Spotlight on the Market
The Impact Investor Survey

Social Finance
Yasemin Saltuk
(44-20) 7742-6426
yasemin.x.saltuk@jpmorgan.com
Ali El Idrissi
(44 20) 7777-0016
ali.el.idrissi@jpmorgan.com

Global Impact Investing Network
Amit Bouri
(1-646) 837-7203
abouri@thegiin.org
Abhilash Mudaliar
(1-646) 837-7168
amudaliar@thegiin.org
Hannah Schiff
(1-646) 837-7152
hschiff@thegiin.org
Table of Contents

Methodological and analytical notes ............................................. 3
Executive Summary ........................................................................... 5
Spotlight on the Market: The Impact Investor Survey ...................... 10
  Sample characteristics ..................................................................... 10
  ➢ Zooming in: Increased interest from institutional investors ................ 11
  The Vox Populi: Respondents’ ideal investment features and motivations .... 13
Progress in pipeline and market support .......................................... 15
  Deal sourcing across regions ........................................................ 15
  Indicators of market growth ........................................................... 16
  Challenges to market development ................................................. 16
  Government support for the market ................................................ 17
  ➢ Zooming in: Growing governmental initiatives ............................... 18
  Catalytic capital ............................................................................. 19
Asset allocations and performance .................................................. 21
  Overview and breakdown of current allocations ................................ 21
  ➢ Zooming in: Outcomes-based finance ........................................... 25
  Overview and breakdown of future allocations ................................. 29
  Performance ................................................................................... 31
  ➢ Zooming in: Notable private equity exits ...................................... 33
  Risk ................................................................................................ 34
  Impact measurement ........................................................................ 34
  ➢ Zooming in: Impact measurement ............................................... 37
In focus: The intermediary market .................................................. 38
  Fund managers ............................................................................... 38
  Indirect investors .......................................................................... 40
  ➢ Zooming in: Progress in product development ............................... 43
In focus: Program-related investments ............................................. 45
Concluding thoughts .......................................................................... 48

Appendices

Appendix I: Acknowledgements ..................................................... 43
Appendix II: Further Reading: Impact Investment Research ............... 51
Methodological and analytical notes

This survey captures data and market perspectives from 125 impact investors. As in previous years, we focused on investing organizations from foundations to financial institutions and did not include individual investors. To ensure that survey participants are managing a meaningful volume of impact investment assets, we set a criterion for participation such that only respondents that manage USD 10mm or more of impact investment capital are included\(^1\). The Global Impact Investing Network (GIIN) collected and collated the data, making the data set anonymous before sending to J.P. Morgan for analysis.

**Methodology shift: From focus to percent committed**
In past years, our survey captured data on sector and geography by asking respondents to indicate “areas of focus”. This year, we shifted our methodology to “percent of total capital committed” to more accurately understand where investments have been made. This has two key implications: (i) We have a clearer picture of where capital is allocated today across sectors, regions, instruments and stages of business; and (ii) We cannot make direct comparisons between this and previous surveys for some questions.

**Sample overlap relative to previous surveys**
When comparing results from this survey to results from previous surveys, we remind readers that each survey sample contains a discretionary set of respondents. Although the total sample size increased this year, only 67 of the 99 respondents from the last survey participated in this survey. As such, we reference the data from this survey as representative of a leading group of impact investors rather than representative of the market as a whole, and the trends over time as indicative of change but not evidence of it.

**Projection accuracy**
To assess how accurate respondents' projections tend to be, we analyzed the subset of 67 respondents who submitted data in both years, and we present these results at different points in the report.

**Scoring methodology for ranked questions**
Throughout the survey, there are several questions where respondents ranked their top answers. In presenting the results, we show the ranks and the score for the answer choices, in order to show how close the rankings are. Scores are calculated as follows: \((\text{number of respondents that ranked it first } \times 3) + (\text{number of respondents that ranked it second } \times 2) + (\text{number of respondents that ranked it third } \times 1)\). NB: If the scores are tied, the rank will be the same for two choices. When respondents had to choose between various option choices such as “Many”, “Some”, “Few” and “None”, or between “Very Helpful”, “Somewhat helpful” and “Not helpful”, we calculated an index by assigning scores to the various option choices (e.g. “Many” = 4, “Some” = 3, “Few” = 2, “None” = 1) and taking the average across respondents that replied for a given category.

---

\(^1\) This amount refers to either the respondents' self-reported impact investment assets under management or the self-reported capital committed for impact investment.
“Cutting” the data to extract notable findings

In addition to the aggregate output we construct on the basis of the full respondent group data, we identify interesting disparities between sub-groups of respondents for relevant questions. The sub-groups we analyzed are shown in Table 1. Throughout the report there are references to the notable findings that appeared when we sliced the data by sub-group.

Region codes

There are several regions referenced throughout the report. For brevity, we have created codes for each since the names can be very long. These codes are shown in Table 2.

Table 1: Respondent sub-groups referenced in the report

<table>
<thead>
<tr>
<th>Name of sub-group</th>
<th>Description of the category construction</th>
<th>Number of respondents (all respondents = 125)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DM-HQ Investors</td>
<td>Headquartered in developed markets</td>
<td>102</td>
</tr>
<tr>
<td>EM-HQ Investors</td>
<td>Headquartered in emerging markets</td>
<td>17</td>
</tr>
<tr>
<td>Fund Managers</td>
<td>Identified themselves as fund managers</td>
<td>61</td>
</tr>
<tr>
<td>Non-fund Managers</td>
<td>Identified themselves as anything other than fund managers</td>
<td>64</td>
</tr>
<tr>
<td>DM-focused Investors</td>
<td>Have more than 50% of their current impact investment AUM invested in developed markets</td>
<td>54</td>
</tr>
<tr>
<td>EM-focused Investors</td>
<td>Have more than 50% of their current impact investment AUM invested in emerging markets</td>
<td>69</td>
</tr>
<tr>
<td>Proprietary Capital Investors</td>
<td>Have more than 50% of their current impact investment AUM as proprietary capital</td>
<td>60</td>
</tr>
<tr>
<td>Client Capital Investors</td>
<td>Have more than 50% of their current impact investment AUM as client capital</td>
<td>65</td>
</tr>
<tr>
<td>Debt Investors</td>
<td>Have more than 50% of their current impact investment AUM as debt</td>
<td>50</td>
</tr>
<tr>
<td>Equity Investors</td>
<td>Have more than 50% of their current impact investment AUM as equity</td>
<td>52</td>
</tr>
<tr>
<td>Direct Investors</td>
<td>Have more than 50% of their current impact investment AUM invested directly into companies (including fund managers)</td>
<td>88</td>
</tr>
<tr>
<td>Indirect Investors</td>
<td>Have more than 50% of their current impact investment AUM invested through intermediaries</td>
<td>28</td>
</tr>
<tr>
<td>Early-stage Investors</td>
<td>Have more than 50% of their current impact investment AUM invested in the seed/start-up or venture stages</td>
<td>33</td>
</tr>
<tr>
<td>Later-stage Investors</td>
<td>Have more than 50% of their current impact investment AUM invested in the growth or mature (public or private) stages</td>
<td>88</td>
</tr>
<tr>
<td>Competitive-return Investors</td>
<td>Principally targeting competitive, market rate returns</td>
<td>67</td>
</tr>
<tr>
<td>Closer-to-market Investors</td>
<td>Principally targeting below market, closer to market returns</td>
<td>29</td>
</tr>
<tr>
<td>Capital-preservation Investors</td>
<td>Principally targeting below market, closer to capital preservation returns²</td>
<td>29</td>
</tr>
<tr>
<td>Impact Outperformers</td>
<td>Indicated an impact outperformance of their portfolio relative to their expectations</td>
<td>24</td>
</tr>
<tr>
<td>Financial Outperformers</td>
<td>Indicated a financial outperformance of their portfolio relative to their expectations</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan. AUM = assets under management

Table 2: Region codes

<table>
<thead>
<tr>
<th>Code</th>
<th>Name of region</th>
</tr>
</thead>
<tbody>
<tr>
<td>DM</td>
<td>Developed markets</td>
</tr>
<tr>
<td></td>
<td>Northern America</td>
</tr>
<tr>
<td></td>
<td>US &amp; Canada</td>
</tr>
<tr>
<td></td>
<td>WNS Europe</td>
</tr>
<tr>
<td></td>
<td>Western, Northern &amp; Southern Europe</td>
</tr>
<tr>
<td></td>
<td>Oceania</td>
</tr>
<tr>
<td></td>
<td>Oceania</td>
</tr>
<tr>
<td>EM</td>
<td>Emerging markets</td>
</tr>
<tr>
<td></td>
<td>SSA</td>
</tr>
<tr>
<td></td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td></td>
<td>LAC</td>
</tr>
<tr>
<td></td>
<td>Latin America &amp; Caribbean (including Mexico)</td>
</tr>
<tr>
<td></td>
<td>South Asia</td>
</tr>
<tr>
<td></td>
<td>South Asia</td>
</tr>
<tr>
<td></td>
<td>ESE Asia</td>
</tr>
<tr>
<td></td>
<td>East &amp; Southeast Asia</td>
</tr>
<tr>
<td></td>
<td>MENA</td>
</tr>
<tr>
<td></td>
<td>Middle East &amp; North Africa</td>
</tr>
<tr>
<td></td>
<td>EEC</td>
</tr>
<tr>
<td></td>
<td>Eastern Europe, Russia &amp; Central Asia</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

² In some (very rare) cases, when making our cuts, some respondents have an exactly even split between one category and the other, in which cases we have excluded the respondent from that specific analysis.

³ By capital preservation we reference at least the return of capital.
Executive Summary

This report presents the findings of the fourth annual impact investor survey conducted by The Global Impact Investing Network (GIIN) and J.P. Morgan. Building upon the surveys from previous years, we have taken a deeper dive into certain thematic areas this year, both through the survey and through our own desk research⁴. Here, we present a summary of the survey’s key findings.

Sample characteristics
- The sample size this year is 125, a 26% increase from last year.
- 80% of respondents have their headquarters (HQs) in Northern America and WNS Europe. However, 70% of current impact investment assets under management are in emerging markets and 30% in developed markets.
- The sample is about half fund managers (as it was last year), with foundations as the second-largest group by organization type, at 22% of respondents.
- Just over half of the sample (54%) principally targets “competitive, market rate returns”, with the remainder of the sample evenly split between “below market rate returns: closer to market rate” (23%) and “below market rate returns: closer to capital preservation” (23%).

Investment activity and priorities
- As Table 3 shows, the group reports having committed USD 10.6bn in 2013 and intends to invest 19% more – USD 12.7bn – in 2014.

### Table 3: Number and size of investments made and targeted

<table>
<thead>
<tr>
<th></th>
<th>In 2013 (n=125)</th>
<th>2014 target (n=124)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>USD, mm</td>
<td>Number</td>
</tr>
<tr>
<td>Mean</td>
<td>39</td>
<td>85</td>
</tr>
<tr>
<td>Median</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Sum</td>
<td>4,914</td>
<td>10,619</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

- The respondents for which we had numerical data both last year and this year, reported a 10% growth in capital committed between 2012 and 2013 and a 20% growth in number of deals⁵.
- When asked to prioritize different characteristics of impact investments, 80% of respondents indicated that generating financial returns is essential and 71% indicated that determining impact objectives at the time of investment is essential.

