

Annual Impact Investor Survey



2017

THE SEVENTH EDITION



2017 Annual Impact Investor Survey

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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 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

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Beta testers

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Outreach partners

Collaboration among member networks and field-builders adds to the rigor of research efforts. Other such organizations in the impact investing industry extended invitations to their networks to complete the survey. For more information about these organizations, see Appendix 3.

May 2017



208 respondents currently manage

USD 114 billion

in impact investing assets*

*There were 209 total respondents to this report, including one that did not provide this information.

Letter from the CEO

Dear reader,

Each year the results of our Annual Impact Investor Survey are eagerly awaited as the data offer an increasingly descriptive view of a dynamic and evolving impact investment market. At the Global Impact Investing Network (GIIN), we are often encouraged by the survey findings, pleased to see indications that the market will realize the potential we envisioned for it years ago. This year, once again, the data attest to the industry's momentum. We received responses from 209 impact investing organizations, the largest number ever, and captured evidence for a rising pool of impact investing assets—nearly USD 114 billion in AUM, a data point that is often used as a “floor” for the size of the impact investing market. And, perhaps most encouraging, investors continue to be overwhelmingly satisfied with the performance of their investments—both in terms of financial return and the impact they generate.

Ten years into the creation of a formal impact investing industry, we are digging even deeper into the data and exploring the hard questions the survey surfaces about the market's development. Where has impact investing fallen short of expectations? Which challenges still require innovation and solutions? This year's Annual Impact Investor Survey, undoubtedly our most robust survey yet, surfaces insights into the topics that are at the forefront of industry conversations:

- 1. There isn't one single way to be an impact investor.** Many different types of impact investors pursue a variety of impact objectives and financial return targets. Although much attention is paid to impact investing's ability to generate market-rate returns, about one-third of impact investors deliberately target below-market-rate returns. Nearly all survey respondents noted the valuable roles below-market investments can play in the market, including taking on more risk, investing in untested models or regions, and, in some cases, preparing businesses for scale investors. We will need to further explore how we can fully tap the collaborative potential of our diversity, such as by using blended capital structures to simultaneously bring in more capital and enhance impact.
- 2. The bar is high for large firms entering the industry.** It is thrilling to see investors of all types enter the market, especially when their entry enhances the profile of the industry, but judgement should be withheld on any new entrant until the investor demonstrates a rigorous commitment to impact—the core ethos of the practice. While respondents feel that the entry of large-scale firms will help professionalize the market and bring credibility and much-needed capital, they also have concerns that this trend could lead to mission drift or “impact dilution.” We need to explore approaches to protect the integrity of the industry and keep impact at the forefront, while also welcoming new entrants. The GIIN's vision of the market is not to integrate impact into traditional capital markets, but to integrate the capital markets into the global pursuit of social and environmental progress.
- 3. Multi-national initiatives have built demand for impact investments.** Approximately 60% of investors reported that they actively track the financial performance of their investments with respect to the Sustainable Development Goals (SDGs) or plan to do so soon. The SDGs and the COP21 agreement have highlighted the scale and urgency of the issues the global community faces. The initiatives provide a cohesive framework for how to address these challenges, particularly the urgent need for private capital to step up and fill the funding gap. The world is looking to impact investing to fulfill this role, and clients and companies increasingly seek out impact strategies, inspired by the role their money can play in building a brighter future.

We have the tremendous opportunity to not just keep pace with the traditional capital markets, but to reinvent them entirely. The decisions we make today have the potential to shift attitudes, transform systems, and build the sustainable economy of the future.

These topics present opportunities for collaboration and collective action for the GIIN and the impact investing community at large. At the current stage in the market's development, we must reflect on market progress and refocus our attention on our final target. We have the tremendous opportunity to not just keep pace with the traditional capital markets, but to reinvent them entirely. The decisions we make today have the potential to shift attitudes, transform systems, and build the sustainable economy of the future. I look forward to reading our 2027 Impact Investor Survey and marveling at how far the next ten years have taken us.



Amit Bouri
Co-Founder and CEO, Global Impact Investing Network
 @AmitKBouri

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Methodology

This report captures data from 209 impact investors collected via a survey distributed between December 2016 and February 2017. Respondents answered questions regarding their activities since inception and during 2016, as well as concerning their plans for 2017.

Inclusion criteria

All respondents represent impact investing organizations, not individual investors. To ensure that respondents had meaningful experience managing impact investments, survey-eligibility criteria required that respondents either: (1) had committed at least USD 10 million to impact investments since their inception or (2) had made at least five impact investments, or both. The GIIN provided its definition of impact investing (see Appendix 2), which respondents used to self-report their eligibility.



This report does not provide estimates of the overall size of the impact investing market. The analyses herein are based only on a sample, and are intended to provide a snapshot of global impact investing activity.

Sample overlap with previous surveys

The sample for this survey changes each year to some extent, which is important to consider when comparing findings presented in this report with those from previous years' surveys. Out of the 209 respondents in this year's sample, 118 also responded in 2016. The full 2016 sample included 158 total respondents. The Research Team analyzed this overlapping sub-sample to discern changes in activity by the same set of respondents. This analysis is presented where appropriate.

Data accuracy

While the GIIN Research Team conducted basic data checks and sought clarifications as appropriate prior to analysis, all information in this report is based on self-reported data. Respondents were instructed to complete the survey with respect only to their impact investing portfolios. The GIIN provided its definition of 'impact investing,' which respondents applied to their portfolios as they saw fit.

Data recoding

A handful of survey questions allowed respondents to provide free-form answers. To enable more useful interpretation of responses, where underlying meanings were unambiguous, the GIIN Research Team recoded these free-form responses into more uniform categories or themes.

Role of outliers

As is often the case in research, a handful of outliers in a sample can have outsized influence on aggregate findings. Some respondents to our Annual Survey manage comparatively large impact investing portfolios, and so aggregate analysis can be skewed toward their particular concentrations. Where appropriate and feasible, this report presents analysis both including and excluding outliers in order to enable more nuanced interpretation of findings.

Capital invested

In previous years, survey participants reported on capital committed to impact investments. Based on respondent feedback, this year respondents could choose to report on capital committed, capital deployed, or both. This report analyzes 'capital invested,' which refers to capital committed or capital deployed, depending on which data respondents reported. If respondents shared both capital committed and capital deployed, capital committed was analyzed. For year-on-year analysis, the Research Team has compared capital committed from past years to 'capital invested' this year.

Analyzing data by sub-group to extract notable findings

Most findings presented in this report aggregate the responses of all 209 impact investors that responded to the survey. The report also presents notable differences in responses by sub-groups of respondents—such as, for example, investors with a large majority of their capital allocated to a particular asset class or geography. Table i presents a full list of these sub-groups. Additionally, this report presents more precise sub-group analysis as relevant, such as analysis of those respondents that are focused on a particular region.

Table i: Respondent sub-groups referenced in the report

Sub-group	Description of the category	Number of respondents
DM-HQ Investors	Respondents headquartered in developed markets	172
EM-HQ Investors	Respondents headquartered in emerging markets	35
Private Equity Investors	Respondents that allocate $\geq 75\%$ of their current impact investment assets under management (AUM) to private equity	68
Private Debt Investors	Respondents that allocate $\geq 75\%$ of their current impact investment AUM to private debt	49
Market-Rate Investors	Respondents that principally target risk-adjusted, market-rate returns	138
Below-Market Investors	Respondents that principally target below-market-rate returns, some closer to market rate and some closer to capital preservation	71
DM-focused Investors	Respondents that allocate $\geq 75\%$ of their current impact investment AUM to developed markets	97
EM-focused Investors	Respondents that allocate $\geq 75\%$ of their current impact investment AUM to emerging markets	89
GPs	General partners, defined as respondents that (1) invest $\geq 75\%$ of their current impact investment AUM directly; and (2) do not invest through intermediaries including funds	129
LPs	Limited partners, defined as respondents that (1) invest $< 75\%$ of their impact investment AUM directly; and (2) invest through intermediaries including funds	42
Small Investors	Respondents with total impact investment AUM \leq USD 100 million	114
Medium Investors	Respondents with total impact investment AUM $>$ USD 100 million and \leq USD 500 million	58
Large Investors	Respondents with total impact investment AUM $>$ USD 500 million	37

Note: Some investors marked 'no single HQ location', so the total of DM-HQ plus EM-HQ is less than the full sample.

Source: GIIN

Overlap between sub-groups

Notable overlap and differences in makeup among the above-outlined sub-groups are discussed below.

- Of the Private Equity Investors in the sample, 82% are Market-Rate Investors. By contrast, most Private Debt Investors (61%) are Below-Market Investors.
- Seventy-three percent of the Below-Market Investors are Small Investors, compared to 45% of the Market-Rate Investors.
- Eighty-nine percent of the sample's Large Investors are Market-Rate Investors, while 74% of the Medium Investors are Market-Rate Investors, and just over half (54%) of the Small Investors are Market-Rate Investors.

Region and sector codes

For brevity, regions and sectors referenced in the report are given shorter names. These codes are shown in Tables ii and iii. The survey instrument did not provide region definitions or lists of countries by region, so responses reflect respondents' interpretations of each region's boundaries.

Table ii: Region codes

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

Source: GIIIN

Table iii: Sector codes

Code	Name of sector
Arts & culture	Arts & culture
Education	Education
Energy	Energy
Fin services (excl. microfinance)	Financial services (excluding microfinance)
Food & ag	Food & agriculture
Forestry & timber	Forestry & timber
Healthcare	Healthcare
Housing	Housing
ICT	Information and communication technologies
Infrastructure	Infrastructure
Manufacturing	Manufacturing
Microfinance	Microfinance
WASH	Water, sanitation, and hygiene
Other	Other

Source: GIIIN



Executive Summary

This report presents findings from the seventh Annual Impact Investor Survey. The findings include investors' perspectives on key issues important to the development of the impact investing industry, as well as analysis of their investment activity, asset allocations, impact measurement practice, and performance. Notable developments in 2016 are highlighted in special sections throughout the report; this information, unlike the bulk of the report, is drawn from secondary research.

HIGHLIGHTS

- The survey captures the activity and perspectives of **209 respondents** making impact investments around the world.
- In 2016, respondents saw **progress in key indicators of industry growth**, such as the availability of qualified professionals, data on products and performance, and high-quality investment opportunities.
- They also continued to face **challenges** related to availability of appropriate capital of different types and a lack of shared vocabulary to define and segment the industry.
- In aggregate, 205 respondents invested USD 22.1 billion into nearly 8,000 impact investments in 2016 and **plan to increase capital invested by 17%** to USD 25.9 billion in 2017.
- In total, 208 respondents currently manage **USD 114 billion in impact investing assets**.¹
- **Nearly universally, respondents measure their social and/or environmental performance**, using a mix of proprietary metrics, qualitative information, and IRIS-aligned metrics.
- The overwhelming majority of respondents reported that their **investments have either met or exceeded their expectations** for both impact (98%) and financial performance (91%).
- While two out of three respondents principally target risk-adjusted, market rates of return, there is widespread **acknowledgement of the important role played by below-market-rate-seeking capital** in the market.
- The majority of respondents believe the **entry of large-scale financial firms** into impact investing will professionalize the market and bring in much-needed capital, but most also believe there is a risk of mission drift or impact dilution associated with this trend.

Overview of Respondents

This year's survey captures the activity of 209 respondents that make impact investments around the world. While respondents are largely headquartered in the U.S. and Canada (46%) and in WNS Europe (32%), our sample also includes investors with headquarters in nearly every region of the world, with considerable representation from SSA (7%) and LAC (5%).

Respondents also represent a diverse array of organization types; the largest categories are fund managers (67%) and foundations (11%). Banks comprise 4% of respondents, and development finance institutions, family offices, and pension funds/insurance companies each make up 3% of the respondent sample.

Sixty-six percent of respondents target risk-adjusted, market rates of financial return, with the remainder split between those seeking below-market-rate returns that are closer to market-rate (18%) and returns that are closer to capital preservation (16%).

¹ One respondent declined to provide AUM information.

Progress and Challenges

Respondents reflected positively on progress made in the development of the impact investing industry over the past year. The vast majority (roughly 90%) indicated that they saw increasing abundance in 2016 of professionals with relevant skillsets and of market research and data (Table iv). Large majorities also indicated progress on other indicators of market maturity, such as the availability of high-quality investment opportunities, sophistication of impact measurement practice, innovative financial structures, and a common understanding of definition and segmentation in the market.

See pages 9-12 for variation in views on progress and challenges by respondents' investment geography and asset class, as well as information regarding the causes and means of addressing competition.

Some challenges remain to the growth of this industry. The lack of appropriate capital across the risk/return spectrum continues to trouble investors. This year, 17% noted that this was a 'very significant challenge,' with a further 35% indicating that it was a 'significant challenge.' Exit options, too, remain problematic in the eyes of many investors. On the other hand, two areas where respondents saw the most significant progress—availability of professionals with relevant skillsets and innovative deal or fund structures—were not seen as significant challenges by most respondents. This suggests that improvement in those areas may be paying off.

Table iv: Progress and challenges

n = 209

	Indicator of industry progress/challenge	Percent noting some or significant progress	Percent noting significant or very significant challenge
1	Professionals with relevant skill sets	90%	29%
2	Research and data on products and performance	89%	40%
3	High-quality investment opportunities (fund or direct) with track record	86%	42%
4	Sophistication of impact measurement practice	86%	38%
5	Innovative deal/fund structures to accommodate investors' or investees' needs	84%	33%
6	Common understanding of definition and segmentation of impact investing market	82%	47%
7	Appropriate capital across the risk/return spectrum	73%	52%
8	Government support for the market	60%	36%
9	Suitable exit options	60%	47%

Source: GIIN

Asked about the degree of competition in the market for impact investing transactions, roughly 10% of respondents reported 'a lot of competition,' while 30% saw 'no significant competition.' The rest (60%) were somewhere in between, noting 'some competition.'

Current Market Topics

The growth and diversity of the impact investing industry has led to healthy debate on several dynamics affecting the field. This year, the Research Team surveyed respondents on some of these current 'hot topics.' Respondents' views are summarized below.

- **Market segmentation:** Respondents were asked their opinion about the importance of segmenting the impact investing market across various dimensions. Most respondents rated each of the following criteria as 'very important' for segmentation: financial return philosophies, motivations for engaging in the sector, and impact themes pursued.
- **The role of below-market-rate capital:** Respondents were asked to offer their perspectives on the role of below-market capital in the market. Overall, there was broad agreement that below-market-rate capital plays a valuable role in impact investing. Eighty-nine percent of respondents agree with the idea that 'there are certain impact investment strategies that do not (and may never) lend themselves to risk-adjusted market rates of return.' Roughly four out of five respondents

agreed that this type of capital has several other benefits, including its ability to lead to different kinds of impact, act as a bridge between philanthropy and market-rate capital, and help reduce the risk of investments for other investors.

- **Entry of large-scale financial firms:** On the topic of large, well-known asset managers and other financial firms entering the impact investing space, respondents expressed both positive expectations and concerns. On the positive side, a majority felt that this trend will help professionalize the market, bring much-needed capital into the market, and enhance the credibility of impact investing. On the cautionary side, most respondents also believe that this trend is associated with a risk of mission drift or ‘impact dilution.’ Half also felt that there is a risk of capital shifting away from smaller intermediaries.
- **Impact investing in public equities:** Sixteen percent of respondents currently make impact investments in public equities, and another 9% plan to do so in the future. Most of these respondents indicated that they focus such investments on companies they believe already have positive impact through their products or services (rather than attempting to change the practices or strategies of public companies to generate positive impact). Among respondents that neither make impact investments in public equities nor plan to, most indicated that this is simply not an asset class through which they invest. Many reported that they do not believe it is possible to create impact in this asset class without owning a sizeable enough share to influence management.

Investment Activity

In total, 205 respondents invested USD 22.1 billion in nearly 8,000 impact investing transactions in 2016 (Table v).² In 2017, these respondents plan to increase the volume of invested capital by 17% and the number of deals by 20%. Among the 114 respondents that completed the survey both last year and this year, the reported amount of capital invested and number of deals increased by 15% and 3%, respectively, from 2015 to 2016.

See pages 4-7 for data on investment activity by organization type, deal size by investor segment, and the accuracy of projections and changes in reported activity among repeat respondents.

Table v: Number of investments and amount of capital invested in 2016 and planned for 2017

n = 205; excludes two large outliers and two respondents that did not report investment activity.

	Capital invested (USD millions)		Number of investments	
	2016 Reported	2017 Planned	2016 Reported	2017 Planned
Mean	111	128	41	47
Median	12	20	7	8
Sum	22,142	25,905	7,951	9,557
% growth (projected)		17%		20%

Source: GII/N

Asset Allocations

In total, 208 respondents were managing nearly USD 114 billion in impact investing assets at the end of 2016,³ allocated to a range of geographies, sectors, asset classes, and stages of business.

Geography

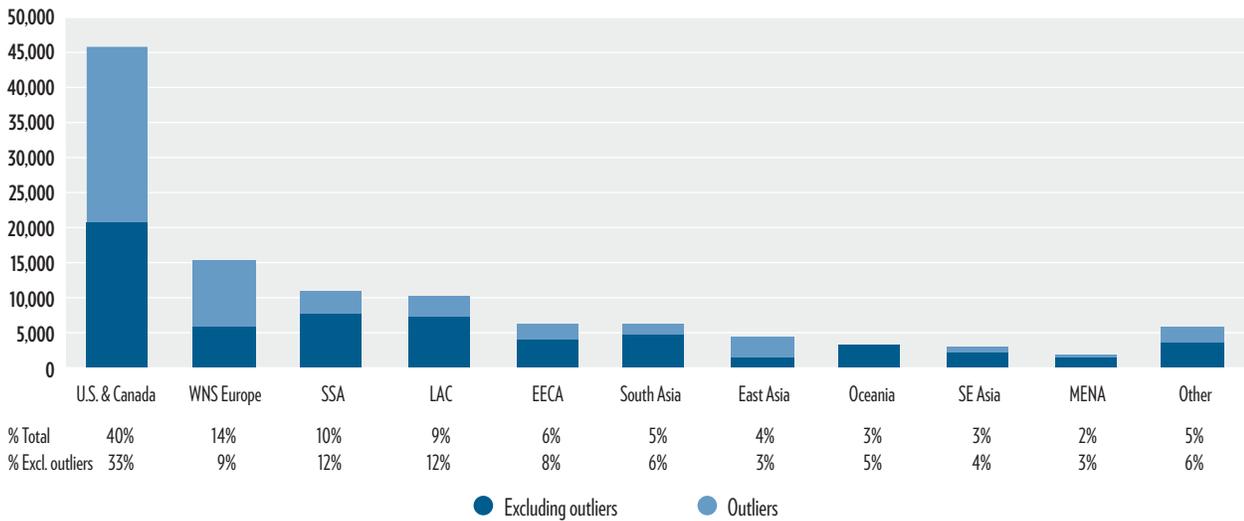
Across the full sample, respondents allocated the greatest share of assets under management (AUM) to the U.S. and Canada (40%), followed by WNS Europe (14%), SSA (10%), and LAC (9%, Figure i). Excluding a handful of outliers with concentrated portfolios, roughly half of sample AUM was invested in developed markets and half was invested in emerging markets.

² This figure excludes two respondents that declined to share information about the amount of capital invested and two large outlier respondents.

³ One respondent declined to provide AUM information.

Figure i: AUM by geography

Full sample: n = 208; AUM = USD 113.7 billion
 Excluding outliers: n = 203; AUM = USD 63.9 billion



Note: Respondents that allocated to 'other' geographies primarily described investments with a global focus and/or cash holdings.
 Source: GIIN

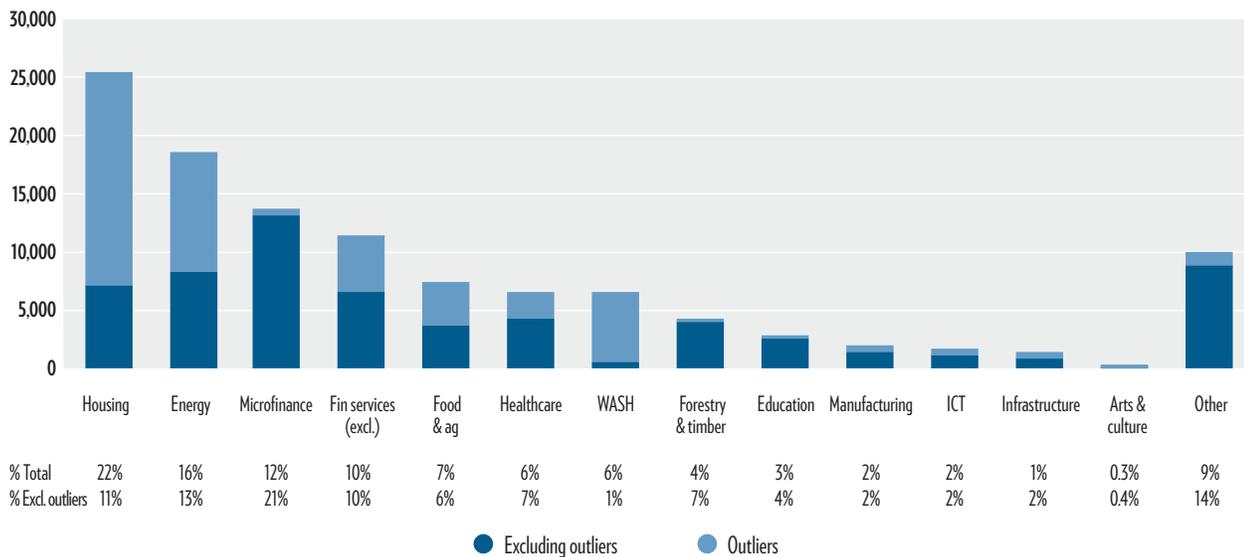
Looking at the year ahead, emerging markets continue to be a key focus area for impact investors. Thirty-three investors intend to increase the proportion of their portfolio allocated to SSA. Another 17–25 investors plan to grow their proportional allocations to each of South Asia, Southeast Asia, and LAC.

Sector

Sectors meeting basic needs, such as housing, energy, financial services, food and agriculture, and healthcare, comprise the bulk of respondents' asset allocations (Figure ii). Notably, although food and agriculture and healthcare are relatively small in terms of their proportion of AUM-weighted allocations, the largest number of investors have allocated at least some capital to these two sectors (112 and 100 respondents, respectively).

Figure ii: AUM by sector

Full sample: n = 208; AUM = USD 113.7 billion
 Excluding outliers: n = 203; AUM = USD 63.9 billion



Note: 'Other' sectors include services, waste management and recycling, tourism, transportation, community facilities, sustainable consumer products, and multi-sector investments.
 Source: GIIN

Approximately a quarter of respondents (54) plan to grow their proportional allocations to food and agriculture in 2017. Respondents also indicated interest in growing their relative allocations in the energy (39), education (38), and healthcare (36) sectors. Aside from energy, the other three of these four top areas for planned growth each makes up a relatively small share of total AUM as of the end of 2016 (3-7% each).

Instrument

At present, impact investing primarily takes place in private markets. The predominant instruments in this year’s sample AUM are private debt (34% of full sample AUM), real assets (22%), and private equity (19%). The most-used instrument by number of respondents is private equity, with 159 respondents allocating capital through this instrument, compared to 113 allocating capital through private debt and 33 allocating capital through real assets.

Stage of Business

The greatest number of respondents allocate capital to companies in the growth stage (126), followed by those allocating to the venture stage (102). However, the greatest share of AUM was allocated to mature, private companies (45% of total AUM), followed by growth-stage companies (26%). Notably, 74 respondents (45%) reported at least some allocation to seed-stage enterprises, but only 3% of total AUM was allocated to such businesses. This relatively small allocation to seed-stage enterprises matches their need for smaller investments.

Fund Manager Landscape

The survey includes 140 fund managers, of whom 137 answered questions specifically for fund managers.⁴ Collectively, the fund managers in the sample raised over USD 11.1 billion in 2016 (n = 101) and plan to raise USD 18.5 billion in 2017 (n = 119), a 67% aggregate increase (Table vi).

See pages 30-37 for information regarding factors for selecting fund managers, challenges fund managers face in raising capital, and competition in raising capital.

Table vi: Fund managers’ capital raised in 2016 and planned capital raise in 2017

Excludes respondents answering ‘zero’ as not all fund managers raise capital every year. All capital raise figures in USD millions.

	2016 Reported	2017 Planned
n	101	119
Mean	110	156
Median	22	50
Sum	11,133	18,543

Source: GIIIN

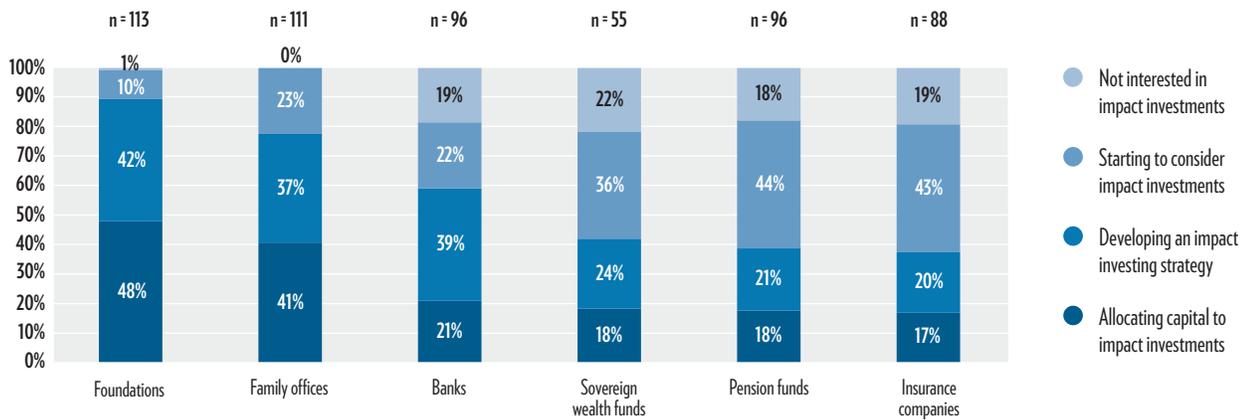
Fund managers responding to our survey manage capital from a range of sources. Almost 75% (100) reported raising capital from family offices/HNWIs, and more than 60% (84) reported raising capital from foundations. More than a third also reported raising capital from banks, pension funds or insurance companies, and DFIs. The largest sources of capital by percentage of funds raised were pension funds/insurance companies (24% excluding outliers) and family offices/HWNIs (18%).

This year, fund managers also indicated the level of activity or interest in impact investing they see from various types of investors with which they interact. A majority noted that most foundations, family offices, and banks to which they speak are either already allocating capital to impact investments or developing strategies for doing so (Figure iii). Fund managers also report widespread incipient interest from sovereign wealth funds, pension funds, and insurance companies: just one in five fund managers said these investor types had no interest in impact investing.

4 Three organizations were recoded as fund managers after submitting data, and therefore did not answer these questions.

Figure iii: Fund manager perceptions of interest in impact investments from potential investors

Number that responded for each option shown above each bar; some respondents chose 'not sure or not applicable' and are not included here. Listed in order of percentage of respondents that chose 'allocating capital to impact investments.'



Source: GIIN

Impact Measurement and Management

Half of respondents (50%) target both social and environmental impact objectives, while another 41% primarily target social impact objectives and 9% primarily target environmental impact objectives. Asked about tools or systems used, most respondents reported measuring their social and/or environmental performance through proprietary metrics or frameworks (75%), qualitative information (65%), and IRIS-aligned metrics (57%).⁵

Using such tools, impact investors seek different types of evidence of the impact of their investments. Most commonly, impact investors seek evidence that their investments fit within their impact strategy or theory of change (73%), track outputs associated with their investments (67%), or track outcomes associated with their investments (57%). Many respondents also look for evidence of longer-term impact associated with or resulting from their investments (42% and 22%, respectively).

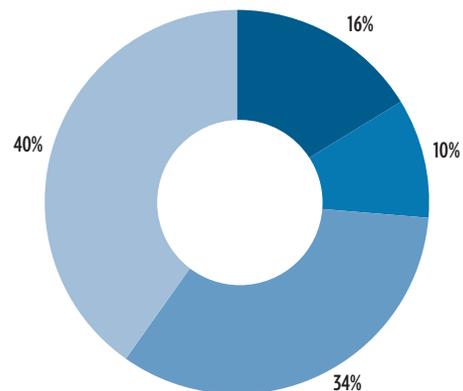
Roughly one year since the launch of the United Nations Sustainable Development Goals (SDGs),⁶ 26% of respondents reported that they actively track the performance of some or all of their investments with regard to the SDGs (Figure iv). Another third of respondents plan to do so soon. Among the 55 respondents that track the performance of their investments with respect to the SDGs, a large majority target SDG 8: Good jobs and economic growth (82%). Other commonly tracked SDGs include SDG 7: Renewable energy (62%), SDG 1: No poverty (58%), and SDG 5: Gender equality (55%).

