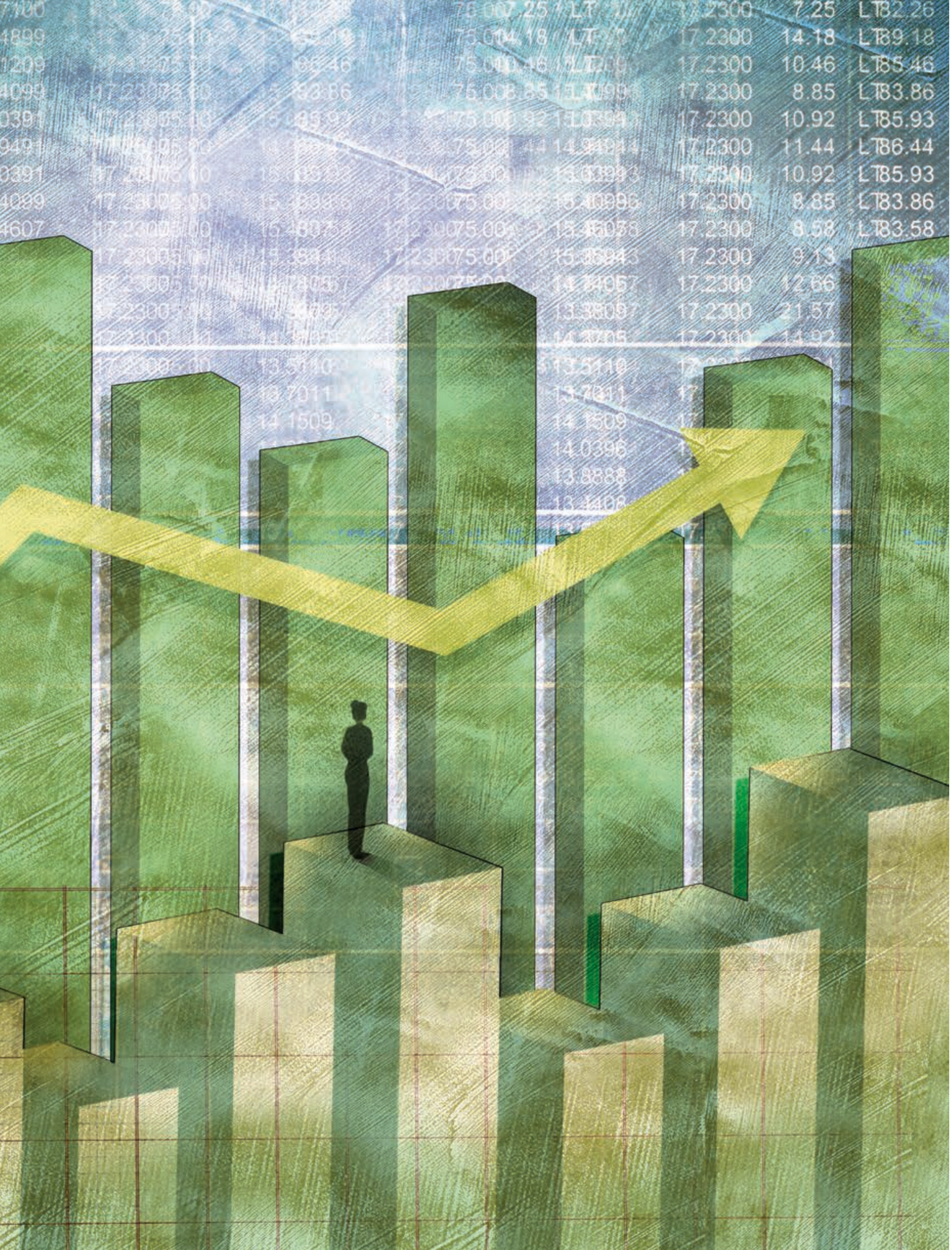

GIIN
GLOBAL IMPACT INVESTING NETWORK

DATA FROM ANNUAL IMPACT INVESTOR SURVEYS

# Impact Investing Trends

## Evidence of a Growing Industry

# Impact Investing Trends: Evidence of a Growing Industry

## About the Global Impact Investing Network (GIIN)

The GIIN is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

## Acknowledgements


### Authored by the GIIN Research Team

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### Research support

The research team would like to recognize the contributions of various members of the broader GIIN team. For review and input, we thank Susan Balloch, Amit Bouri, Giselle Leung, Peter Malik, Sapna Shah, Andrew Siwo, and Amy Stillman. For communications review and guidance, we thank Laura Gustafson and Kimberly Moynihan.

### Sponsors

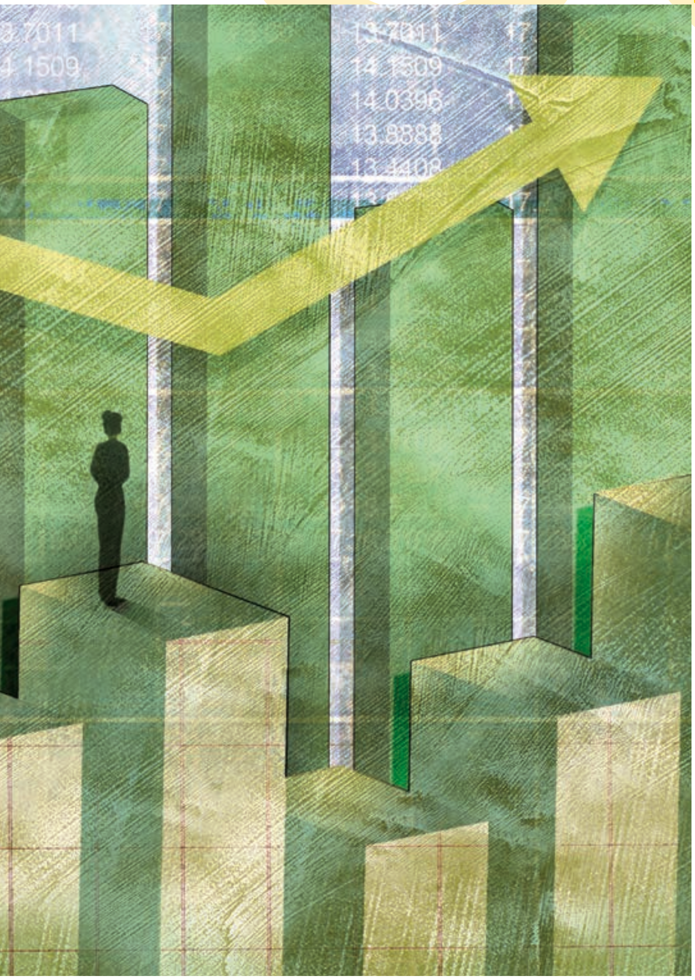
This report was produced using data from the 2013-2015 Annual Impact Investor Surveys and their corresponding reports. All three of these reports were produced with the generous partnership and support of JPMorgan Chase & Co. The 2016 report (using data from 2015) was also funded with UK aid from the UK Government through the Department for International Development's Impact Programme.

### Interviewees

This report includes insights from interviews with five impact investors about recent changes and future developments in the impact investing market: Sandeep Farias from Elevar Equity, María Victoria González from Adobe Capital, Huib-Jan de Ruijter from FMO, Ommeed Sathe from Prudential Financial, Inc., and Evita Zanuso from Big Society Capital.

DECEMBER 2016

35.5 billion




## 62 Investors

*grew their impact assets from USD* **25.4 billion** *to* **35.5 billion** *from 2013 to 2015*

# Letter from the CEO

Dear readers,

“Study the past if you would define the future,” Confucius

The above quote is a personal favorite. To me, it is an important reminder that there can be great value derived from reflecting on and understanding the past, especially if you are trying to change the future.

The market for impact investing is no longer nascent, but it is also far from being fully formed or matured. As such, the impact investing industry is at a perfect moment for reflection. By looking closely at data from the past few years of impact investing, we can better direct the industry’s trajectory so that this powerful practice can reach its full potential—and faster. That is why I am thrilled to present *Impact Investing Trends: Evidence of a Growing Industry*, the very first GIIN report speaking specifically to trends in the market over time.

At the GIIN, I have the daily privilege of hearing how members are leading the way to finance innovative solutions to pressing global issues in areas such as affordable housing, climate change, and healthcare. Given these conversations and findings from industry research, such as the GIIN’s Annual Impact Investor Survey, I have long been confident that this industry has been developing steadily. However, with the data presented in this latest report, we now have compelling evidence that the impact investing industry is growing, both in terms of size and maturation.

I am delighted to share that the data show many encouraging signs for the industry, including the following key trends:

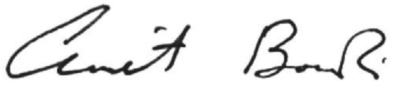
1. Impact investors are demonstrating strong growth, with assets under management growing by 18% compounded annually from 2013 to 2015;
2. Impact investments are made across the world, in a diverse range of sectors and using various financial instruments, reflecting the wide variety of impact theses and strategies pursued by impact investors;
3. Impact investors are consistently satisfied with both impact and financial performance;
4. The industry is making progress against several key indicators of market growth, despite there being certain barriers remaining to industry development.

I’d like to reflect in particular on why the last highlighted trend is just as encouraging as the other findings. In fact, I find this trend to be the most reassuring, for it indicates room for (and hope for) more: more improvement, more investors entering the market, more impact. We have come a long way in building this market, but we have further to go, as the amount of available impact investment capital does not yet come close to matching the scope of the pressing social and environmental problems we face today. This brings me back to the importance of the research contained in this report.

If you are already an active impact investor, I hope this research will be useful in guiding future investment decisions and helping to increase your impact. If you are looking to enter the space, I hope this research helps support a case for getting involved in this growing market. If you are not a professional investor, but you are a curious and active citizen of the world, I hope you are encouraged by these trends, and will continue to look for ways to align your own assets with your values.

Impact investing’s time has come. Many investors around the world have led the way and have laid a strong foundation for this movement. With this strong foundation, we now have the opportunity to build an even stronger future for impact investing, and, thus, a stronger future for the world.

How do you wish to define this future?



Amit Bouri
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# Methodology

This report captures data from 62 impact investors that have completed the Global Impact Investing Network's (GIIN) Annual Impact Investor Survey each of the past three years (2014–2016), answering questions regarding their activities for the year prior to data collection, plans for the following year, and general perceptions of broader market trends and topics. Thus, although these surveys were administered at the beginning of each year 2014–2016, the collected data refer to the years 2013–2015, which will be the years referenced in this report.

## Inclusion criteria

All respondents represent impact investing organizations, not individual investors. In an effort to ensure that respondents had meaningful experience managing impact investments, survey-eligibility criteria each year required that respondents had either: (a) committed USD 10 million to impact investments since their inception and/or (b) completed at least five impact investing transactions.[1] The GIIN provided its definition of impact investing (see Appendix 2), which respondents used to determine their eligibility.

## Analysis included

While many questions have been repeated in the survey instrument each of the past three years, several questions have changed over time, and others have been removed or added. For this report, the GIIN research team analyzed only those questions with comparable data from each of the past three years. For some questions with multiple choices, certain available answer choices have been modified, added, or deleted over time; in these cases, only comparable options were analyzed.

## Investor insights

Additionally, the research team conducted brief interviews with five individuals at select repeat respondent organizations in order to gather perspectives on both recent changes in the impact investing market and the forward-looking trajectory of the industry. The interviewees were selected to reflect a range of organizational types, investment geographies, and asset classes in the impact investing space.

## Data accuracy

The individuals representing each organization and responding to each respective survey may change from year to year, which can lead to subtly different interpretations of some survey questions. Each year, the GIIN research team conducted basic checks during data cleaning, processing, and analysis, clarifying with respondents as appropriate to improve accuracy. Further, in the process of analyzing changes over time, the GIIN research team conducted additional data checks and sought additional clarification to ensure year-on-year consistency.

## Exchange rate fluctuations

Respondents report key numeric figures each year in USD, such as assets under management (AUM) and capital committed. This report does not attempt to analyze any potential exchange rate fluctuations.

1 In 2013, investors were required to have committed at least USD 10 million to impact investments in order to qualify for the survey. In 2014 and 2015, the survey included a second, alternate criterion to qualify, namely that investors may have made at least five impact investment transactions.