Market development and pipeline
- As they did last year, respondents identified a “lack of appropriate capital across the risk/return spectrum” and a “shortage of high quality investment opportunities with track record” as the most limiting characteristics of the market today (Table 4).

---

⁴ See “Zooming-in” sections throughout the report.
⁵ Although 67 respondents participated both last year and this year, we had data from 63 of them for both deals completed and capital committed in both years.
Global Social Finance
Spotlight on the Market
02 May 2014

Table 4: Challenges to the growth of the impact investing industry today

<table>
<thead>
<tr>
<th>Rank</th>
<th>Score</th>
<th>Available answer choices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>165</td>
<td>Shortage of high quality investment opportunities with track record</td>
</tr>
<tr>
<td>2</td>
<td>161</td>
<td>Lack of appropriate capital across the risk/return spectrum</td>
</tr>
<tr>
<td>3</td>
<td>98</td>
<td>Difficulty exiting investments</td>
</tr>
<tr>
<td>4</td>
<td>82</td>
<td>Lack of innovative deal/fund structures to accommodate investors’ or portfolio companies’ needs</td>
</tr>
<tr>
<td>5</td>
<td>80</td>
<td>Lack of common way to talk about impact investing</td>
</tr>
<tr>
<td>6</td>
<td>73</td>
<td>Lack of research and data on products and performance</td>
</tr>
<tr>
<td>7</td>
<td>49</td>
<td>Lack of investment professionals with relevant skill sets</td>
</tr>
<tr>
<td>8</td>
<td>42</td>
<td>Inadequate impact measurement practice</td>
</tr>
</tbody>
</table>


- Consistent with the pipeline quality challenge identified above, the only regions where more than 25% of respondents indicated that “many” deals passed their initial financial and impact screens are Northern America and LAC. Meanwhile, in WNS Europe, EEC, MENA and Oceania, over one in three reported that no deals they considered passed initial screens.

- Respondents indicated progress across the board on several key indicators of market growth, including: collaboration amongst investors, usage of impact measurement standards, availability of investment opportunities, and number of intermediaries with significant track record.

- Respondents indicated that the most useful government support would be to implement policies that improve the risk/return profiles of investments, either through credit enhancement or tax credits or subsidies.

- Almost half of the investors that invest via intermediaries have strong interest in structural loss protection features.

- Twenty percent of our respondents provide credit enhancement – using mostly “guarantee or stand-by-letter of credit” (19 respondents) and “subordinated or deeply subordinated debt” (16 respondents) – and 13% are considering providing it in the near future.

Asset allocations today

- Collectively, our respondents are managing a total of USD 46bn in impact investments today, 58% of which is proprietary capital and 42% managed on behalf of clients.

- Development finance institutions, while making up only 6% of our sample, manage 42% of total assets, followed by fund managers that make up 49% of the institutions surveyed and manage 34% of total assets (Figure 1).

- Investments directly into companies represent a much larger proportion of assets under management (78%) than indirect investments (17%).

- Capital is relatively well diversified across regions, and about 70% of the total is invested in emerging markets (Figure 2).

- Microfinance accounts for about a fifth of respondents’ impact investment assets (21%), the same percentage as Financial Services Excluding Microfinance, followed by Energy (11%) and Housing (8%) (Figure 3).

---

6 Total impact investment assets under management represents 124 respondents and not the total 125 due to one respondent not providing this data.
Sixty-two percent of the total capital managed is invested through debt instruments (44% Private Debt, 9% Public Debt and 9% Equity-like Debt) and 24% is invested through Private Equity (Figure 4).

Most capital managed today – 89% – is invested in companies post-venture stage, with 35% allocated towards companies at the Growth Stage, 44% in Mature, Private and 10% in Mature, Publicly-traded companies. Only 11% is committed to Seed/Start-up companies or Venture Stage businesses (Figure 5).

Planned asset allocations going forward

- The region to which the highest number of respondents plan to increase their allocations is SSA (29 respondents), followed by ESE Asia (18 respondents) and South Asia (14 respondents). A relatively low number of respondents plan to increase allocations to MENA, WNS Europe, EEC and Oceania (see Figure 6).

- The sector to which the highest number of respondents plan to increase their exposure is Food & Agriculture (33 respondents), followed by Healthcare (25 respondents) and Financial Services Excluding Microfinance (23 respondents). Microfinance and Information and Communication Technologies (ICT) rank last (Figure 7).
Performance and risk

- Survey participants reported that their portfolios are performing mostly in line with both their impact expectations and financial return expectations (Figure 8).
- Twenty percent of respondents reported outperformance against their impact expectations and 16% reported outperformance against their financial return expectations. Conversely, only 1% reported underperformance on impact, while 9% reported financial underperformance relative to expectations.
- As it did last year, "business model execution & management risk" once again emerged as the largest contributor of risk to respondent portfolios, as shown in Table 5.

Table 5: Contributors of risk to impact investment portfolios

<table>
<thead>
<tr>
<th>Rank</th>
<th>Score</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>253</td>
<td>GIIN, J.P. Morgan</td>
</tr>
<tr>
<td>2</td>
<td>118</td>
<td>GIIN, J.P. Morgan</td>
</tr>
<tr>
<td>3</td>
<td>104</td>
<td>GIIN, J.P. Morgan</td>
</tr>
<tr>
<td>4</td>
<td>93</td>
<td>GIIN, J.P. Morgan</td>
</tr>
<tr>
<td>5</td>
<td>83</td>
<td>GIIN, J.P. Morgan</td>
</tr>
<tr>
<td>6</td>
<td>73</td>
<td>GIIN, J.P. Morgan</td>
</tr>
<tr>
<td>7</td>
<td>26</td>
<td>GIIN, J.P. Morgan</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.
Impact measurement
- Ninety-eight percent of respondents feel that standardized impact metrics are at least “somewhat important” to the development of the industry (Figure 9).
- The usage of metrics aligned with such standards is also significant: 80% of respondents reported using metrics that align with IRIS or external standards.

The intermediary market
- The 61 fund managers that participated in our survey are mainly based in Northern America and WNS Europe (70%). They reported having raised USD 2.8bn in 2013 and target raising USD 4.5bn in 2014 (Table 6). Five fund managers reported having raised USD 200mm or more in 2013 and seven reported plans to raise USD 200mm or more in 2014.
- Managers reported current impact investment assets under management of USD 16bn, 22% of which comes from Pension funds or Insurance companies, followed by Family offices/high net worth individuals (HNWIs, 17%) and Development finance institutions (16%) as shown in Figure 10.

Program-related investments (PRI)
- Our PRI-investor sample has invested USD 446mm in 2013 and plans to increase this amount by three percent in 2014. The PRI commitments made in 2013 and planned for 2014 represent roughly the same ratio of total grants disbursed or planned each year, at the aggregate level (Table 7).
- About three quarters of the aggregate PRI portfolio is concentrated in Northern America (73%) followed by South Asia (10%) and SSA (6%), as shown in Figure 11. The Healthcare and Housing sectors account for a large part of PRI portfolios (24% and 23% respectively), while Education (3%), Energy (1%) and ICT (1%) account for much smaller parts of PRI portfolios.

Table 7: Size of Program Related Investments made and targeted

<table>
<thead>
<tr>
<th>PRI made (USD mm)</th>
<th>2013 (n=15)</th>
<th>2014 target (n=14)</th>
<th>Grant made (USD mm)</th>
<th>2013 (n=15)</th>
<th>2014 target (n=14)</th>
<th>PRI/Grant ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>30</td>
<td>33</td>
<td>368</td>
<td>394</td>
<td></td>
<td>8%</td>
</tr>
<tr>
<td>Median</td>
<td>10</td>
<td>20</td>
<td>150</td>
<td>160</td>
<td></td>
<td>7%</td>
</tr>
<tr>
<td>Sum</td>
<td>446</td>
<td>462</td>
<td>5,524</td>
<td>5,521</td>
<td></td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan

---

Figure 9: Importance of standardized impact metrics to industry development

- Ninety-eight percent of respondents feel that standardized impact metrics are at least “somewhat important” to the development of the industry (Figure 9).

Figure 10: Primary investors in terms of percentage of total capital

- Pension fund or Insurance company: 8%
- Family office/HNWI: 15%
- Development finance institution: 10%
- Diversified financial institution/Bank: 16%
- Retail investor: 16%
- Foundation: 17%
- Fund of funds manager: 16%
- Endowment (excluding foundations): 22%

Source: GIIN, J.P. Morgan.

Figure 11: PRI AUM by geography

- Northern America: 73%
- South Asia: 10%
- SSA: 6%
- LAC: 5%
- EME Europe: 4%
- ESE Asia: 3%
- Other: 2%
- EEC: 2%
- MENA: 1%
- Oceania: 1%

Source: GIIN, J.P. Morgan.

---

7 For a definition of PRIs, see box page 45 and footnote 68.
Spotlight on the Market: The Impact Investor Survey

This report presents the results of the annual impact investor survey conducted by J.P. Morgan and the Global Impact Investing Network (GIIN). In order to better capture the full year, we shifted the timing of executing the survey this year to just after year-end. As such, this report captures the state of the impact investment market over the entire year 2013. The content is structured by theme based on the survey questions, and interspersed throughout are highlights of trends and market dynamics in “Zooming in” boxes. These sections contain information collated by desk research, rather than through the survey, and are highlighted in a different color to distinguish this source for the reader. In this section, we present the sample of survey respondents captured this year as characterized by, for example, the region of their headquarters, their institution type, and their ideal features of investments.

Sample characteristics

Sample mostly DM-HQ organizations, but more Europeans this year

In order to best understand the background of the respondents in our survey, we asked them to provide the location of the organization’s headquarters and the type of organization that best describes their institution. The results are shown in Figure 12 and Figure 13. The sample is dominated by Northern America and WNS Europe with these regions housing 80% of the respondents’ headquarters (HQs), but there is more even distribution between these two regions than in previous years.

Half the sample are fund managers, and foundations make up another fifth

Our sample is about half fund managers (as it was last year) but there is a jump in representation by foundations this year: 22% of the sample versus 11% last year. Cross-referencing region with organization type, we notice that of the 102 DM-HQ respondents, 42% are fund managers, 26% are foundations and 8% are development finance institutions. By contrast, 82% of the EM-HQ respondents are fund managers.

---

8 Given the timing of publication, we have also captured any significant industry news since the turn of the year for completeness.

