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Industry Agenda

Charting the Course: How Mainstream Investors can Design Visionary and Pragmatic Impact Investing Strategies

A report by the World Economic Forum Investors Industries
Prepared in collaboration with Deloitte Touche Tohmatsu

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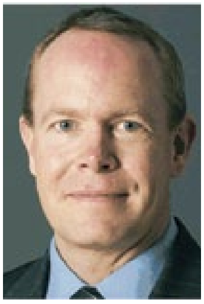
Preface



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Impact investing has become a popular topic of discussion – not only with the mainstream media but also among mainstream investors. Yet while impact investing has entered the mainstream mindset, it has not become part of the strategy, operations and business culture of mainstream investment institutions.

Impact investing – an investment approach intentionally seeking to create both financial returns and positive social impact that is actively measured – has been lauded as an innovative investment strategy with the potential to reconcile key structural shortcomings in traditional financial markets. Moreover, with exogenous trends such as population growth, rising inequality, climate change and resource scarcity gradually affecting investment markets, impact investing offers a progressive approach to mitigating risk. While impact investing continues to gain momentum, the sector remains small in the context of global assets under management and faces systemic challenges – such as lack of standardized metrics for social impact and the long investment horizons often needed to prove the model. Several players – including B-Lab, the GIIN, Omidyar Network, Toniic, Rockefeller Foundation, and the Social Impact Investment Taskforce created by the G8 have been helping develop the sector infrastructure, advance the ecosystem and offer interfaces for engagement and co-investment.

Over the past 3 years at the Davos Annual Meeting, the World Economic Forum has brought together mainstream investors, impact investors, policymakers and social entrepreneurs to discuss how to harness the potential of impact investing. In these interactive workshops, we explored how impact investing can create mutually beneficial financial, social and environmental impacts and discussed the challenges and opportunities of impact investing at the sector-level and institution-level. It is clear that mainstream investors' have a strong enthusiasm to create virtuous cycles of positive social impact that enable financial growth and strong economics.

For most investors today, impact investing still needs to be translated from a compelling concept into sound strategies – investment strategy, organizational strategy and ecosystem strategy. To address this need, this report introduces a series of roadmaps – frameworks that can help an investor chart their course in impact investing. Each investors' motivations, operational contexts and goals for impact investing are unique – there will be no standard template that fits every investor.

The goal of this report to is to help interested investors ask the right questions as they contemplate their path into impact investing. It is important to recognize that impact investing may not suit all investors. There will be institutions that conclude impact investing is not appropriate for them at this stage – while we are passionate about the potential of impact investing, we acknowledge the best future for the sector is where each investor makes informed choices according to their own best interest. Each investor and investment institution needs to evaluate whether impact investing fits with its investment principles, future growth plans and strategic constraints – and where it does fit, how it can chart its own course in impact investing that is visionary, practical and competitively positioned over the long run.

With this in mind, the title analogy of "Charting the Course" is apt – like a nautical map, this report offers an overview of the impact investing territory and allows its readers to chart their own course into impact investing. Like the captain of a ship, the reader will need to decide where the journey goes – especially given not all ships start from the same harbor nor should all take the same route or end up at the same port. Rather than prescribing a course, we aim to offer as many useful navigational aids and waypoints so investors interested in impact investing can become successfully engaged impact investors.

It is with that in mind that we humbly offer this report as an attempt to bring the practice of impact investing to the next stage. We look forward to hearing about your journeys – please do share with us your experiences and feedback: impactinvesting@weforum.org.

Members of the Steering Committee

The following six individuals served on the Steering Committee of the Mainstreaming Impact Investing Initiative and were instrumental in the creation of this report. We express our gratitude for their support.

Sergio P. Ermotti	Group Chief Executive Officer, UBS AG
James P. Gorman	Chairman and Chief Executive Officer, Morgan Stanley
Andrew E. Law	Chairman and Chief Executive Officer, Caxton Associates
Torben Möger Pedersen	Chief Executive Officer, PensionDanmark
Cecilia Reyes	Chief Investment Officer, Zurich Insurance Group
Peter Sands	Group Chief Executive, Standard Chartered

“Impact investments turn market failures into social and commercial opportunities, providing funds for innovative projects while rewarding investors for the risks taken. For UBS and its clients it is therefore a symbiosis of both smart macro-investments and high social impact interventions and the new World Economic Forum report helps investors to understand risks and opportunities.”

– Sergio P. Ermotti

“We help clients pursue sustainability because it reflects our values and because we believe it plays an increasingly important role in global finance. At Morgan Stanley, we are committed to sustainable investing and seek to mobilize the power of the capital markets to deliver positive impact at scale. Our firm can play a critical role in facilitating the flow of capital between investors and businesses to help foster sustainable growth and address the most pressing challenges facing society today.”

– James P. Gorman

“Impact Investing is set to see further substantial growth in the coming years. Not only will it become more mainstream, but will also drive the essential deployment of substantial cash reserves held by charitable foundations where trustees have faced a dearth of both viable and ethical investment opportunities for too long. Having charitable fund assets create positive social change alongside actual ongoing charitable donations is a huge untapped resource.”

– Andrew E. Law

“As a pension fund our overarching objective will always be to pursue the best risk-adjusted returns for our beneficiaries. However, investments that have a positive social or environmental impact is an added benefit for both us an investor and society as a whole. It contributes to combating some of the global challenges we face by supporting sustainable growth and development.”

– Torben Möger Pedersen

“What we’re looking for is intentionality, measurability and profitability. There are investment opportunities out there to achieve this. Impact investing is not philanthropy or exotic niche investments. What it takes, though, is a commitment to make impact investing an integral part of the overall investment approach, executed in a structured and disciplined way. And it takes a culture and investment philosophy that value the impact created.”

– Cecilia Reyes

“The future of banking is intertwined with healthy economies. Mainstreaming impact investing will promote inclusive growth, which is the foundation of sustainable economic development. Going beyond philanthropy, Standard Chartered has been banking social enterprises in our markets, enabling businesses to make a difference to people’s livelihoods. We are pleased the World Economic Forum has produced this study to further the industry’s understanding of this investment approach.”

– Peter Sands

1. Executive Summary

In recent years, much has been written about impact investing – an investing approach that intentionally seeks to create both financial return as well as positive social and/or environmental impact that is actively measured. Topics have included the attractiveness of impact investing as an investment approach, the growth in assets committed to impact investing and the potential for impact investing to create positive change. But given the range of impact investing approaches and investor types, there is still no predefined course that an interested "mainstream investor" can follow to begin making impact investments. This ambiguity stems not from insurmountable barriers to entry – indeed the population of impact investors is growing – but rather from the maturing nature of the impact investing approach. As the approach continues to develop, there is a need for frameworks and options to help interested investors. While this report does not contain the aforementioned "predefined course" to successful impact investing, it does suggest a series of steps that can help mainstream investors ask the right questions, to define the right principles and practices and to draw on the right resources. By going through these steps, mainstream investors can chart their own course.

1.1 Background of the Mainstreaming Impact Investing Initiative

This report is the sequel to "From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors", which set out to provide a realistic assessment of the impact investing approach.[1] Informed by over 150 mainstream investors, business executives, philanthropic leaders and policy-makers, that report provides an overview of impact investing activity, identifies factors constraining the acceleration of capital into impact investments and recommends a set of actions that stakeholders can take to move impact investing from the margins to the mainstream.

In the year since the publishing of "From the Margins to the Mainstream", the impact investing field has continued to develop. Throughout the past three years, the World Economic Forum has convened mainstream and impact investors through interactive workshops and analytical games hosted at the Annual Meeting in Davos in 2012,[2] 2013,[3] and 2014.[4] The Forum's Mainstreaming Impact Investing initiative has also strived to democratize the best practices and lessons learned from active practitioners through its report series "Ideas to Practice, Pilots to Strategy".[5,6]

This report explores a refreshed perspective on the long-term viability of impact investing and presents the "Impact Investing Roadmap" – a framework that investors can use to clarify their vision for impact investing, define stages of impact investing activities and identify tactical steps to develop an investment strategy. Those tactical steps include designing an impact investing model, managing issues of organizational change and if desired, engaging with the robust and supportive impact investing ecosystem.

1.2 Structure of this Report

Recognizing that readers will have differing levels of familiarity with the impact investing field, the report is divided into five sections and a conclusion. Sections 1, 2 and 3 introduce the report, contextualize impact investing within the broader universe of sustainable and responsible investing and provide readers with an updated overview of impact investing. Sections 4 and 5 introduce the Impact Investing Roadmap and detail the questions and recommendations referenced above. Readers familiar with impact investing but short on time may choose to skip to these later sections. Specifically, the sections of this report are broken down as follows:

Section 1 outlines the context in which this report has been written and specifies mainstream investors as the primary target audience with secondary audiences including intermediaries, self-identified impact investors, academics and policy-makers. The section also states that the content of this report is intended to help investors determine how to engage with impact investing and to ask the right questions along the journey.

Section 2 describes impact investing as a distinct approach within the broader set of sustainable and responsible investing approaches. Specifically, impact investing intentionally seeks financial returns alongside social and/or environmental returns that are actively measured. This section explores this distinction, concluding that all approaches within the sustainable and responsible investing universe have merit and that experience in any approach can serve as an "on-ramp" toward additional engagement with other approaches. Additionally, the section provides brief examples of impact investments, showing that while many of the most widely-known impact investments involve the financing of socially-focused start-ups through private equity or debt structures, there is a much broader array of impact investing approaches across asset classes.

Section 3 outlines the forces driving interest in impact investing. Since the set of impact investing approaches is still evolving, comprehensive data on asset allocation, risks and returns does not yet exist. However, this section looks at growth in allocations to responsible and sustainable investments in order to illustrate a growing trend among investors to incorporate non-financial considerations in portfolios. Additionally, it examines a set of global economic, demographic and environmental trends that are creating new market opportunities – opportunities that the impact investing approach is poised to seize.

Section 4 introduces the Impact Investing Roadmap. *The first component* of the roadmap involves defining the organization's vision for impact investing. Recognizing that mainstream investors are a heterogeneous group, a series of questions are proposed that will help an organization clarify this vision based on its unique motivation, organizational context and market goals. *The second component* of the roadmap involves pursuing stages of impact investing activities. These stages range from evaluating feasibility, to performing sector due diligence, to launching pilot programmes, to institutionalising an impact investing strategy. Based on an organization's specific and evolving circumstances, these different stages of engagement may be considered and sequenced over time.

Section 5 continues from Section 4 to walk through the Impact Investing Roadmap. *The third component* of the roadmap includes 12 tactical maps which detail specific approaches and methodologies. These tactical maps are meant as reference guides for interested investors. They are structured around three strategic pillars (reflected below) and supported by examples from the field:

- Investing Strategy:
  - Capital Sources
  - Investment Vehicles
  - Investment Sourcing
  - Impact
- Organization Strategy:
  - Structure
  - Culture
  - Talent
  - Technology
- Ecosystem Strategy:
  - Networks
  - Partnerships
  - Academia
  - Technical Assistance

1.3 Focus and Scope of this Report

The roadmap and recommendation content contained in this report segment "mainstream investors" into the following groups:

Asset Owners, comprised of…	**Financial Services Providers, comprised of…**
• Insurance companies • High net worth/family offices • Pension funds/endowments • Foundations	• Liquid investment funds (mutual funds, hedge funds) • Illiquid investment funds (private equity, venture capital)

- Diversified financial institutions/banks (note that these investors frequently act as both asset owners and financial services providers)

This segmentation facilitates a meaningful analysis and the creation of logical frameworks in which content and recommendations can be targeted to specific investor types. It is recognized that this segmentation is imperfect and that there is diversity even within these groups. Offering complete roadmaps to suit every investor's unique circumstances – given the uniqueness of organizations' motivations, operational contexts and goals for impact investing – would be beyond the scope of any written report. This report will help the interested investor ask the right questions and seek the right assistance, and at times offer actionable strategies. Overall, the content of this report is meant to serve as a well-informed starting point for discussions internally within investment institutions and externally within the sector, not to provide custom-made answers. Consequentially, and by nature, each investor's path into impact investing will be unique.

It should also be noted that while this paper has not been specifically written for investors and intermediaries currently focused on making impact investments, it may be interesting for such parties as they seek to raise capital from mainstream investors or learn more about how other investors approach impact investing.

2. Impact Investing in Theory and in Practice

2.1 Definitional Breadth and Opportunities for Mainstream Participation

Impact investing, an investing approach that intentionally seeks to create both financial return as well as positive social and/or environment impact that is actively measured, is frequently discussed but can sometimes seem complicated to conceptualize. Impact investing strategies target financial returns ranging from capital preservation to market-competitive, and a spectrum of social and environmental outcomes depending on sector, theory of change, implementation strategy and targeted beneficiaries. Moreover, just as with any investment approach, the success of impact investors can vary depending on factors such as investing experience and track record. Additionally, impact investors may face challenges due to real or perceived risks inherent to any innovative sector.

Use of the term "impact investing" to refer to an investment approach is a relatively recent development within sustainable and responsible investing. However, impact investing in the US arose in the 1960s through such mechanisms as programme related investments (PRIs) from foundations and Community Reinvestment Act (CRA) investments from commercial banks and depository institutions. These days, much attention is paid to pioneering impact investors who make direct, smaller-ticket investments in early-stage social enterprises through private equity and debt vehicles because there are many interesting and tangible case studies. While such case studies are compelling, the universe of impact investing is broader. The impact investing approach can be applied across a range of asset classes and risk-adjusted return targets, in diverse and numerable ways; the following examples illustrate this notion:

1. Funding working capital loan funds for the benefit of for-profit or non-profit social enterprises
    a. The California FreshWorks Fund is a public-private partnership loan fund which finances grocery stores and fresh food retailers in underserved California communities. From the Fund's US$ 125 million loan pool, US$ 100 million was raised from banks and insurance companies and allocated to a senior debt tranche while US$ 25 million was raised from a group of mission-driven investors and allocated to a subordinated debt tranche. Additionally, US$ 7.5 million in grants has funded a first-loss reserve. Senior lenders are secured by collateral of the underlying loans from the FreshWorks Fund.[7]
    b. In December 2013, Threadneedle Investments and Big Issue Invest in the UK launched a £ 15 million social investment partnership to create the first FCA-registered diversified social bond fund in the UK market. The Fund offers daily liquidity and anticipates generating financial returns in line with UK corporate bonds. The investment policy of the Fund is to maximize exposure to socially beneficial activities based on the Fund's Social Assessment Methodology.[8]

2. Financing tax-advantaged community development/low income housing projects (e.g. utilize government incentives such as Low Income Housing Tax Credits (LIHTC) and New Market Tax Credits (NMTC) in the US)
    a. LIHTC programmes are prolific in the US. For example, in Michigan, the LIHTC programme is an investment vehicle of US$ 20 million annually intended to increase and preserve affordable rental housing. The programme permits corporations, banking institutions and individual investors in affordable rental housing to claim a credit annually against their tax liability for a period of 10 years.[9]

3. Addressing environmental/natural resource challenges (e.g. create pollution mitigation or environmental adaptation projects that earn credits through government programmes)
    a. Ecosystem Investment Partners could spend an estimated US$ 30 million (out of US$ 181 million in raised capital) cleaning and restoring portions of 16,500 acres of Louisiana wetlands. The current phase of the restoration project includes 508 acres which would generate 508 federal environmental restoration credits. These credits would then be sold to developers and government agencies which require the credits to offset environmental damage caused by their projects.[10]

4. Financing of renewable/clean energy installations and retrofits (e.g. green bonds issued by Development Financial Institutions (DFIs) or corporations)
    a. In April 2014, the World Bank issued the first green bond in the Australian market at AUD 300 million. UniSuper, one of Australia's largest not-for-profit superannuation funds, was the lead investor in the bond along with 14 other institutions.[11] The World Bank has issued US$ 6.4 billion equivalent in green bonds since 2008 through 68 transactions and in 17 currencies, all of which support eligible development programmes designed to address climate change. The World Bank has a supervision process for these supported projects – client countries implement the projects in accordance with project loan agreements and submit regular reports on project activities. A project's progress, outcomes and impacts are monitored by the World Bank and supervising government, and data is collected to evaluate and measure the effectiveness of the project in achieving the stated impact goals.[12]

b. In March 2014, Toyota issued the first green bond in the automotive industry with a US$ 1.75 billion issuance of asset backed securities. The net proceeds will be used to finance sales and leases of cars that meet predefined criteria pertaining to powertrain, fuel efficiency and emissions. The issue was led by Citi, with Bank of America Merrill Lynch, Morgan Stanley, BNP Paribas, Credit Agricole, JP Morgan and Mizuho acting as co-managers. These institutions contributed to the creation of the “Green Bond Principles” which serve as voluntary guidelines that issuers disclose information important to investors, including the use and management of proceeds as well as the process for project evaluation and selection. The principles are intended to promote the growth of the green bond market and enable investors to evaluate the environmental impact of bonds. Initially Toyota’s green bond was set at US$ 1.25 billion, but was raised to US$ 1.75 billion due to over-subscription and high demand.[13]

c. In March 2014, Unilever issued a £ 250 million green bond (2% fixed rate coupon) to finance new factories which aim to cut waste, water usage and greenhouse gas emissions of existing factories in half. The projects due to be financed by the bond will be vetted by the Norwegian certification organization, DNV GL.[14]

5. Addressing failures of governments or free markets to provide basic services or infrastructure to underserved populations through “pay for success” models (e.g. social impact bonds)

   a. Goldman Sachs invested US$ 4.6 million in United Way of Salt Lake City for pre-school education in Granite and Park City School Districts in Utah in a pay-for-success bond model with the goal of increasing school readiness and academic performance among 3,500 three- and four-year-olds, thereby reducing special education and remedial services between kindergarten and 12th grade in those districts. J.B. Pritzker will provide a subordinate loan of US$ 2.4 million to United Way of Salt Lake, reducing risk to Goldman Sachs if the preschool programme is ineffective.[15]

6. Financing a for-profit company that generates a social or environmental benefit (e.g. social venture capital, private equity & debt)

   a. Bridges Ventures is a private sector, mission-driven investment company that specializes in funds that can deliver financial returns and make a positive social or environmental impact. In late 2002, Bridges Ventures invested £ 125,000 of early-stage capital in Simply Switch, an online and telephone-based provider of comparative information for utility suppliers. Follow-on investments resulted in a total commitment of £ 345,000. Simply Switch was sold to The Daily Mail and General Trust for £ 22 million in 2006, returning £ 7.5 million to Bridges Ventures and resulting in a money multiplier of 22 times and an IRR of 165% to investors. By being the first provider to offer its service both online and over the telephone, Simply Switch made it easier for those without resources to go online to save money on their bills. Additionally, it created 80 new jobs in in a Bridges Ventures target area and helped raise £ 500,000 for charities.[16]

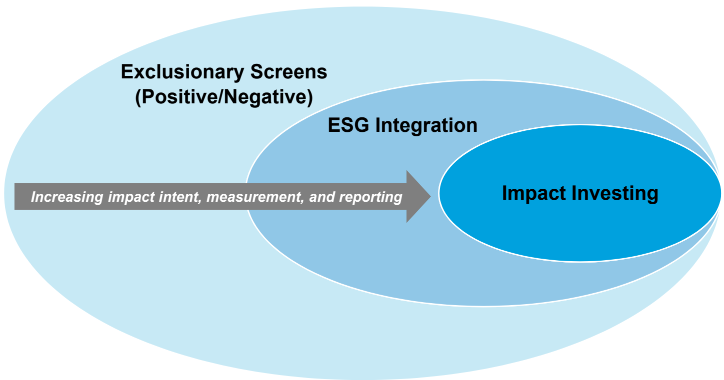
2.2 Impact Investing within the Context of Sustainable and Responsible Investing

While the focus of this report is on impact investing, it is necessary to acknowledge the ways in which investors incorporate impact into their decision-making, often expressed through sustainable and responsible investing approaches. These approaches include:

- Exclusionary investment screens (both positive and negative).
- Systematic and explicit integration of environmental, social and governance (ESG) factors into traditional financial analysis.
- Impact investing which intentionally seeks to create both financial return as well as positive social and/or environment impact that is actively measured.

