Industry Agenda

From the Margins to the Mainstream
Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors

A report by the World Economic Forum Investors Industries
Prepared in collaboration with Deloitte Touche Tohmatsu

September 2013

REF060913

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Preface

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Investors have significant influence over the social, environmental and economic challenges of societies, yet continue to operate within a market infrastructure and investment ecosystem where the incentives do not generally balance social, environmental and economic impact.

Impact investing – an investment approach intentionally seeking to create both financial return and positive social impact that is actively measured – has been lauded as an emerging investment approach with the potential to reconcile key shortcomings in traditional financial markets. Yet with less than US$ 40 billion of capital committed cumulatively to impact investments out of the tens of trillions in global capital, it is no surprise that many have labelled impact investing "a hype".

At its Annual Meeting in Davos in January 2012, the World Economic Forum brought together mainstream investors, impact investors and social entrepreneurs to discuss how to harness the potential of impact investing. What emerged was a list of constraints the sector faces, such as the perception that a social impact responsibility conflicts with a fiduciary duty, the fragmentation of the impact investing universe with small intermediaries and small deal sizes, and the lack of an established track record of exits for investors in double bottom line companies. While the list of reasons why impact investing would remain niche seemed overwhelming, bringing it into the mainstream was too important an opportunity not to pursue.

Impact Investing is a multistakeholder issue. It engages governments as impact investments offer opportunities for more efficient delivery of public services. It engages civil society, from the non-profits that design and implement projects to individual recipients of social programmes. And it involves businesses, ranging from entrepreneurs and lawyers to consultants and investors. Clearly, for impact investing to reach its potential, it must be considered from the perspective of all stakeholders. The focus of this report is the mainstream investor angle, which offers the biggest opportunity to scale the sector at this stage.

With this context in mind, the World Economic Forum launched the Mainstreaming Impact Investing initiative in 2012. This initiative builds on the Forum's 2011 report *Accelerating the Transition towards Sustainable Investing*, which sought to stimulate the integration of environmental, social and governance (ESG) factors into mainstream investment analysis, as well as the 2011 Schwab Foundation for Social Entrepreneurship report, *The Social Investment Manual*, which sought to build absorptive capacity among prospective impact investees.

Undoubtedly, a number of leading global publications on impact investing have graciously laid the foundation for this. What makes this report different is the World Economic Forum's access to the senior most decision-makers and portfolio managers of the largest and most innovative investors in the world; this uniquely helped facilitate a more realistic vantage point on the challenges in scaling the sector. Working with this group will also be instrumental in raising awareness and knowledge among key stakeholders for taking impact investing from the margins into the mainstream.

We recognize there remain many sceptics of impact investing. But, we believe that the best way to develop and mature this promising sector is through constructive criticism. So whether you believe impact investing will inevitably be mainstreamed or believe it to be merely a bellwether for what is not working in the economy, we look forward to hearing from you. It is in this spirit that we offer this report not to be filed in the archives of a library, but to start the journey to transform our financial paradigms for the better.

For more information on the Impacting Investing initiatives of the World Economic Forum, please contact us by e-mail at impactinvesting@weforum.org.

1. Introduction to the Mainstreaming Impact Investing Initiative

1.1 Executive Summary

Over the last few years, much excitement has been generated around the term “impact investing” – an investment approach that intentionally seeks to create both financial return and measurable positive social or environmental impact. Despite the buzz, there is limited consensus among mainstream investors[1] and specialized niche players on what impact investing is, what asset classes are most relevant, how the ecosystem is structured and what constraints the sector faces. As a result, there is widespread confusion regarding what impact investing promises and ultimately delivers.

This report is a result of engaging over 150 mainstream investors, business executives, philanthropic leaders and policy-makers through interviews, workshops and conference calls. The overall objective of the Mainstreaming Impact Investing initiative is to provide an initial assessment of the sector and identify the factors constraining the acceleration of capital into the field of impact investing. The report is divided into five key sections.

Section 1 outlines the motivation, focus and scope of the initiative. It concludes that the *primary* asset owners that are allocating capital to impact investments today include development finance institutions, family offices and high-net-worth individuals,[2] but that the sector can only realize its potential if other types of asset owners will allocate additional capital towards impact investments.

Section 2 defines impact investing, and most importantly, identifies areas of confusion in an effort to clarify how impact investing is different from traditional investing. It cites two examples of large-scale asset owners that are allocating capital towards investments that intentionally seek to create social or environmental value in addition to generating financial return.

Section 3 provides a snapshot of the state of the sector. It identifies the participants that are most actively involved in the impact investing ecosystem, and describes how these organizations are making investments across the various asset classes. It concludes with the observation that although the growth in impact investing has been driven largely by niche players, leading mainstream investors have now begun to allocate relatively small pools of capital to impact investments.

Section 4 describes the constraints that asset owners face when considering allocation of capital to impact investments. Most of these constraints can be attributed to one of the four broad overarching challenges: early-stage ecosystem, small average deal size, fit within asset allocation framework and double bottom line. The objective of this section is to identify and isolate the most prevalent challenges so that they can begin to be addressed and overcome by leading investors in the impact investing ecosystem.

Section 5 outlines key recommendations that various participants should take to advance impact investing out of the margins and into the mainstream. It concludes that mainstreaming impact investing will require a concerted effort and collaborative coordination among many participants, including impact investment funds, impact enterprises (investment targets), philanthropists and foundations, governments and financial intermediaries. The appendix recognizes that mainstream investors have a potential role to play as well, and outlines ideas for how investors that are interested in becoming more active in the impact investing sector could get started.

1.2 Motivation

The intended audience of this report will be investors interested in clarifying what impact investing is and what it is not, what the current sector landscape looks like and what is required for the sector to progress into the mainstream. The impetus for the World Economic Forum’s Mainstreaming Impact Investing initiative and publishing of this report is four-fold:

First, private investment to address social challenges can create tremendous societal change. Social issues continually present significant fiscal challenges for governments of developed, emerging and frontier economies; these challenges are particularly difficult when government budgets are declining as a result of burgeoning debt and fiscal austerity.[3] Philanthropic organizations – while noble and needed – will not be able to solve the most pressing social problems alone due to their limited resources. Given the nature of how resources are distributed in the world, private investors have a potential role to play in addressing social challenges, including development of impact enterprises, economic development more broadly, and adjustment to major challenges such as climate change, urbanization and wealth inequality. Impact investing offers an opportunity to creatively fund projects that may otherwise go unfunded, while also helping to scale organizations with viable business models that meet pressing social or environmental challenges.

[1] Mainstream investors include asset owners (e.g. pension funds, insurance firms, etc.) and asset managers (e.g. private equity firms, mutual funds) that are not actively investing in impact investments nor are informed about this emerging approach to investing.

[2] Statement refers to global markets, more broadly; this may not be true for all individual markets or geographies.

[3] Accenture and Oxford Economics projected total government spending on public services through 2025 and found an expenditure gap ranging from 1.3% to 5.4% of GDP for the 10 countries included in the assessment (expenditure gap occurs when demand for public services outpaces expected delivery). (Source: Delivering Public Service for the Future: Navigating the Shifts (2012), Accenture)

Second, asset management is in a state of flux. Over the next 40 years, Generation X and the Millennial Generation will potentially inherit an estimated US$ 41 trillion from the Baby Boomer Generation.[4] These generations have grown up in a culture that calls on business to play a more active role in society. In fact, in a recent study of 5,000 Millennials[5] across 18 countries, respondents ranked "to improve society" as the number one priority of business (see Figure 1). This does not imply that the next generation of investors will not seek market returns. Indeed, the investment industry thrives as a result of the pursuit of investment returns, and businesses are not sustained without a profitable revenue model. However, the emerging generation of investors is also likely to seek achievement of social objectives in addition to financial returns.

"Impact investing is part of our multifaceted commitment to responsible investment; it serves as a brand distinction as well as fulfils our participants' demand for both financial and social outcomes."

Amy O'Brien, Managing Director, Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), USA

Third, impact investing offers an opportunity to carve out a distinct competitive advantage. As part of this initiative, the research team interviewed a number of different institutional investors who explained that their active participation in the impact investing sector has helped to engage and motivate investment teams, signal to shareholders an emphasis on long-term value creation, and most importantly, drive higher investor commitments as a result of their knowledge of the organization's investment approach. Although more work needs to be done to understand the direct and indirect benefits that impact investing achieves for the investor, mainstream investors agree that impact investing has the potential to drive a distinct competitive advantage.

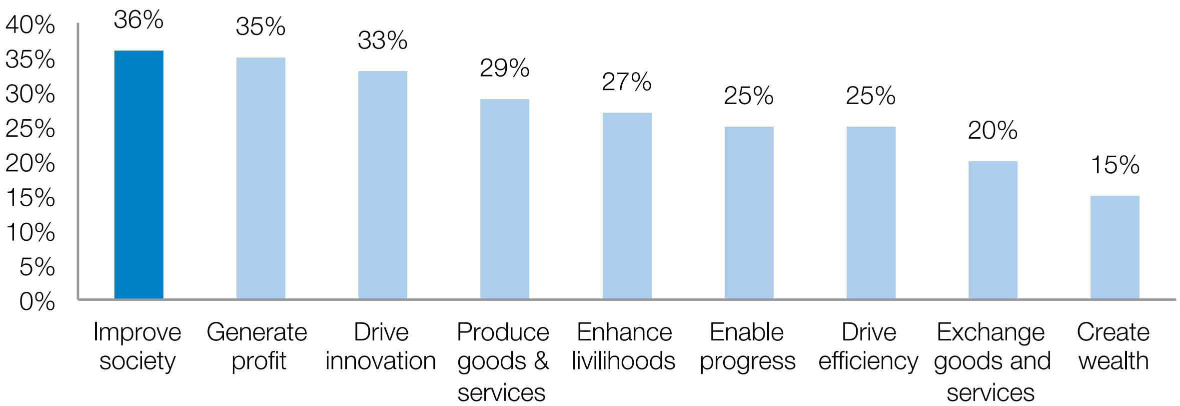
Fourth, there is widespread confusion regarding what impact investing is. Since JP Morgan and Rockefeller Foundation collaborated on the seminal report in 2010 which claimed that the impact investment sector could reach US$ 1 trillion by 2020,[6] a tremendous amount of buzz has been generated around the term "impact investing". It was a topic on the public panel for the first time at the World Economic Forum Annual Meeting 2013 in Davos, Switzerland, was a key area of focus by David Cameron, Prime Minister of the United Kingdom, at the G8 meetings in June 2013, and was a leading topic among the Giving Pledge's 2012 convening.[7] Furthermore, according to a survey by First Affirmative Financial Network, impact investing was cited as the aspect of responsible investing that will grow the fastest over the next 12 months.[8] Yet despite this buzz, the term "impact investing" elicits mixed, and often inconsistent, responses from different participants. In fact, in a survey conducted by the CFA institute, 66% of financial advisers claimed to be unaware of impact investing.[9] There is an obvious need for defined clarity about the term itself.

"To the extent that there is demand from my investors, we would participate in this market."

Colin Teichholtz, Senior Portfolio Manager, Pine River Capital Management, USA

Figure 1: Primary Purpose of Business According to the Millennial Generation, % of Survey Respondents

Source: Deloitte



[4] John J. Havens and Paul G. Schervish (2003): Why the $41 Trillion Wealth Transfer Estimate is Still Valid: A Review of Challenges and Questions, Boston College Social Welfare Research Institute. Note: The US$ 41 trillion is the researchers' low-growth scenario estimate and assumes 2% real secular growth in assets. It will result in an approximately US$ 5 to 10 billion transfer per annum. (Source: Arthur Wood (May 2013): Impact Investing: Potential Tool for Development, Total Impact Advisors)

[5] "Millennials" are born after January 1982; those included in the study were Millennials from 18 countries who have a degree and are in full-time employment. Survey conducted by Deloitte in 2012. To learn more, visit: http://www.deloitte.com/view/en_GX/global/about/global-initiatives/world-economic-forum/annual-meeting-at-davos/8182b8e049b3c310VgnVCM3000003456f70aRCRD.htm#.UeRCrvlOSSo

[6] Nick O'Donohoe, Christina Leijonhufvud, Yasemin Saltuk, Antony Bugg-Levine, and Margot Brandenburg (2010): Impact Investments: An Emerging Asset Class, JP Morgan, Rockefeller Foundation, and the Global Impact Investing Network.

[7] The Economist (19 May 2012): Spreading Gospels of Wealth: America's Billionaire Giving Pledgers Are Forming a Movement; Bloomberg BusinessWeek (6 June 2013): G8 Leaders Embrace Impact Investing with New Funds.

[8] First Affirmative Financial Network, LLC (September 2012): 2013 To Be the Year of "Impact Investing".

[9] Usman Hayat (11 July 2013): Do Investment Professionals Know About Impact Investing? , CFA Institute.

1.3 Focus and Scope

The focus of this report is on the supply side of the capital equation and intends to answer the question: What constraints do mainstream investors face when approaching the impact investment sector? In this context, mainstream investors include asset owners (including pension funds, insurance firms, sovereign wealth funds, university endowments, foundations and family offices) and asset managers (including private equity firms, mutual funds, hedge funds and asset management divisions of banks), which adhere to conventional wisdom when making investment decisions and which are not actively investing in impact investments. Throughout the report, special emphasis is given to asset owners. It should also be noted that the focus of the report is primarily on the institutional investor and not the retail investor.

Although many exceptions exist, the leading asset owners that are allocating capital to impact investments today include development finance institutions, family offices and high-net-worth individuals (Refer to Figure 2). However, relative to other sources of capital, these investors hold only a small share of the global capital pool (see Figure 3). This report will address the factors that constrain other types of asset owners from allocating capital to impact investments.

A risk in attempting to accelerate the supply of capital into impact investments is the potential for good capital to chase bad deals and potentially create a bubble. A key question that should be asked is whether or not the sector actually needs additional capital, and whether or not a lack of access to capital is constraining the sector from reaching its potential. There must be enough *investable* organizations within key sectors across various geographies to justify a surge in capital flow. This risk is an important one and hinges on one's definition of impact investing, which is discussed at length in Section 2.

"Impact investing is currently growing linearly. In order for it to grow exponentially, we need to find a way to incorporate mainstream investors into the mix."

Randall Kempner, Executive Director, Aspen Network of Development Entrepreneurs, Aspen Institute, USA

Figure 2: Source of Funds for Impact Investment Fund Managers, 2012

Source: GIIN, J.P. Morgan

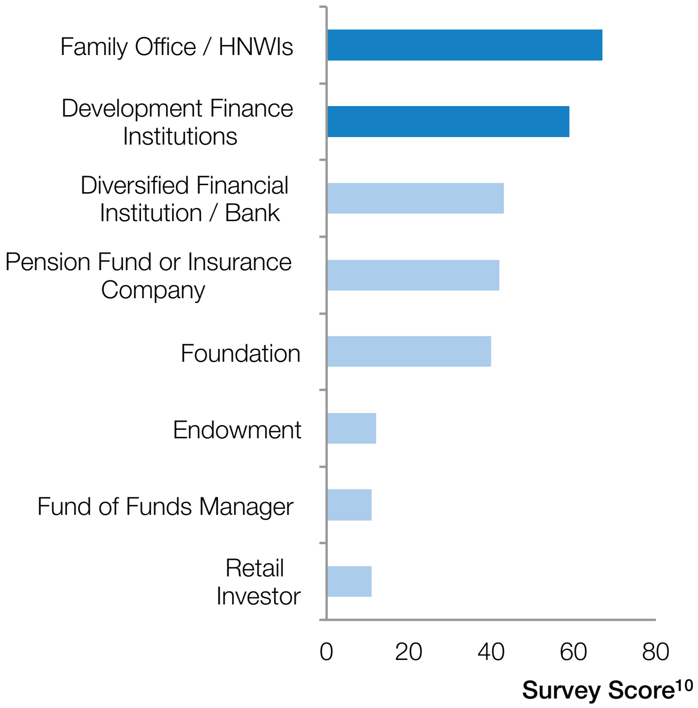
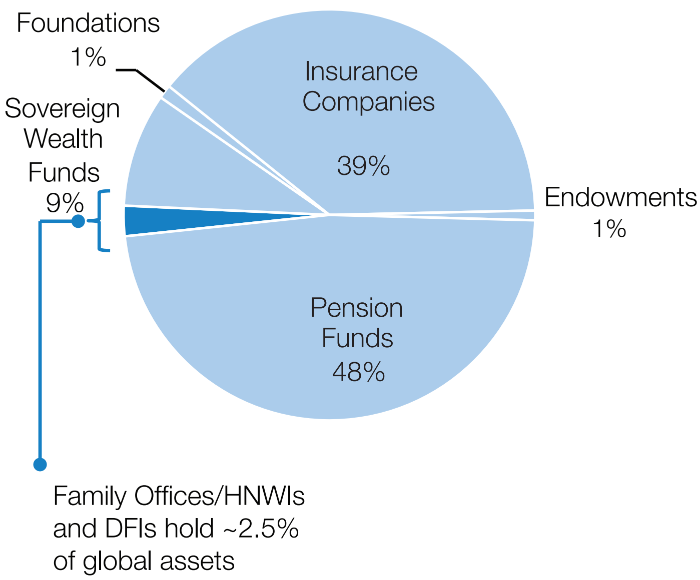


Figure 3: Distribution of Global Asset Ownership, by Investor Type, 2011

Note: Omitted from the analysis include Mutual Funds, Asset Management Divisions of Bank and Fund Managers (Private Equity, Hedge Funds, etc.)
Source: OECD, Foundation Center, NACUBO, Overseas Development Institute, Deloitte Analysis



[10] Survey respondents ranked their answers and scores were weighted based on the frequency of selection (3 points if ranked first, 2 points if ranked second and 1 point if ranked third); the stand-alone score of each source of funds is thus less important than the relative score.