9 In the survey published last year, Northern America made up 56% of the sample, and WNS Europe made up 27%.

10 The distribution last year was: Fund manager, 52%; Other, 12%; Development finance institution, 11%; Foundation, 11%; Diversified financial institution/Bank, 8%; Pension fund or Insurance company, 5%; and Family office, 1%.
Zooming in: Increased interest from institutional investors

Leading institutional investors declare interest in impact investments

The arrival in 2013 of several new institutional investors marked a milestone for the impact investment market, opening up new sources of capital. These investors’ arrival may also indicate that some of the barriers to entry for investors – such as market awareness, investment opportunities and risk perceptions – have begun to ease. We present some of these investors and their goals below.

AXA: In October 2013, AXA Group, one of the largest insurance and asset management groups globally, initiated the Group's "Impact Investment" project, which aims to allocate capital to organizations that address key societal challenges in the areas of environmental (e.g. climate change), life (e.g. health & longevity), or socio-economic (e.g. poverty) risks. The Group has initially committed EUR 150mm to this initiative and will consider various investment opportunities that demonstrate positive social and/or environmental impact. The social and environmental impacts of these investments will be measured and reported to stakeholders regularly.

Investing 4 Growth: In May 2013, a group of five local government pension funds in the UK initiated a request for proposals in the name of Investing 4 Growth to find investments that have an economic impact as well as positive social and/or environmental outcomes in the UK. The sponsoring funds collectively committed GBP 250mm. By the closing date in July, 32 submissions had been made across property/infrastructure, energy, venture capital, mid-cap, and social enterprise opportunities. As of March 2014, the sponsoring funds reported that they had identified three opportunities in which they are collectively considering an investment of over GBP 100mm.

Zurich Insurance Group: Over the course of 2013, Zurich Insurance Group (Zurich) worked to develop a strategy for responsible investment. Initiated and supported by the Chief Investment Officer, Zurich will invest in assets that generate a targeted and measurable positive impact, but also offer a financial return commensurate with risk, with the goals of supporting sustainable economic development and making communities more resilient. They will also devote resources to support the advancement of practices for responsible investment, encouraging their adoption within the mainstream.

---

11 AXA Group Global Responsible Investment Policy, Jul 2013.
About half of our respondents have been impact investing for ten years or more

The respondent sample spans across organizations that are newer to impact investing and organizations that have been impact investing for many years. Among our sample, there has been a steady increase in the number of active in the market, and the pace of new entrants accelerated in recent years (Figure 14).

Figure 14: Year of first impact investment
Left axis bar chart: Number of organizations that started investing that year; Right axis line graph: Cumulative

Source: GIIN, J.P. Morgan.

About half of the sample seeks competitive returns

In order to best contextualize the views in the survey, we asked respondents about their approach to returns. Figure 15 shows that 54% of the sample principally targets “competitive, market rate returns”, with the remainder of the sample split between “below market rate returns: closer to market rate” and “below market rate returns: closer to capital preservation”. Of the 54% who principally seek competitive returns, almost half reported that they do also consider opportunities with below-market financial returns.

Over 60% of respondents from organizations headquartered in Northern America principally pursue competitive, market rate returns, while 60% of those headquartered in WNS Europe principally pursue below-market returns. Throughout the report, we will refer to sub-groups defined by answers to this question, as outlined in Table 1.

USD 10.6bn invested in 2013, with plans for 19% more in 2014

As Table 8 shows, the respondent group reports having committed USD 10.6bn in aggregate in 2013 and intends to invest 19% more – USD 12.7bn – in 2014. More specifically, 82 respondents indicate plans to commit more in 2014 than in 2013, out of which 59 plan to grow by more than 50%. Meanwhile, 32 plan to decrease (only eight of which plan to reduce by 50% or more). Finally, as mentioned earlier, it’s important to note that this year’s respondent sample is different to last year’s and direct comparisons with previous year’s figures may not be valid.

The group reports having committed USD 10.6bn in 2013 and intends to invest 19% more – USD 12.7bn – in 2014.

---

15 One respondent did not provide data for target investment for 2014.
Table 8: Number and size of investments made and targeted

<table>
<thead>
<tr>
<th></th>
<th>In 2013 (n=125)</th>
<th>2014 target (n=124)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>USD, mm</td>
</tr>
<tr>
<td>Mean</td>
<td>39</td>
<td>85</td>
</tr>
<tr>
<td>Median</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Sum</td>
<td>4,914</td>
<td>10,619</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

Number of deals planned to increase

On the aggregate, respondents plan to increase total number of deals in 2014 by 31%, with 6,419 planned compared to the 4,914 executed in 2013. The median investor invested USD 13mm across six investments in 2013, and intends to invest USD 20mm through seven transactions in 2014.16

In 2013, respondents grew capital committed by 10%

For the sub-sample of respondents that responded to the survey both last year and this year, we analyzed how their actual number of deals and capital committed in 2013 compared with what they had committed in 2012. We found that, in aggregate, these respondents (n=63) grew their number of investments in 2013 by 20% and their capital committed by 10%.17

The Vox Populi: Respondents’ ideal investment features and motivations

Across regions and sectors, impact investors blend social and financial objectives. Yet, while impact investors share an overarching dual-purpose intentionality, individual organizations emphasize different characteristics of their investments as having more or less import in their evaluation of opportunities. To better understand the priorities of our different respondents, we asked them to weight a range of characteristics associated with impact investments, and we present the results below.18

Financial returns, impact intentionality, and direct impact are essential

Almost all our respondents indicated that it is essential or preferred that impact investments generate financial returns (80% chose “essential” and 18% chose “preferred”, n=125) and have intentionality, i.e. that “impact objectives are determined at the time of investment” (71% chose “essential” and 28% chose “preferred”, n=123). We show the different features we proposed and respondents’ views on each of them in Figure 16. Generally, investors also have a strong desire that “impact is delivered directly through the operations of the underlying company” (63% chose “essential” and 31% chose “preferred”, n=125) and, accordingly, about three quarters explicitly prefer to avoid impact investments where "impact is delivered only by diverting profits to charitable aims" (74%, n=117). As one investor put it, “The bottom line is that impact is being generated by the underlying operating entity. As investors, our job is to understand the underlying business model and determine whether we are prepared to align our capital to support it.”

80% of respondents indicated that it is essential that impact investments generate financial returns (n=125) and 71% indicated that it is essential that impact objectives be determined at the time of investment (n=123). The GIIN’s definition

Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.

16 Readers will note that there may be some overlap in respondents' financial commitments as some will invest indirectly through fund managers that have also responded to our survey. We note though, that 78% of the capital represented by our respondents is invested directly into companies, and any potential overlap will only relate to the percentage of capital that is invested indirectly.

17 We also compared actual in 2013 versus what had been planned for 2013, and found that, in aggregate, these respondents exceeded their targeted number of investments for 2013 by 8% (2,399 planned versus 2,585 actual) and exceeded their capital commitment targets also by 8% (USD 5.2bn planned versus USD 5.6bn actual).

18 Readers should note that survey respondents were asked to use the GIIN's definition of impact investments (see side comment box) when responding to the survey. The GIIN recently added new details to its definition, which can be found on the GIIN website.
Varied opinions on impact measurement post-investment

The measurement of impact post-investment is viewed as essential by 51% of respondents and preferred by 24%, while 14% say they are indifferent and 11% prefer to avoid it\(^{19}\). Similarly, respondents seem to be less definitive about the impact targeting a specific population or sector. These views are consistent across respondent sub-groups with some expected variations. For example, Capital-preservation Investors testify to less of an emphasis on financial return: only 52% believe it is essential and 41% classify it as preferred (n=29).

Responsibility, efficiency to deliver impact, and client demand top motivations

As in previous years, we asked investors that allocate capital to both traditional and impact investments to indicate their top motivations for allocating capital to an impact portfolio. The responses, as determined by respondents ranking their top three motivations, are shown in Table 9. They highlight both financial and non-financial drivers, with the top two choices reflecting social/environmental motivations\(^{20}\). The responses receiving the fewest votes referenced diversification and regulatory requirements. Interestingly, when we compare these responses with last year’s survey findings, we see that the option “responding to client demand” has moved to third position (from fourth) while the option “they are financially attractive relative to other investment opportunities” has moved to fifth (from third)\(^{21}\).

Table 9: Motivations for traditional investors to allocate capital to impact investments

\(n = 47; \) Respondents ranked up to three

<table>
<thead>
<tr>
<th>Rank</th>
<th>Score</th>
<th>Available answer choices</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>85</td>
<td>They are a part of our commitment as a responsible investor</td>
<td>74%</td>
</tr>
<tr>
<td>2</td>
<td>69</td>
<td>They are an efficient way to meet our impact goals</td>
<td>71%</td>
</tr>
<tr>
<td>3</td>
<td>44</td>
<td>We are responding to client demand</td>
<td>63%</td>
</tr>
<tr>
<td>4</td>
<td>34</td>
<td>They provide an opportunity to gain exposure to growing sectors and geographies</td>
<td>51%</td>
</tr>
<tr>
<td>5</td>
<td>33</td>
<td>They are financially attractive relative to other investment opportunities</td>
<td>31%</td>
</tr>
<tr>
<td>6</td>
<td>13</td>
<td>They offer diversification to our broader portfolio</td>
<td>14%</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>We do so to meet regulatory requirements</td>
<td>2%</td>
</tr>
</tbody>
</table>


---

\(^{19}\) One respondent also referenced that they measure impact pre-, during, and post-investment, so our phrasing of the answer choice as post-investment may have affected responses. However, there were no other significant comments on this question.

\(^{20}\) The respondents that prioritize client demand are significantly funded by client capital.

\(^{21}\) Readers should note that some of this difference may be due to a different sample –67 of last year’s 99 respondents participated this year, and there is, for example, more representation from foundations in this survey sample.
Progress in pipeline and market support

In order to capture investors’ views on the market today, we asked respondents to report on deal sourcing, indicators of growth, and challenges to broader market development. In this section, we highlight the key trends that respondents feel characterize the current state of the market.

Deal sourcing across regions

**Deal sourcing most effective in Northern America, LAC and SSA**

As a measure of pipeline depth, we asked respondents for the proportion of deals that passed initial impact and financial screens in the markets for which they considered opportunities. The data indicates a significant range across the developed markets, with Northern America first among all regions while several investors reported that no opportunities in WNS Europe passed their initial screens (37% of the 41 that considered the region). Among EM regions, LAC and SSA led the group while EEC, and MENA were more challenging markets for investors sourcing deals. Figure 17 shows the responses per region, ranked in order of the average response.

Relative to the reported pipeline data in our previous survey, SSA jumped up in the ranking this year from sixth to third as other regions were reported to have fewer deals that passed initial screens. South Asia dropped from second last year to fifth here. EEC also dropped in the ranking, from fourth to seventh this year. This change in the rankings is driven more by the drop in relative position for South Asia and EEC; the SSA pipeline was described in fairly similar terms this year and last.

---

22 Index calculated by assigning Many = 4, Some = 3, Few = 2, None = 1 and taking the average across respondents that replied for the region.
Indicators of market growth

Respondents testify on broad progress across indicators of market growth

Respondents indicated progress was made in 2013 across several indicators of market growth, including investor collaboration, impact measurement practices, and pipeline quality. Relative to last year, a larger proportion of respondents indicated significant progress in collaboration, impact measurement practices, number of intermediaries with significant track record, and the availability of research.