## Analysis by sub-group

In addition to aggregate analysis of the full sample of 62 respondents, this report also highlights certain notable differences in responses by particular sub-groups of respondents, for example by investors with a substantial majority of their capital allocated to a particular geography. Table i presents a full list of these sub-groups.

**Table i: Respondent sub-groups**

| Sub-group | Description of the category | Number of respondents |
|---|---|---|
| EM-focused investors | Respondents that allocated ≥75% of their AUM to emerging markets (EM) every year | 30 |
| DM-focused investors | Respondents that allocated ≥75% of their AUM to developed markets (DM) every year | 21 |
| Market-rate investors | Respondents that principally targeted risk-adjusted, market-rate returns every year | 26 |
| Below-market investors | Respondents that principally targeted below-market-rate returns every year; some targeted closer to market-rate and some targeted closer to capital-preservation returns | 27 |
| PD-focused investors | Respondents that allocated ≥75% of their AUM to private debt (PD) every year | 11 |
| PE-focused investors | Respondents that allocated ≥75% of their AUM to private equity (PE) every year | 13 |

## Region and sector codes

For brevity, regions and sectors referenced in the report are given shorter names, codes which are shown in Tables ii and iii. The Annual Survey instruments did not provide precise region or sector definitions, so responses reflect respondents' interpretations of each region or sector boundaries.

**Table ii: Region Codes**

| Code | Name of region |
|---|---|
| **DM** | **Developed Markets** |
| North America | United States and Canada |
| WNS Europe | Western, Northern, and Southern Europe |
| Oceania | Oceania |
| **EM** | **Emerging Markets** |
| SSA | Sub-Saharan Africa |
| LAC | Latin America and the Caribbean (including Mexico) |
| South Asia | South Asia |
| ESE Asia | East and Southeast Asia |
| MENA | Middle East and North Africa |
| EECA | Eastern Europe, Russia, and Central Asia |

**Table iii: Sector Codes**

| Code | Name of sector |
|---|---|
| Education | Education |
| Energy | Energy |
| Fin services (excl. microfinance) | Financial services (excluding microfinance) |
| Food & ag | Food and agriculture |
| Healthcare | Healthcare |
| Housing | Housing |
| ICT | Information and communication technologies |
| Microfinance | Microfinance |
| WASH | Water and sanitation |
| Other | Other |

# Introduction

Since 2011, the GIIN has conducted a rigorous annual survey of the growing community of impact investors. The resultant reports have provided the most comprehensive view of market activity and industry development worldwide.[2]

Each year, as much as is possible, practical, and relevant, the survey maintains a core set of questions regarding investor activity and perspectives. Over the last three years, the survey has also captured detailed information on investors' portfolio allocations. The respondent sample has also grown steadily over time (see Table iv) and includes 62 respondents that have completed the survey each of the last three years.

**Table iv: Total number of respondents to each year's Annual Survey**

| Year of data | Number of respondents | |
|---|---|---|
| 2010 | 25 | |
| 2011 | 52 | |
| 2012 | 99 | |
| 2013 | 125 | 62 repeat respondents. |
| 2014 | 146 | |
| 2015 | 158 | |

Examining these detailed survey responses over time allowed the GIIN to produce this first-ever industry-level trends analysis on global impact investor market activity. This data is complemented by qualitative insights from five impact investors on how the market has changed in recent years and how it will continue to evolve. The GIIN hopes that insights from this research will further the impact investing industry's reach and effectiveness, enable data-driven decision-making, and improve transparency of this growing market.

2 Conducted as a joint partnership between the GIIN and J.P. Morgan for the first five years (2011 to 2015), in 2016, the GIIN produced the survey entirely in-house, with J.P. Morgan remaining involved as an anchor sponsor. The UK Department for International Development also provided generous support for the 2016 survey.

# Executive Summary

## Sample characteristics

The 62 respondents included in this analysis represent a range of geographies, organization types, and returns philosophies.

- Approximately 80% of respondents are headquartered in developed markets.
- Over half of respondents identify as fund managers (56%) and one-fifth identify as foundations (20%). The remaining organization types are banks/diversified financial institutions, development finance institutions, family offices, and pension funds/insurance companies.
- Roughly half of the respondents in the sample are market-rate investors—with some slight fluctuations from year-to-year—and the rest are below-market investors.

## Key findings

Several key themes emerged from these three years of data:

1. **Respondents have demonstrated strong growth,** collectively increasing their impact investing assets under management (AUM) from USD 25.4 billion in 2013 to USD 35.5 billion in 2015 (n=61),[3] a compound annual growth rate (CAGR) of 18%. The volume of capital raised by fund managers also increased at a compounded rate of 18% each year, growing from USD 1.7 billion in 2013 to USD 2.3 billion in 2015 (n=26).[4]
2. **Respondents have maintained a steady pace of activity,** committing a total of USD 7.1 billion, USD 9.2 billion, and USD 9.1 billion in 2013, 2014, and 2015 respectively, across over 3,000 transactions each year (n=62).
3. **Certain key geographies, sectors, and instruments are particularly common among impact investors.**
    a. Geography: Over 60% of AUM was allocated to emerging markets each year.
    b. Sector: The top three sectors receiving the highest proportions of AUM were microfinance, other financial services, and energy, respectively. Collectively, these three sectors accounted for the majority of AUM every year.
    c. Instrument: Approximately 70% of AUM was allocated through private debt and private equity each year.
4. **The industry continues to progress across various indicators of market growth, but consistent challenges remain.** Respondents reported seeing significant progress in terms of the number of intermediaries with successful track records, levels of government support for the market, and the availability of exit options. Notwithstanding this progress, respondents consistently cited 'lack of appropriate capital across the risk/return spectrum' and 'shortage of high-quality investment opportunities with track record' as the top challenges facing the industry.
5. **Respondents report broad overall satisfaction with their impact and financial performance, as compared to their expectations.**
    a. Each year, 98% of respondents indicated impact performance in line with or exceeding their expectations, and 85% to 95% of respondents indicated financial performance in line with or better than their expectations.
    b. 'Business model execution and management risk' ranked first among the risks to impact investing portfolios considered.

3 One respondent declined to provide information regarding its assets under management.

4 Twenty-six fund managers responded to this question each year; a handful planned and/or reported USD 0 capital raise for one, two, or all three years.

# Sample Characteristics

This section contextualizes the analysis with background information on the respondent sample of 62 organizations.

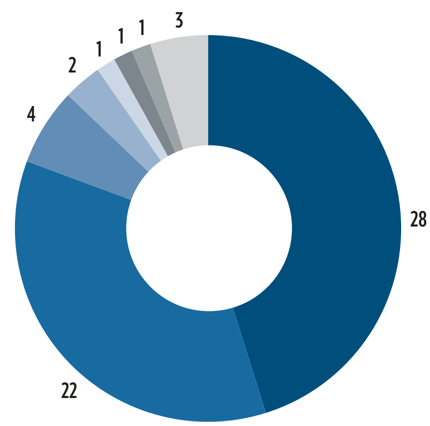
## Headquarters locations

As shown in Figure 1, most respondents are headquartered in developed markets, with 45% of organizations based in North America, 35% based in WNS Europe, and 2% based in Oceania. Meanwhile, 13% of organizations are based in emerging markets.[5]

**Figure 1: Location of headquarters by number of respondents**

n = 62

- 28 North America
- 22 WNS Europe
- 4 LAC
- 2 SSA
- 1 South Asia
- 1 ESE Asia
- 1 Oceania
- 3 No single HQ




Source: GIIN

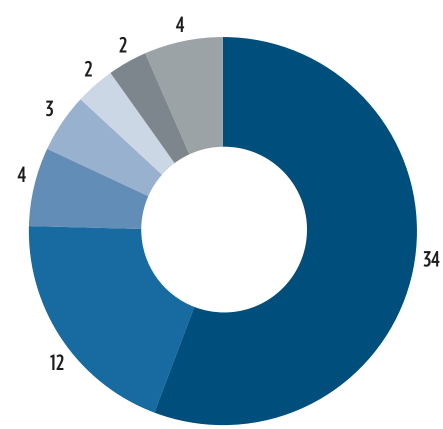
## Organization type

Among respondents, 34 organizations (56%) identify as fund managers, followed by 12 organizations (20%) identifying as foundations (Figure 2).[6] The remainder comprises a mix of banks/diversified financial institutions, development finance institutions (DFIs), family offices, and pension funds or insurance companies.

**Figure 2: Organization type by number of respondents**

n = 61

- 34 Fund manager
- 12 Foundation
- 4 Bank / Diversified financial institution
- 3 Pension fund / Insurance company
- 2 DFI
- 2 Family office
- 4 Other




Source: GIIN

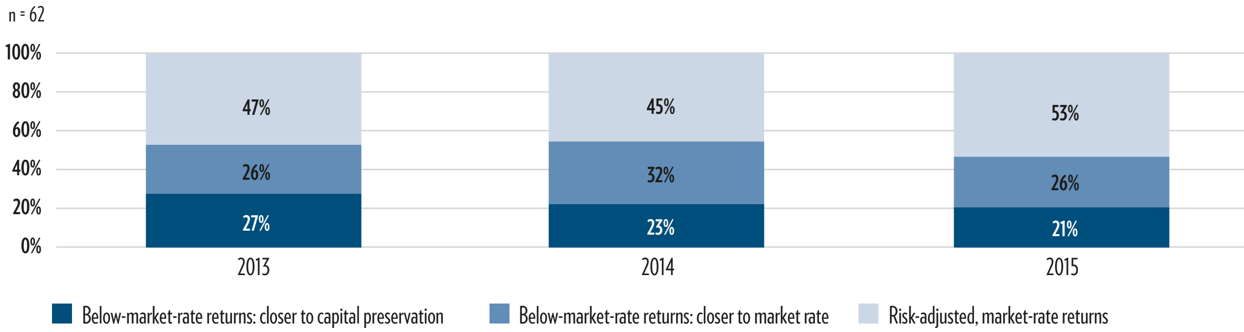
5 The remaining 5% of respondents have no single headquarters location.

6 One respondent in the sample underwent a structural change between 2013 and 2015 and was thus excluded from this part of the analysis. In conjunction with respondents, the research team recoded some respondents' organization types to correct inconsistent answers from year-to-year on the Annual Survey.

## Target returns sought

Each year, respondents are asked to describe the type of financial returns they principally seek with their impact investments (Figure 3). From 2013 to 2015, the proportion of respondents that primarily targeted 'risk-adjusted, market-rate returns' grew from 47% to 53% (albeit with a slight dip in 2014). 'Below-market returns' were captured by two categories: 'closer to market rate' and 'closer to capital preservation'. The proportion of respondents primarily targeting 'below market-rate returns, closer to capital preservation' decreased steadily from 27% in 2013 to 21% in 2015. Interestingly, two respondents targeting 'market-rate returns' in 2013 targeted 'below-market-rate returns' in 2015, while six respondents that targeted 'below-market-rate returns' in 2013 targeted 'market-rate returns' in 2015.

**Figure 3: Target financial returns principally sought by percentage of respondents**




Source: GIIN

# Indicators of Growth

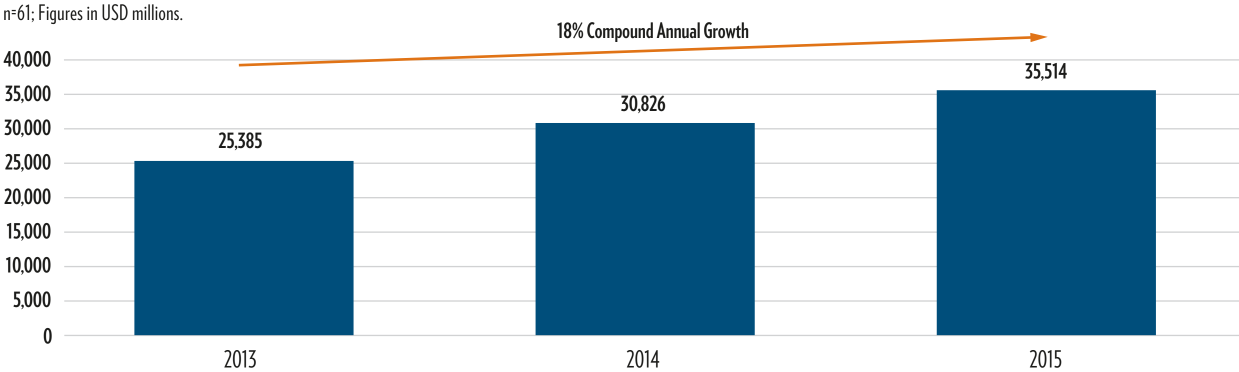
Assets under management (AUM) and investment activity in the sample of respondents grew steadily from 2013 to 2015.