2. Definitional Alignment

Section 2 of this report attempts to provide clarity to the definition of impact investing. Section 2.1 outlines the definition that was developed as part of the Mainstreaming Impact Investing initiative. A definitional discussion of impact investing can often lead to more questions than answers; thus Section 2.2 clarifies common areas of confusion. As with any new and emerging sector, the definition is an evolving one and will be further clarified as the sector progresses and uncertainties are addressed through investments made and lessons learned.

2.1 Clarifying the Taxonomy

Impact investing is an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured.[11]

First, it is an investment approach and not an asset class. It is a criterion by which investments are made across asset classes. An asset class is traditionally defined as securities or investments that behave similarly under varying market conditions and that are governed by a similar set of rules and regulations. Under this definition, it is clear that impact investing is an investment approach across asset classes, or a lens through which investment decisions are made, and not a stand-alone asset class. Certain impact investments (e.g. public equity security of an impact enterprise) may behave similarly to certain asset classes (e.g. public equities), while other impact investments (e.g. social impact bond) may not behave similarly to other asset classes (e.g. corporate bond). See Section 3.4 for more on this point in particular.

> **Most organizations can look at their portfolio and find areas that are creating social impact; without the distinction of 'intention', the discussion becomes watered down and nothing new.**

Renat Heuberger, Chief Executive Officer and Deputy Chairman, South Pole Carbon, Switzerland

Second, intentionality matters. Investments that are motivated by the intention to create a social or environmental good are impact investments. However, if the intention is solely financial gain, even if the investment unintentionally creates social or environmental value, the designation of the investment being an impact investment is less certain. For example, an investment made into a pharmaceutical company that manufactures life-saving medications solely for the purpose of generating financial returns without the intention for social impact is not an impact investment. That said, the investment may certainly be impactful, but not an "impact investment" by definition.

Third, the outcomes of impact investing, including both the financial return and the social and environmental impact, are actively measured. The degree of financial return may vary widely from recovery of principal to above-market rates of return. For further discussion on this point, see Section 3.5. In addition to financial return, the investment's social or environmental value must be *measured* in order for the investment to be considered an impact investment. For examples of measurable social or environmental impact across eight key investment sectors in impact investing, see Table 1.[12]

Table 1

Sector	Illustrative Examples of Measurable Social or Environmental Outcomes
Agriculture	Increase in productivity or crop yield as a result of improved technology or training
Education	Participation rates of girls in secondary education in sub-Saharan Africa
Energy	Number of individuals at the base-of-the-pyramid who gain access to electricity
Environment	Tonnes of CO_2 equivalent offset as a result of organization's product or service
Financial Services	Number of micro-insurance products sold to people with AIDS and infected with HIV
Health	Readmission rate of diabetes patients using innovative product for monitoring health
Housing	Reduction in the rate of homelessness among major US cities
Water	Number of individuals at the base-of-the pyramid who gain access to clean water

[11] Source: World Economic Forum Mainstreaming Impact Investing Working Group

[12] The eight sectors in Table 1 are used by the Impact Reporting and Investment Standards (IRIS), an initiative of the Global Impact Investing Network (GIIN), to support transparency, credibility and accountability in impact measurement practices. IRIS is a set of standardized metrics that can be used to describe an organization's social, environmental and financial performance. Like financial accounting standards, IRIS provides a basis for performance reporting. To learn more, visit: http://iris.thegiin.org.

2.2 Areas of Definitional Confusion

Realizing that a definitional discussion of impact investing can lead to more questions than answers, this section is devoted to clarifying common areas of confusion.

Aren't all investments impactful? Cynics often ask why the special *impact* distinction is required at all given that investment is the engine of business growth and economic expansion, and thus all investing is inherently impactful. While true, not all investing intentionally seeks to create positive social or environmental value on the onset, before the investment is made. Some degree of social or environmental value may be created as a result of all investing, but it is not always intentionally sought, which differentiates impact investing from traditional investing.

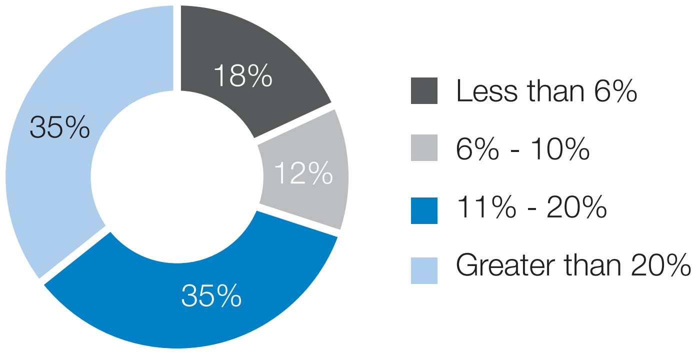
What is the difference between impact, sustainable and responsible investing? In short, responsible investing refers to a broad array of investment practices – including socially responsible, sustainable and impact investing – that "recognizes that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems."[13] Furthermore, socially responsible investing typically refers to the screening of investments that may have some sort of negative impact to society or to the environment (negative screen). On the other hand, sustainable investing refers to the active incorporation of ESG criteria into the investment decision (positive screen); sustainable investing prioritizes financial returns above social or environmental returns. While certainly impactful, these activities are not "impact investing" by definition given that they do not intentionally and explicitly set out to deliver the *dual objective* of social/environmental outcomes and financial returns (which may be below market, at market or above market).

Do impact investments generate below-market financial returns? Impact investing is unique in that the investor may be willing to accept a lower financial return in exchange for achievement of a social outcome; mainstream investors have thus often assumed that impact investments *always* generate below-market returns. This is not true.

Although it is too early to determine the realized returns of many impact investments, there are numerous instances when market returns are targeted in addition to social outcomes. Figure 4 illustrates that 35% of impact investment funds target internal rates of return (IRR) above 20%. Like other investments, the rate of return will vary based on various factors, such as sector, geography, financial instrument and investor type.[14] Additional work needs to be done in order to quantify the *actual* returns that investors have achieved in impact investing.

Figure 4: Targeted Net Internal Rate of Return (IRR) of Impact Investment Funds

Note: (1) 176 funds were assessed in April 2013 (2) Targeted returns are not necessarily an indication of realized returns, (3) The targeted returns above represent a significant range of investment instruments, including but not limited to private equity, venture capital, real estate, fixed income, etc.
Source: GIIN, ImpactBase, Deloitte Analysis



Does impact investing conflict with an investment committee's fiduciary responsibilities? Impact investing need not conflict with fiduciary responsibilities; investment committees must consider those responsibilities as they craft strategies and processes to manage investments that target financial returns and superior social performance. For most institutional investors, accepting social returns that imply long-term financial concessions will not be acceptable. However, as described above, impact investing does not imply a trade-off between social outcomes and financial returns, but rather supports the simultaneous dual objective of both social impact and financial impact.[15] In certain instances, social objectives may in fact create long-term sustainable financial returns.

[13] United Nations Principles for Responsible Investment. To learn more, visit: http://www.unpri.org/introducing-responsible-investment.

[14] For example, the investment return over the last 15 years was 11.6% for US Private Equity, compared to 24.7% for US Venture Capital, and 4.5% for public equities (S&P 500) (Source: Cambridge Associates LLC (July 2013): US Private Equity and Venture Capital Funds Outpaced Public Equities in the Final Quarter of 2012).

[15] Some investors (e.g. Vital Capital) have had success by having two separate teams (i.e. one for financials and one for impact) manage the investment from initial screening through investment committee approval.

Spotlight on the Definition

Are there enough investable deals in impact investing?

One key area of debate among practitioners within the impact investing sector relates to whether investments made by mainstream investors should be considered "impact investments" at all. This point of view argues that it is the lack of commercial or mainstream capital that distinguishes impact investing from traditional investing, and that impact investors can be most catalytic by providing early-stage risk capital that helps entrepreneurs de-risk business models that may not be considered "investable" by commercial capital. Once these business models are de-risked, entrepreneurs can scale these models by tapping commercial capital (at which time, according to this point of view, the investment is no longer an "impact investment").

This report broadens the lens and argues that impact investments are all investments that intentionally seek to create measurable social or environmental value, regardless of the stage of maturity of the enterprise. There are ways for investors to be catalytic in sectors and geographies and among populations where business models have already begun the process of being de-risked and where traditional investors may already be active or more likely to become active. Table 2 outlines a spectrum of business model risk and the generalized characteristics at each stage. Organizations with revenue models that have not yet been proven will likely not be able to attract commercial or mainstream capital and will likely require subsidized capital and technical assistance (Stage: High Risk).

On the other hand, organizations with proven revenue models and de-risked business models will likely be better equipped to attract commercial or mainstream capital (Stage: Limited Risk). This report includes all organizations across the entire risk spectrum outlined in Table 2 within the definition of impact investing so long as the investments are intentionally made to achieve social and environmental objectives and the progress towards achieving those objectives is actively measured and reported.

Note: This spotlight intentionally focuses at the firm-level; there is a case to be made for different types of capital to be provided at the sector-level as well. Omidyar Network makes a compelling case for the need for sector-level focus and investment in order to achieve the greatest reach and have the greatest impact. To learn more, reference: Priming the Pump (September 2012), Omidyar Network.

> **"Some investors may well be willing, or indeed require, some trade-off between return and impact. Others will seek out opportunities where return fully compensates for risk. Both play important roles. While the former can provide higher-risk capital to fund early stage social ventures, small scale entrepreneurs, etc., the latter can provide capital at much greater scale to fund sustainable growth."**

Manuel Lewin, Head, Responsible Investment, Investment Management, Zurich Insurance Group, Switzerland

Table 2: Spectrum of Business Model Risk

	High Business-Model Risk	Low Business-Model Risk	Limited Business-Model Risk
Description	Business model has not been de-risked Revenue and profitability have not been generated	Business model has begun to be de-risked Revenue and profitability are volatile	Business model has been effectively de-risked Revenue and profitability are proven and stable
Presence of Commercial Capital	Commercial capital is largely absent in these markets	Some commercial capital is active in certain sectors	Commercial capital is actively investing in these markets
In Order to Scale Business Model	Technical assistance (including human capital) Market / capacity building	Both technical assistance and capital infusion	Capital infusion Expertise and human capital

3. Impact Investment Sector Assessment

This section attempts to evaluate the current state of the impact investment sector. Section 3.1 assesses the growth estimates for the sector and compares these to the rates of growth that sustainable investing displayed over the last 20 years. Section 3.2 describes participants that are active in the impact investment ecosystem. Section 3.3 provides two examples of institutional investors that are incorporating an impact investing approach into their portfolio management practices, and Section 3.4 describes how impact investments are made across the various asset classes. Section 3.5 attempts to gauge the sentiment of mainstream asset owners towards impact investing and presents responses to a survey conducted by Deloitte of one key type of mainstream asset owner: US-based pension funds. In summary, while the impact investment sector is still early stage and will need to grow aggressively in order to meet growth rate expectations, leading mainstream investors have begun to allocate capital to investments creating social and environmental value. More importantly, these investors expect to increase their allocation of capital to impact investments in future years.

3.1 Harnessing the Hype

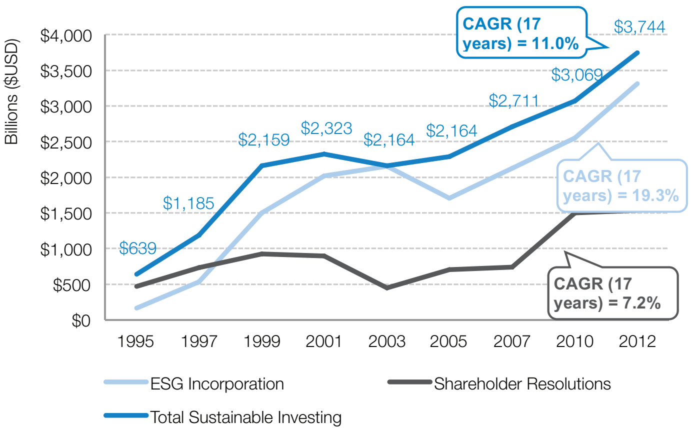
Since the term was firm coined in 2007, many leading proponents of impact investing have estimated the potential size of the sector. In 2009, the Monitor Institute estimated that the impact investment market could potentially reach US$ 500 billion by 2020 (or 1% of total managed assets, estimated at US$ 50 trillion).[16] In 2010, JP Morgan and Rockefeller Foundation sized the bottom-of-the-pyramid market opportunity across five sectors and estimated that the impact investment sector could reach US$ 400 billion to US$ 1 trillion by 2020[17]. And in 2012, the Calvert Foundation formed an estimate through a representative survey of investment managers, applying prospective adoption rates to a global investment management industry of US$ 26 trillion, and reached a market potential of US$ 650 billion.[18]

At a present conservative market size of approximately US$ 25 billion,[19] the impact investment sector will need to grow by approximately 53% annually to reach US$ 500 billion or 69% annually to reach US$ 1 trillion by the year 2020 – a potentially difficult feat given that the sustainable investing market in the United States grew by 11% per year since 1995 (see Figure 5).[20]

Although sustainable investing is not the same as impact investing and the growth dynamics could be very different, few sectors have sustained growth rates above 50% per year.[21] In order for the impact investment sector to realize its potential, mainstream asset owners and asset managers will need to begin to allocate a portion of their portfolios to the sector.

Figure 5: Sustainable Investing in the United States, 1995-2012

Source: US SIF Foundation's 2012 Report on Sustainable and Responsible Investing Trends



[16] Jessica Freireich and Katherine Fulton (2009): Investing for Social and Environmental Impact, Monitor Institute.

[17] Nick O'Donohoe, Christina Leijonhufvud, Yasemin Saltuk, Antony Bugg-Levine, and Margot Brandenburg (2010): Impact Investments: An Emerging Asset Class, J.P. Morgan, Rockefeller Foundation, and the Global Impact Investing Network.

[18] Calvert Foundation (2012), Gateways to Impact.

[19] According to Perspectives on Progress: The Impact Investor Survey (J.P. Morgan and the Global Impact Investing Network), 51 impact investment funds each expect to raise an average of US$ 112 million in 2013 (median of $US 60 million); given there are approximately 250 global impact investing funds, a crude estimate of the market size is likely between US$ 15 and US $28 billion. This is likely a low estimate given it only includes certain asset classes (e.g. venture capital, private equity, etc.) and excludes others (e.g. green bonds, infrastructure, etc.). Furthermore, CGAP estimates that in 2011 cross-border funders committed at least US$ 25 billion to microfinance and financial services to the poor (see: Current Trends in Cross-Border Funding for Microfinance (December 2012), CGAP). Although not all of these investments would be considering impact investments, it confirms that an existing market size of US$ 25 billion may be understated.

[20] The impact investment sector is starting from a smaller base so it may be possible for it to achieve the implied growth rate.

[21] Since 2003, social network game development grew by 134% per year; e-book publishing by 88% per year; social networking sites by 74% per year; and online fashion sample sales by 56% per year. Source: Top 10 Fastest Growing Industries (April 2013): IBISWorld.

