DECISION POINTS

Exploring key choices for building an impact investing practice

August 23, 2017
Thank you for joining us today!

Please note:
• All participants are already muted upon entry to the webinar session.
• Use the “chat” function to submit questions or concerns during the broadcast.
• We’ll share a recording after the webinar.
Welcome!

Giselle Leung
Managing Director
Global Impact Investing Network
Featuring data from 209 impact investor organizations
Respondents are based around the world

Map of respondent headquarters locations
Number of respondents shown in each region. (n = 209)

Source: 2017 Annual Impact Investor Survey by the Global Impact Investing Network
Note: Two respondents did not have a single headquarter location and are not included here.
And represent a range of organization types

- Fund manager: for-profit
- Fund manager: not-for-profit
- Foundation
- Bank / Diversified financial institution
- DFI
- Family office
- Pension fund / Insurance company
- Permanent investment company
- Other

n = 209; Source: Annual Impact Investor Survey 2017. The GIIN.
Three key choices:

1. What type(s) of impact do I seek?
2. What are my financial return expectations?
3. How do I allocate my assets?
1 | Impact Themes
Impact investors target social and environmental objectives

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

n = 209; Source: *Annual Impact Investor Survey 2017. The GIIN.*
60% of respondents either currently track investments to the SDGs or plan to do so soon.
Top-targeted impact areas include job creation, renewable energy, and no poverty

1. No poverty
2. No hunger
3. Good health
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Renewable energy
8. Good jobs and economic growth
9. Industry, innovation, and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption
13. Climate action
14. Life below water
15. Life on land
16. Peace and justice
17. Partnerships for the goals

n = 55; Source: Annual Impact Investor Survey 2017. The GIIN.
Impact investors deploy various impact measurement strategies

Types of evidence impact investors use

- Ensure that our investments fit with our **impact strategy** or **theory of change**
- Track a selection of **outputs** associated with our investments, investees, or borrowers
- Track a selection of **outcomes** associated with our investments, investees, or borrowers
- Measure broader or longer term **impacts associated with our investments**
- Measure broader or longer term **impacts that would not have happened without our investments**
- Other

n = 209; Source: *Annual Impact Investor Survey 2017*. The GIIN.
2 | Target financial returns
Impact investors pursue a range of target financial returns

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

n = 209; Source: Annual Impact Investor Survey 2017. The GIIN.
Gross returns expectations vary by target returns, asset class, and geography

Source: GIIN
They recognize important roles of below-market-rate seeking capital

<table>
<thead>
<tr>
<th>Role</th>
<th>% that agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are <strong>certain impact investment strategies</strong> that do not (and may never) lend themselves to risk-adjusted, market rates of return.</td>
<td>89%</td>
</tr>
<tr>
<td>By seeking below-market rates of return, an investor may have a <strong>different kind of social/environmental impact</strong>.</td>
<td>84%</td>
</tr>
<tr>
<td>In some cases, below-market capital is a <strong>needed ‘bridge’ between philanthropy and ‘market-rate’ capital</strong> for a range of investees ENTERPRISES.</td>
<td>83%</td>
</tr>
<tr>
<td>Below-market capital is <strong>sometimes needed to de-risk</strong> investment opportunities for other investors.</td>
<td>79%</td>
</tr>
<tr>
<td>At times, the <strong>temporary use of below-market capital can lead to sustainable risk-adjusted returns</strong> in the longer-term.</td>
<td>78%</td>
</tr>
</tbody>
</table>

**Source:** 2017 Annual Impact Investor Survey by the Global Impact Investing Network.
Nearly all respondents are satisfied with their impact and financial performance

Performance relative to expectations

3 | Asset allocations
Respondents manage nearly USD 114 billion in impact investing assets
Impact investors allocate globally

**AUM allocations (USD millions)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Excl outliers</th>
<th>Outliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. &amp; Canada</td>
<td>40%</td>
<td>33%</td>
</tr>
<tr>
<td>WNS Europe</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>SSA</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>LAC</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>EECA</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>South Asia</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>East Asia</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Oceania</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>SE Asia</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>MENA</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>6%</td>
</tr>
</tbody>
</table>

% Total: 100%  
% Excl. outliers: 100%
...most commonly, to the U.S. & Canada and sub-Saharan Africa

Number of respondents with any allocation to a geography

- U.S. & Canada: 97
- SSA: 95
- LAC: 83
- South Asia: 71
- WNS Europe: 53
- SE Asia: 50
- EECA: 39
- East Asia: 38
- MENA: 32
- Oceania: 10
- Other: 27

n = 209; Source: Annual Impact Investor Survey 2017. The GIIN.
Impact investors allocate across sectors...

