GLOBAL IMPACT INVESTING NETWORK

GIIN PERSPECTIVES

Evidence on the Financial Performance of Impact Investments

Acknowledgments

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About the Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. 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.

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Dear Reader

Impact investing is a growing movement capturing the attention of investors across the world. But too much capital is still sitting on the sidelines, which results in part from suspicions around financial performance. Throughout the industry's development, investors have questioned the ability of impact investments to generate financial returns similar to traditional investments. While a lack of data previously left this question unanswerable, recent research has shed valuable light on this topic.

Part of the role that the Global Impact Investing Network (GIIN) plays in building the impact investing market is providing resources that fill knowledge gaps for impact investors. To better understand recent research and increase transparency around the topic of financial performance, we have produced GIIN Perspectives on Research about the Financial Performance of Impact Investments. This report synthesizes findings across over a dozen studies on the financial performance of investments in the three largest asset classes in impact investing: private equity, private debt, and real assets, as well as individual investor portfolios allocated across asset classes.

From these data, we have gleaned key insights that reinforce the broader credibility of the impact investing market. First, market-rate returns are achievable in impact investing, with returns distributions among market-rate-seeking impact investments comparable to those of analogous conventional investments. Second, small funds do not necessarily underperform relative to their larger peers. And third, the impact investment market includes opportunities for investors with varied risk appetites, investment strategies, and target returns.

Of course, financial performance is just one side of the equation. Impact investors are defined by their intent to generate a positive social and/or environmental impact alongside a financial return, and as such there remains a critical need for aggregate research on the impact of impact investments. This is challenging, not least because investors measure and report their impact using very diverse methods. However, the GIIN is committed to helping advance standardized frameworks for measuring and managing impact and to contributing to the body of research on this front.

The insights from this report indicate a robust and multifaceted impact investing industry. However, we believe active impact investors, as well as researchers and other entities, can do more to embrace their field-building responsibilities by openly sharing data on the financial and impact performance of their investments, either directly to the public or by contributing to aggregated, third-party research.

Transparency around performance allows new players to enter the market confidently, and enables current players to make more informed portfolio allocation decisions, set well-informed performance expectations, and better achieve their investment strategies. By confirming the industry's potential, we hope to see greater flows of capital funding sustainable solutions to our most critical social and environmental challenges.

Abhilash Mudaliar
Research Director, Global Impact Investing Network (GIIN)

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INTRODUCTION

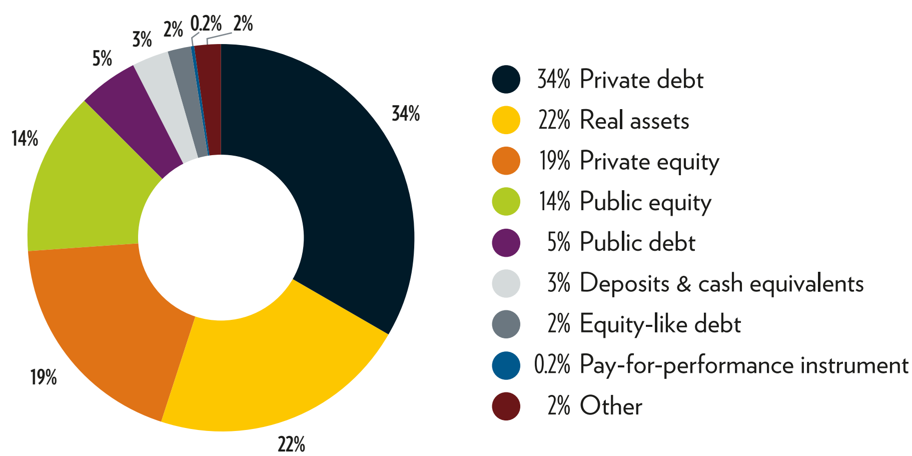
As the impact investing industry scales and matures, one critical driver of growth is available data and research on financial performance. Recent years have seen the release of a number of studies by a range of organizations – including Cambridge Associates, the GIIN, Wharton, McKinsey, and BCG – on the financial performance of impact investments. Through such research, investors can gain deeper insights into the range of impact investment opportunities available, make more informed asset allocations decisions, set appropriate return targets, and benchmark their performance to peers.

In this report, the Global Impact Investing Network (GIIN) brings together these various studies to provide investors with a comprehensive view of the growing body of research on the financial performance of impact investments. In addition to describing the scope and key findings from each study, this report synthesizes findings and implications across available research by asset class. By compiling available data, this report also identifies areas where further research could enhance the market.

The report covers aggregate research on the performance of funds in the three most-used asset classes in impact investing: private equity, private debt, and real assets (Figures 1 and 2). In addition, this report summarizes portfolio-level performance from five impact investing organizations that have publicly released their own financial performance data.

FIGURE 1: ASSET ALLOCATIONS BY INSTRUMENT

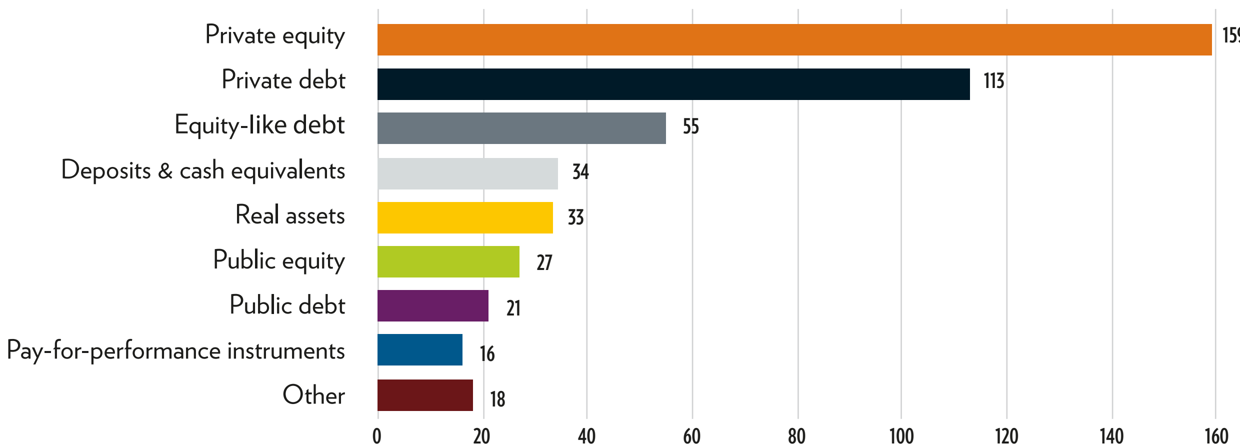
n = 208; AUM = USD 113.7 billion



Source: GIIN 2017 Annual Impact Investor Survey

FIGURE 2: NUMBER OF RESPONDENTS WITH ALLOCATIONS USING AN INSTRUMENT

n = 209; respondents may allocate using multiple instruments.



Source: GIIN 2017 Annual Impact Investor Survey

This report focuses only on financial performance—which is, of course, just one side of the performance equation for impact investments. For the industry to continue to grow and achieve its full potential, it is equally important to understand the impact performance of impact investments. While aggregate analysis of impact performance is methodologically challenging for various reasons, including the lack of robust and comparable data, it remains a primary focus of the GIIN and other industry bodies.

Insights for this report were derived from existing, published research on the financial performance of impact investments produced by a wide range of organizations. In some cases, the Research Team followed up with authors of a particular study to gather additional information not available in public reports.