## Assets under management

From 2013 to 2015, impact AUM for 61 respondents grew from USD 25.4 billion to USD 35.5 billion (Figure 4),[7] an 18% compound annual growth rate (CAGR) likely reflecting a combination of growth from capital raised for impact investments and growth in the value of existing investments. Overall, 42 out of 61 organizations increased their impact investing AUM over this three-year time period.

**Figure 4: Total AUM by year**

n=61; Figures in USD millions.




Source: GIIN

Each year, the average AUM was substantially higher than the median AUM reported by respondents because a handful of respondents manage a large portion of all impact investing assets reported to the GIIN's Annual Survey. In fact, the three largest respondents each year accounted for roughly 45% of all AUM in the sample. Table 1 shows the distribution of AUM, which is relatively consistent across the years.

**Table 1: Distribution of AUM by year**

n=61; Figures in USD millions.

| | Minimum | 25th Percentile | Median | 75th Percentile | Maximum | Mean |
|---|---|---|---|---|---|---|
| 2013 | 2.2 | 53.3 | 117.0 | 294.0 | 6,300.0 | 409.4 |
| 2014 | 7.0 | 53.6 | 135.0 | 300.0 | 9,300.0 | 497.2 |
| 2015 | 6.1 | 60.0 | 143.5 | 330.0 | 9,900.0 | 572.8 |

Source: GIIN

The Asset Allocation section of this report (page 16) presents further analysis of impact investment AUM by sub-group, geographic focus, sector, instrument, and stage of business.

7 One respondent declined to provide AUM information in all three years.

# INVESTOR INSIGHT

## Prudential

Prudential Financial, Inc., a financial services company based in the U.S., has managed an impact investing portfolio since 1976. Prudential invests in a range of sectors, including education, housing, and financial services, primarily in the U.S.

In recent years, Prudential identified significant growth in demand for impact investing capital, both at the enterprise and fund manager levels. As the number of potential investments has increased, the prospective impact objectives have become more diverse and targeted. As a result, Prudential has become more specific about the types of investments it pursues, selecting investments based on the investee's impact orientation, impact measurement practice, and co-investment potential. Prudential's own impact measurement practice also reflects this increasing specificity, with metrics chosen and monitored according to their corresponding impact objective.

Looking forward, Prudential has committed to growing its impact investment portfolio from approximately USD 500 million in 2016 to USD 1 billion by 2020. Achieving this target will require that Prudential maintain a robust investment platform that can effectively and efficiently deploy capital into a wide range of strategies. Additionally, Prudential expects to develop in two key areas:

- It intends to manage its impact investments as a portfolio rather than a collection of individual deals. Through this strategy, Prudential will review and manage portfolio-level risk and volatility on an ongoing basis, in order to build a portfolio that balances high-risk, pioneering investments with more stable investments.
- It expects growing collaboration between its impact investment practice and its broader asset management practice. This collaboration will include shared deal sourcing and due diligence, particularly as investments that originated in the impact space become more attractive to other investment arms within Prudential.

Prudential anticipates that the impact and non-impact investing industries will begin to converge as traditional investors develop impact offerings and impact investors raise funds that increasingly resemble mainstream offerings in terms of their structure and management. As this convergence occurs, Prudential will rely on impact intentionality, measurement, and management as key differentiators to distinguish attractive investment opportunities.

## Investment activity

### Capital committed and number of deals

In total, 62 respondents committed USD 7.1 billion to 3,332 deals in 2013, USD 9.2 billion to 3,726 deals in 2014, and USD 9.1 billion to 3,096 deals in 2015 (Figure 5). Notably, two organizations accounted for over half of all capital committed in each of the three years. While capital committed grew significantly from 2013 to 2014, it flattened from 2014 to 2015. Meanwhile, the number of deals fluctuated, increasing by 12% in 2014 and falling by 17% in 2015 (see discussion in box below).

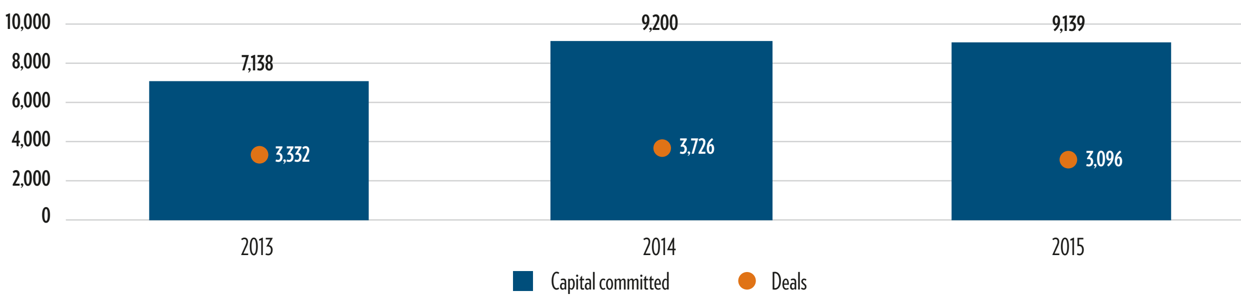
### Fluctuation in activity

Several different factors can influence capital committed from one year to the next, including:

- Investors often commit capital to be drawn down over several years, a practice that can cause a spike in the figure one year even though the commitment is actually deployed over several years.
- Investment pipelines are generally unevenly distributed in terms of both number and sizes of deals over a given period of time, and length of time to close also varies significantly.
- Certain instruments have defined investment periods, after which there may be a lag before managers make new investments.

**Figure 5: Capital committed in USD millions**

n=62; Capital committed in USD millions.




Source: GIIN

Table 2 below shows how respondent activity fluctuated at the individual level from one year to the next. Overall, more respondents increased in both capital committed and number of deals than decreased. Further, more respondents increased in both measures in 2014 than in 2015. Finally, 15 respondents increased capital committed both years, and 13 respondents had more deals in both years.

**Table 2: Number of respondents that increased, decreased, or maintained capital committed and number of deals from year to year**

n=62

| | Capital committed | | Number of deals | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| Increased by >5% | 41 | 29 | 33 | 28 |
| Stayed within ± 5% | 1 | 5 | 12 | 7 |
| Decreased by >5% | 20 | 28 | 17 | 27 |

Source: GIIN

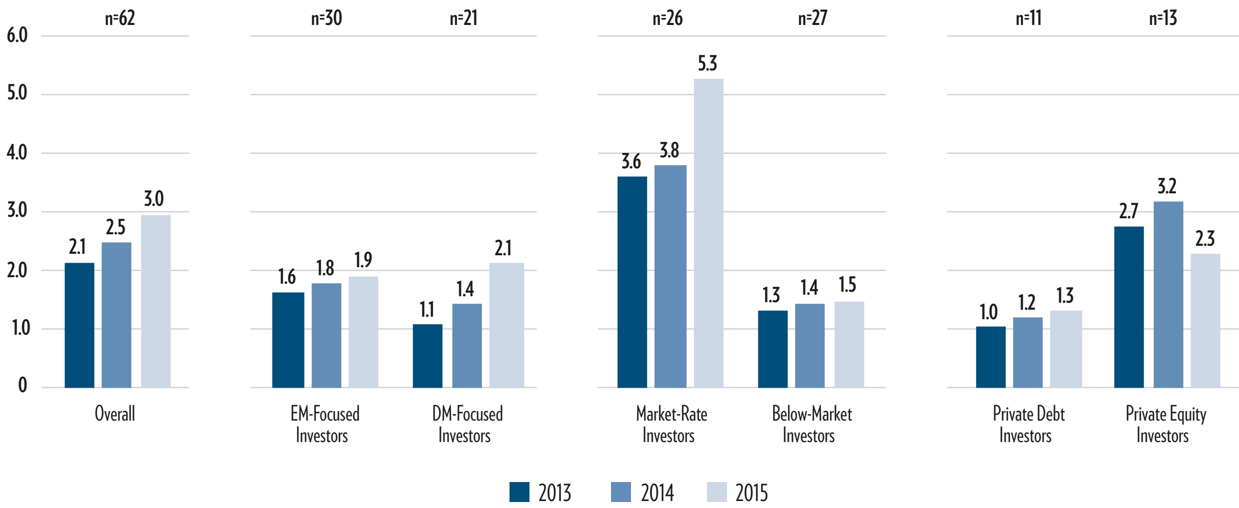
### Average deal size

Overall, average deal size increased from USD 2.1 million in 2013 to USD 2.5 million in 2014 and USD 3 million in 2015 (Figure 6). Among the sub-groups, market-rate investors had the highest average deal size, which also increased each year. The average deal size for DM-focused investors also nearly doubled from USD 1.1 million to USD 2.1 million.[8] Meanwhile, the deal size of PE-focused investors fluctuated, increasing in 2014 and decreasing in 2015.

8 Average deal size was calculated by taking the sum of the capital committed each year and dividing by the sum of the number of deals each year.

**Figure 6: Average deal size, total and by sub-groups**

Number of respondents shown above each sub-group. Figures in USD millions.




Source: GIIN

## Planned vs. reported activity

In addition to reporting investment activity for each year prior, respondents shared their plans for capital committed and number of deals in the year ahead. In 2014 and 2015, a majority of respondents exceeded their targets for capital committed and number of deals, although many also fell short of their targets (Table 3). In 2014, the aggregate amount of reported capital committed exceeded the target by USD 550 million while falling short of the target by USD 1.2 billion in 2015 (Figure 7). Notably, two organizations accounted for 40% of this discrepancy. In aggregate, the reported number of deals fell short of the target number in both years.

**Table 3: Number of respondents that exceeded, met, or fell short of planned capital committed and number of deals each year**

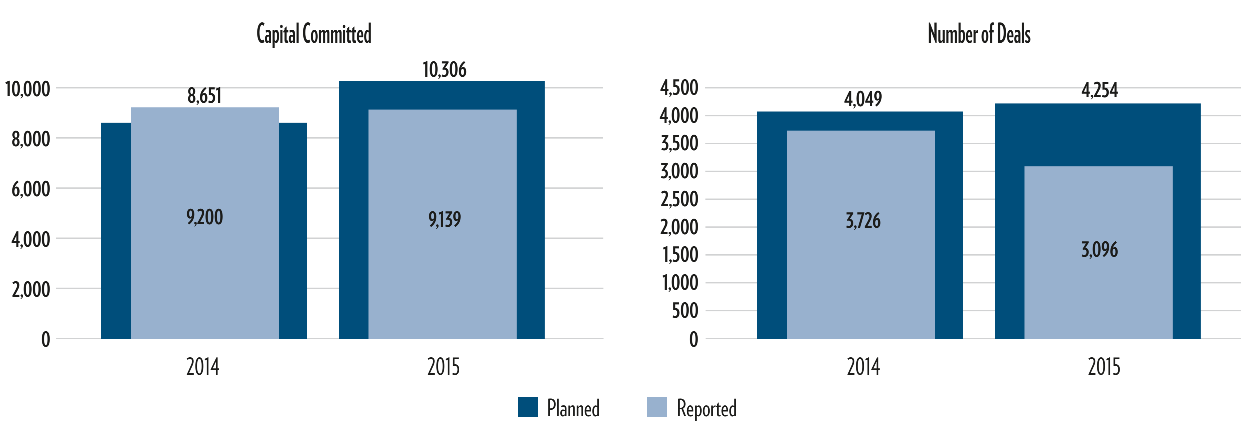
n=62

| | Capital committed | | Number of deals | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| Exceeded target by >5% | 33 | 37 | 32 | 36 |
| Met within ±5% of target | 8 | 8 | 9 | 3 |
| Fell short of target by >5% | 21 | 17 | 21 | 23 |

Source: GIIN

**Figure 7: Planned vs reported capital committed and number of deals**

n=62; Left chart: capital committed in USD millions. Right chart: number of deals.