AUM allocations (USD millions)

![Bar chart showing sector allocations]

- **Housing**: 22% Excl outliers, 11% % Excl. outliers
- **Energy**: 16% Excl outliers, 13% % Excl. outliers
- **Microfinance**: 12% Excl outliers, 21% % Excl. outliers
- **Fin services (excl. banking)**: 10% Excl outliers, 10% % Excl. outliers
- **Food & ag**: 7% Excl outliers, 7% % Excl. outliers
- **Healthcare**: 6% Excl outliers, 6% % Excl. outliers
- **WASH**: 6% Excl outliers, 4% % Excl. outliers
- **Forestry & timber**: 3% Excl outliers, 3% % Excl. outliers
- **Education**: 2% Excl outliers, 2% % Excl. outliers
- **Manufacturing**: 2% Excl outliers, 1% % Excl. outliers
- **ICT**: 0.3% Excl outliers, 0.4% % Excl. outliers
- **Infrastructure**: 1% Excl outliers, 2% % Excl. outliers
- **Arts & culture**: 2% Excl outliers, 2% % Excl. outliers
- **Other**: 9% Excl outliers, 14% % Excl. outliers
...the most common including food & ag, healthcare, and energy

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; ag</td>
<td>112</td>
</tr>
<tr>
<td>Healthcare</td>
<td>100</td>
</tr>
<tr>
<td>Energy</td>
<td>98</td>
</tr>
<tr>
<td>Housing</td>
<td>84</td>
</tr>
<tr>
<td>Fin services (excl. microfinance)</td>
<td>81</td>
</tr>
<tr>
<td>Education</td>
<td>80</td>
</tr>
<tr>
<td>Microfinance</td>
<td>66</td>
</tr>
<tr>
<td>ICT</td>
<td>53</td>
</tr>
<tr>
<td>WASH</td>
<td>39</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>37</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>30</td>
</tr>
<tr>
<td>Arts &amp; culture</td>
<td>25</td>
</tr>
<tr>
<td>Forestry &amp; timber</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>106</td>
</tr>
</tbody>
</table>

n = 209; Source: Annual Impact Investor Survey 2017. The GIIN.
And impact investors allocate across asset classes

AUM allocations (USD millions)

Private debt 34% 41% 34%
Real assets 22% 14% 22%
Private equity 19% 27% 19%
Public equity 14% 3% 14%
Public debt 5% 6% 5%
Deposits & cash equivalents 3% 2% 3%
Equity-like debt 2% 0.3% 2%
PfP instruments 0.2% 2% 0.2%
Other 2% 2% 2%

Excl outliers Outliers Excl outliers Outliers
Three key choices:

1. What type(s) of impact do I seek?
2. What are my financial return expectations?
3. How do I allocate my assets?
Meet our panelists

Ricardo Bayon
Partner & Member of the Board of Directors
Encourage Capital

Robynn Steffen
Senior Manager, Impact Investing
Omidyar Network

Jamie Martin
Vice President, Global Sustainable Finance Group
Morgan Stanley
**ENCOURAGE CAPITAL**

- Target $1B in solutions-oriented impact investments in the next 5 years
- Solid track record of execution:
  - Generated attractive realized returns for managed funds (+$250M)
  - Developed and published deep thematic investment research funded by leading foundations and families including Bloomberg, Rockefeller, Walton, Heron, and Vulcan to research strategies to solve social and environmental problems with private capital
  - Originated and advised on several hundred million dollars of investments into global agricultural, water and renewable energy companies & assets
- 15+ investment professionals across NY, DC, SF, Santiago, Nairobi and Mumbai (planned in 2017) with over 200 years of combined experience, including pioneering work in impact investment with Generation, IFC, World Bank, etc.
- Strong reputation and relationships in impact community; co-founded CREO family office network, co-founded GIIN, IC of Rockefeller Bros Fund
- Backed by leading family offices committed to impact including Capricorn, Armonia, Sant, Ben Walton, Lord Jacob Rothschild, etc.
INVESTMENTS IN SOLUTIONS THAT ALIGN FINANCIAL RETURNS AND IMPACT

We believe that in creating systemic solutions to systemic problems we can identify investments where profit and impact are inextricably linked.

