RESEARCH ABSTRACT

Impact investing and real assets: a different stance required for individual investors?

Recent "economy dislocating" events (e.g. pandemics, Ukraine) have shaken financial markets (e.g. from low/ negatives interest rates to reflation and long term rates) and **shed light on the "utility" of investments.** ESG investing has grown fast over the past years: **The total issuance volume of sustainable bonds in Europe has increased 18-fold during the last five years,** from EUR 26 billion at the end of 2015 to EUR 476 billion at the end of 2020. The Covid-19 crisis accelerated this trend during 2021, leading to an increase in the assets of sustainable bonds to EUR 707 billion during the first 10 months of 2021.

But recent European mass-affluent investors survey reveals a "disconnect" between real life hazard investors want hedge for (e.g. illness, unemployment, economic disruptions vis à vis their patrimony) and financial players offering. Indeed, clients ask for a) **much more customization,** and b) **straight-forward meaningfulness** (e.g. climate, poverty, economic recovery).

For financial players (e.g. asset and wealth managers, investment banks) this raises several issues among which **mass-customization and proof of impact.** The latter is being tackled by numerous recent regulations (e.g. Sustainable Financial Disclosure Regulation which came into effect in March 2021, and especially article 9 funds with a sustainability objective to specify) and many ongoing working groups (e.g. Finance for Tomorrow in Paris), but the former has drawn limited attention.

We believe that financial players should contemplate:

- Trusting more client's perception of meaningfulness, especially for Real Assets, as opposed to relying on a nth regulation and its "procyclical" ecosystems (e.g. rating agencies, index providers, auditors) to assess "compliance"
- Leveraging disruptive technologies (e.g. blockchain and artificial intelligence) to "reduce the distance" between [real] assets and end-investors and bridge the gap between perception and reality

On the client side, a few experiments have been done in a recent past where, for instance, **banks and supranational bodies teamed up** to insure the financial performance with ad hoc origination (e.g. infrastructures in emerging markets), the "ESG rationale", and the ability to package and distribute (e.g. retail and affluent banking networks, IFAs).

Several FinTechs also support ad-hoc services to assess ESG related attributes (e.g. scores, fund multi-level transparency). But **gaining access to reliable data sometimes prove to be difficult:** accessing multiples data sources including real asset manufacturers data and relaying it back to individual investors. **Asia China** is good example of "headache" to gain access to data even though specialized Fintechs are emerging (cf. Miotech, Syntao).

We believe financial players should contemplate **providing access to unbiased data on real assets by federating neutral parties** (e.g. asset owners / builders, supranational agencies and / or public services) via a digitized "chain of trust" that could be natively supported by a **blockchain.**

On the "manufacturing" side, what is at stake is operating **a "distribute to originate"** process but in **"B2B2C" mode.** The "originate to distribute" process has been used for long to increase balance sheet rotation. Then, some players turned it around to better align with institutional investors demand. Now the end client matters. The idea is: federating end clients around a set of "motives" and providing tailor made investment vehicles with the same acuity one would have for institutional investors. Motif Investing, a US Fintech experimented this a few a years ago before it got partially bought out by Charles Schwab [maybe because it threatened the asset management industry of disintermediation]. The idea was to **assemble a "crowd" with same investment characteristics** (e.g. risk appetite, purpose) and create a dedicated financial vehicle made out of a fund universe to be invested in. That solved the alignment with clients demand but not necessarily the underlying asset universe to make it happen.

We believe financial players need **work more across siloes from distribution network to corporate and investment bank to go one step further into the "distribute to originate continuum".** That is sharing real assets funding deal pipe with "distributors" in touch with end clients (e.g. wealth managers, IFAs). This continuum could be equipped here again via a blockchain to insure "decentralize" trust among parties and enriched via artificial intelligence (cf. BofA-ML Priam apps that captures 80k data point to reach 80% of "distributability" of securities)

In order to make this happen, several hurdles need to be overcome but invariant is a) to be able to innovate across siloes, b) with numerous external ecosystems to bring fresh air and internal talents to secure data availability and technical feasibility at scale !

Let's get in touch to start the adventure

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