Source: GIIN

# INVESTOR INSIGHT

## FMO

FMO, the Dutch development finance institution (DFI), has been investing for social and environmental impact since 1970. FMO has identified three noteworthy changes in both its own impact investing practice and the wider industry during the last three years, as well as corresponding forward-looking opportunities:

1 **Ongoing refinement of impact measurement practice:** With the help of an external consultant, FMO has developed an impact measurement model that captures both direct and indirect outcomes from an investment. The model considers external, macro-level data, investee performance metrics, and other indicators of impact. Looking forward, FMO hopes the market will move toward auditable, integrated impact reporting with higher-quality impact data.

2 **Growing importance of its catalytic role:** It is widely recognized that private capital and partnerships are needed to realize the Sustainable Development Goals. In recent years, FMO has increasingly played a catalytic role e.g. by taking a second loss position in several of its investments, thus mitigating risk for private investors. Through FMO Investment Management and syndicated loans, FMO has catalyzed and channeled capital from institutional investors and high-net-worth individuals to emerging markets. Looking forward, FMO sees further opportunity to facilitate public-private partnerships and to crowd in private capital, for instance for green bonds in emerging markets.

3 **An increasingly specialized intermediary market:** FMO noted the emergence of more funds focused on specific geographies and impact themes. Funds have expressed greater interest in forestry, renewable energy and women-owned SMEs, for instance. Further, FMO has found more funds with a liability structure built to accommodate both public and private capital. In addition to funds, 'platforms' and holding companies are gaining importance. For example, the Arise platform invests in financial inclusion in Africa with a longer term horizon than is typical with closed-ended funds and also provides other, non-financial support.

# State of the Market

## Progress on indicators of market growth

Every year, respondents were asked to assess industry progress against several indicators of market growth.[9] Notwithstanding some fluctuation from one year to the next, between 2013 and 2015 growing proportions of respondents reported seeing 'significant progress' on several key indicators, including 'number of intermediaries with a growing and successful track record', 'level of government support for the market', and 'availability of suitable exit options' (Table 4).

**Table 4: Percentage of respondents that reported 'significant progress' on indicators of market growth**

n=62

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Number of intermediaries, including fund managers, with growing, successful track records | 18% | 26% | 23% |
| Availability of research and data on products and performance | 24% | 10% | 22% |
| Level of government support for the market | 11% | 11% | 20% |
| Availability of impact investment capital across the risk/return spectrum | 7% | 20% | 13% |
| Availability of suitable exit options | 6% | 2% | 13% |

Note: The phrasing of indicators of progress was the same in 2013 and 2014, but changed slightly in 2015. In 2013 and 2014, two indicators of progress included 'number of intermediaries, including fund managers, with growing, successful track records' and 'availability of investment opportunities at the company level'. In 2015, the answer choice was reframed to 'high-quality investment opportunities (fund or direct) with track records'. For the sake of comparison, we have combined both answer choices in 2013 and 2014.

Source: GIIN

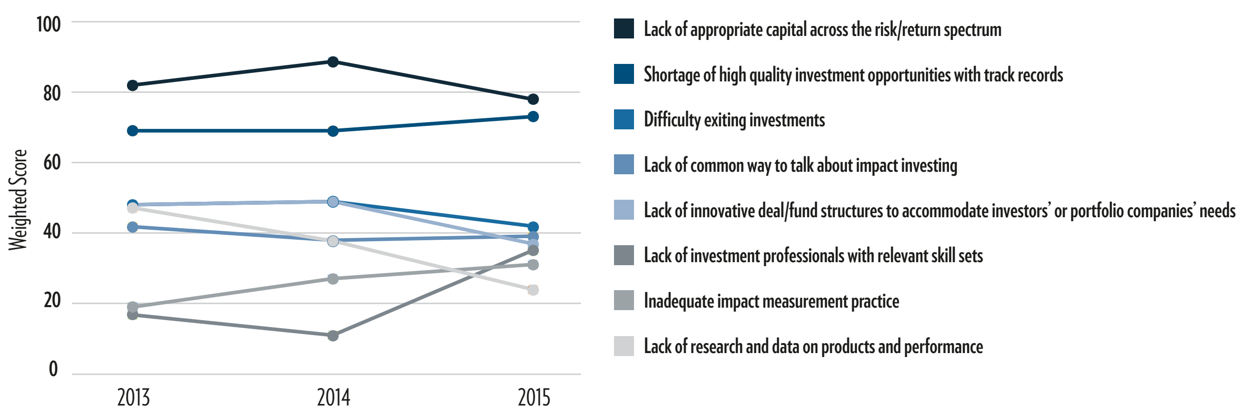
≥15% of respondents ≥20% of respondents

## Challenges to the growth of the impact investing industry

Respondents also shared their perceptions of the top challenges facing the impact investing industry (see box on next page for scoring methodology). Consistently from one year to the next, 'lack of appropriate capital across the risk/return spectrum' and 'shortage of high-quality investment opportunities with track records' were the top-ranked challenges, and their relative scores have converged slightly (Figure 8).

**Figure 8: Challenges to the growth of the impact investing industry**

n=62; Figures represent a weighted score for each option. Respondents ranked their top three challenges from a choice of options.




Notes: Respondents ranked their top challenges from a choice of options. Scores for each option are calculated by weighting each rank by the number of respondents selecting it and summing those weighted totals. In 2013 and 2014, respondents ranked challenges from a choice of eight options. In 2015, 'government support for the market' was added as a ninth option and received a score of 13.

Source: GIIN

9 The wording of some indicators of progress included in the Annual Survey instrument has changed from year to year; original phrasing for each year may be found in Appendix 3. Other indicators of progress have been added or dropped over time and are therefore not included in this analysis.

## Scoring Methodology

Throughout the survey instruments, some questions request respondents to rank a given set of options relative to each other. This report presents a weighted score for each answer choice, calculated by weighting each rank by the number of respondents that selected it and summing those weighted totals. In this case, respondents ranked the top three challenges,[10] so the score for each option equals (number that ranked it first x 3) + (number that ranked it second x 2) + (number that ranked it third x 1).

It is important to note that since respondents rank each answer choice, the data only reflect the perceptions of each challenge in relation to the others, but may not capture an absolute increase or decrease of the significance of each challenge.

By score, the 'lack of investment professionals with relevant skill sets' and 'inadequate impact measurement practice' rose the most as perceived challenges. This first challenge may reflect growing demand for professionals with particular skills, which could stem from an increasingly specialized and segmented market. The second challenge may indicate growing expectations for increasingly sophisticated impact measurement practice and reporting. Conversely, 'lack of research and data on products and performance' and 'lack of innovative structures to accommodate investors' or portfolio companies' needs' showed the greatest decrease in score over time, thus indicating relative improvement in these indicators. These improvements may have resulted from a growing volume of high-quality research, including recent studies of the financial performance of impact investments.[11]

Overall, the prioritized challenges remained relatively consistent across the three-year period (Figure 8), though respondents have, at the same time, consistently indicated improvement in terms of various measures of progress (Table 4). Taken together, this suggests that, although certain barriers to growth remain, the impact investing industry continues to move forward.

10 In 2015, respondents ranked their top five challenges because the list of options was expanded. Only the top three are considered in the score presented here.

11 Recent publications on financial performance of impact investments include: Amit Bouri et al., Introducing the Impact Investing Benchmark (The GIIN and Cambridge Associates, 2015), https://thegiin.org/knowledge/publication/introducing-the-impact-investing-benchmark; and Jacob Gray et al., Great Expectations: Mission Preservation and Financial Performance in Impact (Wharton Business School, 2015), https://socialimpact.wharton.upenn.edu/programs/impact-investing/

# INVESTOR INSIGHT

## Adobe Capital

Adobe Capital is a fund manager headquartered and investing in Mexico. Since Adobe Capital was established in 2013, it has observed growing activity in Mexico among both local and international impact investors. Additionally, Adobe has noted increasing flow of capital from investors new to impact investing and rising participation in the annual Latin American Impact Investment Forum, which will host its seventh convening in 2017.

This growing focus on investment for social and environmental stewardship is mirrored in the emergence of more impact-oriented entrepreneurs. Looking ahead, Adobe perceives growing opportunities in three key sectors: clean energy, financial inclusion, and healthcare. However, while the number of potential investment opportunities has increased, their quality and track records remain unproven. It also believes that accelerator programs will play a significant role in developing quality investment opportunities.

Currently, Adobe is raising its second fund and beginning to divest from its first. One of the primary learnings from the first fund has been a strategic evolution in impact measurement and management. Specifically, Adobe regularly reviews the set of IRIS[12] metrics reported by its investees to ensure that they generate value and reflect on-the-ground impact. It also requires that all of its portfolio companies pursue a GIIRS[13] rating within six months of receiving investment capital. These steps, Adobe feels, have begun to offer greater clarity around each company's impact intentions and impact management practice.

12 IRIS is the catalog of generally accepted performance metrics managed by the GIIN that impact investors use to measure the social, environmental, and financial results of their investments. For more information, see iris.thegiin.org.

13 GIIRS Ratings provide comparable ratings of a company or a fund's social and environmental impact.

# Asset Allocations

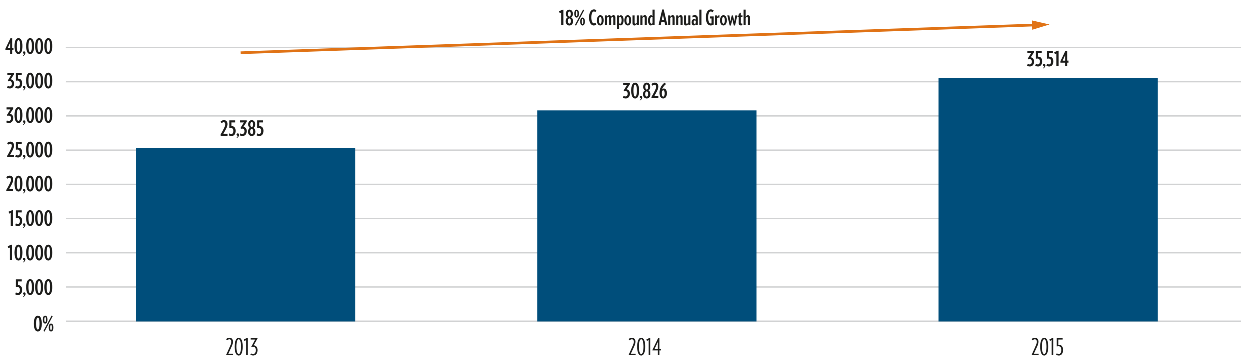
This section reviews impact investing AUM, breaking down respondents' AUM from 2013 to 2015 by sub-group, geographic focus, sector, instrument, and stage of business. More detailed discussion of trends in AUM can be found in the Indicators of Growth section of this report (page 8).

## Assets under management

From 2013 to 2015, impact AUM for 61 respondents grew from USD 25.4 billion to USD 35.5 billion (Figure 9),[14] an 18% CAGR. Overall, 42 out of 61 organizations increased their impact investing AUM over this time period.

**Figure 9: Total AUM by year**

n=61; Figures in USD millions.




Source: GIIN

It is also instructive to look at trends in AUM by various segments of investors (Table 5).

- AUM grew in all respondent sub-groups, both overall and at the median (with the exception of below-market investors, for whom the median AUM remained flat).
- Total AUM grew notably faster for EM-focused investors (24% per annum) than for DM-focused investors (13% per annum).
- AUM of market-rate investors also grew much faster than did AUM for below-market investors (20% vs. 12% per annum).