Figure iv: Tracking impact investment performance to the UN SDGs

n = 209

- 16% Yes, for all of our investments
- 10% Yes, for some of our investments
- 34% No, though we plan to do so in the near future
- 40% No, and we don't have any foreseeable plans to do so

Source: GIIN



⁵ IRIS is the catalog of generally accepted performance metrics managed by the GIIN (see <http://iris.thegiin.org/>). Since some standard frameworks and assessments, such as GIIRS, are built using IRIS metrics, the proportion of respondents using IRIS metrics in some form may be even higher than is reflected here.

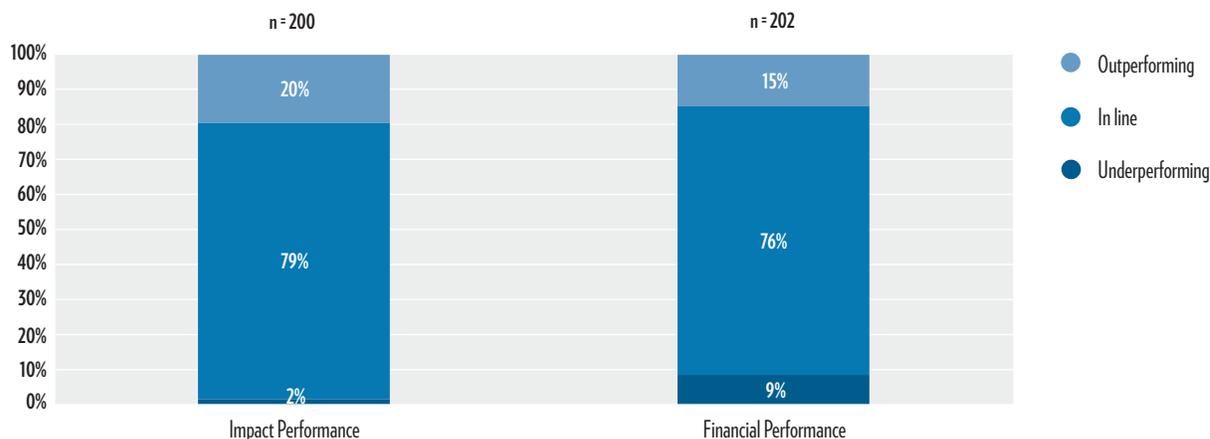
⁶ In 2015, world leaders adopted the 17 Sustainable Development Goals to "end poverty, protect the planet, and ensure prosperity for all." See more at: www.un.org/sustainabledevelopment.

Performance and Risk

An overwhelming majority of respondents reported that their investments have either met or exceeded their expectations for both impact (98%) and financial performance (91%; Figure v).

Figure v: Performance relative to expectations

Some respondents chose 'not sure', and these responses are not included.



Source: GIIIN

Average gross return expectations for 2016 vintage investments vary both by asset class and geography of investment. As expected, return expectations are higher for equity than for debt and higher for investments in emerging markets than for those in developed markets. Interestingly, return expectations between those principally targeting market-rate returns and those targeting below-market-rate returns vary greatly for investments in developed markets, but expectations are quite close for investments in emerging markets.

Table vii: Average gross return expectations for 2016 vintage investments

n	Market-Rate Investors		Below-Market Investors	
	19-35		6-22	
	DM	EM	DM	EM
Debt	7.0%	9.2%	2.7%	7.4%
Equity	13.4%	16.5%	4.9%	14.4%

Source: GIIIN

Most respondents experienced no significant risk events in 2016 (75%). Notably, those who reported having experienced more or worse risk events than they had expected were primarily investing in emerging markets; 47% of EM-focused investors answered 'yes' to this question, compared to just 7% of DM-focused investors.

See page 49-53 for analysis of private equity exits and segmented analysis of performance and risk.

Asked about the severity of various contributors of risk to their impact investing portfolios, the option most frequently cited as 'very severe' or 'somewhat severe' (49% of respondents) was 'business model execution & management risk,' consistent with previous years' findings.

The rest of this report contains more detailed analyses and further exploration of the current state of the impact investing industry. Readers are invited to use this resource as a point of reference to understand today's varied and dynamic impact investing marketplace.



Sample Characteristics

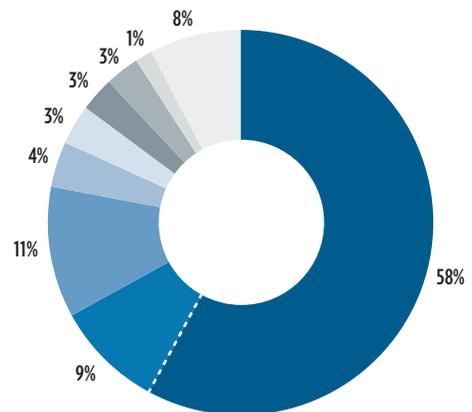
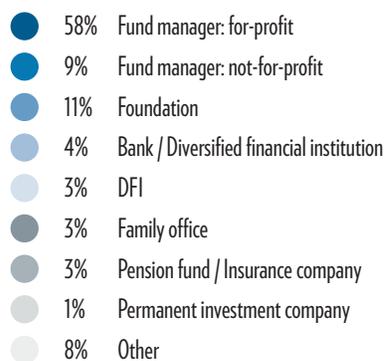
This report is based on a survey of 209 impact investors. The following overview of the makeup of this year's sample is provided to help contextualize the research findings. It describes the sample breakdown by organization type, headquarters locations, year of first impact investment, and target returns.

Organization type

As in the past several years' surveys, this year the most common organization type was fund managers (Figure 1). One hundred forty fund managers made up 67% of the sample. This year, the Research Team requested respondents to identify as either for-profit fund managers (58%, 121 respondents) or not-for-profit fund managers (9%, 19). Of all fund managers, 78% were headquartered in developed markets, 21% were headquartered in emerging markets, and the remainder had no single headquarters location. After fund managers, foundations were the next-most-common investor type, making up 11% of the sample (23 organizations). Banks, development finance institutions, family offices, pension funds and insurance companies, and others also responded to the survey.

Figure 1: Organization type by number of respondents

n = 209



Note: 'Other' organization types include nonprofit organizations, community development finance institutions, non-governmental organizations, and other hybrid organizations.

Source: GIIIN

Headquarters locations

A large majority (82%) of respondents are headquartered in developed markets, including 97 respondents (just under half of the sample) based in the U.S. and Canada and about a third based in WNS Europe (Figure 2). Seventeen percent of the sample is based in emerging markets, primarily in SSA, LAC, and South Asia, characteristics that are largely consistent with last year's sample.

Figure 2: Location of sample headquarters by number of respondents and percentage of total sample

n = 209



Note: Two respondents did not have a single headquarter location and are not included in the map above.

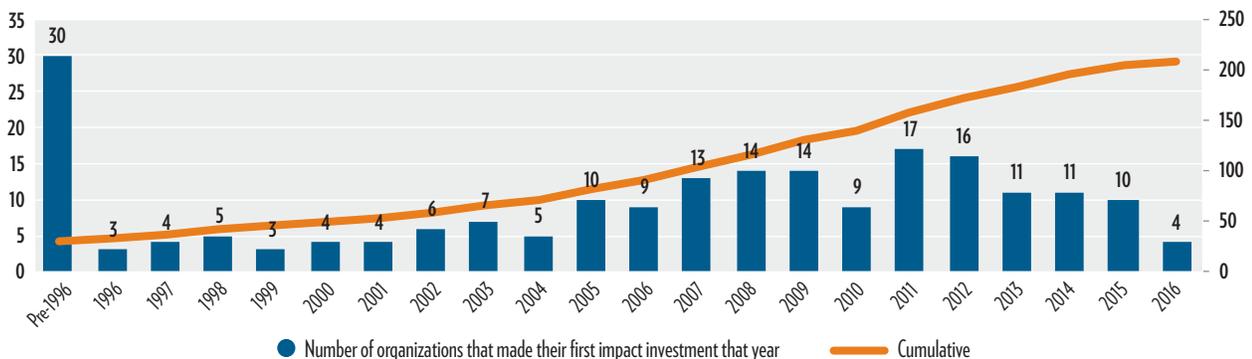
Source: GIIIN

Year of first impact investment

Fifty-seven percent of respondents (119 organizations) made their first impact investment within the last 10 years (Figure 3). However, practitioners have been making impact investments for decades, with 14% of the sample having made their first impact investment over 20 years ago. Just under half (45%) of below-market-rate-seeking investors began their practice in the last 10 years, compared to 63% of market-rate-seeking investors. Another interesting comparison is that 74% of Private Equity Investors made their first impact investment in the last 10 years, compared to only 37% of Private Debt Investors.

Figure 3: Year of first impact investment

n = 209



Source: GIIIN

Target financial returns

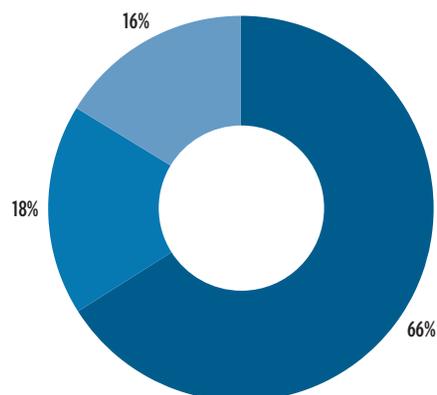
The majority (66%) of impact investors in the sample principally targets risk-adjusted, market-rate returns (Figure 4). The remaining 34% of impact investors principally target below-market returns, with 18% of the entire sample targeting returns that are ‘closer to market-rate returns’ and 16% targeting returns that are ‘closer to capital preservation.’ A slightly higher proportion of DM-HQ investors target market-rate returns compared to those based in emerging markets (67% versus 57%, respectively).

Figure 4: Target financial returns principally sought by percentage of respondents

n = 209

- 66% Risk-adjusted market-rate returns
- 18% Below-market-rate returns: closer to market rate
- 16% Below-market-rate returns: closer to capital preservation

Source: GIIN



Target returns principally sought differ by organization type. Most for-profit fund managers, banks, family offices, permanent investment companies, and all pension funds / insurance companies in the sample principally target risk-adjusted, market rates of return (Table 1). For DFIs, the part of the sample targeting market-rate returns is one organization larger than that targeting below-market rate returns. Most not-for-profit fund managers and foundations target below-market rates of return, as do most of those that selected ‘other’ as their organization type.

Table 1: Target financial returns principally sought by organization type

Organization type	n	Market-Rate Investors	Below Market Investors
Fund manager: for-profit	121	83%	17%
Fund manager: not-for-profit	19	11%	89%
Foundation	23	39%	61%
Bank / Diversified financial institution	8	63%	38%
DFI	7	57%	43%
Family office	6	83%	17%
Pension fund / Insurance company	6	100%	0%
Permanent investment company	3	67%	33%
Other	16	31%	69%

Note: ‘Other’ includes nonprofit organizations, community development finance institutions, non-governmental organizations, and other hybrid organizations.

Source: GIIN

Investment Activity

Capital invested since inception

Together, 208 respondents reported USD 181 billion of total capital invested since their respective inceptions, investing an average of USD 868 million and median of USD 100 million.⁷ Notably, the three largest respondents in terms of capital invested since inception accounted for 38% of the total (USD 68.1 billion).

Activity in 2016 and plans for 2017

Collectively, 205 respondents invested USD 22.1 billion into 7,951 impact investments during 2016 (Table 2).⁸ This set of respondents plan to invest USD 25.9 billion into 9,557 impact investments during 2017, indicating growth of 17% in amount of capital invested and 20% in terms of number of investments compared to 2016. At the median, respondents expect to increase the amount of capital invested from USD 12 million in 2016 to USD 20 million in 2017. Most respondents expect to grow their activity by more than 5% during 2017 in terms of both capital invested (71% of respondents) and number of deals (54% of respondents, Figure 5) and roughly 20% plan to decrease the amount of capital they invest and number of investments made during 2017. Some fluctuation is to be expected given the often-cyclical nature of investment activity.

Table 2: Number of investments and amount of capital invested in 2016 and planned for 2017

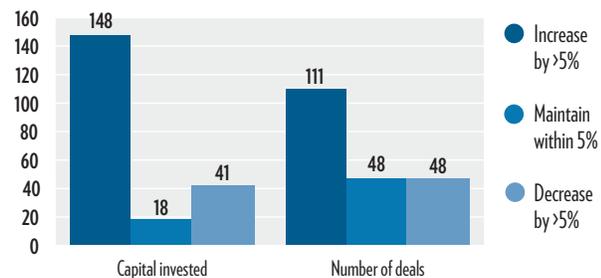
n = 205; excludes two large outliers and two respondents that did not report 2016 investment activity.

	Capital invested (USD millions)		Number of investments	
	2016 Reported	2017 Planned	2016 Reported	2017 Planned
Mean	111	128	41	47
Median	12	20	7	8
Sum	22,142	25,905	7,951	9,557
Aggregate % growth (projected)		17%		20%

Source: GIIN

Figure 5: Number of respondents that plan to increase, maintain, or decrease their level of activity in 2017

n = 207; excludes two respondents that did not report investment activity.



Source: GIIN

By organization type, for-profit fund managers reported the most total activity during 2016, by both capital invested and number of investments (Table 3). As do foundations and pension funds/insurance companies, for-profit fund managers project over 30% growth in amount of capital invested. At the median, banks and diversified financial institutions reported the highest levels of activity in 2016.

⁷ One respondent declined to share information about their capital invested since inception. The other respondents reported capital committed, capital deployed, or both. Capital invested refers either to capital committed or to capital deployed, referring to the latter only for respondents that shared only that information.

⁸ This figure excludes two respondents that declined to share information about the amount of capital invested in 2016 and two large outlier respondents.

Table 3: Investment activity by organization type

Excludes two outliers and two respondents due to data-quality issues. Figures in USD millions.

	n	Capital invested			Number of investments		
		Median 2016	Total 2016	Total Planned 2017	Median 2016	Total 2016	Total Planned 2017
Fund manager: for-profit	119	13	11,307	15,286	6	4,824	5,835
Fund manager: not-for-profit	19	10	1,345	1,392	13	739	1,047
DFI	7	76	4,432	3,016	20	438	437
Bank / Diversified financial institution	7	242	2,089	2,528	60	846	1,108
Pension fund / Insurance company	6	190	1,459	1,905	7	33	36
Foundation	23	11	550	730	5	112	133
Family office	5	8	116	113	4.5	33	40
Other	19	8	844	936	19	926	921
Total	205	12	22,142	25,905	7	7,951	9,557

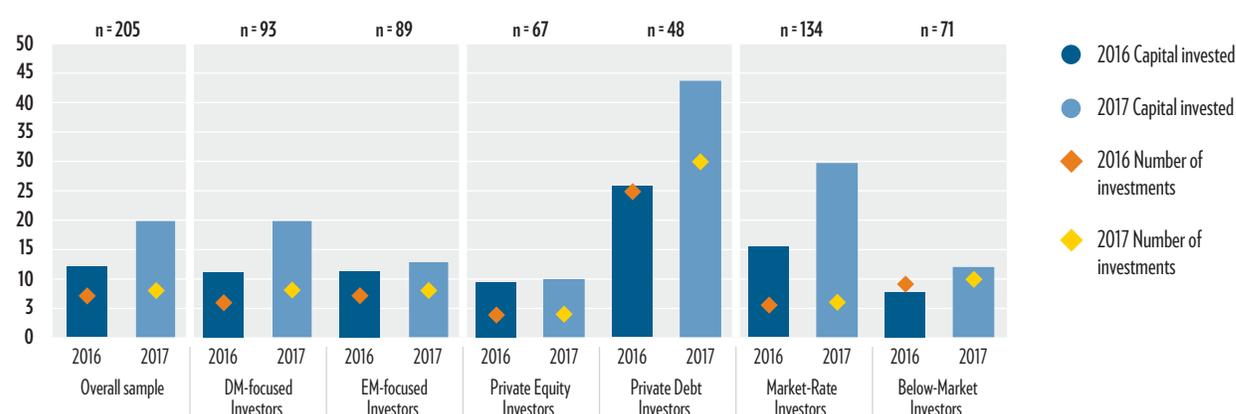
Note: 'Other' includes permanent investment companies, nonprofit organizations, community development finance institutions, non-governmental organizations, and other hybrid organizations. Figures in USD millions. Source: GIIIN

At the median, respondents invested USD 12 million into seven impact investments (Figure 6). Looking ahead to 2017, respondents expect greater growth in the amount of capital they invest than in the number of deals they make.

Private Debt Investors reported investing a larger median amount of capital (USD 26 million) into a larger number of investments (25 deals) than did Private Equity Investors (USD 9 million into four deals). Also at the median, Private Debt Investors indicated plans to grow the amount of capital they invest from USD 26 million to USD 44 million as compared to Private Equity Investors' plans to maintain a steady pace of activity. Market-Rate Investors plan to grow the amount of capital they invest from USD 15 million to USD 30 million at the median. All other respondent segments plan modest growth in 2017 in terms of both capital invested and number of deals.

Figure 6: Median capital invested and number of investments among various respondent segments

Number of respondents shown above each bar; excludes two outliers and two respondents due to data-quality issues. Capital invested in USD millions.



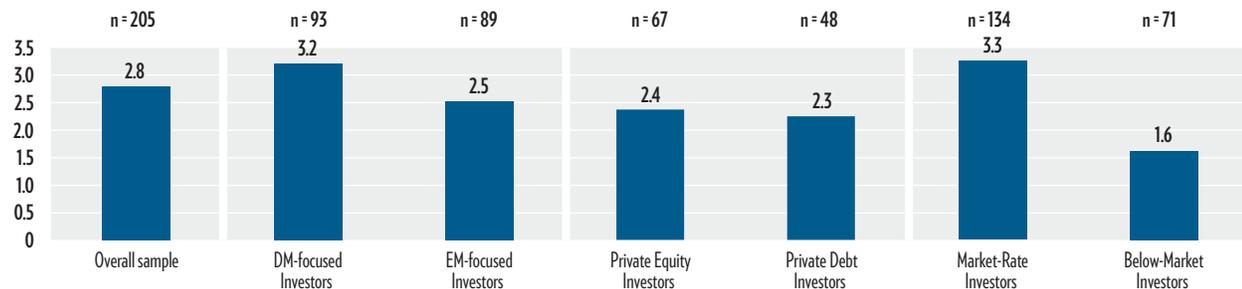
Source: GIIIN

In aggregate, Private Equity Investors have the most bullish plans for 2017, expecting to increase the amount of capital they invest and their number of deals by 89% and 14%, respectively. Private Debt Investors, on the other hand, predict a 5% aggregate decrease in the amount of capital they invest while increasing the number of investments they make by 25%. Across most other segments, respondents anticipate greater proportional growth in the number of investments they make than in the aggregate amount of capital they invest.

Among respondents that shared information about their investment activity, their average deal size in 2016 was USD 2.8 million (Figure 7). Market-rate-seeking and below-market-rate investors reported respective average deal sizes of USD 3.3 million and USD 1.6 million. Average deal size also varied by organization type, with pension funds and insurance companies making by far the largest deals (USD 44.2 million) and not-for-profit fund managers the smallest (USD 1.8 million).

Figure 7: Average deal size in 2016 among various respondent segments

Number of respondents shown above each bar; excludes two outliers and two respondents due to data quality issues. Figures in USD millions.



Source: GIIIN

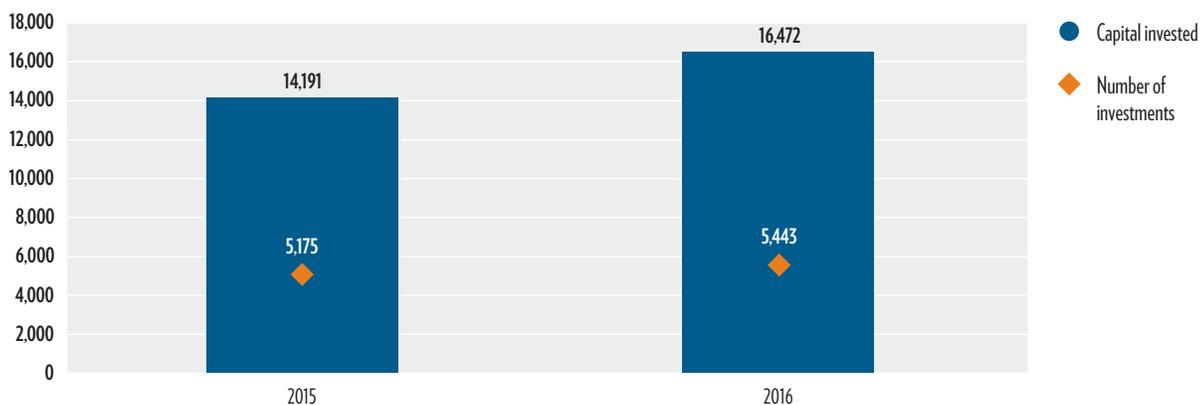
Repeat respondents

2015 reported versus 2016 reported activity

Of the 209 respondents in the full sample, 118 also completed the Annual Survey in 2016. Activity was generally consistent from year-to-year among this sub-sample of repeat respondents, with a 3% increase in the number of investments made and a 15% increase in the amount of capital invested (Figure 8).⁹

Figure 8: Reported activity in 2015 and 2016 among repeat respondents

n = 114; excludes two outliers and two respondents due to data quality issues. Capital invested in USD millions.



Note: In the 2017 survey, respondents had the option to share capital committed, capital deployed, or both. Analysis pertains to capital committed when reported or to capital deployed if respondents declined to share data on capital committed.

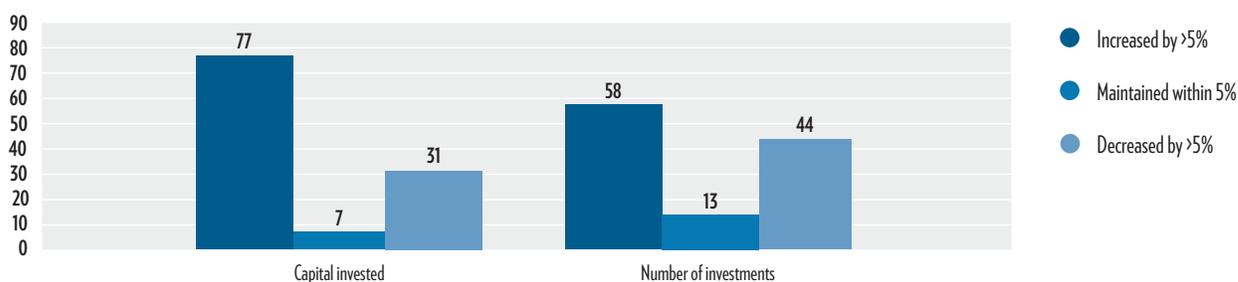
Source: GIIIN

Most repeat respondents grew their activity, with 75 (66% of respondents) reporting at least a 5% increase in the amount of capital they invested during the year and 56 (49%) reporting an increase in the number of investments they made (Figure 9). Roughly a quarter of repeat respondents decreased the amount of capital they committed to impact investments, and 39% made fewer deals.

⁹ Comparisons of 2015 to 2016 activity are based on 114 repeat respondents with comparable data (excluding two outliers and two respondents due to data-quality issues). In the 2017 survey of 2016 activity, respondents had the option to share capital committed, capital deployed, or both. When respondents declined to share data on capital committed, capital deployed was analyzed instead. In the 2016 survey of 2015 activity, however, respondents reported capital committed only.

Figure 9: Number of repeat respondents that increased, maintained, or decreased level of activity, 2015-2016

n = 114; excludes two outliers and two respondents due to 2015 data-quality issues.



Source: GIIIN

2016 planned versus 2016 reported activity

The Research Team evaluated repeat respondents' realization of their plans for 2016 as indicated in last year's survey responses through the activity they reported in this year's survey. Overall, most repeat respondents exceeded their targets in terms of number of investments, but most fell short of their target for capital invested (Table 4). In aggregate, however, the sub-sample of repeat respondents exceeded the amount of capital they planned to invest by 2% but fell 2% short of their planned number of investments.

Table 4: Capital invested and number of investments in 2016 among repeat respondents

n = 116; excludes two outlier respondents.

	2016 Planned	2016 Reported	Percent Change	Number that exceeded by >5%	Number that met within 5% of target	Number that fell short by >5%
Capital invested (USD million)	16,563	16,922	2%	35	11	70
Number of investments	6,105	5,967	-2%	61	16	39

Note: Two large respondents changed their reporting methodologies, resulting in higher estimates of investment activity in this year's survey.

Source: GIIIN

2016 Market Development

Blended Capital

The impact investing industry comprises a wide array of investors along a spectrum of risk-return expectations to meet the needs of different investees or projects. Some investment opportunities have high potential for positive impact, but are perceived as too financially risky for certain investors. Given the industry's diversity, there is opportunity for investors with varying financial return expectations and risk tolerance to complement each other when their impact objectives align.

Blended capital structures allow investors to pool capital into 'stacked' structures offering different risk-return options, such as junior tranches, senior tranches, and first-loss capital.¹⁰ Through such structures, investors with higher risk tolerance may be able to further their impact objectives by enabling more risk-averse investors to participate in impactful deals. Below is a selection of innovative uses of blended finance models that channeled capital into impact investments around the world in 2016.

- **Living Cities Blended Catalyst Fund:** In March 2016, Living Cities launched its Blended Catalyst Fund, a USD 31 million debt fund providing loans, lines of credit, and equity investments at below-market rates to organizations and local governments addressing social issues in urban communities.¹¹ The fund blends commercial and philanthropic capital, having secured USD 15 million from senior investors including Deutsche Bank Trust, MetLife, and Prudential, USD 11.4 million in junior commitments from six foundations, and USD 4.5 million in grant capital.¹²
- **Benefit Chicago:** The Chicago Community Trust, the MacArthur Foundation, and the Calvert Foundation intend to invest up to USD 100 million, structured primarily as low-interest loans, in nonprofits and social enterprises that support community development in the Chicago area. Investments will be made by a special-purpose fund established by the MacArthur Foundation, which contributed USD 50 million. The remaining funds will be loans from the Calvert Foundation with proceeds from the sale of Calvert Notes¹³ USD 15 million of which the Chicago Community Trust committed to purchase; the remainder is expected to come from individuals and organizations.¹⁴ Loans from the Calvert Foundation take priority in repayment over returns on the funds contributed by the MacArthur Foundation.
- **Seychelles Conservation and Climate Adaptation Trust:** The Trust will initially restructure USD 21.6 million of the Seychelles' national debt in exchange for directing capital to environmental conservation initiatives. The Leonardo DiCaprio Foundation and others contributed USD 5 million in grants, and NatureVest, the investment arm of The Nature Conservancy, provided a USD 15.2 million loan. The Trust will ultimately direct approximately USD 5.6 million to climate-adaptation and marine-conservation activities as well as capitalize an endowment with USD 3 million over 20 years. It will eventually protect a marine area roughly the size of Germany, resulting in the Indian Ocean's second largest marine reserve.¹⁵
- **Sustainable Development Investment Partnership (SDIP):** Founded in late 2015, SDIP will mobilize USD 100 billion over five years by coordinating public-private financing partnerships to fund infrastructure projects in emerging markets. SDIP, an initiative of the World Economic Forum and the Organization for Economic Co-operation and Development, aims to close the funding gap required to achieve the Sustainable Development Goals—specifically Goal 9: Industry, Innovation, Infrastructure.¹⁶
- **Convergence Blended Finance Deal-Sourcing Platform:** In January 2016, Convergence was launched to help channel private-sector dollars into emerging markets through blended finance. The institution will run an innovative deal-sourcing platform designed to connect public, private, and philanthropic investors with one another to co-invest in blended finance projects in developing and frontier markets.¹⁷ Pioneer users of the platform include Citi, the Bill & Melinda Gates Foundation, and USAID.

10 Interpretations vary of the meaning of 'blended capital,' some of which focus on the joining of public and private capital.

11 Living Cities, "Living Cities Launches New \$31 Million Blended Catalyst Fund For Social Impact Investment In US Cities," news release, March 30, 2016, http://www.prnewswire.com/news-releases/living-cities-launches-new-31-million-blended-catalyst-fund-for-social-impact-investment-in-us-cities-300243170.html?tc=eML_cleartime.

12 Living Cities, Blended Catalyst Fund Annual Report: December 15, 2015 to June 30, 2016 (October 30, 2016), <https://www.livingcities.org/resources/328-blended-catalyst-fund-annual-report-fiscal-year-2016>.

13 Find more information on Calvert Notes at <http://www.calvertfoundation.org/invest>.

14 "Benefit Chicago FAQ," accessed April 4, 2017, http://www.benefitchi.org/files/FAQ_Benefit_Chicago1.pdf.