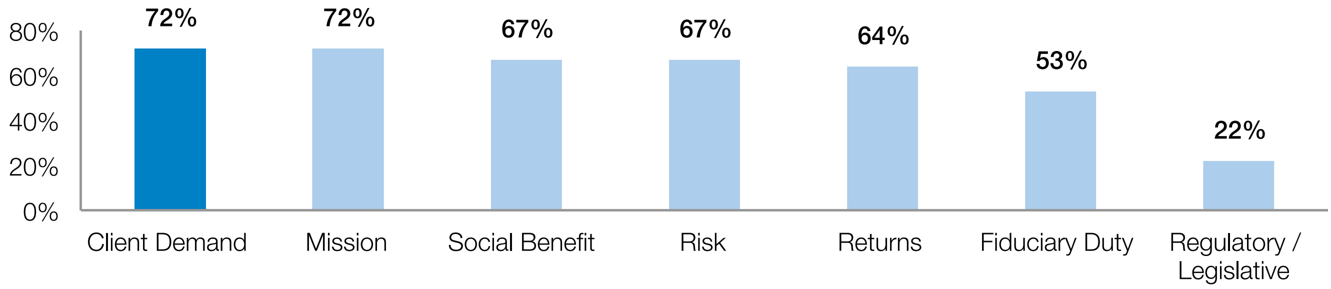
Along with aggressive growth expectations, interest in socially conscious investment strategies is indeed growing. The US SIF Foundation's *2012 Report on Sustainable and Responsible Investing Trends* revealed that client demand is the number one reason why more money managers are incorporating ESG criteria into their investments (See Figure 6). According to the same report, 11.3% of assets under management in the US were engaged in sustainable and responsible investing practices in 2012.[22] Similarly, the United Nations Principles for Responsible Investment (UNPRI) initiative reports that its signatories hold approximately 15% of the world's investable assets.[23] Although as Section 2.2 described, sustainable investing and responsible investing are not the same as impact investing, trends in these markets can provide indications of the potential trends for impact investing.

"There seems to be powerful but latent demand among retail investors for impact investments. But many investors are waiting for their clients to ask for it. My guess is if you build it, they will come."

Elizabeth Littlefield, President and Chief Executive Officer, Overseas Private Investment Corporation (OPIC), USA

Figure 6: Reasons for Incorporating ESG Criteria into Investments, % of Money Managers Surveyed

Source: US SIF 2012 Trends Report, n = 129



[22] US SIF Foundation (2012): Report on Sustainable and Responsible Investing Trends in the United States.
[23] UN Principles for Responsible Investment (UNPRI) (April, 2013): PRI Fact Sheet – Key Achievements, http://www.unpri.org/news/pri-fact-sheet.

3.2 Impact Investment Ecosystem: The Landscape Today

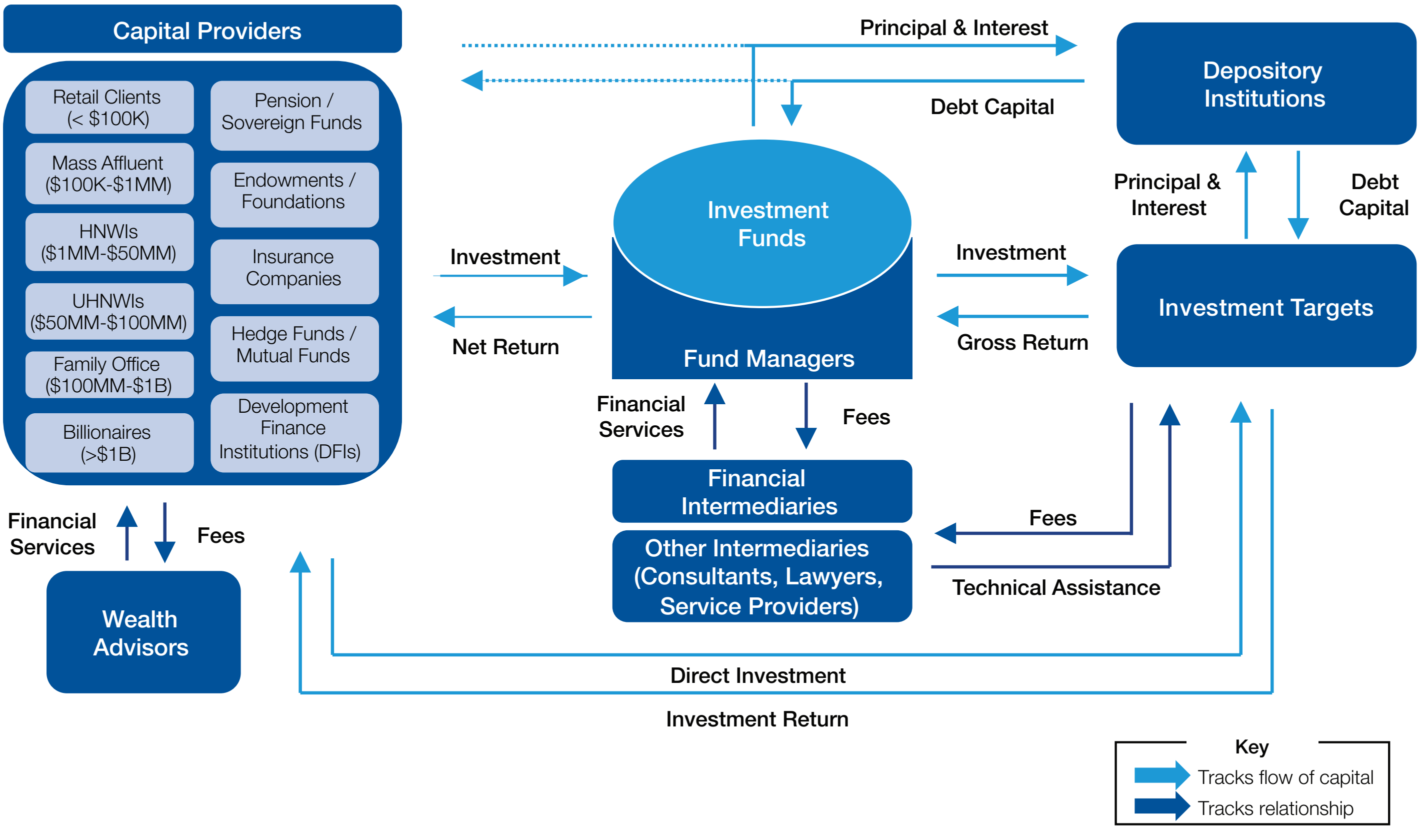
In order for the impact investment market to reach its potential, the ecosystem will need to progress from the margins and into the mainstream. Some mainstream investors are already making a play in impact investing. To note a few examples, Credit Suisse is raising a US$ 500 million fund of funds that will invest in agricultural opportunities in Africa, Deutsche Bank successfully closed a US$ 15 million "Eye Fund" for ophthalmological treatment in 2010, JP Morgan established a Social Finance unit in 2007 that actively co-invests in impact investment funds, and UBS developed an internal position dedicated to developing impact investment products for its clients. Despite these efforts, the ecosystem is still quite early stage, fragmented and largely comprised of niche players.

Although the impact investment ecosystem is best understood at the country and sector level,[24] the Mainstreaming Impact Investing initiative analysed the ecosystem globally to better understand where common gaps and pain points exist. Each segment of the ecosystem, graphically illustrated in Figure 7, is described below.

Capital Providers: As illustrated in Figure 2 on page 6, the capital providers that are most active in the impact investment sector are high-net-worth individuals and family offices. High-net-worth individuals and family offices have flexibility and a high level of discretion when making investment decisions. In many instances, they will have more autonomy than other capital providers; similarly, they often have fewer stakeholders to manage. Often, one or two family members may drive the investment decision as opposed to a formal investment committee. Even larger family offices have experienced increasing demand for impact investment offerings. For example, BSW Wealth Partners, an independent wealth adviser and multifamily office, grew its assets under management from US$ 225 million to US$ 736 million in 10 years after deciding to offer an impact investment alternative in all asset classes.[25]

Development finance institutions are also leading capital providers in the impact investment market. Generally, they prefer to be catalytic and provide anchor funding, and thus are most active for first-time funds or investments. For example, the African Development Bank (AfDB) Group provided a US$ 100 million anchor investment into Credit Suisse's $US 500 million Agvance Africa Fund as a means to catalyse investment

Figure 7: The Impact Investment Ecosystem



[24] For example, Root Change conducted an ecosystem mapping exercise in Mexico (called the Mexican Impact Investing Sector Mapping Project) and identified organizations working in impact investing in Mexico, mapped their relationships and captured data about the market such as available capital, best practices, etc. To learn more, visit: http://www.giimap.org.

[25] Leila Boulton (April 23, 2013): MFO Thrives on Impact Investing Focus.

into the agribusiness sector in Africa.[26] Similarly, the Inter-American Development Bank invested $US 25 million in IGNIA to spark investment into business models that serve low-income communities in Latin America and the Caribbean.[27] Many impact investment funds experience some resistance raising capital from development finance institutions for second and third funds when their investment is no longer catalytic for a specific sector or geography.

Foundations are a natural fit for impact investing given their concerted focus on addressing key social-sector challenges. Programme-related investments (PRIs) in the United States – investments made that accomplish a charitable purpose and are thus counted towards a foundation's mandatory giving – were designed with the intention of allowing private foundations to invest a portion of their endowment in investments that align closely with their mission. Similarly, mission-related investments (MRIs) are investments of endowment funds that align with the foundation's mission and that target market returns. The key distinction is MRIs cannot be counted towards part of the foundation's mandatory 5% disbursement, while PRIs can. However, adoption of both PRIs and MRIs is limited; only 14% of foundations surveyed in 2011 hold MRIs, and just 7% hold PRIs. A 2013 survey by Indiana University offers one potential reason: PRIs are not widely understood by foundation leaders. Furthermore, there is often a communication and operational barrier between the investment committee and the programme side of most foundations. As a result, even leading proponents of impact investing may not be investing more than 5% to 10% of their endowment in impact investments. As always, notable exceptions exist. The KL Felicitas Foundation allocates over 85% of its portfolio to impact investments, and the F.B. Heron Foundation plans to invest 100% of its endowment to achieve its mission.

Pension funds, insurance companies and other liability-constrained investors are much less active investors in the impact investment sector, especially with respect to those investments that may deliver below-market risk adjusted financial returns. If there is an expected trade-off between profit and purpose, liability-constrained investors will not invest given their fiduciary responsibilities. However, in instances when there is no expected trade-off, certain liability-constrained investors are beginning to allocate capital to impact investments. Section 1 highlighted both PGGM and Zurich Insurance as notable exceptions. TIAA-CREF is a notable US-based exception that actively invests in corporate social real estate (e.g. affordable housing and sustainable development), global microfinance and insurance, and community banks.[28] As the constraints that are described in Section 4 are addressed, more liability-constrained investors will potentially consider impact investing as a viable investment approach. The potential for the impact investment sector to scale is contingent upon appealing to these investors in a more compelling way.

University endowments, although representing only a very small portion of global assets under management, are not active in impact investing. This is likely driven by the misperception regarding the returns that impact investments generate and because the primary objective of the investment committee is to preserve and grow the endowment to fund future generations of education (indeed an *impactful* cause). However, university endowments may begin to incorporate socially responsible investment strategies into their investment process when the right impetus emerges, perhaps indicating that with the right impetus, university endowments might begin to allocate capital towards impact investments. For example, in 2013 the Harvard Management Company appointed a vice-president for sustainable investing who is directed to overseeing the ESG-aspects of Harvard University's endowment investments. The position was potentially created in part as a response to student and alumni demand for the Harvard Management Company to manage the Harvard endowment with greater sensitivity to social and environmental considerations.[29]

Sovereign wealth funds, in general, focus on local and national development and invest to ensure that long-term growth prospects are achieved. In addition, many sovereign wealth funds establish clear social or environmental objectives. For example, the Mubadala Development Company, established in 2002 and owned by the Government of Abu Dhabi, seeks to "create socio-economic benefits for citizens of Abu Dhabi".[30] Khazanah Nasional Berhad, the Government of Malaysia's investment fund, is committed to supporting "important social and developmental issues such as poverty alleviation and humanitarian support in local communities".[31] However, despite one-off examples, sovereign wealth funds infrequently allocate capital to impact investment funds and products given the constraints and challenges addressed in Section 4.

Investment Funds: A common way for mainstream investors to invest in impact enterprises is through impact investment funds. These funds are differentiated by their institutional context, target sector or geography, use of subsidy and return expectations. Certain funds, such as Bridges Ventures and Bamboo Finance, make small to mid-cap growth equity investments across various impact sectors and are not affiliated with larger institutions. Other funds are affiliated with large banks or development institutions, such as Prudential Social Investments' US$ 300 million fund focused on affordable housing, access to quality education and community development[32] and UBS's US$ 100 million impact investment fund focused on small enterprises in developing countries.[33] Similarly, certain funds focus on specific sectors, such as LeapFrog Investments' focus on financial services, while other funds focus on a certain theme in a specific region, such as Vital Capital's focus on integrated community building in sub-Saharan Africa via investments in affordable housing, collaborative agriculture, infrastructure, healthcare and education. Generally these funds target market returns, although many are structured as non-profit organizations and make a mix of grants, subsidized loans and equity investments typically into undercapitalized sectors in frontier markets. They also often provide pioneer funding and seed capital. Select examples of such organizations include: Acumen, Calvert Foundation, LGT Venture Philanthropy and Root Capital.

[26] African Development Bank Group (May 22, 2013): AfDB Sponsors Fund of Funds for Agribusiness in Africa – Board Approves Equity Investment of USD 100 Million in Agvance Africa.
[27] Inter-American Development Bank (June 18, 2008): IDB partners with IGNIA venture capital fund to address needs of region's poor.
[28] To learn more, visit: http://www.thegiin.org/cgi-bin/iowa/resources/spotlight/58.html.
[29] Beth Healy (July 30, 2013): Harvard Endowment Adds Adviser Position, The Boston Globe.
[30] Mubadala Development Company PJSC (April 11, 2013), page 5.
[31] Khazanah Nasional Media Statement (April 5, 2013), page 4.
[32] To learn more, visit: http://www.prudential.com/view/page/public/12848.
[33] Christine Marie Nielsen (April 26, 2013): Investment Banks Embrace Socially Responsible Investing, TraderPlanet.

Impact investment fund-of-fund structures have also emerged in recent years that may appeal to larger institutional investors given their relative size and opportunity for diversification. For example, Sarona Asset Management, a boutique investment firm based in Canada, invests in private equity funds in high-impact sectors in frontier and emerging markets.[34] It has gained traction raising funds from small UK-based pension funds given Sarona's financing structures which include governmental guarantees on a certain portion of the portfolio.

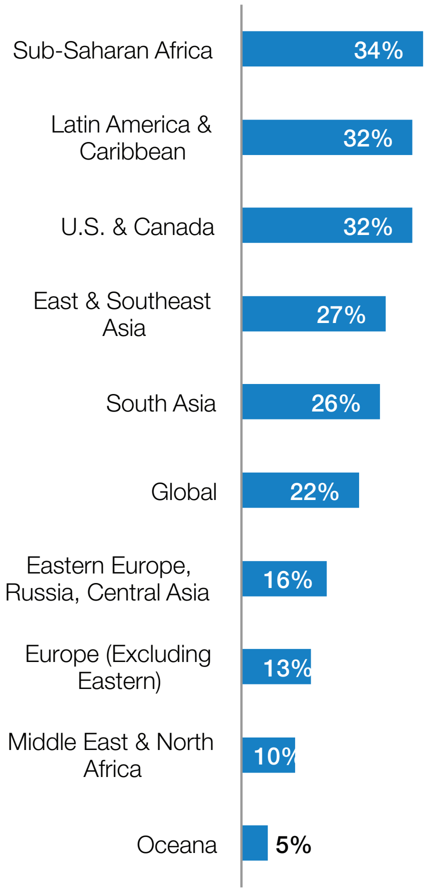
Although aggregate data on these funds is largely unavailable, JP Morgan and the Global Impact Investing Network (GIIN) conduct an annual survey of impact investment organizations and captured responses from 99 organizations in 2013, over half of which were fund managers.[35] In terms of geographical focus, the majority invests in sub-Saharan Africa, Latin America and the Caribbean, and the United States and Canada (see Figure 8). Regarding sector investment focus, the majority of funds invest in food and agriculture impact enterprises, while the investment focus of other sectors is fairly evenly distributed (see Figure 9). In terms of stage of company development that impact investment funds prefer, the majority invest in growth stage companies (see Figure 10).