**Table 5: Median AUM, total AUM, and CAGR of AUM by respondent sub-groups**

Figures in USD millions.

| Sub-group | | Median AUM | | | Total AUM | | | CAGR |
|---|---|---|---|---|---|---|---|---|
| | n | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 | |
| Overall | 61 | 115 | 135 | 143 | 25,385 | 30,826 | 35,514 | 18.3% |
| EM-focused | 30 | 97 | 99 | 108 | 13,769 | 18,699 | 21,101 | 23.8% |
| DM-focused | 21 | 118 | 135 | 144 | 5,042 | 5,555 | 6,474 | 13.3% |
| Market-rate | 26 | 143 | 178 | 230 | 17,523 | 21,773 | 25,094 | 19.7% |
| Below-market | 27 | 100 | 100 | 100 | 5,268 | 6,070 | 6,619 | 12.1% |
| PD-focused | 11 | 118 | 104 | 144 | 5,707 | 6,905 | 8,652 | 23.1% |
| PE-focused | 13 | 100 | 135 | 168 | 1,655 | 1,994 | 2,277 | 17.3% |

Source: GIIN

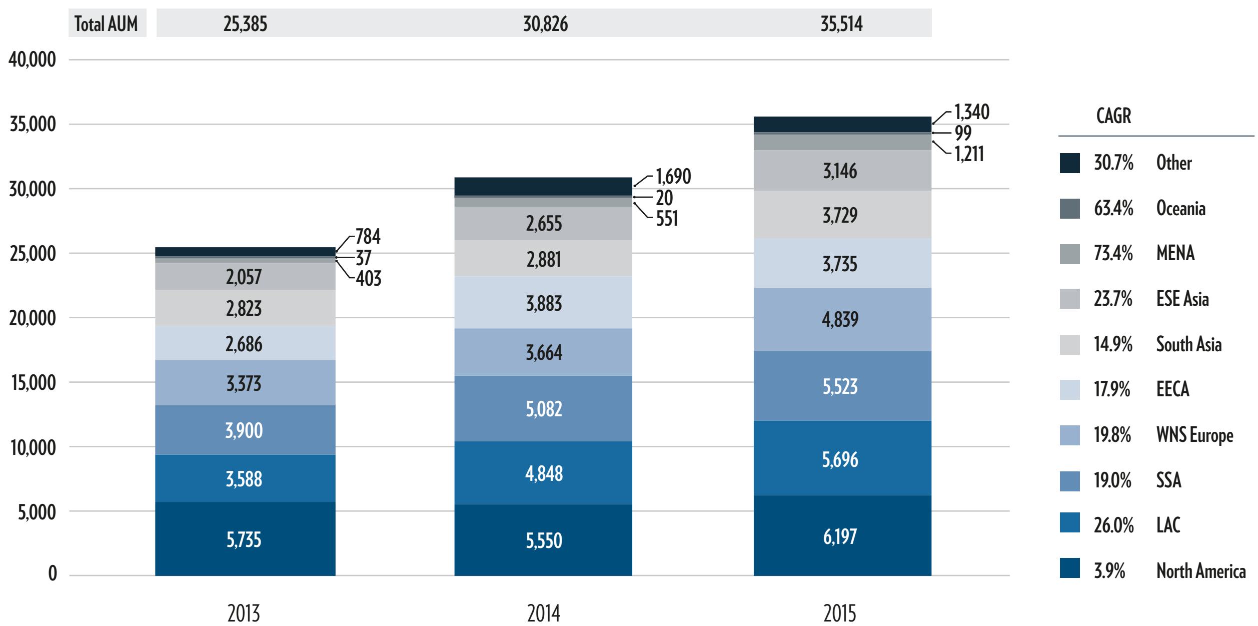
14 One respondent declined to provide AUM information every year.

## AUM allocations by geography

Respondents make impact investments all over the world. With the exception of North America, where allocations remained relatively flat, AUM grew robustly across all geographies. The total AUM allocated to emerging markets increased from USD 15.1 billion in 2013 to USD 23.0 billion in 2015, representing 67% of total AUM in 2015 compared to 63% in 2013 (Figure 10). There was also significant growth, in relative terms, in MENA and Oceania (albeit from low bases). Market-rate investors saw robust growth across geographies, with the exception of North America. Notably, below-market investors saw allocations to WNS Europe grow (38% CAGR), while their allocations to South Asia contracted (-40% CAGR). PD-focused investors' allocations to emerging markets grew, specifically SSA, MENA, LAC, and South Asia (by 25%-50% CAGR). PE-focused investors' allocations grew considerably to ESE Asia (159% CAGR from a base of USD 35 million) and to South Asia (25% CAGR).

**Figure 10: Total AUM by geography**

n=61; Figures in USD millions.

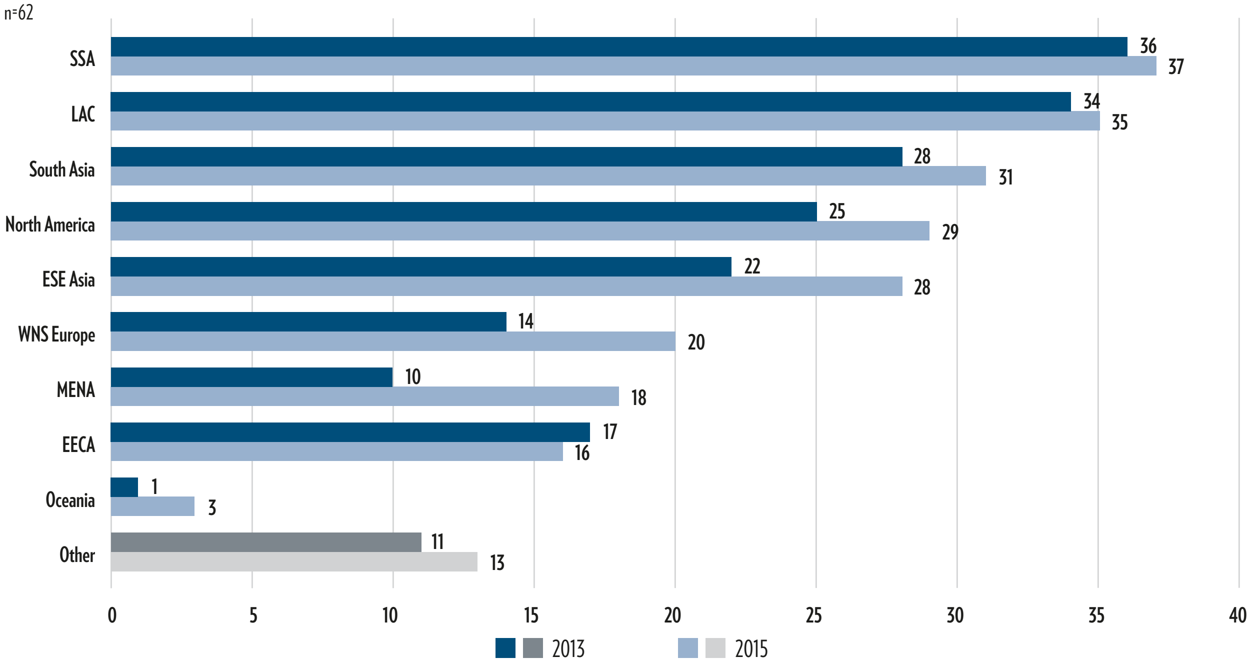



Source: GIIN

For the most part, the number of respondents with any allocation to a particular region remained fairly steady over the three-year period, especially for the more commonly targeted regions such as sub-Saharan Africa, LAC, South Asia, and North America (Figure 11). There were some notable areas of increasing focus, however, with the number of respondents with any allocation to ESE Asia growing from 22 to 28, to WNS Europe growing from 14 to 20, and to MENA growing from 10 to 18 in 2013 and 2015, respectively. These increases may reflect a desire by respondents to diversify across geographies or may be in response to emerging opportunities in previously untargeted regions.

Figure 11: Number of respondents with any allocation to a geography

n=62



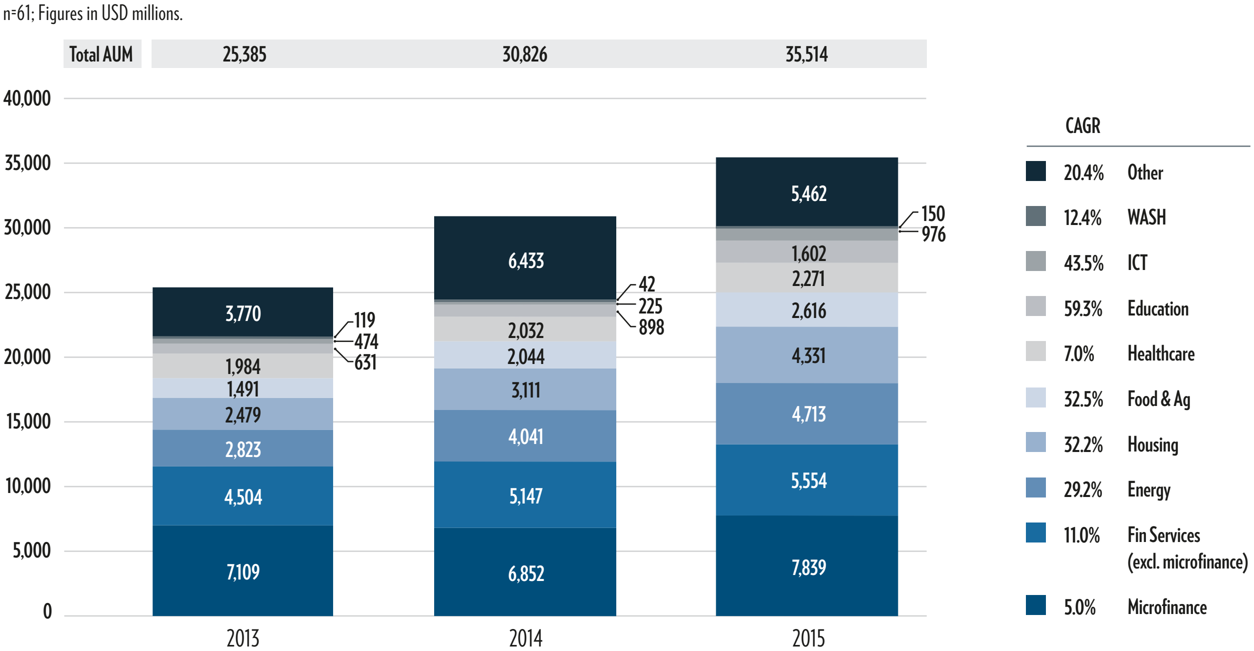

Source: GIIN

## AUM allocations by sector

Impact investors allocate capital to a wide variety of sectors (Figure 12), with the most commonly targeted sectors including microfinance and other financial services. However, while allocations to microfinance and financial services increased in absolute terms from USD 11.6 billion to USD 13.4 billion, their combined share of total AUM fell from 46% in 2013 to 38% in 2015, perhaps reflecting diversification away from these historically very popular sectors. The next three largest sectors were energy, housing, and food & ag, each of which experienced roughly 30% CAGR in AUM. Notably, total allocations to education and to ICT grew by nearly 60% and by just over 40% per year, respectively, although both started from low bases in 2013.

Figure 12: Total AUM by sector

n=61; Figures in USD millions.



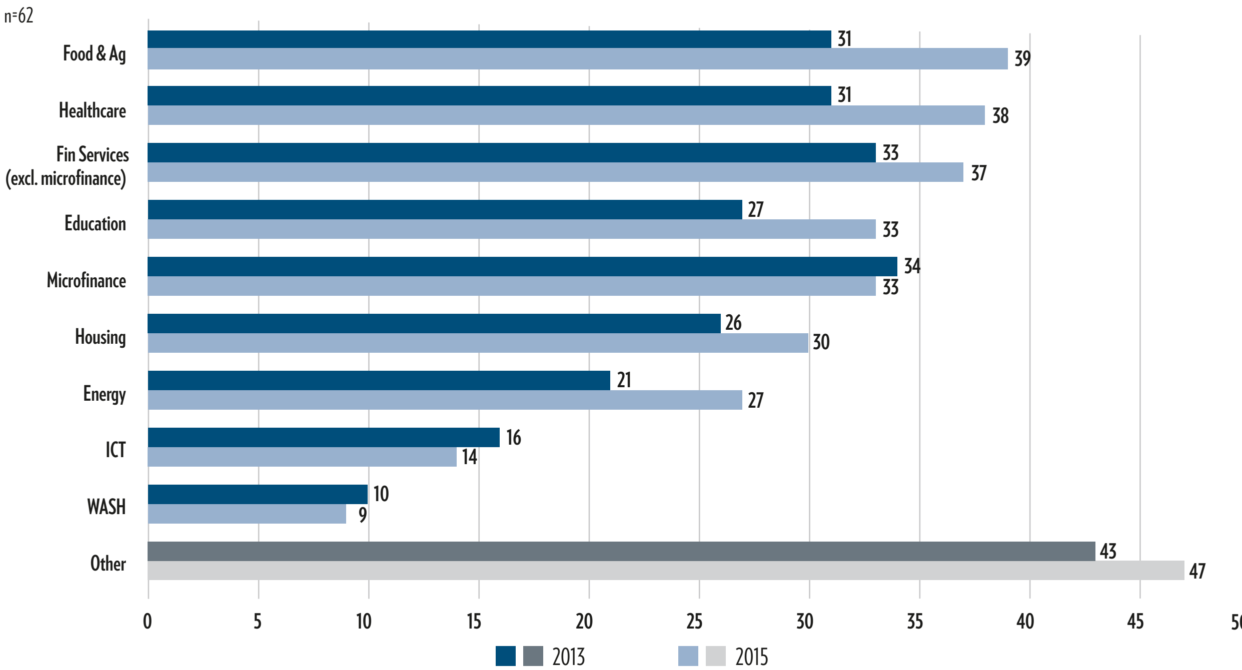

Note: In 2014 and 2015, 'Arts & Culture', 'Habitat Conservation', 'Infrastructure', and 'Manufacturing' were added to the survey as sector options, but these are classified under 'Other' for this analysis to ensure comparability with 2013 data.