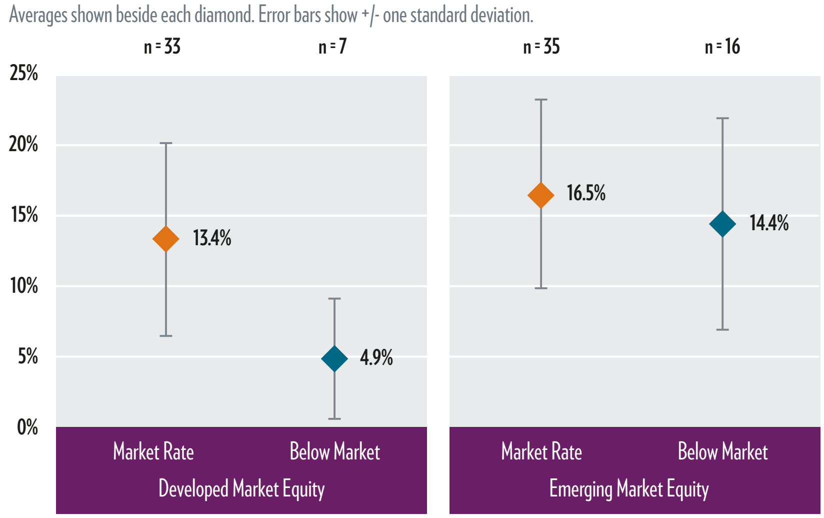
PRIVATE EQUITY

Private equity is the most commonly used instrument in impact investing, deployed by over 75% of impact investors that responded to the GIIN's most recent Annual Impact Investor Survey. The third largest asset class in impact investing in terms of asset allocations, it accounted for about 19% of global impact investing assets under management (AUM) as of the end of 2016. Data from the survey indicate that 82% of impact investors with substantial allocations to private equity principally target market-rate returns. The remaining 18% principally target below-market-rate returns.

Additionally, the survey captured data on gross returns expectations for investments made in 2016 (Figure 3). Depending on market type and target returns, investors reported average gross returns expectations ranging from 4.9% to 16.5% for 2016 vintage equity investments.

FIGURE 3: AVERAGE GROSS RETURNS EXPECTATIONS FOR 2016 VINTAGE EQUITY INVESTMENTS

Averages shown beside each diamond. Error bars show +/- one standard deviation.



Source: GIIN 2017 Annual Impact Investor Survey

The past few years have seen significant growth in the availability of performance data in the private equity asset class. In 2015, the GIIN partnered with Cambridge Associates, one of the world's leading investment consultancies, to develop the Private Equity Impact Investing Benchmark. The initial release included 51 funds; the dataset has been updated quarterly since and now includes 71 funds. Also in 2015, the Wharton Social Impact Initiative released a study analyzing the financial performance of 32 private equity impact investment funds. The financial performance analyses in both of these studies focused only on funds targeting market-rate returns. More recently, the global management consultancy McKinsey & Company released a study analyzing the financial performance of private equity and venture capital investments into social enterprises in India.

These studies represent a new arena of research on impact investing and offer greater clarity and insight into performance across the private equity asset class in aggregate, within particular segments, as well as at a fund level.

Introducing the Impact Investing Benchmark

Authors: Cambridge Associates (CA) and the Global Impact Investing Network (GIIN)

Publication date: June 2015 with ongoing quarterly updates.
Last updated: March 2017

Methodology

- CA and the GIIN identified impact investing funds intending to create positive social impact for participation in the benchmark through their respective databases and various industry network bodies.
- Notably, only impact investing funds explicitly targeting risk-adjusted market rates of return were included in this study. Impact investors targeting concessionary returns were excluded from this study.
- Returns were calculated by the research team (rather than being self-reported). Funds submitted both annual audited financial statements and unaudited quarterly or semiannual cash flow statements since inception.
- The benchmark analyzes pooled internal rate of return (IRR) net of fees, total value to paid-in (TVPI) multiples, and distribution to paid-in (DPI) multiples among the full sample and disaggregated by vintage year, fund size, and geographic focus.

Sample overview

- The sample included 71 market-rate-seeking private equity impact funds targeting social impact objectives.
- Within the sample, 37% of funds manage over USD 100 million, 56% of funds manage between USD 10 million and USD 100 million, and 7% of funds manage USD 10 million of assets or less.
- By vintage year, 8% of funds began investing between 1998 and 2001, 32% of funds between 2002 and 2007, 27% funds between 2008 and 2010, and 32% between 2011 and 2014.
- By sector, 71% of aggregate fund capitalization is with multi-industry funds and 20% with funds focused on financial services. The remainder is in funds focused on business services, information technology, and consumer/retail.
- Geographically, 39% of aggregate fund capitalization focuses on Africa, 37% on the United States, 17% on a mix of emerging markets, and the remainder in a mix of developed markets.

5.8%

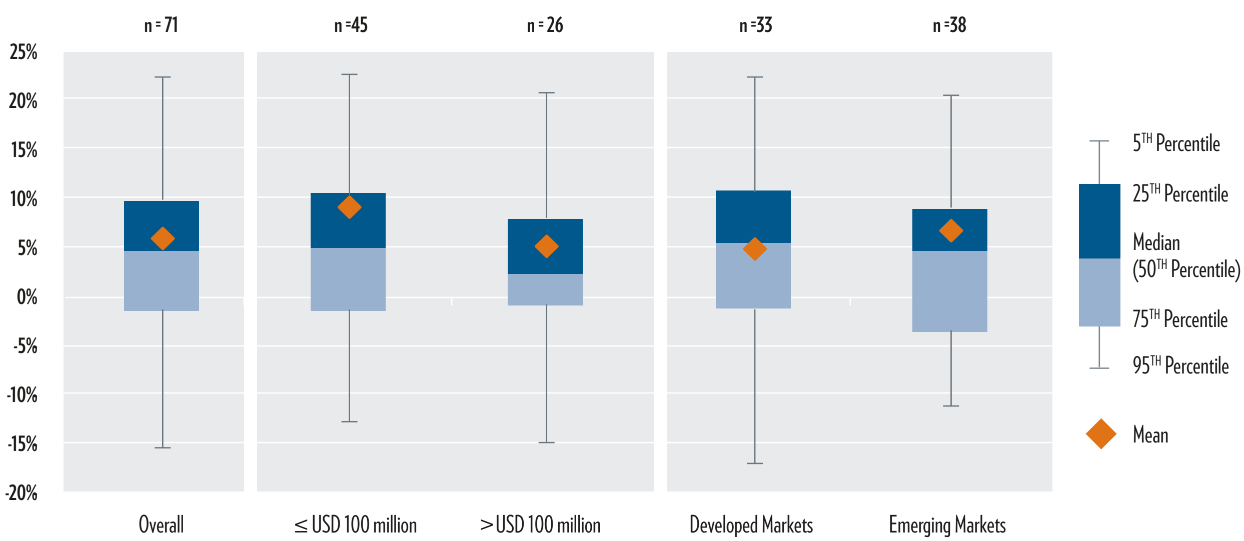
AGGREGATE NET IRR

Study findings

- Since inception, the 71 funds have generated aggregate net returns of 5.8% on average and 4.6% at the median (Figure 4).
- Fund-level IRR can vary substantially, with the top 5% of funds achieving annual rates of return of 22.1% or higher and the bottom 5% achieving -15.4% or lower. This range is similar to what is seen in conventional investing and illustrates that fund manager selection is key to strong performance.
- Funds with total AUM of USD 100 million or less generated a pooled annual return of 8.9%, whereas funds with total AUM exceeding USD 100 million achieved a pooled annual return of 5.0%.
- Funds allocating primarily to emerging markets generated a pooled return of 6.7%, whereas funds with a developed market focus achieved a pooled return of 4.8%.