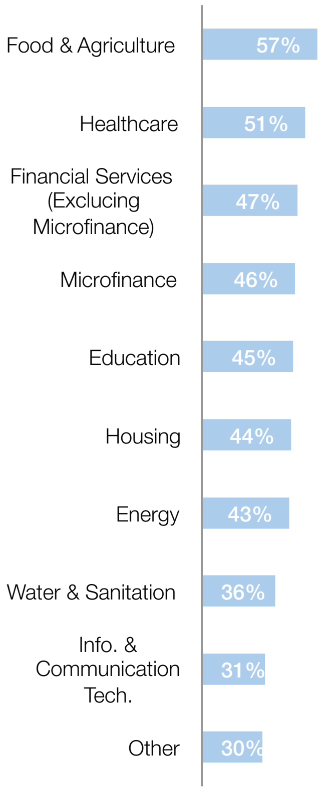
Figure 8: Investment Focus, Geography, % of Survey Respondents

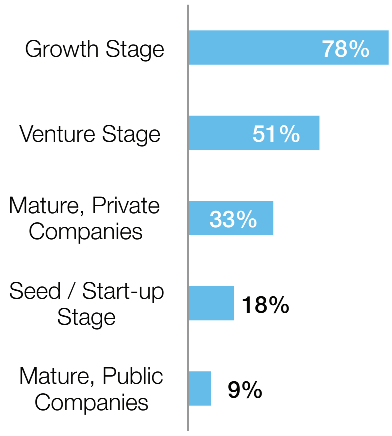
Figure 9: Investment Focus, Sector, % of Survey Respondents

Figure 10: Investment Focus, Stage of Company Development, % of Survey Respondents

Note: Respondents chose all that apply.
Source: GIIN, J.P. Morgan (January 2013)





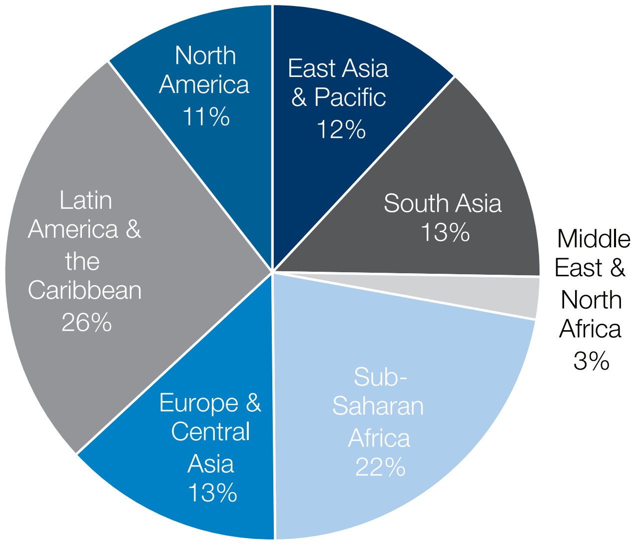


[34] To learn more, visit: http://saronafund.com.

[35] Yasemin Saltuk, Amit Bouri, Abhilash Mudaliar, and Min Pease (2013): Perspectives on Progress: The Impact Investor Survey, J.P. Morgan and the Global Impact Investing Network.

Figure 11: Geographical Location of Impact Enterprises

Source: GIIN, Iris Data Brief (2013)



Investment Targets: The investment targets or "impact enterprises" within the impact investment ecosystem span multiple geographies and sectors. Figure 11 and Table 3 outline the geographical and sector affiliation of the organizations that contributed data to the Global Impact Investing Network's IRIS initiative.[36]

Impact enterprises may employ a for-profit or not-for-profit business model,[37] consider themselves to be a social enterprise or traditional business with a social mission, and serve the destitute working poor at the base of the economic pyramid or the aspiring middle class. Despite these differentiating factors, impact enterprises all commonly seek social or environmental objectives and aggressively measure and report their progress on meeting these objectives. In many instances, the social or environmental objective is intrinsic to the business model and there is no conflict between the social and financial returns. In these instances, the business indicators are the same as the social indicators (e.g. an insurer that serves people living with HIV/AIDs). However, for other impact enterprises, the social or environmental objectives may complement the business model but are intentionally integrated in (e.g. a subsidization model in which the profits from a for-profit private school subsidize the educational expenses for low-income students). In both cases, the economic activity drives the social or environmental impact.

Table 3: Sector Affiliation of Impact Enterprises

Note: Higher percentage of Financial Services is drive by organizations from the Microfinance Information Exchange (MIX) reporting data to the GIIN; may not be representative of the global "impact" market.
Source: GIIN, Iris Data Brief (2013)

Sector	Count (% of Total)
Financial Services	2,707 (73.2%)
Agriculture	410 (11.1%)
Other	159 (4.3%)
Information & Communication Technologies	129 (3.3%)
Energy	122 (3.2%)
Supply Chain Services	54 (1.5%)
Health	29 (0.8%)
Artisanal	22 (3.2%)
Culture	15 (0.4%)
Education	11 (0.3%)
Housing Development	9 (0.2%)
Environment	8 (0.2%)
Tourism	8 (0.2%)
Infrastructure / Facilities Development	6 (0.2%)
Technical Assistance Services	4 (0.1%)
Water	3 (0.1%)

[36] Global Impact Investing Network (2013): IRIS Data Brief: Focus on Employment.
[37] Although mainstream investors will likely invest in funds and enterprises that employ for-profit business models.

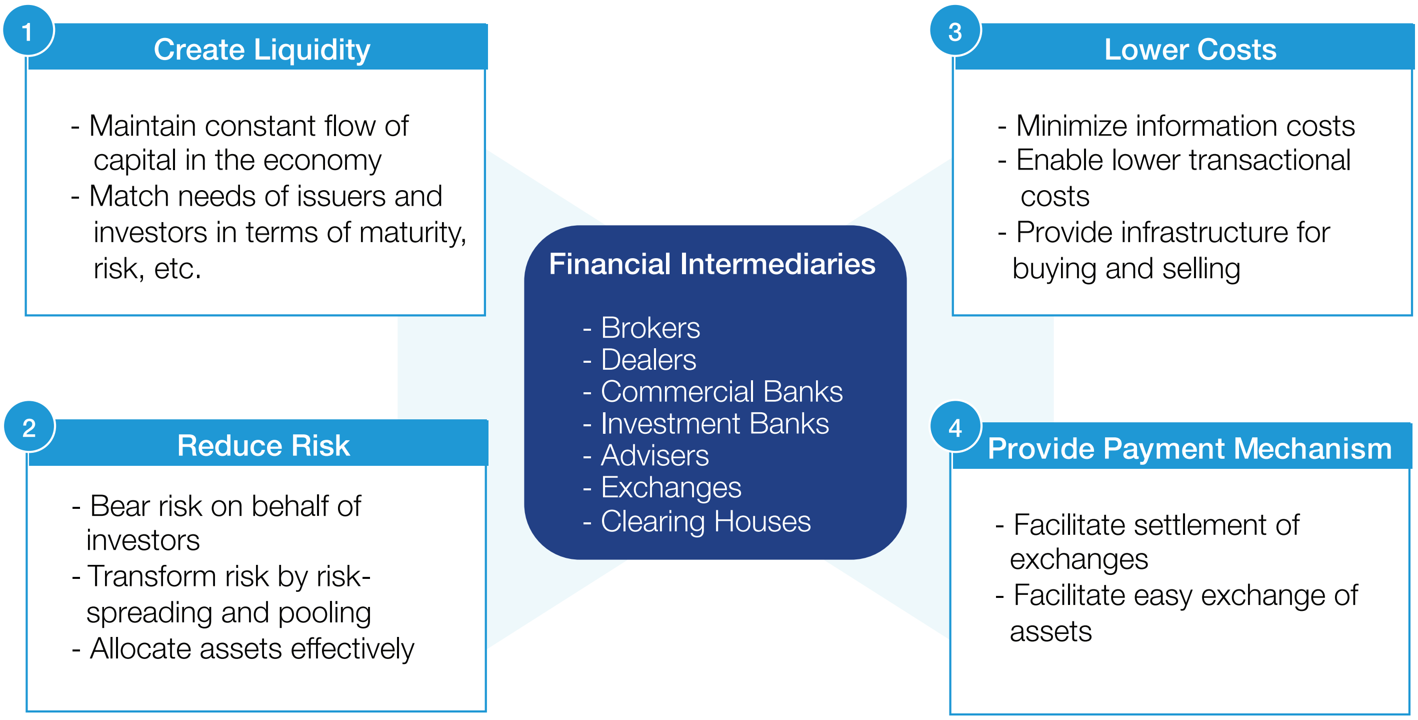
To view examples of impact enterprises or social entrepreneurs, several organizations maintain databases, including Ashoka,[38] Echoing Green,[39] Global Impact Investing Rating System,[40] the Schwab Foundation for Social Entrepreneurship,[41] Skoll Foundation,[42] Unreasonable Institute,[43] among others.

Intermediaries: Effective intermediaries can help to create liquidity, reduce risk, lower transaction and information costs, and facilitate payment mechanisms (see Figure 12). Intermediaries play a pivotal role in creating products, vehicles and investment structures that meet the needs of mainstream investors. In mainstream finance, financial intermediaries are traditionally the middlemen in transactions and usually include investment banks, advisers, brokers and exchanges. In the impact investment sector, the current landscape of intermediaries largely comprises small and specialized players. As described earlier, many investment banks are making a play in impact investing – Goldman Sachs' Urban Investment Group, JP Morgan's Social Finance Group and Morgan Stanley's Global Sustainable Finance Group are just a few examples – but few banks structure the impact investment transactions within their existing commercial banking operations for reasons described in Section 4. Following are the categories of impact investment intermediaries in the impact investment ecosystem today.

Exchanges/Platforms: Exchanges and investment platforms help address the challenge that many investors face when seeking to invest in impact enterprises: identifying investable opportunities. While stock exchanges have been facilitating transactions for centuries, the first *Social* Stock Exchange was officially launched in London in 2013; it showcases publically listed impact enterprises that trade on the London Stock Exchange.[44] Other stock exchanges are expected to follow suit in 2013; the Impact Investment Exchange (IIX), which trades out of Mauritius, will "support listing, trading, clearing and settlement of securities issued by social enterprises" across Africa and Asia."[45] While social stock exchanges will likely not result in rapid acceleration of mainstream capital into impact investments, they have the potential to offer value to retail and institutional investors by providing access to liquid securities of impact enterprises. In addition to exchanges, there are many platforms that serve as information resources, aggregating investment data, reporting leading impact investment funds and providing databases that are searchable by sector, geography and asset classes. For example, ImpactBase, a database managed by GIIN, provides an opportunity for accredited investors to search funds, view profiles and contact fund managers. Platforms like this are playing a crucial role in facilitating transactions as the impact investment sector grows.

Figure 12: Benefits of Financial Intermediaries

Source: Deloitte



[38] To learn more, visit: https://www.ashoka.org/fellows.
[39] To learn more, visit: http://www.echoinggreen.org.
[40] To learn more, visit: http://www.giirs.org/company-search.
[41] To learn more, visit: http://www.schwabfound.org/entrepreneurs.
[42] To learn more, visit: http://www.skollfoundation.org.
[43] To learn more, visit: http://unreasonableinstitute.org.
[44] To learn more, visit: http://www.socialstockexchange.com.
[45] To learn more, visit: http://www.asiaiix.com/product-offerings-and-operations.

Advisers: Impact investment advisers provide consulting and structuring services to asset managers and asset owners and help establish impact investing programmes, build impact investment portfolios and develop impact investment strategies across asset classes. Certain advisers will also structure products, facilitate transactions and create financial innovation in the sector. Although most advisers are niche players and specialize in servicing certain segments of the market (e.g. private foundations), there are notable instances where leading financial innovations have emerged from these intermediaries. For example, Social Finance UK, a leading impact investment intermediary, launched the first ever social impact bond in 2010, an innovation that has since been adopted in the United States, Canada, Australia and the United Kingdom.[46]

Networks: Networks provide resources and services to grow the entire impact investment ecosystem. These may be organizations that convene other organizations in the sector to help promote best practices, create partnerships and increase the scale of the sector (e.g. GIIN, ANDE, etc.). In addition to convening, many networks' members co-invest in impact investment opportunities in an effort to pool capital and spread risk (e.g. Toniic, Investors' Circle, etc.).

Rating and Certification Organizations: Rating and certification organizations help verify the social and environmental performance of impact enterprises or impact funds, thereby reducing risk by providing *objective* certification and rating for impact investors. For example, B Lab – a non-profit organization based in the United States – certifies businesses if they meet "rigorous standards of social and environmental performance, accountability and transparency". Currently, there are approximately 760 Certified "B Corps" from 27 countries and 60 industries.[47] Similarly, the GIIRS reviews and evaluates the social and environmental impact of companies and funds, and assigns them a score based on certain criteria across 15 categories. The standardized scoring system allows investors to benchmark and compare the social and environmental performance of various funds and companies. Currently, there are approximately 450 GIIRS-rated companies in 40 countries and 52 GIIRS-rated funds with a combined US$ 2.7 billion in assets under management.[48] Many organizations track social and environmental performance *independently*, through working with a subject-matter expert or by developing internal proprietary standards and software solutions. For example, Pacific Community Ventures (PCV) works with the California Public Employees' Retirement System on the California Initiative and the California Endowment to track the social and environmental impact of the US$ 250 million California FreshWorks Funds. Similarly, Abraaj Capital built a sustainability index to measure performance year over year and to compare companies in different sectors across markets, in a consistent manner. The index covers six areas of sustainable private sector development, and tracks more than 70 quantitative and qualitative data points for over 90% of investments that the group makes.

Accelerators: Accelerators help early-stage impact enterprises by providing mentorship, incubation and technical assistance. Many accelerators also provide seed capital or growth equity to help the enterprise become self-sustaining. For example, Echoing Green provides competitive fellowships to select social entrepreneurs of up to US$ 90,000 over two years to support the launch of their organization. In addition, fellowship recipients receive access to strategic and financial support from Echoing Green's diverse community and advisory board.[49]

Wealth Advisers: Wealth advisers provide high-net-worth individuals and family offices with information about investment strategies, products and portfolio structures, leveraging the investment platforms described above. However, relatively few advisers are knowledgeable about the impact investment funds and products available on the market today. In a survey conducted of over 4,000 US-based high-net-worth individuals, 50% of respondents claimed that their advisers do not recommend impact investment products; however, 48% of respondents claimed that they are interested in these opportunities.[50] This interest is expected to increase as mainstream investors begin to build platforms that advisers can use for assessing impact investment opportunities. For example, Morgan Stanley launched its Investing with Impact platform in 2012, which provides access to a suite of investment vehicles that have been evaluated for both financial return potential and social impact.[51] As client demand grows for impact investment products, other mainstream financial institutions will likely follow suit, driving more capital into impact investments.

Depository Institutions: Depository Institutions provide debt capital to impact enterprises. Similar to other banks, depository institutions specializing in impact investing receive retail deposits and administer loans; however, the differentiating factor is they typically lend to impact enterprises and the loan sizes are typically smaller than traditional commercial loans. A few European lenders are pioneers in the impact investment sector. Charity Bank, headquartered in England, has lent £165 million to over 1,000 charities since 2002.[52] Similarly, Triodos Bank, headquartered in the Netherlands and with over €8 billion in assets under management, seeks "to enable individuals, institutions, and businesses, to use money more consciously in ways that benefit people and the environment, and promote sustainable development".[53] Although anecdotal examples, these banks exist in a broader ecosystem of banks committed to lending to organizations that seek to achieve social and environmental objectives. For example, the Global Alliance for Banking on Values (GABV) is a membership organization comprising banks that comply with sustainable banking principles.[54] However, like other intermediaries, depository institutions in the impact investment sector are still small, niche players relative to large, multinational commercial banks.

[46] Social Impact Bonds are a pay-for-success contract in which a private investor provides the investment capital to fund an intervention to address a social challenge (i.e. recidivism, homelessness, unemployment, etc.). The investor is paid a financial return based on the savings actually achieved as a result of a successful intervention. To learn more, visit: http://www.socialfinance.org.uk/work/sibs.

[47] To learn more, visit: http://www.bcorporation.net/what-are-b-corps.

[48] To learn more, visit: http://giirs.org.

[49] To learn more, visit: http://www.echoinggreen.org.

[50] Hope Consulting (2010): Money for Good: Impact Investing Overview.

[51] To learn more, visit: http://www.morganstanley.com/globalcitizen/pdf/investing-with-impact.pdf.

[52] To learn more, visit: http://www.charitybank.org/sites/default/files/pdf/Charity%20Bank%20Annual%20Review%202011.pdf.

[53] To learn more, visit: http://report.triodos.co.uk/en/2012/servicepages/downloads/files/annual_report_triodos_ar12.pdf.

[54] For further information on the GABV's principles, visit: http://www.gabv.org/about-us/our-principles.

3.3 Case Studies: Examples of Mainstream Investors in Impact Investing

As described in Section 1.2, mainstream investors infrequently allocate capital with the intention of generating measurable social or environmental value. Section 4 will describe why this is the case. However, growing numbers of institutional investors are incorporating an impact investing approach into their portfolio management practices; two examples are described below.

PGGM, a Dutch cooperative pension fund service provider, invests part of its assets under management in investments that not only contribute financially to the return of the portfolio, but are also intended to generate measurable societal added value. PGGM calls these targeted Environmental, Social, and Governance (ESG) investments. For example, investments have been made in clean tech, sustainable forestry, renewable energy and listed sustainable companies. Most of these investments are over €100 million commitments. PGGM does not have a dedicated impact investment team, but seeks these investments throughout the portfolio. A responsible investment department supports the investment teams with defining what constitutes an impact investment and coordinates the impact measurement of these investments. Apart from more mainstream responsible investment key performance indicators (KPIs), such as voting for all shareholders meetings and applying exclusion policy to all portfolios, PGGM also has a KPI with some of its clients to annually increase the euro amount of total impact investments. Barriers that PGGM encounters to increase the number of targeted ESG investments are the small fund sizes, limited investment scope (regions, sectors) of the funds, first time funds without prior experience, and mixing asset classes within a fund. PGGM, however, is looking for ways to overcome these barriers to provide a valuable future for its members and the clients' beneficiaries; for example, it is looking at designing new mandates or new impact investment products.