One way to relate these approaches to one another is to consider them progressively incorporating sustainable and responsible investing themes in a more active fashion. For example, the integration of ESG factors into investment decisions may implicitly reflect a screening for particularly desirable/undesirable industries or geographies. Similarly, impact investments may implicitly reflect ESG factors in addition to the fact that impact investments intentionally target social or environmental outcomes. It should be noted that an investor can utilize any one of these approaches without explicitly engaging in the others. Figure 1 below provides a simplified visualisation of how these approaches fit together.

Figure 1: Sustainable and Responsible Investing Approaches



2.3 The "Impact Investing" Label

There are multiple perspectives at play in the dialogue around bringing more mainstream capital to impact investing. One perspective calls for broadening the definition of impact investing. Leaders of mainstream investing organizations often note that impact investing should be defined broadly enough to allow capital markets' participants to embrace a range of opportunities. This argument contends that when impact investing is too narrowly defined, it risks reinforcing the perception that it is a niche activity, hindering its ability to scale. The second perspective advocates that a limited and precise definition will not hinder scale but rather that it will actually drive adoption and advance development of the impact investing approach. A commonly cited hurdle to scaling impact investing is a lack of robust data. A precise definition of impact investing will facilitate creation of more robust datasets which in turn will allow for creation of risk/return profiles, definition of benchmarks and standardisation of impact measurement. As reflected throughout this section, this report aligns more closely with this second perspective. While recognizing that impact investing is closely related to other sustainable/responsible investing approaches, it remains distinct in intentionality, approach and implementation.

The philosophical debate over the "impact investing" label and whether something qualifies as an impact investment is important but should not prevent an interested investor from engaging. Indeed, we can examine investments not labelled "impact investments" made by investors not self-identified as "impact investors" and find examples of impact investments according to the definition described in this report. In such cases, investors may have engaged in processes to pursue an impact objective (possibly for the sake of impact or because a financial case follows from that impact), identify investment opportunities and measure impact – such processes reflect the core principles of impact investing, including intentionality. In short, formal labels and self-identification are not concrete delineators of what is "in" and what is "out" when it comes to impact investing. Organizations such as the European Venture Philanthropy Association (EVPA), the Global Impact Investing Network (GIIN), B Lab and the Social Impact Investment Taskforce established by the G8 Countries are actively working to bring standards/definitions to the management of impact, the outputs of which are likely to simplify the philosophical debate.

This report recommends that interested investors begin engaging in some capacity, re-evaluate, assess different strategies and then course-correct based on experience and developments in both the overall sphere of impact investing and in the investor's unique circumstances. In short, don't let perfect be the enemy of good. If we take as given that all approaches within the sustainable and responsible investing universe have merit and can have a positive impact, then experience in any of these approaches may be an "on-ramp" toward future additional engagement with other approaches in sustainable and responsible investing.

3. The Economic Viability of Impact Investing

A recent research collaboration of asset managers and academics on sustainability in investment concluded that, "Portfolios and strategies we judge as well-suited to present-day conditions will prove unsuited to future conditions. We argue that investors, who previously have been able to ignore [ESG factors] or react to changing conditions by making a series of small changes to their strategy, run a significant risk that their performance will not be sustainable into the future."[17] Such statements are indicative of the growing recognition of a need for new ways of thinking and of incorporating non-financial considerations in investment decisions among mainstream investors. Yet, many investors remain on the fence and want to see a definitive case for impact investing. What would such a case look like?

Currently there is a shortage of robust datasets, risk/return models and benchmarks for impact investments that would enable analyses to compare performance among impact investments or to compare traditional investments to impact investments – a point often cited by mainstream investors as a challenge to engagement. However, while developing such analyses will be necessary as impact investing matures, we believe that framing the case for impact investing based on returns and track records does not capture important additional dimensions which are worthwhile to consider. Furthermore, evaluating the viability of impact investing as a whole will likely remain a daunting task as would, for example, evaluating the entire set of actively managed mutual funds – such funds focus on different asset classes, employ different strategies and there are over-and under-performers in any cohort.

Therefore, this section focuses on the long-term viability and the case for impact investing on three dimensions. The first considers lessons from the evolution of ESG, the second evaluates a set of compelling global economic and demographic trends and the third provides select spotlights on support from the public sector.

3.1 Lessons from ESG Integration

3.1.1 ESG Integration – Financial Performance and Risk

While initially mostly applied to publicly listed equities, ESG integration is increasingly reflected in other asset classes and applied by a wider group of investors. This expansion indicates investors' willingness to consider non-financial metrics in investing decisions and a belief that such metrics may drive long-term risk mitigation and value – a perspective that in the past was not widely held. A growing body of academic research and industry developments indicate that companies voluntarily adopting social and environmental sustainability policies can outperform companies that do not on the basis of stock market performance. While the empirical evidence around how ESG criteria affects financial returns is still preliminary, there are notable efforts that can help investors consider if investments within the ESG spectrum can help position themselves competitively.

- One such study examined 180 US companies segmented into "high sustainability" and "low sustainability" cohorts based on dimensions of corporate governance, active stakeholder engagement and measurement/disclosure from the early 1990s to 2010. The study found that US$ 1 invested in a portfolio of the high sustainability firms would have grown to US$ 22.6 by the end of 2010, while a US$ 1 portfolio in the low sustainability firms would have grown to US$ 15.4.[18]
- Another recent study focused on institutional investors to determine how they are incorporating ESG into their investment strategies and what's driving them to do so. The survey respondents represent US$ 7.6 trillion assets under management and include many large institutional investors that provide capital used by companies to finance growth. 80% of these investors are already considering ESG issues in their investment decisions and nearly three-quarters of them cite risk mitigation as a primary reason – more specifically, that upfront consideration of issues like climate change and resource scarcity will reduce risk. Furthermore, approximately 50% of respondents consider these issues in order to enhance investment returns and to avoid investing in firms with unethical conduct.[19]
- A third study performed by an investment adviser and portfolio management firm analysed over 8,500 investments and funds globally (including corporate debt and equity, government and non-profit muni bonds, private equity, real estate trusts) and has rated nearly 80% of the globally traded equity market to conclude that markets tend to ignore 20 factors of future risk, potential return and impact. Over a three-year time period ending 31 December 2013, higher impact portfolios out-performed a traditional portfolio model based on modern portfolio theory on return (10.5% annualized vs. 8.9%, higher by 1.6% per year) and risk (11.3% annual volatility vs. 13.0%, lower by 1.7% per year).[20]
- In June 2012, Deutsche Bank released a broad review of academic literature on the relationship between ESG factors and investment returns – findings were based on 56 research papers, two literature reviews and four meta-studies. 100% of the academic research reviewed showed that firms with high ratings for CSR and ESG factors had a lower cost of capital in terms of debt and equity. In addition, almost 90% of studies examined showed that firms with high ratings for ESG exhibit market-based outperformance and accounting-based outperformance (89% and 85% respectively).[21]

Although the results of these studies do not directly link to impact investing performance, they do indicate correlation between creation of long-term value and incorporation of non-financial criteria in enterprise management. In coming years, we expect studies to shed further light on the risk and return characteristics of impact investing and the link between impact and long-term value.

3.1.2 ESG Integration – Growth in Allocated Assets

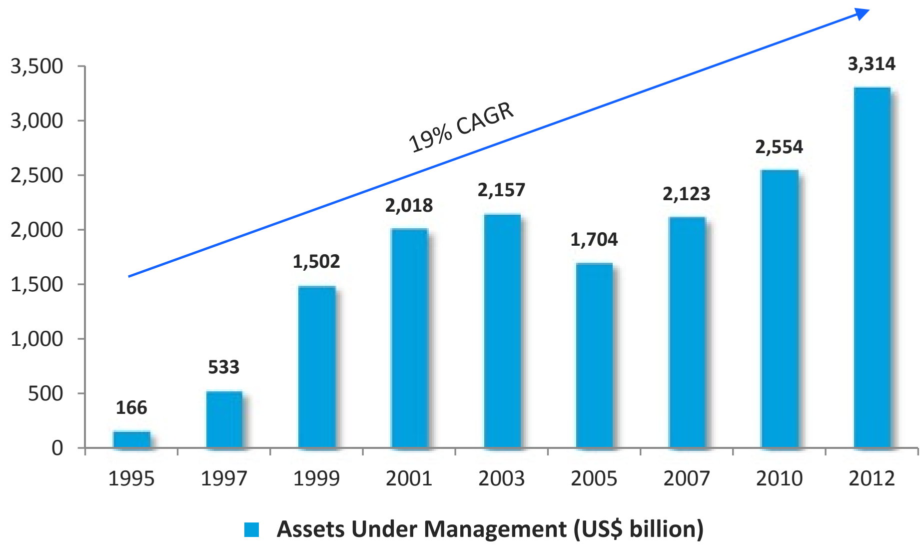
The inclusion of social and environmental considerations is resonating with institutional investors as evidenced by the adoption of screening and ESG integration. This trend offers a meaningful precedent for impact investing. From 1995 to 2012, ESG integration assets under management in the United States grew from US$ 166 billion to US$ 3.3 trillion; an increase of nearly 20 times (see Figure 2).[22] Similarly, in Europe, ESG integration grew from approximately € 0.6 trillion to € 3.2 trillion from 2005 to 2011, an increase of nearly five times in a six year period (see Figure 3).[23] Currently, it is estimated that globally 21.8% of total managed assets employ some form of sustainable investment strategy.[24] Furthermore, the number of United Nations-backed Principles for Responsible Investing (PRI) signatories has grown from 100 to 1,188 in the period for 2006 to 2013. Signatories to the PRI indicate that they hold the belief that the incorporation of environmental, social and governance factors affects portfolio performance.[25]

Since the investments underlying this growth are predominantly composed of liquid, publicly traded securities, relatively less market-building and ecosystem-development was required to get to a trillions order of magnitude. The growth story of ESG does, however, demonstrate an increasing appetite to incorporate societal and environmental considerations in investment decision-making and as previously mentioned, can serve as an on-ramp for mainstream investors considering impact investing.

3.2 Impact Investing Today

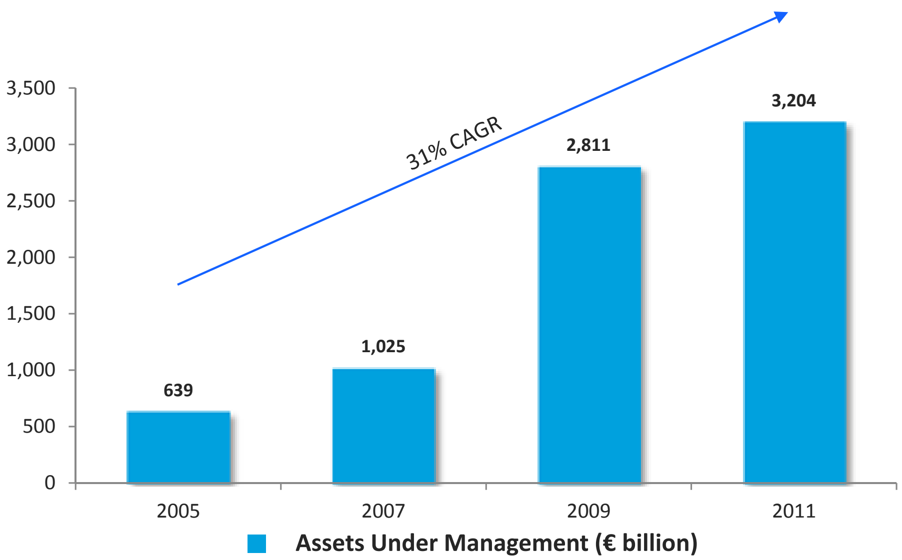
Despite the buzz surrounding impact investing, it remains a small proportion of the estimated US$ 13.6 trillion universe of global funds invested in sustainable and responsible strategies.[26] While estimates of the current size of the impact investing sector vary, the size of the sector is likely larger than US$ 46 billion – the AUM of respondents to a 2014 survey by JP Morgan and the GIIN. In that survey, 124 impact investors reported that they collectively manage US$ 46 billion of impact investments and are targeting to make an additional US$ 12.7 billion in investments in 2014, up from 10.6 billion deployed in 2013 (see Figure 4). While the respondents differ in each of the years, there is a discernable

Figure 2: Growth of US Managed Funds Incorporating ESG



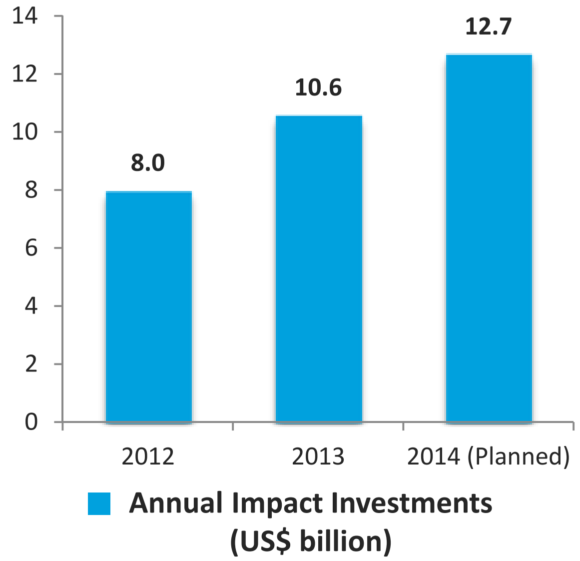
Source: US SIF Foundation, 2012 Report on Sustainable and Responsible Investing Trends in the United States

Figure 3: Growth of European Managed Funds Incorporating ESG



Source: Eurosif, European SRI Study 2012 growth trend. In the most recent survey, respondents indicated that the top three *geographies* in which they are increasing allocations are sub-Saharan Africa, East & South East Asia and South Asia. The top three *sectors* in which they are increasing allocations are food & agriculture, healthcare and financial services (excluding microfinance).[27]

Figure 4: Annual Impact Investment Volume (Survey Based) 2010-2014



Source: JP Morgan GIIN, 2012 – "Perspectives on Progress: The Impact Investor Survey", 2013 & 2014 – "Spotlight on the Market: The Impact Investor Survey" (Note: Number of respondents for each year were as follows: 2012: 88, 2013: 125, 2014: 124)

Differing definitional interpretations make precise sizing of the impact investing sector challenging at this point. Despite the imprecision in sizing, the observable growth trend is an optimistic indicator that the sector is advancing. Steady and continued engagement by self-identified impact investors, mainstream investors, market building intermediaries and mainstream financial services providers is critical to continue building the momentum.

3.3 The Case for Impact Investing

The case for impact investing is driven by a set of compelling global trends. These megatrends are creating a set of social and environmental challenges that are increasingly addressed through market-based solutions, sometimes receiving public-sector support.

3.3.1 Global Mega-Trends: Shifting Consumer Demands and Emergence of New Markets

Economic and demographic mega-trends are creating a future for investing that will look different from the recent past. These trends are relevant for all businesses and the opportunities to capitalize on them can be captured through many forms of investment. However, in many cases the interconnected nature of social and environmental issues with these trends is particularly well-suited to the impact investing approach. For example, the impact investing approach can help identify new opportunities that may not be captured through evaluation of investments on financial terms alone. Furthermore, impact investing can be a means to mitigate risks associated with the mega-trends themselves – business and services that are fundamentally useful to society can be more viable in the long-term. The following discussion highlights a select group of these mega-trends which will play a significant role in shaping the future of investing.