Investment Strategy

- Identify markets where sustainability is a competitive advantage in originating, executing, managing and exiting transactions to generate investment out-performance
- Develop systemic approaches to solving critical social and environmental issues leveraging private capital
- Partner with asset owners, philanthropists, government and non-profits to develop aligned stakeholder communities
- Execute impact investing strategies where financial returns are aligned with positive social and environmental outcomes
Some Lessons: What We Have Learned

There is a new impact investing Economy “Slouching Towards Bethlehem to be Born”

Key Drivers

The New Investors
• The Signs are out there: New generation of Investors cares about impact
• More emphasis not only on Impact investing, but on SRI and other types of invest

Rise of All Types of Impact investors
• Many companies and institutions joining this movement:
  • All the major banks now have impact investing initiatives (Morgan Stanley Institute for Sustainable Investing, JP Morgan/NatureVest, Goldman Sachs)
  • Major investment companies like Blackstone and TPG also getting involved
  • Investment consultants like Cambridge, etc. are also moving in this direction
  • And that is not to mention groups like Encourage, Sonen, etc.

The trend will continue
• As we head into what has been heralded as the “greatest transfer of wealth from one generation to another in human history”, the amount of investors (and the amount of assets) interested in impact will increase. But...

What Comes Next

What we need for this to flourish
• Address some of the myths, rumors and misunderstandings:
  • Is there really a trade-off between impact and return?
  • Is that a myth, a folk tale, a rumor or is it real?
• Metrics, metrics, metrics... How to measure impact
• This has to be more than traditional investing in makeup, we need to deliver impact
• We need investments that are designed for impact, not retrofitted for impact
OMIDYAR NETWORK

• Flexible capital: For-profit and nonprofit
• Asset class: Primarily early-stage equity
• Sector-based approach: Education, Emerging Tech, Financial Inclusion, Governance & Citizen Engagement, and Property Rights
• Geographies: 75% emerging market across India, Africa, SE Asia, and Latin America
• Impact: > 1 billion lives touched

Commitments

Total amount committed since inception: $1.13 billion+
For-profit investments since inception: $535 million
Nonprofit grants since inception: $600 million
THE RETURNS CONTINUUM FRAMEWORK

EXPECTED DIRECT IMPACT

EXPECTED MARKET IMPACT

EXPECTED FINANCIAL RETURN

A
Commercial

A1
Market-validated

A2
Not market-validated

B
Subcommercial

B1
Positive absolute returns

B2
Capital preservation

C
Grant

C1
80% - 100% cost coverage

C2
20% - 80% cost coverage

C3
0% - 20% cost coverage
## Approaches to Sustainable Investing

**A Broad Set of Investment Solutions to Activate Portfolios Towards Positive Impact**

### MINIMIZE NEGATIVE IMPACT

#### RESTRICTION SCREENING
- Managing exposures by intentionally avoiding investments based on specific criteria

#### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INTEGRATION
- Proactively considering ESG criteria alongside financial analysis to identify opportunities and risks during investment process

#### THEMATIC EXPOSURE
- Focusing on themes and sectors dedicated to solving sustainability-related challenges

#### IMPACT INVESTING
- Allocating to investment funds focused on private enterprises structured to deliver specific positive social and/or environmental impacts

### MAXIMIZING TARGET IMPACT

#### INVESTMENT EXAMPLES
- Mutual Fund that excludes companies from buy universe (e.g. tobacco, firearms, coal mining companies)
- Separately Managed Account (SMA) incorporating analysis of ESG performance into stock selection process
- Exchange Traded Fund (ETF) tracking an index of renewable energy companies
- A private equity fund focused on improving access to finance for emerging consumers

### SHAREHOLDER ENGAGEMENT
- Driving improvement through active dialogue with invested companies

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**Morgan Stanley**
Common Themes Within Sustainable Investing

Investors are utilizing strategies, tools and resources to address a variety of specific themes – in the context of fiduciary duty, risk management and/or reputational concerns.

- Climate Change Solutions
- Energy Transition
- Natural Resources Preservation
- Gender Diversity
- Resource Efficiency
- Human Rights
Sustainable Investing Is Growing Rapidly

Studies from the Morgan Stanley Institute for Sustainable Investing find that:

- 75% of Individual Investors are Interested in Sustainable Investing\(^1\)\
  - 84% of female investors
  - 86% of millennial investors

- 65% of Asset Managers Practice Sustainable Investing\(^1\)\
  - \#1 reason is client demand
  - 64% believe adoption will continue to grow

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Investing in the market entails the risk of market volatility. The value of all types of investments may increase or decrease over varying time periods. Fixed Income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall.

The returns on a portfolio consisting primarily of sustainable investments may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because sustainability criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria.

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Thank You

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@AmitKBouri