ANNUAL IMPACT INVESTOR SURVEY 2018

GIIN
GLOBAL IMPACT INVESTING NETWORK

THE EIGHTH EDITION

EXECUTIVE SUMMARY

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Executive Summary

This report presents findings from the Global Impact Investing Network's eighth Annual Impact Investor Survey. These findings reflect 229 respondents' perspectives on the growth and development of the impact investing industry. The report includes analysis of respondents' investment activity, asset allocations, impact measurement practices, and performance. For the first time, the report also presents trends analysis for a subset of 82 respondents that participated in the survey in 2013 and again this year. Major market developments over the course of 2017 are also described throughout the report.

Key Findings

1. The market is diverse
2. The impact investing industry is growing
3. Impact investors demonstrate a strong commitment to measuring and managing impact
4. Overwhelmingly, impact investors report performance in line with both financial and impact expectations
5. Impact investors acknowledge remaining challenges that need to be addressed within the industry

1 The market is diverse

Altogether, the 229 respondents to this year's survey represent a wide range of investors:

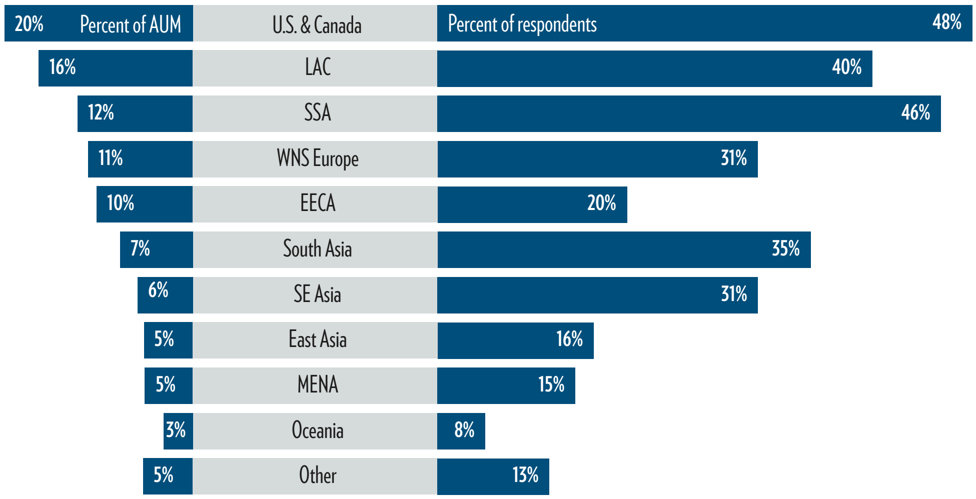
- **Organization type:** Nearly six in ten respondents are fund managers (59%), and a further 13% are foundations. Other significant categories include banks (6%), family offices (4%), and pension funds / insurance companies (4%).
- **Headquarters location:** A majority of respondents are headquartered in developed markets, most notably the U.S. & Canada (47%) and WNS Europe (30%).
- **Target returns:** Nearly two-thirds of respondents target risk-adjusted, market-rate returns (64%). The remainder seek below-market-rate returns that are either closer to market-rate returns (20%) or closer to capital preservation (16%).
- **Investment focus:** Two-thirds of respondents make only impact investments; the remaining third also make conventional investments.
- **Asset class:** Roughly one quarter of respondents invest primarily through each of private equity (26%) and private debt (24%).
- **Geographic focus:** Nearly the same portion of respondents invest primarily in emerging markets (45%) as in developed markets (42%).

This diversity is also reflected in respondents' allocations across a range of geographies, sectors, asset classes, and stages of businesses. In aggregate, 226 respondents reported USD 228.1 billion in impact investing assets under management (AUM). Notably, the two largest respondents accounted for 38% of total AUM. At the median, respondents managed USD 92 million in impact investing assets.

Geography: Over half of total AUM was allocated to emerging markets (56%) and the remainder to developed markets (Figure i). Specifically, respondents allocated the greatest share of capital to the U.S. & Canada (20%), LAC (16%), and SSA (12%).

Figure i: Geographic allocations by AUM and percent of respondents

Left side, Percent of AUM: n = 226; total AUM = USD 228.1 billion.
Right side, Percent of respondents with any allocation to each geography: n = 229; respondents may allocate to multiple geographies.