Source: GIIN

By sub-group, EM-focused investors saw noteworthy growth in education, energy, and healthcare (all >50% CAGR). DM-focused investors' allocations to housing grew by 33% CAGR, while allocations to financial services fell slightly. Market-rate investors grew their allocations to food & ag, education, and healthcare, while below-market investors grew their allocations to energy and housing.

Consistently across the three-year period, the highest number of respondents had allocations to food & ag, healthcare, and financial services (Figure 13). However, food & ag and healthcare accounted for just 6% to 8% of AUM each (Figure 12), suggesting that investors typically make small allocations to these sectors. These two sectors also showed the greatest increase between 2013 and 2015 in terms of the number of respondents with any allocation, which may indicate a growing number of attractive investment opportunities in these sectors.

**Figure 13: Number of respondents with any allocation to a sector**




Note: In 2014 and 2015, 'Arts & Culture', 'Habitat Conservation', 'Infrastructure', and 'Manufacturing' were added to the survey as sector options, but these are classified under 'Other' for this analysis to ensure comparability with 2013 data.
Source: GIIN

## AUM allocations by instrument

Proportionally, asset allocations by instrument remained quite steady overall from 2013 to 2015. There was, however, a notable increase in allocations via public equities and real assets, while allocations to equity-like debt and public debt remained fairly flat (Table 6). Overall, most impact investment capital was deployed each year through private capital markets, with private debt and private equity combined accounting for roughly 70% of total AUM.

**Table 6: Total AUM by instrument**

n=61; Figures in USD millions.

| | 2013 | 2014 | 2015 | CAGR |
|---|---|---|---|---|
| Private debt | 11,740 | 14,428 | 15,899 | 16.4% |
| Private equity | 5,675 | 7,346 | 8,601 | 23.1% |
| Equity-like debt | 2,450 | 2,915 | 2,595 | 2.9% |
| Public debt | 2,019 | 2,166 | 2,364 | 8.2% |
| Real assets | 899 | 1,274 | 1,979 | 48.3% |
| Public equity | 276 | 204 | 1,418 | 126.7% |
| Deposits & cash equivalents | 893 | 920 | 1,198 | 15.8% |
| Pay-for-performance instruments | 64 | 75 | 126 | 40.0% |
| Other | 1,369 | 1,498 | 1,336 | -1.2% |
| **Total** | **25,385** | **30,826** | **35,514** | **18.3%** |

Source: GIIN

Sub-groups demonstrated some slight variations over the three-year period, with DM-focused investors increasing their allocations to real assets from USD 455 million to USD 1.4 billion (73% per annum) and below-market investors increasing their allocations to private equity from USD 849 million to USD 1.9 billion (50% per annum).

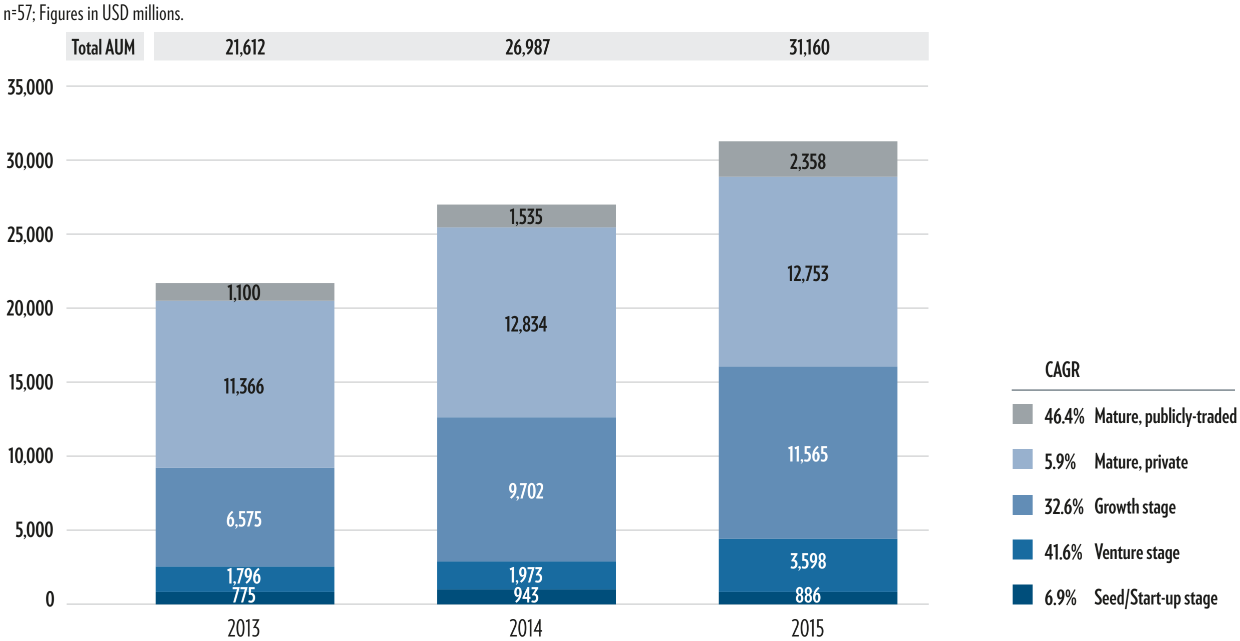
All said, the consistency of allocations from year to year suggest that, in aggregate, respondents have not diversified their activity significantly by instrument, perhaps due to their familiarity with or existing firm infrastructure to handle certain instruments.

## AUM allocations by stage of business

Respondents allocated capital to businesses at various stages, from seed/startup stage to mature companies (Figure 14). The largest share of AUM over the three-year period was allocated to growth-stage and mature, private businesses. Allocations to venture, growth-stage, and mature, publicly traded businesses grew by over 30% per year from 2013 to 2015. By contrast, allocations to seed/startup-stage companies and mature, private businesses grew by less than 10%.

**Figure 14: Total AUM by sector**

n=57; Figures in USD millions.




Note: Four organizations did not respond to this question in all three years of the survey and were therefore removed from this analysis.
Source: GIIN

# INVESTOR INSIGHT

## Elevar Equity

Elevar Equity is an impact fund manager that invests in early and growth-stage businesses focused on low income communities in emerging markets such as India, Latin America, and South East Asia. Elevar manages three funds: a first fund at USD 24 million (vintage 2006), a second fund at USD 70 million (vintage 2008), and a third fund at USD 74 million (vintage 2014).

Elevar identified the following developments over the last three years:

- There was a shift in the types of investors interested in investing via its funds from primarily HNWIs to an increasing number of institutional investors. Elevar credits this change both to a gradual evolution in the market and its own growing financial return and impact track record.
- Elevar's confidence in its 'human-centered' approach to venture capital has increased; this is a method that prioritizes understanding, from a field level view, the experiences of the customers of investee companies, building alignment with entrepreneurs, and delivering returns to its investors.
- As it serves the role of founding investor in many of its portfolio companies, Elevar has observed that the start-up risk of its investments is generally lower than might be expected by other investors. This is especially true when backing seasoned, execution-oriented entrepreneurs who are aligned with the 'human-centered' approach described above.
- Scale is critical for Elevar, in terms of number of people reached and the capital raised by its portfolio companies, in order to address the customer's unmet need for essential services.

Looking to the future, Elevar is focused on growing and scaling as a fund manager, using its commercial approach to impact investing by backing many more entrepreneurs and in multiple sectors. Although a majority of its past investments have been in financial services, it has expanded to healthcare, housing, and education, and will continue to build on this sector diversification strategy.

Reflecting on the progress of the impact investing industry in the last three years, Elevar notes that there are few well-known organizations that have strong commercial and impact results. Elevar believes that strong track records will lead to more co-investment capital, significantly increase investor interest, and grow the industry's investment pipeline.

Going forward, Elevar hopes to see more impact investors refine their investment methods and orientation to 'scale smartly', making the best use of their capital and human resources. Elevar also encourages impact investors to increase the provision of capital to start-up companies. Elevar believes that if the impact investing industry can seize these opportunities and generate real results in terms of both demonstrated impact and financial return, it will continue to prove its value to the world.

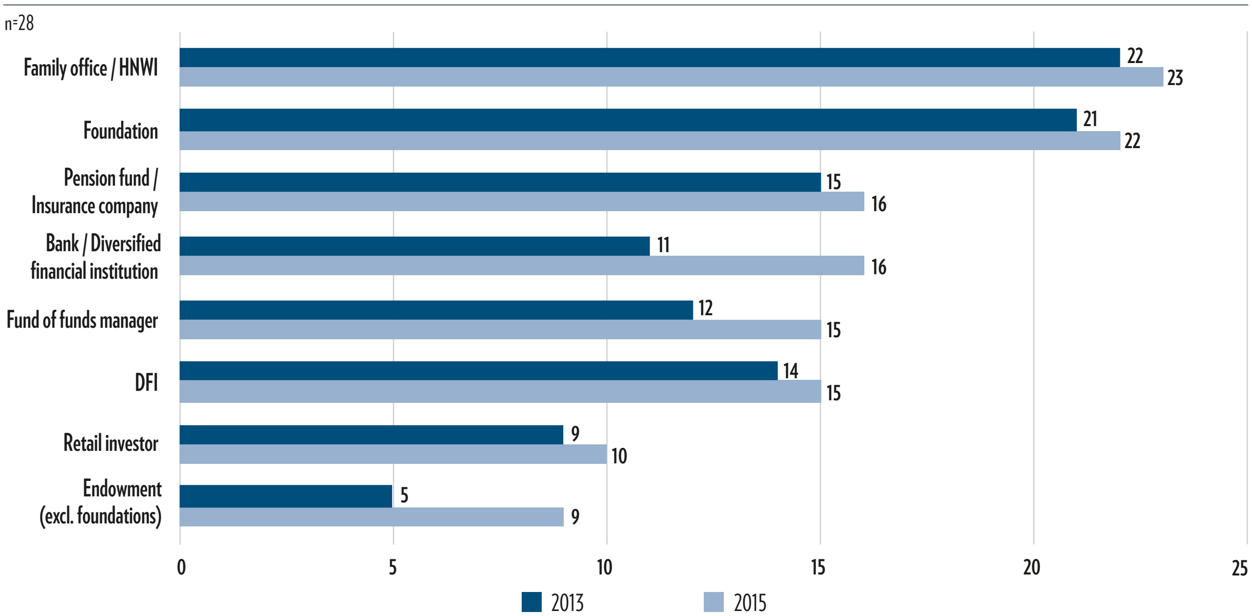
# Fund Managers

The fund managers in the sample of repeat respondents are analyzed in this section.

## Fund manager sources of capital

Fund managers raised capital from a variety of types of investors. Between 2013 and 2015, the highest numbers of fund managers reported having raised at least some capital from family offices or high-net-worth individuals (HNWIs) and foundations (Figure 15).[15] However, as can be seen in Figure 16, family offices/HNWIs accounted for just 10-15% of fund manager AUM and foundations just 4-6%. Indeed, in absolute terms, the amount of capital raised from family offices/HNWIs and foundations decreased during the time period. Banks/diversified financial institutions and pension funds or insurance companies were also common investor types, and these two categories accounted for significant shares of fund manager AUM. Further, the number of fund managers that reported having raised at least some capital from banks/diversified financial institutions and from endowments jumped over the three-year period, possibly indicating an increased interest in impact investing by these types of investors.