15 Convergence, Seychelles Debt Conversion for Marine Conservation and Climate Adaptation Case Study (March, 2017), <https://convergence.finance/knowledge-detail/3p1S3pSTVKQYYC2ecwaeik>.

16 World Economic Forum, "Sustainable Investment Partnership to Boost Africa's Infrastructure," news release, May 11, 2016, <https://www.weforum.org/press/2016/01/sustainable-development-investment-partnership-to-boost-africa-s-infrastructure>.

17 Convergence, "Convergence Launches as First and Only Deal Sourcing Platform for Blended Finance Investments," news release, January 20, 2016, <https://convergence.finance/press-detail/1010c8qPv20ymmQESqSly4>.

State of the Impact Investing Market

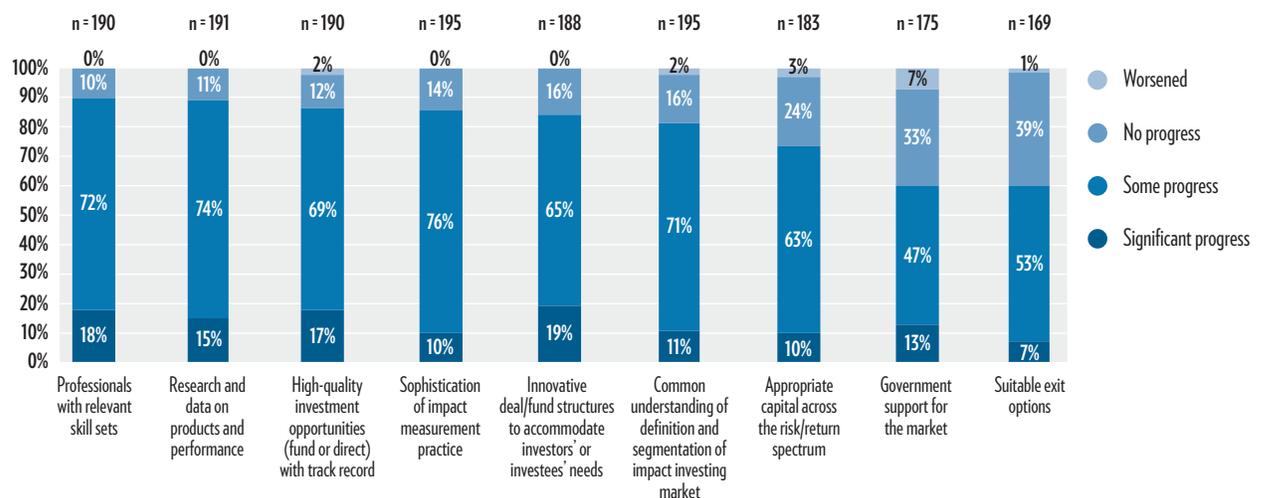
Progress on indicators of market growth

Every year, respondents offer their views on several indicators of the development of the impact investing market over the past year. In a positive sign for the industry, most respondents this year, as in previous years, saw some progress on all of these indicators (Figure 10). Respondents' perceptions of progress on different indicators did vary, with important nuances.

On the positive side, 15–19% of respondents reported significant progress in the availability of 'innovative deal/fund structures,' 'professionals with relevant skill sets,' 'high-quality investment opportunities with track record,' and 'research and data on products and performance.' On the other hand, 39% of respondents perceived no progress on the availability of 'suitable exit options,' and one-third saw no progress on 'government support for the market' (and 7% actually felt this indicator had worsened in 2016).

Figure 10: Progress on indicators of market growth

Number of respondents shown above each indicator; some respondents chose 'not sure,' and these responses are not included. Ranked by percent selecting 'some progress' or 'significant progress.'



Source: GIIN

Higher proportions of respondents with portfolios focused on developed markets reported progress across all indicators compared to those focused on emerging markets. A small number (1–4%) of emerging-market-focused respondents reported that some indicators had 'worsened'—'high-quality investment opportunities with track record,' 'appropriate capital across the risk-return spectrum,' and 'suitable exit options'—while virtually no developed-market-focused respondents did. The one area that a greater proportion of developed-market-focused respondents indicated had worsened was 'government support for the market' (10% of DM-focused, 7% of EM-focused). Some respondents added comments that government support varies by region, worsening in some markets and improving in others.

Variation by asset-class focus is also instructive. Roughly a quarter of Private Debt Investors reported seeing 'significant progress' on both 'high-quality investment opportunities with track record' and 'innovative deal/fund structures,' compared to 13% and 14%, respectively, of Private Equity Investors reporting significant progress for these two indicators.

Challenges

Notwithstanding some variation in sample year-to-year, the top-ranked challenge to the growth of the impact investing market has remained quite consistent over the last several years of surveys: ‘lack of appropriate capital across the risk-return spectrum’ (Figure 11).¹⁸ Seventeen percent of respondents indicated that this is a ‘very significant’ challenge, with a further 35% deeming it ‘significant.’ Between 40% and 47% of respondents cited several other challenges as either ‘very significant’ or ‘significant,’ though most respondents saw progress on these same areas as indicators of growth, as explained in the preceding section and shown in Table 5 below.

The two lowest-ranked challenges are also the two indicators of growth where the greatest proportion of respondents indicated seeing ‘significant progress’ in the past year: ‘professionals with relevant skillsets’ and ‘innovative deal/fund structures to accommodate investors’ or investees’ needs.’ Though the former has been a low-ranked challenge in past surveys, the latter has dropped in ranking compared to last year. The fact that nearly a fifth of respondents noted significant progress on ‘innovative deal/fund structures’ in 2016 might suggest that this has indeed become less of a challenge (although a change in question structure for this year’s survey should be noted).¹⁹ Also, while ‘government support for the market’ is the option that the largest number of respondents reported ‘worsened’ (see above), it is also among their least serious challenges.

Figure 11: Challenges to the growth of the impact investing industry

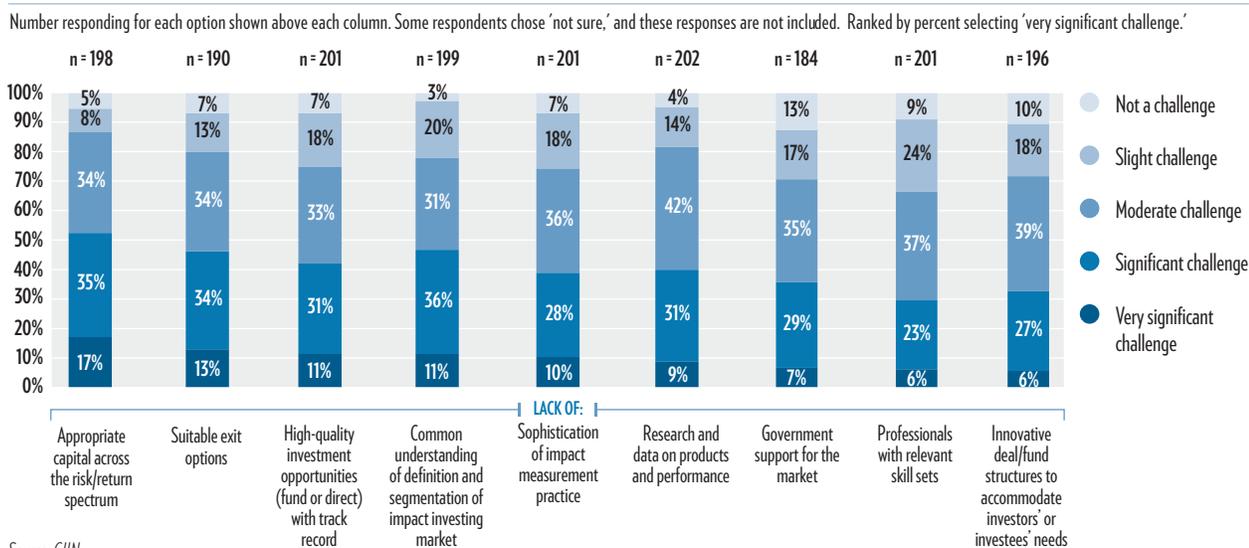


Table 5: Challenges and progress in the growth of the impact investing industry

		Severity of challenge		Degree of progress	
		Very significant challenge	Significant challenge	Significant progress	Some progress
		n = 184–201		n = 175–195	
1	Appropriate capital across the risk/return spectrum	17%	35%	10%	63%
2	Suitable exit options	13%	34%	7%	53%
3	High-quality investment opportunities (fund or direct) with track record	11%	31%	17%	69%
4	Common understanding of definition and segmentation of impact investing market	11%	36%	11%	71%
5	Sophistication of impact measurement practice	10%	28%	10%	76%
6	Research and data on products and performance	9%	31%	15%	74%
7	Government support for the market	7%	29%	13%	47%
8	Professionals with relevant skill sets	6%	23%	18%	72%
9	Innovative deal/fund structures to accommodate investors’ or investees’ needs	6%	27%	19%	65%

Source: GIIN

¹⁸ In addition to changing sample compositions, a notable change in the question structure this year complicates direct comparison. In previous years, respondents were asked to rank the top three or five challenges (depending on the year). This year, to get a sense of both the absolute and relative severity of challenges, respondents were asked to rate each challenge on a scale from ‘very significant challenge’ to ‘not a challenge.’

¹⁹ See note 17 above.

Emerging-market-focused investors were more likely to rate certain challenges as ‘very significant’ compared to developed-market-focused investors. Most notably, 17% of EM-focused respondents noted that lack of ‘suitable exit options’ was a ‘very significant’ challenge, compared to just 9% of DM-focused investors. In terms of asset class focus, 24% of Private Debt Investors reported that lack of ‘appropriate capital across the risk/return spectrum’ was a ‘very significant’ challenge, compared to 14% of Private Equity Investors.

Competition for impact investing transactions

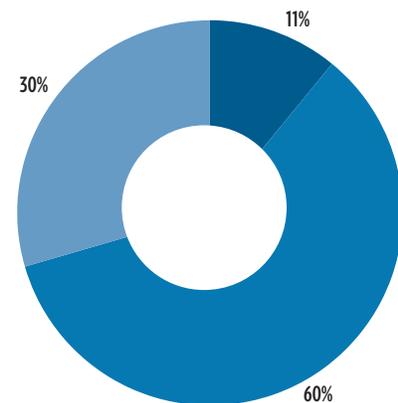
As interest in impact investing grows, perceptions of competition for deals of similar types become interesting to examine. Asked about the degree of competition in the market for impact investing transactions, roughly 10% of respondents reported ‘a lot of competition,’ while 30% saw ‘no significant competition’ (Figure 12). The rest (60%) were somewhere in between, noting ‘some competition.’

Figure 12: Degree of competition for impact investing transactions

n = 183; optional question.

- 11% A lot of competition
- 60% Some competition
- 30% No significant competition

Source: GIIN



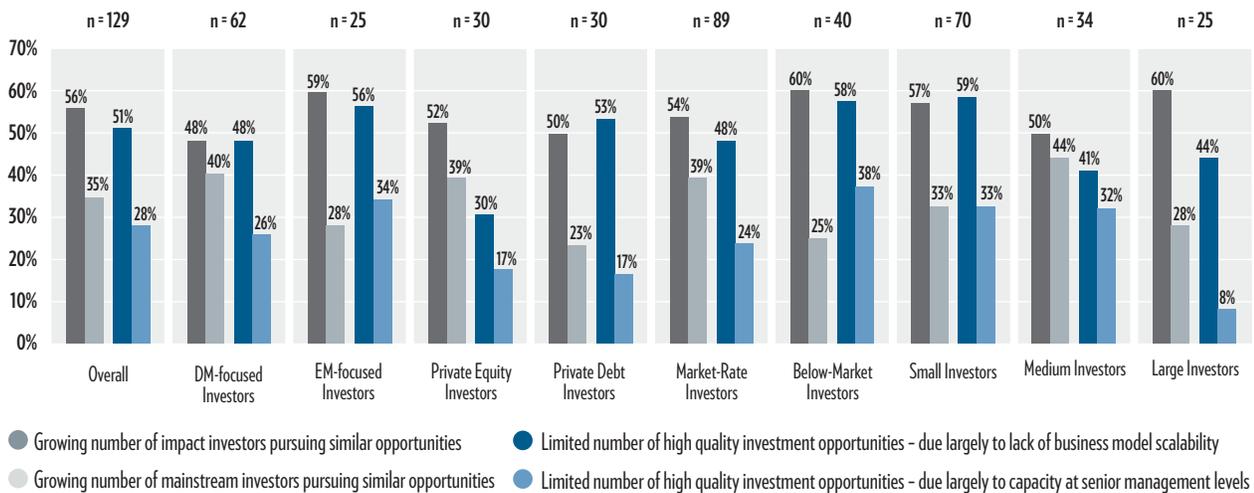
Those who saw ‘some’ or ‘a lot’ of competition were asked to offer their thoughts on the main causes of competition (Figure 13), including factors on both supply (the presence of other investors) and demand (the availability of high-quality investment opportunities) sides.

The highest proportion reported competition from other impact investors in their segments (56% overall). Many also reported competition from mainstream investors (35% overall). The sub-groups in which the highest proportion of respondents saw competition from traditional or mainstream investors were those with medium-sized impact investing AUM, those focused on developed markets, those mainly using private equity, and those seeking market-rate returns. Interestingly, a quarter of Below-Market Investors also saw competition from mainstream investors for opportunities similar to those they pursue.

On demand-side limitations, more respondents indicated that competition was due to lack of business-model scalability (51%) than indicated it was due to capacity at investees’ senior levels of management (28%). This difference was especially pronounced among investors with large impact investing portfolios, where only 8% saw lack senior-management capacity as a limitation to the number of opportunities.

Figure 13: Causes of competition across sub-groups of respondents

Number of respondents selecting 'some' or 'a lot' of competition shown below each group. Percentage of those respondents selecting each cause shown above each bar. Respondents could select more than one cause.

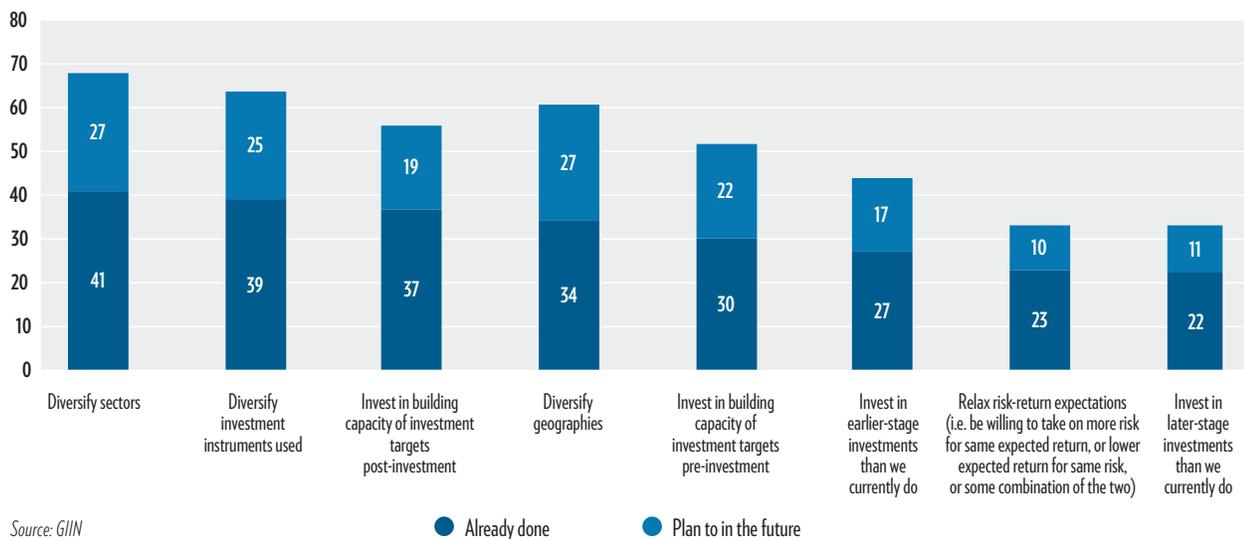


Source: GIIN

Those who reported facing competition were also asked to report how they have addressed competition already or plan to do so in the future. Popular strategies included diversifying sectors, investment instruments, and geographies, as well as investing in building the capacity of investment targets post-investment (Figure 14). Building capacity post-investment was more common among EM-focused respondents (62% have used this strategy or plan to) than among DM-focused respondents (32%). A higher proportion of Private Equity Investors selected 'invest in later-stage companies' (30%) compared to Private Debt Investors (10%). Respondents principally seeking below-market rates of return were more likely to use capacity building—both pre- and post-investment—than were market-rate-seeking respondents.

Figure 14: Ways of addressing competition

Number of respondents that selected each option shown in the bars; optional question. Respondents could select more than one option.



Source: GIIN

Current Market Topics

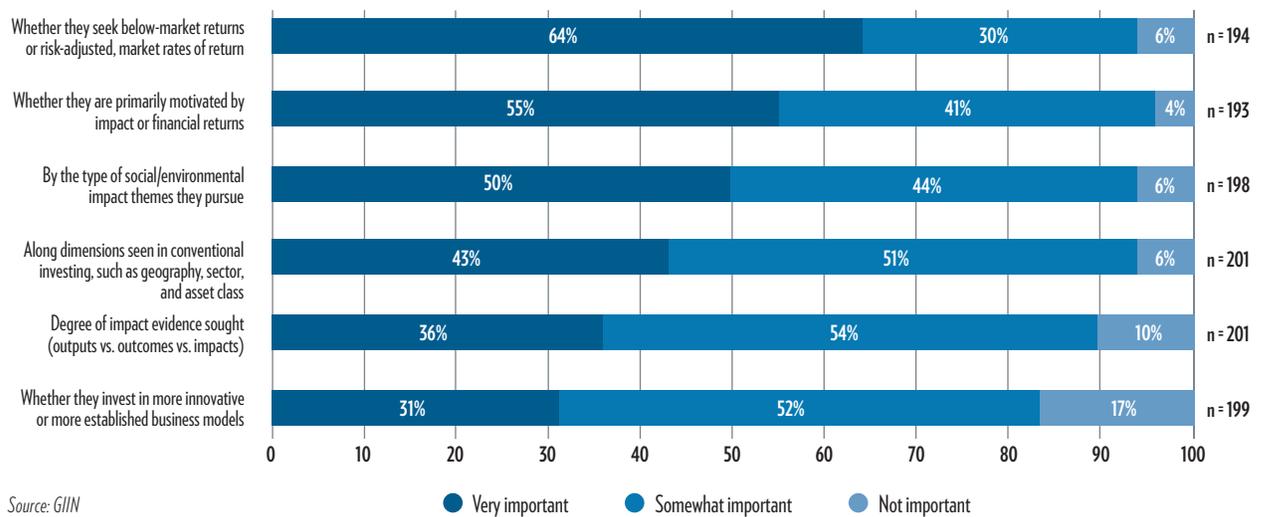
The impact investing industry’s growth and diversity has led to healthy debate on many dynamics affecting the field. This year, the Research Team surveyed respondents on some of these ‘hot topics.’ Respondents provided their viewpoints on market segmentation, the role of below-market-rate capital in impact investing, the entry of large-scale financial firms to the market, and impact investing in public equities.

Market segmentation

As noted above in the ‘State of the Impacting Investing Market’ section, nearly half of survey respondents indicated that ‘lack of a common understanding of definition and segmentation’ is a significant challenge to the growth of the impact investing industry. To further investigate this challenge, respondents were asked to indicate the degree of importance of each of a set of possible factors by which impact investors (or products/opportunities) might be segmented (Figure 15). The results emphasize factors unique to the impact investing industry, such as financial return philosophies, motivations for engaging in the sector, and impact themes pursued; half or more of the sample rated each of these factors as ‘very important.’ Meanwhile, a sizeable proportion (43%) of respondents also deemed dimensions common to conventional investing—such as geography, sector, and asset class—to be ‘very important.’

Figure 15: Importance of various criteria for segmenting the impact investing market

Figure shows percentage selecting ‘very important,’ ‘somewhat important,’ and ‘not important’ for each criterion. Number of responses for each criterion shown next to bar; some respondents chose ‘not sure,’ and these responses are not included.



Some respondents wrote in other factors they believe to be important, such as whether investors seek additionality,²⁰ how they are funded, their risk tolerance, their exit or liquidity preferences, the type of investor engagement with investee companies, and further segmentation within the below-market-rate bucket.

²⁰ “Additionality” refers to the idea that a given outcome would not have occurred but for the investment.

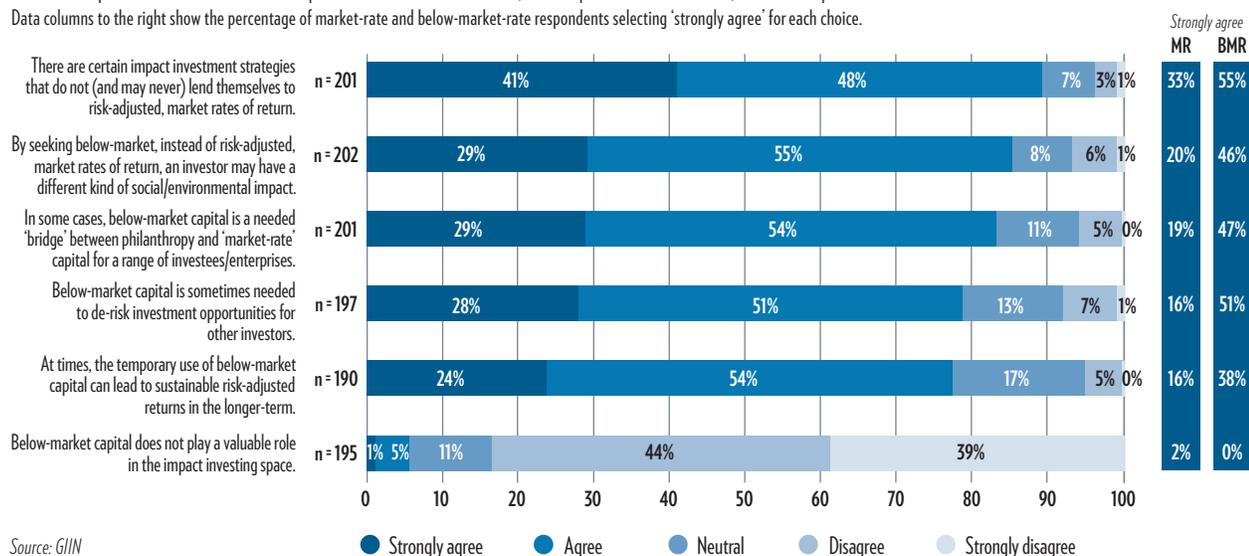
The role of below-market-rate capital

Impact investors pursue a range of financial returns, which vary according to their investment strategies and impact theses (see Figure 4). This diversity, while often seen as a strength of the industry, at times raises questions about how the varying players and types of capital can best complement one another. To shed some light on this issue, this year's survey asked respondents to share their views on the role of below-market-rate-seeking capital in the space (Figure 16).

Overall, respondents broadly agreed that below-market-rate capital plays a valuable role in the market, with only 6% of respondents disagreeing with this idea. Many respondents also agreed with several options in the survey regarding specific roles that such capital plays. Eighty-nine percent agree or strongly agree with the idea that 'there are certain impact investment strategies that do not (and may never) lend themselves to risk-adjusted market rates of return.' Roughly four out of five agree or strongly agree with several other statements about the value of this type of capital, including that it can lead to different kinds of impact, act as a bridge between philanthropy and market-rate capital, and help reduce the risk of certain investments for other investors.

Figure 16: Views on the role of below-market-rate capital in impact investing

Number of respondents that answered for each option shown to the left of each bar; some respondents chose 'not sure,' and these responses are not included. Data columns to the right show the percentage of market-rate and below-market-rate respondents selecting 'strongly agree' for each choice.



Source: GIIN

Interestingly, but perhaps not surprisingly, below-market-rate-seeking respondents were more bullish than were market-rate investors on the role played by this type of capital (as shown in the data columns to the right of Figure 16). Still, market-rate investors, too, overwhelmingly recognized the valuable role of this kind of capital in impact investing.

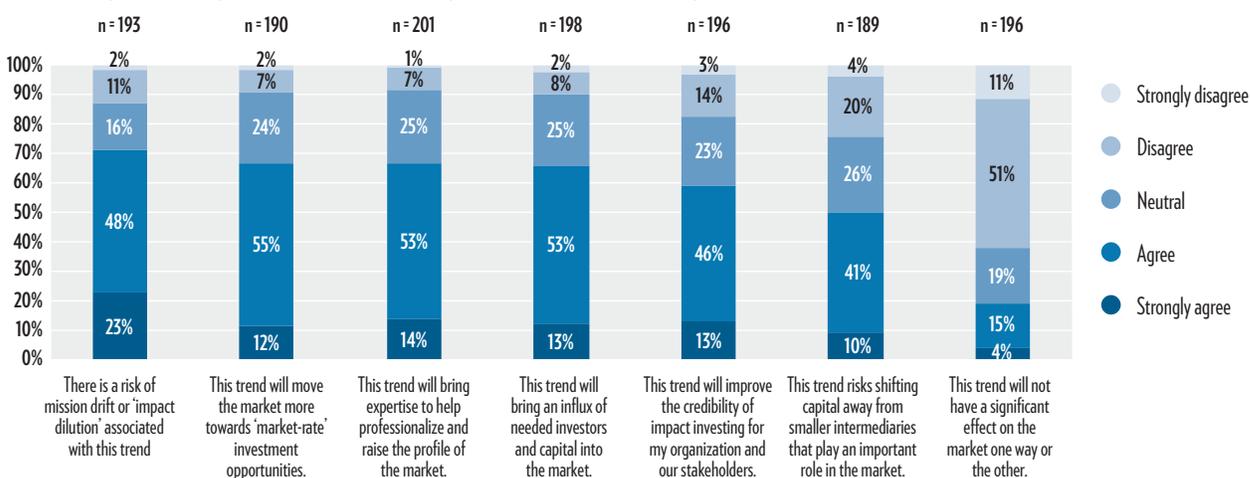
Some respondents wrote in their own statements, some highlighting the idea that although below-market-rate capital serves to seed and develop early-stage business models and frontier markets, it should be thought of as a short-term tool. One wrote, "Below-market capital exists to help seed industries, sectors, and models." A few others noted that market-rate investment opportunities are necessary to attract large private investors and scale the industry. One commented, "We strongly believe that there are many market-rate impact investing opportunities and that a deep offering of market-rate products is necessary in order to scale our industry."

Entry of large-scale financial firms

In the past few years, several large, well-known asset managers and other financial firms have entered the impact investing space. This year's survey offered respondents the opportunity to express their views on how this development will likely affect the market (Figure 17). The findings indicate both positive expectations and concerns. On the cautionary side, most respondents believe that there is a risk of mission drift or 'impact dilution' associated with the market entry of large-scale financial firms (48% agree and 23% strongly agree). Just over half also agreed or strongly agreed that there is a risk of capital shifting away from the smaller intermediaries that play an important role in the market. On the positive front, a majority felt that this trend will help professionalize the market (67% agree or strongly agree), bring in much-needed capital (66%), and enhance the credibility of the market (59%). On another note, there was also broad agreement that the trend will move the market toward more 'market-rate' investment opportunities. Interestingly, 8–13% of respondents disagreed or strongly disagreed with each of these statements, indicating a diversity of viewpoints within the field. A minority of respondents (19%) believe the trend towards the entry of large-scale financial firms will have no significant effect on the market.

Figure 17: Respondents' views on the effects of the entry of large-scale financial firms in impact investing

Number that responded for each option shown above each bar. Some respondents chose 'not sure,' and these responses are not included.



Source: GIIN

Some respondents offered additional comments regarding their views of the entry of large-scale, name-brand financial firms, reflecting the same mix of positive views and concerns. For example, one fund manager wrote, "The entry of bigger names is bringing attention that could help to increase interest in impact investing; however, it could also result in disillusionment if the commitment to impact isn't clear or if impact takes a backseat to return. Another risk is that after testing the water, these bigger players decide to decrease resources allocated to this area, ultimately making it seem faddish instead of a sustainable strategy." While on the positive side, as one fund manager pointed out, "The name brands are the first ones likely to meaningfully tackle scale, which is a main barrier to the sustained growth of the industry," quite a few respondents indicated concerns about misapplication of the impact investing label. For example, another fund manager commented, "The label impact is being used because it is in vogue. ESG and SRI investments are now being repackaged as impact." A foundation noted, "It's difficult to tell how 'new' the money is—are these investments that were being made previously but are now branded as 'impact' or 'sustainable,' or are they actually a new investment strategy?" Meanwhile, one respondent chose to highlight the risk of too much capital and limited absorption capacity in the market: "The issue is not availability of capital. Capital is already available beyond the investees' capacity. In financial inclusion, the arrival of 'mainstream' investors has led to serious distortion in narrow markets, leading to over-funding and finally to crisis. This is the main risk."