Figure 18: Perspectives on progress across indicators of market growth

Number of respondents is shown under each indicator; some respondents chose "not sure" and their responses are not considered here

<table>
<thead>
<tr>
<th>Collaboration among investors</th>
<th>Usage of impact measurement standards, metrics, and methodologies</th>
<th>Availability of investment opportunities at the company level</th>
<th>Number of intermediaries, including fund managers, with growing, successful track record</th>
<th>Availability of research and data on products and performance</th>
<th>Availability of impact investment capital across the risk/return spectrum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant progress (11%)</td>
<td>Some progress (14%)</td>
<td>Some progress (12%)</td>
<td>No progress (13%)</td>
<td>No progress (15%)</td>
<td>Worsened (19%)</td>
</tr>
<tr>
<td>70%</td>
<td>65%</td>
<td>75%</td>
<td>70%</td>
<td>64%</td>
<td>70%</td>
</tr>
<tr>
<td>17%</td>
<td>19%</td>
<td>13%</td>
<td>15%</td>
<td>16%</td>
<td>8%</td>
</tr>
<tr>
<td>n = 115</td>
<td>n = 124</td>
<td>n = 113</td>
<td>n = 116</td>
<td>n = 118</td>
<td>n = 115</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan. Ranked by index score.

Challenges to market development

Shortage of quality deals and lack of appropriate capital remain top challenges

Investors remain focused on two key constraints as the most significant challenges to the growth of the impact investing industry. Last year and this year, respondents identified the “lack of appropriate capital across the risk/return spectrum” and “shortage of high quality investment opportunities with track record” as the most limiting characteristics of the market. The lack of capital across the risk/return spectrum and the challenge of investment-readiness among potential investees have been documented and studied, and although there are initiatives focused on improving those dynamics – indeed, as Figure 18 shows there has been some progress – the challenges remain significant today²³.

Similar to our previous survey, respondents are also focused on the difficulty of exiting investments. We are hopeful that investors will become more comfortable with exit prospects over time as examples of successful exits materialize (we present some in the “Zooming in” box on page 33). Table 10 shows the ranking and score of each answer choice – respondents ranked the top three challenges in their view. One respondent noted that “as the industry matures and continues to mainstream, there is an increased need for a more sophisticated segmentation framework to help newcomers understand the 'big tent' of impact investing.”

²³ See for example From Blueprint to Scale, H Koh et al., April 2012 and A Fault in Funding, R Rutherford and D von Glahn, Spring 2014.
Government support for the market

Emphasis on government providing risk/return enhancement

One factor accelerating market growth is the increasing role that governments have played in supporting the development of the market (see “Zooming in” on next page). Figure 19 shows which government interventions investors feel would most help them make impact investments. The dominant theme is improving the risk/return profiles of investments, either through credit enhancement or tax credits or subsidies. There seems to be less emphasis among our respondent group on co-investment by government agencies and procurement from investees.

Figure 19: Perceived helpfulness of various government policies

Number of respondents is shown under each indicator; some respondents chose “not sure” and their responses are not considered here.

Source: GIIN, J.P. Morgan. Ranked by index score.
Zooming in: Growing governmental initiatives

High-level international government collaboration to drive market growth

In 2013, global political leadership delivered strong endorsement of the impact investment market. The UK hosted the launch of a Social Impact Investment Task Force alongside the G8 meeting in London in June (see below) and further engagement across governments in Europe and the US continued with several initiatives launched last year.

- **Tax relief and stock exchange in the UK:** The UK government continues to support the market with a holistic approach: increasing supply of and demand for social investment as well as improving the enabling environment. Notably, the government launched a consultation in 2013 on tax relief for social investments for inclusion in the Budget 2014. A 30% tax relief for social investments, including Social Impact Bonds, was announced on March 19, 2014 with the objective of incentivizing retail investors to invest in this sector. It is expected to create up to GBP 500mm in additional investment over the next five years\(^{24}\). Further, Prime Minister David Cameron launched the Social Stock Exchange in June, which features publicly-listed companies that evidence their impact in a public report\(^{25}\).

- **NII and SIBs in the US:** In 2013, the Obama Administration launched the National Impact Initiative (NII) to expand the use of impact investing as an element of the Administration’s strategies for economic growth and global development. As part of the NII, the US Small Business Administration (SBA) announced a new round of solicitation for the Small Business Investment Company (SBIC) Early Stage Investment Fund that will increase the amount available for investment from USD 150mm to USD 200mm annually. In addition, the White House is significantly increasing its support of Social Impact Bonds. Key funding initiatives include the creation of a USD 300mm Pay for Success (PFS) Fund within Treasury and a USD 195mm allocation for the Department of Labor to grant to states that pursue PFS projects focused on job training, education, criminal justice, housing and disability services\(^{26}\).

- **Fund labeling in the European Union:** In April 2013, the European Union adopted a regulation that defines a new “European Social Entrepreneurship Fund” label enabling investors to identify funds focused on investing in European social businesses. Managers that meet the requirements – including proving that at least 70% of the capital received from investors supports social businesses – will be able to use the label to market their funds across the whole of Europe.

**Social Impact Investment Forum, established by the G8**

The Social Impact Investment Forum launched three initiatives to support the development of the market: research commissioned from the Organisation for Economic Co-operation and Development (OECD) on global developments in the market supported by a working group of impact investment experts; a Global Learning Exchange to develop and share best practice in public policy and more broadly amongst market actors; and a Social Impact Investment Taskforce aimed at building collaboration among the investor community across four specialist Working Groups (WGs) focusing on impact measurement, asset allocation, mission lock, and international development. The objective of the WGs is to develop detailed, practical proposals to move the market forward.

---


\(^{25}\) www.socialstockexchange.com

\(^{26}\) In addition, the SBA announced that it has raised the amount of SBIC leverage from USD 80 mm to USD 150 mm that impact investing funds can receive and recently expanded the definition of impact investing to include rural communities. *Pay for Success - An Innovative Approach to Improve Results and Save Money*, Office of Management and Budget, 10 July 2013.
**Catalytic capital**

Anecdotal evidence has suggested at the increasing use of credit enhancement or "catalytic capital" in the impact investing industry. We decided to ask a few specific questions related to this practice this year, to understand trends better.

**Guarantee and subordinated debt most common forms of credit enhancement**

As shown in Figure 20, 20% of our respondents provide credit enhancement and 13% are considering providing it in the near future (n=125). Of the 25 respondents providing credit enhancement, 11 are foundations, four are development finance institutions and four are fund managers. Of the 16 respondents considering or planning to provide credit enhancement in the near future, six are fund managers, three are diversified financial institutions/banks and three are foundations. As illustrated in Figure 21, the instrument credit enhancement providers are using the most to provide credit enhancement is “guarantee or stand-by-letter of credit” (19 respondents) followed by “subordinated or deeply subordinated debt” (16 respondents) and "first-loss reserve" (10 respondents).

**Respondents use (or plan to use) credit enhancement to attract capital towards an impact goal and investors that otherwise would not invest**

When we asked our respondents about their motivations for providing (or planning to provide) credit enhancement, almost three quarters indicated that it was very important “to attract capital towards an impact goal/objective” (73%, n=41) and 61% that it was very important to “attract investors that might otherwise not have invested” (n=41) as shown in Figure 22 below.

---


28 It should also be noted that no respondents chose “insurance”. This may be because insurance for credit enhancement is typically provided by certain types of government entities, and such entities were not respondents to this survey.
Figure 22: Motivations for providing credit enhancement
Number of respondents is shown under each category; some respondents chose “not sure” and their responses are not considered here. Ranking by number of respondents who chose “very important”

Source: GIIN, J.P. Morgan.
Asset allocations and performance

Our shift in methodology enables us this year to show the breakdown of our respondents’ assets under management (AUM) by region, sector, instrument and stage of business. In this section, we show these breakdowns for the current allocations and respondents’ intended future allocations as well.

Overview and breakdown of current allocations

Our respondents currently manage USD 46bn of impact investments

Collectively, our respondents manage a total of USD 46bn in impact investments today. Unsurprisingly, almost all of the assets under management (95%) represented by our sample are managed by DM-HQ Investors (n=102), reflecting the higher number of investors headquartered in these regions and their relatively larger sizes (Figure 23). Interestingly, development finance institutions, while making up only 6% of our sample, manage 42% of total assets, followed by fund managers, who manage 34% of total assets (Figure 24). Throughout this section, the percentages referenced are percentages of the total impact AUM of USD 46bn.

Overview and breakdown of current allocations

Diversified allocations across regions

In terms of regional distribution, current AUM are relatively well diversified across regions. As illustrated in Figure 26, the three main destinations are Northern America (22%), LAC (19%) and SSA (15%). Some regions like MENA (2%) as well as Oceania (0.1%) remain low in our sample. It is worth noting that, overall, 70% of current assets under management are in EMs, even though 95% of capital is managed by DM-HQ investors (as noted above). The sub-groups with the highest proportion of current AUM in DMs includes Capital-preservation Investors, which have over half of their current AUM invested in DMs (59%, n=29). Early-stage Investors are similarly allocated with a higher proportion in DMs (59%, n=33).

29 Total impact investment assets under management represents 124 respondents due to one respondent not providing this data.

30 This is equivalently calculated as the weighted average response.
We also counted the number of respondents that have any part of their portfolio allocated to each region. Interestingly, more respondents have some allocation to SSA (66) than to any other geography, while nearly twice as many have investments in South Asia as compared with WNS Europe, even though total AUM in these regions are quite similar (see Figure 25).

Microfinance and Financial Services account for 42% of total sample AUM
In terms of sector distribution, Microfinance accounts for 21% of total sample AUM, the same percentage as Financial Services Excluding Microfinance, followed by Energy (11%) and Housing (8%). Meanwhile, Information and Communication Technologies (ICT, 3%), Education (3%) and Water & Sanitation (1%) account for much smaller parts of total sample AUM (Figure 28). Fund Managers have more than a third of their current AUM in Microfinance (37%, n=61) while Non-fund Managers have invested only 13% of their portfolio in Microfinance (n=64).

Interestingly, although Food & Agriculture and Healthcare account for 8% and 6% of total current AUM, they are the first and third most popular sectors in terms of number of investors with any allocation (see Figure 27).
**EM-focused Investors’ largest allocation is Microfinance; DM-focused Investors focus on Housing**

Microfinance is a large part of EM-focused Investors’ current AUM (27%, n=69), while for DM-focused Investors it is only 10% of their current AUM (n=54).

Inversely, Housing is a large part of DM-focused Investors’ portfolios with 22% allocated to this sector (n=54) while for EM-focused Investors it is only 2% (n=69).

Housing is also a sector with a large disparity between Indirect and Direct Investors, as it represents 24% of Indirect Investors’ portfolios (n=28) versus only 4% for Direct Investors (n=88).

