IMPACT INVESTING
A guide to this dynamic market
Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.
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Our vision is of a world where financial markets serve all members of society and where finance plays a central role in solving the social and environmental challenges facing the global community. In this future, investors integrate impact into all decisions, thereby helping to build strong communities, a healthy environment, and a sustainable future for all people.

Impact investing can lead the way to this future.

The GIIN is the global champion of impact investing, working to make this vision a reality through our mission to increase the scale and effectiveness of impact investing around the world.

AMIT BOURI, CO-FOUNDER AND CEO
What is impact investing?

**impact investments**
im·pact in·vest·ments

**NOUN:** Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors’ strategic goals.

The growing impact investing market provides capital to address the world’s most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.
Core characteristics of impact investing

The practice of impact investing is further defined by the following four core characteristics:

**INTENTIONALITY** An investor’s intention to have a positive social or environmental impact through investments is essential to impact investing.

**RANGE OF RETURN EXPECTATIONS AND ASSET CLASSES** Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity.

**INVESTMENT WITH RETURN EXPECTATIONS** Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.

**IMPACT MEASUREMENT AND MANAGEMENT** A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.
Why impact investing?

Impact investing challenges the long-held views that social and environmental issues should be addressed only by philanthropic donations and government aid, and that market investments should focus exclusively on achieving financial returns.

Instead, impact investing has the potential to reshape the role of capital in society, demonstrating that significant social and environmental progress can be made alongside financial returns. The impact investing market offers diverse and viable opportunities for investors to advance social and environmental solutions through investments that also produce financial returns.

Many types of investors are entering the growing impact investing market. Here are a few common investor motivations:

- **Banks, pension funds, financial advisors, and wealth managers** can PROVIDE CLIENT INVESTMENT OPPORTUNITIES to both individuals and institutions with an interest in general or specific social and/or environmental causes.

- **Institutional investors and family foundations** can LEVERAGE SIGNIFICANTLY GREATER ASSETS to advance their core social and/or environmental goals, while maintaining or growing their overall endowment.

- **Government investors and development finance institutions** can PROVIDE PROOF OF FINANCIAL VIABILITY for private-sector investors while targeting specific social and environmental goals.
Who is making impact investments?

Impact investing has attracted a wide variety of investors, both individual and institutional.

- Fund Managers
- Pension funds / insurance companies
- Development finance institutions (DFIs)
- Banks and diversified financial institutions
- Foundations
- Family offices
- Individual investors
- NGOs
- Religious institutions

Read about different types of investors and deal profiles at thegiin.org/case-studies
Impact investing leaders

The list below illustrates the breadth and stature of investors that are leading the way in developing the market and igniting the impact investing movement around the world. These organizations comprise the GIIN Investors’ Council, a leadership group of active, large-scale impact investors that support and guide the industry.
How big is the impact investing market?

Impact investing is a relatively new term, coined only a decade ago, and used to describe investments made across many asset classes, sectors, and regions. The exact size of the market has not yet been definitively quantified. However, the aggregate assets noted below, which provide the best available “floor” for market size, indicate that the market is substantial, with huge potential for growth.

**ANNUAL SURVEY**

In June 2018, the GIIN published the eighth edition of its Annual Impact Investor Survey, which includes data on aggregate impact investing activities of respondents.

$228.1 billion

Collectively 226 respondents reported managing a total of USD 228.1 billion in impact assets.

$35.5 billion

225 respondents invested USD 35.5 billion into 11,136 deals during 2017.

**IMPACT INVESTING TRENDS: EVIDENCE OF A GROWING INDUSTRY**

The GIIN’s report on *Impact Investing Trends: Evidence of a Growing Industry*, which gathered data from 61 investors for the three-year period from 2013–2015, found impact investment assets under management grew by 18% per annum.

All figures above are in US dollars and are self reported by the investing institutions.
How do impact investments perform financially?