**Figure 15: Number of fund managers that have raised capital from various investor types**

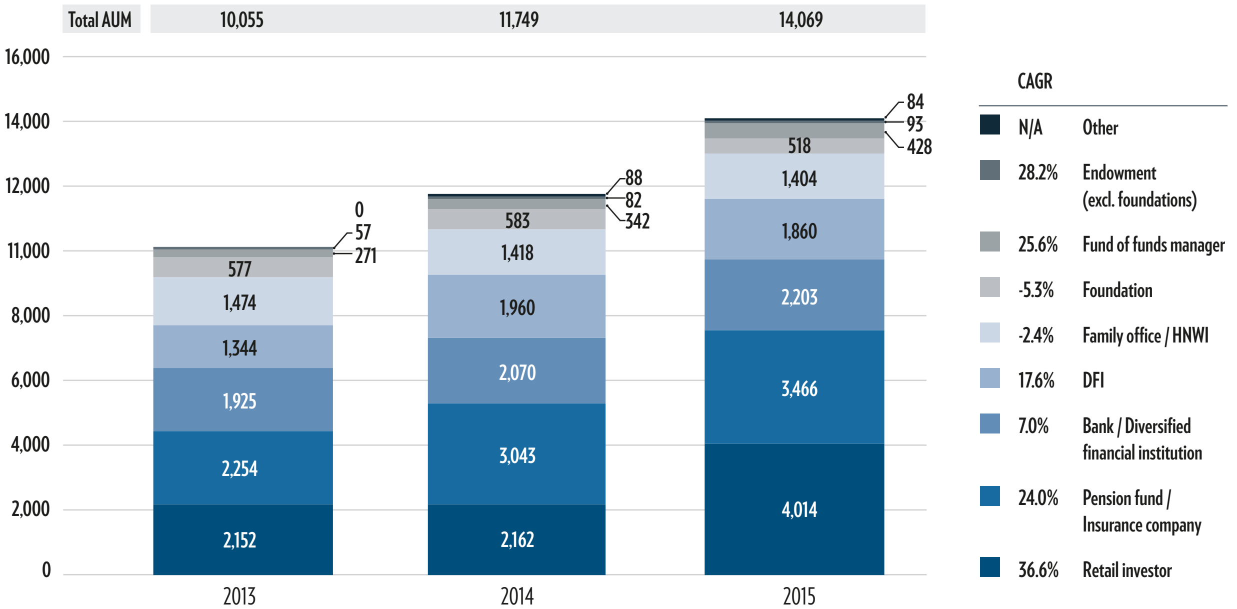



Notes: In 2014 and 2015, 'other' was added as a source of capital category, and was selected by five and nine respondents in each year, respectively. This option was not available in 2013. Those respondents that did not select 'fund manager' as their organization type each year were not included in this analysis, since they did not answer the survey questions that were specific to fund managers.
Source: GIIN

15 In 2014 and 2015, 'other' was added as a source of capital category. This option was not available in 2013.

**Figure 16: Fund manager sources of capital**

n=28; Figures in USD millions.




Note: In 2014 and 2015, 'other' was added as a source of capital category. This option was not available in 2013.
Source: GIIN

While retail investors constitute the largest share of fund manager AUM, it should be noted that the three largest fund managers comprised over 60% of AUM, two of which accounted for over 70% of total capital raised from retail investors. Excluding these two large fund managers from the analysis, the portion of AUM raised from retail investors by the remaining fund managers falls to around 2% of total fund manager AUM over the three-year period.

## Capital raised

The annual volume of capital raised by fund managers increased each year, growing from USD 1.7 billion in 2013 to USD 2.3 billion in 2015. The bulk of this 38% increase occurred between 2013 and 2014 (Table 7). The median volume of capital raised was consistently and notably lower than the annual mean raise, indicating that a handful of fund managers raised large amounts of capital each year.

**Table 7: Capital raised by fund managers**

Figures in USD millions.

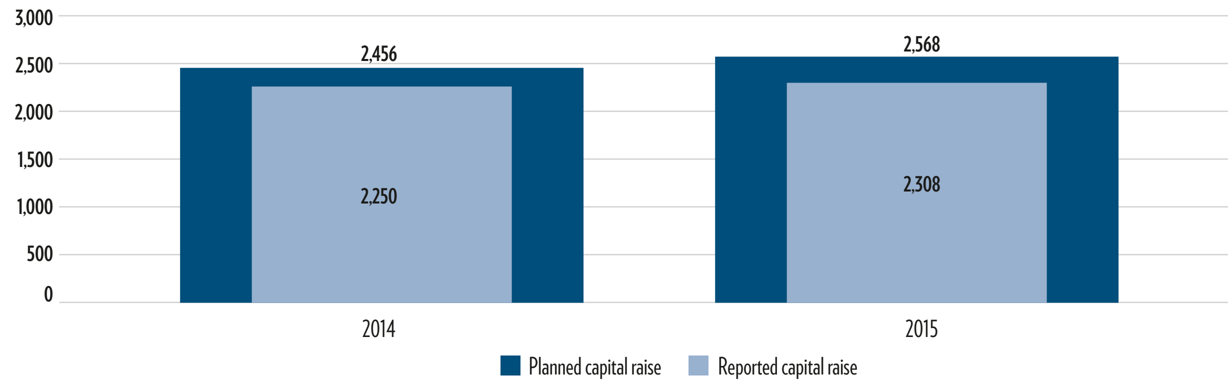
| | 2013 | 2014 | 2015 |
|---|---|---|---|
| **n** | **19** | **17** | **20** |
| Sum | 1,675 | 2,250 | 2,308 |
| Mean | 88 | 132 | 115 |
| Median | 32 | 70 | 68 |

Note: While 26 fund managers responded to this question each year, several reported raising USD 0 of capital. This table reflects activity among respondents that raised at least some capital in the given year.
Source: GIIN

Respondents also provided information about their plans to raise capital in the following year. In aggregate, fund managers fell short of their plans to raise capital by 7% in 2014 and by 9% in 2015 (Figure 17).

**Figure 17: Fund managers' planned vs reported capital raises**

n=26; Figures in USD millions.




Source: GIIN

Eighteen out of 26 fund managers fell short of their target capital raises in 2014 and 17 fell short in 2015, 11 fell short both years (Table 8).

**Table 8: Number of fund managers that exceeded, met, and fell short of capital raise plans each year**

n=26

| | 2014 | 2015 |
|---|---|---|
| Exceeded target capital raise by >5% | 4 | 4 |
| Met within ±5% of target capital raise | 4 | 5 |
| Fell short of target capital raise by >5% | 18 | 17 |

Source: GIIN

# INVESTOR INSIGHT

## Big Society Capital

Big Society Capital (BSC) is a financial institution founded in 2012 to help develop the social impact investment market in the UK, both as an investor and a market-builder. It is funded by a combination of public money through dormant bank accounts and investments from four UK banks. In the last few years, the organization has become more proactive in its approach to making investments. It shifted from selecting proposals through an open application process to collaborating with partners to co-develop ideas which aim to address a specific social need.

Since its inception, BSC has observed the following major developments in the UK social impact investing industry:

- Increased deal flow especially in housing, employment, training and education, communities, sports, arts, and heritage.
- Increased variety of social impact investing products that address social challenges, including secured debt, unsecured debt, charity bonds, equity, community shares, and real estate.
- Growing use of social impact bonds to fund innovations and scale evidence-based approaches to issues such as homelessness, youth unemployment, children's welfare, and long-term health conditions.

A key focus area for BSC has been impact measurement. BSC partnered with social investment financial intermediaries and impact experts, including Investing for Good, New Philanthropy Capital, Social Value International, and Triangle Consulting, to develop the Outcomes Matrix, a tool used by charities and social enterprises to define and measure their impact. Together with the Access Foundation and Power to Change, BSC is delivering the Impact Management Programme which will provide support including online resources and grants.

In 2016, BSC is conducting a major survey of its stakeholders to evaluate its current strategy and inform its future programming. One new initiative seeks to address the 'poverty premium', or the concept that people living in poverty pay more for basic goods and services than do those with higher incomes. With a combination of grant funding and investment capital, the program will incubate and scale social enterprises that address this problem.

Looking ahead, BSC perceives opportunities to scale housing-related social impact investments and pay-for-success models and to attract new impact investors, including institutional investors, to the market. BSC notes two major challenges facing the UK and European impact investing market: 1) uncertainty among investors and social enterprises following the UK referendum result in June 2016 to leave the European Union ("Brexit"); and 2) a lack of investors willing to take risk and prioritize social impact, rather than expecting commercial returns on all social impact investments.

# Investment Performance

During each of the three years, respondents were asked to report on their financial and impact performance relative to their expectations, as well as on their perceptions of risks to their portfolios.

## Gross returns expectations

Respondents reported relatively steady expectations for their gross returns by geography and asset class of investment (Table 9).[16] Since 2013, expectations of gross returns for debt—including both DM and EM debt—have fallen slightly, from 6.5% to 5.2%. Expectations of gross returns for equity investments ranged from 17.6% to 19.1%.

**Table 9: Gross returns expectations for each vintage year**

Table shows weighted gross returns expectations for debt and equity investments in combined DM and EM, weighted by number of DM and EM responses.

| | Debt | Equity |
|---|---|---|
| **n** | **15** | **16** |
| 2013 | 6.5% | 19.1% |
| 2014 | 5.5% | 18.3% |
| 2015 | 5.2% | 17.6% |

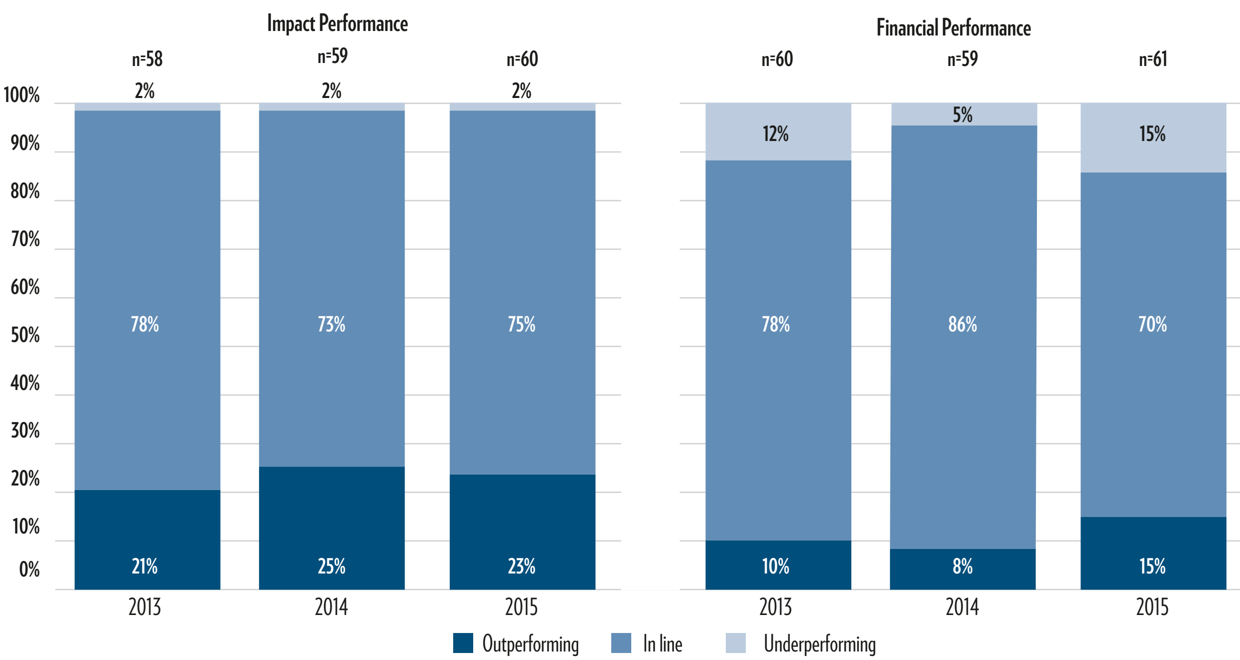
Source: GIIN

## Performance relative to expectations

The majority of respondents reported high levels of satisfaction with their impact and financial performance relative to expectations across the three-year time period (Figure 18). These results were consistent across various segments, including by asset class and geographic focus.