As a global insurance company, **Zurich** is directly exposed to many of the pressing social and environmental challenges of our time, such as the potential effects of climate change or the intensive use of scarce natural resources. Zurich has a direct interest in sustainable economic growth, and the development of resilient communities. Zurich is looking to impact investments as one way to address these issues by having a targeted, positive and measurable impact on society and the environment, but also generating a financial return commensurate with risks. Such investment opportunities do exist across asset classes, but to an insurance investor, the fixed income space is of particular relevance. Green Bonds are one of the initial focus areas, and Zurich is actively working to support the development of this market. At the same time, Zurich is currently looking into possible approaches in the credit and private equity space, taking a cross-asset class view of impact investing. In this process, strong support from executive leaders and dedicated responsibility are very important. At Zurich, a small team with senior leadership is responsible to coordinate impact investing and other responsible investment activities, such as ESG integration, in close collaboration with internal and external asset management teams and asset class experts. In the end, responsible investment cannot be "a little something on the side" – at Zurich it is embedded in the wider investment management philosophy, approach and organization."

3.4 Impact Investing Across Asset Classes

Investors interested in understanding *how* to begin allocating capital to impact investments will first need clarity about which asset classes are most relevant for impact investing. While the notion of impact investing may have originated in private equity and venture capital, many other asset classes offer impact investment opportunities; however in most cases, systematic measurement of social and environmental impact has only begun to emerge in areas outside of impact private equity and microfinance. Most infrastructure investors, for instance, may not be able to systematically assess how much clean water and low-carbon energy has been provided (a notable exception is obviously sectors where development finance institutions are active as they employ very stringent targets regarding social and environmental objectives).

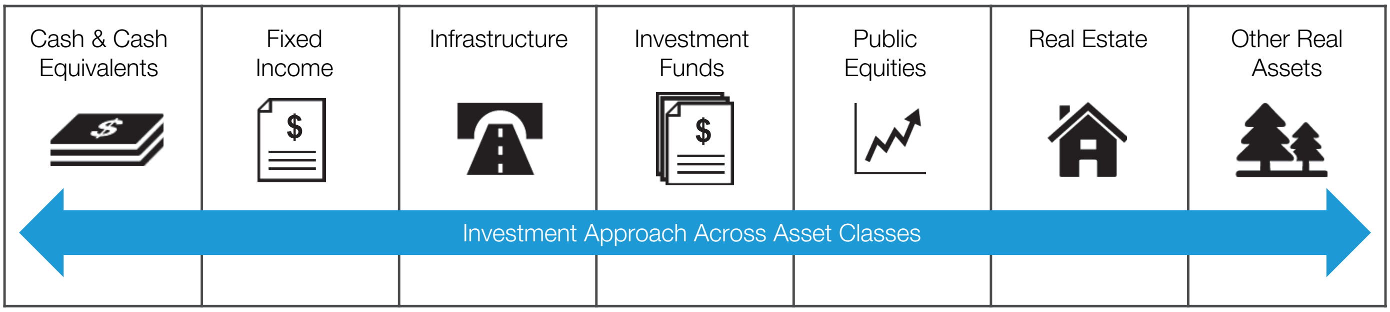
This report sets out to assess the impact investing landscape and help mainstream investors understand the sector and investment opportunities that it offers; select examples of impact investments *across asset classes* are described below.[55]

"Impact investors need to ask themselves, 'What bucket does this fit into?' It is a key question that must be asked in order to help mainstream investors understand which asset class the investment aligns with."

David Chen, Co-Founder and Principal, Equilibrium Capital Group, USA

[55] For more detailed examples of impact investments across asset classes, see Investing for Impact: Case Studies Across Asset Classes (March 2010) by Bridges Ventures, The Parthenon Group and GIIN. Also see Handbook on Responsible Investment Across Asset Classes (by David Wood and Belinda Hoff), which is focused on responsible investment more broadly.

Table 6



Cash/Cash Equivalents: Investments of cash assets (such as certificates of deposit, savings accounts, and money market accounts) into community banks and local financial institutions that make investments specifically into organizations that are intentionally seeking social or environmental objectives. For example, Triodos Bank offers a range of liquid offerings to individual, business and institutional customers and "only lends to and invests in organizations that benefit people and the environment".[56]

Fixed Income: Bonds with maturities ranging from short term (less than one year) to long term (five to more than 30 years) issued by governments, corporations or financial institutions that result in capital flow to impact enterprises or projects that address social or environmental challenges. These include traditional and untraditional bond structures. The International Finance Corporation (IFC)'s green bond, an example of a traditional bond structure, is a US$ 1 billion three-year AAA rated green bond with an interest rate set at three-year US treasury rates. The IFC uses green bonds to finance projects that result in reduced greenhouse gas emissions in developing countries.[57] Unlike the IFC's green bond, social impact bonds (SIBs) offer a fairly untraditional bond structure, and are actually more similar to structured products than bonds.

Spotlight on Social Impact Bonds

Social impact bonds (SIBs), introduced in Section 3.2, are a pay-for-success contract in which a private investor provides the investment capital to fund an intervention to address a social challenge, typically related to behavioural change (e.g. recidivism, homelessness, childhood obesity, etc.). The investor is paid a financial return based on the savings actually achieved as a result of a successful intervention (e.g. fewer people in prison save the government money; the government pays the investor out of these savings). SIBs are often structured such that a private foundation guarantees a portion of the initial principle invested by the investor, allowing philanthropists an opportunity to leverage their balance sheet for more impact (they only pay if the intervention is unsuccessful).

SIBs have gained momentum in recent years because they offer an opportunity to translate socially desirable goals into measurable economic returns; cash flow is generated as a direct result of a social outcome. In this regard, SIBs are highly structured products that require a sophisticated and stable legal framework over a long time frame and thus can be challenging to implement in frontier markets, making SIBs an extremely unique form of fixed income. Furthermore, they are difficult to scale and typically have high transactions costs.

[56] To learn more, visit: http://www.triodos.com/en/about-triodos-bank/what-we-do.
[57] To learn more, visit: http://www.ifc.org/wps/wcm/connect/40d57a004851d833b735fffc046daa89/Green+Bond+April+2013.pdf?MOD=AJPERES.

Investment Funds (Private Equity and Venture Capital): Investments made into third-party managed funds that make debt and equity investments into impact enterprises. Private equity is the most common investment instrument used by impact investment funds (see Figure 13).[58] However, institutional investors often find the direct deal sizes to be too small (see Section 4 for more information), so will thus invest through investment funds. There are approximately 250 impact investment funds listed in ImpactBase, which presents offerings across asset classes, sectors and geographies. For example, LeapFrog Investments makes *equity* investments into impact enterprises that provide *financial services* to low-income populations. It has a diverse set of investors including large-scale institutional investors (e.g. TIAA-CREF), development financial institutions (e.g. IFC), investment banks (e.g. JP Morgan) and philanthropic investment firms (e.g. Omidyar Network).[59] LeapFrog is just one example that illustrates the diversity of fund offerings in ImpactBase.

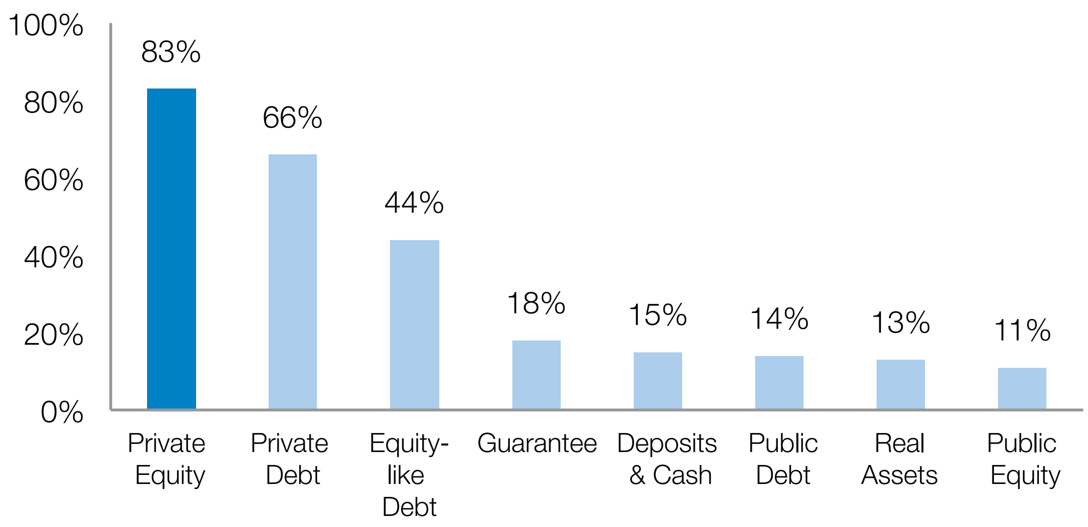
Public Equities: Investments made into impact enterprises that are publically traded. Given the early stage of the sector, few publically listed organizations exist that intentionally seek and measure social outcomes in addition to profits; however, notable exceptions do exist. London's Social Stock Exchange (SSE), introduced in Section 3.2, lists 11 publically listed companies that meet its criteria to be considered a "social impact business".[60] An additional 12 companies are currently pending admission into the SSE. Although the number of publically listed impact enterprises is currently quite small, mainstream investors will have greater ability to find liquid trading opportunities of impact enterprises as retail demand increases and new social stock exchanges are created (such as IIX launched in Singapore in June 2013[61]).

Real Estate: Investments made into sustainably managed properties, or properties currently in development in regeneration areas or among low-income populations, and in which social and environmental objectives are intentionally sought, such as smart growth, green buildings, urban regeneration, and affordable housing. For example, Vital Capital has committed over US$ 200 million to build 40,000 affordable houses in six provinces throughout Angola. The investment seeks to not only provide affordable housing units for the local population, but also provide a full spectrum of the necessary elements for a vibrant life, including clean water, sanitation, power, education, social services and health services. These combine for better employment opportunities, cohesion and empowerment in an integrated community environment. In addition to measurable improvements in the quality of life of the residents, the IRR is on track to achieve the +20% target.

Infrastructure: Investments into the facilities and structures required for the effective operation of an economy and society, usually involving the provision of essential physical structures and services to populations at the bottom of the economic pyramid. For example, with financing from a group of investors and the Kenyan government, the AfDB financed a €115 million investment in wind power in Kenya's Lake Turkana region. The project provides clean energy, reduces energy costs to consumers and connects landlocked regions to the rest of the country through improved infrastructure.[62] Impact investments in infrastructure appeal to institutional investors given the size and scale often associated with these transactions.

Figure 13: Instruments Used by Impact Investment Funds, % of Survey Respondents

Source: GIIN,J.P. Morgan (2013)



[58] Figure 13 represents the percentage of survey respondents and not the actual dollars allocated by the investment funds; additional work needs to be done to better understand the allocation of capital by investment funds and if it is more heavily weighted to private equity.

[59] To learn more, visit: http://www.leapfroginvest.com/lf/about/investors.

[60] To learn more, visit: http://www.socialstockexchange.com/impact-report.

[61] To learn more, visit: http://www.asiaiix.com/2013/05/nexii-and-iix-integrating-global-efforts-for-greater-impact.

[62] To learn more, visit: http://www.afdb.org/en/news-and-events/article/afdb-facilitates-energy-diversification-and-access-to-clean-energy-with-the-approval-of-a-eur115-million-loan-to-turkana-wind-power-project-in-kenya-11704.

Other Real Assets: Identifiable and tangible assets, whose value is derived from physical properties, managed to produce long-term value to society and the environment, as assets are not depleted or damaged, such as sustainable forestry and agriculture. For example, Equilibrium Capital manages US$ 500 million and invests exclusively in real assets (e.g. croplands, forestry, and agricultural and food waste). The firm applies a "sustainable alpha" strategy in which assets are stewarded over the long term and considerations across the entire ecosystem (e.g. community and environment) are included in the investment decision-making process.[63]

Remaining Asset Classes: The most commonly targeted asset classes for impact investing are described above; intentionally omitted asset classes include commodities, direct private equity/venture capital, and hedge funds. These asset classes are less common impact investment targets by mainstream institutional investors. *Commodities* involve investments made into basic resources that are used in the production of other goods and services. While opportunities may exist for trading of sustainably produced commodities, it is unlikely to occur in the near future. *Direct private equity/venture capital*[64] is a common asset class for impact investment funds to target, but the deal sizes are usually too small for most of the mainstream capital providers described in Section 3.2. *Hedge funds* involve complex investment strategies of publically traded companies; given the limited number of public listings of impact enterprises, there are currently limited opportunities for hedge funds in impact investing.

3.5 Voice of the Mainstream Institutional Investor

A survey was conducted of US-based pension funds in an effort to understand why certain investors are more active than others in the impact investment sector. Although further assessment should be conducted of other types of investors (e.g. insurance companies, sovereign wealth funds, university endowments, etc.), US-based pension funds hold approximately US$ 17 trillion in assets, or ~60% of global pension assets[65], and therefore represent a significant pool of global capital.[66] Of the total respondents,[67] 68% are pension funds for public sector employees, 18% for private-sector employees, 10% are faith-based pension funds and 4% are other types of pension funds.[68] The survey results indicate that US-based pension funds are generally unfamiliar and confused by the term "impact investing".

Almost all (81%) of the respondents have heard of the term before, but most feel that it is another term for responsible or sustainable investing (36%) or that it is a noble way to lose money (32%). Only 9% felt that impact investing is a viable investment approach. As such, only 6% of respondents are currently making impact investments today (see Figure 15).[69] Many of the reasons are described in Section 4, but one reason relates to investors' perception about financial returns. Mainstream investors and impact investors have varying expectations about the financial return that impact investments achieve; 60% of survey respondents expect the rate of return of an impact investment to be market-rates, despite 79% of impact investment funds targeting market rates of return (See Figure 16).

Figure 14: US-Based Pension Funds Perception of Impact Investing

Note: Figure 14 visually represents respondents answer to the question: "Please provide the first two or three words that come to mind when you hear the term 'impact investing'."

[63] To learn more, visit: http://www.eq-cap.com.

[64] Including direct investments into unlisted companies (direct private equity) or into early-stage companies (direct venture capital).

[65] Figure only includes countries reporting retirement asset values to the OECD.

[66] Organisation for Economic Co-operation and Development (OECD), assessed August, 2013; figure includes total of all pension funds in the United States for 2011 (latest available data).

[67] 50 pension funds responded to the survey with assets under management (AUM) totaling US$ 800 billion.

[68] 80% of the total AUM of respondents is held by pension funds for public-sector employees, 6% by Pension funds for private-sector employees, 5% by faith-based pension funds and 9% by other pension funds.

[69] Respondents were asked the following question: Which of the following statements most closely captures how social or environmental factors are incorporated into the investment decision of your pension fund? Answer choices were: (1) Social and environmental factors are not considered, (2) The investment decision applies a negative screen (i.e. screens out certain companies or industries given the nature of their business), (3) The investment decision applies a positive screen (i.e. intentionally invests in certain companies or industries for social, environmental, or governance reasons) BUT ONLY if the investment does not sacrifice expected financial returns , and (4) The investment decision applies a positive screen (i.e. intentionally invests in certain companies or industries for social, environmental, or governance reasons) AND is willing to sacrifice expected financial returns in exchange for social or environmental outcomes on a select allocation of the portfolio. Respondents who selected either #3 or #4 (19% of total respondents) were then asked: Do you actively measure and report your social and/or environmental performance? Those respondents who answered "Yes" are considered to be actively making impact investments (6% of respondents).

As the expected financial returns become more certain, and the challenges described in Section 4 are addressed, investors will likely begin to allocate more capital to impact investments. Indeed, 64% of survey respondents anticipate that in the future pension funds will more intentionally invest in organizations or funds that intentionally seek to achieve social or environmental objectives in addition to financial returns (see Figure 15).