FIGURE 4: DISTRIBUTION OF FUND IRRs NET TO LPs IN PE/VC IMPACT INVESTING

n shown above each bar.



Source: CA-GIIN PE/VC Impact Investing Index & Benchmark Statistics (2017 Update)

Study caveats and limitations

- Calculated returns include both realized and unrealized valuations. The performance of funds of more recent vintage years is largely unrealized; for these funds a clearer indication of actual performance will emerge as funds mature. For example, funds of vintage years between 1998 and 2001 had a DPI multiple of 1.62 compared to funds of vintage years 2011 to 2014 with a DPI multiple of 0.06. Such variance also exists in the TVPI multiple of these same funds (1.72 and 1.09 respectively).

- Given the relative youth of the impact investing industry, the universe of relevant funds—and hence the study sample—is small. As such, large funds disproportionately influence pooled IRR figures. Further, the ability to conduct sub-group analysis (such as by sector focus) is limited as sample sizes become too small to yield meaningful findings.
- While the benchmark assesses the incorporation of impact intentionality to determine fund manager eligibility for the study, it does not analyze impact performance.

Great Expectations

Author: Wharton Social Impact Initiative (WSII)

Publication date: October 2015

Methodology

- WSII evaluated the financial performance of 32 private equity impact investing funds targeting market rates of return and investing in a total of 170 portfolio companies.
- WSII gathered fund- and transaction-level data via a survey. WSII also requested source documents, such as audited financial statements. Financial performance was calculated using both financial statements and survey responses.
- The report analyzed performance relative to public market equivalents (PMEs). Specifically, the report evaluated pooled quarterly returns (gross of fees, expenses, and carried interest) as a ratio to a spliced Russell Microcap/Russell 2000 index and the S&P 500 index.
- Authors measured unrealized returns using three different methodologies: held at fair market value (FMV) or cost as reported by the general partners (GPs) on financial documents, held at FMV using a ratio of all of a GP's open investments to reported holding value, and excluding those held at cost.
- WSII also calculated individual fund performance to generate a 95% confidence interval of the expected PME ratio.

Sample overview

- The sample included 32 market-rate-seeking private equity impact funds invested into 170 companies.
- A total of USD 1.7 billion has been committed to these 32 funds.
- Participating funds invest globally, with the most common focus areas including Latin America (32%), North America (28%), and Asia (25%).
- By strategy, 37% of funds target private equity, 34% venture capital, 19% mezzanine and buyout finance, and 9% hybrid strategies.

9.2%

AGGREGATE GROSS IRR

Study findings

- In aggregate, impact investments held at FMV or cost had a Microcap PME ratio of 0.89, S&P PME ratio of 0.91, gross IRR of 9.2%, and cash multiple of 1.39x.[1]
- In analyzing each individual fund, the study found a 95% confidence interval of the Microcap PME ratio of 0.74 to 1.15 with a median of 0.95 and a confidence interval of the S&P 500 PME of 0.77 to 1.18 with a median of 0.93.
- Within the sample, 75% of funds expect or require social and/or environmental impact to continue post-exit. Among 16 funds, these aligned exits (excluding write-offs) generated gross IRR of 33.5% and a cash multiple of 4.9x compared to a similar gross IRR of 35.0% and cash multiple of 4.1x among all market-rate-seeking exits (excluding write-offs). Among all these exits, including write-offs, gross IRR reached 18.6% with a cash multiple of 2.3x.

Study caveats and limitations

- Returns in more recent years remain largely unrealized and have been estimated using a range of valuation standards.
- In calculating a ratio of participating funds' performance to the Russel Microcap/Russell 2000 index and S&P 500 index, authors compare performance of a set of private equity funds to that of public equities which may not necessarily share risk/return profiles.
- In each instance, the confidence interval of the PME ratios straddles 1.00, suggesting that impact funds perform in line with their public market equivalent on a gross basis. However, it is not clear how they perform net of fees and expenses.

Impact Investing Finds Its Place in India

Author: McKinsey & Company

Publication date: September 2017

Methodology

- Analysis focused on exits data from equity investments provided by fund manager members of the Indian Impact Investors Council (IIC), the VCCEdge deal database, and investee companies.
- The sample was selected by first identifying social enterprises,[2] and then analyzing exits made by investors from these social enterprises.

1 A ratio of 1.00 indicates perfectly equal performance between impact investments and the PME. Ratios lower than 1.00 indicate underperformance by impact investments, and ratios greater than 1.00 indicate outperformance by impact investments.

2 Specifically, impact investments for this study were defined as equity investments made in for-profit enterprises where management and investors have a stated mission of serving and measuring impact on underprivileged communities or the environment.

- Additional insights were derived from interviews and surveys of 15 impact investing limited partners (LPs), 19 GPs, and 34 social enterprises as well as from desk research based on the GIIN and J.P. Morgan Annual Impact Investor Surveys from 2013–2017.
- Financial returns figures reflect realized returns only and include partial exit returns for the stake sold.

Sample overview

- The sample consisted of 48 private equity and venture capital transactions made in India, among which 31 targeted the financial inclusion sector, seven education, four healthcare, four clean energy, and two agriculture.
- All exits occurred between 2010 and 2015.
- Deal size varied, with an average investment of USD 2.1 million. Five deals were USD 5 million or larger, 11 between USD 1 million and 5 million, 17 between USD 0.1 million and USD 1 million, and 15 smaller than USD 0.1 million.

Study findings

- The gross IRR in US dollar terms across the sample of 48 exits varied widely from -46% to 153% with a median of gross IRR 10% and a weighted average of 11%. The top third of exited investments generated gross returns of 18% per annum or higher, and the bottom third generated gross returns of 2% per annum or lower.
- Among the investments in the top third by IRR, 12 were in financial inclusion, two in clean energy, one in education, and one in agriculture.
- Returns varied by deal size, with the median IRR highest among deals in the USD 1 million to USD 5 million range (16%; n = 5) and lowest among deals smaller than USD 0.1 million (2%; n = 15). Returns ranged the most among smaller deals, which accounted for both the lowest and highest IRRs from the overall sample (-46% to 153%). Deals of USD 5 million or larger demonstrated the narrowest range of returns (0% to 18%).
- Authors found no clear relationship between returns and holding period.

11%

AVERAGE GROSS IRR AMONG EXITS

Study caveats and limitations

- The study analyzes self-reported financial performance in one specific slice of the impact investing universe: the PE/VC asset class in the Indian market.
- The analysis is restricted only to exits and, thus, does not give a sense for total fund returns, which typically also include write-offs, net fees, and expenses.
- As the methodology begins by identifying social enterprises, the sample includes investments by conventional investors who may not have impact intent.
- The sample may also exclude investments by impact investors into enterprises that do not identify or qualify as social enterprises.

GIIN PERSPECTIVES

The CA-GIIN, WSII, and McKinsey studies all provide rigorous, independent analyses of the financial performance of private equity impact investments. Although there are differences in methodology, samples, and calculated outputs, the overall findings demonstrate a consistent view of the market's performance.