Rise of LOHAS Consumers Around the World:
Both developed and emerging economies are experiencing significant growth of "Lifestyles of Health and Sustainability" (LOHAS) consumer segment. Examples of LOHAS businesses include organic and fair trade products, natural home goods, sustainable eco-tourism and social businesses such as TOMS Shoes, Warby Parker, Method Products and Kind Bars. LOHAS customers are interested in having the products they purchase reflect their personal values and they want their purchases to positively influence society. Since the term was established in the early 2000s, the LOHAS market has grown over 10% annually and is approximately US$ 300 billion in size. [28] The 2014 Deloitte Millennial Survey reveals that nearly 30% of millennials, who are estimated to inherit US$ 30 trillion over the next 30 to 40 years, believe the success of business should be measured in terms of more than just financial performance, with a focus on improving society among the most important things that a business should seek to achieve. Furthermore, they believe business can do more to address society's challenges of resource scarcity (56%), climate change (55%) and income inequality (49%).[29] In short, consumer demand for socially conscious, health and sustainability products may increasingly create opportunities for impact investors.

Growing Base of the Pyramid Consumer Class:
The McKinsey Global Institute estimates that the global consumer class, made up of people earning more than US$ 10 a day, will have grown from 2.4 billion people in 2010 to 4.2 billion people in 2025. At that level of income, individuals in this class can make discretionary purchases such as televisions and refrigerators. Companies and investors that can adapt and innovate to effectively service this emerging class of new consumers stand to capitalize on a market growth opportunity on par with the Industrial Revolution.[30]

Shifting of Economic Growth to Emerging Economies:
Close to half of global GDP growth is expected to come from emerging market cities in the period from 2010 to 2025.[31] From 2000 to 2010, 21 emerging economies doubled their GDP[32] and in 2015, emerging markets are expected to grow by 5.4% while advanced economies are only expected to grow by 2.3%.[33] It is likely that impact investments will play a significant role in this economic growth story given the strong connection between social/environmental impact, emerging market investment activity and economic development.

Increasing Constraints on Natural Resource:
Global population growth and the growing consumer base in emerging markets will continue straining global natural resources. The UN estimates that by 2030, the world will need 30% more water, 40% more energy and 50% more food.[34] Potential water crises and food crises were identified in the Forum's 2014 risk report as among the top 10 global risks.[35] Additionally, the 2014 Deloitte Millennial Survey revealed that the millennial generation views resource scarcity and environmental protection as two of the top five challenges facing society in the next 5 to 10 years.[36] A stable and productive global economy depends on addressing such challenges and it is likely that the private sector will be increasingly motivated to drive economic and financial value in spite of – and even *from* – resource scarcity and environmental protection.

Limitations of the Public Sector to Provide Services and Infrastructure:
Potential fiscal crises were identified as the top risk in the Forum's 2014 risk report.[37] Governments are currently facing a confluence of factors that threaten provision of public goods and services. Ageing populations are putting a strain

on medical and social programmes. Additionally, many developed countries are still dealing with the budgetary effects of decreased tax revenues and expensive fiscal stimulus packages as a result of the global recession. While in many emerging markets, social and economic progress is leading to increased pressure on governments to improve infrastructure as well as medical and social care. In some cases where the public sector falls short, private sector investment can support financially-viable and market-based solutions to social and environmental problems.

In short, traditional notions of value-creation held by investors and society are going to be changed by increasing consumer demand for social value products in developed markets, the need for social inclusion to support growth in emerging markets and projected scarcity of natural resources. Impact investing is one approach well-suited to capitalize on these trends.

3.3.2 Public Sector Support

Similar to the public sector policies that helped launch the professionally managed venture capital sector in the mid-1960s through to the 1970s[38], governments are beginning to sponsor and support initiatives that facilitate the flow of capital to social entrepreneurs and investment managers who link social outcomes to financial returns. Such public policy initiatives can come in the form of incentives or reduced regulatory barriers which partially "de-risk" investments and catalyse the impact investing ecosystem. We have highlighted below some of the key policy actions underway in the UK, India, France and the US. While such public sector support is not expected to make impact investing immediately compelling for all investors, it can have the effect of making it easier for otherwise reluctant actors to engage.

UK – Social Investment Market Stimulus:
Big Society Capital (BSC), a UK social investment company established by the Cabinet Office and launched as an independent organization in April 2012, seeks to have a transformative impact on the social investment market in the UK. It aims to do this by providing access to capital for social investment intermediaries as well as by increasing awareness of and confidence in impact investing by promoting best practices, sharing knowledge and fostering links between social investment and mainstream capital markets. The bank was initially financed with £ 400 million of dormant bank assets and £ 200 million invested by four large financial institutions.[39] Since inception, the organization has committed nearly £ 150 million in investments to specialist organizations that invest in charities and social enterprises.[40]

Additionally, the UK has introduced legislation that provides tax advantages to impact investors. The Seed Enterprise Investment Scheme (SEIS) was launched in April 2012 and was formed to stimulate entrepreneurial activity. SEIS provides a de-risking mechanism for start-up investors by offsetting income tax liabilities by up to 50% on qualifying investments that do not succeed. Additionally, in March 2014, a 30% income tax relief measure was announced for new social investments, the same as the rate for enterprise investment schemes and venture capital trusts.[41]

India – CSR Requirements:
Although not directly related to impact investing, examples from India show how government regulations can lead capital toward social and environmental impact. As of mid-year 2014, companies in India that meet certain tests of size (for example, companies with a net worth of INR 5 billion, or at the time of publishing, approx. US$ 83 million) are required to formulate a CSR policy, to spend 2% of average annual net profits on CSR activities and to monitor such activities.[42] Additionally, for more than 40 years, the Reserve Bank of India has required that state-owned and private banks make at least 40% of their lending activity to certain priority sectors; foreign banks must meet a 32% threshold. Priority sectors include agriculture, small enterprises, education and housing.[43]

France – Pension Fund Requirements:
Since 2010, France has required organizations that provide employee savings plans to offer at least one "solidarity-based" – or impact – plan. Such plans must invest between 5% and 10% of their capital in social enterprises. This adds up to € 2.6 billion (US$ 3.5 billion) in invested capital.[44]

US – Social Investment Market Stimulus:
In 2011, the US government announced the launch of the Start-up America initiative designed to spur high-growth entrepreneurship in America. A key contribution to this initiative from the Small Business Administration (SBA) is the Small Business Investment Company (SBIC) Impact Investment initiative. The initiative has committed to making US$ 1 billion available to investment funds licensed as SBICs provided that half of the capital is deployed into impact investments. Impact SBICs currently manage US$ 176 million in assets and have invested in 17 companies which collectively employ 1,500 people.[45] According to the SBA, eligible impact investment can be either location-based or sector-based. Location-based investments may fall into three categories: low- and moderate-income areas, rural areas or economically-distressed areas.[46]

Beyond the efforts of the SBA to spur impact investing in the US, the Department of Commerce has also been active in supporting impact investing. In the past year, the International Trade Administration, a bureau within the Department of Commerce, has certified two trade missions to Europe. Each mission involved European LPs meeting with 10 US-based fund managers focused on impact and sustainability strategies.[47] Additionally, there are dialogues around including impact investing and sustainability language in trade agreements.

As the public sector looks for ways to continue supporting the mainstreaming of impact investing, incentives and regulations need to continue supporting impact investing beyond philanthropic activity. Detailed policy levers have been outlined in a recent report from the Asset Allocation Working Group of the Social Impact Investment Taskforce, established by the G8 countries.

4. Getting Started with the Roadmap to Impact Investing

For mainstream investing organizations, building out and executing an impact investing strategy will require developing a mix of new internal capabilities and external partnerships as well as working through cultural and organizational changes. The co-ordination of such an effort requires a structured mobilization of financial, human and technological resources. And naturally, organizations will have different goals and starting points. Accordingly, this report suggests mainstream investors structure an individualized approach to impact investing according to four high-level steps as introduced here in the Impact Investing Roadmap (shown in Figure 5). The steps are as follows:

1. Vision and Leadership
First, define a clear vision for impact investing. It is critical to establish organizational support for the initiative and to build stakeholder consensus on the work that will be required. In outlining the organization's vision, leaders should clarify the organization's motivation for pursuing impact investing, identify specific and relevant contextual factors and set market goals. No two organizations will approach impact investing with the same motivations, from the same starting point, with the same goals – understanding these unique factors will enable an organization to chart its own course.

2. Stages of Impact Investing Engagement
Second, determine target "stages" for engagement with impact investing. It is ambitious to suggest that mainstream investors begin involvement with impact investing by reallocating a significant portion of assets. Given both the effort and the complexity involved with strategic change, initial evaluation and piloting of impact investments are, for many investors, good and prudent preliminary stages. Moreover, in some cases where stakeholders are sceptical of impact investing, such steps may be critical to building consensus. Based on an organization's vision for impact investing, an organization may choose to "evaluate", "pilot" or "accelerate" impact investing activities across different organizational units at different times or across the organization as a whole.

3. Strategic Pillars and Tactical Maps
Third, execute an investment strategy, organization strategy and ecosystem strategy. These are the strategic pillars that will allow the organization to build impact investing capabilities as well to test and iterate what works. Each of these strategic pillars is made up of sub-components which will be covered in-depth in Section 5.

4. Learn, Iterate and Evolve
Fourth, evolve and grow the vision for impact investing as the organization learns and matures. As a mainstream investor evaluates, pilots and accelerates impact investments, it is important to take stock of successes and setbacks. This will allow for refinement of the vision for impact investing which in turn, will help ensure that stakeholders are aligned and that the organization is on a path suited for its motivations, context and goals.

This Section will cover steps 1 and 2 in detail. Steps 3 and 4 will be covered in Section 5.

Guiding Principles

Through the journey toward impact investing, mainstream investors should mind a set of commonly cited guiding principles that informed the creation of the impact investing roadmap.

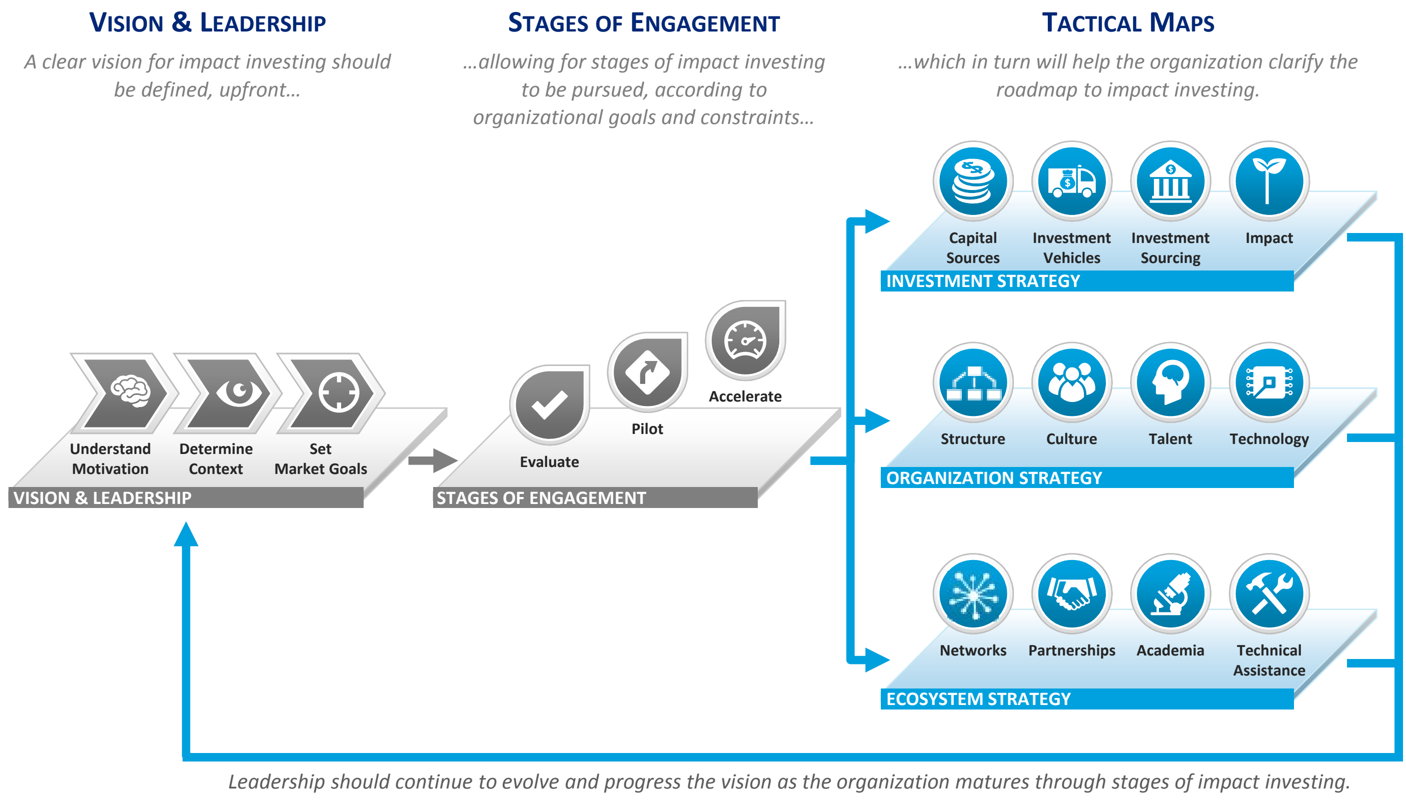
No one-size-fits-all approach:
To navigate the complexity of impact investing, investors should define an approach that suits their motivations and unique context.

Avoid analysis-paralysis:
Philosophical debates about what counts as impact investment versus other types of responsible investment will likely continue as the field matures. The key is to engage in some capacity at first and then course-correct and re-evaluate the strategy over time.

Work with and around challenges:
Recognize and acknowledge challenges, determine which ones are show-stoppers and which ones can be creatively addressed. Making this determination will help investors to remain action-oriented.

Willingness to shape the opportunity:
Success in impact investing can require investors to think multiple steps ahead of the current landscape and to play an active role in developing the marketplace. If this is done well, early investors will be well-positioned to benefit from future growth in impact investing activity.

Figure 5: The Impact Investing Roadmap



4.1 Breakdown of Mainstream Investors

Before delving into a discussion of internally-driven motivations and organizational context for impact investing, it must be acknowledged that the term "mainstream investors" refers to a diverse group of institutions with differing clients, regulators, fiduciary responsibilities and organizational structures. Accordingly, the following discussion will segment mainstream investors into the following types:

Asset Owners, comprised of…	Financial Services Providers, comprised of…
• Insurance companies • High net worth/family offices • Pension funds/endowments • Foundations	• Liquid investment funds (mutual funds, hedge funds) • Illiquid investment funds (private equity, venture capital)
• Diversified financial institutions/banks (note that these investors frequently act as both asset owners and financial services providers)	

To coarsely summarize the goals of these two groups – asset owners' objectives involve achieving portfolio performance according to an investment philosophy/policy while financial services providers have the added objective of profitably supplying investment products and/or services to clients that deliver on risk-adjusted return expectations. While these objectives may seem obvious, we point them out to highlight the fact that each of these groups is driven by different motivations and contexts that will affect how they choose to engage in impact investing. Admittedly, there are a myriad of other nuances among and within these groups – however, such differences go beyond the scope of this report.

4.2 Roadmap Step 1 – Vision and Leadership

As there is no one-size-fits-all approach, building out and executing an impact investing strategy can be challenging, requiring patience, discipline and focus. Accordingly, before applying impact investing approaches, an organization should define its vision for impact investing that reflects:

1. The motivations for pursuing impact investing
2. The internal context in which the organization is pursuing impact investing (i.e. the starting point)
3. The goals that align with 1 and 2

These three components of an impact investing vision will help leaders align the organization and define the tactics necessary to move forward.

Role of Leadership

An impact investing strategy can require major changes from an organization. For example, employees trained in financial analysis may need to adopt new skills to consider non-financial aspects of investments – an adjustment that could encounter scepticism. Or an organization may need to forge new partnerships for the purpose of investment sourcing, knowledge- and best practice-sharing, as well as talent recruitment. Focused leadership is necessary to drive the changes, communicate the benefits and sustain momentum. Furthermore, responsibility for *executing* the strategy should not be dispersed among numerous teams and initiatives but rather rest within one individual or team that has the support of leadership, that is accountable and that has the execution of the strategy as its highest priority.

Leaders of institutional investment firms and large banks engaged in responsible and impact investing stress the importance of the core belief that long-term financial value is driven by considerations that may not traditionally have been taken into account. Senior executives who hold such beliefs are instrumental in driving the vision for and implementation of impact investing. Below are examples of relevant statements from a variety of asset owners and financial services providers.

4.2.1 Motivation

A clearly articulated rationale for pursuing engagement in impact investing is the first step in sharpening objectives and gaining buy-in from key internal stakeholders. As discussed in Section 3, there are significant economy- and society-level trends that support the economic viability of impact investing. But what other, internally-driven motivations exist for mainstream investors to get involved with impact investing? This Section will begin with a set of questions, shown in Figure 6, that apply to different mainstream investor types and which can help identify motivations that are specific and relevant to the organization. Then, a set of potential motivations for mainstream investors will be suggested as a starting point.