**Healthcare and Housing attract Capital-preservation Investors**

From the perspective of investors’ return targets, it is notable that Closer-to-market Investors have over half of their current AUM invested in Microfinance (53%, n=29). Capital-preservation Investors (n=29) have 35% of their current AUM invested in Healthcare and 17% in Housing, while these sectors form only 3% and 8% respectively of Competitive-returns Investors’ current AUM (n=67). Table 11 below shows the breakdown of assets under management by sectors across various investor groups.

**Table 11: Total AUM by sector across investor groups**

<table>
<thead>
<tr>
<th>Sector</th>
<th>All respondents (n=124), %</th>
<th>Competitive-return Investors (n=67), %</th>
<th>Closer-to-market Investors (n=29), %</th>
<th>Capital-preservation Investors (n=29), %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance</td>
<td>21</td>
<td>18</td>
<td>53</td>
<td>13</td>
</tr>
<tr>
<td>Financial Services (Excluding Microfinance)</td>
<td>21</td>
<td>24</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>18</td>
<td>18</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Energy</td>
<td>11</td>
<td>13</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Housing</td>
<td>8</td>
<td>8</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Food &amp; Agriculture</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Healthcare</td>
<td>6</td>
<td>3</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>Information and Communication Technologies</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>0.3</td>
</tr>
<tr>
<td>Education</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Water &amp; sanitation</td>
<td>3</td>
<td>1</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

**44% of total sample AUM is private debt; 24% is private equity**

In terms of instruments, 62% of the total capital managed is invested through debt instruments (44% Private Debt, 9% Public Debt and 9% Equity-like Debt) and 24% is invested through Private Equity, even though the latter is the instrument receiving at least some capital from the highest number of respondents (Figure 29 and Figure 30). Public Equity (3%) and Social Impact Bonds (slightly above 0%) are still very small parts of the aggregate portfolio.
DM-HQ Investors favor Private Debt; EM-HQ Investors favor Private Equity
Private Debt accounts for almost half of DM-HQ Investors’ portfolios (45%, n=102) but less than a third of EM-HQ Investors portfolios (26%, n=17). For Private Equity, the trend is reversed: it accounts for almost half of EM-HQ Investors’ portfolios (49%) but less than a quarter of DM-HQ Investors’ portfolios (22%). Equity-like Debt is used more by EM-HQ Investors, at 24% of their portfolios, while it represents only 9% of DM-HQ Investors’ portfolios.

Early-stage Investors favor Private Equity; Later-stage Investors utilize Private Debt
As one would expect, Private Equity is used in a higher proportion by Early-stage Investors (76%, n=33) versus Later-stage Investors (21%, n=88), given the need among early-stage companies for longer-term capital without short-term repayment commitments. Later-stage Investors in our sample favor Private Debt, with this instrument comprising almost half of their portfolios (46%) versus only 8% for Early-stage Investors.

Respondents stating financial outperformance are highly invested in Public Equity
Finally, we note that respondents stating impact outperformance have 42% of their current AUM in Private Debt (n=24), 40% in Private Equity and 1% in Public Equity while those indicating financial outperformance have 27% of their current AUM in Public Equity, 25% in Private Equity and 23% in Private Debt (n=19).
Outcomes-based finance

While there is often a fairly standard core model in these structures, different regions use different terminology for them. Here are a few names for the investment instruments linked to outcomes-based finance:

*Europe*: Social Impact Bonds

*USA*: Pay-for-success

*Australia*: Social Benefit Bond

*Development finance*: Development Impact Bond

In our commentary, we will use the names referenced by the issuers for specific transactions, but when speaking in general we will use the term “social impact bond” to reference deals across these categories interchangeably.

**Zooming in: Outcomes-based finance**

Outcomes-based finance references the market for investment vehicles that link investor returns to the delivery of specific social outcomes. These contracts allow the public sector (or potentially other bodies) to commission services such that they pay for the service once a defined set of social outcomes is delivered, often structured with partial payments being made as milestones are achieved along the way. The original idea was based on the thesis that achieving certain social outcomes should generate government savings in the long run, and that governments could share those savings with private investors that would fund the requisite interventions upfront. In a time of constrained public resources, the idea has attracted interest since the first transaction was launched in the UK in 2010. Here we highlight a few key developments across regions for this segment of the impact investment market.

**Social Impact Bonds in the UK**: Since the first social impact bond launched in 2010, the UK has continued to lead the development of the social impact bond market. In 2013, the UK was host to the first International Symposium on Social Impact Bonds, and there were 15 deals completed across outcomes including: reducing the rates of re-offending, increasing numbers of children moving from state care to foster homes, reducing homelessness and rough sleeping, and improving opportunities for young people not in education, employment or training (often referred to as NEETs).

**Pay-for-success in the US**: Following the progress in the UK, the first US social impact bond was launched August 2012, and there have been three further transactions since:

- In August 2013, Goldman Sachs together with United Way of Salt Lake and J.B. Pritzker formed a partnership to finance early childhood education, jointly committing up to USD 7mm to finance a targeted curriculum focused on increasing school readiness and academic performance among at-risk three and four-year-olds in Utah.

- In December 2013, private and institutional investors committed USD 13.5mm to fund a 5.5-year program focused on comprehensive re-entry employment services to 2,000 formerly incarcerated individuals in New York City and Rochester, N.Y. The Rockefeller Foundation provided a USD 1.32mm guaranty facility to cover 10% of investors’ principal should the project fail to repay investors 100% of their investment. The Robin Hood Foundation provided an early commitment to invest in the program and Bank of America Merrill Lynch placed the fund.

- In January 2014, the Commonwealth of Massachusetts announced a USD 18mm social impact bond to reduce recidivism among at-risk youth. The bond is

---

32 Some readers will also recognize the term “results-based finance,” which can be used in reference to the commissioning of services where payment is made once results are delivered.
33 Cabinet Office. Case studies can be found at http://data.gov.uk/sib_knowledge_box/case-studies-existing-sibs.
capitalized by USD 12mm of loan financing from private investors and USD 6mm in grants from foundations.

**Social Impact Bonds in other markets:** The first outcomes-based bonds in Australia and Holland were also launched in 2013.

- **Australia:** Two social benefit bonds (SBBs) were issued in New South Wales (NSW), Australia in 2013. The Newpin SBB, launched in March, provides AUD 7mm funding to UnitingCare Burnside to support the return to family for children in out-of-home care and the prevention of at-risk children from entering care.
  
  The second AUD 10mm SBB was launched in June by partners including The Benevolent Society, Westpac Institutional Bank and the Commonwealth Bank of Australia. This service will also focus on reducing the number of family breakdowns in NSW, but the funding for this bond is split into two tranches. The AUD 7.5mm senior tranche is capital protected with returns up to 10% dependent on outcomes, while the remaining AUD 2.5mm junior tranche is fully at risk and can earn up to 30% dependent on outcomes.

- **Holland:** ABN AMRO and Start Foundation invested EUR 680,000 in ‘Buzinezzclub’, a Dutch company which aims to help around 80 youngsters annually to either a job or an education. The company focuses on youngsters who normally lack the qualifications to enter the labor market. The project is funded by a social impact bond, the first of its kind in the Netherlands. The municipality pays a premium of up to 12% annually, depending on the amount of social benefits it saves because of the project.

---


89% of total sample AUM is invested at either the Growth or Mature stage

Most capital managed today – 89% – is invested in companies post Venture stage, with 35% allocated towards companies at the Growth Stage, 44% in Mature, Private companies and 10% in Mature, Publicly-traded companies. Only 11% of total sample AUM is committed to Seed/Start-up companies (3%) or Venture Stage businesses (8%), as illustrated in Figure 32. However, 76 respondents indicate investing at least some capital at the Venture Stage, second only to the number that reported investing at the Growth Stage (Figure 31).

Over half of DM-HQ portfolios in mature companies

Over half of DM-HQ Investors’ current AUM are in mature companies - with 45% for Mature, Private and 11% for Mature, Publicly-traded businesses - while only 10% under management is in early-stage ventures (n=102). By contrast, EM-HQ Investors have 53% of current AUM in Growth Stage and 31% in early-stage ventures, while they have no exposure to Mature, Publicly-traded companies (n=17)40.

Debt Investors focus on later-stage, Equity Investors focus on early-stage

As one would expect, respondents utilizing debt instruments have a larger allocation to later-stage businesses (Mature, Private and Mature, Publicly-traded), while Equity Investors have more of their portfolios allocated to allocated to early-stage businesses, which includes companies in either Seed/start-up or Venture stages.. Debt Investors have a large part of their current AUM allocated to Mature, Private companies, which make up 51% of their assets today (n=50). By contrast, Equity Investors’ current AUM show an allocation of only 5% for this segment (n=52)41. Rather, Equity Investors have committed 36% to early-stage businesses (10% to the Seed/Start-up Stage and 26% to businesses at the Venture Stage, n=52) versus only 5% for Debt Investors (1% and 4% of portfolios, respectively, n=50).

---

40 Early stage references seed/start-up stage and venture stage; Later-stage references growth and mature (private and public).
41 Equity Investors do, however, have 24% of their capital allocated to mature, public companies (n=52).
Fifty-eight percent of the assets that respondents manage today are proprietary capital and 42% are managed on behalf of clients, as Figure 33 shows. The subgroups that rely most heavily on client capital are EM-HQ Investors (78% of their capital, n = 17), and also Equity Investors (75%, n = 52). As we might expect, assets managed by Capital-preservation Investors are mostly from proprietary sources (84%, n = 29).

Large proportion invested directly into companies
Investments directly into companies represent a much larger proportion of assets (78%) than indirect investments (17%), as seen in Figure 34. According to the subgroup analysis, almost all of EM-HQ Investors’ current AUM (99%) are invested directly into companies (n = 17). This coincides with the fact that over 80% of EM-HQ organizations are Fund Managers.

Most deals take 3-9 months to complete; EM equity takes longer
In the survey this year, we added a question to learn how long it takes our respondents to complete their deals from identifying the opportunity to closing. They reported that most deals – both equity and debt in DM, and debt in EM as well – take 3-9 months to complete. Unsurprisingly, the equity investments in EM regions were reported to take longer, with respondents giving a range of 5-14 months.

42 A small group of respondents have chosen “other” for this question when investing in structures that are neither companies nor funds (respondents that chose “other” specified, for example, real assets and NGOs). Readers will note that there may be some overlap in respondents’ financial commitments as some will invest indirectly through fund managers that have also responded to our survey. We note though, that 78% of the capital represented by our respondents is invested directly into companies, and any potential overlap will only relate to the percentage of capital that is invested indirectly.
Overview and breakdown of future allocations

In order to get a better sense of future trends, we asked respondents to indicate how they plan to change their allocations in terms of percentage of their total portfolio by market, sector and instrument over 2014\(^\text{43}\). The responses are presented below.

29 respondents plan to increase allocations to SSA

As shown in Figure 35 below, respondents aim to increase or maintain much of their current regional allocations for their impact investing portfolios, as a percentage of their portfolios. Specifically, the region to which the highest number of respondents plans to increase their exposure is SSA (29 respondents), followed by ESE Asia and South Asia, respectively 18 and 14 respondents\(^\text{44}\). A relatively low number of respondents indicated plans to increase their allocations to MENA, WNS Europe, EEC and Oceania.