Impact investors have diverse financial return expectations. Many pursue market-competitive and market-beating returns, sometimes required by fiduciary responsibility, while others intentionally invest for below-market-rate returns, in line with their strategic objectives. Most investors surveyed in the GIIN’s 2018 Annual Impact Investor Survey pursue competitive, market-rate returns.

A large majority of investors surveyed reported that their investments have either met or exceeded their expectations for both financial performance and impact.

Source note for both graphics: The GIIN 2018 Annual Impact Investor Survey.
More about impact investments’ financial performance

Between 2015 and 2018, the GIIN published three reports providing benchmarks of financial performance in the asset classes of private equity and venture capital, real assets, and private debt.

A comprehensive review of these and other research reports to date on the financial returns of impact investments is available in the GIIN’s report, *GIIN Perspectives: Evidence on the Financial Performance of Impact Investments*. The report evaluates over a dozen studies on the financial performance of investments in the most common asset classes in impact investing, as well as individual investor portfolios allocated across asset classes.

In aggregate, this report finds that impact investors that target market-rate returns can achieve them, depending on fund manager selection.
Impact measurement and management

Impact measurement and management (IMM) are integral to making effective impact investments. Four distinct actions help investors new to impact investing to get started.

1. SET GOALS AND EXPECTATIONS.
Goals should consider the effects an investment has on people and/or the planet and balance investor expectations for risk, return, liquidity, and impact.

2. DEFINE STRATEGIES.
There are many pathways to achieving impact goals and meeting expectations. It is important to consider which pathways make the most sense for individual portfolios, investment expertise, or client demand.

3. SELECT METRICS AND SET TARGETS.
Investors must use relevant output, outcomes, and proxy indicators to set targets, track performance, and manage toward success. Impact metrics should ultimately deliver investment decision information.

4. MEASURE, TRACK, USE THE DATA, AND REPORT.
Impact measurement and management are about more than counting metrics. They mean considering information about risks, returns, and impact to learn, adjust, and improve decision making, which can help strengthen portfolio performance and investment strategy.
More about impact measurement and management

Impact investors overwhelmingly use metrics to measure and manage social and environmental performance, and widely view standardized metrics as important for market development.

To support credible impact measurement, the GIIN provides as a public good the IRIS catalog of generally accepted metrics to measure social, environmental, and financial performance. Because they enable consistent performance measurement across impact investments and the impact investing market broadly, IRIS metrics support basic investor activities such as due diligence and portfolio management, while enabling performance comparisons and data aggregation, strengthening the field as a whole.

This is an example of an IRIS metric

**Client Individuals: Total**

*Number of unique individuals who were clients of the organization during the reporting period.*

*This metric is intended to capture the number of unique clients who were recipients of the organization’s products or services.... ORGANIZATIONS SHOULD FOOTNOTE ALL ASSUMPTIONS USED. SEE USAGE GUIDANCE FOR FURTHER INFORMATION.*

Other valuable IMM resources

In addition to IRIS, the GIIN provides other IMM tools created specifically to support investors. These include:

**Navigating Impact**: this online resource provides a simple means to align impact goals and expectations to credible, evidence-backed investment strategies, and find metrics that indicate performance toward their goals. [Navigatingimpact.thegiin.org](https://www.navigatingimpact.thegiin.org)

**The Impact Toolkit**: this is a digital database designed to help investors identify resources across the web that are relevant to their impact measurement and management needs. [Impacttoolkit.thegiin.org](https://www.impacttoolkit.thegiin.org)

Access the full IRIS catalog of metrics at [iris.thegiin.org](https://www.iris.thegiin.org)
Impact investing and the Sustainable Development Goals

When the United Nations developed the Sustainable Development Goals (SDGs) in 2015, it did so with active private-sector input, and the recognition that it would be impossible to achieve the goals without accessing the tremendous untapped potential of the world’s investment capital to contribute to positive global change.

These 17 interrelated global goals have provided a useful and inspiring framework for investors seeking to tackle social and environmental issues. Many of the goal areas correspond to issues impact investors have been tackling for decades, such as poverty alleviation, access to quality education and jobs, renewable energy, and climate action.
What is the current state of the impact investing market?