TABLE 1: COMPARISON OF METHODOLOGIES AMONG PRIVATE EQUITY IMPACT INVESTING PERFORMANCE STUDIES

Study	Authors	Sample	Measures of performance
Introducing the Private Equity Benchmark	Cambridge Associates (CA) and the GIIN	71 market-rate seeking-funds	IRR net of fees at fund level (pooled, quartile distributions, by fund size and geographic focus) Total value to paid-in multiples Distribution to paid-in multiples
Great Expectations	Wharton Social Impact Initiative (WSII)	170 transactions from 32 market-rate-seeking funds	Pooled gross IRR relative to Russell Microcap/Russell 2000 index and S&P 500 index
Impact Investing Finds Its Place in India	McKinsey & Company	48 exits from investments into social enterprises	Gross IRR from exited investments (full and partial exits) by sector and deal size

Market-rate returns are achievable in private equity impact investing. Both the CA-GIIN and Wharton studies found that market-rate-seeking private equity impact investing funds can achieve returns comparable to conventional private equity funds. The CA-GIIN benchmark found mean returns of 5.8%, top quartile returns above 9.7%, and a standard deviation of 10.8%, and the Wharton study found gross IRR of 9.2% from a sample of 32 private equity funds. Among exited investments—thus excluding write-offs—the McKinsey study found an average gross IRR of 11%. Once fees, expenses, and carry are taken into account, one would expect net returns to be close to what was calculated in the CA-GIIN study. Among conventional investments, CA has found 10-year pooled returns of 11.0% p.a. among global PE funds (excluding the U.S.)[3] and of 10.0% among U.S. funds.[4]

As in mainstream investing, impact investment returns vary widely. The CA-GIIN study found individual fund returns ranging from -15.4% to 22.1% among the middle 90% of participating funds. Likewise, the WSII study found a confidence interval of the median microcap PME ratio ranging from 0.74 to 1.15 with similar ranges reported in other complementary analyses. The McKinsey study, which conducted analysis at the transaction level, found IRR ranging from -46% to 153%. This degree of variation is also found in conventional private equity, illustrating that in any private investing fund manager selection is key to success.

3 "Global ex US PE/VC Benchmark Commentary: Fourth Quarter 2016." Cambridge Associates. August 2017. https://www.cambridgeassociates.com/benchmark/global-ex-us-pe%E2%80%8A%E2%80%8Avc-benchmark-commentary-fourth-quarter-2016/.

4 "US PE/VC Benchmark Commentary: Fourth Quarter 2016." Cambridge Associates. August 2017. https://www.cambridgeassociates.com/benchmark/us-pevc-benchmark-commentary-11/.

Target returns and actual returns differ. Private equity investors often indicate high returns expectations, with all funds participating in the CA-GIIN benchmark targeting returns of 15% or higher. However, as evidenced by the studies included, pooled average performance is in the single digits. This disparity illustrates that although fund managers typically target top-quartile returns, only a small percentage of funds actually achieve strong double-digit returns.

Smaller funds do not necessarily underperform. The CA-GIIN study found that impact funds with under USD 100 million in total assets generated average returns of 8.9%, higher than the 5.0% net IRR among larger funds in the impact benchmark. The conventional wisdom is that smaller funds are expected to underperform larger ones, and this finding suggests that that may not necessarily be the case.

Mission-aligned exits can yield strong financial outcomes. Within the Wharton study's sample, 75% of funds expected or required social and/or environmental impact to continue post-exit. These aligned exits (excluding write-offs) generated gross IRR of 33.5% and a cash multiple of 4.9x, returns which are comparable to the gross IRR of 35.0% and cash multiple of 4.1x among all market-rate-seeking exits (excluding write-offs). This finding reinforces the idea that investments can seek impact—even after the point of exit—while still generating strong returns.

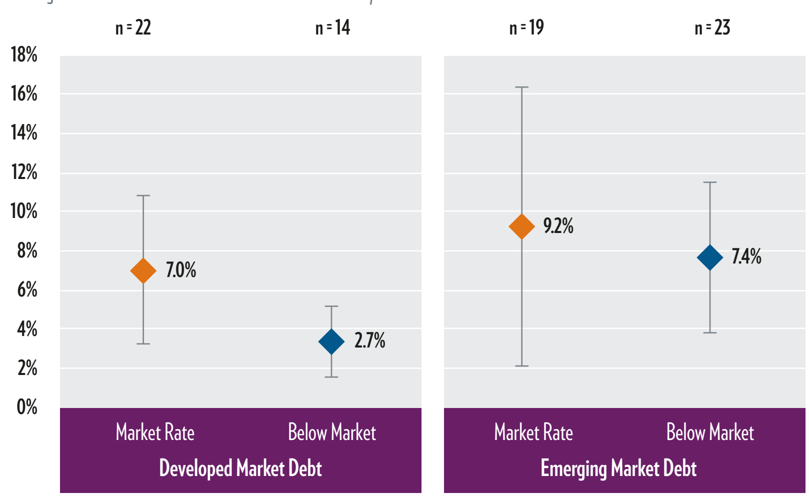
PRIVATE DEBT

Private debt is the largest asset class in impact investing, accounting for about 34% of total impact AUM according to the GIIN's 2017 Annual Impact Investor Survey. The survey also found it was the second-most commonly used asset class, with over half of respondents indicating some allocations through private debt. Data from this survey indicate that among impact investors that allocate 75% or more of their impact assets to private debt, 39% principally target risk-adjusted market rates of return. The remaining 61% target below-market returns, including returns closer to market rate and closer to capital preservation.

The survey also includes data on gross returns expectations among investments made in 2016 (Figure 5). On average, gross returns expectations range from 2.7% to 9.2% depending on whether the investment is in a developed market or emerging market and whether the investor is principally seeking market rates of return or concessionary returns.

FIGURE 5: AVERAGE GROSS RETURNS EXPECTATIONS FOR 2016 VINTAGE DEBT INVESTMENTS

Averages shown beside each diamond. Error bars show +/- one standard deviation.



Source: GIIN 2017 Annual Impact Investor Survey

Some research on the financial performance of private debt impact investments has emerged in recent years. In 2016, Symbiotics released a ten-year report on the performance of microfinance investment vehicles, and Impact Investing Australia released a study about both financial and impact performance of impact investments in Australia. Additional research was released in 2015 by the Boston Consulting Group and EngagedX on the performance of below-market-rate-seeking social investors in the UK. Together, these studies begin to improve transparency around performance data in specific segments of the private debt impact investing market, as well as help identify gaps where more research could yield insight.

2017 Symbiotics MIV Survey

Author: Symbiotics

Publication date: September 2017

Methodology

- Symbiotics invited all known microfinance investment vehicles (MIVs) to participate in the survey. Of the 127 MIVs targeted, 98 participated, and 93 were included in final analysis.[5]
- A substantial portion of the analysis focused on the full MIV dataset (n = 93), while additional analysis looked specifically at the private debt-focused portion of respondents (n = 52).[6]
- Performance was analyzed using both simple and weighted averages of yield and net IRR. Additional analysis evaluated the total expense ratios and fees required for fund management.
- All data were self-reported by participating funds, rather than reported through audited financial statements.

Sample overview

- Altogether, the 93 MIVs managed USD 12.6 billion in assets. The 52 fixed income funds managed USD 9.4 billion (an average of USD 180 million), and the remaining MIVs managed USD 3.2 billion (an average of USD 78 million).
- Investors had an average loan size for direct debt deals of USD 2.1 million (n = 92 MIVs). On average, investors offering direct debt had 34.8 investees.
- Fixed income funds allocated 32% of total assets to Latin America and the Caribbean, 29% to Eastern Europe and Central Asia, and 13% to East Asia and the Pacific, 11% to South Asia, 10% to sub-Saharan Africa, and 4% to the Middle East and North Africa.
- Among the fixed income funds, 74% of assets were allocated to microfinance, 14% remained liquid, and 13% were allocated to other sectors (including agriculture, housing, energy, and SMEs).