Figure 35: Change of allocation planned over the next year, by market

Number of respondents that responded for each region is shown next to each bar; Ranking by number of respondents who chose “increase”

<table>
<thead>
<tr>
<th>Region</th>
<th>Decrease</th>
<th>Begin to assess</th>
<th>Maintain</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSA</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>ESE Asia</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>South Asia</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td>Northern America</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>36</td>
</tr>
<tr>
<td>LAC</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td>MENA</td>
<td>6</td>
<td>3</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>WNS Europe</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>38</td>
</tr>
<tr>
<td>EEC</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>Oceania</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

More than 20 respondents plan to increase allocations to Food & Agriculture, Healthcare, and Financial Services (excl. microfinance); 11 plan to decrease allocations to Microfinance

Food & Agriculture is the sector to which the highest number of respondents plan to increase their exposure (33 respondents), with Healthcare and Financial Services also to increase (25 and 23 respondents, respectively).

Food & Agriculture is the sector to which the highest number of respondents plan to increase their exposure (33 respondents), followed by Healthcare (25 respondents) and Financial Services Excluding Microfinance (23 respondents), as Figure 36 shows. Most sectors received a high number of respondents expecting to maintain or increase their allocations, which may reflect a focus on diversification, but it is notable that ICT and Microfinance rank at the bottom of the list. In particular, 11 respondents indicated plans to decrease their allocation to Microfinance over the next year as a percentage of their total portfolio, which again may reflect a diversification strategy given the current important weight of this sector in total impact investments under management (21% of total capital as shown in Figure 28, representing about USD 10bn).

\(^{43}\) We did not place restrictions on answer choices. So, in theory, respondents could indicate that they plan to increase allocations as a percentage of portfolios for all sectors or regions.

\(^{44}\) These questions were optional in our survey.
It's mainly Equity Investors that plan to decrease their allocation to Microfinance
Thirty-eight percent of Equity Investors expect to decrease their allocation to Microfinance and only 5% expect to increase it (n=21). By contrast, only 4% of Debt Investors expect a decrease in their allocation to Microfinance and 13% expect an increase (n=23).

Education is particularly strong future focus for Early-stage Investors
Sixty-four percent of Early-stage Investors expect an increase in their allocation to Education and none expect a decrease (n=14) while 31% of Later-stage Investors expect an increase to their allocation to Education and 3% expect a decrease (n=35).

Non-fund Managers are more focused on Energy than Fund Managers
Forty-six percent of Non-fund Managers expect to increase their allocation to Energy and none expect a decrease (n=28), while only 29% of Fund Managers expect an increase and 12% a decrease in their allocation to Energy (n=17).

20 or more respondents plan to increase allocations to Private Equity and Private Debt; 11 plan to increase allocations to Social Impact Bonds
As shown in Figure 37, the instrument to which the highest number of respondents plan to increase their exposure is Private Debt (21 respondents), followed by Private Equity and Equity-like Debt (19 and 18 respondents, respectively). It is also worth noting that 11 respondents have indicated plans to increase their allocation to Social Impact Bonds. The findings are quite notable for Equity-like Debt and Social Impact Bonds given their low weight in current portfolios. Interestingly, only three respondents indicated plans to increase their allocations to Public Equity.
Performance

Portfolio performance largely in line with expectations

Survey participants reported that their portfolios are performing mostly in line with both their impact expectations and their financial return expectations (Figure 38). Significantly, 20% of respondents reported outperformance against their impact expectations (n=119), compared to 14% in last year’s survey (n=91), and 16% reported outperformance against their financial return expectations (n=122), compared to 21% in last year’s survey (n=95). Conversely, only 1% reported underperformance on impact (n=119), while 9% reported financial underperformance relative to their expectations (n=122). Splitting out these results by region of investment, we notice that the DM-focused Investors reported better performance than EM-focused Investors against both impact and financial expectations, as shown in Figure 39. Interestingly, these proportions held consistently for investors targeting competitive and below-market returns.
Over half of respondents that make equity investments reported some significant financial outperformance

We also asked those that make equity investments to indicate whether any deals had delivered significantly higher financial performance than expected, while delivering the impact expected. Of the 83 investors that answered this question, 68% reported that at least one investment had outperformed significantly on financial returns without compromising their impact objectives, as Figure 40 shows. A further 17% reported that while none of their investments had yet outperformed financially while delivering the targeted impact, some were on track to do so.

Figure 40: Equity investment outperformance while delivering expected impact
n=83, respondents were asked to answer only if their organization makes equity investments

Source: GIIN, J.P. Morgan.

Over half of respondents that make equity investments reported some significant financial outperformance
Zooming in: Notable private equity exits

Over 2013, several impact investment funds across regions reported exits from private equity investments. We highlight a few of these transactions here, covering developed and emerging market deals across sectors.

**Bridges Ventures exits Whelan Refining and The Gym**
In March 2013, Bridges Ventures, an impact-driven fund manager in the UK, exited Whelan Refining, which they re-engineered to be the first waste oil refining plant in the UK. The exit delivered a 33% IRR and 4.7x the total investment for Bridges Ventures’ Sustainable Growth Fund I\(^{45}\). In June 2013, Bridges Ventures announced a second exit, having sold its majority position in The Gym Group, which pioneered the concept of low-cost gyms in the UK, for a 50% IRR and 3.7x multiple\(^{46}\).

**Bamboo Finance and Triodos exit TenGer Financial Group**
Bamboo Finance is a global private equity group investing in business models that benefit low-income communities in growth markets. In November 2013, Bamboo Finance sold its equity stake in TenGer Financial Group, the holding company of Mongolia’s XacBank. The sale resulted in expected returns for Bamboo above 25% in local currency and 2x its investment. New investors included the IFC and Tokyo-based ORIX Corporation. Triodos Investment Management also sold the majority of its 13.5% equity stake, citing that XacBank had achieved a level of maturity in terms of its outreach, governance, risk management, and performance\(^{47}\).

**Lok Capital exits Satin Creditcare and Janalakshmi Financial Services**
Lok Capital, an Indian venture capital firm investing in enterprises catering to the base of the socioeconomic pyramid, also completed two equity exits in 2013. In April 2013, Lok exited Satin Creditcare for a “satisfactory” return, attracting “good quality investors.” Lok sold its shares to MicroVest, a microfinance fund based in the US. In August 2013, Lok exited Bangalore-based Janalakshmi Financial Services, whose new investors include Morgan Stanley Private Equity Asia and Tata Capital Growth Fund. No reference was made to the return on this deal, but the fact that the company attracted commercial follow-on investors is indicative of the growth to date and potential going forward\(^{48}\).

**Leapfrog exits Express Life to Prudential PLC**
In December 2013, Leapfrog Investments, an impact investment fund manager investing in high-growth micro-insurance companies in Africa and Asia, exited Express Life, an insurance company in Ghana. Leapfrog’s capital injection in 2012 helped the business meet new minimum regulatory capital requirements and then scale the product to reach over 730,000 people in a country where less than 2% of the population have access to insurance. Prudential PLC, the buyer of Leapfrog’s stake, is one of Britain’s largest insurance companies\(^{49}\).

\(^{45}\) Press release: *Bridges Ventures exits Whelan Refining - Third successful exit in nine months*, 7 Mar 2013.


\(^{48}\) Lok Capital website: [www.lokcapital.com](http://www.lokcapital.com).

Risk

Ninety-two percent of respondents reported no significant risk events in 2013

As shown in Table 12, ten of our 125 respondents reported covenant breaches or significant adverse changes in their portfolios over the course of 2013. One respondent referenced a change in General Partner, and another made reference to weakening currencies. Last year’s survey, while a different sample, reported a similar percentage of respondents that have not experienced significant risk events (93%, n=99).

Table 12: Significant risk events
n=125

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>10</td>
</tr>
<tr>
<td>No</td>
<td>115</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

Business model execution & management risk is the clear priority concern

Our survey last year revealed that “business model execution & management risk” was the top contributor of risk to respondents’ portfolios, and this emerged again this year as the biggest concern. Table 13 shows the answer choices, their ranks and scores. “Business model execution & management risk” has been highlighted as the clear priority concern, as reflected by the gap in index score with the other risk contributors. Interestingly, “liquidity & exit risk” jumped up in the rankings from fifth last year to second this year. We also note that “perception & reputational risk” has ranked low this year, which is consistent with last year’s survey. Finally, it is worth adding that some respondents highlighted environmental risks such as climate change, which were not explicitly captured in the options shown in the table.

Table 13: Contributors of risk to impact investment portfolios
n=125

<table>
<thead>
<tr>
<th>Rank</th>
<th>Score</th>
<th>Risk Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>253</td>
<td>Business model execution &amp; management risk</td>
</tr>
<tr>
<td>2</td>
<td>118</td>
<td>Liquidity &amp; exit risk</td>
</tr>
<tr>
<td>3</td>
<td>104</td>
<td>Market demand &amp; competition risk</td>
</tr>
<tr>
<td>4</td>
<td>93</td>
<td>Country &amp; currency risks</td>
</tr>
<tr>
<td>5</td>
<td>83</td>
<td>Macroeconomic risk</td>
</tr>
<tr>
<td>6</td>
<td>73</td>
<td>Financing risk</td>
</tr>
<tr>
<td>7</td>
<td>26</td>
<td>Perception &amp; reputational risk</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

Impact measurement

98% view impact measurement as at least somewhat important

As the impact investment market develops, several industry initiatives are also progressing in their efforts to establish standardized metrics for impact measurement. In surveying our respondent population, we find that 98% of respondents view impact measurement as at least “somewhat important” to the development of the industry (Figure 41). Respondent organizations also reported spending 15% of their time on impact measurement, versus 10% reported last year (at the median). While these responses reflect the value of impact measurement, one respondent commented on the challenges that remain: “It is important to define and measure impact but it needs to be balanced with the practical realities of how challenging it is to measure impact authentically.”
95% of respondents use metrics to measure social/environmental impact

Overall, 95% of respondents reported that they use metrics to measure social/environmental impact (56% of which use IRIS and 24% use other external standards), as shown in Figure 42. Notably, a higher percentage of Fund Managers (89%, n=61) are aligned with external standards (this figure is 72% for Non-fund Managers, n=64), and the same holds true for Client Capital Investors (91%, n=65) versus Proprietary Capital Investors (68%, n=60).

Third-party ratings used by 64% of respondents, in line with last year

With the development of third-party ratings of social and environmental performance, 64% of our respondents reported using them in some capacity for their investment decisions, with 9% requiring them for all potential investments (Figure 43). These figures are in line with last year’s survey. Social/environmental performance ratings used by respondents included CDFI Assessment and Ratings System (CARS), Global Impact Investing Rating System (GIIRS), Microrate and Planet Rating.