Mainstream investors will likely find that many of their motivations fit into one of several broad categories. Of course, organizations may choose to redefine this set at they see fit:

- Financial
- Client/Stakeholder
- Competitor
- Values/Impact
- Talent

Figure 6: Questions to Clarify Motivation

		Asset Owners					Fin. Services Providers		
Type	***Questions to Clarify Motivation***	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions /Banks	Diversified Financial Institutions/ Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)
Financial	Is there a belief that addressing social and environmental challenges will be drivers of attractive risk-adjusted returns? If so, how important is it now to begin positioning to capture the opportunity?	✓	✓	✓	✓	✓	✓	✓	✓
Financial	Do poorly understood risk-reward profiles in developing and frontier markets present undervalued and attractive investment opportunities?	✓	✓	✓	✓	✓	✓	✓	✓
Financial	Can impact investments facilitate access to other traditional investments in new markets or geographies? How beneficial is the resulting "on the ground" experience in the long term?	✓	✓	✓	✓	✓	✓	✓	✓
Financial	Given that improvement to social infrastructure generally moves in lock-step with economic development, would social and environmental impact benefit existing investments? (e.g. consumer products companies benefiting from the addition of basic services in a developing market)	✓	✓	✓	✓	✓	✓	✓	✓
Client / Stakeholder	Is the organization being encouraged by stakeholders to more actively seek impact from investments?	✓		✓	✓	✓	✓	✓	✓
Client / Stakeholder, Competitor	What is client demand and interest for impact investing products and solutions? Does the organization expect this demand/interest to grow?		✓				✓	✓	✓
Competitor	Are competitors/peers engaged or beginning to engage with impact investing? How important is it for the firm to be an innovator and market leader in impact investing?	✓	✓	✓	✓	✓	✓	✓	✓
Values / Impact	Does impact investing align with the values of the organization? Would impact investing activities help strengthen the ways in which the organization puts those values to practice?	✓	✓	✓	✓	✓	✓	✓	✓
Values / Impact	How does the investor perceive its role in creating more stable and sustainable societies, markets and natural resource stocks?	✓	✓	✓	✓	✓	✓	✓	✓
Values / Impact, Talent, Client / Stakeholder	Will impact investing activities attract talent to the organization and/or improve existing employee engagement? Will it help to enhance the brand and signal long-term vision?	✓	✓	✓	✓	✓	✓	✓	✓

Note that the questions which apply to an investor will depend upon unique circumstances.

Building from the questions shown in Figure 6, Figure 7 shows motivational factors that asset owners and financial services providers may choose to consider. The factors by no means comprehensively represent the entire scope of factors affecting these groups. Rather, they are shown here to serve as potential starting points for mainstream investors.

Figure 7: Potential Motivational Factors for Impact Investing

		Asset Owners					Fin. Services Providers		
Type	***Potential Motivations***	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions /Banks	Diversified Financial Institutions/ Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)
Financial	Impact investments could present diversification benefits to the portfolio	✓	✓	✓	✓	✓	✓	✓	✓
Financial	Long-term investment approach and liability-matching aligns with the time horizons of certain impact investments	✓		✓					
Financial	Addressing social and environmental issues may help build a better understanding of insurance/debt underwriting exposure, and potentially even reduce such exposure	✓				✓	✓		✓
Financial, Values / Impact	(US-specific) CRA requirements can be achieved through additional impact investment approaches (e.g. in addition to existing CRA-related investing activities)					✓	✓		
Financial, Values / Impact	As "universal owners", economy- and market-level development activities are an important goal and related to overall investing success	✓	✓	✓	✓	✓			
Financial	Impact investing is a means of creating good-will, on the ground expertise and first-mover advantage in new markets	✓				✓	✓	✓	✓
Client / Stakeholder	The millennial generation is set to inherit trillions of dollars in coming years and impact investing presents a way to attract and retain them as clients	✓	✓				✓	✓	✓
Client / Stakeholder	Beneficiaries are lobbying for more social and environmental impact from their investing activities	✓		✓	✓	✓			
Client / Stakeholder	Clients are expressing an interest in impact investing-backed products		✓				✓	✓	✓
Competitor	Other, similar investors are already making impact investments	✓	✓	✓	✓	✓	✓	✓	✓
Values / Impact	Impact investing is not only a way to create positive change but also a strong means of demonstrating the organization's values, thus enhancing public perceptions	✓				✓	✓	✓	✓
Values / Impact	Post financial crisis, there is a perceived value in demonstrating positive impact – large financial institutions are increasingly expected to play a positive societal role					✓	✓	✓	✓
Talent	Impact investing activities can provide in-demand development opportunities for high-value employees, enhancing talent recruiting and employee engagement/retention	✓	✓	✓	✓	✓	✓	✓	✓

Note that the motivations which apply to an investor will depend upon unique circumstances.

4.2.2 Context

Each organization will be subject to unique contextual factors that influence the investments it can realistically pursue and how it will get there. These factors include the organization's current investing model and the organization's prior experience in the broader realm of sustainable and responsible investing. Some investors may have little background while some may have robust ESG integration and corporate engagement/shareholder programmes. Others may already be making impact investments and looking for opportunities to do more. Regardless, it is necessary to understand the investor or institution's starting point before moving on to design appropriate impact investing goals. Figure 8 shows a set of questions that can be used to analyse an organization's current context.

Figure 8: Questions to Clarify Context

		Asset Owners					Fin. Services Providers		
Type	***Questions to Clarify Context***	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions /Banks	Diversified Financial Institutions/ Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)
Financial	Do statutory constraints limit or impede the investable universe? (e.g. ERISA/fiduciary duty, MRI tax implications for foundations in the US)	✓	✓	✓	✓	✓			
Financial	Do governance or investment policies limit the investable universe? Can they be changed?	✓	✓	✓	✓	✓			
Financial	Are there operational constraints driving minimum investment size restrictions and the related economics of due diligence? Are there solutions available to diminish such barriers?	✓	✓	✓	✓	✓			
Financial	How comfortable is the organization with notions of patient capital and making long-term investments?	✓	✓	✓	✓	✓			
Financial	Does the investor allocate only through intermediaries/fund managers or a combination of intermediaries/fund managers and direct investments?	✓	✓	✓	✓	✓			
Financial	What are the investing financial return characteristics? (e.g. foundations and some HNWI may be interested in concessionary return investments while investors with fiduciary duty like pension funds and insurance companies likely will not)	✓	✓	✓	✓	✓			
Financial	Is the firm able to partner with specialist impact investors to facilitate product launches through joint ventures or seed funding?						✓	✓	✓
Financial, Values / Impact	Is there a belief that investments can address social and environmental challenges and also deliver attractive risk-adjusted returns?	✓	✓	✓	✓	✓	✓	✓	✓
Financial, Values / Impact	Are there specific impact themes that align with the mission or the core business? For example: - Insurance companies with direct exposure to the impact of extreme weather and intensive use of natural resources investing in green bonds to support sustainable growth and development - Global diversified financial institutions seeking "license to operate" or strengthen their competitive positioning in new geographic sectors	✓	✓	✓	✓	✓			
Talent	What is the organization's level of experience and stock of intellectual capital in making impactful or impact investments?	✓	✓	✓	✓	✓	✓	✓	✓
Talent	Do we have the required skills and knowledge to integrate impact strategies in our mainstream processes?	✓	✓	✓	✓	✓	✓	✓	✓
Talent	Are corporate social responsibility (CSR) departments and corporate foundations positioned to play a role in facilitating a firm's entry into impact investing?						✓	✓	✓

Note that the questions which apply to an investor will depend upon unique circumstances.

4.2.3 Market Goals

Once a mainstream investor has identified its motivations and its organizational context, it should define a clear set of goals for the impact investing initiative. These goals will help the organization to define the tactical steps of the initiative, to communicate about the initiative to all employee levels, to allocate resources and to measure the success of the initiative over time.

To define impact investing goals, an organization should consider each motivation and account for any relevant contextual factors. Market goals will be as individualized as the other factors discussed above and accordingly, a comprehensive discussion of possible goals goes beyond the scope of this report. However, see below for illustrative examples of how a diversified financial institution might define a set of impact investing goals based off of the related motivational and contextual factors.

Client Goals

Motivation	Context
• The millennial generation is set to inherit trillions of dollars in coming years and impact investing presents a way to attract and retain them as clients	• The organization does not currently offer impact investing products • The exact nature of impact investing demand from clients is not known but if clients are interested, they are not likely to be attracted to concessionary return investments

Market Goals

- Conduct a survey to both measure and segment client demand for impact investing products
- Identify and evaluate third-party products which could meet client demand

Impact Goals

Motivation	Context
• Impact investing is a way to create positive change and demonstrate the organization's values	• The organization highly values its philanthropic and CSR activities and focuses those activities on specific social and environmental issues • A set of key leaders within the organization believes that investments can address social and environmental challenges and also deliver risk-adjusted returns

Market Goals

- Review current investing activity to identify any existing areas of impact
- Define and evaluate potential impact investing target areas
- Determine how CSR or philanthropic activities can include impact investing

Talent Goals

Motivation	Context
• Impact investing activities can provide in-demand development opportunities for high-value employees, enhancing talent recruiting and employee engagement/ retention	• Managers are hearing that certain employees are interested in impact investing • A small handful of Analysts and Associates have left for impact investing organizations

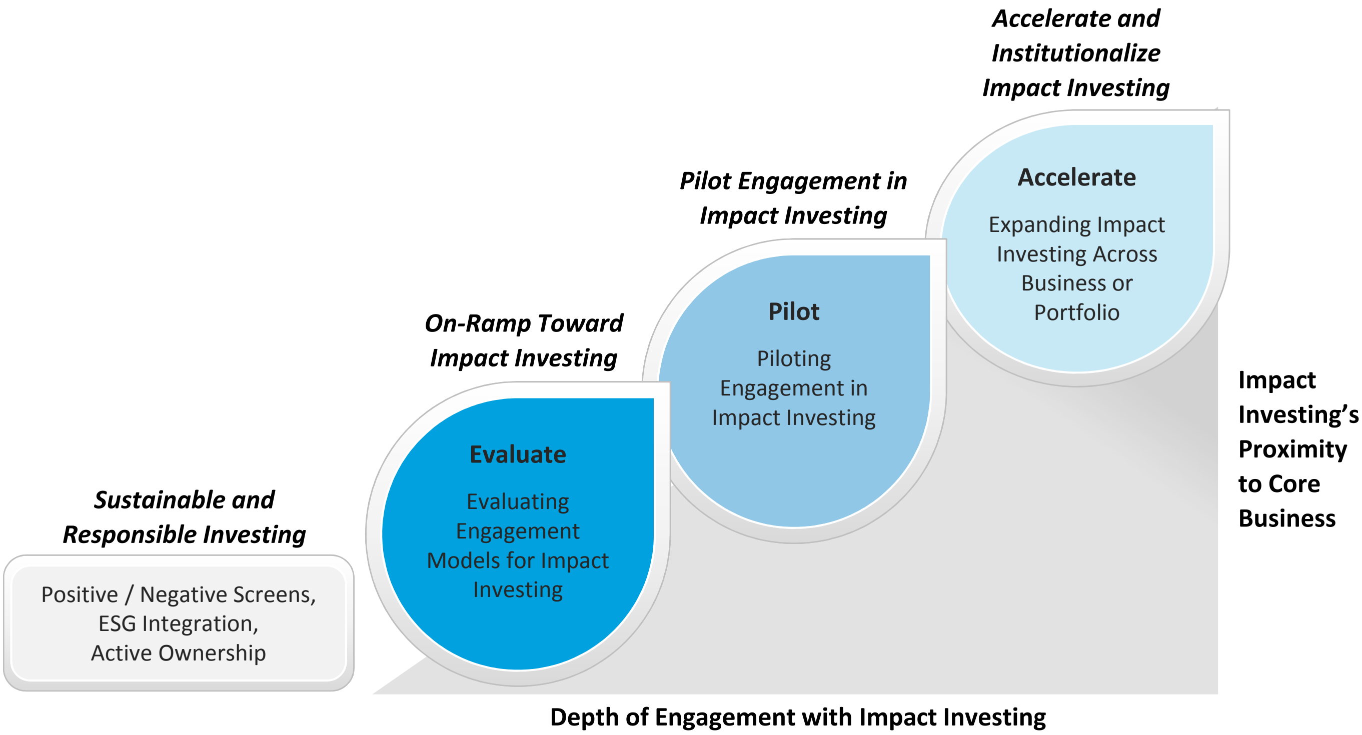
Market Goals

- Gather details on employee interest in impact investing (e.g., allocating part of an employee's time to an impact investing initiative, going through a rotational programme)

4.3 Roadmap Step 2 – Stages of Impact Investing Engagement

Once a mainstream investor determines a vision for impact investing, what might potential stages of involvement look like? There are numerous ways in which a mainstream investor can engage with impact investing. This is simplified here into three stages of engagement as seen in Figure 9.

Figure 9: Stages of Engagement



Defined Impact Vision	◑	◕	●
Senior Leadership Commitment	◑	◕	●
Making Impact Investments or Offering Products	○	◑	●
Measured Impact Objectives	○	◑	●
Periodic Reporting	○	◑	●
Ecosystem Involvement	○	○	○

Spotlight – Pilot

UBS took interest in the Development Impact Bond, liking the concept but not seeing clear proof of its viability. Therefore, rather than developing a vehicle for client investment, UBS felt that its corporate client foundation (Optimus Foundation) may be the appropriate entity to test the waters and do the proof of concept. If successful, UBS may choose to replicate it at much larger scale and then open it up to client investments.

Spotlight – Accelerate

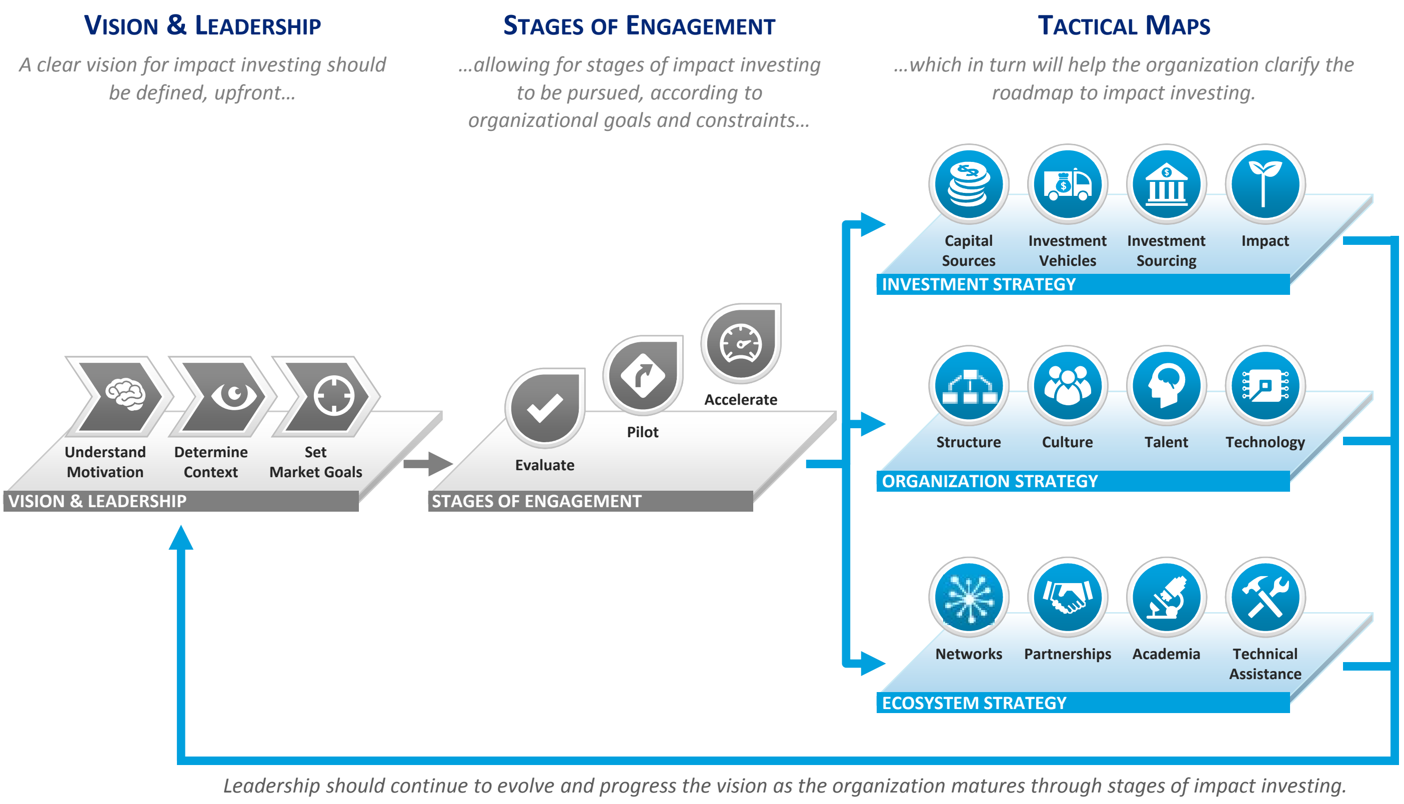
Zurich Insurance Group has placed "Responsible Investment Champions" within asset management and investment teams to serve as conduits to communicate strategy and to share new ideas and feedback with the Responsible Investment Team. Furthermore, they serve as ambassadors for the overall strategy and field questions from teammates. This structure enhances the overall culture around responsible investment and impact investing by closely aligning with the core business groups.

5. How to Proceed: Tactical Maps

This Section presents tactical maps which an investor or institution may consider in developing and implementing impact investing strategies. The maps are segmented into three strategic pillars (investment strategy, organization strategy and ecosystem strategy). These pillars and tactical maps can be seen at the right side of the Impact Investing Roadmap as shown in Figure 10.

In the following pages, each tactical map highlights steps which pertain to specific types of mainstream investors. Additionally, real world examples are included to help bring these strategies and tactics to life. Note that the relative degree of importance and depth of involvement with each map will differ depending on the stage of engagement and type of institution.

Figure 10: The Impact Investing Roadmap



5.1 Revisiting the Breakdown of Mainstream Investors

Here we reintroduce the breakdown of mainstream investors (first used to differentiate organizational motivations, contexts and goals in Section 4.1.1). This time, the segmentation will be used to differentiate the tactics laid out in the roadmaps.