Study findings

- Among the MIVs in the sample, 44 reported on the net income of their direct debt microfinance portfolio. That subset of funds experienced a pooled average yield of 6.9% (or a simple average of 7.8%).
- In aggregate, 0.5% of direct debt investment capital was written off (62 loans), and 2.7% had outstanding loan loss provisions (68 loans).
- Net returns to investors based on net asset value (NAV) share prices were 2.1% and 1.8% for USD and EUR share classes respectively in 2016.

6.9%

WEIGHTED-AVERAGE YIELD

5 Five funds were removed as they did not meet the study's inclusion criteria.

6 MIVs were defined as having 50% or more of non-cash assets allocated to microfinance. Private debt-focused funds had 85% or more of non-cash assets invested to private debt.

- Fixed income funds had an average total expense ratio of 2.9%, including 1.6% from management fees. Using a weighted average, the total expense ratio fell to 2.0%, including 1.2% in management fees.
- For unleveraged fixed income vehicles, the weighted average of net returns in USD was 2.5% (n = 13), in EUR 1.4% (n = 10), and in CHF 0.5% (n = 6). For leveraged fixed income vehicles, the weighted average net returns in USD was 4.5% (n = 7) and in EUR 3.2% (n = 4). Other currencies were not analyzed.[7]

Study caveats and limitations

- The study included only MIVs and as such is most representative of the global microfinance market.
- The study does not offer further segmentation of findings, such as by geography, which could offer additional insights within the data.
- Respondents have not shared their target returns expectations, so it remains challenging to fully contextualize findings.

Benchmarking Impact: Australian Impact Investment Activity and Performance Report

Author: Impact Investing Australia

Publication date: 2016

Methodology

- Respondents provided data on performance expectations and targets via an online questionnaire.
- Financial performance data was self-reported by some participating asset managers.
- From that data, returns of both open and closed investments were calculated gross of transaction fees.

Sample overview

- Nine respondents provided deal-level financial performance data on 54 private debt investments in Australia. Fifty investments were active as of June 2015, and four had been fully exited.
- All 54 private loans included in the dataset are senior debt. Among these loans, 43 are fully secured, one partly secured, and 10 unsecured.
- The average tenor of the loans is seven years, and the median is five years.

7 The simple average returns among unleveraged vehicles in USD was 2.1%, in EUR 1.8%, and in CHF 0.3%. Among leveraged vehicles, the simple average returns in USD was 4.1% and in EUR 4.1%.

Study findings

- Private debt investments saw a weighted average of gross returns or 7.9% per annum since inception with a range of 5.4% to 17%.
- Respondents also reported returns expectations of 5.4% to 17%.

Study caveats and limitations

- The study includes a small dataset, with just four completed and 50 open transactions, all of which occurred in the Australian market.
- The report primarily focuses on impact performance and impact benchmarking, and as such includes limited analysis and commentary on financial performance findings.
- All data is self-reported rather than calculated by a third-party researcher.

7.9%
AGGREGATE GROSS IRR

UK Market Studies

Two additional studies—The Social Investment Market through a Data Lens by EngagedX and the Social Investment Research Council and A Tale of Two Funds by the Boston Consulting Group (BCG)—found that below-market investors may find investment opportunities in the philanthropic sector.

The Social Investment Market through a Data Lens analyzed 426 transactions made by three Social Investment Financial Intermediaries (SIFIs) in the UK. Each participating SIFI offered loans either primarily or exclusively to organizations that had previously been refused finance, and then priced their loans on the basis of affordability rather than risk-adjusted returns. Together, these transactions yielded -0.77% ROI annualized (or -9.2% total return over 12 years). The dataset experienced a write-off rate of 19.6%.

A Tale of Two Funds analyzed the performance of the Futurebuilders England Fund, a fund established by the UK Treasury to expand repayable finance opportunities, including both return-seeking loans and grants, to organizations within the voluntary and community sector. The closed portfolio yielded a negative IRR of -3%. Among defaulting organizations, half were unable to repay any capital and another 30% repaid less than 30% of capital.

Together, these two studies indicated that near-capital-preservation returns were possible among high-risk investees, many of which were previously reliant on grant funding or had been otherwise unable to attract investment capital. The authors of the two studies viewed these net returns as a positive move toward capital preservation given that they occurred among a high-risk segment of the market and represented a departure from fully unrecoverable grants.

GIIN PERSPECTIVES

The Symbiotics study explores performance among MIV funds, and the Impact Investing Australia study focuses on market-rate-seeking investment products in Australia. The former analyzes net IRR, while the latter analyzes gross IRR of participating funds' self-reported data.

TABLE 2: COMPARISON OF METHODOLOGIES AMONG PRIVATE DEBT IMPACT INVESTING PERFORMANCE STUDIES

Study	Authors	Sample	Measures of performance
2017 Symbiotics MIV Survey	Symbiotics	93 MIV funds, including 52 fixed income funds	Net IRR Yield Total expense ratios
Benchmarking Impact: Australian Impact Investment Activity and Performance Report	Impact Investing Australia	54 transactions	Gross IRR
The Social Investment Market through a Data Lens	EngagedX and the Social Investment Research Council	426 transactions 3 social investment financial intermediaries	Gross IRR Write-off ratio
A Tale of Two Funds	Boston Consulting Group (BCG)	1 fund 369 investees	Gross IRR Write-off ratio

Private debt investments generally perform in line with expectations. The Symbiotics study found pooled averaged returns of 6.9% among direct debt investments by MIVs, and the Impact Investing Australia study found weighted-average gross returns of 7.9% among private debt loans in Australia. In each case, gross returns were similar to the private debt expectations shared by respondents to the GIIN's 2016 Annual Impact Investor Survey. The survey found average gross returns expectations for private debt investments ranging from 3.4% to 9.2%, depending on the market type of the investment and target returns of the fund.

Near-capital preservation is possible among high-risk investees. Among organizations previously reliant on grant funding or that had been formerly unable to attract investment capital, the EngagedX-Social Investment Research Council report found annualized ROI of -0.77% (or -9.2% total return) and the BCG report found negative IRR of -3%. In both cases, these near-capital-preservation returns indicated the potential for sustainable funding approaches for organizations historically reliant on unrecoverable grants.

Existing research offers insight into specific segments of the private debt impact investing market. The EngagedX-Social Investment Research Council and the BCG studies both explore financial performance among below-market-rate-seeking funds in the UK. The Impact Investing Australia study considers financial performance among primarily market-rate-seeking products in Australia. Meanwhile, the Symbiotics study discusses performance among MIVs only. Each study, therefore, highlights performance among a specific segment of the market. However, while each set of findings may not necessarily apply to private debt investments in other segments, they do offer important transparency into various performance metrics within different segments of this asset class.

REAL ASSETS

Real assets is the second-largest asset class in impact investing according to the GIIN's 2017 Annual Impact Investor Survey, accounting for about 22% of total impact AUM and used by about a quarter of survey respondents. Among the 13 respondents allocating at least 75% of their assets through real assets, 12 principally seek market-rate returns.

Recently, new research has emerged on the performance of real assets impact investments. In 2017, Cambridge Associates partnered with the GIIN to produce real assets impact investing benchmarks for timber, real estate, and infrastructure investment funds. The 2016 Impact Investing Australia study, discussed in the Private Debt chapter on page 14, also includes analysis of real assets impact investments. These two studies begin to improve the availability and transparency of performance data for this market segment.

The Financial Performance of Real Assets Impact Investments

Authors: Cambridge Associates (CA) and the Global Impact Investing Network (GIIN)

Publication date: May 2017 with ongoing quarterly updates.