Impact Reporting and Investment Standards (IRIS) is a catalog of generally-accepted performance metrics used by impact investors to measure social, environmental, and financial results. [http://iris.thegiin.org](http://iris.thegiin.org). Several respondents also mentioned standards of the International Finance Corporation (IFC) or the Commonwealth Development Corporation (CDC).

In last year survey we asked this question with a "select all that apply" structure which makes direct comparison of this year and last year responses not valid.
This year, we asked our respondents if they have used in the past, or plan to utilize in the near future, external resources to help them measure the impact of their portfolio post investment. As illustrated in Figure 44, 57 respondents indicated using or planning to use a “data management platform for collecting and reporting on the data” and 38 indicated using or planning to use “academics or researchers to conduct independent evaluations”.

Figure 44: Past or potential future use of select impact measurement resources
Number of responses shown above each bar; Respondents chose all that apply

We also asked investors about the importance of various types of impact-related performance data (Figure 45), and 72% indicated that “data about the breadth (scale) of an investee's activities” was essential (n=123), and 69% that “data about an investee’s operational performance” was essential (n=123), while only 8% thought “data from external evaluations on the impact/efficacy of an investee's work” was essential, and 28% thought this was not important (n=113).

Figure 45: Importance of impact-related performance data
Number of respondents is shown under each indicator; some respondents chose "not sure" and their responses are not considered here. Ranking by number of respondents who chose "essential"
Zooming in: Impact measurement

A range of developments related to impact measurement in 2013 have already been highlighted in other “Zooming in” sections of this report. Impact measurement is one of the four working groups comprising the Social Impact Investment Taskforce that arose from the G8 Social Impact Investment Forum in June 2013 (page 18 and 19). Elsewhere, the increasing prevalence of linking financial returns to impact outcomes is reflected in the description of new outcomes-based-finance models (page 26). In addition, the GIIN’s updated definition of impact investing – released last year – identifies impact measurement as a hallmark characteristic of the practice.

In addition to the above, various impact investors have begun to produce public-facing impact reports. These reports highlight progress against indicators at the portfolio level as well as at the individual investee level. Examples include:

**Aavishkaar**, an early-stage investment fund focused on India, reports on the number of jobs created, number of beneficiaries, and amount of follow-on funding investees receive, among many other metrics across their portfolio of investments[^52].

**Bridges Ventures**, a UK-focused impact investment firm, reports on the tonnes of waste materials diverted from landfill for their environmental investments, the number of students trained/educated for their educational investments, and the number of their employees that live in underserved areas[^53].

**Root Capital**, a social investment fund focused on lending to agricultural business in Africa and Latin America, reports on the total number of household members reached, the total number of loans made, as well as the revenue generated by investee enterprises[^54].

[^52]: [http://www.aavishkaar.in/](http://www.aavishkaar.in/)
In focus: The intermediary market

Fund managers

**Fund managers raised USD 2.8bn in 2013, target raising USD 4.5bn in 2014**

Since they make up half of our sample, we asked fund managers specifically about their particular experience in the market over 2013. As a group, the fund managers that participated in our survey reported having raised USD 2.8bn in 2013 and target raising USD 4.5bn in 2014, as shown in Table 14. Per manager, the average last year was USD 61mm and the median USD 25mm; the targets for 2014 are USD 85mm and USD 45mm at the average and median, respectively.\(^{55}\) Five fund managers reported raising USD 200mm or more in 2013 and seven reported plans to raise USD 200mm or more in 2014.

**More funds raised by managers headquartered in developed markets**

If we split the sample by location of headquarters – seventy percent of fund manager respondents are headquartered in developed markets – we see a few interesting trends in this data (Table 15). For example, funds headquartered in developed markets raised USD 2.2bn in 2013 (USD 70mm on average), while those headquartered in emerging markets raised only USD 340mm (USD 34mm on average). And fundraising targets for 2014 also differ notably between these groups – USD 94mm on average for DM-HQ versus USD 37mm for EM-HQ.

**More funds raised by managers focused on emerging markets**

If we split the sample by regional focus, we see other trends as illustrated in Table 16. For example, funds focused on EMs raised USD 1.6bn in 2013 (USD 51mm on average), while those focusing on DMs raised USD 962mm (USD 74mm on average). The gap is smaller when looking at fundraising targets for 2014 with USD 2.5bn for funds focused on EMs compared to USD 2bn for funds focused on DMs. One reason for this is that, on average, the target raise for DM-focused funds is significantly higher than the target raise for EM-focused funds (USD 117mm versus USD 70mm).

---

\(^{55}\) In calculating mean and median figures we exclude "0" responses.
Our sample is currently managing 189 impact funds and raising 91

Table 17 shows that our fund manager respondents are working on 280 impact investment funds, with 189 impact funds currently under management and 91 impact funds being raised. We find it quite interesting to note the degree of focus of our fund manager sample on the impact investment market: only three fund managers currently manage non-impact funds and only one is currently raising capital for non-impact funds. Meanwhile, consistent with the analysis presented in Table 15, a much higher number of funds headquartered in developed markets are currently fundraising: 74 in DM versus 12 in EM.\(^{56}\)

<table>
<thead>
<tr>
<th>Table 17: Number of funds managed and in fundraising</th>
</tr>
</thead>
<tbody>
<tr>
<td>(n=61)</td>
</tr>
<tr>
<td><strong>Funds managed to date</strong></td>
</tr>
<tr>
<td>Impact investment funds</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Average per mgr</td>
</tr>
<tr>
<td>&gt;25(^{57})</td>
</tr>
<tr>
<td>Other types of investment funds</td>
</tr>
<tr>
<td>Funds currently being raised</td>
</tr>
<tr>
<td>Impact investment funds</td>
</tr>
<tr>
<td>91</td>
</tr>
<tr>
<td>Average per mgr</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>Other types of investment funds</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>Average per mgr</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

Even participation across investor types, with pensions/insurance in the lead

Managers reported current impact investment assets under management of USD 16bn, 22% of which come from Pension funds or Insurance companies, as shown in Figure 47. The next largest investor groups are all fairly even in the amount they contribute, with Family offices/high net worth individuals (HNWIs, 17%), Development finance institutions (DFIs, 16%), Diversified financial institution/banks (16%) and Retail investors (15%) providing the majority of the residual capital. This data is calculated as an average weighted by assets under management. Figure 46 presents a couple of interesting contrasts with the amounts of capital illustrated in Figure 24 and Figure 47. Specifically, whereas Family offices/HNWIs contribute just 0.2% of our total sample AUM, more managers have raised some capital from this segment than from any other segment. And, whereas Pension funds and Insurance companies rank highest in total capital allocated to fund managers, they are fourth in the discrete count.

Examining this data in more detail, we find that splitting the sample by location of headquarters gives a dominant contribution from DFIs into fund managers based in emerging markets (they provide 69% of the capital our 14 EM-HQ fund manager respondents manage versus 10% for the 43 DM-HQ funds) and a decreased contribution from Pension funds or Insurance companies (only 1% of the capital for EM-HQ funds versus 24% for DM-HQ funds) as well as from Retail investors (no contribution in the capital of EM-HQ funds versus 17% for DM-HQ funds).

Further, we asked those that reported >25% of total capital as coming from family offices/HNWIs to provide more detail on these investors. We see in Figure 48 that almost three-quarters of HNWI capital comes from HNWIs investing independently (72%). Private banking platforms (9%) and investing clubs/deal networks (2%) each have yet to contribute significantly to the capital allocated to impact investment fund managers. It is our understanding that individual investor clubs and networks are

\(^{56}\) In addition to the 74 funds currently fundraising in DM and 12 in EM, respondents that have chosen the "no single headquarter location" option are currently fundraising for 5 funds.

\(^{57}\) One respondent chose the option ">20" to this question.
often focused on direct investment opportunities rather than funds, which would at least partially explain their low representation here.

Indirect investors

Out of our 125 respondents, 50 (40%) indicated that they invested through intermediaries/General Partners (regardless of whether they also invest directly into companies)\(^5\). Many view the intermediary market as a critical factor in delivering capital at scale and facilitating the participation of large institutional investors, so we asked respondents that invest through intermediaries for their views on the most attractive structures and structural features.

Loss protection and regional focus most attractive; funds of funds less attractive

First, we asked respondents to indicate their levels of interest in using different investment structures. We found that 85% of respondents indicated interest in structural protection against losses (45% indicated strong interest, \(n=47\)). Respondents also showed significant interest in funds with a focus on either a single region and/or a single sector, as shown in Figure 49. Multi-region, multi-sector funds seem to be less attractive, with 32% of respondents indicating no interest in this structure. Investment vehicles structured as holding companies attract interest from 79% of respondents (24% indicated a strong interest), while funds of funds seem to attract the least demand, with over half of respondents indicating no interest in these structures (57%, \(n=46\)). It may be the case that funds of funds structures are more appealing to new impact investors, whose views may not be fully reflected in this survey given the participation criteria. The full set of responses is presented below in Figure 49.

---

\(^5\) However, as mentioned earlier (see Figure 25), indirect investments account for only 17% of our total impact investments under management.
Figure 49: Respondents’ interest in structures and structural features
Number of respondents is shown under each indicator; some respondents chose “not sure” and their responses are not considered here. Ranking by number of respondents who chose “strong interest”

<table>
<thead>
<tr>
<th>Structural feature</th>
<th>Strong interest</th>
<th>Some interest</th>
<th>No interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single region, single sector funds</td>
<td>23%</td>
<td>15%</td>
<td>40%</td>
</tr>
<tr>
<td>Investment vehicles with structural protection against losses (e.g. credit enhancement)</td>
<td>46%</td>
<td>45%</td>
<td>0%</td>
</tr>
<tr>
<td>Single region, multi-sector funds</td>
<td>15%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>Multi-region, single sector funds</td>
<td>55%</td>
<td>45%</td>
<td>32%</td>
</tr>
<tr>
<td>Investment vehicles structured as holding companies</td>
<td>24%</td>
<td>23%</td>
<td>0%</td>
</tr>
<tr>
<td>Multi-region, multi-sector funds</td>
<td>30%</td>
<td>13%</td>
<td>49%</td>
</tr>
<tr>
<td>Funds of funds</td>
<td>57%</td>
<td>40%</td>
<td>12%</td>
</tr>
<tr>
<td>Investment vehicles with liquidity terms of 90 days or fewer</td>
<td>49%</td>
<td>45%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

38% of our respondents viewed best-in-class impact investment fund managers as having significant room for improvement versus traditional fund managers in terms of relevant investing track record (n=21).

30% view impact fund managers as slightly better than traditional fund managers on aligning General Partners’ and Limited Partners’ interests (n=20).