Asset Owners, comprised of…	Financial Services Providers, comprised of…
• Insurance companies • High net worth/family offices • Pension funds/endowments • Foundations	• Liquid investment funds (mutual funds, hedge funds) • Illiquid investment funds (private equity, venture capital)

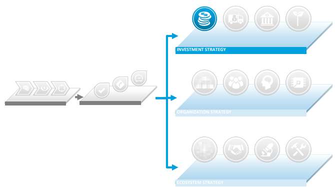
• Diversified financial institutions/banks (note that these investors frequently act as both asset owners and financial services providers)

5.2 Roadmap Step 3 – Investment Strategy Pillar

The investment strategy pillar focuses on the different ways mainstream investors can deploy capital into impact investments and how social and environmental impact is reflected in those investments. This includes integrating more traditional components of an investment strategy – defining the capital sources for investments, determining appropriate investment vehicles and sourcing investment opportunities – with impact-focused activities including defining strategies to target and measure impact. As an investor gains experience and as impact investing approaches evolve, we expect investors to iterate these approaches.

Investment Strategy – Capital Sources

The sources of capital for impact investments will vary by organization type. For example,organizations that are evaluating and piloting impact investing as well as organizations with fiduciary concerns about impact investing can consider making impact investments through a CSR function or through a corporate foundation. Such an arrangement could allow for the organization to test impact investing models on a small scale and determine what works. However, using this approach could risk causing impact investing to appear philanthropic in nature. In such a situation, internal advocates and champions should remain aware of risk and continue to seek opportunities to mainstream impact investing activities.



Investment: Capital Sources

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	Tactics		
Use corporate or family foundation as 'R&D' platform for impact investing (1)	✓	✓		✓	✓	✓	✓	Provide grant funding to organizations working to develop the impact investing sector	Deploy foundation capital into piloted impact investments, leveraging expertise of in-house investment professionals	Use foundation impact investments to build experience, track record, and determine "what works"
Use CSR channel to deploy capital into impact investments (2)	✓				✓	✓	✓	Deploy foundation capital into piloted impact investments, leveraging expertise of in-house investment professionals	Use CSR impact investments to build experience, track record, and determine "what works"	Apply learnings from CSR activities to build impact investing activities into revenue-generating business units
Deploy client/investor capital into impact investments (3, 4, 5)		✓			✓	✓	✓	Survey clients/investors sentiment on impact investing to determine potential demand	Develop impact investing product or conduct due diligence and offer on third-party impact investing products	Offer impact investing products to clients/investors
Deploy capital into impact investments from asset pool (6)			✓					Define preliminary targets for impact investing allocation (e.g. .5%, 1%, 2%)	Deploy capital directly into impact investments from asset pool	
Deploy capital into impact investments through the corporate general account (7)	✓							Define preliminary targets for impact investing allocation (e.g. .5%, 1%, 2%)	Deploy assets from the corporate general account into impact investments	
Deploy capital into impact investments using bank balance sheet (8, 9)					✓			Define preliminary targets for impact investing allocation (e.g. .5%, 1%, 2%)	Deploy bank balance sheet directly into impact investments (e.g. through lending activity or principal investing)	

❶ Spotlight – Citi Foundation, Optimus Foundation

- Citi Foundation invests in Innovations for Poverty Action (IPA) which supports testing and evaluation of innovative product designs and product-linked financial education interventions for underserved populations.[48]
- See Section 4.3 for the example of UBS's corporate client foundation, Optimus Foundation.

❷ Spotlight – Standard Chartered

- In 2013, as part of Standard Chartered's US$ 100 million commitment to Seeing is Believing, its community investment programme which aims to improve access to eye care, the Bank launched a US$ 3 million fund specifically designed to support innovation in eye health. The Fund is focused on supporting innovators and social entrepreneurs who are experimenting with new approaches to eye health delivery in the developing world.

❸ Spotlight – BBVA

- BBVA has created a financial vehicle for private investors to invest in the social entrepreneurs identified each year through the Momentum Project, a programme of training and strategic support that allows entrepreneurs to grow and scale their social impact.[49]

❹ Spotlight – AXA, Morgan Stanley, Goldman Sachs, UBS

- AXA: € 150 million impact investing fund of funds[50]
- Goldman Sachs: Social Impact Fund[51]
- Morgan Stanley: Investing with Impact Platform[52]
- UBS partnership with Obviam[53]

❺ Spotlight – BNP Paribas, UBS, Credit Suisse

- BNP Paribas partnership with PhiTrust[54]
- Credit Suisse partnership with responsAbility[55]

❻ Spotlight – Danish Climate Investment Fund

- In 2014 a Danish public-private partnership established the Danish Climate Investment Fund (DCIF) to create green growth in emerging markets. Four Danish pension funds (Pension Danmark, Paedogogernes Pensionkasse (PBU), Dansk Vaekstkapital and Pensionskassernes Administration (PKA)) committed DKK 1.2 billion at the first closing of the Fund. IFU, an independent government-owned fund which provides advisory and risk capital to Danish companies wishing to set up operations in emerging markets, is managing the DCIF. As the Fund develops, an additional DKK 200 million is expected to be provided by additional institutional investors. Below are two examples of investments that the Fund is considering:
  - Wind Farm: Lake Turkana, Kenya
    - DCIF investment: DKK 108 million (6.3% ownership), Total expected investment: DKK 4.8 billion
    - 365 Vestas (Danish wind turbine company) will be installed in Lake Turkana generating 310MW which will be the largest wind farm in sub-Saharan Africa
    - Planned exit through trade sale after five years or investors will be issued redeemable shares
    - Expected return (IRR p.a.): 19%
  - Solar: Male Water and Sewage Company (MWSC), Maldives
    - DCIF investment: DKK 25 million (45% ownership), Total expected investment: DKK 55 million
    - 8MW rooftop solar plan to be installed to partly replace diesel-based energy production
    - Expected return (IRR p.a.): 17%

❼ Spotlight – Zurich Insurance Group

- In July 2014, Zurich doubled its planned investment in green bonds. It now plans to allocate as much as US$ 2 billion to green bonds, citing their growing appeal in Europe.[56]

❽ Spotlight – Prudential Financial

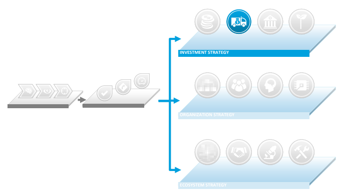
- In June 2014, Prudential committed to building a US$ 1 billion impact investment portfolio by 2020. Since 1976, Prudential has invested nearly US$ 2 billion in impact investments, with a focus on three core areas: social purpose enterprises, financial intermediaries and real assets.[57] In 2013, Prudential made approximately US$ 100 million in social investments.[58]

❾ Spotlight – Big Society Capital

- Barclays, HSBC, Lloyds and RBS made £ 50 million equity investments in Big Society Capital.[59]

Investment Strategy – Investment Vehicles

As mentioned elsewhere in this report, the impact investing approach spans asset classes. Accordingly, investors should consider how impact will be reflected in each asset class. While some investors, notably certain family offices, have stated a goal to put 100% of assets into impact investments, this is not currently realistic for the vast majority of mainstream investors. Thus, it is recommended that when evaluating and piloting impact investments, mainstream investors target one or a handful of asset classes. For providers of financial products and services, offering an impact vehicle could mean offering a third-party product or developing a product in-house. Either way, it is recommended that the provider engages with clients and potential investors to determine preferences and sentiment around the attributes (including the social/environmental impact) of a potential vehicle.



Investment: Investment Vehicles

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*		
Identify potential fit of impact within asset classes 1 2 3 4 5	✓	✓	✓	✓	✓	✓	✓	Survey current portfolio to determine risk/return/liquidity needs by asset class • More Liquid: Deposits/Cash, Public Equity, Equity Funds, Public Debt, Fund of Funds • Less Liquid: Real Assets, Private Equity or Debt Placements, Comingled Funds	Determine suitable approach to make impact investments, direct vs. indirect and liquid vs. illiquid; Define the feasible "types" of impact and responsible investments • More Liquid (not exhaustive): Impact Investing Mutual Funds, Green Bonds • Less Liquid (not exhaustive): Social Impact Bonds, Impact Private Equity, Impact Venture Capital, Real Asset Investments	
Build impact into current portfolios 6 7	✓	✓	✓	✓	✓			Choose asset class(es) in which to evaluate and pilot preliminary impact investments; create an inventory of potential/interesting impact positions	Based on learnings, evaluate asset class allocations and targets against identified impact investments – target areas where impact investment positions might meet needs of scale	Conduct impact due diligence alongside traditional financial due diligence on potential impact investments; If necessary, partner with strategic co-investors and create suitable financial/legal structure (e.g. tranche risk, structure co-investment)
Build impact investments into future products/funds		✓			✓	✓	✓	Determine client preferences around impact investments (e.g. more impact in traditional products vs. dedicated products)	Based on client/investor preferences, build a product which partially or wholly focuses on impact investments	
Offer third-party impact vehicles to clients/investors		✓			✓			Source third-party impact investment products and provide asset management services for such external investments	Incorporate impact investing funds and solutions into overall product platform either through in-house development or third-party solutions	
Utilize third-party asset/fund managers	✓	✓	✓	✓	✓			Identify fund managers and screen based on fit of investing strategy and impact focus	Conduct traditional due diligence on manager and additionally consider impact strategy, track record, and reporting capabilities	

❶ Spotlight – Cash / Cash Equivalents

- Impact investing allocations to cash assets typically take the form of certificates of deposit, savings accounts and money market accounts with community banks and local finance institutions. For example, Triodos Bank offers a range of liquid offerings to individual, business and institutional customers and only lends to and invests in organizations that benefit people and the environment.[60]

❷ Spotlight – Fixed Income

- Impact investments in fixed income can be in bonds issued by public sector or private sector entities. Such bonds typically result in a flow of capital to impact-focused enterprises or projects which address issues with social or environmental implications. Green bonds, microfinance bond funds and CDFI bonds are all examples of impact fixed income.

❸ Spotlight – Public Equity

- There are still relatively few publicly-listed companies which intentionally seek social or environmental impact alongside financial returns. However, several developments make this a potential area of growth. For example, a growing number of states in the US allow organizations to incorporate as benefit corporations. This type of legal entity is required to consider the impact of its decisions not only on shareholders but also on workers, community and the environment.[61] Another supporting example is the UK's Social Stock Exchange which lists companies that have a publicly listed security and that meet certain impact criteria. [62]

❹ Spotlight – Private Equity and Venture Capital

- Impact investments in private equity and venture capital target different impact themes, geographies and expected return profiles. Therefore, rather than profile a few examples here, readers are encouraged to examine the GIIN's ImpactBase database[63] or Impact Assets 50[64] for examples of such deals currently in the market. However, given the high cost and small average size associated with directly investing in impact enterprises, mainstream investors often opt to invest through third-party managed funds.

❺ Spotlight – Real Assets

- Impact investments in real assets involve managing such assets so as not to deplete or damage their value, thus producing long-term benefit for society.

❻ Spotlight – African Agriculture Capital Fund

- In 2011, a group of six partners (USAID, Pearl Capital Partners, JP Morgan Social Finance, Bill & Melinda Gates Foundation, Gatsby Charitable Foundation and Rockefeller Foundation) launched a US$ 25 million African Agriculture Capital Fund (AACF). Pearl Capital Partners, a specialized African agriculture investment fund manager based in Kampala, Uganda, will invest the US$ 25 million in approximately 20 agriculture businesses in East Africa, targeting to raise the productivity and incomes of at least 250,000 households. Pearl Capital Partners was established in 2005 and manages US$ 46 million across three agriculture funds. USAID has guaranteed 50% of an US$ 8 million commercial loan from JP Morgan and the three foundations have jointly provided a US$ 17 million equity investment. Under President Obama's Feed the Future initiative, the Fund also has access to US$ 1.5 million of technical assistance to help improve investee companies' operations and competitiveness. The Fund is targeting a 15% gross annual compounded return. Figure 11 graphically illustrates how the Fund is structured and Figure 12 illustrates how the AACF investment review process is conducted.[65]

❼ Spotlight – California Freshworks Fund

The California FreshWorks Fund is a public-private partnership loan fund which finances grocery stores and fresh food retailers in underserved California communities. From the Fund's US$ 125 million loan pool, US$ 100 million was raised from banks and insurance companies and allocated to a senior debt tranche while US$ 25 million was raised from a group of mission-driven investors and allocated to a subordinated debt tranche. Additionally, US$ 7.5 million in grants has funded a first-loss reserve. Senior lenders are secured by collateral of the underlying loans from the FreshWorks Fund.[66]

Figure 11: AACF Fund Structure

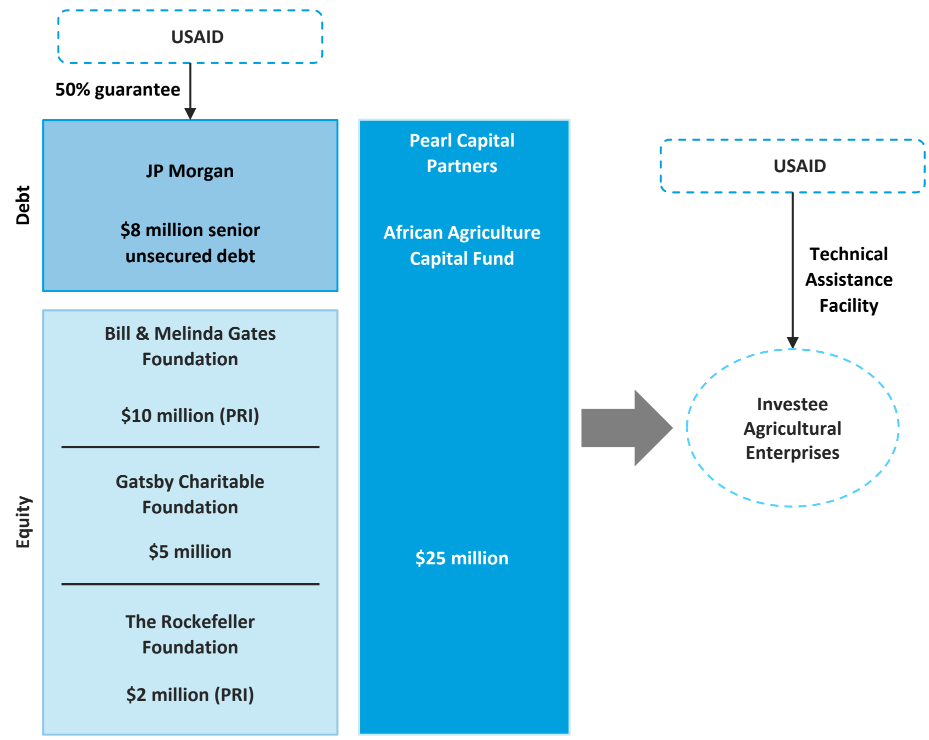
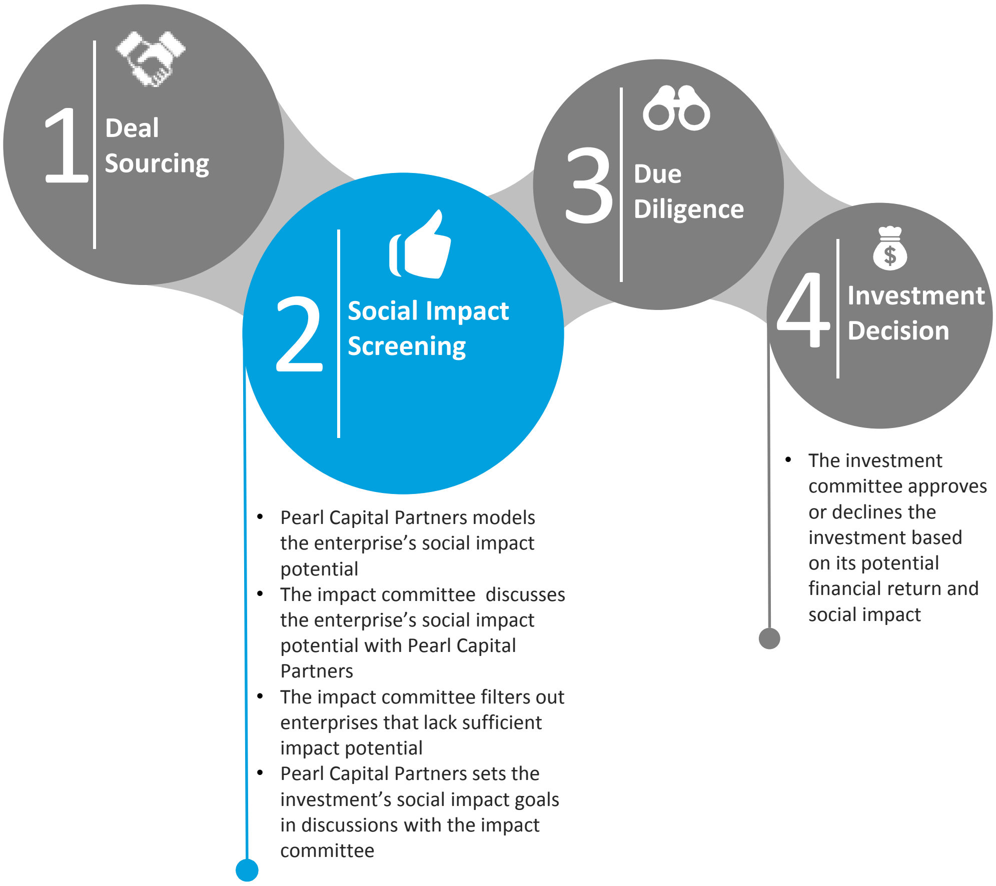


Figure 12: AACF Investment Review Process



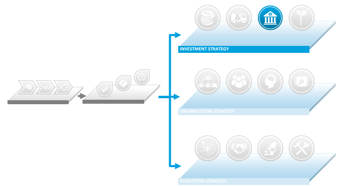
Highlighted Challenge 1: Small Average Deal Size

Institutional asset owners sometimes comment that they cannot make impact investments because all impact investments are private equity or debt deals in the US$ 1-10 million range. While those deals certainly do exist, they are not the only game in town. Below are just a handful of examples of larger impact investments available to institutional asset owners targeting market rate returns:

- **Investing 4 Growth:** In May 2013, five local government pension funds in the UK issued a request for proposals under the name of Investing 4 Growth, seeking investments with economic as well as positive social and/or environmental outcomes in the UK. The five pension funds collectively committed £ 250 million. By the closing date in July 2013, 32 RFP submissions were received reflecting investment opportunities across property/infrastructure, energy, venture capital, mid-cap and social enterprises. As of March 2014, the five funds reported that three investable opportunities have been identified and that they are considering a collective investment of over £ 100 million.[67]
- **Obviam:** In September 2013 UBS completed raising CHF 50 million from clients for a fund-of-funds vehicle that will take equity stakes in small and medium-sized enterprises (SMEs) in emerging and frontier markets that drive social or environmental change. The Fund will be managed by Obviam who has 14 years of experience making impact investments.[68]
- **Equilibrium Capital:** Equilibrium Capital has approximately $900M across its platform of sustainability-driven real asset investment strategies, funds, and products. Equilibrium's funds range from $150M-$250M in size, backed by institutional investors such as pension funds, endowments and foundations.[69]
- **Storebrand:** Since many pension funds need to deploy capital in investments in the $100 million range and cannot have more than a 10% stake in any fund, a scale challenge remains given that few impact investment funds would qualify under this criterion. Storebrand, a Norwegian pension fund, has a made a commitment to growing impact investing and has relaxed some of the size restrictions to facilitate growth of the sector. Of the approximately US$ 70 billion that Storebrand manages, they currently have a US$ 75 million allocation to impact investments (40% through private equity and 60% through private debt). Through these efforts they are able to support first-time managers and accept higher relative transaction fees based on the belief supporting the sector now can lead to more opportunities in the long-term. In addition to the impact fund investments, Storebrand is a significant investor in green bonds.