Figure 15: Pension Funds Expectations Regarding Allocation of Capital to Impact Investments

Source: Deloitte
Note: *Respondents were asked if they anticipate pension funds to invest in impact investments in the future

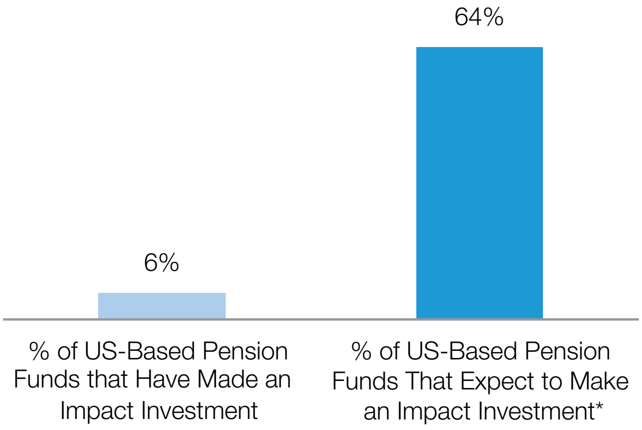
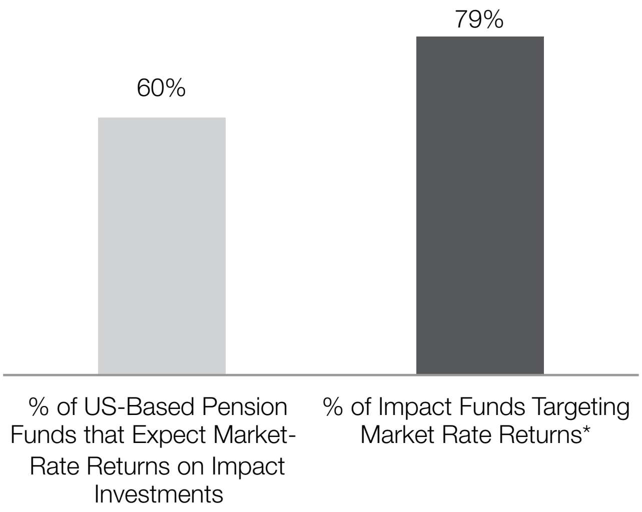


Figure 16: Pension Funds Expectations Regarding Financial Return of Impact Investments

Source: Deloitte, GIIN, ImpactBase
Note: *Data is self-reported



4. Challenges that Institutional Investors Face

Many constraints keep institutional investors from allocating capital towards impact investments; most of these can be attributed to one of the four broad overarching challenges described below: early-stage ecosystem, small average deal size, fit within asset allocation framework and double bottom line.

Before these challenges are analysed, a few caveats should first be noted. First, the challenges are not specified by geography. Challenges will likely vary based on the investment practices, regulatory environment and culture of different geographies. For example, Dutch pension funds appear to be more active in impact investing than North American pension funds. The challenges that Dutch pension funds face will differ slightly from those challenges experienced in the United States.

Second, challenges will vary based on the different types of institutional investors. For example, insurance companies typically allocate a significant portion of their balance sheets to fixed income; thus the unique challenges around fixed income in impact investing will be much more acute for insurance companies than for other institutional investors.

Third, some institutional investors and impact investment funds have started to overcome certain challenges. During select interviews conducted as part of the Mainstreaming Impact Investing initiative, it became clear that some organizations have begun to develop leading practices and strategies to address the challenges presented below. Although Section 3.3 highlighted two examples, additional work needs to be done in order for other institutional investors to better understand these strategies and learn from leading institutional investors.

4.1 Early-stage Ecosystem

The first overarching challenge that institutional investors experience when approaching the impact investment market is the early stage of the ecosystem – 86% of US-based pension funds surveyed feel that the market seems to be niche, early stage and immature.[70] As a result of the nascent stage of the sector, a number of growing pains exist.

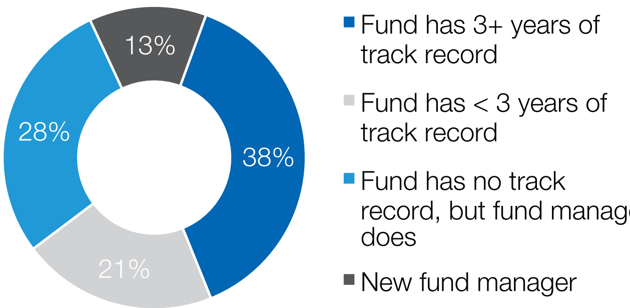
First, as described in Section 3.5, there is a divergence between the rate of return that impact investment funds target and the rate of return that investors expect impact investment funds to generate. Research indicates that while nearly 80% of impact investment funds target market-rate returns, 60% of pension funds expect impact investment funds to actually generate market-rate returns (see Figure 16).[71] Moreover, of the 200 responsible investing professionals surveyed in 2012, 74% believe that the greatest impediment to growth of responsible investing is the *perception* about financial performance.[72] Contributing to this divergence is an acute tension that some impact investment fund managers feel between wanting to showcase their returns to prove their financial viability and wanting to withhold public reporting of financial returns to avoid being viewed as making money at the expense of the poor (the experience of microfinance in India in 2010 serves to reaffirm this concern[73]).

Second, there are limited mainstream intermediaries in the impact investment sector. As described in Section 3.2, there are many small, niche and specialized players. These intermediaries will need to grow and scale in order for the ecosystem to reach mainstream. Mainstream *investors* will need mainstream *intermediaries*. Impact investment products are presently difficult to distribute because investors typically buy products from names they know, not from small specialists.

Third, the track record of impact investment funds varies significantly, as illustrated in Figure 17. Few funds have deep experience working with impact enterprises and social businesses, and institutional investors perceive this; 83% of US-based pension funds surveyed feel that impact investment funds have limited track record.[74] Specialized skills are required to ensure financial performance is achieved and to measure social and environmental outcomes. Until fund managers develop track records and deep experience working with impact enterprises, institutional investors will be apprehensive allocating capital to the sector.

Figure 17: Track Record of Impact Investment Funds

Source: 242 funds assessed in April 2013
Note: GIIN, ImpactBase



Fourth, there are limited creative and innovative impact investment products and vehicles that would encourage mainstream capital into the industry. Presently, 83% of US-based pension funds surveyed feel that there does not seem to be enough scalable deals in the impact investment market.[75] There are opportunities for innovative products to emerge, but it may simply be too early.

[70] Deloitte survey of US-based Pension Funds on their perception of impact investing.
[71] The disjuncture illustrated in Figure 16 highlights the need for segmentation in the field so that an investor can determine which segments are mature and generating high returns, and which are not.
[72] First Affirmative Financial Network, LLC (2012): 2013 To Be the Year of "Impact Investing".
[73] Politicians in the Indian state of Andhra Pradesh (AP) accused micro-lenders of reckless lending practices that led to extreme cases of over-indebtedness potentially leading to borrower suicides.
[74] Deloitte survey of US-based Pension Funds on their perception of impact investing.
[75] Deloitte survey of US-based pension funds on their perception of impact investing.

Many impact enterprises need to grow, scale and demonstrate consistent cash flow generation; products will naturally follow. In addition to the lack of creative and innovative financial products, there is a need for an index or benchmark to which investors can compare the performance of their impact investments.[76] Some organizations are attempting to solve this challenge, although results are still early stage and unproven.[77]

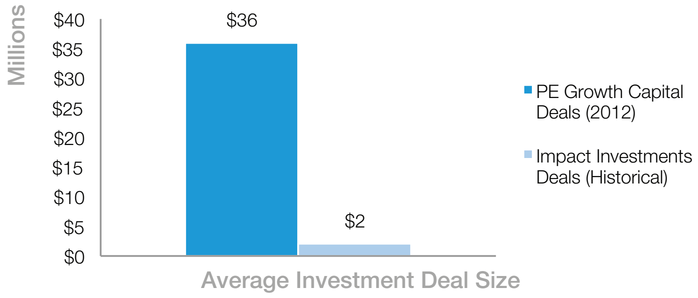
4.2 Small Average Deal Size

The second challenge that institutional investors face when considering allocation of capital to impact investments involves the size of the transactions. As Figure 18 illustrates, the average direct investment made by impact investment funds into impact enterprises is significantly less than the growth capital deals of traditional private equity firms in 2012.

To overcome the challenge of direct investment, institutional investors can make investments into impact investment private equity funds. However, the challenge is also acutely present for these investments. An anecdotal example helps illustrate this constraint. An impact investment fund manager described an investment meeting with a pension fund in which the investment committee explained that they would not take more than a 5% stake in a private equity fund and would not commit less than US$ 30 million; thus the impact investment fund would need to be at least US$ 600 million to even pass the pension fund's initial screen. In reality, only 2% of impact investment funds would meet these criteria.[78] This challenge is further illustrated in Figure 19, which shows the average individual allocation of capital to private equity by all major institutional investor types compared to the average investment sought by impact investment private equity funds.

Figure 18: Average Direct Impact Investment Size vs Private Equity Growth Capital Deals

Source: Preqin; GIIN, Deloitte Analysis

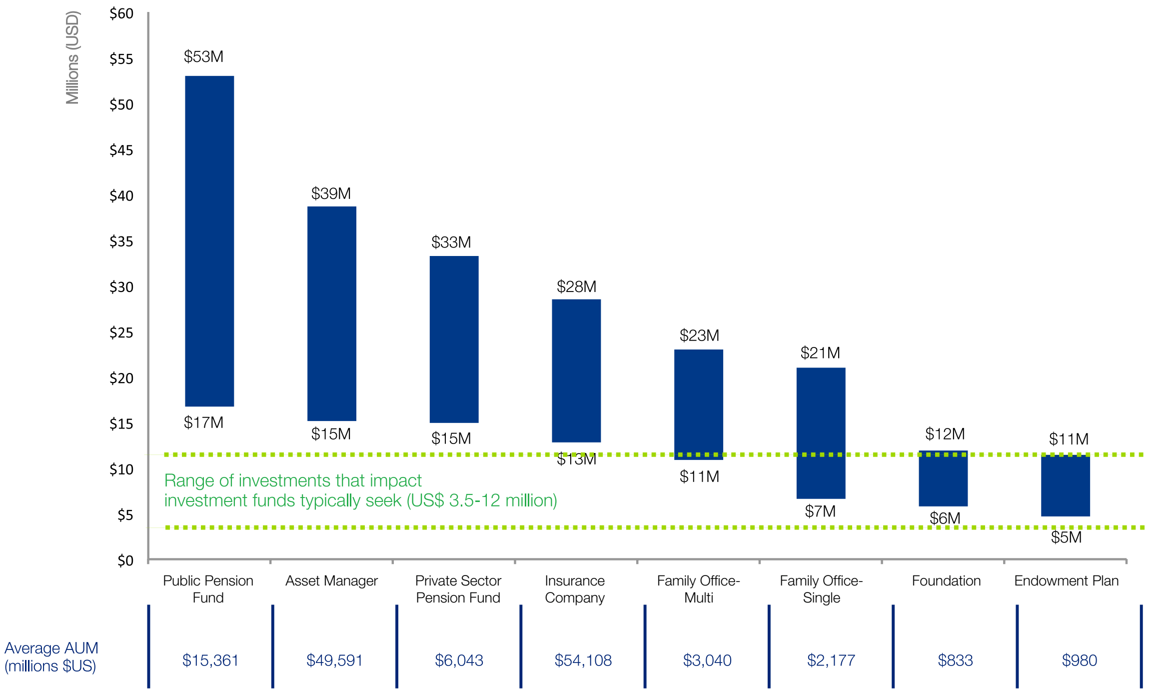


Because the deal sizes are smaller, the costs of due diligence may be higher for impact investments and the deal economics may look fundamentally different. Sourcing the right deals in the pipeline can be costly, often requiring local country support, especially for deals in frontier markets. Although further work needs to be done to better understand the fundamental economics of impact investment deals, 58% of US-based pension funds surveyed said that impact investing involves a higher cost of due diligence than traditional investing. As one institutional investor explained during an interview, "The due diligence time required for a US$ 10 million investment is the same as the time required for a US$ 100 million investment; our resources are best spent on the larger deal."

Figure 19: Average Range of Individual Investment Commitment into Private Equity, by Institutional Investor (Globally), 2012

Note: Sovereign Wealth Funds (SWFs) average allocation range to Private Equity ranges from $46M to $118M; (but n = 10, so was excluded from the analysis). Analysis assumes that impact investment funds seek between 3% - 10% of fund size

Source: Preqin, Deloitte Analysis



[76] Although mainstream investors could compare investments to existing benchmarks (i.e. impact private equity to private equity benchmarks).

[77] London-based start-up EngagedX is currently piloting a beta index focused on the social investment market in the UK. To learn more, visit: http://www.engagedinvestment.com/index.html.

[78] Source: Deloitte Analysis of ImpactBase Funds.

One way that institutional investors have worked around the small deals is by investing in asset classes other than private equity and direct investment. As described in Section 3.4, impact investments in real estate, infrastructure and fixed income typically involve larger deal sizes and thus may be more applicable asset classes for large-scale institutional investors.

4.3 Fit within Asset Allocation Framework

Mainstream institutional investors face constraints when trying to make impact investments under the rules and norms of their existing investment decision-making process. It is estimated that 66% of US-based pension funds agreed or strongly agreed with the statement: "It is difficult to fit these types of investments into my existing asset allocation framework." This is primarily driven by the following reasons:

First, institutional investors manage the risk and return of their portfolios by considering a number of factors including, but not limited to: volatility, liquidity, portfolio match, exit timeline, investment style (growth versus value) and the investment size of various investment opportunities. These same considerations will also be made when institutional investors approach an impact investment. However, measuring these factors requires a certain level of data and track records that many impact enterprises (or impact investment funds) simply do not *yet* have. Similarly, it is difficult for institutional investors to fit "impact" metrics and social and environmental objectives into the theoretical frameworks, such as Modern Portfolio Theory, often used to ensure that portfolios are balanced, benchmarks are achieved, and risks are managed. Anecdotal evidence suggests that some impact investment funds have had experience overcoming this challenge through effective leadership (e.g. CIO, CEO, etc.) commitment to impact investing, and framing or use of familiar language.[79] Impact investment funds will be more effective raising capital by framing impact investing in terms of the diversification that new sectors or geographies offer, or as a play on value investing (social multiplier potentially boosts return).

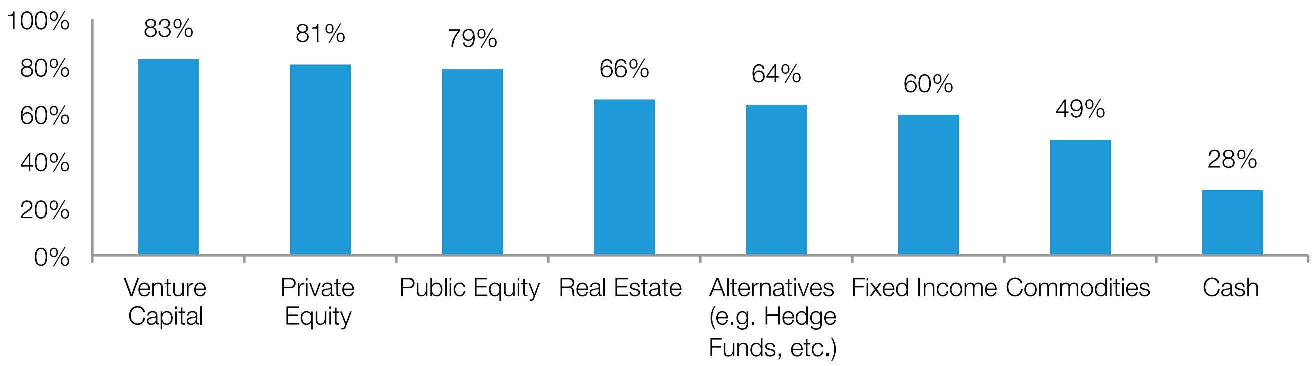
"The issue is ultimately about change management and not capital allocation."

Arthur Wood, Founding Partner, Total Impact Advisors, Switzerland

Second, institutional investors are typically organized by asset class; identifying who the right decision-maker is can be a challenge because impact investing is an investment approach across asset classes. When US-based pension funds were asked into what asset class do they consider impact investments to fall, the results were fairly evenly distributed (see Figure 20), thus confirming the belief that impact investments span asset classes. As a result, institutional investors will struggle with execution regarding how to organize for impact investing. In some cases, institutional investors are better served by creating an entirely new team dedicated to impact investing rather than asking an existing team to augment their investment criteria. For example, TIAA-CREF has a team dedicated to evaluating the social and environmental performance on a deal-by-deal basis; once they have determined whether the deal meets key criteria and objectives, the team partners with the relevant asset class group, which then manages the deal through to completion. In other cases, it may make sense to have one person well-versed in impact investments to be a part of each asset class team and advocate on behalf of the impact investment opportunities.

Figure 20: Perception of Which Asset Class Impact Investing Falls Into, % of Survey Respondents

Source: Deloitte survey of U.S.-based Pension Funds on their perception of impact investing



[79] Interviews conducted as part of the World Economic Forum's Mainstreaming Impact Investing initiative

Third, institutional investors make investment decisions based on formal processes, governance structures and investment mandates. Fiduciary duty is one key aspect of the investment decision-making process. Because there is uncertainty regarding the financial returns of impact investments as a result of their relative infrequency, structures or value propositions, fiduciary duty is at times cited as a reason why institutional investors are apprehensive about allocating capital to impact investments. Institutional Investors may thus avoid investments in new sectors – such as the impact investment sector – that may be perceived as "imprudent".[80] In addition to fiduciary duty, the culture around the investment decision-making process can be a significant impediment for institutional investors. The process of engaging consultants, lawyers and advisers as investment decisions are made is systematic and familiar to the investment committees of most institutional investors. These individuals may be sceptical or biased against new and unfamiliar investment products, especially those that attempt to achieve social or environmental objectives as opposed to financial objectives; this bias is only heightened if the incentives of these individuals do not support the evaluation of goals other than financial performance.