Methodology

- CA and the GIIN identified impact investing funds intending to create positive social or environmental impact for participation in the benchmark through their respective databases and various industry network bodies.
- Notably, only impact investing funds explicitly targeting risk-adjusted market rates of return were included in this study. Impact investors targeting concessionary returns were excluded from this study.
- Returns were calculated by the research team (rather than being self-reported) in each of the three segments: timber, real estate, and infrastructure. Funds submitted both annual audited financial statements and unaudited quarterly or semiannual cash flow statements through June 2016.
- The benchmark calculates IRR net of fees and expenses. Findings are disaggregated by each of the three benchmarks, as well as by vintage year and fund size.

Sample overview

The table below shows key characteristics of funds within the three benchmarks.

TABLE 3: SAMPLE CHARACTERISTICS OF REAL ASSETS BENCHMARKS

	Timber	Real estate	Infrastructure
n	18*	20	17
Average capitalization	USD 230 million	USD 233 million	USD 535 million
Geographic focus			
U.S.	17	12	8
Other developed markets	0	4	5
Emerging markets	0	4	4
Vintage years			
1997-2002	4	0	0
2003-2006	4	3	4
2007-2010	6	7	6
2011-2014	3	10	7
Market capitalization (USD millions)			
≤ 100	3	6	3
100-250	10	8	3
>250	4	6	11

*One timber fund excluded from this table due to incomparable characteristics.

5.9%
TIMBER

0.8%
REAL ESTATE

0.3%
INFRASTRUCTRE

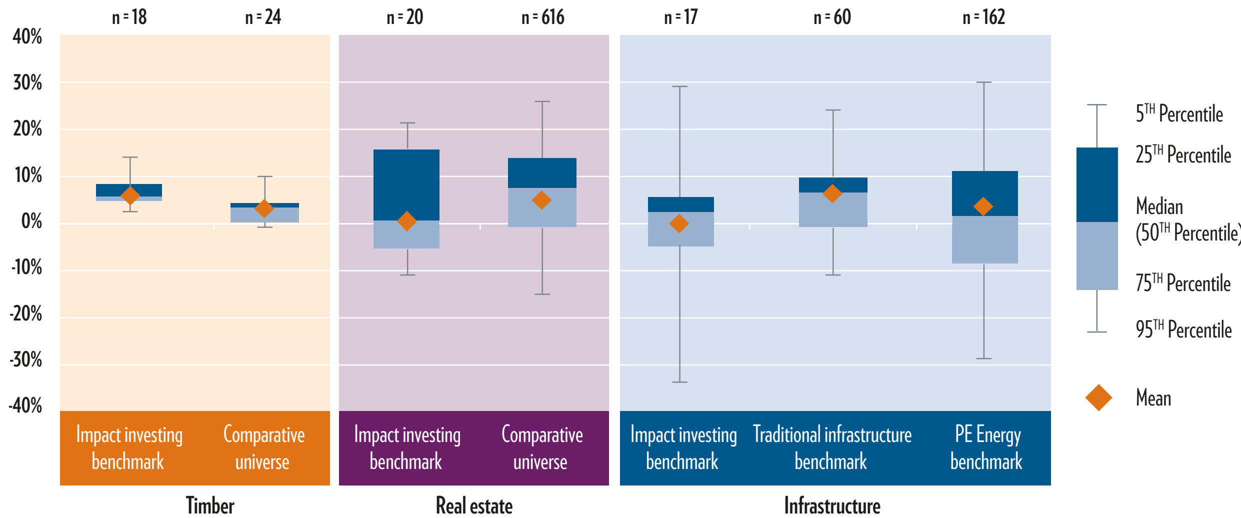
AGGREGATE NET IRR

Study findings

- **Timber** impact investing funds produced pooled net IRR of 5.9% compared to 3.3% within a comparative universe of conventional timber funds.
- All but one impact investing timber fund achieved positive returns, with one in five funds generating returns over 10% per annum.
- Smaller funds generated higher rates of return, with funds of market capitalization under USD 100 million generating pooled net IRR of 8.9% and funds with over USD 250 million in capitalization generating pooled returns of 5.3%.
- **Real estate** impact investing funds yielded pooled net IRR of 0.8% compared to 4.9% by a comparative universe of conventional real estate funds. Notably, the top third of impact funds generated net returns in excess of 15%.
- Findings varied substantially by fund size, with funds under USD 50 million in market capitalization far outperforming funds with over USD 250 million in capitalization (10.2% pooled net IRR versus -0.9%).
- Calculated on an equal-weighted basis, the impact investing funds returned 3.8% compared to 4.9% for conventional real estate funds, showing that a handful of larger funds underperformed.
- **Infrastructure** impact investing funds yielded pooled net IRR of 0.3%, compared to 6.6% in a traditional infrastructure benchmark and 3.8% in a private equity energy benchmark. Sixty percent of funds generated positive returns, including nearly one in five with returns in excess of 15%. However, nearly one in five also generated negative net IRR of less than -15%.
- Impact investment infrastructure funds of later vintage years generated higher pooled returns. Funds of vintage years 2011 to 2014 generated pooled net IRR of 6.2%, from vintage years 2008 to 2010 of 5.5%, and from vintage years 2005 to 2007 of -9.7%. Authors posit this may reflect higher technology and regulatory risk in earlier years and noted that infrastructure impact funds are particularly nascent relative to the broader real assets universe.

FIGURE 6: DISTRIBUTION OF FUND IRRs NET TO LPs IN REAL ASSETS INVESTING

n shown above each bar.



Source: The Financial Performance of Real Assets Impact Investments, CA-GIIN

Study caveats and limitations

- Most funds included in the study focus on the U.S., including all of the timber funds and about half of each of the real estate and infrastructure funds.
- The comparative benchmarks offer a proxy of performance in non-impact investing. However, particularly in infrastructure, the comparative benchmarks do not allow perfect comparison in terms of the risk and return profile of the underlying assets.
- Impact investing real assets funds remain relatively young, particularly in infrastructure. As such, they may not yet have sufficient maturity and track record to merit conclusive findings. Future updates to the benchmark will shed further light on their performance.

Benchmarking Impact: Australian Impact Investment Activity and Performance Report

Additionally, Impact Investing Australia released its report on the Australian market, *Benchmarking impact: Australian Impact Investment Activity and Performance* in 2016 (described in more detail in the Private Debt chapter). This report covered activity across asset classes, and offered financial performance analysis on nine real assets transactions, including eight investments and one exit.

The real assets included in the sample include property, infrastructure, and other real assets, and target impact themes such as arts, culture, and sport, income and financial inclusion, and conservation, environment, and agriculture. Altogether, gross returns averaged 5.3% with a range of 0% to 12.6%, thus demonstrating that real assets investments generate a range of returns.

GIIN PERSPECTIVES

The CA-GIIN study focuses on performance among market-rate-seeking real assets funds globally, and the Impact Investing Australia study explores performance of Australian real assets investments. While the former analyzes net IRR based on audited financial statements, the latter analyzes gross IRR based on self-reported data.

TABLE 4: COMPARISON OF METHODOLOGIES AMONG REAL ASSETS IMPACT INVESTING PERFORMANCE STUDIES

Study	Authors	Sample	Measures of performance
The Financial Performance of Real Assets Impact Investments	Cambridge Associates (CA) & GIIN	55 funds	Net IRR
Benchmarking Impact: Australian Impact Investment Activity and Performance Report	Impact Investing Australia	9 transactions	Gross IRR

Real assets impact investment returns vary widely, as in mainstream investing. As seen in Figure 6, the distribution of individual fund returns is very similar in real assets impact investing as it is in related conventional markets. Some funds achieve competitive, market-rate returns and others underperform (see Table 5). These data indicate that, just as in conventional investing, manager selection is key to success.

