3-D Investing

Risk, reward, and increasingly, impact are the three pillars of investment, says Rodney Schwartz '79, '80S (MBA).

Interview by Karen McCally '02 (PhD)

I started out with a conventional career in finance. I began as a financial services analyst at PaineWebber, and in 1987 moved to Lehman Brothers, where I ran the equities business here in Europe. I joined senior management at Parabas, and left in the late 1990s to found Catalyst, a venture capital firm.

During that period as a venture capitalist, I got more interested in social impact. I was getting older. I had children. I told my kids certain values were important, and then was living a life that was completely different. Kids can see through that stuff. They judge you by what you do, not by what you say. So I felt like I had to do something that had an element of social benefit. And that's really how I started this, what I call, this journey.

I founded ClearlySo, which is now the UK's leading impact investment bank. When we say "impact" investing, what we're including is any project that has a social, or environmental, or ethical impact. For example, it could be reducing water pollution, or it could be educating children with special needs, or it could be housing the homeless, or it could be reducing carbon emissions.

If you think about classical finance, there are just two variables that matter: risk and return. Impact investment is three-dimensional. In fact, at ClearlySo, we coined the term 3-D investing. You don't just consider risk and return, but you also take social, ethical, and environmental impact into account. If you think about risk, there's no instruction from God or on high that we should take risk into account. It's just that people prefer payoffs that have less risk associated with them. And increasingly, in the same way, people are starting to prefer returns that have less negative impact, or more positive impact. It's becoming a variable that people are starting to value.

There are people who refer to impact investing as an asset class, and I think that that is very faulty thinking. It isn't really an asset class. It can't really be an asset class, because it's so many different assets. So there are equity impact investments, fixed income impact investments, derivative impact investments, property impact investments. So it spans asset classes. It's more a dimension than anything else.

There are skeptics who say no, impact investing is really just something that's trendy right now, but it will stop being trendy. But companies are starting to think about impact investment as a next-generation development in their corporate social responsibility, or CSR, strategies. It used to be that you basically just gave a bit of money to open up a new wing of a library, or a hospital, or something like that, and that was CSR. And then it was helping a community that was important to your business. Now they're saying, "Look, we're a business. Why can't we be coming up with business solutions that have benefits to our broader community?

Impact investing is one of the fastest-growing areas in all of the financial markets. I would call it a movement. And a profound movement. I struggle to think of a big company in the UK that isn't engaged with this agenda in some way. Businesses come to us in great numbers. But it's still going to take time. If my grandchildren ever become business students, by that time I do think that in finance, impact will be considered as integral as risk is today.

Rodney Schwartz
'79, '80S (MBA)

Home: London
Founder, ClearlySo
On starting a Wall Street career: "I was in a hurry when I was at Rochester, but I wasn't so much in a hurry to go to Wall Street. It was a second choice. It was kind of an accident. Back then Wall Street wasn't so glamorous. The most glamorous sector was chemicals, particularly oil and gas. That's where the big money was. A few months before I finished business school, I decided I didn't want to go into my father's business. And by that time, there were only a few companies that hadn't finished interviewing."

DAVID COWLES FOR *ROCHESTER REVIEW*