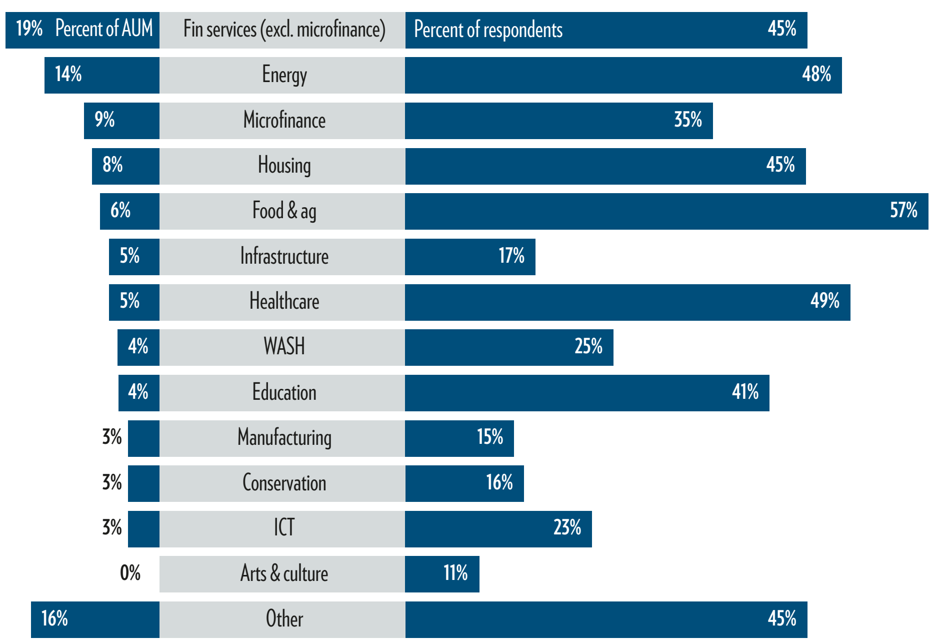


Note: 'Other' includes investments with a global focus.
Source: GIIN

Sector: Respondents demonstrate ongoing commitment to basic services sectors, with the top sectors of investment including financial services (19%), energy (14%), microfinance (9%), and housing (8%; Figure ii).

Figure ii: Sector allocations by AUM and percent of respondents

Left side, Percent of AUM: n = 226; total AUM = USD 228.1 billion.
Right side, Percent of respondents with any allocation to each sector: n = 229; respondents may allocate to multiple sectors.



Note: Other sectors include SMEs, child welfare, commercial goods, transport, retail, tourism, forestry, and commercial real estate.
Source: GIIN

Instrument: Impact investors continue to invest primarily through private capital markets. Respondents allocate the greatest share of capital through private debt (41%), followed by private equity (18%) and public equities (14%).

Stages of business: Impact investors allocate capital to businesses across stages of development. The greatest share of AUM is invested in mature, private companies (39%) and growth-stage companies (35%). High numbers of investors allocate smaller amounts of capital into seed and venture-stage companies.

2 The impact investing industry is growing

Of all the respondents to the survey, over 50% made their first impact investment in the past decade, indicative of the ongoing entry of new players to the industry.

Together, 225 respondents invested USD 35.5 billion into 11,136 deals during 2017 (Table iv). These respondents plan to increase the amount of capital they invest by 8% and the number of deals by 5% during 2018. The subset of five-year repeat respondents increased the amount of capital invested that year by 27% and the number of deals made by 32%.

Table iv: Number of investments and amount of capital invested in 2017 and planned for 2018
n = 225; excludes two large outliers and two respondents that did not report 2017 investment activity

	Number of investments		Capital invested (USD millions)	
	2017 Reported	2018 Planned	2017 Reported	2018 Planned
Mean	53	54	168	179
Median	8	8	17	25
Sum	11,136	11,712	35,526	38,465
Aggregate % growth (projected)		5%		8%

Source: GIIN

The 82 respondents that completed the survey five years ago and again this year demonstrated a compound annual growth rate (CAGR) of 13% for their collective AUM, growing from USD 30.8 billion in 2013 to USD 50.8 billion in 2017. This growth was spread out across the majority of regions, sectors and instruments, but was particularly pronounced in regions (East and Southeast Asia, MENA, Oceania), sectors (education and food & agriculture) and instruments (public equities) that have historically accounted for relatively smaller portions of global AUM, indicative of an expansion of the market across multiple vertices.