Impact investing in public equities

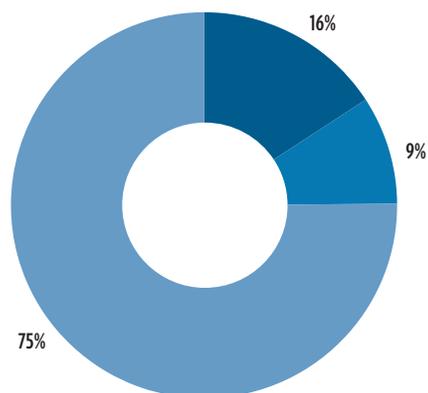
Sixteen percent of survey respondents make impact investments in public equities (Figure 18). This proportion is higher among respondents principally targeting risk-adjusted, market rates of return (21%, compared to 6% of Below-Market Investors) and among respondents focused on developed markets (20%, compared to 7% of emerging-market-focused investors). Interestingly, 52% of the foundations in our survey (n = 23) currently make impact investments in public equities or plan to do so in the future.²¹

Figure 18: Respondents making impact investments in public equities

n = 209

- 16% Yes, we currently do
- 9% No, but we plan to do so in the future
- 75% No, and we do not plan to do so in the future

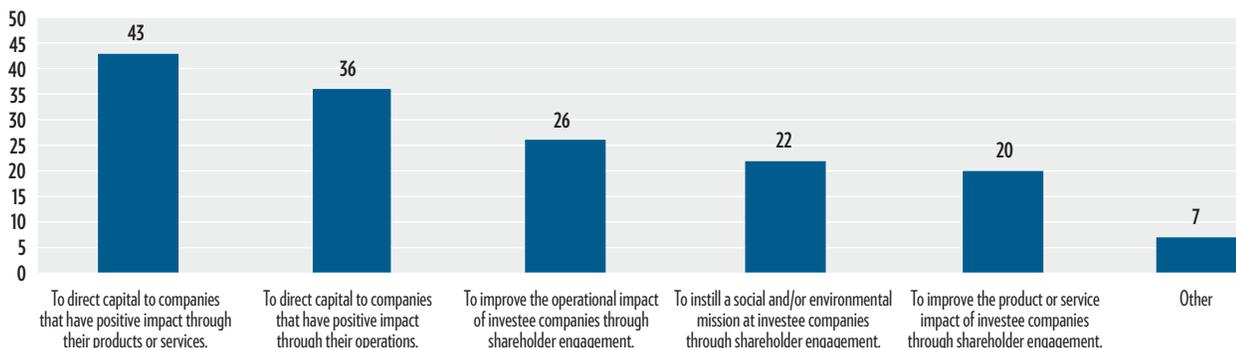
Source: GIIN



Those respondents who make or plan to make impact investments in public equities were also asked how they seek to achieve impact through such investments. Most indicated that they focus on companies that they believe already have positive impact, either through their products or services (83%) or through their operations (69%, Figure 19). A smaller proportion seek impact via their own influence, such as shareholder engagement strategies of various types (38–50%).

Figure 19: Strategies for achieving impact through public equities

n = 52; respondents could select multiple options.



Note: Other strategies noted include providing capital directly (through a primary share offering) to fund a company pursuing the investor's impact objectives and slight variations of the given answer options.

Source: GIIN

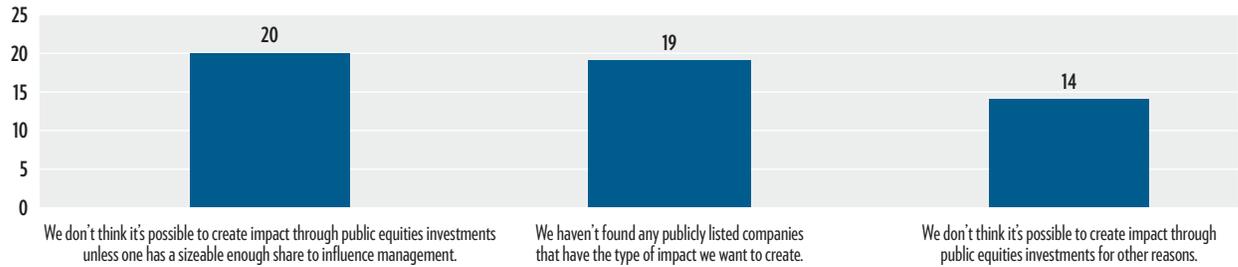
Respondents that neither make impact investments in public equities nor plan to do so were asked to explain why not. The overwhelming majority (128 respondents) chose as their reason, 'Public equities is not an asset class through which we invest.' Of the 48 respondents that selected one or more of the other offered reasons, 20 chose 'We don't think it's possible to create impact through public equities investments unless one has a sizeable enough share to influence management', and 19 chose 'We haven't found any publicly listed companies that have the type of impact we want to create' (Figure 20).

²¹ The proportion (roughly half) is similar for family offices and pension funds, though the sample size for those organization types in this survey is small (n = 6 each).

Fourteen respondents selected the option ‘We don’t think it’s possible to create impact through public equities investments for other reasons,’ offering various explanations. Some noted that the type of investees on which they focus, such as small- and medium-sized enterprises and community-based organizations, are not typically listed companies. Others noted the difficulty of measuring the additional impact of their investments in public equities. Some noted that while public equities do not fall into the scope of their impact investing strategies, they do invest through this asset class in other areas of their work, such as socially responsible investing.

Figure 20: Reasons for not pursuing impact investments through public equities

n = 157 respondents that do not make or plan to make impact investments in public equities. Respondents could select more than one option.



Note: This figure excludes the answer choice, ‘Public equities is not an asset class through which we invest’ (128 respondents).

Source: GII/N

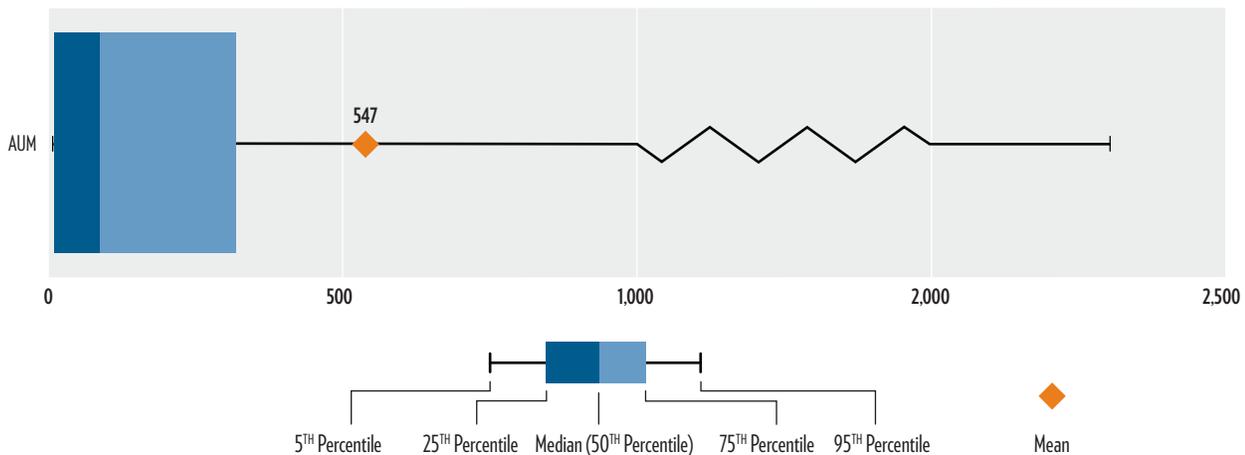
Asset Allocations

Assets under management

As of the end of 2016, 208 respondents to this year's survey collectively managed USD 113.7 billion in impact investing assets.²² While the average respondent had impact investing AUM of USD 547 million, the median was USD 97 million; that is, a few respondents manage particularly large pools of impact investing assets (Figure 21). Indeed, the five largest respondents accounted for 44% of total reported AUM (USD 49.8 billion). In order to offer nuanced insights on typical activity among impact investors, this section will present, as appropriate, analysis of both the full sample and the sample excluding these five large outliers.

Figure 21: Distribution of sample AUM

n = 208; USD millions. Showing 5th through 95th percentile of respondents by AUM.



Source: GII/N

AUM by organization type

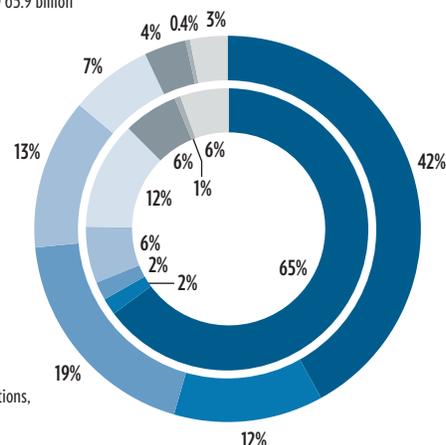
The volume of impact investing AUM varies by organization type (Figure 22). Fund managers account for 67% of the total sample by number of respondents (Figure 1 in the Sample Characteristics section) and manage 54% of total AUM (and 67% of AUM excluding outliers). Including outliers, pension funds and insurance companies, which comprise just 3% of the respondent sample by number of respondents, manage 19% of total AUM.

²² One respondent declined to provide AUM information.

Figure 22: AUM by organization type

Outer ring: Full sample (n = 208); Total AUM = USD 113.7 billion Inner ring: Excluding outliers (n = 203); Total AUM = USD 63.9 billion

Full Sample	Excluding Outliers	Percentage of Respondents
42%	65%	58% Fund manager: for-profit
12%	2%	9% Fund manager: not-for-profit
19%	2%	3% Pension fund / Insurance company
13%	6%	3% DFI
7%	12%	4% Bank / Diversified financial institution
4%	6%	11% Foundation
0.4%	1%	3% Family office
3%	6%	10% Other



Note: 'Other' includes permanent investment companies, non-profit organizations, community development finance institutions, non-governmental organizations, and other hybrid organizations.

Source: GIIN

At the median, pension funds/insurance companies and DFIs manage the largest amount of impact investing assets at USD 576 million and USD 463 million, respectively, followed by banks and diversified financial institutions, with USD 400 million at the median (Table 6). Foundations and not-for-profit fund managers are the smallest at the median, at AUM of USD 60 million and USD 57 million, respectively.

Table 6: AUM statistics by organization type

AUM figures in USD millions.

Organization type	n	AUM (USD millions)		
		Mean	Median	Sum
Fund manager: for-profit	121	394	100	47,712
Fund manager: not-for-profit	19	748	57	14,212
Pension fund / Insurance company	6	3,598	576	21,587
DFI	7	2,050	463	14,349
Bank / Diversified financial institution	8	981	400	7,852
Foundation	23	173	60	3,982
Family office	5	85	100	425
Other	19	187	38	3,562
Total	208	547	97	113,680

Note: 'Other' includes permanent investment companies, non-profit organizations, community development financial institutions, non-governmental organizations, and other hybrid organizations.

Source: GIIN

About three-quarters of all impact investing assets managed by the sample is invested directly into companies, projects, or real assets. The remaining quarter is invested indirectly through intermediaries, including fund managers. Of the capital invested directly, fund managers account for about two-thirds (67%), with pension funds and insurance companies taking the next-largest share at 17%. A wider variety of organization types makes indirect investments, with 33% of capital invested indirectly from pension funds and insurance companies, 20% from DFIs, 18% from for-profit or not-for-profit fund managers, and 16% from banks and diversified financial institutions.

Investing Indirectly

About a quarter of sample AUM was invested indirectly through intermediaries, including fund managers. These fund managers may also participate in the Annual Survey, and therefore some portion of their AUM may be double-counted in total AUM figures.

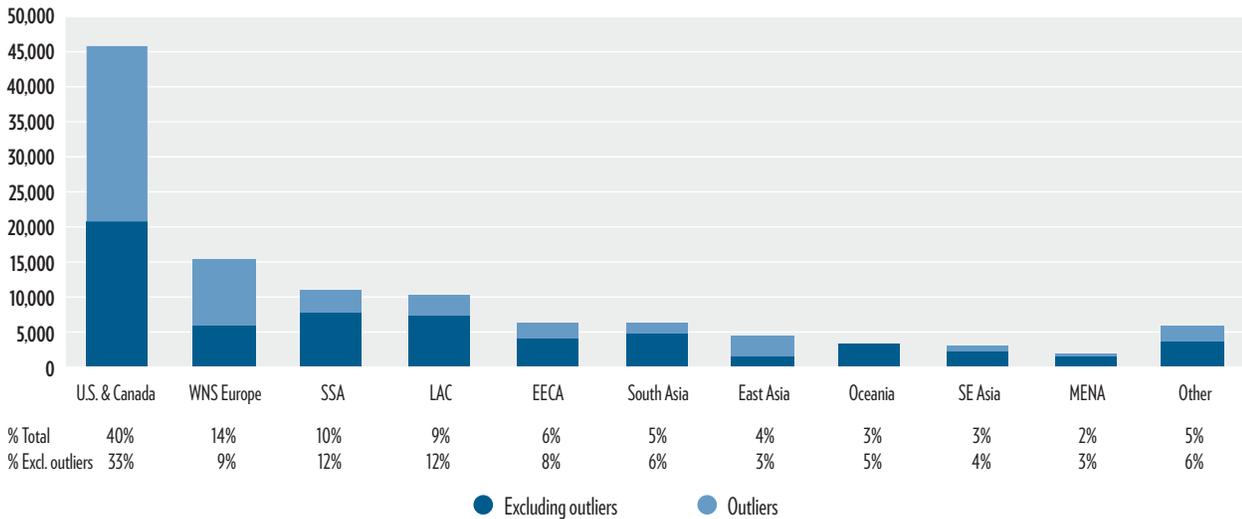
AUM by geography of investment

Impact investors make investments globally. Among the full sample, including outliers, respondents invested the greatest share of AUM into the U.S. and Canada (40%), followed by WNS Europe (14%), SSA (10%), and LAC (9%). Excluding outliers, roughly half of sample AUM was invested in developed markets, with the other half invested in emerging markets (Figure 23).

Figure 24 shows the number of respondents with any allocation to each region. The greatest number of respondents allocated to the U.S. and Canada, followed closely by SSA. Large numbers of investors also allocated to LAC and South Asia. Nearly identical numbers of investors have allocations to both the U.S. and Canada and SSA, but the gap in volumes of AUM between these two regions is very large.

Figure 23: AUM by geography

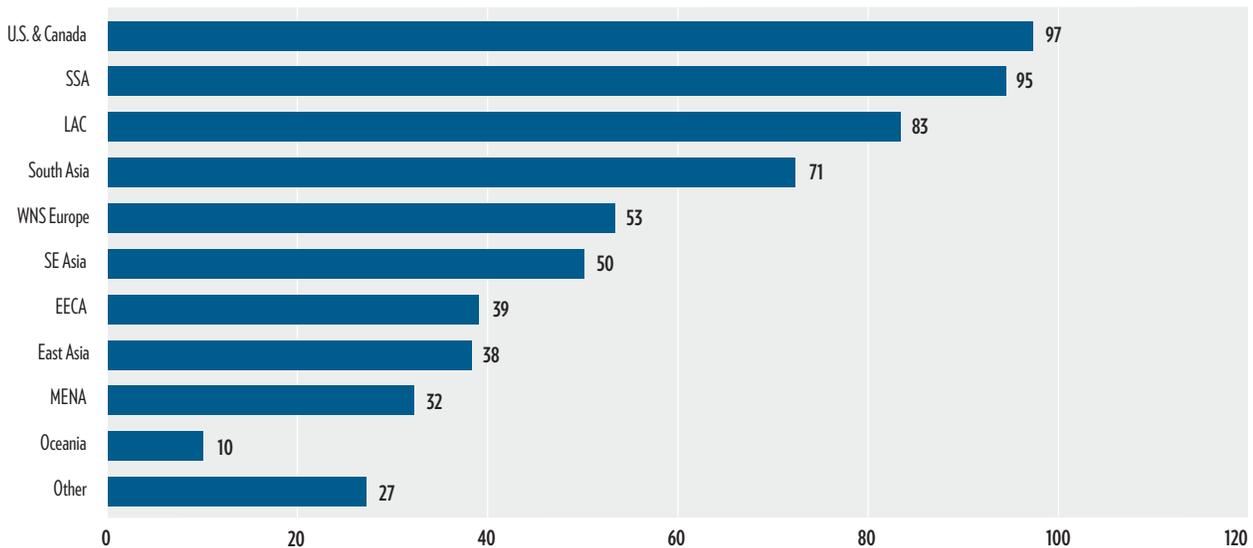
Full sample: n = 208; AUM = USD 113.7 billion
 Excluding outliers: n = 203; AUM = USD 63.9 billion



Note: Respondents that allocated to 'other' geographies primarily described investments with a global focus and/or cash holdings.
 Source: GIIN

Figure 24: Number of respondents with allocations to a geography

n = 209; respondents may allocate to multiple geographies.



Note: Respondents that allocated to 'other' geographies primarily described investments with a global focus and/or cash holdings.
 Source: GIIN

Geographic allocations varied by respondent segments (Table 7):

- Private Debt Investors had higher AUM-weighted allocations to LAC and EECA, whereas Private Equity Investors allocated a greater share of capital to SSA and South Asia.
- Respondents headquartered in the U.S. and Canada invested 70% of their collective AUM into the U.S. and Canada, whereas respondents from WNS Europe were more likely to manage geographically diverse portfolios, with significant investment into WNS Europe, LAC, and EECA.

Table 7: Geographic allocations by various segments

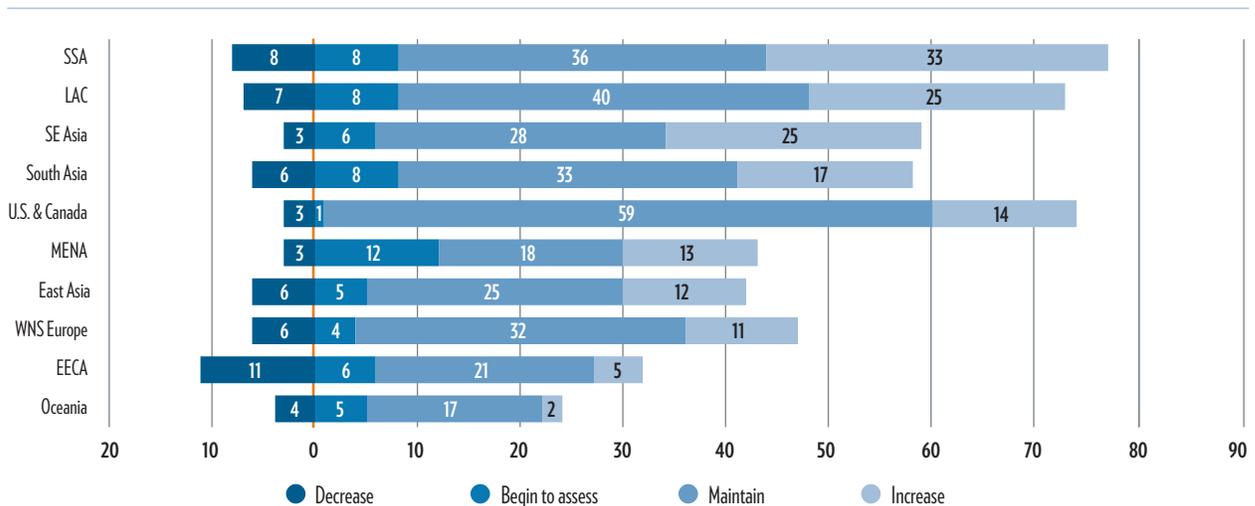
	Overall	Asset class focus		Target returns		Headquarters	
		Private Equity Investors	Private Debt Investors	Market-Rate Investors	Below-Market Investors	U.S. & Canada	WNS Europe
U.S. & Canada	33%	23%	19%	32%	38%	70%	4%
SSA	12%	19%	13%	12%	11%	5%	11%
LAC	12%	11%	21%	12%	11%	5%	20%
WNS Europe	9%	9%	3%	10%	8%	1%	22%
EECA	8%	1%	19%	8%	3%	2%	16%
South Asia	6%	13%	8%	7%	4%	5%	7%
Oceania	5%	0.3%	0.3%	6%	1%	0.0%	1%
SE Asia	4%	4%	5%	4%	3%	1%	6%
East Asia	3%	1%	5%	3%	3%	2%	5%
MENA	3%	6%	4%	3%	1%	1%	3%
Other	6%	13%	2%	4%	17%	8%	6%
Number of investors	203	68	49	133	70	95	63
Total AUM (USD millions)	63,915	11,351	21,492	55,877	8,039	28,058	26,385

Note: Figures exclude five large outlier respondents.
Source: GIIIN

Looking at the year ahead, more impact investors plan to maintain their allocations across geographies than plan to increase or decrease them. More shifts are expected by those focused on various regions in emerging markets, though the focus on emerging markets overall is expected to continue (Figure 25). Thirty-three investors plan to increase their proportional allocations to SSA, and several investors plan to grow their proportional allocations to SE Asia (25), LAC (25), and South Asia (17). Notably, 11 investors plan to decrease their proportional allocations to EECA, while only five plan to increase their proportional allocations to this region.

By asset class focus, the greatest number of Private Equity Investors indicated plans to increase their allocations to SE Asia and SSA, while Private Debt Investors planned to increase allocations to SSA and MENA.

Figure 25: Planned proportional allocation changes by geography in 2017



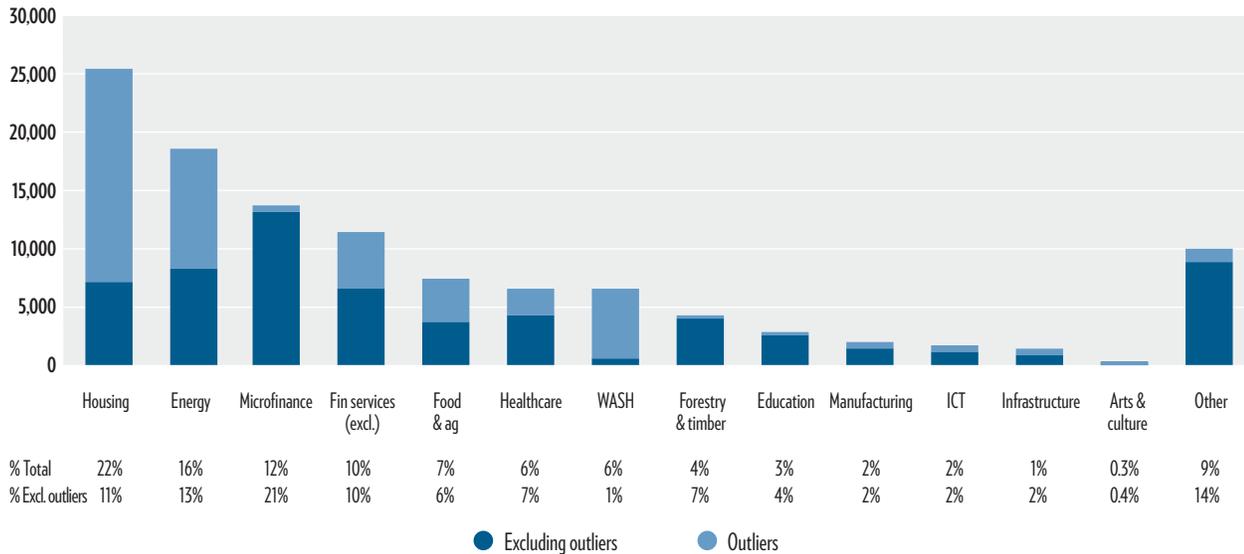
Source: GIIIN

AUM by sector of investment

Impact investors allocate capital across a wide range of sectors (Figure 26). Excluding outliers, as of the end of 2016, the greatest share of impact capital was allocated to microfinance, energy, housing, and other financial services. Interestingly, while just 7% of total impact investing assets were allocated to food and agriculture and just 6% to healthcare, roughly half of respondents have some allocation to each sector—greater than to any other sector (Figure 27).

Figure 26: AUM by sector

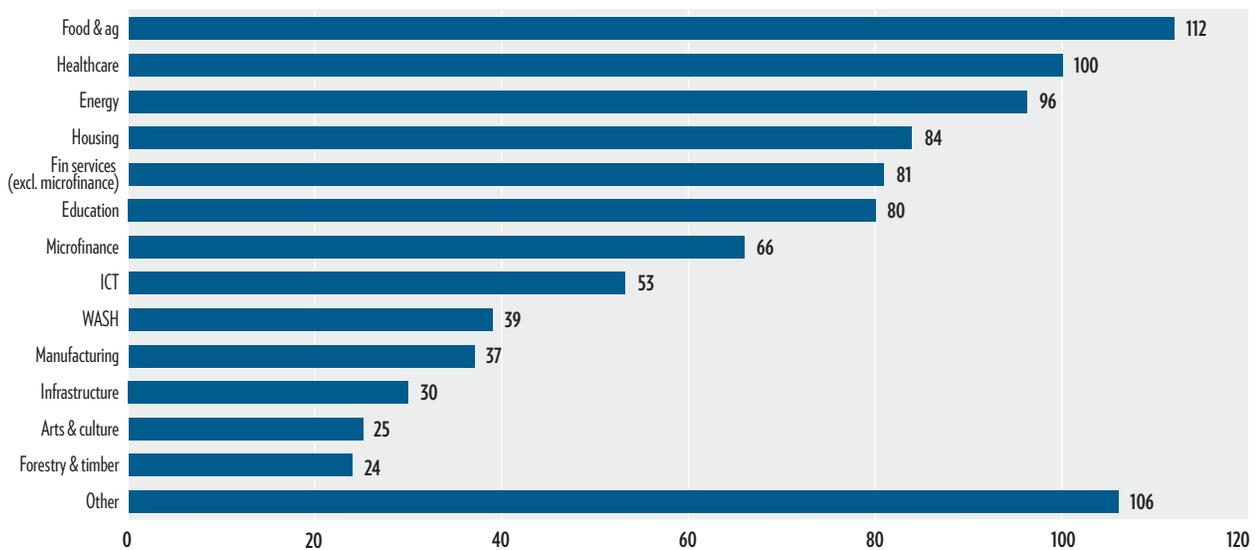
Full sample: n = 208; AUM = USD 113.7 billion
 Excluding outliers: n = 203; AUM = USD 63.9 billion



Note: 'Other' sectors include services, waste management and recycling, tourism, transportation, community facilities, sustainable consumer products, and multi-sector investments.
 Source: GIIN

Figure 27: Number of respondents with allocations to a sector

n = 205; respondents may allocate to multiple geographies.



Note: 'Other' sectors include services, waste management and recycling, tourism, transportation, community facilities, sustainable consumer products, and multi-sector investments.
 Source: GIIN

Different sub-groups of respondents reported varying allocations by sector (Table 8):

- Emerging-market-focused investors allocated a higher share of capital to microfinance and other financial services (40% and 17%, respectively), while developed-market-focused investors reported higher allocations to housing (22%), forestry and timber (15%), and energy (13%).
- Private Equity Investors reported sector-diverse portfolios, while Private Debt Investors allocate a high proportion of assets to microfinance (42%).
- Investors principally seeking below-market-rate returns reported higher portfolio concentrations in healthcare (20%), whereas market-rate-seeking investors allocated a greater share of their AUM to microfinance (22%) and energy (15%). Below-market investors allocated no capital to forestry and timber.

Table 8: Sector allocations by various segments

	Overall	Geographic focus		Asset class focus		Target returns	
		DM-focused Investors	EM-focused Investors	Private Equity Investors	Private Debt Investors	Market-Rate Investors	Below-Market Investors
Microfinance	21%	0.4%	40%	7%	42%	22%	11%
Energy	13%	13%	8%	15%	8%	15%	4%
Housing	11%	22%	4%	5%	6%	11%	14%
Fin services (excl. microfinance)	10%	5%	17%	15%	13%	10%	16%
Healthcare	7%	6%	6%	6%	5%	5%	20%
Forestry & timber	7%	15%	0.4%	1%	0.4%	7%	0.0%
Food & ag	6%	4%	9%	7%	5%	5%	9%
Education	4%	5%	4%	3%	5%	4%	5%
Manufacturing	2%	3%	2%	8%	1%	2%	3%
ICT	2%	2%	2%	5%	1%	2%	1%
Infrastructure	2%	1%	2%	2%	0.4%	2%	1%
WASH	1%	2%	1%	2%	0.2%	1%	0.3%
Arts & culture	0.4%	1%	0.0%	0.0%	1%	0.3%	1%
Other	14%	21%	5%	23%	11%	14%	15%
Number of investors	203	92	88	68	49	133	70
Total AUM (USD millions)	63,915	25,767	26,192	11,351	21,492	55,877	8,039

Note: Figures exclude five large outlier respondents.