4.4. Double Bottom Line

Impact enterprises simultaneously pursue financial returns and *measurable* social and environmental returns. While all investing creates some degree of impact in society, not all investing involves active measurement of non-financial metrics, thus posing a challenge for institutional investors approaching the impact investment sector. There are several underlying reasons why the double bottom line is a challenge for institutional investors.

First, lack of widely agreed-upon standards in measuring and reporting social and environmental outcomes makes it difficult for investors to compare the social impact of an investment portfolio or evaluate how one social investment performs relative to another. In traditional investing, most investors think about financial return within the bounds of a similar construct. Revenue, EBITDA, profit-after-tax and free-cash flow are all widely understood quantitative metrics that assist in evaluating the financial performance of a company. Similar acceptance of common standards is not present for social and environmental performance. Does an investment that results in reduced poverty in rural India socially and environmentally outperform an investment that drives reduced greenhouse gas emissions in urban China? Or, more simplistically, is a *significant* direct impact on the life of one individual more valuable than a *slight* indirect impact on the lives of many individuals?

In order for impact investing to become more mainstream, investors will need to be able to categorize and compare the social impact of diverse investments. This will be a fundamentally challenging task given the varying opinions of what constitutes "impact". However, there are many emerging efforts to attempt to drive standardization of measurement and reporting of social and environmental outcomes. The Global Impact Investing Rating System (GIIRS), introduced in Section 3.2, creates a standardized scoring system for investors to benchmark and compare the social and environmental performance of various funds and companies. The Impact Reporting and Investment Standards (IRIS), introduced in Section 2.2, provide a set of standardized metrics that can be used to describe an organization's social, environmental and financial performance. Like financial accounting standards, IRIS provides a basis for performance reporting. Similarly, the Global Reporting Initiative provides organizations with a comprehensive sustainability reporting framework, enabling them to measure and report their social and environmental performance.[81] While these initiatives are progress for the sector, mainstream investors face is a lack of *common* acceptance of these standards. Many investors track social and environmental performance independently without using standardized systems. In order for impact investing to become a mainstream investment approach, investors will need to accept and use common frameworks and standards – similar to the way they accept and align to financial accounting frameworks such as the Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS).

Second, measurement of social outcomes often requires a long-term commitment, which may not fit into the investment horizon or investment approach of institutional investors. An investment that results in improved enrolment of girls in schools in rural Kenya drives long-term benefits such as improved employment rates, increased tax revenues and healthier families. To quantify the social value of this investment, rigorous measurement, evaluation and analysis are required over long periods of time, which may not be compatible with the investment horizon of most institutional investors. Thus, public-private partnerships will be necessary for social outcomes to be measured over the long-term given that the primary credible counterparty for long-term societal benefits is the government (municipality, state, or nation) of that society.

Third, measurement can be complex and costly and may deter institutional investors from becoming impact investors. As one hedge fund manager explained, "It is hard enough for me to do my job, let alone two jobs."[82] In addition, certain aspects of impact investing are fundamentally difficult to measure. In the example described above about improved enrolment rates, another very likely outcome is the improved well-being and happiness of the girls enrolled in school. This is an important outcome that was created as a result of the investment, but is fundamentally challenging to quantify and measure. To work around this challenge, certain impact investment funds invest only in impact enterprises whose fundamental business model is tied directly to its social and environmental performance (e.g. a company that manufactures and sells portable cook stoves that result in reduced carbon emissions and improved health conditions of low-income populations). In these cases, if the business is performing well financially, then it is delivering on its double bottom line. However, many impact enterprises do not have close linkages between the financial and non-financial bottom lines, thus complicating the ability to measure and report on social and environmental performance.

Fourth, and perhaps most importantly, the designation of causation must be cautiously attributed. For the example listed above, did the enrolment rates *cause* increased happiness, or were there other factors at play? In order to attribute causation with some degree of certainty, the investor (or impact enterprise) will need a control group to evaluate the counterfactual (i.e. what the outcome would be without an investment made). Measuring impact in a way that is consistent with rigid scientific principles is costly and may make the investment uneconomic. As such, one of the key objectives of measuring impact involves providing some limited degree of certainty that the desired outcome has been achieved.

"

How one identifies a social enterprise is of absolute importance. There are many people who talk about social or environmental impact, but cannot define what it is.

"

Nick O'Donohoe, Chief Executive Officer, Big Society Capital, United Kingdom

[80] The Employee Retirement Income Security Act (ERISA) – the body of laws that governs and regulates how certain pension funds invest – stipulates that fiduciaries invest "with the care, skill, prudence and diligence" that a prudent-man would invest with under similar circumstances ("prudent-man rule") (Source: ERISA § 404(a)(1)(B); http://www.law.cornell.edu/uscode/text/29/1104).

[81] To learn more, visit: https://www.globalreporting.org.

[82] Interview conducted as part of the Mainstreaming Impact Investing initiative.

5. Recommendations

To move impact investing from the margin and into the mainstream, the challenges presented in Section 4 will need to be addressed, and will require concerted effort and collaborative coordination among many participants. In the recommendations listed below, key actions are tied to each participant; the purpose is to assign a degree of ownership and accountability to each recommendation. The recommendations – which came out of global workshops and interviews – are not meant to be collectively exhaustive, but are rather meant to identify three key activities that different participants could take (or in many instances, continue to take) to drive towards solutions to the challenges presented above.

5.1 Role of Impact Investment Funds

Impact investment funds play a critical role in making it easier for institutional investors to allocate more capital to impact investments. Three key recommendations for impact investment funds are outlined below that will help move the impact investment sector into the mainstream.[83]

Recommendation 1: Be clear and transparent about the financial returns that are generated and report the results to a third-party. This recommendation is important for three reasons. First, institutional investors need to be able to compare, rank and classify different investments. Through accurate and consistent reporting of financial performance to an aggregator, such as ImpactBase, investors are able to make more informed decisions regarding investment allocation. Second, misrepresentation in the sector is hindering many funds from raising capital. Some funds are promoting market returns and not achieving them; this is a disservice to the sector. Those funds that make investments that result in a trade-off between financial and social returns should articulate clearly their investment thesis and expected returns to promote the growth of the entire sector. And third, there is still confusion regarding the opaque definition of impact investing and the financial returns generated. In order for products to emerge at scale, investors will need clarity about what different funds *actually* achieve across sectors and geographies.

Recommendation 2: Create a system for measuring and reporting the social and environmental impact that is achieved. There are funds and organizations that are trying to re-explain their business model in terms of "impact" given the excitement associated with the sector. Until funds demonstrate consistent clarity around the social and environmental impact that is actually achieved as a result of their investments, the term "impact investing" will continue to be misunderstood. One idea that emerged during the Mainstreaming Impact Investing initiative is an industry association of impact investment funds that adhere to a common set of values and principles around impact reporting and measurement. This would serve to bring credibility to funds when actively raising capital from institutional investors.[84] Furthermore, impact investment funds that introduce increased sophistication into their impact measurement and reporting processes (e.g. randomized control trials) will help to bring discipline and accountability to the sector.

Recommendation 3: Consider creative and innovative strategies to attract capital from large-scale limited partners. To address the constraint of deal size, impact investment funds could consider pooling funds that have similar investment and impact objectives. One obvious challenge with such an arrangement is the potentially higher fee structure (as in the case with fund of funds). But, in order for more institutional investors to enter the sector at this early stage, the economics may not make sense without this level of collaboration and partnership between impact investment funds. Similarly, impact investment funds may need to adopt innovative or new approaches to fund management to ease limited partners' concerns about the early stage of the ecosystem. For example, some funds have found success raising capital when the fund is co-managed by someone with a strong financial background (and fund management experience) and another with deep experience managing an impact enterprise.

[83] Many funds are already actively implementing these recommendations; those that are not may recognize their importance but face constraints preventing them from doing so (e.g. investment required, human capital, etc.).

[84] Although not an industry association as described, GIIRS (introduced in Section 3.2) serves investors who are looking for funds with demonstrated social and environmental performance.

5.2 Role of Impact Enterprises

Impact enterprises are a central component to mainstreaming impact investing. Over time, as these organizations grow and their sectors expand, they will be better positioned for commercial capital. Despite natural growing pains that many impact enterprises experience today, there are a few key actions they can take to ensure that they are ready for capital infusion from mainstream investors.

Recommendation 1: Build capabilities that make it easier for investors to allocate capital. It is an ongoing challenge for impact enterprises to raise finance from traditional sources of capital. Impact enterprises, like all businesses, seek financial terms that meet their underlying cash flow and strategy. Similarly, investors seek to make investments with familiar term sheets and financing structures. As has already been discussed, impact investing is anything but familiar. Thus, while investors become more familiar with impact investing and the sector grows, impact enterprises will need to build capabilities and be open to innovative financing mechanisms. For example, revenue-sharing agreements – or royalties paid on income earned – offer an innovative means for impact enterprises to receive financing.[85] They do not require a liquidity event, such as an initial public offering or an acquisition by a private equity firm, in order for the investor to generate cash flow, and thus are more attractive than equity capital. They are also more attractive than debt capital as these agreements do not have the fixed costs associated with traditional loans. Although such agreements would not be relevant for certain business models, they illustrate an alternative form of financing that could help accelerate capital flow into impact investments. Both impact investors and impact enterprises will need to be open to such innovations.

Recommendation 2: Proactively measure and report on social and environmental impact. As discussed in Section 3.2, for certain impact enterprises, the social and environmental objectives are directly tied to the business model; in such instances, measurement of these indicators may be no different from measurement of the business indicators. However, even in these instances, it is important for enterprises to proactively measure non-financial metrics – including the difficult metrics that are not directly tied to the business model – in order for the sector to achieve a level of accountability and transparency. In addition to measurement, reporting of the impact metrics will help to drive further accountability and transparency among organizations claiming to be impact investment targets. Certain organizations are helping promote sector accountability and transparency. B Corp (introduced in Section 3.2) evaluates the social and environmental impact of companies and funds and assigns them a score based on certain criteria.[86] GIIRS measures the social and environmental impact of funds and companies and provides comparable and verified metrics and ratings.[87] ANDE has convened an impact assessment working group to drive consistent assessment practices and standards, and publishes an annual impact report that tracks the effects of investments in small and growing businesses in emerging markets. These organizations are certainly helping, but impact enterprises will need to willingly enrol in such approval processes, and thus need to begin, or continue, to proactively measure and report on their social and environmental impact.

Recommendation 3: Strive for competitive differentiation and strong financial management. Mainstream investors most often withhold investment in impact enterprises (especially in frontier markets) because of their lack of financial discipline or clear competitive advantage. Adding to this criticism is the potential oversaturation of impact enterprises that have similar social objectives and that "compete" in similar sectors or geographies. To address this criticism, impact enterprises should be diligent to carve out a unique competitive differentiation in their respective markets to ensure sustainable financial viability. Similarly, they should be diligent to seek out collaboration opportunities to achieve the benefits that derive from size and scale.

5.3 Role of Philanthropists and Foundations

Philanthropists and foundations play a unique and critical role in ensuring that impact investing moves from the margin into the mainstream. This section outlines three key recommendations for philanthropists and foundations; some of these recommendations have already been implemented by leading foundations.

Recommendation 1: Help to lower investment risk by providing grants to early-stage impact enterprises and by providing anchor investments to impact investment products and funds. Philanthropists and foundations are leaders in helping to build capacity among impact enterprises; for enterprises that serve the destitute and working poor in sectors where commercial capital is largely absent, early-stage risk capital is required for the business model to scale and be better positioned for larger investments. In these instances, the enterprises are pioneering new commercial approaches to social or environmental challenges, and thus they often struggle to gain commercial capital. Philanthropists and foundations are rightly positioned to fill this pioneer gap.[88] However, knowing when to exit is a key challenge when providing grant capital. Philanthropy can play a role to kick-start the investment, but it can also distort the real performance of the company; in such cases, philanthropy can risk subsidizing business that should fail, and thus is best spent on sector-level investments as opposed to artificially propping up winners.[89] In addition to provision of grants to early-stage impact enterprises and sectors, philanthropists and foundations can play a role in providing anchor investments for new impact investment products and funds. They can help de-risk the impact investment ecosystem through guarantees or layered structures. For example, the Rikers Island Social Impact Bond was structured such that Goldman Sach's US$ 9.6 million loan was guaranteed by a US$ 7.2 million grant provided by Bloomberg Philanthropies (75% guarantee).[90] This guarantee helped significantly to reduce Goldman Sachs' investment risk.

Recommendation 2: Break down the silos that exist between the investment and programme teams. Foundations are uniquely positioned as mission-driven organizations; however, a barrier often exists between those individuals driving the mission forward and those individuals financing the mission. Even some of the foundations that advocate the most for impact investing are not allocating more than 5% to 10% of endowment capital towards the sector. While there are many reasons why this is the case, the barrier between the investment and programme teams is one that foundations can control. Through leveraging programme-related investments and mission-related investments, foundations have

[85] Other innovative financing mechanisms could include different time horizons, layering of subsidies or fundamentally different structures.

[86] To learn more, visit: http://www.bcorporation.net.

[87] To learn more, visit: http://giirs.org.

[88] For a detailed analysis on the role of philanthropy in impact investing, see From Blueprint to Scale (April 2012) produced by Monitor Group.

[89] For an excellent argument for the case for sector-level investment in impact investing, see Priming the Pump (September 2012) produced by Omidyar Network.

[90] John Olson and Andrea Phillips (2013): Rikers Island: The First Social Impact Bond in the United States, Community Development Investment Review, Federal Reserve Bank of San Francisco.

an opportunity to align more assets with mission achievement. The Bill & Melinda Gates Foundation has a history of creatively leveraging its balance sheet to fund initiatives that support its mission. For example, the Gates Foundation backed charter school facility bonds by helping Knowledge Is Power Program (KIPP) obtain favourable borrowing terms. In the event that KIPP defaults on its loans, the Gates Foundation would provide the safety-net financing.[91] This guarantee creatively leveraged the Gates Foundation's balance sheet as opposed to its grant capital. Mission Investors Exchange is an organization helping foundations better align their balance sheet with their mission. Launched in May 2012, Mission Investors Exchange brings together over 200 foundations and mission investing organizations to better understand how programme-related and mission-related investment strategies could be leveraged to accomplish philanthropic objectives.[92]

Recommendation 3: Promote greater collaboration among foundations to help lower due diligence costs. As discussed in Section 4.2, impact investing involves small deal sizes and thus high due diligence costs. Foundations making investments into impact enterprises and sectors where commercial capital is absent often play the role of due diligence organizations. By leveraging industry networks (e.g. GIIN, ANDE, Toniic, etc.) to share their information, key learnings and best practices (for investments made *and* considered), foundations leading the charge in impact investing can realize synergies and lower due diligence expenses for the entire sector.

5.4 Role of Governments

Impact investments focus on social challenges and issues – such as healthcare, education and poverty alleviation – that are typically addressed by governments; thus governments can play a critical role in mainstreaming impact investing.[93]

Recommendation 1: Provide tax relief for risky or early-stage investments in which public benefit is created, but below-market returns are generated.[94] Government has the unique ability to catalyse investments in sectors that create public benefit, but that potentially result in below-market returns. These investments will likely be avoided by investors unless there is a tax incentive or regulatory provision that improves the economics of the deal. As an example, in June 2013 the British government announced tax relief to encourage private investment in social enterprise; details have not yet been released but the relief will be introduced into the 2014 finance bill.[95] While tax incentives can help direct capital, a key implementation challenge relates to the classification of "social impact". In order for this recommendation to be effectively implemented, a universal definition for social impact would need to be understood and a legal form for impact enterprises would need to be developed. For example, in the United States, a division within the Securities and Exchange Commission or Internal Revenue Service would need to be established that regulates the impact enterprises that comply with or meet certain impact standards.

Recommendation 2: Cautiously revise regulations that restrict willing capital into impact investments. In certain instances, regulation can restrict capital from being invested into impact investments. Relevant revisions to these regulations can thus open up new sources of capital flow. For example, many US-based private foundations do not make programme-related investments (PRIs) – introduced in Section 3.2 – for fear of the tax penalization incurred as a result of making "jeopardy investments" or investments made in an imprudent way that risk a private foundation's ability to carry out its charitable purpose.[96] In April 2012, the US Treasury expanded the types of investments that could be considered PRIs and listed new examples to clarify types of qualifying investments.[97] These revisions have the potential to direct significantly more capital from private foundations into impact enterprises. The history of venture capital provides another example of how revisions to regulations could open up new sources of capital. Prior to 1979, pension funds were quite limited in how much capital could be allocated to venture capital because of the Employee Retirement Income Security Act (ERISA)'s prudent-man rule.[98] In 1979, the US Department of Labor revised the regulation to allow pension fund managers to allocate capital to high-risk assets, including venture capital. To illustrate the impact, in 1978, pension funds supplied just 15% of the US$ 218 million allocated to venture capital. Just 10 years later, in 1988, pension funds supplied 46% of the US$ 3 billion allocated to venture capital.[99] Although further changes ERISA's rule with respect to impact investing are unlikely, revisions to restrictive regulation can be a tremendous way to increase allocation to investments that create social and environmental value.

