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Money and Good Mix, says HIP CEO

Paul Herman highlights trends in impact investing

HIP Investor's CEO R. Paul Herman has an inspiring message: you don't have to choose; you can do good and make money.

It's this message Paul recently underscored when teaching a Master Class on Impact Investing at Presidio Graduate School.

Paul is an internationally recognized expert in impact investing. In 2004, he invented HIP (Human Impact + Profit) to show that the strongest portfolios and leading companies in profit and shareholder value can source much of their competitive advantage and bottom-line benefits from improvements in quantifiable human, social and environmental impacts.

We caught up with Paul to learn more about HIP and other trends in impact investing:

Q: Paul, can you share some examples demonstrating the "HIP-ness" of investments?

Paul: Companies are made up of people. Eighty per cent of the S&P500 stock market value lies in intangibles, primarily human capital. If you were to track companies named best places to work, historically they have outperformed the general market.

Credit Suisse completed a report last year showing that companies with women on their boards of directors outperform companies that don't have female directors by an average of four percentage points in return on equity.

By boards of directors being diverse and more representative of the customers they serve and the talent that is inside the company, the higher the financial potential and the lower risk there is.

Q: You're a recognized leader in impact investing. Can you tell us what trends you're seeing in your work?

Paul: One of the trends is that forward-acting investors are signing up for the Investing Pledge. Today, there is a giving pledge where billionaires like Warren Buffett and Bill Gates are willing to donate half or more of their billions to charity. But there is another group of investors, which you can see at investingpledge.com, that want to invest 100 percent of their portfolio by the year 2020 in positive impact investments.

The second trend is there are an increasing number of choices for investors. Not only in equities, like mutual funds and ETFs (exchange-traded funds), but now in bonds and fixed income. There is a category of bonds called Impact Rated bonds.

There is an opportunity where, whether you're invested in corporate, fixed income or mini-bonds, there is an actual way to rate the benefit to society.

As you look at each category of investing — real estate, hedge funds, private companies — there are more and more opportunities to apply your values to your portfolio.

One of the frustrating trends is people are not actually voting with their money or feel like they don't have the confidence or the awareness, or that their retirement plans don't reflect how they want to invest. So, that's one of the trends we're trying to spur, is empowering people with information and confidence so they can actually apply their money in a way that is consistent with improving the world.

Q: Would you say impact investing is seeing an uptake with a small group of progressive individuals and institutions?

Paul: Essentially, 85 percent of managed money does not invest with impact as a criteria. Only about 15 percent does, which is more than $3 trillion. It is a slow road as institutions tend to have group decision-making that tends to vote down impact investing.

Individuals are investing for impact. One exciting thing is there are some entrepreneurial families, family offices and family foundations who are leading the way but institutions are slow to catch up.

Q: What do you think is the biggest change needed to encourage institutions to move their money?

Paul: The biggest change is for (institutions) to listen to people for whom they invest. If pension funds, endowments and retirement plans actually listened to what their beneficiaries want, they would offer more sustainable investing choices.

What gets in the way is this traditional mentality of thinking you can't do good and make money at the same time. (There is) a lack of awareness, and lack of accurate information, but also a willingness to believe that the data is true, that doing good and making money are possible at the same time.

For more information on impact investing, check out Paul's book *The HIP Investor: Make Bigger Profits by Building a Better World*.

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