TABLE 5: RANGE OF IRRs

	IRR	Minimum IRR	Maximum IRR
Timber (CA-GIIN)	Net	1.2%	17.1%
Real estate (CA-GIIN)	Net	-10.7%	21.5%
Infrastructure (CA-GIIN)	Net	-33.8%	29.2%
Impact Investing Australia	Gross	0.0%	12.6%

Smaller funds do not necessarily underperform. The CA-GIIN study found that impact funds with under USD 100 million in total assets generated higher average returns than larger funds in the impact benchmark. Although conventional wisdom suggests that smaller funds are expected to underperform larger ones, this finding suggests that that may not necessarily be the case.

PORTFOLIO APPROACHES

In addition to exploring aggregate research on funds in a given asset class, this brief presents findings from publicly available research and data shared by specific impact investing organizations. This additional research includes diversified portfolios, within which investments target varied rates of return and risk profiles, different regions or sectors, and a range of asset classes. As a result, readers can gain a deeper understanding of performance across a diversified portfolio.

Christian Super

Publication: 2016 Annual Report

Date: 2016

About Christian Super: Christian Super is a private pension fund in Australia that allocates its impact investing assets to clean technology, renewable energy, sustainable agriculture, microfinance, community infrastructure, and community finance. Christian Super offers five options with varied risk profiles and returns expectations to participating pensioners: Ethical High Growth, MyEthicalSuper, Ethical Balanced, Ethical Stable, and Ethical Cash. Each option includes allocations to multiple asset classes, with the exception of Ethical Cash, which is allocated through cash only.

TABLE 6: ASSET ALLOCATIONS BY OPTION (CHRISTIAN SUPER)

Option	Ethical High Growth	MyEthicalSuper	Ethical Balanced	Ethical Stable	Ethical Cash
Australian Shares	40%	27%	19%	13%	0%
International Shares	44%	27%	17%	12%	0%
Property	6%	10%	8%	6%	0%
Growth Alternatives	10%	10%	8%	4%	0%
Defensive Alternatives	0%	8%	12%	15%	0%
Fixed Interest	0%	18%	36%	50%	0%
Cash	0%	0%	0%	0%	100%

Performance findings: In its 2016 Annual Report, Christian Super included data on both performance expectations and returns for each of the five investment options. Annual returns varied by option with Ethical High Growth generating the highest returns at 9.1% p.a. net of fees and taxes and Ethical Cash the lowest at 3.1% p.a. In each case, returns exceeded the stated targets.

The variation in target and realized returns is also reflected in anticipated risk, with standard risk measures—determined by the number of years the option is expected to generate negative returns—ranging from very low for Ethical Cash to high for Ethical High Growth. Investment fees were consistent at 0.8% p.a. for every option except Ethical Cash (0.35% p.a.).

TABLE 7: PERFORMANCE BY OPTION (CHRISTIAN SUPER)

	Option	Ethical High Growth	MyEthicalSuper	Ethical Balanced	Ethical Stable	Ethical Cash
Returns	Five-year average annual return net of fees and taxes (p.a.)	9.1%	7.9%	6.9%	6.3%	3.1%
	Target return over inflation (p.a.)	4.0%	3.5%	3.0%	2.0%	Bank rate
	Min and max annual returns (2012-2016)	-3.7% - 24.3%	1.0% - 16.5%	2.2% - 12.8%	3.5% - 9.7%	2.0% - 4.6%
Risk	Standard risk measure	High	High	Medium-high	Medium	Very low
	Expected number of years with negative returns (out of 20 years)	6	5	4	3	<1
	Recommended time horizon (in years)	10	10	5	3	<3
Fees	Investment fee (p.a.)	0.8%	0.8%	0.8%	0.8%	0.35%

Grassroots Capital Management

Publication: Microfinance Equity Exits: Data on Company and Fund Level Returns

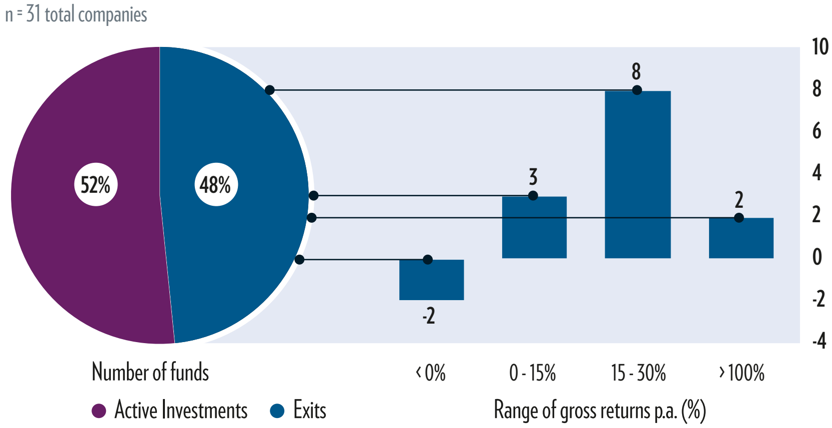
Date: July 2014

About Grassroots Capital Management: Grassroots Capital Management is a fund manager headquartered in Plainfield, MA that invests in emerging markets globally. Since its inception in 2003, Grassroots has launched eight impact investment funds with a focus on microfinance. Together with its partner, Caspian Impact Investment Adviser, it advises five microfinance equity funds in emerging markets, with a particular focus on India. These funds are the focus of this performance analysis.

Performance findings: To date, Grassroots/Caspian funds have made equity investments across 31 different companies, of which 15 have been exited and are the focus of its analysis (Figure 7). Two of those investments returned over 100% gross IRR, 11 returned 0-30% gross IRR, and two generated negative returns. An additional four investments were written off. Cash multiples also reflect this distribution, with the bulk of funds generating between 2x and 3x.

FIGURE 7: GROSS RETURNS AMONG EXITED INVESTMENTS (GRASSROOTS/CASPIAN)

n = 31 total companies



Source: Microfinance Equity Exits: Data on Company and Fund Level Returns, Grassroots Capital Management

Additionally, Grassroots/Caspian conducted analysis on the returns to LPs from nine total equity funds that it either manages or advises with vintage years of 2003 to 2005. Among these funds, four have fully or nearly fully liquidated and reported returns to LPs ranging from 7% to 16%. Three of the funds have extended by at least two years, and two have exited some individual investments (included in the analysis above), but at the time of the report's release still held the bulk of their investments.

Gray Ghost Microfinance Fund

Publication: Gray Ghost Microfinance Fund: Building the Bridge to Impact Investors

Authors: Paul DiLeo and Anna Kanze of Grassroots Capital Management

Date: October 2015

About Gray Ghost Microfinance Fund: Gray Ghost Ventures, headquartered in Atlanta, Georgia, manages the Gray Ghost Microfinance Fund (GGMF). This fund of funds was launched in 2003 to invest in the microfinance industry. It has invested USD 88 million via equity and quasi-equity in 23 fund managers focused on microfinance investments. Forty-five percent of the portfolio was invested in Latin America, 15% in India, 12% in Central Europe, and 28% globally. All investments targeted market-rate returns.