Fund managers and other intermediaries play a vital role within the impact investing ecosystem, working to effectively channel capital between investors and investees. Collectively, fund manager respondents raised USD 18.7 billion during 2017 and plan to raise USD 22.5 billion during 2018, a 20% increase (Table v).

Table v: Fund manager capital raises in 2017 and plans for raising capital in 2018
Excludes respondents that did not report raising capital in 2017 or did not share their projections for 2018. All figures in USD millions.

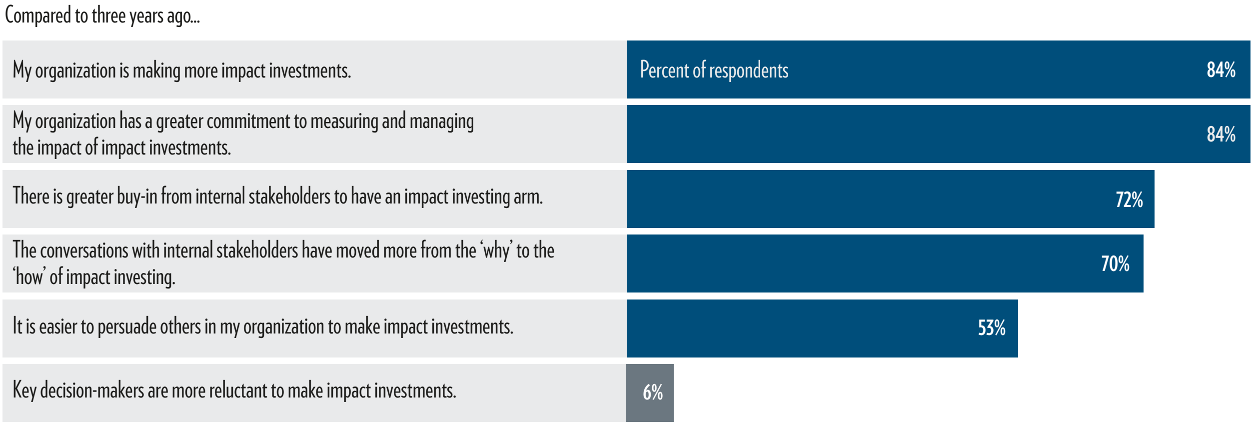
	All fund managers	
	2017 Reported	2018 Planned
n	94	113
Mean	199	199
Median	33	75
Sum	18,738	22,490

Source: GIIN

Respondents that make both impact and conventional investments also described changes within their own organizations during the past three years that indicate market growth (Figure iii). Overwhelmingly, they noted that their organizations are making more impact investments and are demonstrating greater commitment to measuring and managing their impact (84% each). Just 6% of respondents indicated greater reluctance to making impact investments at their organizations.

Figure iii: Change in organizations' perceptions and practice of impact investing in the last three years

n = 64 respondents that also make conventional investments. Optional question.



Source: GIIN

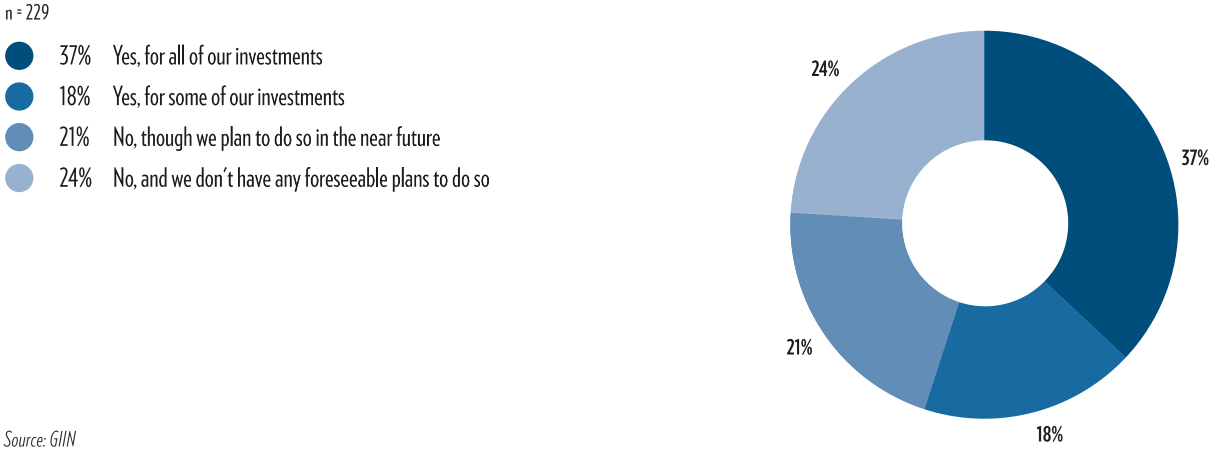
3 Impact investors demonstrate a strong commitment to measuring and managing impact