Source: GIIN

The Research Team conducted additional analysis on the sector allocations of respondents that predominantly focus investment on one region (Table 9).²³ The differences are striking. Respondents investing primarily in both SSA and LAC reported sector-diverse portfolios. While there is strong interest in food and agriculture in both regions, respondents focused on LAC also indicated substantial allocations to microfinance (20%) and other financial services (14%) whereas respondents focused on SSA indicated greater activity in energy (13%), housing (11%), and manufacturing (11%). Respondents focused on South Asia allocated primarily to microfinance (32%) and other financial services (26%). For respondents with portfolios concentrated in both the U.S. and Canada and WNS Europe, housing was the top AUM-weighted sector (27% and 19% by respective region). On the other hand, respondents focused on these two developed-market geographies have almost no allocations to microfinance.²⁴

²³ Respondents with 'predominant focus' allocate at least 75% of AUM to one region.

²⁴ There was not a sufficient sample size of respondents with 75% or more of their assets allocated to other regions to facilitate meaningful analysis.

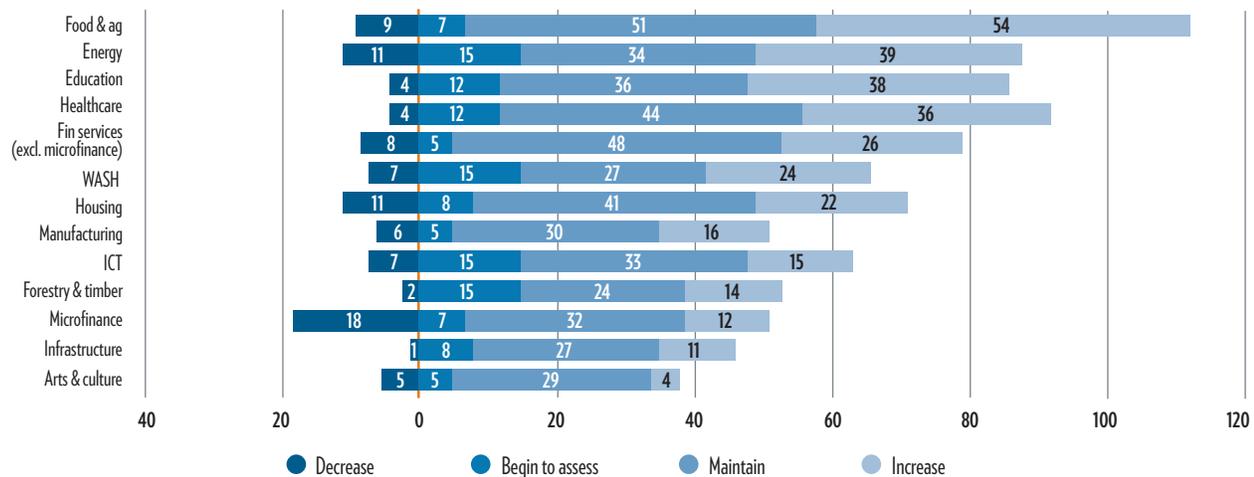
Table 9: Sector allocations among geographically concentrated respondents

		Respondents with high concentrations in a particular region										
		Overall	LAC	South Asia	SSA	U.S. & Canada	WNS Europe					
Microfinance	█	21%	█	20%	█	32%	█	3%	█	0.2%	█	0.2%
Energy	█	13%	█	8%	█	5%	█	13%	█	15%	█	9%
Housing	█	11%	█	7%	█	6%	█	11%	█	27%	█	19%
Fin services (excl. microfinance)	█	10%	█	14%	█	26%	█	5%	█	6%	█	2%
Healthcare	█	7%	█	8%	█	7%	█	6%	█	4%	█	18%
Forestry & timber	█	7%	█	0.0%	█	0.0%	█	0.4%	█	7%	█	1%
Food & ag	█	6%	█	16%	█	8%	█	21%	█	4%	█	3%
Education	█	4%	█	3%	█	2%	█	4%	█	7%	█	3%
Manufacturing	█	2%	█	2%	█	0.0%	█	11%	█	3%	█	3%
ICT	█	2%	█	10%	█	9%	█	3%	█	2%	█	4%
Infrastructure	█	2%	█	0.0%	█	0.0%	█	10%	█	1%	█	2%
WASH	█	1%	█	0.3%	█	2%	█	4%	█	2%	█	3%
Arts & culture	█	0.4%	█	0.0%	█	0.0%	█	0.0%	█	1%	█	0.4%
Other	█	14%	█	11%	█	3%	█	10%	█	23%	█	32%
Number of respondents		203		15		10		23		58		21
Total AUM (USD millions)		63,915		820		715		3,889		18,842		2,550

Note: Figures exclude five large outlier respondents. Only respondents that allocated 75% or more to a given region are included.
Source: GIIN

Approximately a quarter of respondents plan to grow their proportional allocations to food and agriculture in 2017 (Figure 28). Respondents also indicated interest in growing their relative allocations to the energy, education, and healthcare sectors. On the other hand, while 18 respondents plan to decrease their allocations to microfinance, only 12 plan to increase their allocations to this sector. Eleven investors also plan to decrease their allocations to energy and housing. Plans for future sector allocations were consistent across different segments of respondents.

Figure 28: Planned proportional allocation changes by sector in 2017



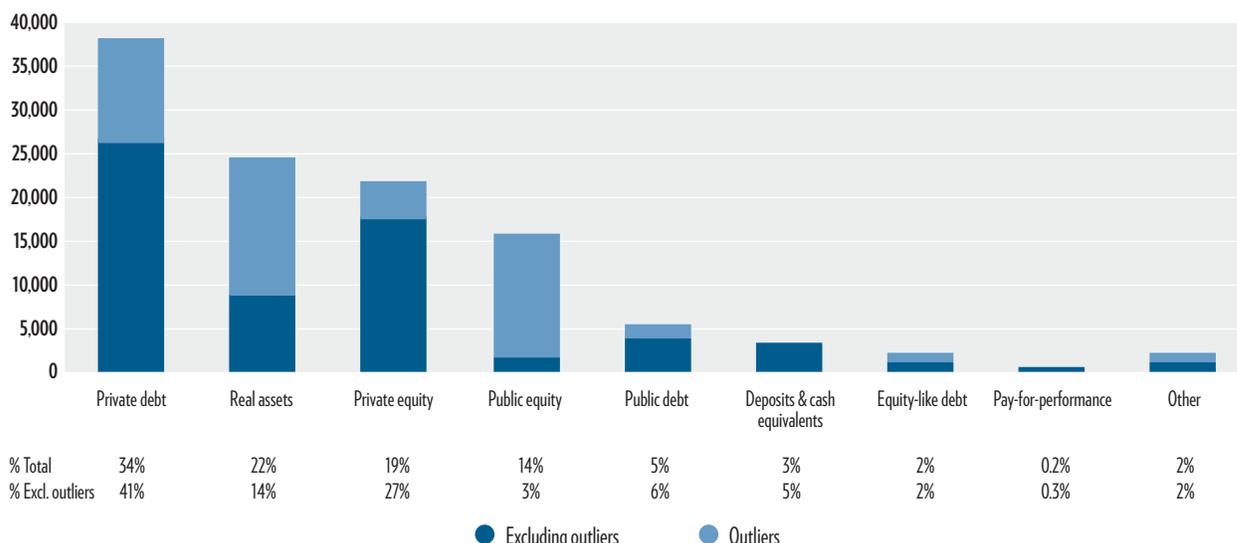
Source: GIIN

AUM by investment instrument

Respondents use a range of instruments to deploy capital to impact investments (Figure 29). Excluding outliers, roughly 41% of assets were allocated through private debt, 27% were allocated through private equity, and 14% were allocated through real assets. Private equity continues to be the most commonly used instrument, with over 75% of respondents using the type (Figure 30). Over half of respondents use private debt.

Figure 29: AUM by instrument

Full sample: n = 208; AUM = USD 113.7 billion
 Excluding outliers: n = 203; AUM = USD 63.9 billion

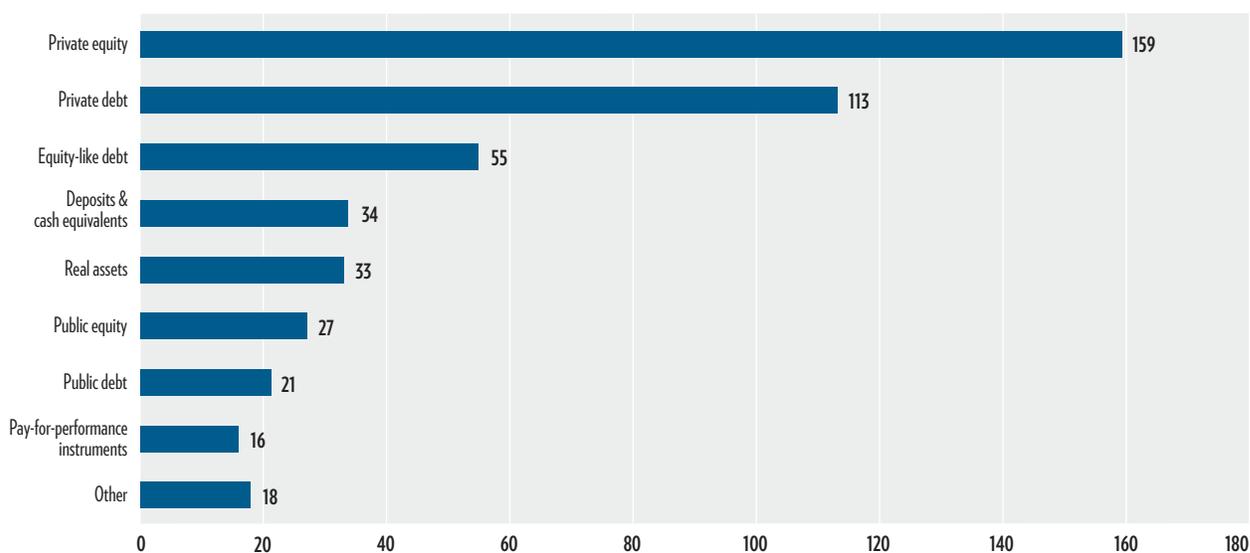


Note: 'Other' instruments include guarantees and leases.

Source: GIIIN

Figure 30: Number of respondents with allocations using an instrument

n = 209; Respondents may allocate using multiple instruments.



Note: 'Other' instruments include guarantees and leases.

Source: GIIIN

The top three instruments used were generally consistent across sub-groups (Table 10). However, developed-market-focused respondents allocated a higher proportion of capital through real assets (32%) and public debt (11%), while emerging-market-focused respondents allocated nearly 90% of capital through either private debt or private equity. Organizations managing over USD 500 million of impact investing assets allocated 24% of their capital through real assets and 15% through public equity, while small and medium-sized investors allocated a greater proportion of their capital through private equity (at 45% and 41%, respectively).

Table 10: Instrument allocations by various segments

	Overall	Geographic focus		Size of impact investing AUM		
		DM-focused Investors	EM-focused Investors	Small	Medium	Large
Private debt	41%	21%	62%	36%	28%	34%
Private equity	27%	21%	27%	45%	41%	15%
Real assets	14%	32%	0.5%	7%	9%	24%
Public debt	6%	11%	3%	0.2%	9%	5%
Deposits & cash equivalents	5%	5%	4%	1%	2%	3%
Public equity	3%	5%	0.2%	2%	9%	15%
Equity-like debt	2%	1%	3%	7%	2%	2%
Pay-for-performance instruments	0.3%	1%	0.0%	1%	0.2%	0.2%
Other	2%	3%	1%	2%	1%	2%
Number of Investors	203	92	88	113	58	37
Total AUM (USD millions)	63,915	25,767	26,192	4,291	14,010	95,380

Note: For the overall sample and by geographic focus, figures exclude five large outlier respondents. By size of impact investing AUM, figures include outliers.

Source: GIIN

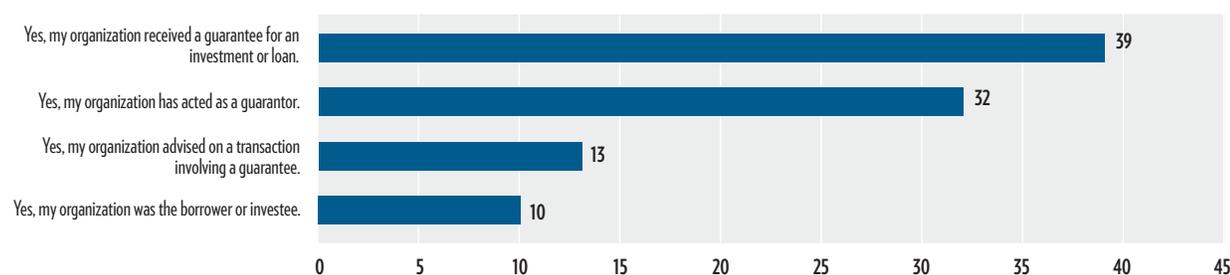
Guarantees in impact investing

Blended finance and credit enhancement have emerged during the past few years as areas of opportunity within impact investing, given their ability to unlock capital by improving the risk-return profile of investment opportunities with high potential for positive social or environmental impact alongside high perceived risk. During 2016 and 2017, the GIIN conducted research and convened a Member Working Group on financial guarantees, one form of credit enhancement.²⁵ To further explore this topic, this year's survey included questions about respondents' use of guarantees.

Approximately one-third of respondents have participated in at least one impact investing transaction in the last three years that involved a guarantee (Figure 31). Among those who participated in such a transaction, 39 received a guarantee for an investment or loan (55%), 18 of which are not-for-profit fund managers. Another 32 have acted as a guarantor (45%), including 12 foundations. Some respondents offered additional commentary about their use of guarantees. For example, three respondents described guarantees provided by government-sponsored donor agencies or large public enterprises that improved liquidity or unlocked additional capital for a particular transaction.

Figure 31: Number of respondents that have participated in a transaction involving a guarantee

n = 71; number of respondents shown beside each bar.



Note: Among the remaining 138 respondents, 125 reported that they have not been involved in a transaction involving a guarantee in the last three years and 13 reported 'not sure'.

Source: GIIN

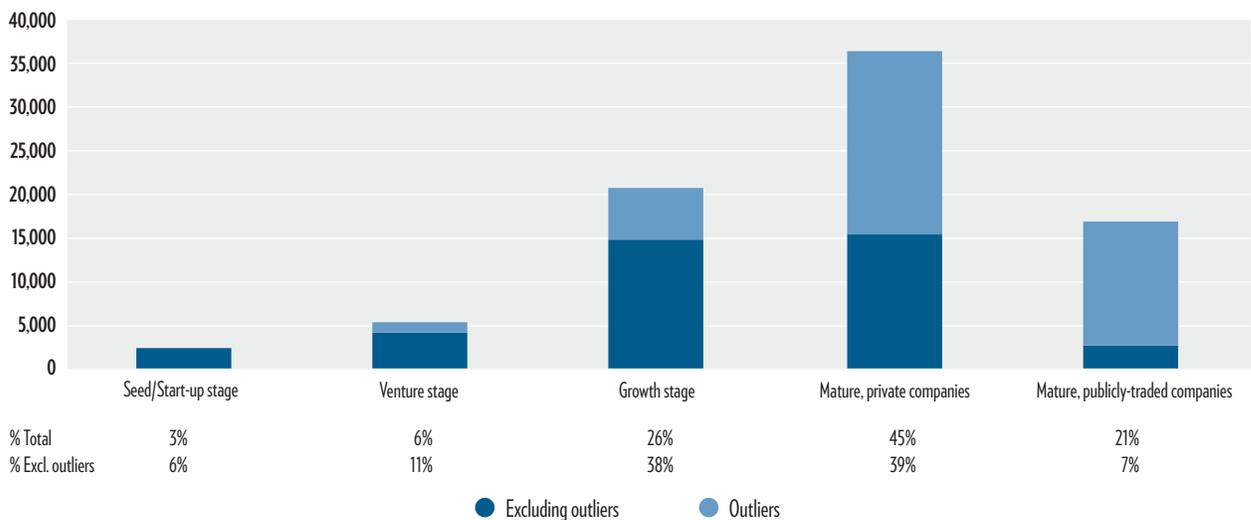
²⁵ For more information about the use of guarantees in impact investing, see the GIIN's 2017 report, *Scaling the Use of Guarantees in U.S. Community Investing* at <https://thegiin.org/knowledge/publication/guarantees-issue-brief>.

AUM by investment stage of business

Impact investors allocate capital to businesses at various stages of development (Figure 32). Not all impact investors invest into businesses of course; those targeting real assets or other projects are not included in this section's analysis. The highest number of respondents allocate to growth-stage companies, followed by those who invest in venture-stage companies. However, the greatest share of AUM was allocated to mature, private companies (45% including outliers) and growth-stage companies (26%; Figure 34). At the same time, though 74 respondents (45%) reported at least some allocation to seed-/startup-stage enterprises, only 3% of total AUM was allocated to such businesses. This relatively small allocation to seed-stage enterprises matches their need for smaller investments.

Figure 32: Allocations by stage of business

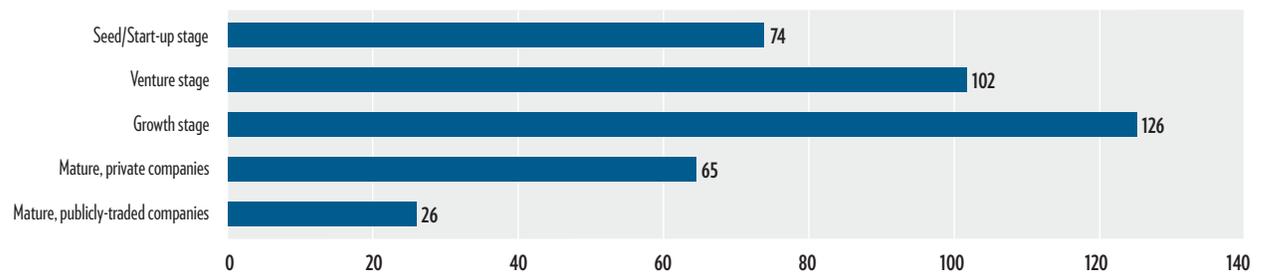
Full sample: n = 163; AUM = USD 81.7 billion
 Excluding outliers: n = 159; AUM = USD 39.6 billion



Note: Excludes respondents that allocate exclusively to 'N/A' or did not answer the question.
 Source: GIIIN

Figure 33: Number of respondents with allocation to a stage of business

n = 164; excludes respondents that allocate exclusively to 'N/A' or did not answer this question.



Source: GIIIN

Allocations by stage of business vary slightly among different sub-groups of respondents (Table 11):

- Excluding outliers, below-market investors allocate a greater share of their assets toward seed- and venture-stage companies than do investors primarily targeting market-rate returns.
- Among the full sample, including outliers, large organizations allocate half of their assets toward mature, private companies (50%). Small and medium-sized investors largely target growth-stage companies (with 52% and 43% of AUM, respectively).

Table 11: Stage of business allocations by various segments

	Overall	Geographic focus		Target returns		Size of impact investing AUM		
		DM-focused Investors	EM-focused Investors	Market-Rate Investors	Below-Market Investors	Small	Medium	Large
Seed/Start-up stage	6%	6%	8%	5%	9%	8%	10%	1%
Venture stage	11%	13%	9%	9%	26%	25%	16%	4%
Growth stage	38%	28%	47%	37%	39%	52%	43%	21%
Mature, private companies	39%	44%	31%	42%	17%	15%	17%	50%
Mature, publicly-traded companies	7%	10%	5%	7%	8%	1%	14%	23%
Number of investors	159	64	77	106	53	94	48	22
Total AUM (USD millions)	40,843	12,840	18,656	35,485	5,359	3,401	11,805	67,747

Note: For the overall sample, by geographic focus, and by target returns, figures exclude five large outlier respondents. By size of impact investing AUM, figures include outliers.

Source: GII/N

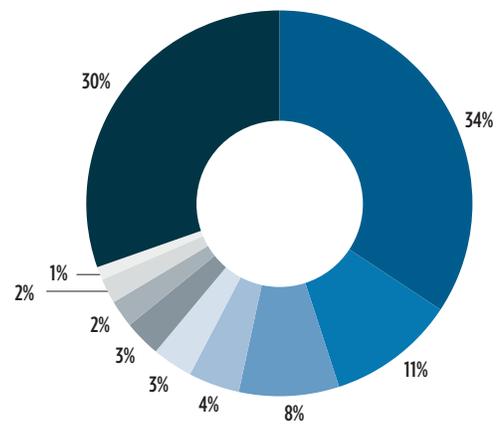
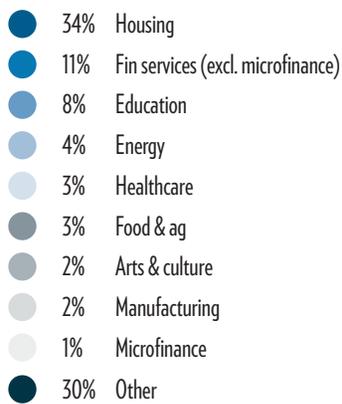
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Community development financial institutions (CDFIs) are organizations formally certified by the U.S. Department of the Treasury that direct at least 60% of their financial products and services to qualifying end-users, such as low-income or minority households, businesses operating in low-income communities, or nonprofits providing health or education services.²⁶ CDFIs can be nonprofit loan funds, regulated banks, credit unions, or venture capital funds. Fourteen CDFIs participated in this year's survey. To provide insight into this particular segment of impact investors, we present the AUM-weighted allocations of 13 of the participating CDFIs (excluding one large outlier).

The distribution of AUM by sector reflects the range of social problems that CDFIs have historically targeted (Figure 34).²⁷ Low-income housing projects are a large focus, and make up a sizeable share of AUM. Other areas of focus include access to basic services (such as financial services, education, energy, and healthcare) by low-income or minority populations. Finally, the 'other' bucket is prominent because many CDFI investments target various types of community real estate or revitalization efforts that do not neatly fit the sector options our survey provided—projects such as recreation centers, office or retail space, social services, and childcare.

Figure 34: CDFI AUM by sector

n = 13; AUM = USD 5.8 billion



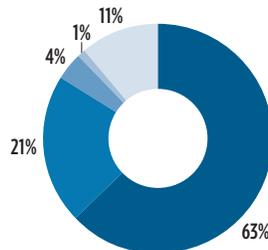
Note: 'Other' includes various types of community real estate, social services, hospitality, and community development or small business finance where no further breakdown was provided.
Source: GIIN

Although the label 'CDFI' can apply to various types of organizations using various investment instruments, most CDFIs that responded to our survey are focused on investing through debt (Figure 35). These entities include nonprofit loan funds, banks, and non-bank financial intermediaries. Cash is also typically a prominent asset class, as businesses in the United States use deposits in CDFIs as a way to direct free cash to addressing social challenges. Notably, CDFIs in our sample do not tend to allocate AUM through public markets (either debt or equity).

As in the overall sample, the majority of CDFI AUM goes to either growth-stage or mature companies (Figure 36).

Figure 35: CDFI AUM by instrument

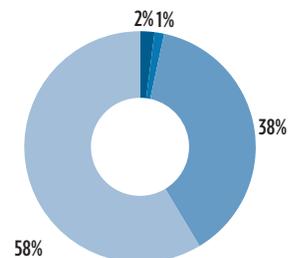
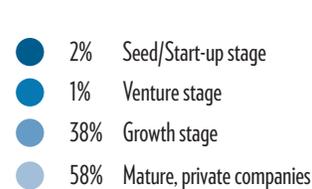
n = 13; AUM = USD 5.8 billion



Source: GIIN

Figure 36: CDFI AUM by stage of business

n = 9; AUM = USD 2.7 billion



Source: GIIN

²⁶ For more information, see: <http://www.cdfifund.gov/>.

²⁷ For further details on the historical activity of CDFIs, see: BBC Research & Consulting, 20 Years of Opportunity Finance: 1994–2013, An Analysis of Trends and Growth (Opportunity Finance Network, November 2015), http://ofn.org/sites/default/files/OFN_20_Years_Opportunity_Finance_Report.pdf.

The Fund Manager Landscape

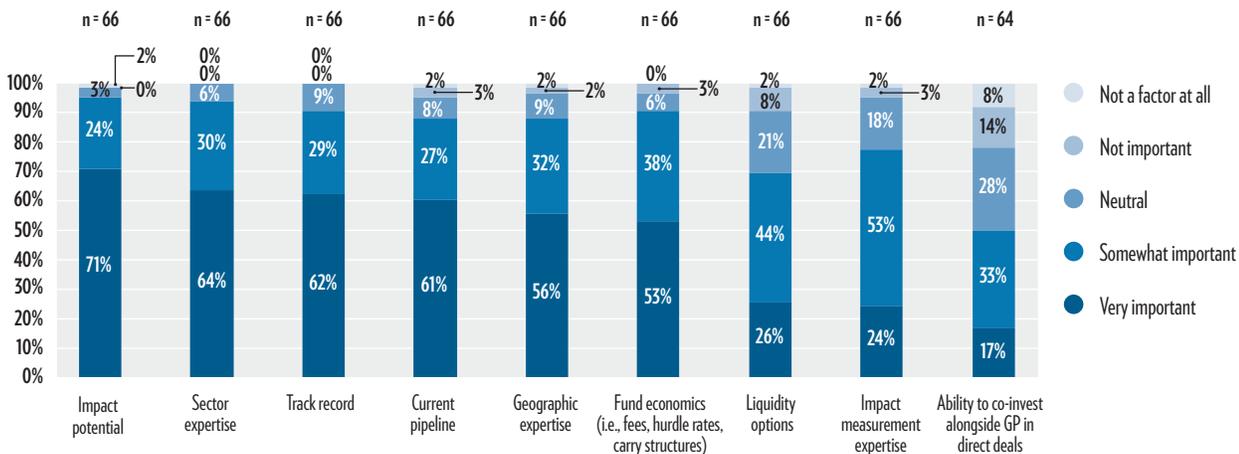
Fund managers play an important role in connecting impact investing capital with investment opportunities. The survey included questions specifically for respondents that invest indirectly through funds, as well as questions on the activities and perspectives of impact investing fund managers themselves.

Factors in evaluating fund managers

Seventy-one respondents (34% of the sample) reported investing via fund managers, regardless of whether they also invest directly into companies. These respondents were asked to report which factors they found particularly important when evaluating fund managers for potential investment. The most important reported factor was 'impact potential' (which 71% said was 'very important'), followed by 'sector expertise' (64%; Figure 37). Over 60% of respondents also noted 'track record' and 'current pipeline' as 'very important.' On the other hand, about a quarter or fewer respondents reported 'liquidity options,' 'impact measurement expertise,' and 'ability to invest alongside' fund managers to be 'very important.' Particularly interesting is the contrast between the importance placed on impact potential and that considered for impact measurement expertise.

Figure 37: Importance of factors in evaluating fund managers / GPs

Number of respondents that answered each option shown above each bar; some respondents chose 'not sure,' and these responses are not included. Listed in order of proportion of respondents that chose 'very important.'



Source: GIIN

'Impact potential' ranked among the top three 'very important' factors in evaluating fund managers for all sub-groups for which there was sufficient sample to analyze. There are several notable differences between sub-groups (Table 12).

- 'Geographic expertise' was noted as 'very important' by 80% of EM-focused Investors into funds and by only 31% of DM-focused Investors.
- Sixty-six percent of DM-focused Investors said 'track record' was 'very important,' compared to 55% of EM-focused Investors who said so.
- 'Impact potential' was the most important factor for Below-Market Investors (84% reporting it as 'very important' versus 63% of Market-Rate Investors), while 'sector expertise' was most important for Market-Rate Investors (noted as 'very important' by 71% of this sub-group, compared to 52% of Below-Market Investors).

Table 12: Top three 'very important' factors in evaluating fund managers / GPs

Some respondents chose 'not sure,' and these responses are not included here.

Full Sample	Geographic focus				Target returns					
	Percentage noting 'very important'	Factor	Percentage noting 'very important'	Factor	Percentage noting 'very important'	Factor	Percentage noting 'very important'	Factor		
1	71%	Impact potential	66%	Track record	80%	Geographic expertise	71%	Sector expertise	84%	Impact potential
2	64%	Sector expertise	62%	Impact potential	65%	Current pipeline	66%	Current pipeline	60%	Geographic expertise
3	62%	Track record	59%	Current pipeline	60%	Impact potential	63%	Impact potential/Track record	60%	Track record
n = 64-66		n = 29		n = 19-20		n = 39-41		n = 25		

Source: GIIIN

Fund manager activity

One hundred and forty respondents (67%) identified as fund managers. Of these, 121 respondents (86% of fund managers) identified as for-profit fund managers, while 19 identified as not-for-profit fund managers (14%). This section is based on data from 137 of the 140 respondents that answered questions specific to fund managers.²⁸

Capital raising

Collectively, fund managers in the sample raised over USD 11.1 billion in 2016 (n = 101) and plan to raise USD 18.5 billion in 2017 (n = 119), a 67% projected increase in aggregate (Table 13). For-profit fund managers raised a median of USD 25 million in 2016, compared to USD 18 million raised by the median not-for-profit fund manager.