While some investors have been making impact investments for decades, efforts to accelerate the development of a high-functioning market are still relatively new. Investors are optimistic about its development and expect increased scale and efficiency as the market matures. Impact investors generally recognize broad progress across key indicators of market growth, while also acknowledging that some challenges still remain.

Challenging myths and misperceptions

Some investors new to impact investing worry that the market isn’t right for them, because of a number of myths and misperceptions. Here are some of the frequently asked questions.

**CAN MY FINANCIAL RETURN EXPECTATIONS BE MET?**
In the 2018 GIIN Annual Impact Investor Survey, 64% of all impact investors surveyed expect non-concessionary; market-rate returns on a risk-adjusted basis and 87% of impact investors targeting market-rate returns reported that their expectations were either met or exceeded.

**IS IT HARD TO MEASURE AND MANAGE IMPACT?**
While it is true that the types of impact investors prioritize will differ, the fundamentals of impact measurement and management are the same for every investment, and allow investors to classify their investments in a common way. Following a common classification system enables investors to use comparable and standard metrics to gather and communicate about the types of impact they want to have and the results of their strategies. Dimensions to consider include:

- What outcomes the business contributes to and how important they are to stakeholders
- Who experiences the outcome and how underserved they were before
- How much benefit have they gained and for how long
- Whether the outcomes were better than what would have occurred otherwise
- The risk that the impact will be different from what was expected.

More on impactmanagementproject.com

**ARE THERE SUITABLE DEALS FOR LARGE-SCALE INVESTORS?**
For a number of years, the availability of high-quality investment opportunities has been cited as a challenge to the growth of the industry. In the most recent GIIN Annual Impact Investor Survey, however, 81% of respondents managing assets of over USD 500 million reported progress in this area in the past year.
Where can I go for more information?

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. We work to ensure that investors everywhere have the information, tools, networks, and confidence they need to deploy capital in ways that help build a healthy environment, strong communities, and a sustainable future for all people.

Interested in helping to build the impact investing industry? Read what’s needed in the GIIN’s Roadmap for the Future of Impact Investing: Reshaping Financial Markets at roadmap.thegiin.org

Research
The GIIN conducts research to provide data and insights on the impact investing market and to highlight examples of effective practice. To learn more, visit thegiin.org/research

Training
The GIIN’s trainings include a two-day, in-person course on Impact Measurement and Management, as well as an online, self-guided course for fund managers starting and managing impact investing funds. To learn more, visit thegiin.org/training

Membership
GIIN members gain access to tools and resources to enhance their ability to make and manage impact investments, and connect with other like-minded investors all over the world through virtual and on-person, member-only events. To learn more, visit thegiin.org/membership

Initiative for Institutional Impact Investment
The GIIN’s Initiative for Institutional Impact Investment supports institutional asset owners seeking to enter, or deepen their engagement through case studies, an online library of financial performance research, and a vibrant community of practice. To learn more, visit thegiin.org/initiative-for-institutional-impact-investment
Since 2011, the GIIN has conducted an Annual Impact Investor Survey that presents analysis on the investment activity and market perceptions of the world’s leading impact investors.

Beyond Investment: The Power of Capacity-Building Support identifies common, effective practices for capacity-building support in the impact investing industry.

The Business Value of Impact Measurement demonstrates how investors and their investees use social and environmental performance data to improve their businesses.

The Impact Investing Benchmarks analyze the financial performance of private debt, private equity/venture capital and real assets impact investing funds.

Lasting Impact: The Need for Responsible Exits outlines impact investors’ approaches to preserving the positive impact of their investments after exit.

Financing the Sustainable Development Goals: Impact Investing in Action illustrates the evolution of investment activity around the SDGs, from alignment of impact objectives to increasingly sophisticated strategies.

Visit the GIIN’s website to find more resources from the GIIN and other industry leaders at https://thegiin.org.
ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

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