Over half of respondents target both social and environmental objectives. An additional 40% primarily target social objectives, and 6% primarily target environmental objectives. To achieve these objectives, the majority of respondents (76%) set impact targets for some or all of their investments. Respondents that set targets cited a number of reasons to do so, including to drive social/environmental impact management, to inform investment decisions, to hold investees accountable, and to hold their own teams accountable to impact.

Most respondents reported using a mix of tools or systems to measure their social and environmental performance. Most commonly, respondents use proprietary metrics and/or frameworks that are not aligned to external methodologies (69%), qualitative information (66%), or metrics aligned with IRIS (59%).[1] Further, two years after the ratification of the Sustainable Development Goals (SDGs) by the UN, three out of four investors report tracking their investment performance to the SDGs or plan to do so in the future (Figure iv).

Figure iv: Tracking impact investment performance to the UN SDGs

n = 229



Source: GIIN

1 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 is likely to be significantly higher than is reflected here.

Respondents also described their use of various 'lenses' to understand and manage impact. About 70% of respondents apply a gender lens to their investment process, typically through governance measures or by seeking investees that proactively address gender issues. Nearly three-quarters of respondents (72%) seek to address climate change through their investments, most commonly by targeting investments that reduce greenhouse gas emissions, seeking investments that prevent future greenhouse gas emissions, and seeking investments that support climate change adaptation.

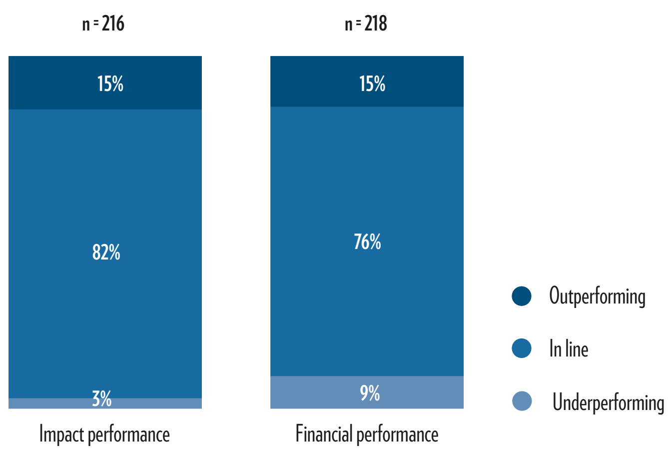
Further, respondents described different approaches to mitigate the risks of 'impact washing' as the industry mainstreams. Eighty percent agree that 'greater transparency from impact investors on their impact strategy and results' would help mitigate risks of industry mission drift. Others pointed to third-party certification of impact investments, voluntary principles to govern investor behavior, and a code of conduct for investors.

4 Overwhelmingly, impact investors report performance in line with both financial and impact expectations

A majority of respondents indicated that their investments have met their expectations for both impact (82%) and financial (76%) performance since inception (Figure v). Another 15% reported outperformance across each of these dimensions.