Investment Strategy – Investment Sourcing

The sourcing of impact investments presents similar challenges as the sourcing of traditional investments. Most notably, while it might not be difficult to find impact investments – indeed, there are many resources for that listed in this report – finding quality investing opportunities can be challenging. Investors are encouraged to survey the universe of investable deals and develop relationships with partners that have shared investing strategies and principles.



Investment: Investment Sourcing

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	Tactics		
Foster partnerships to find innovative solutions to invest and build the market 1 2 3	✓	✓	✓	✓	✓	✓	✓	Incubate/support impact- specialized fund managers	Utilize impact investing networks (Toniic, Impact Assets) to plug into impact investing deal flow. Networks can serve as a nexus for the multitude of incubators, accelerators and intermediaries active in the sector	Partner with peer organizations to pool capital toward social impact investments
Tap networks of institutional peers and local market experts 4 5	✓	✓	✓	✓	✓	✓	✓	Evaluate and monitor opportunities on social venture listing platforms	Identify partners or team members with local market experience to leverage in due diligence and ongoing risk management	Utilize specialised investment advisors
Explore non-traditional means of sourcing opportunities 6		✓		✓				Utilize crowd-funding outlets to access impact investing to non-accredited investors or HNW investors looking to make 'smaller-ticket' investments/loans		

1 Spotlight – Incubation Partnerships

- Leapfrog Investments: Leapfrog Investments invests in high-growth companies in Africa and Asia that offer financial services to consumers in emerging markets. LeapFrog's investors include large financial institutions such as JP Morgan, Swiss Re, Prudential and TIAA CREF.[70]
- Bridges Ventures: Bridges Ventures, a private investment firm, was founded in 2002 with the support of private equity firms Apax Partners, 3i and Doughty Hanson & Co.[71]
- DBL Investors: In 2008, DBL Investors was spun out of the JPMorgan Bay Area Equity Fund I. DBL Investor's strategy is focused on investing in companies that have the potential to deliver top-tier venture capital returns while enabling local social, environmental and economic impacts.[72]
- Finance In Motion: Finance in Motion is a leading asset management firm focused on development finance with € 1.3 billion committed capital. While Finance in Motion is majority owned by management and staff, Sal. Oppenheim (European private bank) and the Apax Foundation (corporate giving arm of global private equity firm Apax Partners) are also shareholders.[73]
- MicroVest: MicroVest, a private investment adviser, is majority owned by non-profit institutions CARE, MEDA and the Cordes Foundation. MicroVest builds on the combined experience of these institutions in international small business development and investing.[74]
- Sarona Asset Management: Sarona Asset Management is a private equity firm that manages investments in frontier and emerging markets. Originally a part of Mennonite Economic Development Associates Inc. (MEDA), a private investment company, it was spun off through a management buyout in 2011 as MEDA evolved into a non-profit international economic development institution. MEDA currently has 10% ownership in Sarona Asset Management.[75]
- Impact Ventures UK (IVUK): LGT Venture Philanthropy (LGT VP) and Berenberg Bank raised € 24.8 million for their social impact fund, IVUK, in December 2013. IVUK's investments will focus on the creation of social return for disadvantaged communities in the UK as well as financial return. The Fund builds on LGT VP's experience in social impact investments and Berenberg's connections to the UK's social enterprise community.[76]

2 Resource List – Impact Investing Forums

- Impact Forum (Singapore)
- Investors' Circle Beyond the Pitch (US)
- Sankalp Forum, an Intellecap initiative (India)
- Social Capital Markets (SOCAP) (US)
- Put Your Money Where Your Mouth Is Community (PYMWYMIC) (Netherlands).
- Toniic (Global)

3 Spotlight – Impact Community Capital

- Impact Community Capital is a for-profit corporation founded by leading insurance companies. It focuses on promoting socially responsible investments in underserved communities specifically though the pooling and securitisation of community investment portfolios and the use of federal new markets tax credits to finance community childcare and healthcare facilities. Impact also provides equity funding for workforce and in-fill housing, as well as to grow small businesses.[77]

4 Resource List – Social Venture Listings

- Social Stock Exchange (UK): Platform designed to connect the general public (not just accredited investors) with publicly listed impact investments.[78]
- Impact Exchange (Singapore): Listing of social entrepreneurs, impact investing funds and non-profits (roll-out in process).[79]
- Social Venture Connexion (Canada): Online portal connecting capital-seeking social entrepreneurs with accredited investors.[80]
- Mission Markets (US): Private capital marketplace for US accredited investors which provide offering documents for due diligence and deal-closing support through a broker-dealer partner.[81]

5 Spotlight – SNS Impact Investing

- SNS Impact Investing (SNS) is the impact investing arm of Dutch bank assurance company SNS REAAL. SNS uses independent advisers to source investment deals as well as to perform due diligence and write investment proposals. SNS retains responsibility for setting investment policy, evaluating investment proposals and making investment decisions. The process for selecting an investment adviser is similar to the process used by pension funds, insurance companies and professional asset managers. The evaluation of advisers focuses on their track record of returns, their capacity to deploy sufficient capital, a solid financial position and the quality of management. Once the adviser has been selected, an "investment advisory agreement" is agreed to which details the conditions the adviser has to meet before and during the contract period.[82]

6 Resource List – Crowd-funding channels:

- Crowdfunder
- Symbid
- VC4Africa
- Myc4
- Medstartr

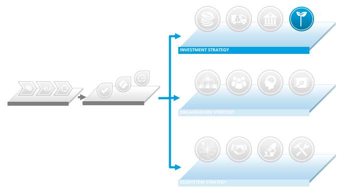
Highlighted Challenge 2: Lack of track record

The lack of a track record to prove the viability of impact investing is sometimes mentioned as a reason why mainstream investors are reluctant to act. While there are some managers with an impact investing track record greater than five years, there are a great many more with a non-impact investing track record that investors can take into account. In other areas of the impact market – green bonds, housing, microfinance debt, and private equity – a track record is less of an issue because investments can be made without use of an intermediary and because we can see notable examples of investment returns and exits. The following set of exits and fund returns highlights the potential for impact investments to achieve attractive financial returns.

- In October 2013 Bamboo Finance (a commercial private equity firm founded in 2007 with US$ 250 million under management specializing in investing in business models that benefit low-income communities in low-income countries in emerging markets) announced the sale of Xac Bank resulting in returns above 25% and two times its investment. Xac Bank started in 2001 as a non-profit microfinance lender to Mongolia's herding community. At the time of the sale, it had grown to a fully regulated commercial bank and the fourth largest in Mongolia in terms of assets. It has 500,000 customers. The sale was made to ORIX, the largest leasing company in Japan, who intends to leverage Xac Bank's business platform to expand within Mongolia and further the development of the country's financial services industry.[83]
- In December 2013, Leapfrog Investments (an impact investment firm launched in 2008 with US$ 135 million under management as of 2013 and targeting to raise a second fund of € 300 million)[84] announced the sale of Express Life to Prudential PLC. Express Life is a micro-insurance company based in Ghana, a country where less than 2% of the country's 25 million people have access to insurance. While the terms of the deal were not made public, Leapfrog, in part through its approach to actively work investees, was able to help Express Life post a five times growth in monthly revenues in the first year of the investment. Furthermore, the sale of the company to a mainstream insurance company speaks to the viability and growth opportunities of the business and that exits from impact investment deals are possible.[85]
- Bridges Ventures is a private investment firm founded in 2002 on principles of pursuing both social and environmental outcomes as well as aiming to achieve financial returns. In March 2013, Bridges exited an investment in Wehlan Refining, which was re-engineered to be the first waste oil refining plant in the UK. The re-engineering helped to divert 100,000 tons of waste oil from being used as low grade fuel and produced a net savings of 300,000 tons greenhouse gas emissions. Since the initial investment in 2006, the exit resulted in a 33% IRR and 4.7 times the total investment.[86]

Investment Strategy – Impact

Mainstream investors should define an impact strategy upfront which reflects the organization's specific context. Specifically, some investors will have organizational principles or an operating context which guides where and how impact is sought – for example, the private office of a family which has made its fortune in book publishing may focus on making an impact in education. Other types of organizations may be open to making investments which have a wide range of social and environmental impact. Identifying those guidelines upfront will inform the investment vehicles which should be targeted. On an ongoing basis, impact due diligence will need to be performed and actual impact will need to be measured. Guidelines for these processes can also be laid out upfront, but it is likely that they will change as investments are made and monitored.



Investment: Impact

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*		
Define impact strategy and processes 1 2	✓	✓	✓	✓	✓	✓	✓	Review existing investments to determine potential impact of current investments and establish a baseline	Identify any targeted impact areas; Consider opportunities to invest with impact goals that benefit the core business	Determine if targeted impact areas (e.g. health access, education) will guide investing activity or if impact will be pursued as opportunities are identified; define impact screening and due diligence standards
Actively measure and report social and environmental impact 3	✓	✓	✓	✓	✓	✓	✓	Utilize a baseline of standardized third-party impact evaluations and overlay additional proprietary metrics specific to the impact strategy and goals	Obtain independent social and environmental impact assessments from specialist third-party service providers	Regularly assess the impact performance of investments relative to the impact targets/objectives

❶ Spotlight – Standard Chartered

- Standard Chartered has a longstanding presence in Africa, providing a full suite of banking products and services to SME clients that include payroll, foreign exchange, letters of credit issuing/confirmation, trade finance and loans. A portfolio review of the loan book in eight markets in Africa in May 2014 showed that Standard Chartered is serving over 100 social enterprises, which are defined by Standard Chartered as companies creating jobs and generating societal benefits. These borrowing and non-borrowing clients belong to high-impact sectors such as off-grid renewable energy, agriculture, health, education, water and sanitation, as well as women-owned businesses. This segment of Standard Chartered's client portfolio is a good example of the demand from mature social enterprises for access to commercial debt and working capital in order to finance growth.

❷ Spotlight – Investment Opportunities Which Benefit Core Business

- Allianz: Micro-insurance providing socio-economic progress and allowing the insuring company to grow customers from micro to conventional business size (nearly 25 million lives insured in 2013).[87]
- Bradesco: Floating branches reach 250,000 people otherwise without access to banking services. More than 30% of current accounts opened in 2012 were for customers with incomes below US$ 500/yr.[88]
- Over 70 large banks around the world are members of the Equator Principles which is a framework for determining, assessing and managing environmental and social risk in project finance transactions.[89]

❸ Resource List – Impact Investing Metrics and Tools

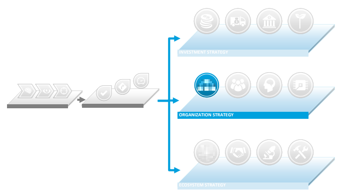
- GIIRS (Global Impact Investing Rating System)
- IRIS (Impact Reporting and Investment Standards)
- B Impact Assessment

5.3 Roadmap Step 3 – Organization Strategy Pillar

Pursuing an impact investing strategy can require varying degrees of organizational change depending on impact investing stage. For example, an organization can *evaluate* impact investing strategies and organizational models with a relatively temporary resource commitment using existing personnel. Similarly, a set of one-off impact investments can likely be *piloted* without large structural changes to the organization. However, significant and persistent change within organizations requires careful management of a number of factors. Even in the earlier stages of impact investing engagement, an organization should consider certain strategies and tactics to maximize the chance of future successes and organizational buy-in. While there is a substantial field of academic study and literature on the topic of organizational change, the aim of this report is to provide concise, pragmatic tactics. As such, we have outlined four strategic building blocks of organizational strategy for investors to consider: structure, culture, talent and technology.

Organization Strategy – Structure

An organizational structure that supports impact investing should reflect the organization's commitment to and its targeted stage of impact investing. For example, in the evaluation and piloting stages, it may be enough to temporarily allocate investment professionals' time to impact investing activities. However, once an organization is committed to impact investing, a dedicated and formalized structure of impact investing practitioners will likely be necessary.



Organization: Structure

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*		
Build Organizational Capabilities 1 2	✓	✓	✓		✓	✓	✓	Charge select investment personnel with dedicating some amount of their time to impact investment sourcing and due diligence, in addition to existing duties	Create a centralized team to oversee impact investing activity and make impact investments through cooperation with business units, asset class teams, or portfolio managers	Embed specialists across business units or asset class teams and provide specialists with central executive leadership and administrative oversight
Setup Reporting Lines 1 2	✓	✓	✓		✓	✓	✓	Report to executive leading corporate social responsibility or philanthropic activities	Report through traditional reporting lines (e.g. to heads of business units)	Report to chief investment officer, chief executive officer, or board of directors
Align with Business Model 1 2	✓	✓	✓	✓	✓	✓	✓	Managed as component of corporate social responsibility or philanthropic activities	Managed as business development initiative with measurable objectives but no formal financial performance metrics	Managed as a profit centre, potentially integrated with business unit or asset class P&Ls, with annual financial performance metrics

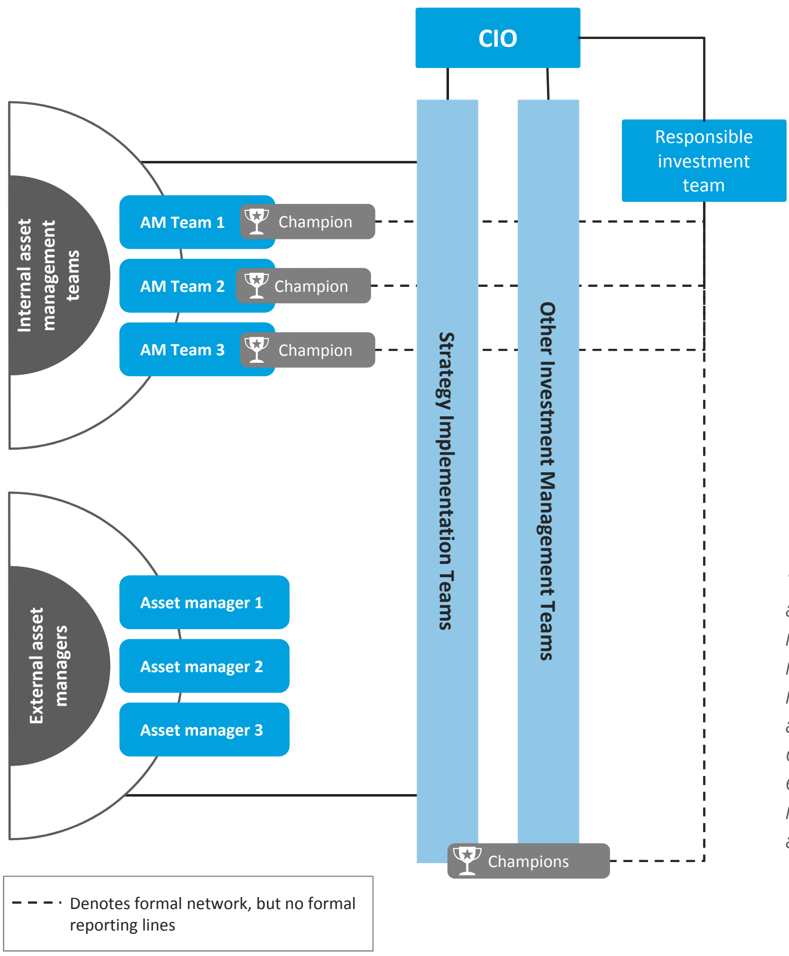
❶ Spotlight – Zurich Insurance Group

- Figure 13 represents an approach taken by an asset owner (Zurich Insurance Group) in which a centralized specialist team reports directly to the Chief Investment Officer and liaises with asset class experts as well as "champions" within existing teams. A benefit of this model is that the champions are already integrated parts of existing teams and therefore already have rapport when offering new practices. Additionally, they have linguistic and technical credibility given their core financial skill-set of investment analysis and portfolio management. In other words, successful champions have as their "first language" that of the mainstream investor, and they acquire new expertise through exposure to sustainable/responsible and impact investing topics. Developing champions who can effectively can speak both languages takes time and patience, but ultimately they will be well positioned to educate the rest of their teams and rapidly disperse these ideas and approaches. This approach was complemented by an alignment of individual objectives with responsible investment targets for both the champions and the rest of the investment management organization.