Performance findings: From the time of the first commitment in 2003 to 2015, when the report was released and the fund completed making investments, the fund had generated an IRR net of fees and expenses of 5.4%. Total proceeds from the USD 88 million invested were USD 126 million, including USD 65 million that had been realized and another USD 61 million forecasted. The fund produced 1.4x multiple at cost. GGMF found that it performed within a range of other benchmarks, including the MSCI EM Banks benchmark (8.9%), J.P. Morgan bank stock (5.6%), the U.S. Treasury (3.2%), and the HFRX Global Hedge Fund (1.1%).

KL Felicitas Foundation

Publication: Evolution of an Impact Portfolio: From Implementation to Results

Authors: Amando Balbuena, Will Morgan, Joshua Newman, Raul Pomares, and Samuel Pun of Sonen Capital

Date: Initial report published in October 2013

Last updated: December 2015

About KL Felicitas Foundation: The KL Felicitas Foundation (KLF), first established in 2000 to support growing social enterprises, began allocating its portfolio to impact investments in 2005. By 2014, 99.5% of the foundation's portfolio was allocated to impact investments. Its impact investments target a wide range of sectors, including community development, financial services, health, food and agriculture, energy, and water, and are made across multiple asset classes. KLF's impact portfolio is allocated globally, with a focus on Africa, India, and North America.

Examples of different investments made by instrument are described in the table below. These illustrate KL Felicitas' diverse investment strategy.

TABLE 8: SAMPLE KL FELICITAS FOUNDATION INVESTMENTS BY INSTRUMENT

Instrument	Example
Cash equivalents	Investments in microfinance, SME finance
Global fixed income	Green bonds, municipals, asset-backed securities, sustainable corporates, high-ESG sovereign bonds, microfinance
Global public equity	Equity stakes in healthcare and technology companies
Hedge funds	Investments in water efficiency, sustainable energy, and sustainable agriculture

Performance findings: Returns were calculated as a function of all income from inception through 2013 using the Modified Dietz methodology, which time-weights cash flows on a daily basis to value quarterly performance. Returns were then analyzed net of fees and transaction costs by asset class, excluding investments in real assets and private equity due to their early stage in the investment lifecycle. Its overall impact portfolio generated 3.0% p.a. net of fees, compared to its benchmark which generated 2.5% p.a. The table below also includes additional detail on performance by asset class within its impact portfolio.

TABLE 9: PERFORMANCE BY INSTRUMENT (KL FELICITAS FOUNDATION)

Instrument	% of total AUM *	Inception year	Average return since inception	Comparable benchmark	Comparable benchmark performance (average p.a.)
Cash equivalents	3.4%	2008	0.9%	3-month U.S. Treasury Bill	0.3%
Global fixed income	29.0%	2006	4.0%	Barclays global aggregate	4.5%
Global public equity	40.8%	2006	6.8%	MSCI ACWI IMI	5.8%
Hedge funds	1.3%	2006	2.6%	HFRI fund of funds	1.8%
Total reportable portfolio		2006	3.0%	Portfolio-weighted benchmark	2.5%

*Note: The remainder of the fund was invested into private equity (22.5%) and real assets (3.0%), but is not included in this analysis.

In addition to the findings presented above, KLF shared one-, three-, and five-year returns of its portfolio and the selected benchmark. These data indicate that the KLF portfolio experienced similar levels of volatility to the comparable benchmarks.

Triodos Microfinance Fund

Publication: Triodos Microfinance Fund: a sub-fund of Triodos SICAV II

Date: April 2016

About Triodos Microfinance Fund: The Triodos Microfinance Fund, one of three funds included under the umbrella fund Triodos SICAV II (Société d'Investissement à Capital Variable II), published performance findings in its 2016 Annual Report. It invests both directly and indirectly into microfinance institutions, banks that provide small and medium enterprise financing, and other similar institutions, to achieve impact objectives related to improved education, better sanitation and clean water, decreased inequality, and access to healthcare. Triodos Microfinance Fund currently manages investments in 36 countries across various emerging markets, including Latin America, South and Southeast Asia, and sub-Saharan Africa. Fifty-three percent of its assets are allocated to senior debt, 22% to equity, 8% to subordinated debt, and 17% to cash equivalents. Investments range in size from EUR 1 million to EUR 10 million, and are denominated in USD (48.4% of total assets), EUR (18%), or local currencies (33%).

Performance findings: The annual report indicates that net assets of the fund totaled EUR 339.2 million as of 2016 yearend. One-year returns ranged from 3.6% to 5.1% across the 14 share classes, and returns since inception ranged from 4.6% to 5.4% p.a. The EUR-dominated institutional share class generated average one-year NAV growth rate of 4.3%. Additionally, net results after expenses and unrealized gains from losses on investments, swaps, and foreign exchange contracts, grew from USD 8.6 million to USD 10.8 million during the same period, a CAGR of 6%.

Triodos Renewables Europe Fund

Publication: Triodos Renewables Europe Fund: a sub-fund of Triodos SICAV II

Date: April 2016

About Triodos Renewables Europe Fund The Triodos Renewables Europe Fund, one of three funds included under the umbrella fund Triodos SICAV II (Société d'Investissement à Capital Variable II), also published performance findings in its 2016 Annual Report. The fund, incepted in 2006, invests into solar (56%) and wind (44%) energy opportunities across Europe in an effort to build a more sustainable and energy-efficient economy. Fifty-one percent of its assets are allocated to equity, 25% to liquidity, and 24% to subordinated debt.

Performance findings: The annual report indicates that net assets of the fund were valued at EUR 73.9 million as of 2016 year-end, with an average NAV growth rate per share of 1.6% during the year. One-year returns ranged from 1.0% to 1.6% and returns since inception from 2.4% to 3.0% p.a.

CONCLUSION

The growing body of research and data on the financial performance of impact investments offers several insights about appropriate and achievable financial performance expectations, a topic that has historically raised questions about the market's viability and potential. For current impact investors, these findings can improve internal benchmarking, strategic planning, and communications with LPs. For potential impact investors, they offer greater insight into areas of strength and opportunity within the market as well as help set expectations for performance. Specifically, these data collectively indicate that:

- **Impact investors seeking market rate returns can achieve them.** Across various strategies and asset classes, top quartile funds seeking market-rate returns perform at similar levels to peers in conventional markets. In many cases, median performance is also quite similar.
- As in conventional markets, however, performance varies from one fund to the next, thus indicating that **fund manager selection is key** to achieving strong returns. Generally, the range of fund returns in impact investing mirrors that in conventional investing.
- **Not all impact investments seek to achieve market rates of return.** Some impact investors intentionally target below-market returns in order to achieve a specific type of impact, create a bridge between philanthropy and conventional investing, or catalyze other capital.
- **Returns, as well as risk, vary by asset class.** Like mainstream investors, impact investors face different risks, and thus develop different returns expectations, by asset class. As demonstrated by the various organization-level examples included in this brief, many impact investors take a portfolio approach to building an impact investment strategy to meet their risk/return parameters.

The emergence of this variety of financial performance research is indicative of a maturing market and plays a key role in scaling and deepening the industry. However, a number of gaps remain. Further research to deepen insights into the market's potential should include analysis of:

- target financial returns across strategies, and investors' abilities to meet them;
- the performance and role of below-market capital across asset classes;
- fund and investment performance across asset classes at a more granular geographic and sector level; and
- the relationship between impact objectives, impact measurement and management practice, and financial returns.

APPENDIX

Financial Performance Resources

Private Equity

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Notes

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 GIIN's 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

GIIN Training Program

The GIIN training program offers practical coursework for investors looking to develop and deepen their practice, especially in the area of impact measurement and management.

thegiin.org/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

Membership

If your organization is interested in deepening its engagement with the impact investing market by joining a global community of like-minded peers, please 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**

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