Recommendation 3: Help de-risk the ecosystem through innovative funding mechanisms. Given the early stage of the impact investment sector, there are three ways government can play a critical role in helping to reduce uncertainty:

First, government can provide a fiscal safety net for funds by providing guarantees as a means to underwrite financial performance. The New York Acquisition Fund is one such example. It provides loans to developers committed to creating and preserving affordable housing in the five boroughs of New York City, but the loans are structured in a way in which The City of New York, together with leading foundations, provide capital to guarantee the investments made by a consortium of banks, thus reducing the banks' exposure to risk.[100]

Second, government (or a development financial institution) could take a subordinate position in a layered-structured fund. Layered structures help private and institutional investors move beyond making only small allocations to impact investments. For example, the Deutsche Bank Eye Fund allows certain investors – in this case, international development agencies – to take subordinate positions in an effort to attract mainstream investors into the fund. The fund successfully raised approximately US$ 15 million to invest in sustainable eye hospitals that serve the poor.[101]

[91] To learn more, visit: http://www.gatesfoundation.org/Media-Center/Press-Releases/2009/11/$30-Million-Credit-Support-Agreement-to-Secure-$300-Million-in-Charter-School-Facility-Financing.

[92] To learn more, visit: https://www.missioninvestors.org/

[93] A delicate balance exists between government intervention and free-market activity in impact investing, as in other sectors. As such, the Impact Investing Policy Collaborative (IIPC) led a collaborative initiative to create the London Principles – or, a statement of intent and integrity for public officials to make "smart regulatory, procurement, tax and other policy interventions" in impact investing. To learn more, visit: http://iipcollaborative.org/article/an-impact-investing-milestone-the-london-principles/

[94] This recommendation is most relevant in a developed market context

[95] To learn more, visit: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/188357/budget2013_complete.pdf.pdf

[96] Reg-7.27.18.2 (April 30, 1998), http://www.irs.gov/irm/part7/irm_07-027-018.html#d0e116

[97] Reg-144267-11 (April 19, 2012), http://www.gpo.gov/fdsys/pkg/FR-2012-04-19/pdf/2012-9468.pdf

[98] ERISA § 404(a)(1)(B); http://www.law.cornell.edu/uscode/text/29/1104.

[99] Paul A. Gompers (1994): The Rise and Fall of Venture Capital, Business and Economic History.

[100] To learn more, visit: http://www.nycacquisitionfund.com.

[101] To learn more, visit: https://www.db.com/usa/docs/Eye_Fund_I_Profile(1).pdf.

Third, government could set up a pool of capital and provide anchor funding for market builders, first-time funds and early-stage enterprises (this is most relevant for governments of developed economies, and would likely be established within a country's development financial institution). The United Kingdom provides an exemplary example of how this recommendation has worked well in a developed country. In 2012, the Financial Services Authority approved the creation of Big Society Capital, an independent financial institution that leverages unclaimed assets in dormant bank accounts in order to provide access to capital to organizations that are building the impact investment market in the United Kingdom. In its first year of operation, Big Society Capital committed £56 million to 20 different impact investment intermediaries. In the United States, the Overseas Private Investment Corporation provided US$ 285 million to finance six new impact investment funds with the aim of offering anchor financing so that the funds could raise more than US$ 875 million from mainstream investors.[102] In the context of frontier markets, there is a need for government-funded capacity building funds for technical assistance programmes to help investees become more investment-ready. For example, the Government of Ghana's Venture Capital Trust Fund provides investment capital and technical assistance to small and medium enterprises, helping them become more investment ready for commercial capital.[103]

5.5 Role of Intermediaries

As described in Section 3.2, intermediaries[104] can help bring mainstream capital into the impact investment sector; ultimately, mainstream banks and brokers are needed for capital to move at scale. Until then, both niche and mainstream intermediaries can advance key priorities including, but not limited to, those recommendations listed below.

Recommendation 1: Aggregate data on impact investment deals and publish the findings. As has been discussed in Section 4, small direct investments are costly to make because they require similar due diligence processes as those required for larger investments; as a result, they are infrequently made. Furthermore, every transaction is different and requires different documentation. As part of this initiative, certain investors described the need for a library of best practices, term sheets and shareholder agreements. An intermediary is best positioned to aggregate this type of information and provide example term sheets in an effort to reduce due diligence costs for smaller investors.[105] In addition, an intermediary is well-suited to aggregate, report and segment sector information on impact deals, track records, demonstrated exits and realized returns. Multiple databases exist for traditional private equity that tracks information such as net IRR, multiples, rankings and benchmarks. Similar databases and information transparency will help institutional investors that seek to allocate capital towards impact investment private equity firms.

Recommendation 2: Promote a common platform that aligns capital and deal flow. The question regarding scarcity of capital versus scarcity of deals depends on the type of deal and its relative risk profile. Investments need to be better classified by factors such as performance, risk, expected return and exit timeline in order to better align investor preferences with deal flow. An intermediary is well-positioned to help articulate these optimal pairings through investment platforms. Currently, variants of these platforms do exist but they are early-stage and niche.[106] Mainstream intermediaries will need to support a common platform in order for momentum to build and scale to be achieved.

Recommendation 3: Advocate for a baseline set of principles to define the practice of measurement. A common language around social metrics and standards (e.g. IRIS) allows stakeholders to communicate more effectively, benchmark and compare investments, and evaluate social and environmental performance. Comparable metrics allow investors to employ different strategies on the social bottom line, and thus are important for mainstreaming impact investing. Intermediaries can play a key role in advancing this common language. However, more important than standardization of metrics is a baseline set of principles to define the practice of measurement. Metrics should be driven by the demands of institutional investors; ultimately their level of interest, concern for comparability, and willingness to pay for measurement and assurance will determine what specific metrics are used. Intermediaries can thus play a key role in advocating and endorsing for baseline principles on how social and environmental metrics are measured and reported.

[102] To learn more, visit: http://www.opic.gov/press-releases/2011/historic-commitment-impact-investing-opic-board-approves-285-million-six-funds-c.

[103] To learn more, visit: http://www.venturecapitalghana.com.gh.

[104] As opposed to investment intermediaries, this section primarily deals with organizations building the market infrastructure.

[105] As a starting point, the UK Cabinet Office, the World Economic Forum and the Impact Investing Policy Collaborative (IIPC) are in the initial stages of establishing the Global Learning Exchange, which will focus on sharing impact investment best practices through a network-of-networks (aggregating information from existing networks in one location).

[106] Examples include: Gate Impact, ImpactAssets, ImpactBase and MissionMarkets.

6. Conclusion

Over the last few years, tremendous progress has been made in the emerging impact investment sector. Whether it "teeters on the edge of explosive growth"[107] will depend on whether institutional investors begin to allocate more capital to investments that deliver both financial return and social and/or environmental return.

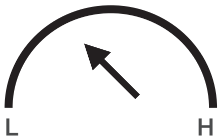
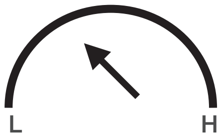
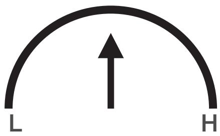
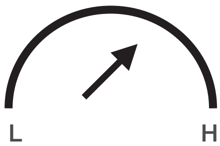
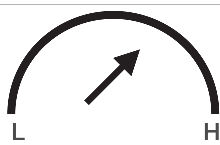
As time progresses and the sector matures, many of the challenges identified in this report will become less constricting. Indeed, many of the challenges are attributed to the growing pains of a new sector. Impact enterprises and deal sizes will grow, track records will be built and perceptions about financial performance will be realized. Until then, a degree of commitment will be required by those investors intentionally looking to allocate capital towards impact investments. But no new market moves on commitment alone. Institutional investors that have found successful strategies delivering on the double bottom line will need to become advocates of the sector and share best practices and critical success factors.

The World Economic Forum will continue to advance this agenda. Over the course of the next year, it will engage leading mainstream investors in an effort to analyse the competitive advantage that results from an impact investment offering. In addition, the Forum will identify the best practices and organizational structures that asset managers, private wealth managers and financial services institutions can implement in order to make impact investing an integral part of their strategy and operations. Part of this assessment will include an analysis on the how to align multiple stakeholders in the formation of layered funds that address societal challenges. The intended goal of these efforts will be to continue to move impact investing from the margin and into the mainstream.

[107] Jonathan Weber (October 9, 2010): Impact Investing Teeters on the Edge of Explosive Growth, The New York Times.

Appendix: Institutional Investors Interested in Getting Started

After reading this report some investors may be interested in considering ways to become more active in the impact investment sector *today*. The recommendations listed below provide some initial ideas for how to get started. They are simply meant to provoke thinking among investment teams as opposed to provide a comprehensive road map for how traditional investors can become impact investors.

	Action	Description	Commitment Required
1	**Build an internal community for employees interested in impact investing**	**Goal**: *Educate investment professionals across asset classes regarding what impact investing is and how it could be a viable investment approach within the organization*. The community will likely be most effective if it forms organically and is led by a few key internal champions. It could host guest speakers, monthly events and panels of impact enterprises to better understand how they operate and the non-financial objectives that they seek to achieve. In addition to educating practitioners, this type of community may have secondary and tertiary benefits such as help to foster employee engagement and retention.	 No capital required- Limited risk Minimal org. buy-in
2	**Survey clients to determine their level of interest in impact investing products or vehicles**	**Goal**: *Determine if there is an opportunity to carve out a distinct competitive advantage or grow assets under management by offering impact investment opportunities to clients*. For example, a pension fund could survey its members about their interest in investments that intentionally seek to create social or environmental value. Do these types of investment opportunities resonate with clients? Do clients prefer them? What concerns do clients have? Answers to these questions will help investors approach the impact investment sector in a way that is optimal for their client base.	 Low capital required- Limited risk Some org. buy-in
3	**Offer training and educational opportunities on impact metrics, evaluation, and reporting**	**Goal**: *Build in-house expertise before capital has been allocated to impact investments.* Investors could work with organizations that have advanced capabilities in impact metrics (such as IRIS or GIIRS) to develop specialized in-house trainings on measurement and reporting of nonfinancial metrics. Investment organizations could also consider short-term secondment programmes in which junior investment professionals work with an impact investment fund or impact enterprise to better understand the sector and develop expertise in impact measurement and reporting.	 Some capital required Limited risk Some org. buy-in
4	**Establish an internal impact investing position or small team dedicated to supporting asset class teams**	**Goal**: *Begin to move towards actively managing an impact investment portfolio*. An internal position or small team would be responsible for aligning on thematic areas that are most important and relevant to the organization and developing frameworks and scorecards to be used by asset class teams to evaluate the social and environmental performance of their investment portfolios. The team could also pitch key investments to the various asset class teams that may have otherwise been overlooked. In order to effectively deliver market returns and achieve social and environmental outcomes, in-house expertise will need to be intentionally developed.	 Capital required Some risk High org. buy-in
5	**Begin to allocate capital towards investments that intentionally seek to achieve social or environmental objectives**	**Goal**: *Begin to become an active investor in the impact investment sector*. Initially, it may be best to allocate only a small portion of the portfolio towards the sector (perhaps each asset class allocates 1% to 2% of its portfolio). Additionally, certain investment restrictions may need to be relaxed to ensure potential investments are not initially screened out (e.g. deal size restrictions, irregular terms, and track records of fund managers or impact enterprises).	 Capital required Some risk High org. buy-in

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Calvert Foundation (2012), *Gateways to Impact*

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Ben Thornley, David Wood, Katie Grace, and Sarah Sullivant (2011): *Impact Investing: A Framework for Policy Design and Analysis*, Pacific Community Ventures, Institute for Responsible Investment at Harvard University, and Rockefeller Foundation

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Jessica Freireich and Katherine Fulton (2009): *Investing for Social and Environmental Impact*, Monitor Institute

Paul A. Gompers (1994): *The Rise and Fall of Venture Capital*, Business and Economic History

Acknowledgements

The World Economic Forum's Mainstreaming Impact Investing initiative is supported by Deloitte Touche Tohmatsu Limited.

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Joel Bryce, Project Manager

This report synthesizes the ideas and contributions of many individuals whom the project team would like to thank for contributing so generously their time, energy and insights. In particular, the team would like to offer our special gratitude to the members of the Impact Investing Working Group, the workshop participants and interviewees.

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The authors would like to recognize all those who participated in workshops, interviews and project conversations (in alphabetical order):

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Vikram Akula	AgSri Agricultural Services
Philo Alto	Asia Community Ventures
Johan H. Andresen	Ferd
Ruulke Bagijn	PGGM
Pasha Bakhtiar	Willow Impact Investors
Anat Bar-Gera	YooMee Africa
Amy Bell	JP Morgan Social Finance

Christian Benigni	First Avenue
Vivina Berla	Sarona Asset Management
Matthew Bishop	The Economist
Max von Bismarck	SkyBridge Capital
Wiebe Boer	The Tony Elumelu Foundation
François Bonnici	Bertha Centre for Social Innovation and Entrepreneurship
Kieron Boyle	UK Cabinet Office
Richard Brass	Berenberg Bank
Andreas Brodtmann	Berenberg Bank
Alisher B. Usmanov	USM Holdings Limited
Valeria Budinich	Ashoka
Geoff Burnard	Investing for Good
Christian Busch	London School of Economics Innovation Co-Creation Lab
Mildred Callear	Small Enterprise Assistance Funds (SEAF)
Mark Campanale	Social Stock Exchange
David Chen	Equilibrium Capital
Christine Chow	Homage Consulting
Tracy Clarke	Standard Chartered Bank
Sir Ronald Cohen	Big Society Capital
Ron Cordes	Genworth Financial Wealth Management
Jean-Philippe de Schrevel	Bamboo Finance
Kriss Deiglmeier	Stanford Center for Social Innovation
Christopher DeLong	Taconic Capital Advisors
Tommy Deuschle	C Media
Kirill Dmitriev	Russian Direct Investment Fund
Tahira Dosani	LeapFrog Investments
Christine Driscoll Goulay	INSEAD Social Entrepreneurship Initiative
Robert A. Edwards	NGP Energy Capital Management
Daniel Epstein	Unreasonable Group
Eme Essien Lore	The Rockefeller Foundation
Bridgit Evans	GreaterCapital
Charles Ewald	New Island Capital Management
Malik Fal	Omidyar Network Services
David Ferreira	GAVI Alliance
Joshua Fink	Enso Capital Management
Paul Fletcher	Actis
Scott J. Freidheim	Investcorp International
Alexander Friedman	UBS
Lara Galinsky	Echoing Green
Katherine Garrett-Cox	Alliance Trust
Temesgen Gebru	Speak Ethiopian
Michele Giddens	Bridges Ventures
Barry M. Gosin	Newmark Grubb Knight Frank
Jonathan Greenblatt	White House, Office of Social Innovation and Civic Participation
Sean Greene	Case Foundation
Sanjay Gupta	Tau Investment Management
Wadie Habboush	Habboush Group
Farha-Joyce Haboucha	Rockefeller Financial
Simon Harford	Actis
Michael Harrington	Actis
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Tyler Hartung	Unreasonable Institute
Laura Hemrika	Credit Suisse
Renat Heuberger	South Pole Carbon
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Special thanks to the Investors Industries team for their support throughout the project: Elisabeth Bremmer, Maha Eltobgy, Peter Gratzke, Alice Heathcote, Marina Leytes, Tik Keung, Irwin Mendelssohn, Abigail Noble, Megan O'Neill, Jason Rico and Dena Stivella

With additional thanks to our seconded consultants: Joel Bryce, John Cunningham, Michelle McLenithan, Radina Mihaleva and Steven Reiss

With gratitude to our collaborators across the World Economic Forum: Jaclyn Asuncion, Jennifer Blanke, Tiffany Chan, Cynthia Hansen, Ethan Huntington, Lucy Jay-Kennedy, Akanksha Khatri, Jennie Oldham, Jonathan Quigley, Mark Schulman and Terri Toyota

Schwab Foundation for Social Entrepreneurship

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Special thanks to: Manju George, Katherine Milligan, Sandor Nagy, Mirjam Schoening and Kenneth Turner

Deloitte Touche Tohmatsu

Chris Harvey, Global Leader for Financial Services Industry

Special thanks to the Deloitte advisers: Carolien De Bruin, Joel Bryce, Dinah Koehler and Kristen Sullivan

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