tideline's experiences have led the firm to believe that the pace of commitments will see strong tailwinds in the near future.

"Foundations had been moving slowly, but I think there is a catch-up dynamic under way. It worries me less that they're going to miss uncorrelated alpha. My greater concern is that they've lost a chance to have a significant voice at the table, play a governance role in this market and influence the gatekeepers," Leijonhufvud said.

ASSEMBLING THE PIECES TO CONSTRUCT AN IMPACT INVESTMENT PORTFOLIO

For those institutions looking to move forward with an analysis or implementation of an impact investing strategy, Tideline aims to provide guidance throughout the various stages of formulating a plan of action, Leijonhufvud said.

"We've developed this framework for engaging with foundations and endowments that breaks down the process of exploring impact into component pieces," she said.

One of the first components is working with clients to create an investment belief statement.

"We're working with clients to clarify what beliefs, intentions, and constraints they're coming to the impact investing table with–that is one of the most critical pieces of the puzzle here," she said.

Leijonhufvud added that many institutions are challenged to articulate their beliefs, objectives and intentions.

"Articulating those in terms that align with impact investment strategies that exist is a very specialized process and activity. We're doing more and more work in that regard with clients. We're working with financial advisors and wealth managers, which are struggling with exactly that phase of engagement with clients, to help build the tools and requirements to navigate that discussion and surface information that will be relevant to creating or re-framing a portfolio," Leijonhufvud said.

Tideline also assists clients with research on the state of the markets and how those relate to its stated beliefs and intentions. The further stages involve client engagement on the market, along with varying levels of due diligence, stopping short of making a formalized recommendation on the investments, she said.

The firm also works with clients to help develop impact investment products, which involves facilitating multi-stakeholder arrangements and partnerships.

In addition, a July report entitled, *Navigating Impact Investing: The Opportunity In Impact Classes*, is one example of how Tideline looks to put its thought leadership philosophy into practice, with several pieces of research on the impact space available on its website.

OVERCOMING OBSTACLES IN THE IMPACT INVESTMENT SECTOR

The challenge that Tideline and other key actors in the impact investment space face is that institutional investors have long been accustomed to looking to the financial markets for answers to complicated questions, whereas the impact investment space spans many more avenues than Wall Street.

"The key challenge is bringing together impact investing in strategy, business policy and public policy in ways that focus on implementation," said Ben Thornley, who leads Tideline's work with clients that include the Bill & Melinda Gates Foundation and KKR. "It is a nascent market with new tools. This effort to help professionalize is about creating structures that help make impact investing possible, including new products and platforms. What we're seeing is a forward momentum in many market segments. Institutional investors, in particular, are seeking to partner with quality intermediaries, which is consistent with their fiduciary obligations."

Ben Thornley

Thornley said that there have been inroads to applying private investment structures to global issues, using the Bill & Melinda Gates Foundation's efforts to determine if private capital can be transferable to global health as an example.

Although Thornley did not name specific strategies, the Global Health Investment Fund is one example of a social impact fund using private dollars to address global health issues, while newer impact funds such as Rise are being launched with $2 billion in commitments.

There is also momentum from the research side, as institutional investment consultant Cambridge Associates last year produced a report that discussed the value of ESG factors in emerging markets stock selection.

Thornley said he think there's a need to open up new markets to impact investments.

"From where we sit at Tideline, and generally observing the market, we are learning how to find places where private capital has not been as prevalent, and where it has the potential to add value in responsible ways."

Wright-Violich also pointed to the fact that dissimilar to many other areas of the investment world, impact investment research is largely limited.

"The challenge in this space...is there has not been decades of academic research and practice on what works and what doesn't. Evidence is just emerging on how to invest for impact well and when impact investing can be an additive and a risk-mitigating strategy," she said.

"If you look back just 10 years ago, there was a presumption that investment returns would be sacrificed by exploring this space. The really good news is that Cambridge [Associates] and others have created a growing body of evidence that not only can you achieve market rate returns, screening for ESG factors and including impact in your investment strategy can be additive and risk mitigating. The starting presumption that you must compromise risk adjusted returns to achieve impact has evolved in the last decade, and has dramatically changed in the last couple of years. There is a burgeoning interest in exploring impact as a compelling tool for finding alpha and uncorrelated performance, or reducing risks," Wright-Violich added.

Kim Wright-Violich

Leijonhufvud and Wright-Violich played their own devil's advocates in saying that, as with any investment, there are risks, but that is exactly why the role that firms such as Tideline play are crucial to the development of the impact investment sector.

"Those that are gun-shy or feel a sense of caution around this market, have concerns around the risks that are well-founded. There are legitimate risks to the movement, and there is a lot of mislabeling that goes on in this market. It's precisely one of the reasons Tideline is in existence, to help clients ensure they are developing strategies and sourcing opportunities that are truly matched with their needs and values and helping them articulate those values is a starting point," Leijonhufvud said.

"Obviously, you don't wake up one day and move 100% of the portfolio into impact investments," Wright-Violich said in addition to Leijonhufvud's points. She said that the firm is very bullish on the long-term outcomes that impact investments will produce.

For Leijonhufvud, the risk/reward discussion is a lot more straightforward.

"I think the risk of not participating in this market and not taking on the internal assessment required will leave far more on the table for investors than the risk of participating and getting burned," she said.