Table 13: Fund manager capital raises in 2016 and plans for capital raising in 2017

Excludes respondents that answered 'zero,' as not all fund managers raise capital every year. All capital raise figures in USD millions.

	All fund managers		For-profit fund managers		Not-for-profit fund managers	
	2016 Reported	2017 Planned	2016 Reported	2017 Planned	2016 Reported	2017 Planned
n	101	119	86	104	15	15
Mean	110	156	112	166	98	83
Median	22	50	25	50	18	25
Sum	11,133	18,543	9,657	17,305	1,477	1,238

Source: GIIIN

²⁸ Three organizations were recoded as fund managers after submitting data, and therefore did not answer these questions.

Interesting differences between sub-groups include (Table 14):

- In 2016, DM-focused fund managers raised almost three times as much in aggregate as a nearly equal number of EM-focused fund managers. At the median, DM-focused fund managers raised USD 25 million, while those focused on emerging markets raised USD 18 million.
- Private debt-focused fund managers raised about 1.5 times as much in total in 2016 as did private equity-focused fund managers (comparing almost equal sample sizes), raising about twice as much at the median.
- At the median, market-rate-seeking fund managers raised three times more capital than did below-market-rate-seeking fund managers.

Table 14: Fund manager capital raises in 2016 and plans for capital raising in 2017, by geographic focus, asset class focus, and target returns

Excludes respondents that answered 'zero,' as not all fund managers raise capital every year. All capital raise figures in USD millions.

	Geographic focus				Asset class focus				Target returns			
	DM-focused fund managers		EM-focused fund managers		Private equity-focused fund managers		Private debt-focused fund managers		Market-rate-seeking fund managers		Below-market-rate-seeking fund managers	
	2016	2017P	2016	2017P	2016	2017P	2016	2017P	2016	2017P	2016	2017P
n	46	48	47	62	29	39	28	29	75	88	26	31
Mean	164	190	61	128	52	137	79	127	124	190	70	59
Median	25	50	18	31	12	30	23	30	39	61	13	25
Sum	7,547	9,128	2,874	7,930	1,508	5,342	2,208	3,693	9,318	16,701	1,815	1,841

Source: GII/N

Repeat fund managers

Sixty-eight fund managers also responded to last year's survey, and the Research Team analyzed how the amount of capital they reported raising varied from 2015 to 2016. Repeat-respondent fund managers collectively raised 28% more capital year-on-year, from USD 6.3 billion in 2015 to USD 8.1 billion in 2016 (Table 15). The median capital raise also increased from USD 25 million to USD 40 million.

Table 15: Capital raises in 2015 and 2016 by repeat-respondent fund managers

Excludes respondents that answered 'zero,' as not all fund managers raise capital every year. All capital raise figures in USD millions.

	All fund managers		Geographic focus				Asset class focus				Target returns			
			DM-focused fund managers		EM-focused fund managers		Private equity-focused fund managers		Private debt-focused fund managers		Market-rate-seeking fund managers		Below-market-rate-seeking fund managers	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
n	54	49	19	20	32	26	15	13	13	12	38	37	16	12
Mean	117	166	156	283	88	76	37	28	143	129	141	177	60	129
Median	25	40	41	57	11	21	10	11	91	51	43	45	9	13
Sum	6,324	8,110	2,961	5,652	2,812	1,988	562	367	1,853	1,543	5,366	6,563	958	1,547

Source: GII/N

The Research Team also analyzed how repeat-respondent fund managers' projections of 2016 capital raises, as reported in last year's survey, compared to their reported raises in 2016. In total, 60 repeat-respondent fund managers projected raising USD 11 billion in 2016 (and eight did not report any planned capital raise). This same sample reported raising USD 8.1 billion in 2016 (Table 16).

Table 16: Last year's projections of 2016 capital raises versus this year's reported 2016 capital raises

n = 60; excludes respondents that entered 'zero' for 2016 planned capital raise. All capital raise figures in USD millions.

	2016 Planned	2016 Reported
Mean	184	133
Median	60	13
Sum	11,056	7,963

Notes: Includes 13 respondents that reported plans for 2016 but reported a capital raise of USD 0 in 2016.

Source: GIIIN

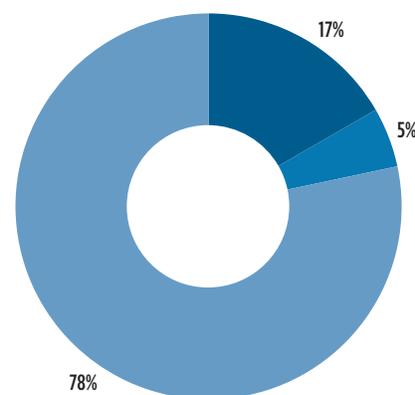
Seventeen percent of fund managers exceeded their capital raise projections by at least 5% (Figure 38). Meanwhile, 5% of the sample raised capital within 5% of projections, while most (78%) fell short of their capital raise plans by more than 5%.

Figure 38: Number of repeat-respondent fund managers that exceeded, met, or fell short of last year's capital raise projections

n = 60; excludes respondents that entered 'zero' for 2016 planned capital raise.

- 17% Exceeded by at least 5%
- 5% Met within 5%
- 78% Fell short by at least 5%

Source: GIIIN

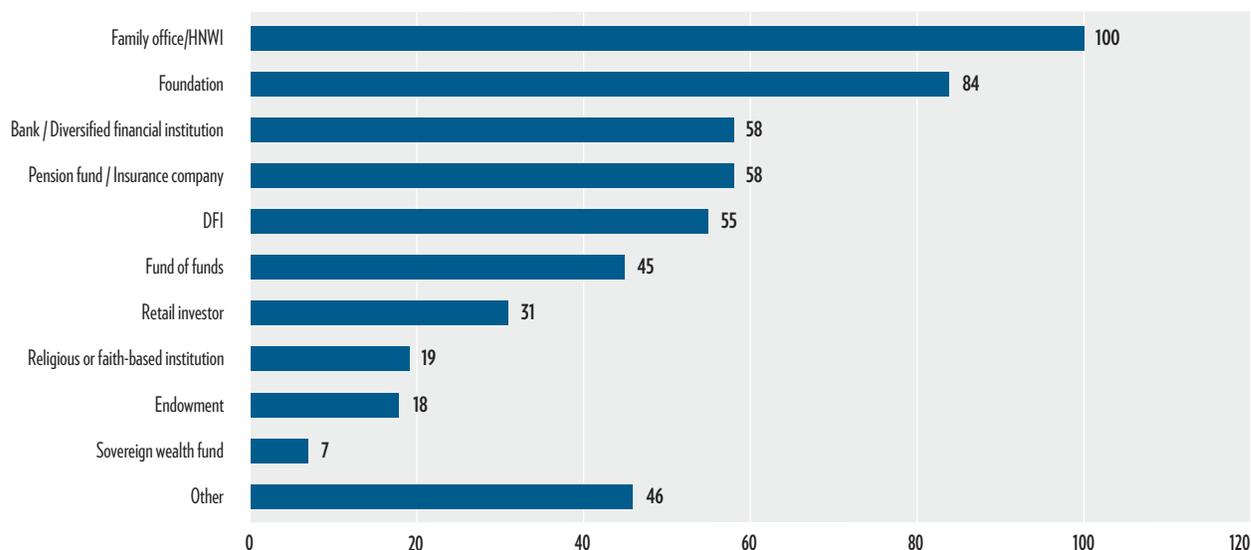


Fund managers' sources of capital

Fund managers in the sample manage capital from a range of sources. Seventy-three percent (100 respondents) reported raising capital from family offices/HNWIs, and 61% (84 respondents) reported raising capital from foundations (Figure 39). Roughly 40% reported raising capital from each of banks, pension funds or insurance companies, and DFIs.

Figure 39: Number of fund managers that manage capital from various investor types

n = 137



Note: 'Other' sources included grants, corporations, nonprofits, and governments, among others.

Source: GIIIN

Fund managers reported the percentage of their AUM coming from different investor types. To present a more representative picture, the following analysis excludes two large outlier fund managers with concentrated sources of capital.²⁹ Out of the remaining USD 42.6 billion managed by 135 fund managers, 24% was invested by pension funds and insurance companies, followed by 18% that was invested by family offices/HNWIs (Table 17). Although 61% of fund managers received some investment from foundations, foundations represent only 6% of their collective AUM.

Fund managers of different sizes present some interesting contrasts. Family offices/HNWIs represent a larger proportion of AUM for small and medium-sized fund managers, while banks represent a larger proportion of the capital managed by large fund managers.

Table 17: Fund managers' sources of capital, overall and by size of impact investing AUM (AUM-weighted)

	All fund managers	Size of impact investing AUM			
		Small	Medium	Large	
Pension fund / Insurance company	24%	10%	17%	23%	
Family office / HNWI	18%	30%	27%	9%	
Retail investor	15%	4%	7%	13%	
Bank / Diversified financial institution	14%	10%	14%	25%	
DFI	12%	19%	10%	7%	
Foundation	6%	14%	9%	3%	
Fund of funds	3%	2%	4%	2%	
Religious or faith-based institution	1%	1%	4%	1%	
Sovereign wealth fund	1%	0.0%	3%	1%	
Endowment	1%	1%	2%	0.4%	
Other	5%	8%	4%	15%	
Number of fund managers	135	76	37	24	
Total AUM	42,552	3,064	8,547	50,191	

Note: For the overall sample, figures exclude two large outlier respondents. By size of impact investing AUM, figures include outliers.

Source: GIIN

Analyzing fund managers by their respective geographic focus, asset class focus, and return philosophy reveals some additional variation in sources of capital (Table 18):

- Pension funds/insurance companies represented the largest percentage of capital invested into DM-focused funds (32%), followed by 26% into such funds from family offices/HNWIs. For EM-focused funds, on the other hand, the largest sources of capital were DFIs (23%) and pension funds/insurance companies (22%).
- For fund managers focused on private debt, retail investors and banks each represented a fifth of capital. By comparison, these investor types accounted for only 1% and 4%, respectively, of capital invested in PE-focused funds, for whom family offices/HNWIs accounted for over one-third of capital.
- Market-rate-seeking fund managers largely mirrored the sources of capital for the overall sample, while banks (31%) were the largest sources of capital for below-market-rate-seeking fund managers, followed by DFIs (28%).

²⁹ One large fund manager's capital was mainly invested by banks, and the other reported the majority invested by 'other,' since they could not provide details on investor types.

Table 18: Fund managers' sources of capital, overall and by geographic focus, asset class focus, and target returns (AUM-weighted)

	All fund managers	Geographic focus		Asset class focus		Target returns	
		DM-focused fund managers	EM-focused fund managers	PE-focused fund managers	PD-focused fund managers	Market-rate-seeking fund managers	Below-market-seeking fund managers
Pension fund / Insurance company	24%	32%	22%	18%	16%	26%	4%
Family office/HNWI	18%	26%	12%	37%	5%	19%	6%
Retail investor	15%	2%	11%	1%	21%	16%	4%
Bank / Diversified financial institution	14%	16%	15%	4%	21%	13%	31%
DFI	12%	3%	23%	17%	20%	11%	28%
Foundation	6%	10%	4%	8%	4%	5%	14%
Fund of funds	3%	3%	2%	4%	2%	3%	2%
Religious or faith-based institution	1%	1%	2%	1%	2%	1%	0.5%
Sovereign wealth fund	1%	2%	0.3%	3%	0.1%	1%	0.5%
Endowment	1%	1%	0.2%	2%	0.0%	1%	0.2%
Other	5%	4%	8%	4%	9%	5%	10%
Number of fund managers	135	58	68	49	32	99	36
Total AUM	42,552	17,448	18,728	7,846	12,631	39,525	3,027

Note: Figures exclude two large outlier respondents.

Source: GIIIN

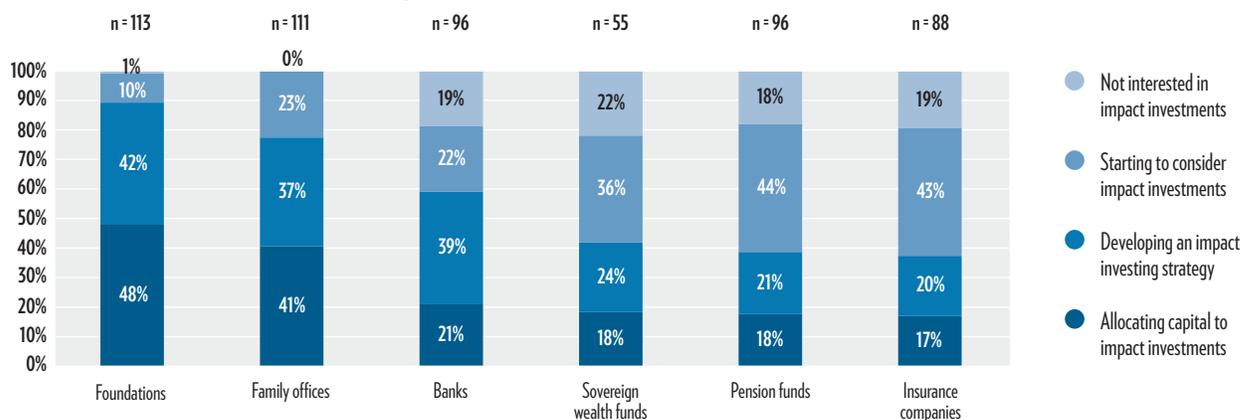
Interest from prospective investors

Fund managers were asked to describe the extent of interest they see when marketing impact investments to investors of various types, including foundations, family offices, banks, sovereign wealth funds, pension funds, and insurance companies. Most respondents reported receiving some interest from all these types and noted that most foundations and family offices are either already allocating capital to impact investments or developing strategies to do so; fund managers rarely encounter foundations or family offices that are not interested in impact investments (Figure 40). While roughly one in five fund managers stated that banks, sovereign wealth funds, pension funds, and insurance companies are not interested in impact investments, the rest indicated that these investors are somewhere between starting to consider impact investments and already allocating capital to impact investments.

One interesting difference between segments is that market-rate fund managers reported higher levels of interest from sovereign wealth funds, pension funds, and insurance companies than did below-market-rate-seeking funds. All segments reported relatively high interest from foundations and family offices.

Figure 40: Fund manager perceptions of interest in impact investments from potential investors

Number that responded for each option shown above each bar; some respondents chose 'not sure or not applicable' and are not included here. Listed in order of proportion of respondents that chose 'allocating capital to investments'.



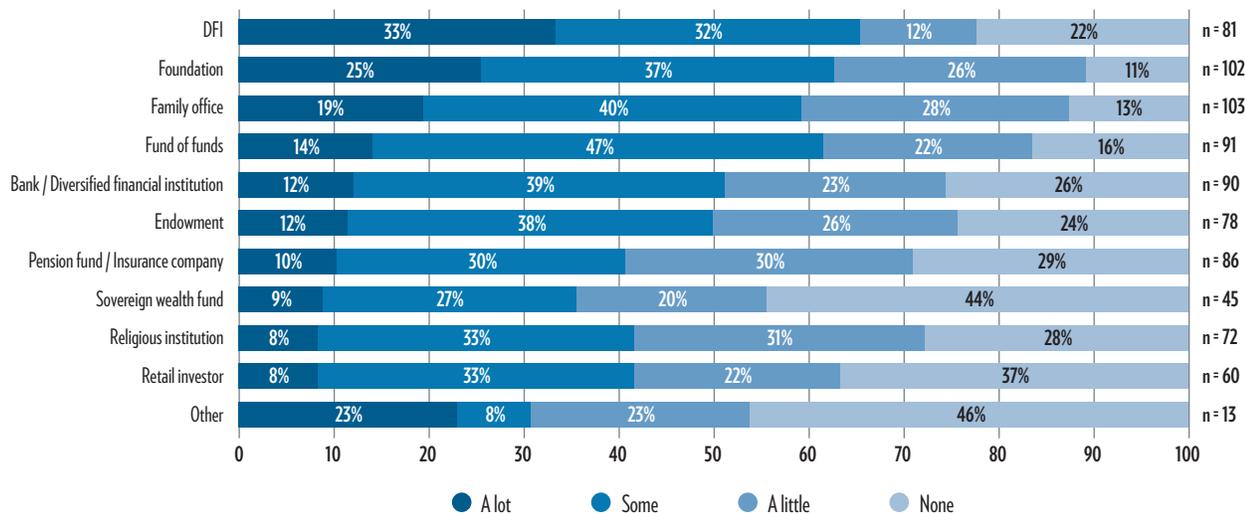
Source: GIIIN

Competition in raising capital from potential investors

Fund managers were asked to describe the degree of competition they experienced from other impact investing fund managers when raising capital from various investor types. Overall, one in three fund managers noted a lot of competition in raising capital from DFIs, a quarter noted a lot of competition in raising capital from foundations, and a fifth noted a lot of competition in raising capital from family offices (Figure 41). By contrast, most fund managers noted either little or no competition in raising capital from a range of other investor types, including sovereign wealth funds, religious institutions, retail investors, and pension funds/insurance companies.

Figure 41: Competition faced in raising capital from various investor types

Number of respondents that answered each option shown above each bar. Listed in order of proportion of respondents that chose 'a lot' of competition. Some respondents chose 'not sure' and are not included.



Note: 'Other' includes corporates, other impact funds, and individuals.

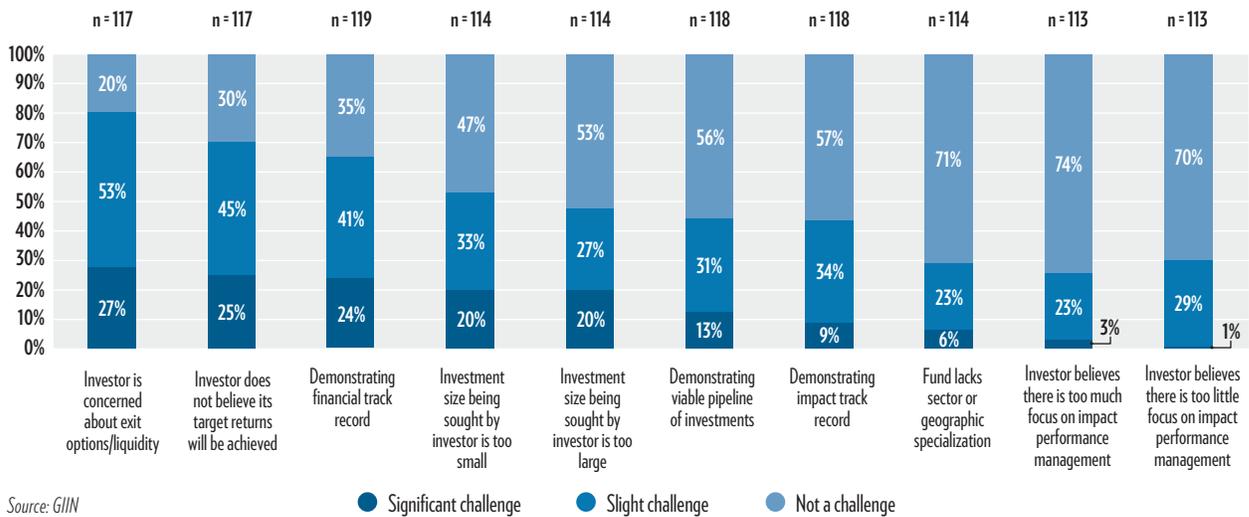
Source: GIIN

Challenges in fundraising

Fund managers were asked to indicate the main challenges they face in raising capital from investors. The top three challenges were related to investor concerns about liquidity, financial returns, and fund managers' ability to demonstrate a financial track record (Figure 42). While only about a quarter of fund managers consider these challenges to be 'very significant,' most fund managers consider them at least a slight challenge. Roughly half of fund managers also reported challenges related to the sizes of investment investors sought—finding them either too small or too large. Overall, however, over half of fund managers observed that aspects such as demonstrating a viable pipeline, impact track record, and sector/geographic specialization were 'not a challenge.'

Figure 42: Fund manager challenges in raising capital

Number of respondents that answered each option shown above each bar. Listed in order of proportion of respondents that chose 'significant challenge.' Some respondents chose 'not sure' and are not included.



A higher percentage of EM-focused than DM-focused fund managers noted challenges in raising capital because of investor concern about exit options/liquidity. Seventy-three percent of DM-focused fund managers said liquidity/exit presented a challenge, with 19% terming it a 'significant challenge,' while an overwhelming 92% of EM-focused fund managers said it presented a challenge, with 42% terming it a significant one.

Compared to market-rate fund managers, below-market-rate-seeking fund managers reported greater challenges regarding investor concerns about reaching target returns. Of below-market-rate-seeking fund managers, 37% reported this as a significant challenge, compared to 21% of market-rate-seeking fund managers.

2016 Market Development

Emerging Themes in Impact Measurement and Management

As the impact investing industry matures, impact measurement has grown increasingly nuanced and sophisticated. In the past year, there has been an increase in in-depth research and data on impact measurement and management and growing collaboration among different players. An indicator of growing maturity, the industry has begun to shift focus from the “why” to the “how” of impact measurement and management, with several recent studies exploring different methodological aspects.

- The July 2016 *Navigating Impact Investing* published by **Tideline** identifies ‘impact asset classes,’ categorizing approaches to impact investing based on: (1) whether the invested capital plays an influencing, pioneering, or scaling role; (2) the types of impact evidence required; and (3) the characteristics of the region and target beneficiaries of investment.³⁰ These ‘impact classes’ elucidate how different segments of the market define and advance their impact strategies and have been incorporated into the Impact Management Project.
- The **GIIN** released the *Business Value of Impact Measurement* in August 2016,³¹ a report examining how impact investors use social and environmental performance data to inform both short- and long-term strategic and operational decisions. The GIIN found five primary types of value that can be derived from such impact data: revenue growth; operational effectiveness and efficiency; investment decisions; marketing and reputation-building; and strategic alignment and risk mitigation.
- The October 2016 **Rockefeller Foundation** report, *Situating the Next Generation of Impact Measurement and Evaluation for Impact Investing*,³² examines the landscape of impact measurement approaches used by impact investors, offering several example case studies and finding four primary tactics used to measure, monitor, and understand impact: use of standardized tools and ratings systems; ongoing performance monitoring of key indicators; rigorous outcome and impact evaluation; and systemic or incremental market changes.
- **Skopos Impact Fund** and **Bridges Impact+**, the advisory arm of Bridges Ventures, released *More than Measurement* in October 2016, a report about Skopos’ evolving approach to impact measurement and management.³³ Describing Skopos’ impact management process in three components—(1) setting both financial and impact goals and indicators; (2) defining and managing targets and strategy; and (3) measuring and analyzing those indicators—the report breaks down some considerations for each stage of impact management and offers several examples of impact management in practice.

30 Cathy Clark, *Navigating Impact Investing: The Opportunity in Impact Classes* (Tideline, July 2016), <http://tideline.com/navigating-impact-investing-opportunity-impact-classes/>.

31 Hannah Schiff, Rachel Bass, and Ari Cohen, *The Business Value of Impact Measurement* (The Global Impact Investing Network, August 2016), <https://thegiin.org/knowledge/publication/business-value-im>.

32 Jane Reisman and Veronica Olazabal, *Situating the Next Generation of Impact Measurement and Evaluation for Impact Investing* (Rockefeller Foundation, October 2016), <https://assets.rockefellerfoundation.org/app/uploads/20161207192251/Impact-Measurement-Landscape-Paper-Dec-2016.pdf>.

33 Skopos Impact Fund and Bridges Impact+, *More than Measurement: A Practitioner’s Journey to Impact Management* (October 2016), <http://bridgesfundmanagement.com/wp-content/uploads/2017/02/Bridges-Skopos-More-than-Measurement-screen-view.pdf>.



Further, several developments indicate a shift toward increasingly collaborative efforts around within the industry around impact measurement and management. Through events, concerted dialogue, and sharing of resources, impact investors increasingly draw from each other's perspectives and experience.

- **The World Economic Forum (WEF)** began the second phase of its *Shaping the Future of Impact Investing* initiative in 2016, which includes engaging private investors to increase their impact. At a December event, the WEF identified seven key components required to accelerate the advancement of coherent impact measurement practice industry-wide: a clear action agenda, agreed-upon conventions and norms, common core indicators of impact performance, defined principles and protocols for impact management, impact evaluation, transparency of research and data, and examples and case studies.
- In March 2016, the **OECD** launched a working group of social impact investment experts to establish a set of agreed-upon principles for impact measurement and management. During 2016, the working group laid out a roadmap for the design and implementation of an internationally comparable data framework and will eventually generate a comprehensive global reporting framework.
- In 2016, the GIIN began developing **Navigating Impact**, a resource designed to reduce fragmentation in approaches to impact measurement among impact investors with similar impact expectations and to facilitate the adoption of common core sets of metrics by impact objective, strategy, and/or investment theme. To date, the project serves affordable housing and clean energy investors.
- The **Impact Management Project**, a multi-stakeholder initiative designed to discern appropriate conventions in impact expectations, communications, and management, launched in late 2016. Facilitated by Bridges Impact+ with partners such as the Omidyar Network, the Ford Foundation, Anthos, and the UK Department for International Development, the Impact Management Project will facilitate conversations among a range of industry players to better position frameworks, standards, and measurement approaches and produce a series of case studies.
- The **Fourth Sector Mapping Initiative** intends to foster consensus on the boundaries and taxonomy of the 'fourth sector,' or those organizations primarily driven by social and/or environmental motivations and that earn most of their income through business activities. In 2016, the initiative collected data on impact investors, social and environmental enterprises, and other mission-driven organizations, data which will be released in a freely accessible interactive database to encourage consistency of impact measurement practice.

The GIIN expects this trend of increasing knowledge-sharing and collaboration across the industry to continue through 2017 and beyond. As the industry continues to mature and welcome new players, clarity and sophistication of standards and practices around impact measurement become increasingly important for maintaining rigor in achieving impact.

Impact Measurement and Management

As the impact investing industry has matured, so too has impact measurement and management. The section below analyzes survey respondents' answers to a handful of key questions about their objectives and practice of impact measurement. The GIIN will also conduct a dedicated Impact Measurement and Management Survey later in 2017 to better understand the implementation and implications of impact measurement and management for the industry.

Impact objectives

Half of respondents (50%) target both social and environmental impact objectives, while another 41% primarily target social impact objectives and 9% primarily target environmental impact objectives (Figure 43). For the first time since this survey first asked about respondents' primary impact objectives in 2011, the number of respondents targeting both social and environmental impact objectives exceeded the number only targeting social impact objectives primarily. This shift results both from changes within the repeat sample of respondents and from the addition of new respondents to the survey.

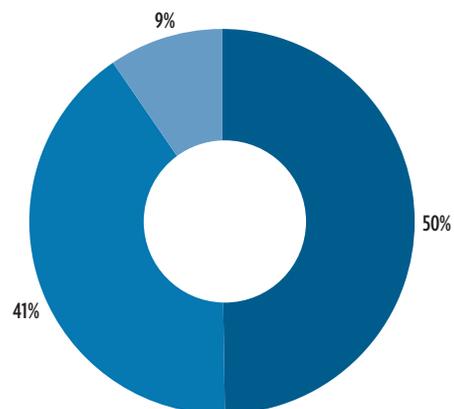
Primary impact objectives vary among different sub-groups of respondents. For example, respondents principally seeking below-market-rate returns were more likely to target primarily social impact objectives (61%) than were market-rate-seeking respondents (30%). A much higher proportion of Developed Market-focused respondents primarily target environmental impact objectives compared to Emerging Market-focused respondents (19% of DM-focused versus 1% of EM-focused).

Figure 43: Primary impact objectives

n = 209

- 50% Both
- 41% Social
- 9% Environmental

Source: GIIN



Social and environmental performance measurement tools

A key differentiator of impact investing from other investment strategies is the commitment of the investor to measuring and reporting on the social and/or environmental performance of their investments (Figure 44). Most respondents reported measuring their social and/or environmental performance through proprietary metrics or frameworks (75%), qualitative information (65%), or IRIS-aligned metrics (57%).³⁴ Further, 32% of respondents indicated using standard frameworks and assessments to measure their performance. Besides IRIS, tools specifically mentioned included GIIRS, the Universal Standards for Social Performance Management (USSPM) for microfinance, and the Aeris measurement tool and ratings agency for CDFIs.

Interestingly, EM-focused respondents were more likely to report using IRIS-aligned metrics (70%) than any other measurement tool or framework. Conversely, DM-focused respondents were most likely to use proprietary metrics (85%). LPs were more likely to cite the use of qualitative information (79%) than GPs (62%), whereas GPs were more likely to use IRIS metrics (64%) than were LPs (48%).