Figure v: Performance relative to expectations

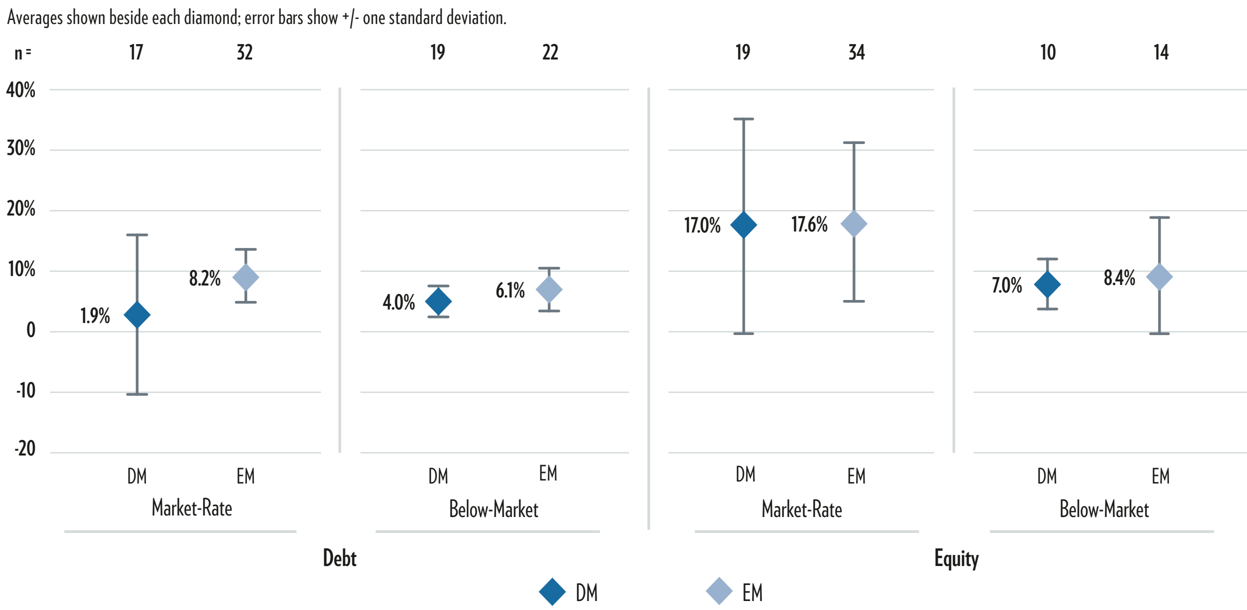
Number of respondents shown above each bar; some respondents chose 'not sure' and are not included.



Source: GIIN

Respondents also self-reported their realized gross returns since inception (Figure vi). As could be expected, returns were higher on average among equity investments than among debt investments. Returns were also generally higher for those seeking risk-adjusted, market rates of return versus those seeking below-market returns. In most segments, emerging market investments performed similarly to developed market investments.

Figure vi: Average realized gross returns since inception



Source: GIIN

5 Impact investors acknowledge remaining challenges that need to be addressed within the industry

Most respondents saw some progress across indicators of development and growth in the market in 2017, yet also agreed that challenges remain. Respondents noted some or significant progress in the availability of 'professionals with relevant skill sets' (90%), the 'sophistication of impact measurement practice' (88%), 'high quality investment opportunities' (86%) and 'research and data' (85%). However, as shown in Table vi, a greater share of respondents noted that a significant challenge remains across indicators than suggested significant recent progress. The gap was particularly wide in 'appropriate capital across the risk/return spectrum,' 'suitable exit options,' and 'common understanding of definition and segmentation of impact investing market.'

Table vi: Areas of progress and challenge for the growth of the impact investing industry

	Significant progress	Significant challenge
n	185-217	203-225
High-quality investment opportunities (fund or direct) with track record	14%	32%
Professionals with relevant skill sets	13%	20%
Innovative deal/fund structures to accommodate investors' or investees' needs	13%	24%
Sophistication of impact measurement practice	12%	35%
Common understanding of definition and segmentation of impact investing market	11%	40%
Research and data on products and performance	10%	30%
Appropriate capital across the risk/return spectrum	8%	42%
Government support for the market	7%	24%
Suitable exit options	7%	37%

Source: GIIN

Respondents also commented on the key contributors of risk to their impact investment portfolios. Most commonly, respondents cited 'business model execution and management risk' as severe (29%), followed by 'country and currency risks' and 'liquidity and exit risk' (22% each). Few respondents noted ESG or impact risk (2% each) or perception and reputational risk (7%).

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