❷ Spotlight – Morgan Stanley

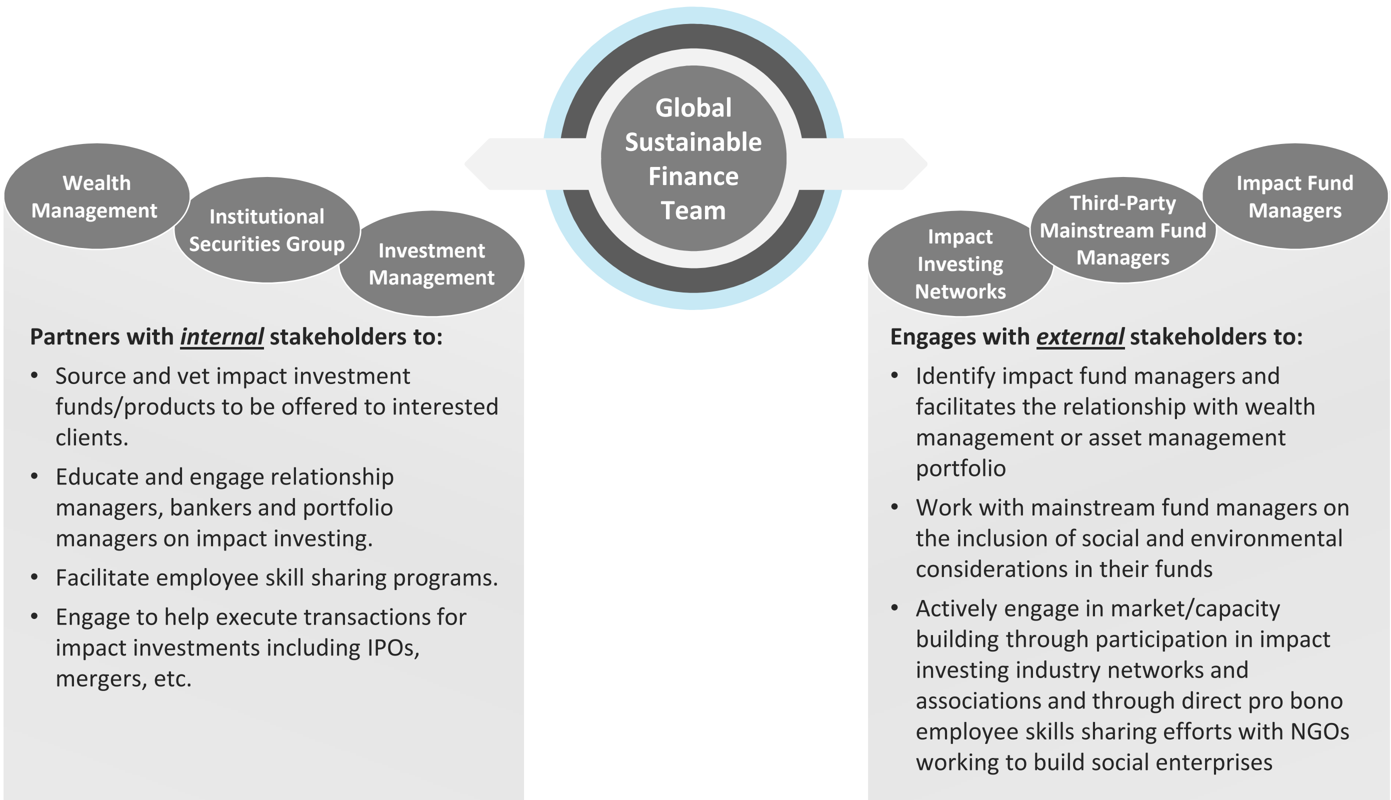
- Figure 14 represents an approach taken by a financial services provider, Morgan Stanley. Given that many of the financial service provider organizations are large global institutions with a broad array of business lines, it follows that there are a number of different ways for these institutions to engage. Morgan Stanley's approach is a centralized dedicated team that facilitates activities related to impact investing across business lines and with external parties and stakeholders. The team is empowered by a mandate from senior leadership to whom they directly report.

Figure 13 – Example of an Asset Owner Organization Structure (Zurich Insurance Group)



"Responsible investment champions" serve as conduits to communicate strategy to asset management and investment teams, share new ideas and feedback with the responsible investment team. Furthermore they serve as ambassadors for the overall strategy and field questions from teammates. This structure enhances the overall culture around responsible investment and impact investing by closely aligning with the core business groups.

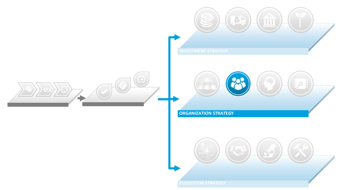
Figure 14 – Example of a Financial Services Provider Organization Structure (Morgan Stanley)



Organization Strategy – Culture

An organization's culture is driven by values, norms and activities at both the level of the organization and the level of the individual employee. When managing a cultural shift, it's important to consider drivers of change at *both* of these levels. Accordingly, maximising an impact investing initiative's chance of success requires support from not only the organization but also individual employees. For example, it is not enough for leaders to declare that impact investing is a priority and that there will be an organizational unit spearheading an impact investing initiative. Rather, the impact investing vision should be well-defined and well-communicated, there need to be quick and visible wins that show momentum and help build a long-term case and progress must be realized over time.

Two themes commonly emerge among mainstream investors regarding the cultural changes that need to occur for impact investing to take hold. The first theme is that organizational values need to shift and be more focused on impact. The second theme is that individual perceptions about impact investing need to change. Some mainstream investors might recognize that within their organizations, inaccurate beliefs are held about the term "impact investing" – that it implies philanthropic activities and below-market returns. Clearly, as this report and others have discussed, there is a subset of impact investing that fits that description but we can also find numerous impact investments which are compelling on financial merits alone. Overcoming this bias will require new information to be presented. Such information may come in the form of the aforementioned industry reports or, more likely to change minds, in the form of the organization's findings after evaluating or piloting impact investing approaches.



Organization: Culture

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*			
Communicate Vision and Commitment 1	✓	✓	✓	✓	✓	✓	✓	Communicate the commitment of senior leadership and the organization's motivation for pursuing impact investing; conduct senior leadership "roadshows"	Engage employees of different seniority levels when shaping and advancing the impact investing strategy – these employees can later act as agents of change within the organization	Provide a simple and understandable explanation of the organization's impact investing strategy and market goals	Regularly communicate on the progress of the impact investing strategy
Motivate Employees	✓	✓	✓	✓	✓	✓	✓	Utilize the relevant dimensions of the organization's culture (e.g. market-leadership, innovative spirit, positive impact)	Focus on what can be achieved using existing expertise – leverage and share in-house knowledge	Celebrate and showcase successes and explore opportunities to replicate successes in other areas of the business or portfolio	Empower and encourage employees to identify and propose opportunities to engage in impact investing
Provide Opportunities for Education and Dialogue	✓	✓	✓	✓	✓	✓	✓	Host webinars or in-person roundtable discussions on the organization's impact investing activities – give employees the chance to ask questions	Bring in speakers with experience in impact investing	Sponsor interested employees to attend impact investing conferences and external events	
Build Internal and External Accountability 2	✓	✓	✓	✓	✓	✓	✓	Publicly signal intent to the market, clients, and/or shareholders	Issue external press releases reporting on progress and upcoming plans	Regularly report on impact investing initiatives and activities	

❶ Spotlight – Morgan Stanley and Zurich Insurance Group

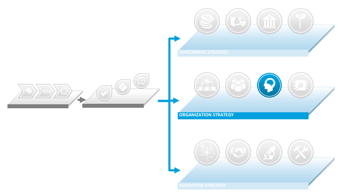
- "The world's population in 1950 was 2.5 billion. Today it is 7 billion. By the middle of this century it is projected to be more than 9 billion. This dramatically more populous world will, we believe, require tens of trillions of dollars of investment to ensure secure and lasting supplies of food, water, energy and shelter for everyone—not to mention vital services like healthcare, transport and education. Failure to meet these challenges may threaten global prosperity and force painful trade-offs between economic growth, human development, public health and ecological security. For us at Morgan Stanley, it is abundantly clear that the solutions to these challenges can only achieve the required scale if they can attract a critical mass of private capital. To this end, we've established the Morgan Stanley Institute for Sustainable Investing to lead work across our firm, with our clients and with academic institutions to help mobilize capital to sustainable enterprises, via global markets and the investors who drive them." – James P. Gorman, Chairman and CEO of Morgan Stanley.
- "We aim to create sustainable value for our customers, our people, our shareholders and our communities. We make a contribution to society through our core business of insurance, but we want to go further and that is why corporate responsibility is a key ingredient of our business strategy." – Martin Senn, CEO of Zurich Insurance Group.

❷ Spotlight – Huntington Capital

- Huntington Capital is a mezzanine fund providing debt and equity financing to established, small and medium sized companies in the Southwestern United States. They produce an annual "Impact Report" which includes such details as the number of new jobs created by portfolio companies, the total number of workers employed, as well as income and demographic characteristics of portfolio company employees. In addition, Huntington provides case studies on the impact created through specific portfolio companies.[90,91]

Organization Strategy – Talent

Impact investing requires skill sets and knowledge that traditional asset/fund managers and client-facing investment professionals may not currently possess. On the asset/fund manager side, such skills include the performance of impact due diligence and the ongoing monitoring of impact. And client-facing investment professionals need to be able to accurately represent the impact characteristics of investments – a new language for some. Organizations can leverage external resources, including impact investing conferences and events, to help employees learn these new skills. Additionally, they can recruit externally from a large and growing pool of interested experienced professionals and students.



Organization: Talent

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*			
Develop Impact Investing Skills of Asset/Fund Managers 1 2	✓	✓	✓	✓	✓	✓	✓	Define skills necessary to conduct impact due diligence and monitor ongoing impact	Leverage university curricula and guest speakers to conduct impact investing training modules	Sponsor interested employees to attend impact investing conferences, external events, and executive education classes	Offer externships/ sabbaticals which allow employees to work with social entrepreneurs or market-building organizations
Develop Knowledge and Skills of Investment Advisors and Client-Facing Investment Professionals 2		✓			✓	✓	✓	Define knowledge and experience required to effectively represent impact investments to clients/investors	Develop internal impact investing "guide" for client/investor interactions	Leverage university curricula and guest speakers to conduct impact investing training modules	Sponsor interested employees to attend impact investing conferences and external events
Recruit Experienced Talent 3	✓	✓	✓	✓	✓	✓	✓	Highlight organization's commitment to impact investing in recruiting process; establish a regular presence at external impact investing conferences and events	Engage students through undergraduate and graduate impact investing initiatives and social impact organizations	Develop impact investing-focused internship or add impact investing programming to traditional internships (e.g. learning series)	Create and formalize impact investing career path within organization
Incorporate Non-Financial Performance Metrics 4	✓	✓	✓	✓	✓	✓	✓	Establish organization-level social and environmental impact targets and measure success against goals	Incorporate social and environmental impact targets in employee goal setting processes	Evaluate social and environmental impact targets in annual employee performance reviews	

❶ Spotlight – Columbia Business School

- Columbia Business School offers an impact investing course that focuses on 1) equity, debt and alternative investment structuring for early- through late-stage social ventures; 2) assessment of impact and financial value for companies and investment portfolios; 3) legal and governance strategies to preserve mission-focus throughout organizational scale; and 4) role of investment funds and philanthropy in building the impact investing marketplace.[92]

❷ Spotlight – CFA Institute

- The CFA institute hosted four impact investing events in 2013. A panel discussion at one of the events covered "the aspects of aligning a portfolio with an institution's mission across all asset classes, the state of the impact investing industry, the investment process, how to conform to fiduciary responsibilities and various impact investing opportunities."[93]

❸ Spotlight – Morgan Stanley Sustainable Investing Challenge

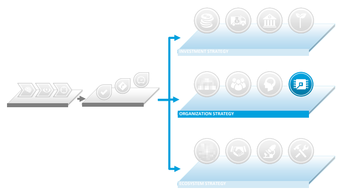
- The Morgan Stanley Sustainable Investing Challenge[94] is a partnership between The Morgan Stanley Institute for Sustainable Investing, the Kellogg School of Management at Northwestern University and INSEAD. MBA contestants must propose and defend a strategy that uses finance and investment tools to address an environmental or societal challenge. Teams get matched with mentors who are experienced financial professionals and finalist teams receive priority consideration for impact investing internships at select partner organizations.

❹ Spotlight – Aureos Capital's Africa Health Fund

- The Africa Health Fund has total commitments of US$ 105 million and invests across Africa in healthcare enterprises serving populations at the base of the socio-economic pyramid (BoP). It is one of 17 funds managed by Aureos Capital, a US$ 1.3 billion specialist private equity firm that focuses on providing capital to small- and medium-sized businesses in emerging markets. The fund integrates measures of impact into its compensation structure. Specifically, the fund sets development targets based on the percentage of BoP clients served by portfolio companies. For example, one such target might be that 50% of people served have an average annual household income of less than $3,000 (adjusted to equalize differences in the purchasing power of local currencies). A General Partner's base carry is then dependent on achieving expected a financial hurdle but can be adjusted upwards based on the achievement of one or more of the fund's impact targets.[95]

Organization Strategy – Technology

As is the case with many business and investing activities, a growing universe of specialized technology tools has sprung up to support impact investing. Such tools include web-based analytics engines and platforms which allow collaboration and house details on investable deals. Additionally, some organizations such as UBS are internally developing tools to accommodate new client demand for sustainable and responsible investing.



Organization: Technology

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*		
Utilize Client-/Investor-Facing Tools 1		✓			✓	✓	✓	Develop tools which allow clients/investors to express impact preferences	Offer clients/investors a tool which provides impact information on investments	
Access and maintain data on social and environmental indicators 2	✓	✓	✓	✓	✓	✓	✓	Incorporate ESG data sources in due diligence to facilitate screening for impact investments	Internally develop or contract with service providers to build analytical models which capture and evaluate non-financial criteria	Maintain social and environmental impact data on investments

❶ Spotlight – UBS Sustainability Health Check

- UBS developed a tool that allows its wealth management clients to identify discrepancies between their sustainability preferences and the composition of their portfolios.[96] While not specific to impact investing, this is an example of a wealth management tool that provides clarity on client preferences and that can start client conversations about the non-financial impact of investments.

❷ Resource List – Technology to Support Impact Investing

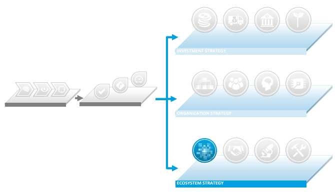
- B Analytics: Web-based tool offered by B Lab which allows users to research 1,400+ companies and funds, access proprietary impact investing market trend reports, utilize tools to collect impact data on companies/funds and benchmark impact against a global database of private companies.[97]
- Intellecap PRISM (Portfolio Risk, Impact and Sustainability Measurement): Web-based impact fund performance measurement framework capturing dimensions of impact (e.g. fund manager's contribution, investee firm's output and local investment context).[98]
- Mission Markets: A financial technology firm that helps institutional, advised and self-directed investors to make impact investments. The platform supports a range of financial products, including direct private placements, impact funds and structured debt securities. It also supports a broad repository of articles, research, data, blogs, forums and media that provide information about impact investing.[99]
- Vera Solutions: Salesforce.com-based service provider that will set up a data system to track and maintain social impact data.[100]
- Maximpact: A funding and collaboration platform that links funders with sustainable profit and non-profit initiatives and projects seeking investment and other types of collaboration. The platform covers projects on sustainable development, clean technologies and green investment.[101]

5.4 Roadmap Step 3 – Ecosystem Strategy Pillar

The ecosystem strategy pillar of the Impact Investing Roadmap lays out some important constituencies committed to the success of impact investing and demonstrates how investors can both gain and share expertise. Actively engaging with the impact investing ecosystem can help investors who are evaluating and piloting impact investments to gain knowledge and build an informed perspective on the impact investing market. The four tactical maps in this section are: networks, partnerships, academia and technical assistance. As in prior sections, each tactical map highlights specific options and the mainstream investor groups to which each option is most pertinent.

Ecosystem Engagement – Networks

Impact investing networks contain a wealth of practical knowledge and experience – a valuable resource for mainstream investors who are interested in learning more about impact investing. In part because of impact investing's potential for positive change as well as its pioneering and evolving nature, there are groups of passionate professionals who are working to develop and build the sector. Many of these professionals regularly meet at conferences and events and are willing to share their experiences.