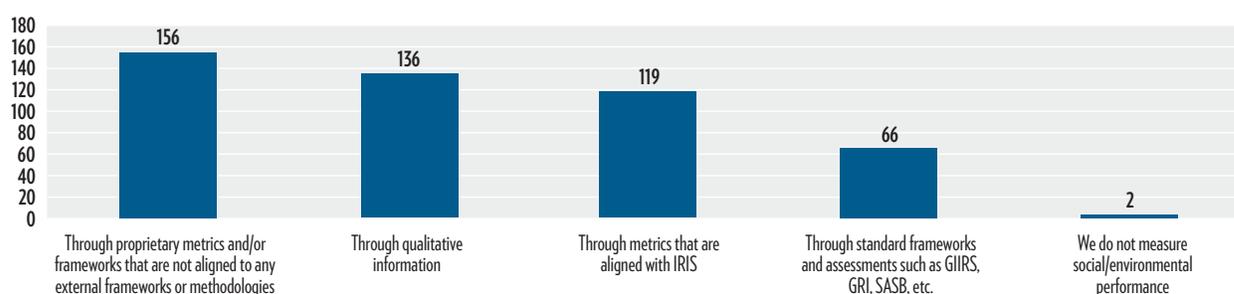
Most impact investors use a combination of performance tools to develop an impact measurement and reporting system that fits their goals and investment strategies. Among impact investors selecting multiple measurement tools, the most common combinations include:

- proprietary metrics and qualitative information (50% of total respondents);
- IRIS-aligned metrics and qualitative information (41%); and
- IRIS-aligned metrics and proprietary metrics (38%).

Some respondents added additional qualitative commentary regarding their use of multiple metric sets or frameworks. For example, one fund manager said, “We do use IRIS but find that for our investments, we need to tailor and qualify them, and we are currently building on this with proprietary metrics.” Another fund manager described using both sector-specific tools and IRIS.

Figure 44: How social/environmental performance is measured

n = 209; respondents could select multiple options. Number of respondents selecting each option shown above each bar.



Note: Respondents that said they do not measure their social/environmental performance noted that they invest in companies whose impact is embedded in their products and services.

Source: GIIN

Impact Metrics and Frameworks

A set of metrics (IRIS-aligned or otherwise) is one component of an impact measurement and management framework. Such frameworks also include broader goals, the investment/impact thesis that is projected to deliver on those goals, and the means of collecting, managing, and using the data that indicate performance towards those goals.

³⁴ IRIS is the catalog of generally accepted performance metrics managed by the GIIN; see www.iris.thegiin.org. Since some standard frameworks and assessments, such as GIIRS, are built using IRIS metrics, the proportion of respondents using IRIS metrics in some form may be even higher than is reflected here.

Evidence sought

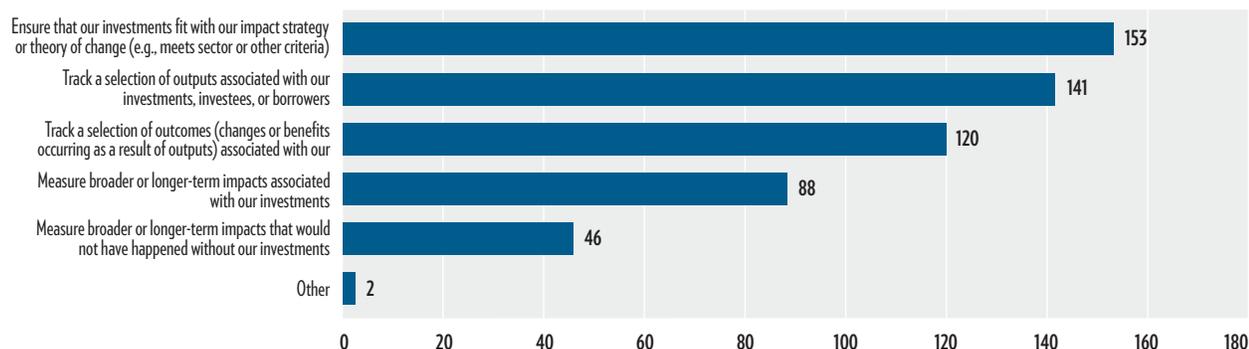
Using the tools outlined above, impact investors seek various types of evidence of the impact of their investments (Figure 45). Increasingly, impact evidence has emerged as a basis for segmenting and analyzing the broader impact investing market in order to understand both the specificity of impact sought and investors' decision-making processes.³⁵ Most commonly, impact investors seek evidence that their investments fit within their impact strategies or theories of change (73%), track outputs associated with their investments (67%), or track outcomes associated with their investments (57%). Many respondents also look for evidence of longer-term impact associated with or resulting from their investments (42% and 22%, respectively).

Most respondents seek multiple types of evidence on the social and/or environmental performance of their investments. Common combinations include:

- ensuring the investment fits within the impact strategy or theory of change and tracking outputs (54%);
- ensuring the investment fits within the impact strategy or theory of change and tracking outcomes (48%); and
- tracking both outputs and outcomes (46%).

Figure 45: Types of evidence sought through impact measurement

n = 182; optional question. Respondents could select multiple options. Number of respondents selecting each option shown beside each bar.



Source: GIIIN

Alignment with the Sustainable Development Goals

The Sustainable Development Goals (SDGs), adopted by the 193 Member States of the United Nations in 2015, call for the collaboration of the private, public, and philanthropic sectors to end poverty and ensure environmental sustainability by 2030. Roughly one year since their launch, 26% of impact investors responding to the survey reported that they actively track the performance of some or all of their investments with respect to the SDGs (Figure 46). Another third of respondents plan to do so in the near future.

Emerging Market-focused respondents are more likely to track the performance of their investments relative to the SDGs, with 37% already doing so and 38% planning to do so in the future. Developed Market-focused respondents, on the other hand, are less likely to target the SDGs, with 56% reporting they have no such plans.

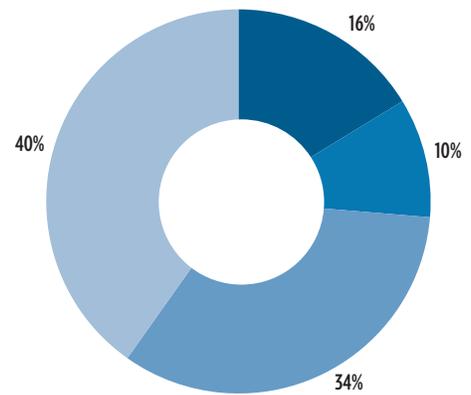
³⁵ For example, see Cathy Clark, Navigating Impact Investing: The Opportunity in Impact Classes (Tideline, July 2016), <http://tideline.com/navigating-impact-investing-opportunity-impact-classes/>. This project set out to define 'impact classes' and has since been incorporated into the Impact Management Project.

Figure 46: Tracking impact investment performance to the UN SDGs

n = 209

- 16% Yes, for all of our investments
- 10% Yes, for some of our investments
- 34% No, though we plan to do so in the near future
- 40% No, and we don't have any foreseeable plans to do so

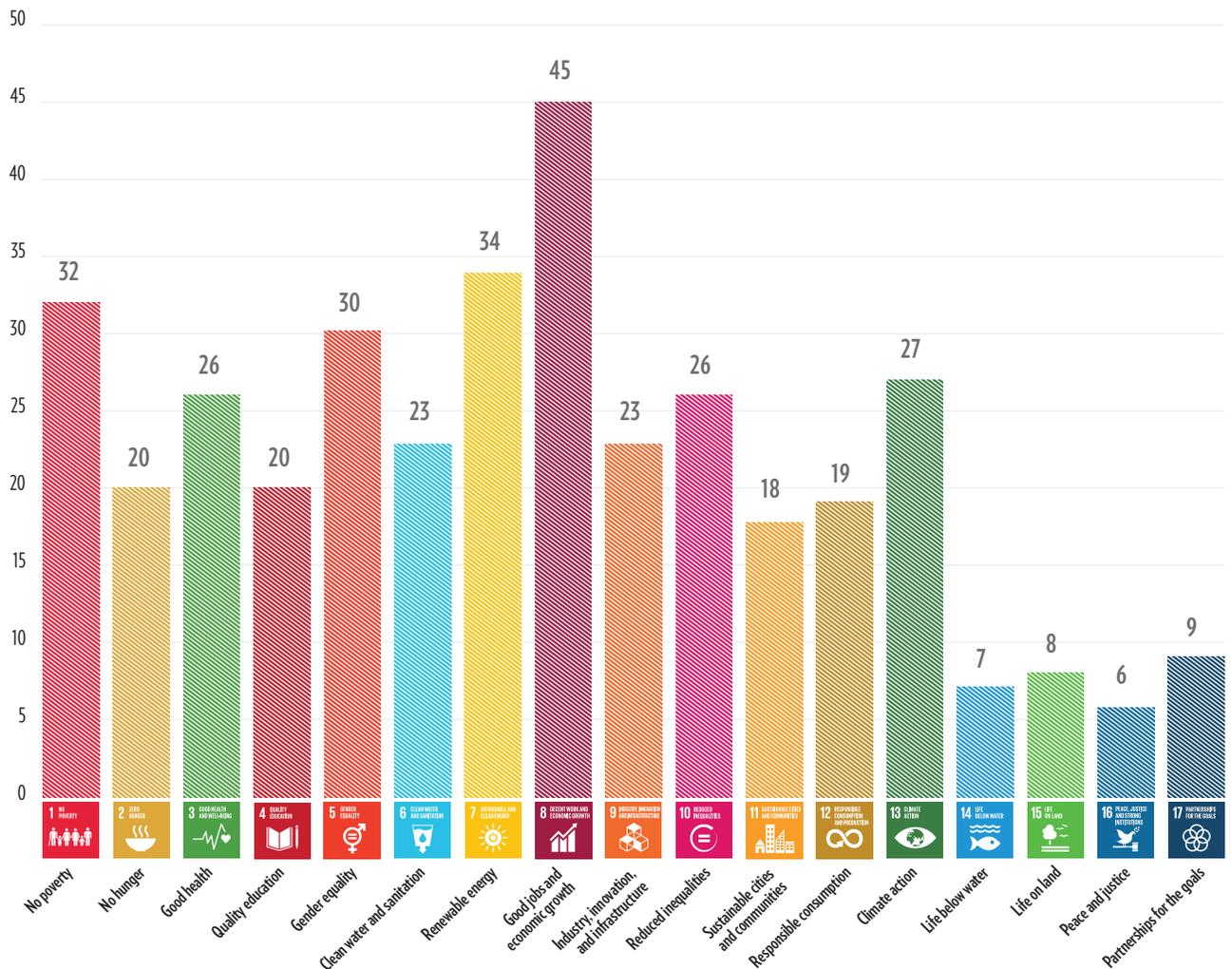
Source: GIIIN



Among the 55 respondents that track the performance of their investments with respect to the SDGs, a large majority target SDG 8: Good jobs and economic growth (82%). Other commonly tracked SDGs include SDG 7: Renewable energy (62%), SDG 1: No poverty (58%), and SDG 5: Gender equality (55%). As shown in Figure 47 below, every goal was tracked by at least a handful of respondents. On average, investors targeting the SDGs tracked about seven of the goals.

Figure 47: SDGs to which impact investors track their performance

n = 55; respondents could select multiple options. Number of respondents selecting each option shown above each bar.

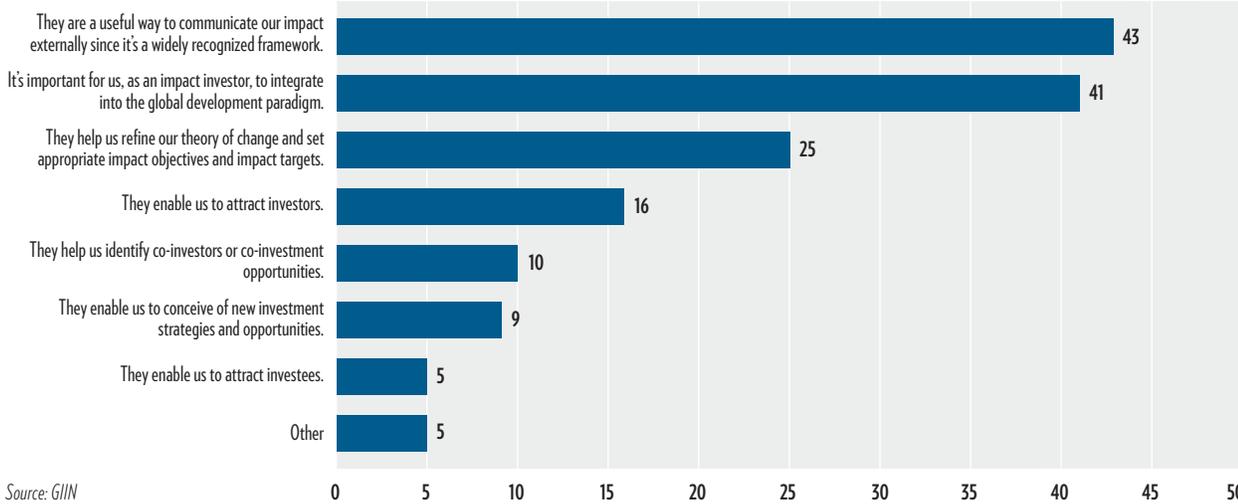


Source: GIIIN

Respondents that already track their social and/or environmental performance against the SDGs cited a range of reasons for doing so (Figure 48). The two most commonly cited reasons include that the SDGs help communicate about impact (78%) and that there is value in integrating into the global development paradigm (75%). Fewer investors cited reasons related to deal-making, such as the ability to identify co-investors or co-investment opportunities, conceive of new investment opportunities, or attract investees. For more information about the role of impact investors in achieving the SDGs, see the 2016 Market Development box on the next page.

Figure 48: Motivations for tracking social and/or environmental performance to the SDGs

n = 55; respondents could select multiple options. Number of respondents selecting each option shown beside each bar.



Source: GIIIN

2016 Market Development

Sustainable Development Goals

In 2015, world leaders adopted the 17 United Nations (UN) Sustainable Development Goals (SDGs), which lay out global social and environmental objectives to be achieved by 2030. Reaching these ambitious goals will require USD 5–7 trillion per year. The UN has emphasized the critical role of the private sector in financing their achievement. Many impact investors have aligned their strategies with the SDGs. Below are resources developed in 2016 to help investors incorporate the goals into their strategies.

- In January 2016, at the World Economic Forum Annual Meeting, UBS published **Mobilizing Private Wealth for Public Good**, which discusses how private capital can play a key role in funding the SDGs. UBS also committed to support a WEF Young Global Leaders initiative called Align17 that will create an “investing and philanthropic platform focused on addressing SDG funding gaps.”³⁶
- The Investment Leaders Group, a global network of pension funds, insurers, and asset managers, released an impact framework in May 2016 in partnership with the University of Cambridge Institute for Sustainability Leadership. **In Search of Impact: Measuring the Full Value of Capital** uses the SDGs as a guiding strategy to measure investments’ non-financial impact.³⁷
- In July 2016, the Sustainable Development Solutions Network and Bertelsmann Stiftung launched the **SDG Index & Dashboards**, a report and resource that provides data on 149 countries progress towards reaching the SDGs.³⁸ The resource aims to help stakeholders, including investors, incorporate into their strategies an assessment of country-level need.
- Following GIIN CEO Amit Bouri’s call for financial leaders to invest directly in solutions aimed at advancing the SDGs, the GIIN released **Achieving the Sustainable Development Goals: The Role of Impact Investing**, a compendium of impact investor profiles highlighting current efforts to align with the SDGs.³⁹ Investors featured in this publication include Encourage Capital, PGGM, RobecoSAM, Triodos Investment Management, LGT Impact Ventures, and Cordaid Investment Management BV.⁴⁰
- In October 2016, the German index provider Solactive launched the **Solactive Sustainable Development Goals World Index**, which comprises 50 companies making clear contributions to advancing the SDGs.⁴¹ In another innovative product, the World Bank’s International Bank for Reconstruction and Development developed its first bond tied to the SDGs; its returns will be linked directly to the performance of the Solactive Index. The World Bank raised the bond’s first issue of EUR 163 million in March 2017.
- Investisseurs & Partenaires and the Foundation for International Development Study and Research published **Investing in Development in Africa: How Impact Investors Can Contribute to Meeting the Sustainable Development Goals** in October 2016.⁴² The paper groups the SDGs into eight “investment areas” and discusses how investors can help achieve them in Africa.
- In December 2016 at the GIIN Investor Forum in Amsterdam, 18 Dutch financial institutions presented the report **Building Highways to SDG Investing** to the Dutch government and Central Bank, with an invitation to join efforts to achieve the SDGs.⁴³ The report recommends ways to align investments with the SDGs, including forming blended finance partnerships and creating SDG-focused retail investment opportunities; it also describes several working groups that will pursue opportunities following these recommendations.

36 Simon Smiles et al., *Mobilizing private wealth for public good* (UBS, 2016), https://www.ubs.com/global/en/about_ubs/follow_ubs/highlights/mobilizing-private-wealth-for-public-good.html.

37 Jake Reynolds, Clarisse Simonek, Hervé Guez, and Mathilde Dufour, *In Search of Impact: Measuring the Full Value of Capital* (Investment Leaders Group and the Cambridge Institute for Sustainability Leadership, 2016), <http://www.cisl.cam.ac.uk/publications/publication-pdfs/impact-report.pdf>.

38 Jeffrey Sachs et al., *SDG Index and Dashboards: Global Report* (Sustainable Development Solutions Network and Bertelsmann Stiftung, 2016), https://issuu.com/unsdsn/docs/sdg_index_dashboard_full.

39 Amit Bouri, “The U.N.’s SDGs Deliver a Capital Call to the World,” *Institutional Investor* (blog), September 10, 2016, http://www.institutionalinvestor.com/blogarticle/3584799/Latest-Stories/The-UNs-SDGs-Deliver-a-Capital-Call-to-the-World.html#/WNVURG_yvct.

40 The GIIN, *Achieving the Sustainable Development Goals: The Role of Impact Investing* (2016), https://thegiin.org/assets/GIIN_Impact%20InvestingSDGs_Finalprofiles_webfile.pdf.

41 “Solactive Sustainable Development Goals World Indices,” <https://www.solactive.com/solactive-sustainable-development-goals-world-indices/>.

42 Samuel Monteiro, *How Impact Investment Can Contribute to Meeting the Sustainable Development Goals (SDGs) in Africa* (Investisseurs & Partenaires and the Foundation for International Development Study and Research, 2016), <https://thegiin.org/knowledge/publication/investing-in-development-in-africa>.

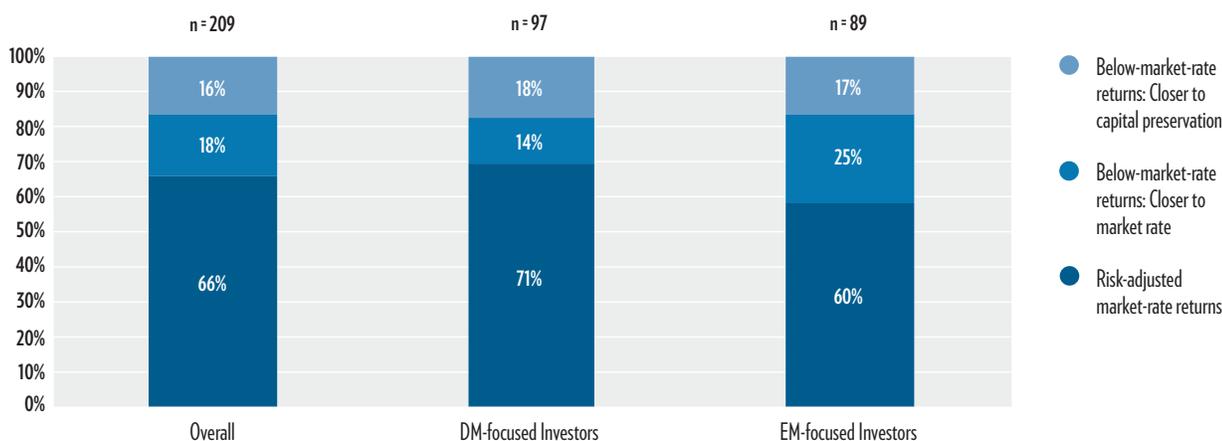
43 Dutch SDG Investing Agenda, *Building Highways to SDG Investing: Invitation to Collaborate on a Dutch Sustainable Investing Agenda* (2016), https://static1.squarespace.com/static/582981ddeb1ad7f34681b6/t/58457f4244024382e470d761/1480949587478/EMBARGO_SDLI+Report+Building+Highways.pdf.

Investment Performance and Risk

Target financial returns

A unique feature of impact investing is that investors target a range of returns, from deeply concessionary to market-rate. Every year, survey respondents are asked to describe the types of financial returns they typically seek. This year, about two-thirds of respondents reported that they principally target risk-adjusted, market-rate returns (Figure 49).⁴⁴ Of the remainder, 18% target below-market rates of return that are closer to market rates, and 16% target below-market-rate returns that are closer to capital preservation.

Figure 49: Target returns, overall and by geographic focus



Source: GIIN

Average gross return expectations for 2016 vintage investments vary by asset class, geographic focus, and return philosophy of investors (Figure 50; the error bars show one standard deviation in either direction). Not surprisingly, return expectations are higher for equity than for debt and higher in emerging markets than in developed markets. Also, as would be expected, the average expectations of investors principally seeking risk-adjusted, market rates of return are higher than those of investors principally seeking below-market rates of return. Interestingly, the gaps between the return expectations of Below-Market and Market-Rate Investors are much larger for investments in developed markets than for those in emerging markets.

⁴⁴ In last year's sample, 59% of respondents principally sought risk-adjusted, market rates of return. The increased proportion this year is primarily due to changes in the sample, rather than changes in the return philosophies of repeat respondents.

Figure 50: Average gross return expectations for 2016 vintage investments

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



Source: GIIIN

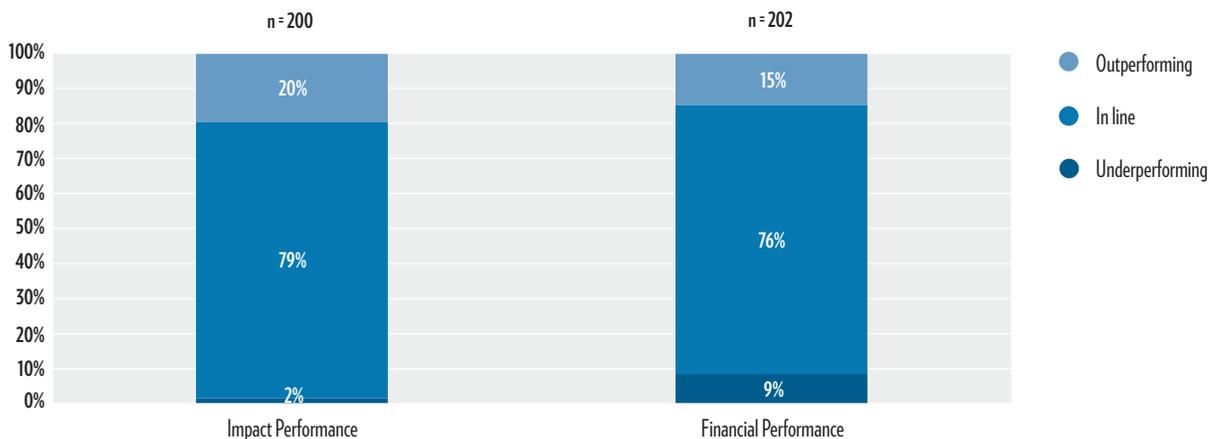
Performance relative to expectations

A large majority of respondents reported that their investments have either met or exceeded their expectations for both financial performance and impact (Figure 51). Mechanisms for assessing financial returns against expectations are well-known. Respondents set return expectations, as described above; many also use external financial benchmarks. Such benchmarks vary widely, including mainstream indices for stocks, bonds, timberland, and venture capital/private equity, in addition to narrower benchmarks like the Symbiotics Microfinance Index and the Cambridge Associates Impact Investing Benchmark (for private equity).

Methods of setting impact expectations and evaluating performance against them also vary widely across the impact investing industry (for more detail, see the “Impact Measurement and Management” section). To contextualize these responses, the survey included space to elaborate on portfolio performance. To explain impact outperformance (as reported by one-fifth of respondents), one respondent commented on greater impact resulting from investee company growth, while another noted surprising growth in the viability of particular sectors in which they invest, such as energy and education. One respondent commented that they see layers of different types of impact they had not anticipated. Another noted that they have been able to reach more minority- and women-owned businesses than they expected. A few respondents also noted that for some of their investments, it is too early to determine impact performance.

Figure 51: Performance relative to expectations

Number of respondents shown below each bar; some respondents chose ‘not sure’ and are not included.



Source: GIIIN

Most respondents reported that their performance met both their impact and financial expectations (Table 19). Twelve reported outperformance in both, and just two reported underperformance in both.

Table 19: Performance relative to both financial and impact expectations

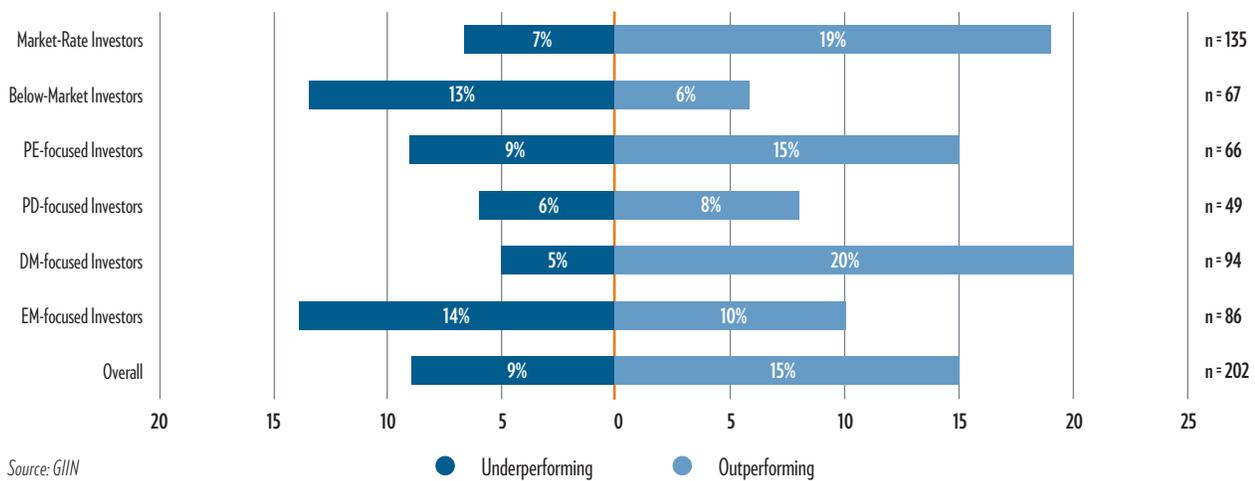
n = 196; some respondents chose 'not sure,' and these responses are not included.

		Financial		
		Underperforming	In line	Outperforming
Impact	Underperforming	2	2	0
	In line	12	125	17
	Outperforming	4	22	12

Source: GIIIN

Reported impact performance against expectations did not vary significantly between sub-groups. However, some interesting variations emerged in financial performance compared to expectations. Notably, respondents with portfolios focused on developed markets were more likely to report outperformance this year, whereas those focused on emerging markets were more likely to report underperformance (Figure 52). Private Equity Investors were more likely to report both outperformance and underperformance than were Private Debt Investors, perhaps reflecting the greater volatility in this asset class. A higher proportion of market-rate-seeking investors cited outperformance than did investors seeking below-market rates of return.

Figure 52: Financial performance relative to expectations by target returns sought, asset class focus, and geography of investment



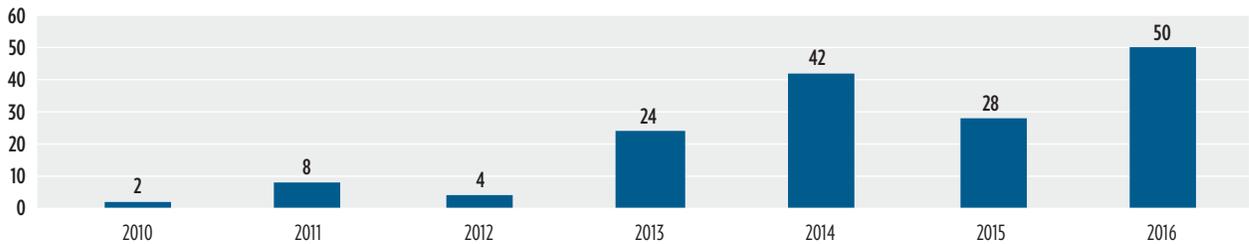
Source: GIIIN

Private equity exits

Roughly three-quarters of survey respondents make private equity investments. For the past three years, private equity investors have been given the option to report on their five most recent exits. The analysis here includes data from the 2015, 2016, and 2017 Annual Impact Investor Survey reports.⁴⁵ In total, 36 investors reported 158 exits (Figure 53). Twenty-nine of the 36 investors principally seek risk-adjusted, market rates of return, accounting for 119 of the 158 exits. The years of these exits range from 2010 to 2016.