**Figure 18: Impact and financial performance relative to expectations**

Numbers of respondents are shown above each bar; some respondents chose 'not sure', and their responses are not included here.




Source: GIIN

16 Excludes one respondent for which data could not be verified in time to draft this report.

Each year, 21-25% of respondents reported that their impact performance exceeded expectations, with the vast majority of the rest reporting impact performance in line with expectations. There was slightly greater fluctuation in terms of reported satisfaction with financial performance against expectations, though each year at least 85% of respondents reported either performance in-line with or exceeding expectations. However, these reported levels of performance relative to expectations do not necessarily reflect respondents' performance against the gross returns expectations presented above, since expectations of gross returns are specific to vintage years 2013 to 2015 rather than the portfolio as a whole.

While some respondents reported varying levels of satisfaction with their performance from year to year, over half of respondents reported performance in line with their impact and financial expectations in all three years (34 and 31 respondents, respectively). Eight respondents noted outperformance against their impact expectations every year, and two respondents noted outperformance against their financial expectations every year. One respondent fell short of their financial expectations every year, and no respondent consistently reported underperformance relative to their impact expectations.

## Risk

Each year, respondents answered two questions regarding risk. First, they shared whether they had experienced any significant risk events in the year prior. Second, they ranked various possible contributors of risk to their portfolios.

Across all three years, most respondents reported experiencing no covenant breaches or material adverse changes (Table 10). Fourteen respondents experienced a significant risk event once during the three-year period, four experienced such events twice, and one experienced a risk event in all three years.

**Table 10: Covenant breaches or material adverse changes experienced by year**

n=62

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Yes | 4 | 8 | 8 |
| No | 58 | 54 | 54 |

Source: GIIN

Overall, the top perceived risks have been fairly steady year-on-year. Among the various types of risks considered, 'business model execution and management risk' has consistently ranked first (Table 11). While the score for this risk far exceeds the score of each year's second-ranked risk, it fell by over 20 points between 2014 and 2015.[17]

**Table 11: Contributors of risk to impact investment portfolios**

n=62; Figures represent a weighted score for each option.

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Business model execution & management risk | 130 | 132 | 111 |
| Country & currency risks | 48 | 46 | 61 |
| Liquidity & exit risk | 53 | 48 | 48 |
| Financing risk | 39 | 48 | 43 |
| Market demand & competition risk | 51 | 52 | 42 |
| Macroeconomic risk | 38 | 31 | 39 |
| Perception & reputational risk | 13 | 14 | 10 |

Rank 1–2 Rank 3–5

Notes: Respondents ranked their top risks from a choice of options. Scores are calculated by weighting each rank with the number of respondents selecting it and summing those weighted totals. Scores are weighted based on the top three ranked contributors to risk as reported by respondents each year. Respondents in 2015 cited the top five contributors of risk; for this report, only the top three were included in order to maintain comparability. For the 2015 survey only, additional options included 'impact risk' and 'ESG risk', which received scores of 14 and 4, respectively.

Source: GIIN

17 For more details on the scoring methodology, see the box on page 14.

At the same time, perceived 'country and currency risk' grew relative to other risks, rising from the fifth-ranked risk in 2014 to the second-ranked in 2015, with its score increasing from 48 to 61. This increasing concern relative to other risks may reflect the depreciation of various global currencies against the US Dollar in 2015; indeed, several respondents to that year's survey expressly pointed to this factor. Consistent with this, EM-focused respondents accounted for most of the 'country and currency risk' score (Table 12). Conversely, the score for 'market demand and competition risk' decreased from 52 to 42 overall, dropping from the second-ranked risk in 2014 to the fifth-ranked in 2015. This shift was largely driven by EM-focused respondents, whereas DM-focused respondents actually rated this risk more highly in 2015 than in 2013. Respondents similarly diverged in their perceptions of 'liquidity and exit risk' and 'macroeconomic risk', with EM-focused respondents noting increased relative concern and DM-focused respondents noting decreased relative concern with both of these types of risks over the three-year period.

**Table 12: Perceptions of risk among EM-focused and DM-focused respondents**

| | | Business model execution & management risk | Country & currency risks | Liquidity & exit risk | Financing risk | Market demand & competition risk | Macroeconomic risk | Perception & reputational risk |
|---|---|---|---|---|---|---|---|---|
| EM (n=30) | 2013 | 62 | 39 | 23 | 18 | 21 | 11 | 6 |
| | 2014 | 62 | 36 | 24 | 27 | 15 | 11 | 5 |
| | 2015 | 48 | 40 | 27 | 26 | 10 | 22 | 1 |
| DM (n=21) | 2013 | 50 | 1 | 20 | 11 | 23 | 16 | 5 |
| | 2014 | 48 | 2 | 17 | 12 | 31 | 10 | 6 |
| | 2015 | 45 | 4 | 13 | 13 | 28 | 7 | 9 |

Note: Respondents ranked the top risks from a choice of options. Scores are calculated by weighting each rank with the number of respondents selecting it and summing those weighted totals.
Source: GIIN

# Appendix 1

## List of Repeat Survey Respondents

Aavishkaar Venture Management Services

Adobe Capital*

Alterfin

Annie E. Casey Foundation

Anonymous 1

Anonymous 2

Anonymous 3

Anonymous 4

AXA IM

Big Society Capital*

BlueOrchard Finance Ltd.

Bridges Ventures LLP

Business Partners International

Calvert Social Investment Foundation

CDC Group

Christian Super

Community Capital Management, Inc.

Cordaid Investment Management

Core Innovation Capital

CoreCo Private Equity

Creation Investments Capital Management, LLC

Credit Suisse

Deutsche Bank

Elevar Equity*

FMO*

Ford Foundation

GAWA Capital

Global Partnerships

Grassroots Capital Management PBC/Caspian Impact Investment Advisers

GroFin

Habitat for Humanity International

Heron Foundation

Hooge Raedt Social Venture (HRSV)

IGNIA

JPMorgan Chase & Co.

LeapFrog Investments

Lundin Foundation

Lyme Timber

Media Development Investment Fund

National Community Investment Fund

Nesta Impact Investments

NewWorld Capital Group

Nonprofit Finance Fund

Oikocredit Private Equity

Omidyar Network

Pacific Community Ventures

PhiTrust

Prudential Financial, Inc.*

responsAbility Investments AG

Root Capital

Robert Wood Johnson Foundation (RWJF)

Sarona Asset Management

SJF Ventures

Social Investment Business

Stichting DOEN

The California Endowment

The David and Lucile Packard Foundation

The Rockefeller Foundation

TIAA Global Asset Management[18]

Triodos Investment Management

Vox Capital

Voxtra

* Five respondents were selected to provide qualitative information through brief interviews about recent changes and future developments in the impact investing market.

18 Formerly known as TIAA-CREF.

# Appendix 2

## List of Definitions

### General

- **Impact investments:** Investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.
- **Capital committed:** Capital an organization has agreed to contribute to a fund or other investment, rather than capital committed to that organization or fund by another investor.

### Instruments

- **Deposits & cash equivalents:** Cash-management strategies that incorporate intent toward positive impact.
- **Private debt:** Bonds or loans placed with a select group of investors rather than being syndicated broadly.
- **Public debt:** Publicly traded bonds or loans.
- **Equity-like debt:** An instrument between debt and equity, such as mezzanine capital or deeply subordinated debt, often a debt instrument with potential profit participation (e.g., convertible debt, warrant, royalty, debt with equity kicker).
- **Private equity:** A private investment into a company or fund in the form of an equity stake (not publicly traded stock).
- **Public equity:** Publicly traded stocks or shares.
- **Real assets:** An investment of physical or tangible assets as opposed to financial capital (e.g., real estate, commodities).
- **Pay-for-performance instruments (e.g., social-impact bonds):** A form of outcomes-based contract in which public-sector commissioners commit to pay for significant improvement in social outcomes for a defined population. Private investment is used to pay for interventions, which are delivered by service providers. Financial returns to investors are made by the public sector on the basis of improved social outcomes.

### Stages of growth

- **Seed/Start-up:** Business idea exists, but little has been established operationally; pre-revenues.
- **Venture:** Operations are established, and company may or may not be generating revenues, but it does not yet have positive EBITDA.
- **Growth:** Company has positive EBITDA and is growing.
- **Mature:** Company has stabilized at scale and is operating profitably.

### Contributors of risk

- **Country and currency risk:** Risks which include political, regulatory, local economic, or currency-linked risks.
- **Financing risk:** Risk that the investee will not be able to raise subsequent capital necessary for growth.
- **Liquidity and exit risk:** The risk that the investor will be unable to exit an investment at the desired time.
- **Macroeconomic risk:** Risk that includes regional or global economic trends.

# Appendix 3

## Survey Changes

### Indicators of progress

#### 2013 & 2014 Answer Choices

- Collaboration among investors
- Number of intermediaries, including fund managers, with growing, successful track records (A1)
- Availability of research and data on products and performance (B)
- Availability of investment opportunities at the company level (A2)
- Availability of impact investment capital across the risk/return spectrum (C)
- Usage of impact measurement standards, metrics, and methodologies
- Level of government support for the market (D)
- Availability of suitable exit options (E)

#### 2015 Answer Choices

- Sophistication of impact measurement practice
- Common understanding of definition and segmentation of impact investing market
- Research and data on products and performance (B)
- Professionals with relevant skill sets
- Appropriate capital across the risk/return spectrum (C)
- Innovative deal/fund structures to accommodate investors' or investees' needs
- Suitable exit options (E)
- High-quality investment opportunities (fund or direct) with track records (A1 & A2)
- Government support for the market (D)

The phrasing of indicators of progress was the same for 2013 and 2014 but changed in 2015. The parenthetical letters indicate which answer choices were compared in this report. Some answer choices differed significantly from year to year and are not included in analysis.

## Challenges

### 2013 & 2014 Answer Choices

- Inadequate impact measurement practice
- Lack of common way to talk about impact investing
- Lack of research and data on products and performance
- Lack of investment professionals with relevant skill sets
- Lack of appropriate capital across the risk/return spectrum
- Lack of innovative deal/fund structures to accommodate investors' or portfolio companies' needs
- Difficulty exiting investments
- Shortage of high-quality investment opportunities with track records

### 2015 Answer Choices

**Lack of:**

- Sophistication of impact measurement practice
- Common understanding of definition and segmentation of impact investing market
- Research and data on products and performance
- Professionals with relevant skill sets
- Appropriate capital across the risk/return spectrum
- Innovative deal/fund structures to accommodate investors' or investees' needs
- Suitable exit options
- High-quality investment opportunities (fund or direct) with track records
- Government support for the market

The wording of challenges was the same in 2013 and 2014. The challenges in 2015 were reframed slightly and are in the same order in the list above as those in 2013 and 2014. One additional challenge, 'government support for the market', was added in 2015.

## More information about the Global Impact Investing Network

This brief is a publication of the Global Impact Investing Network (GIIN), the leading nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical market infrastructure and supports activities, education, and research that help accelerate the development of the impact investing field.

### IRIS

IRIS is the catalog of generally-accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry.

**iris.thegiin.org**

### ImpactBase

ImpactBase is the searchable, online database of impact investment funds and products designed for investors. Fund or product profiles on ImpactBase gain exposure to the global impact investing community.

**impactbase.org**

### Fund Manager Training Program

The GIIN training program offers practical coursework to help fund managers build applied skills to successfully attract, deploy, and manage capital.

**thegiin.org/fund-manager-training**

### Career Center

The GIIN Career Center is a source for job openings from members of the GIIN Investors' Council and other impact investing leaders.

**jobs.thegiin.org**

If your organization is interested in deepening its engagement with the impact investing market by joining a global community of like-minded peers, consider GIIN membership. To learn more about membership and to access interviews with leading impact investors, research from the field, and more examples of impact investments, visit **www.thegiin.org.**

## For more information

Please contact Rachel Bass at rbass@thegiin.org with any comments or questions about this report.

To download industry research by the GIIN and others, please visit www.thegiin.org/knowledge-center.

## Disclosures

The Global Impact Investing Network ("GIIN") is a nonprofit 501c(3) organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

Readers should be aware that the GIIN has had and will continue to have relationships with many of the organizations identified in this report, through some of which the GIIN has received and will continue to receive financial and other support.

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