Ecosystem: Networks

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*			
Join impact investing networks and organizations 1	✓	✓	✓	✓	✓	✓	✓	Subscribe to email listservs and follow Twitter feeds to stay abreast of developments in impact investing	Attend conferences, meetings, and events to build knowledge	Contribute to thought leadership by sharing experiences and participating in market building initiatives	Sponsor organizations and drive impact investing thought leadership
Convene peer groups to share knowledge and experience in impact investing 2	✓	✓	✓	✓	✓	✓	✓	Participate in peer knowledge-sharing opportunities	Organize and lead peer knowledge sharing events to drive industry engagement and identify best practices		
Participate in impact investing forums and events, specific to mainstream investor type 3	✓	✓	✓	✓	✓	✓	✓	Attend events and network with other family offices engaged or looking to engage in impact investing	Team with other family offices collectively seeking to engage in impact investing and signal demand to advisors and product developers		
Engage specialized consultants/advisors with impact investing knowledge and experience 4	✓	✓	✓	✓	✓	✓	✓	Initiate high-level discussions on impact investing strategies and best-practices	Issue RFPs to consultants/advisors to determine relevant impact investing knowledge and experience	Hire advisors/ consultants to assist in the build-out of an impact investing capability	

❶ Resource List – Impact Investing Networks

- Global Impact Investing Network (GIIN)[102]
- Investors Circle: An early-stage impact investing network of angels, venture capitalists, foundations and family offices. The network has channelled US$ 172 million and US$ 4 billion in follow-on investment into 271 impact enterprises.[103]
- Impact Assets: A 501(c)3 organization seeking to catalyse the impact investing ecosystem by providing products and thought leadership that enables philanthropists, other asset owners and their wealth advisers to make impact investments.[104]
- South African Network for Impact Investing[105]
- European Impact Investing Luxembourg (EIIL): Members include ADA-Microfinance, Arendt & Medernach, Banque de Luxembourg, Deloitte, Elvinger, Hoss & Prussen, Ernest & Young, European Fund Administration, Innpact, KPMG, Luxembourg Microfinance & Development Fund, European Investment Fund and PwC.[106]
- Toniic: A global network of action-oriented impact investors, both individuals and institutions with members in over 20 countries.[107]

❷ Spotlight – Calpers, ESG Peer Exchange

- In 2011 Calpers convened a group of 11 of the world's largest asset owners with collective assets of US$ 1.5 trillion to share their experiences in the ESG field. The convening included funds from the UK, Netherlands, South Africa, Australia, Brazil, Norway, Canada and the US.[108]

❸ Resource List – Investor Type-Specific Networks

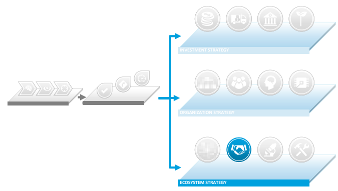
- Family Office Exchange: Launched in 1989 as a peer network for families seeking objective financial education on passing wealth successfully to future generations. Currently a global community of wealthy families and advisers pursuing best practices in wealth management.[109]
- Americas Family Office Forum: An annual convening to gather family offices and HNWIs to network, problem solve and exchange ideas on family governance, asset allocation and wealth management best practices.[110]
- European Family Office & Private Wealth Management Forum: An annual conference that explores the challenges and opportunities associated with investing in emerging markets, alternative investments, real estate, direct energy and numerous other asset classes as well as taxes, regulation, asset protection, philanthropy and structuring a family office.[111]
- European Network of Family Offices: A network of family offices seeking to share experiences, information, challenges, best practices and to promote relationships with similar networks in other countries.[112]

❹ Resource List – Specialized Consultants/Advisers

- Family Office Metrics: Consultancy that assists in managing, creating and enhancing family offices.[113]
- Family Office Exchange Consulting: Assisting families and family offices to develop a strategic family office business plan.[114]

Ecosystem Engagement – Partnerships

Some mainstream investors may find allocating resources to a new impact investing initiative difficult, especially before an internal business case for impact investing has been made. In such an instance, strategic partnerships present a means of accessing external support. Additionally, partnerships present an opportunity to engage in market-building efforts which grow the universe of viable impact investing opportunities.



Ecosystem: Partnerships

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*		
Partner with impact investors to raise capital for a third-party impact investment vehicle 1		✓			✓			Survey client/investor demand for impact investments; identify potential partners with impact-focused investment vehicles; conduct due diligence and make available to clients/investors (e.g. testing client interest)	Partner with a range of impact investors with impact-focused vehicles and offer to clients/investors	After launching in-house impact investing product, partner with other investors to raise capital
Partner with specialized impact investors to propagate best practices 2 3 4	✓	✓	✓	✓	✓	✓	✓	Develop relationships with impact investing organizations to share market perspectives and discuss investing approaches	Provide support of an impact investing organization or social enterprise, contributing to the successful development of the market	Create a company or initiative to meet an impact investing market need (e.g. social impact insurance, services for under-served entrepreneurs)
Leverage public-sector support and actively partner with government agencies and initiatives 5 6	✓	✓	✓	✓	✓	✓	✓	Identify areas where existing impact investments might present opportunities to engage with policy-makers	Identify government initiatives/priorities which could potentially provide support to partially fund or partially de-risk impact investments	
Partner with non-profits and NGOs to support sector-building efforts 7 8 9	✓	✓	✓	✓	✓	✓	✓	Provide financial support and technical expertise to NGOs which are helping to catalyze social and environmental outcomes		

❶ Spotlight – Calvert Foundation

- In 1998, Calvert Foundation began creating capital-raising partnerships for a fixed income vehicle that provides debt to community development organizations. Partners took the lead on marketing and introducing the investment opportunity to their networks, while leveraging Calvert Foundation's administrative, legal, regulatory and distribution systems. This arrangement allowed organizations to test the water on retail capital raising and for investors to get comfortable with Calvert's partner organizations without partners needing to create a new investment product. Calvert Foundation's first such partnership was with Oikocredit, a worldwide financial cooperative that promotes global justice by empowering disadvantaged people with credit. That programme has raised over US$ 10 million to support their portfolio and led them to create their own investment products once they realized the opportunity. Note programmes have also been created for other organizations such as Habitat for Humanity and VisionFund International.[115]

❷ Spotlight – Community Investment Partners

- To help build needed impact investing infrastructure, Calvert Foundation began a fee-for-service programme called Community Investment Partners in 1999 to provide due diligence, asset management, investor administration and other consulting services. It helped dozens of investors design their impact and programme related investment programmes, provided due diligence to industry players and helped more than a dozen non-profits create their own investment products. In 2010, these services became formalized in a wholly-owned subsidiary and registered investment adviser, Community Investment Partners. The current focus is on managing impact investment portfolios for institutional investors, including the Communities at Work Fund, a US$ 100+ million small business jobs fund with Citi.[116]

❸ Spotlight – Goldman Sachs

- In March 2014, the Goldman Sachs Foundation partnered with the IFC to create the '10,000 Women' initiative to increase access to capital for women entrepreneurs. Through the partnership, the initiative will work with local banks in emerging markets to catalyse existing capital for women-owned SMEs by addressing barriers in the lending market. The Goldman Sachs Foundation will provide a US$ 32 million anchor investment in order to encourage capital from commercial investors and bi-lateral donors.[117]

❹ Spotlight – HUGInsure

- Dalberg and Hollard Insurance commit to creating HUGInsure, the world's first social impact insurance entity. This initiative is in association with Aon and the Lloyd's market. It will create a risk assessment entity that will measure and manage risks associated with the funding of social impact organizations. It will apply rating methodologies and risk management principles to facilitate the underwriting of social impact funding.[118]

❺ Spotlight – Deutsche Bank's Microfinance Consortium I

- Deutsche Bank's Microfinance Consortium I was formed to lend to microfinance institutions (MFIs) at commercial lending rates. It received a US$ 1 million grant from the Department for International Development (DFID) in the UK and a US$ 15 million guarantee from the US Agency for International Development (USAID) in the US. The Consortium ended up raising over US$ 80 million from a group that included commercial investors.[119,120]

❻ Spotlight – Huntington Capital

- Huntington Capital, a mezzanine debt fund located in San Diego, California, was registered as a Small Business Investment Company (SBIC) under a Small Business Administration (SBA) programme. This provided their first fund with leverage from the SBA at a ratio of 2:1 to private investor capital. Huntington's second fund is not an SBIC, but some of its institutional limited partners are investing as a result of the Community Reinvestment Act mandate at the federal level and a similar mandate in California which places similar requirements on insurance companies.[121]

❼ Spotlight – Standard Chartered

- Standard Chartered has been a full service banking partner to MFIs for years. Since 2005, the Bank has grown its MFI business to surpass US$ 1.2 billion in lending to 79 MFIs across 18 countries, impacting an estimated 8.3 million people. In 2013, Standard Chartered signed a five-year Asia-wide microfinance risk participation programme with the Asian Development Bank (ADB). The ADB will provide risk coverage of up to US$ 75 million. By providing US$ 150 million in loans to MFIs, the programme will benefit around 20 MFIs and more than one million people across Asian markets over the next five years. This partnership is expected to unlock additional funding to MFIs and extend support to the sector as it emerges from a difficult economic cycle.

❽ Spotlight – Credit Suisse

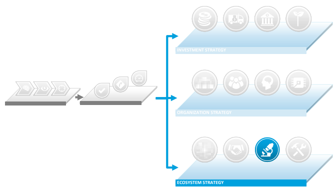
- Since 2008, Credit Suisse has partnered with Accion (a global non-profit focused on creating economic opportunities by connecting people to the financial tools required to improve their lives). Accion aims to establish new training and capacity building programmes in Bangalore and Beijing and support similar efforts in Africa and in Latin America. The initiatives provide a variety of skill building training programmes for front-line, mid and senior-level managers of Accion's partner MFIs.[122]

❾ Spotlight – Zurich Insurance Group

- In 2013 Zurich Insurance Group and PSI (Population Services International), a global health organization, joined forces to facilitate more frequent and meaningful engagement between NGOs and impact investors via investments of private investor capital. PSI was interested in how new capital sources could help NGOs scale up activities and become more flexible, but acknowledged that many NGOs lack experience in using private capital. Zurich felt that institutional investors struggle with how to interact with non-profits—the experts in creating impact—while NGOs' expertise and infrastructure potentially represented valuable assets. Together Zurich and PSI developed a framework to help NGOs and investors speak a common language and better understand various financial models through which they can engage with each other.[123] Over the course of the collaboration a shared vision developed around expanding the universe of possible impact investments and Zurich and PSI are now exploring one of the financial models outlined in the framework in a practical context.

Ecosystem Engagement – Academia

The academic world is answering a strong demand by students, alumni and industry for impact investing programming. This activity is seen most strongly in graduate and undergraduate business schools, public policy schools and cross-disciplinary initiatives at universities. For mainstream investors interested in impact investing, these institutions can be connection points for talent-recruitment, networking and knowledge-sharing.



Ecosystem: Academia

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*		
Utilize in-class academic resources 1 2	✓	✓	✓	✓	✓	✓	✓	Work with impact investing initiatives/professors to help formulate practical academic content; be a guest lecturer	Send employees to executive education in impact investing	
Contribute to and draw on social impact research 3 4	✓	✓	✓	✓	✓	✓	✓	Engage in and support academic research efforts to build the impact investing knowledge base	Propose and contribute to impact investing case studies	Propose and contribute to impact investing feasibility studies and market assessments
Utilize student assistance by facilitating opportunities for hands-on experience 5 6	✓	✓	✓	✓	✓	✓	✓	Work with impact investing initiatives to formulate student project opportunities at your organization	Develop impact investing-focused internships; sponsor impact investing scholarships	Participate in impact investing competitions (e.g. through sponsorship, judging, or mentorship)
Provide support to interested students 7	✓	✓	✓	✓	✓	✓	✓	Sponsor impact investing events, join panel discussions at conferences, and build an on-campus presence	Interact with students out of the classroom (e.g. coffee chats, formal mentorship)	

1 Spotlight – Curriculum at Duke University's Fuqua School of Business

- Many schools have developed impact investing curricula. For example, The Center for the Advancement of Social Entrepreneurship (CASE) at Duke University's Fuqua School of Business has developed a curriculum for impact investing concentrating on two strategies, referred to as "broad" and "deep". For the broad student body, the goal is to introduce the emerging field of impact investing into required coursework, so that *every Fuqua MBA would be exposed to impact investing.* All new MBA students prepare an impact investing case at the beginning of the core curriculum, and CASE information session, workshops and speakers' series are open to all MBAs. For students highly interested and committed to going deep, the goal is to prepare leaders who can help build the field of impact investing. Through coursework, students also have the opportunity to build relevant skills (such as designing debt and equity impact investment funds, conducting due diligence, structuring investments, defining investment theses of change and assessing impact), so that once students follow the course sequence, they can apply those skills in the broader array of extra-curricular programmes.[124]

2 Spotlight – Executive Education at Columbia University's Columbia Business School

- Some schools offer impact investing-specific executive education courses. For example, Columbia Business School at Columbia University offers executive MBA students a course which covers key finance techniques, funds, infrastructure and market-level issues and opportunities.[125]

3 Spotlight – Research and Data at Duke University's Fuqua School of Business

- The Center for the Advancement of Social Entrepreneurship (CASE) at Duke University's Fuqua School of Business was founded in 2001 and places a strong focus on researching points of confusion, questions and areas where patterns seem to be emerging but are not yet clear within impact investing and on creating analytical frameworks that can be tested and shared with others. For example, CASE's research on high-performing investment funds will have resulted in three reports, 12 case studies and two books by October 2014. Additionally, CASE has helped build a database of over 8000 impact enterprises.[126]

4 Spotlight – Case Studies and Feasibility Studies at Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town, South Africa

- Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town, South Africa recognizes its role as a local knowledge source. These efforts include a project to compile impact investment case studies designed for use in classrooms internationally. The Centre is also working on a feasibility study for a financing product that would incentivize the creation of community-based solar projects.[127]

5 Spotlight – Hands-on Experience at the University of Pennsylvania's Wharton School of Business

- Student led investment programmes such as the Wharton Social Venture Fund provide opportunities for students to be early-stage investors by participating in the various phases of the investment process including fund raising, deal sourcing and operational and financial due diligence.[128]

6 Spotlight – Hands-on Experience through the Morgan Stanley Sustainable Investing Challenge

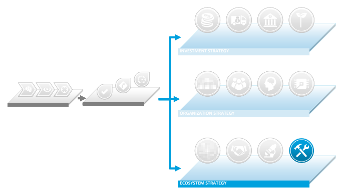
- The Morgan Stanley Sustainable Investing Challenge[129] is a partnership between The Morgan Stanley Institute for Sustainable Investing, the Kellogg School of Management at Northwestern University and INSEAD. MBA contestants must propose and defend a strategy that uses finance and investment tools to address an environmental or societal challenge.

7 Spotlight – Impact Investing Conference at INSEAD

- Many schools are convening regular impact investing conferences that draw industry professionals, students and academics. For example, INSEAD hosted "Impact Investing: Creating an Industry from Innovations" in May 2013 on its Fontainebleau campus and brought together more than 200 leading practitioners, academics and students focusing on the field. In addition to the presentation of new research and lively discussions on recent developments, the conference created a platform for networking and sharing innovations among practitioners. Videos of all discussions and a conference report written by MBA student reporters allowed for accessible knowledge transfer following the event.[130]

Ecosystem Engagement – Technical Assistance

Of course, the impact investing ecosystem is not just a resource to be drawn upon. The success of the impact investing sector is and will continue to be driven in part by stakeholders who identify gaps in the market or ecosystem and provide technical assistance. This assistance can range from supporting a social enterprise or project to preparing it for investment, to providing expertise to a market-building organization by sitting on the board, to starting conversations on impact investing within traditional trade organizations. All of these activities help to drive the impact investing ecosystem forward and by doing so create benefits for investors and for society.



Ecosystem: Technical Assistance

Strategic Goals	Insurance Companies	HNW/Family Offices	Pensions Funds / Endowments	Foundations	Diversified Financial Institutions / Banks	Liquid Investment Funds (MF / HF)	Illiquid Investment Funds (PE / VC)	*Tactics*		
Provide assistance to impactful projects / social enterprises 1 2 3	✓	✓	✓	✓	✓	✓	✓	Create employee volunteer programmes which provide internal expertise and capabilities to impactful businesses/projects	Offer secondments through which highly skilled practitioners can temporarily be assigned to work for an impactful business/project	Develop an initiative or tool which meets a impact investing market need
Provide assistance to non-profits and sector-building organizations	✓	✓	✓	✓	✓	✓	✓	Leverage senior executive experience to guide and develop organizations focused on expanding the social impact investment market	Sponsor "endowed" positions enabling non-profits and sector-building organizations to attract highly skilled talent with competitive compensation	Serve on the board of an organization focused on impact investing sector growth
Push a dialogue on impact investing within mainstream industry circles	✓	✓	✓	✓	✓	✓	✓	Publish impact investing case studies and learnings	Propose and sponsor impact investing discussions and panel discussions at industry trade conferences	

1 Spotlight – Deutsche Bank Corporate Community Partnership

- Launched in 2008, Deutsche Bank's Corporate Community Partnership (CCP) programme, dispatches experts to non-profit organizations in emerging markets to help establish social and economic structures. In the course of a several-week stay, employees assist educational institutions, microfinance banks and social businesses in concrete projects. The programme has assisted more than 40 projects in emerging markets.[131]

2 Spotlight – Blackstone Entrepreneurs Network

- The Blackstone Entrepreneurs Network recruits a team of veteran "master entrepreneurs" to identify marketable innovations and start-ups in struggling geographies with potential to become high-growth companies and provides them with consultative support.[132]

3 Spotlight – RBS

- RBS created a social enterprise index (SE100) which tracks the social and financial performance of social enterprises in the UK. The index currently consists of more than 1,000 organizations.[133]

6. Conclusion

As this report has discussed, there are a range of imperatives which support impact investing as a viable and forward-looking investment strategy for mainstream investors. These imperatives include but are not limited to the growing client interest in impactful destinations for capital and the search by asset managers for investments that mitigate long-term environmental and socio-political risks. Additionally, investment institutions are exploring how impact investing can increase employee and client retention as well as align an organization's values with the its strategy and operations.

The actions of pioneering investors have laid the foundation for impact investing to enter the mainstream. Over the coming years, the challenges facing the impact investing sector will evolve as more players enter the market and the sector grows. Better data will be available on the risk and return characteristics of impact investments as well as on the correlation between impact and long-term value. A more sophisticated and mature investing market will emerge through the work of incubators, accelerators, universities, public-private cooperation, as well as partnerships between mainstream investors and impact investors. When that future comes, investors who have taken the time and effort to chart their own course into impact investing with the investment strategies, organizational capabilities and ecosystem engagement most appropriate to their institution will have a competitive advantage in the market.

The World Economic Forum hopes that reports such as this one demonstrate that there are pragmatic yet visionary approaches businesses can take to improve the state of the world.

Endnotes

1 Readers interested in further details from the September 2013 publication: *Margins to Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors*; are encouraged to download the full report: http://www.weforum.org/reports/margins-mainstream-assessment-impact-investment-sector-and-opportunities-engage-mainstream-i.

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