Figure 53: Sample private equity exits by year

n = 158 exits; 36 investors

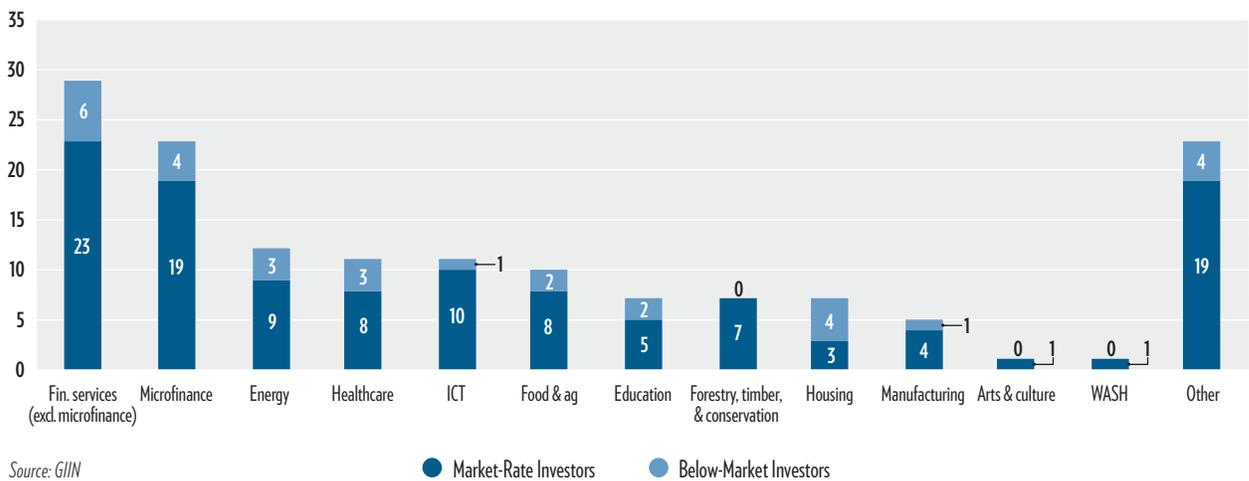


Source: GIIIN

The largest sectors in terms of exits were microfinance and other financial services, together accounting for nearly 40% of the total sample exits by number (Figure 54). The vast majority of exits in those two sectors took place in emerging markets, including South Asia, SSA, LAC, and SE Asia. The sample in aggregate has made 10-12 exits since 2010 in each of energy, food and agriculture, healthcare, and information & communications technologies, in both emerging and developed markets.

Figure 54: Sample private equity exits by sector and principal target return of investor, 2010-2016

n = 158 exits; 36 investors

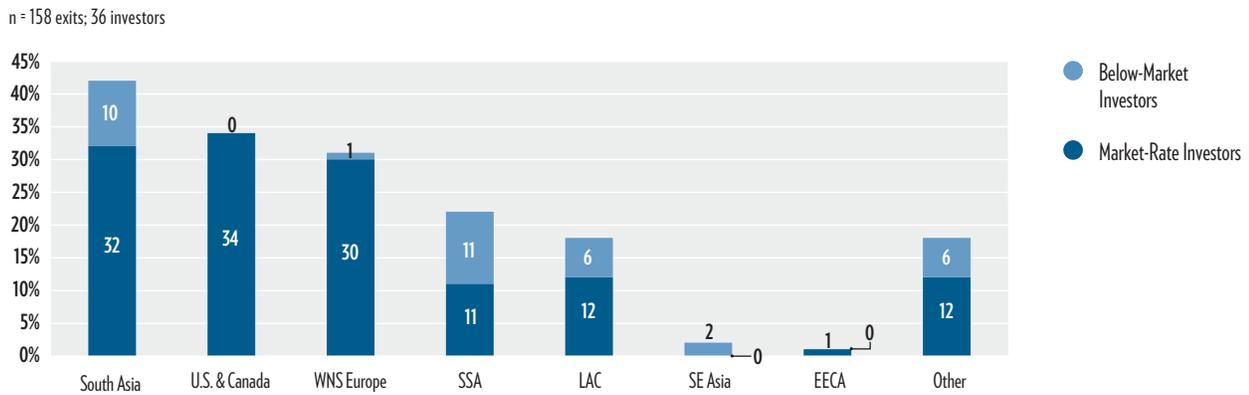


Source: GIIIN

⁴⁵ Duplicate exits were removed, as were exits reported by respondents that did not participate in the survey this year.

The regions in which the most exits took place were South Asia, the U.S. & Canada, and WNS Europe (Figure 55). Exits in developed markets, such as the U.S. & Canada and WNS Europe, were nearly all made by investors who principally seek risk-adjusted, market rates of return, whereas exits in emerging markets were made both by investors that seek market rates and those that seek below-market rates of return.

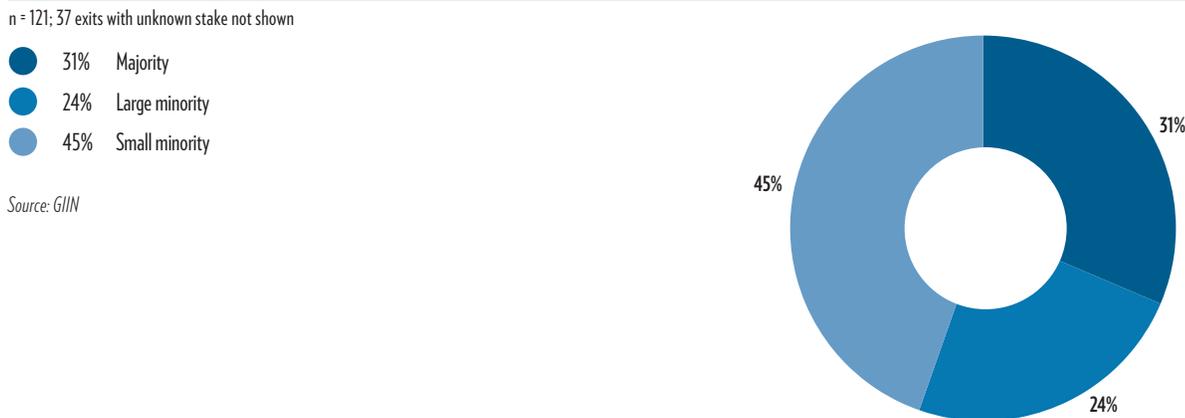
Figure 55: Sample private equity exits by region and target returns of investor, 2010-2016



Source: GIIIN

Among the sample of private equity exits, 69% were initially minority stakes (45% small minority and 24% large minority; Figure 56).⁴⁶ Majority stakes were more common among investors with large impact investing AUM (50% of their exits) than among investors with relatively small AUM (19% of their exits; Figure 57). Majority stakes were also more common in the developed markets of U.S. & Canada and WNS Europe compared to exits in emerging markets (Figure 58).

Figure 56: Initial ownership stake of sample exits, 2010-2016

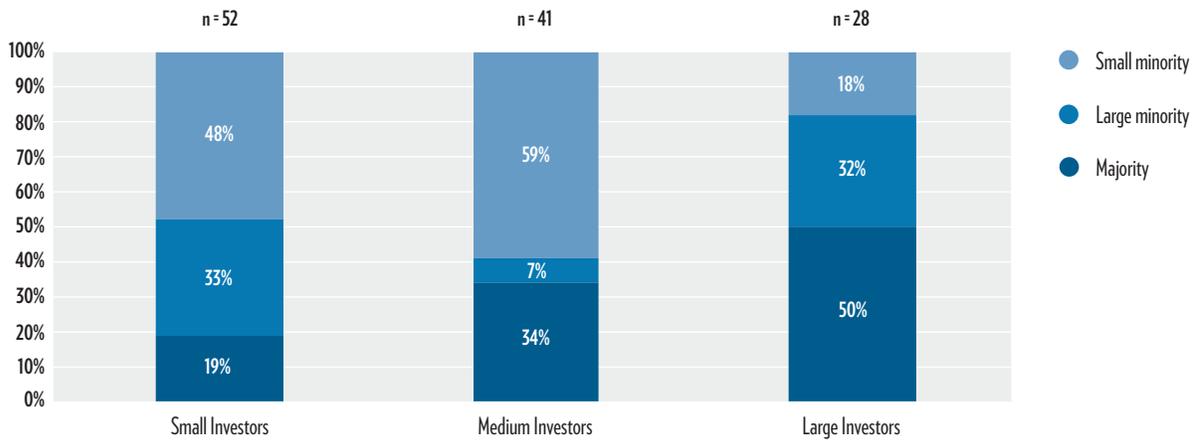


Source: GIIIN

⁴⁶ Respondents were asked to specify whether their initial stake was a 'majority,' 'large minority,' or 'small minority.' In cases where they wrote in a percentage, 30% was used as the threshold for 'large minority.'

Figure 57: Initial ownership of sample exits by size of impact investing AUM

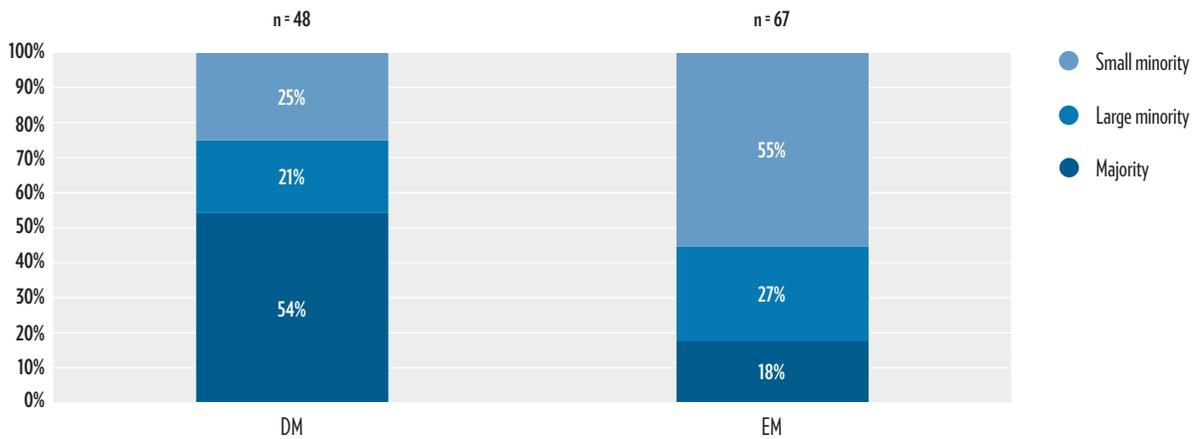
Number of exits for each group shown above each column.



Source: GIIN

Figure 58: Initial ownership stake of sample exits by region of exit

Number of exits for each group shown above each column.

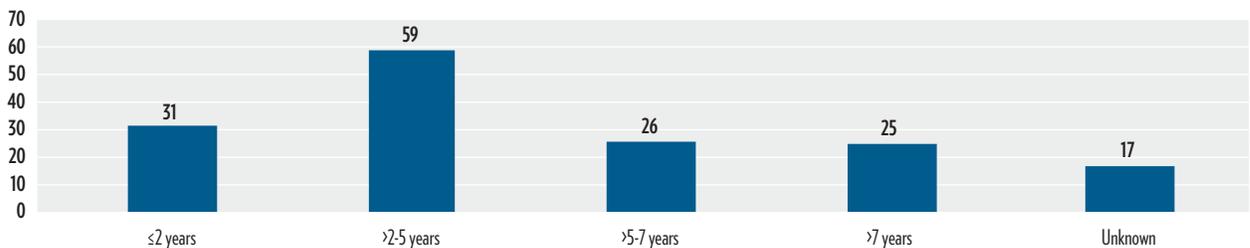


Source: GIIN

The average holding period for exits in the sample was 56 months, or about four and a half years (Figure 59). Respondents principally seeking below-market-rate returns held their investments an average of 67 months, compared to 53 months on average for market-rate-seeking respondents. The average holding period in most regions was around 60 months, except in the U.S. & Canada, where it was 40 months, and LAC, at nearly 80 months.

Figure 59: Holding period of sample exits, 2010-2016

n = 158 exits



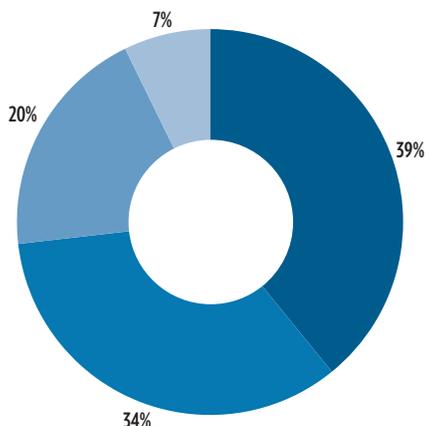
Source: GIIN

About a third of sample exits were made via financial buyers, with a further 30% via strategic buyers or trade sales (Figure 60). Seventeen percent were sales back to company management. Investors sold their entire stake in 72% of cases, with the remainder being partial exits or unknown.

Figure 60: Exit mechanisms, 2010-2016

n = 138; Some exits were via unknown mechanisms, and they are not shown.

- 39% Financial buyer
- 34% Strategic buyer
- 20% Management buyback
- 7% IPO



Source: GIIIN

Risk

Respondents were asked to report whether they experienced more and/or worse risk events than they had expected over the past year. A clear majority of respondents (75%) did not (Table 20). However, a higher proportion of this year’s respondents said that their portfolio did experience such a risk event (25%) compared to last year (16%). It should be noted that the question wording changed slightly on this year’s survey;⁴⁷ of course, the sample also changes from year to year. Notably, those who reported having experienced more or worse risk events were primarily investing in emerging markets; 47% of EM-focused Investors compared to just 7% of DM-focused Investors answered ‘yes’ to this question.

Table 20: Significant risk events experienced in 2016

	All respondents	DM-focused Investors	EM-focused Investors
No	75%	93%	53%
Yes	25%	7%	47%
n	209	97	89

Source: GIIIN

A few common themes emerged from respondents’ comments to explain risk events:

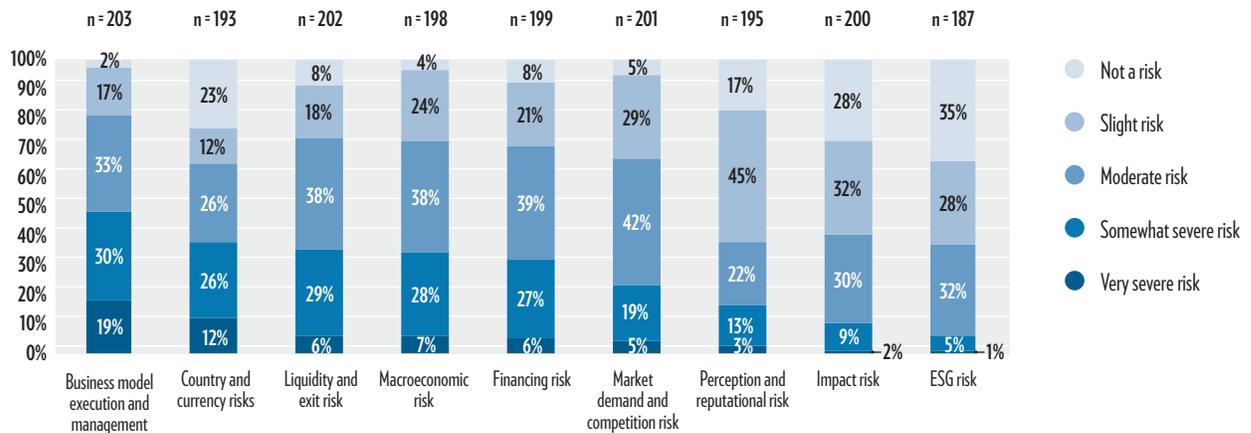
- natural disasters, in some cases attributed to climate change (e.g., flooding, fires);
- currency devaluation in emerging markets, which some attributed to strengthening of major world currencies;
- demonetization in India;
- lackluster economic growth, which some attributed to decreased commodity prices, including for oil; and
- tense or complex political environments.

⁴⁷ In previous years, this question asked whether respondents had experienced any covenant breaches or material adverse changes; this year, the questions asked whether respondents had experienced “significantly more and/or worse risk events (e.g., covenant breaches or material adverse changes) than you expected.”

Separately, respondents were asked to assess a number of different risks facing their impact investing portfolios. Nearly half of respondents (49%) cited 'business model execution & management risk' as a very or somewhat severe risk (Figure 61). This has consistently been the top-ranked risk for the past five years of this survey.⁴⁸ Thirty-eight percent of respondents deemed 'country & currency risks' to be severe. Ranked only fifth last year, this risk has perhaps become more salient given the explanations above, though changes could also be due to changes in the question structure this year. Just over a third of respondents (35%) considered 'liquidity & exit risk' and 'macroeconomic risk' to be at least somewhat severe, as did a similar proportion (33%) for 'financing risk.'

Figure 61: Contributors of risk to impact investment portfolios

Number responding for each option shown above each column; some respondents chose 'not sure/not applicable,' and these responses are not included. Ranked by percent that selected 'very severe risk' or 'somewhat severe risk'.



Source: GIIIN

Investors in different segments had some notable variations in terms of perceived risks. For Developed Market-focused Investors, 'liquidity & exit risk' ranked second (with 5% noting it as 'very severe' and 26% rating it 'somewhat severe') and 'market demand & competition risk' ranked third (6% and 21% rating it 'very severe' and 'somewhat severe,' respectively). Meanwhile, Emerging Market-focused Investors generally perceive risks as more severe than do DM-focused Investors. EM-focused Investors ranked 'country & currency risks' as most severe (21% 'very severe' and 36% 'somewhat severe').

In general, Private Equity Investors were more likely to rate any given risk as 'very severe' than were Private Debt Investors. Not surprisingly, those using mainly private equity said that 'liquidity & exit risk' was more of a concern (9% rating 'very severe' and 43% rating 'somewhat severe'), whereas those using mainly private debt were more likely to rate 'financing risk' as an important contributor of risk to their portfolios (2% and 21% rating 'very severe' and 'somewhat severe,' respectively).

LPs generally sense more risk than do GPs, perhaps because they are more removed from the investments, perceiving risks in the performance of both the GPs and end investees. GPs perceive more risk than LPs in two areas: 'business model execution and management risk' (very slight difference) and 'financing risk.'

⁴⁸ The structure of this question changed notably this year. In previous years, respondents were asked to rank their top five risks, and the report presented a weighted score based on those rankings. This year the question was adapted to capture both absolute and relative severity.



Appendices

Appendix 1: List of Survey Respondents

We are grateful to the following organizations for their contributions, without which this survey would not be possible.

3Sisters Sustainable Management, LLC	ASN Beleggingsinstellingen Beheer B.V.	Closed Loop Partners
Avishkaar	Australian Ethical Investment	Coastal Enterprises, Inc.
Accion Venture Lab	Bamboo Capital Partners	Community Capital Management
ACTIAM	Belgian Investment Company for Development Countries	Community Reinvestment Fund, USA
Acumen	Bethnal Green Ventures	Community Investment Management, LLC
Adenia Partners	Beyond Capital Fund	Conservation Forestry
Adobe Capital	Big Issue Invest	Contact Fund
Aegon	Big Society Capital	CoopEst
AlphaMundi	Blue Haven Initiative	Cordaid Investment Management
Alter Equity	BlueOrchard Finance Ltd	Core Innovation Capital
Alterfin	BNP Paribas	CoreCo Private Equity
Althelia	Bridges Ventures	Creas
Ameris Capital (Fondo de Inversión Social)	Business Partners International	Creation Investments Capital Management, LLC
Annie E. Casey Foundation	California Fisheries Fund	Credit Suisse
Annona Sustainable Investments BV	Calvert Foundation	Dalio Family Office
Anonymous 1	Capricorn Investment Group	DBL Partners
Anonymous 2	CDC Group	Dev Equity
Anonymous 3	CEI Ventures	Développement international Desjardins
Anonymous 4	Cheyne Capital	DOB Equity
Anthos Fund and Asset Management	Christian Super	Developing World Markets (DWM)
Aqua-Spark	Citizen Capital	EcoEnterprises Fund
Aravaipa Ventures	City Light Capital	Ecotrust Forest Management (EFM)
Asha Impact	Clean Energy Advisors	Elevar Equity
Ashburton Investments	Clearinghouse CDFI	Encourage Capital

ENGIE Rassembleurs d'Energies	Grassroots Capital Management;	Kalamazoo Community Foundation
Ennovent	Caspian Impact Investment Adviser	Kendall Sustainable Infrastructure
Enterprise Community Partners	GroFin	Kukula Capital Plc
Equity for Tanzania Ltd.	Habitat for Humanity International	Lafise Investment Management
ETF Partners	HCAP Partners	LeapFrog Investments
EXEO Capital	Heron	Living Cities
Farmland LP	Hooge Raedt Social Venture (HRSV)	Local Enterprise Assistance Fund
Finance in Motion	ICCO Investments	Lok Capital
Fledge	IDF Capital	Lyme Timber Company
FMO	IDP Foundation, Inc.	MainStreet Partners
Fondazione Sviluppo e Crescita CRT	IGNIA	Mary Reynolds Babcock Foundation, Inc.
Fonds 1818	Impact Community Capital	Media Development Investment Fund
Ford Foundation	Impact First Investments	Medical Credit Fund
Forsyth Street	Impact Investment Group	Menterra Venture Advisors Private Limited
Futuregrowth Asset Management	Impax Asset Management	Mercy Corps
Gary Community Investments	INCO/Comptoir de l'Innovation	MicroVest Capital Management
GAWA Capital	Incofin Investment Management	MissionPoint Partners
GEF Capital Advisors, LLC	Injaro Investments	MN
Generation Investment Management	Insitor Impact Asia Fund	Multilateral Investment Fund (MIF), Member of the IDB Group
Gerding Edlen Investment Management	Investir&+	National Community Investment Fund
Global Innovation Fund	Investisseurs & Partenaires (I&P)	New Forests
Global Partnerships	J.W. McConnell Family Foundation	New Market Funds
Golden Seeds	JCS Investment, Ltd.	New Summit Investments, LLC
Gordon and Betty Moore Foundation	John D. and Catherine T. MacArthur Foundation	NewWorld Capital Group, LLC
Grameen Crédit Agricole Foundation	Joule Assets	NN Investment Partners
Grassroots Business Fund	JPMorgan Chase & Co.	

Nonprofit Finance Fund	SLM Partners	Vox Capital
Northern California Community Loan Fund	SME Impact Fund	Voxtra AS
Oikocredit International	Social Investment Business	W.K. Kellogg Foundation
Omidyar Network	Social Ventures Australia	WaterEquity
Overseas Private Investment Corporation (OPIC)	Stichting DOEN / DOEN Participaties B.V.	Wermuth Asset Management GmbH
Pacific Community Ventures	Sycomore Asset Management	WHEB Asset Management
PC Capital	Symbiotics	Working Capital for Community Needs
Pearson Affordable Learning Fund	TBL Mirror Fund	XFML
PGGM	Terra Global	
Phitrust Partenaires	The David & Lucile Packard Foundation	
Prudential Impact Investments	The Kresge Foundation	
QBE Insurance Group	The McKnight Foundation	
Quadia	The Osiris Group	
Rabobank Rural Fund	TIAA Investments	
Renewal Funds	Treehouse Investments, LLC	
responsAbility Investments AG	TriLinc Global, LLC	
Rockefeller Foundation	Triodos Investment Management	
Root Capital	Triple Jump	
Sarona Asset Management	Turner Impact Capital	
SeaChange Capital Partners	UBS AG	
Self-Help Federal Credit Union	Unitus Impact	
Shared Interest	Upaya Social Ventures	
SilverStreet	Virginia Community Capital (VCC)	
SITAWI	Vermont Community Loan Fund	
Sitra	Vision Ridge Partners	
SJF Ventures	Vital Capital Fund	

Appendix 2: List of Definitions Provided to Survey Respondents

General

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

Instruments

- **Deposits & cash equivalents:** Cash management strategies that incorporate intent toward positive impact.
- **Private debt:** Bonds or loans placed to 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-revenue.
- **Venture:** Operations are established, and company may or may not be generating revenues, but 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

- **Business model execution and management risks:** Risks of a company generating lower profits than anticipated and ineffective and/or underperforming management.
- **Country and currency risks:** Risks which include political, regulatory, local economic, or currency-linked risks.
- **ESG risk:** Risk derived from noncompliance with environmental, social, or governance criteria.
- **Financing risk:** Risk of the investee not being able to raise subsequent capital necessary to its growth.
- **Impact risk:** The possibility that the investment does not achieve the desired social or environmental benefits.
- **Liquidity and exit risk:** The risk of being unable to exit the investment at the desired time.
- **Macroeconomic risk:** Risk that includes regional or global economic trends.
- **Market demand and competition risk:** Risks of low demand for the investee's product or service or declining revenues from the actions of a competitor.
- **Perception and reputational risks:** Risks of loss resulting from damages to an investor's or investee's reputation.

Exit mechanisms

- **Strategic buyer:** A buyer, usually another company in the same sector, whose reasons for purchasing stake include potential for synergies with their existing company.
- **Financial buyer:** A buyer that is primarily interested in the potential for the company to generate a financial return.
- **IPO:** Initial public offering, or the first sale of stock by a private company to the public.
- **Management buyback:** Management or other executives purchase shares from the investor.

Appendix 3: Outreach Partners

The GIIN appreciates the assistance of the following organizations, which helped to encourage impact investors in their networks to participate in the survey.



Acrux Partners is an advisory firm focused on responsible and impact investing in South America. In addition to consulting work, Acrux Partners promotes and advocates for the development and consolidation of the responsible and impact investment sector in South America.

www.acruxpartners.com



The Bertha Centre is a specialized unit at the University of Cape Town Graduate School of Business. It aims to achieve social justice and impact in Africa through teaching, research, events and practice in systems innovation and innovative business models. Established in partnership with the Bertha Foundation in 2011, it has become a leading academic center dedicated to advancing social innovation and entrepreneurship on the continent.

www.gsb.uct.ac.za



Confluence Philanthropy advances mission-aligned investing. It supports and catalyzes a community of private, public and community foundations, families, individual donors, and their values-aligned investment managers representing more than USD 71 billion in philanthropic assets under management and over USD 3 trillion in managed capital. Members are committed to full mission alignment when prudent and feasible.

www.confluencephilanthropy.org



The Impact is a membership network of family enterprises (family offices, foundations, and businesses) that are committed to making investments with measurable social impact. The Impact provides families with the knowledge and network they need to make more impact investments more effectively and uses sophisticated technology for data aggregation, analysis, and reporting to shift the narrative of impact investing from one of inputs (dollars committed) to outcomes (impact created). Its purpose is to improve the probability and pace of solving social problems by increasing the flow of capital to investments generating measurable social impact.

www.theimpact.org



Impact Investing Australia was established in 2014 in response to an industry-identified need for dedicated leadership, facilitation, and capacity building. From social enterprises and not-for-profit organizations in need of capital to investors wanting to achieve social impact, Impact Investing Australia provides a focal point for market development in Australia, as well as participating in efforts to grow the global market for impact investing.

www.impactinvestingaustralia.com



Mission Investors Exchange is the leading network of foundations engaged in impact investing. Its more than 200 members comprise a vibrant community committed to tackling the world's most intractable social and environmental issues, from climate change and global health to education and quality jobs.

www.missioninvestors.org



The leading national network of community development financial institutions (CDFIs), **Opportunity Finance Network (OFN)** shapes policy, conducts research, and creates partnerships and programs that help its members deliver high impact in financially stressed communities. OFN's Members offer responsible financial products and services in all types of communities—urban, rural, suburban, and Native—across the United States. With its Members, investors, and partners, OFN connects communities to capital that creates jobs, supports small business, builds affordable housing, cultivates healthy food and energy efficiency, and promotes safe borrowing and lending.

www.ofn.org



The Dutch Association of Investors for Sustainable Development (VBDO) is a not-for-profit, multi-stakeholder organization. Its mission is to make capital markets more sustainable. Members include asset managers, non-governmental organizations, consultancies, trade unions, insurance companies, banks, pension funds, and individual investors. VBDO believes that we can no longer afford not to have sustainability embedded in capital markets. VBDO is the Dutch member of the international network of social investment fora (SIFs).

www.vbdo.nl

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

Training

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

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, 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 Hannah Schiff at hschiff@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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