Relevant investing track record, professionalism, and transparency still viewed as slightly behind compared to traditional fund managers
We also asked these respondents to benchmark best-in-class impact investment fund managers versus best-in-class traditional fund managers on a range of criteria, as illustrated in Figure 50. Fifty percent of our respondents view impact fund managers as being in line with traditional fund managers when it comes to aligning General Partners’ and Limited Partners’ interests, and 30% view impact fund managers as slightly better than traditional fund managers on this criteria (n=20).
Respondents are split as to managers’ operational expertise in target sectors: Almost half of respondents believe impact fund managers are behind traditional fund managers in terms of operational expertise in target sectors and 43% view them as in line (n=21). In terms of professionalism and transparency, only 10% of our respondents see a significant gap versus traditional fund managers, but 57% view impact fund managers as slightly behind (n=21). Thirty-eight percent of our respondents viewed impact fund managers as having significant room for improvement versus traditional fund managers in terms of relevant investing track record, and 52% think they are slightly behind on this criteria (n=21).

Figure 50: Best-in-class impact fund managers versus traditional fund managers
Number of respondents is shown under each indicator; some respondents chose “not sure” and their responses are not considered here.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Significant room for improvement versus traditional fund managers</th>
<th>Slightly behind traditional fund managers</th>
<th>In line with traditional fund managers</th>
<th>Significantly better than traditional fund managers</th>
<th>Slightly better than traditional fund managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural alignment of interests between GPs and LPs</td>
<td>20%</td>
<td>29%</td>
<td>19%</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>Operational expertise in target sectors</td>
<td>30%</td>
<td>43%</td>
<td>5%</td>
<td>57%</td>
<td>19%</td>
</tr>
<tr>
<td>Professionalism and transparency</td>
<td>30%</td>
<td>57%</td>
<td>6%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Participation by known or respected LPs or anchor (cornerstone) investor</td>
<td>30%</td>
<td>57%</td>
<td>6%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Relevant investing track record</td>
<td>30%</td>
<td>46%</td>
<td>52%</td>
<td>10%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan. Ranked by index score.

Fifty-seven percent of respondents actively invest in first-time fund managers
Many managers in this market are managing impact investment funds for the first time. As a result, investors are often faced with evaluating first-time managers when developing their investment pipeline. We asked about survey participants’ appetite

59 In the rest of this paragraph we drop the phrase “best-in-class”, but whenever we refer to "impact fund managers" or "traditional fund managers" the words "best-in-class" are implied.
for investing with first-time managers and find that 51% of respondents include first-time fund managers in their scope with an additional 6% strongly focused on first-time managers as part of their mandate. Of these 57%, almost half are foundations and two-thirds are targeting below market rate returns. Only 14% of respondents do not invest in first-time fund managers, as shown in Figure 51.

### Figure 51: Investors’ inclusion of first-time fund managers in their investment scope

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, we are strongly focused on first-time managers as part of our mandate</td>
<td>14%</td>
</tr>
<tr>
<td>Yes, first-time fund managers are part of our broader scope</td>
<td>6%</td>
</tr>
<tr>
<td>Yes, we can invest in first-time fund managers but only in exceptional cases</td>
<td>29%</td>
</tr>
<tr>
<td>No, we do not invest in first-time fund managers</td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan

**Investors in first-time managers focus on commitment to impact, networks, investment skills, and operational expertise**

We then asked our respondents about the key criteria they use when considering first-time fund managers, as shown in Figure 52 below. The survey showed that investors are focused on “commitment to achieving and measuring impact” (79% of respondents), “strong networks and relationships in target geographies” (79%) and “relevant investing skills and track record” (74%) as being essential in evaluating first-time managers. Sixty-seven percent of respondents said that “operational expertise in target sectors” is essential, and 33% that it is preferred. While about half of respondents said that the “amount of GP financial commitment to the fund” and “participation by known or respected LPs” was preferred, respectively 26% and 36% said that these two considerations were optional.

### Figure 52: Key considerations when considering first-time fund managers

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Essential</th>
<th>Preferred</th>
<th>Optional</th>
<th>Irrelevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment to achieving and measuring impact</td>
<td>79%</td>
<td>2%</td>
<td>2%</td>
<td>19%</td>
</tr>
<tr>
<td>Strong networks and relationships in target geographies</td>
<td>79%</td>
<td>2%</td>
<td>2%</td>
<td>17%</td>
</tr>
<tr>
<td>Relevant investing skills and track record in target sectors</td>
<td>74%</td>
<td>2%</td>
<td>2%</td>
<td>24%</td>
</tr>
<tr>
<td>Operational expertise in target sectors</td>
<td>67%</td>
<td>33%</td>
<td>2%</td>
<td>22%</td>
</tr>
<tr>
<td>A market opportunity that enables a first-mover advantage</td>
<td>59%</td>
<td>17%</td>
<td>2%</td>
<td>17%</td>
</tr>
<tr>
<td>Amount of GP financial commitment to fund</td>
<td>52%</td>
<td>26%</td>
<td>5%</td>
<td>59%</td>
</tr>
<tr>
<td>Participation by known or respected LPs or anchor investor</td>
<td>36%</td>
<td>10%</td>
<td>10%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan
**Zooming in: Progress in product development**

The impact investment market brings together different sets of investors, each characterized by individual risk, return and impact expectations, with the potential to unlock capital towards a common good. This calls for product providers to structure and offer innovative, tailored and often hybrid investment products that both suit investors and serve the needs of the businesses or projects receiving the funding. Below, we highlight a few impact investment partnerships launched in the past year that combine the social and financial expertise of partners that, when united, bring together a track record in the dual purpose that impact investors seek.

**Notable fund partnerships: Blending financial and social expertise**

The arrival of new institutional investors in 2013 coincided with the launch of several new products and product platforms by leading banks and asset managers. Several of these products leverage partnerships between financial institutions and impact organizations, combining one partner’s expertise in structuring and investing with the expertise of the other in the delivery of a particular intervention.

- **Global Health Investment Fund I (GHIF):** The GHIF is an investment fund structured by Lion’s Head Global Partners (LHGP), JPMorgan Chase & Co. and the Bill & Melinda Gates Foundation (BMGF). The Fund has, for the first time, allowed individual and institutional investors the opportunity to finance the development of late-stage global health technologies for distribution in low-income countries. The Fund is piloting a sustainable financing model for technologies designed for markets that lack the fully commercial financial return prospects that are typically required to attract investment capital. With the loss protection feature provided by BMGF and the Swedish International Development Cooperation Agency (SIDA), the Fund has pooled investment capital from a wide range of investors – including individuals, family offices, private foundations, development finance institutions, financial institutions and multi-national pharmaceutical companies – to complement the grant capital that has to date supported much of this research. Launched in December 2013 with USD 108mm of capital committed, the GHIF will help advance the most promising interventions to fight global health challenges in low-income countries such as malaria, tuberculosis, HIV/AIDS, and maternal and infant mortality.

- **SNS FMO SME Finance Fund:** In November 2013, three Dutch pension funds – Zwitserleven, the Spoorwegpensioenfonds and the Pensioenfonds Openbaar Vervoer – made a first deposit in the SNS FMO SME Finance fund. The fund was jointly initiated by SNS Impact Investing and the Dutch development bank FMO. The fund received EUR 100mm in commitments for the first close and the managers expect to increase commitments in 2014. The fund will provide loans to financial institutions supporting Small and Medium Enterprises (SMEs) in developing markets. Target sectors include agribusiness, food and distribution, retail business, production, and transportation.

- **UK Social Bond Fund:** In December 2013, Threadneedle Investments and Big Issue Invest launched a social investment partnership to bring the first FCA-registered diversified Social Bond Fund with daily liquidity to the UK market. This partnership combines a trusted and experienced social investment

---

61 [www.ghif.com](http://www.ghif.com)
62 [EUR 100mm For Growth of SME’s In Developing Countries, FMO News Archive Website, 20 Nov 2013.](http://www.ghif.com)
organization with one of the largest asset management organizations in the country. The investment policy is to maximize exposure to socially beneficial activities, based on assessments produced under the fund's Social Assessment Methodology. The fund may invest in all forms of tradeable debt instrument (primarily investment grade) issued by a supranational, public, private or voluntary and/or charitable sector organization. The fund size is currently GBP 15mn,63 and the goal is to grow this in 2014.

Notable new structures: Funds-of-funds and a real estate investment trust

Within the impact investment market, there has been a significant focus on building out the intermediary level of the market: the fund manager landscape that can accept larger capital allocations and channel that capital into the smaller-scale opportunities on the ground. Prior to 2013, there were few independent fund managers that marketed fund-of-funds structures. In 2013, a few new funds-of-funds were launched for investors, as profiled below. We also reference the affordable housing-focused real estate investment trust (REIT) established in the US.

- **Impact Investing SME Focus Fund**: This CHF 50mm (USD 54mm64) fund-of-funds, launched in September 2013, is dedicated to investing in SMEs in emerging and frontier markets. The fund will be managed by OBVIAM, with structuring and capital raising having been completed by UBS. The fund also offers investors the opportunity to co-invest alongside UBS and make additional direct impact investments outside of the fund. Investors new to impact investing can also take part in the due diligence process of a new investment.65

- **Social Impact Accelerator**: This EUR 60mm fund-of-funds, managed by the European Investment Fund (EIF), is the first pan-European public-private partnership supporting social enterprises with equity finance. It was launched in May 2013 as a first step in the European Investment Bank Group’s impact investing strategy and in response to the wider European Union policy aim of establishing a sustainable funding market for social entrepreneurship in Europe.66

- **Housing Partnership Equity Trust**: This social-purpose REIT is sponsored and operated by the Housing Partnership Network, a business collaborative of leading housing and community development nonprofits in the United States. Several banks and foundations contributed USD 100mm to invest in multi-family properties in partnership with 12 high-performing nonprofit housing providers across the country. Announced at the end of April 2013, the trust has since completed three transactions.67

---

63 [www.threadneedle.co.uk](http://www.threadneedle.co.uk)
64 Using FX rate CHF 1 = USD 1.07452 as of September 1, 2013.
67 Press releases, [http://hpequitytrust.com](http://hpequitytrust.com)
In focus: Program-related investments

The proportion of foundations in our respondent sample has doubled this year at 22% (27 foundations) versus 11% in last year’s survey (11 foundations). Of these 27, 15 are US based foundations making program-related investments (PRIs). Given the prominent role these investors play in the impact investment market, and the potential they have to use more PRIs in the future, we thought it apt to ask foundations about their PRI motivations and portfolio. It should be noted that foundations can, and do, make mission-related investments or impact investments through their endowments as well. We focus on PRIs to set a well-defined scope.

More and better vehicles to deliver impact main motivations to make PRIs

When asked about their motivations to make PRIs, respondents indicated “more appropriate tools for achieving programmatic objectives in certain instances” and “access to additional vehicles through which impact can be delivered (e.g. investment funds)” as the main reasons, as illustrated in Figure 53.

Figure 53: Motivations for making program-related investments

Number of responses shown above each bar; Respondents chose all that apply

Source: GIIN, J.P. Morgan.

USD 446mm invested in 2013, with plans for three percent more in 2014

Our PRI-investor sample has committed USD 446mm in 2013, as Table 18 shows, and plans to increase this amount by three percent in 2014. The PRI commitments made in 2013 and planned in 2014 represent roughly the same ratio of total grants disbursed or planned each year, at the aggregate level.

Table 18: Size of PRIs made and targeted

<table>
<thead>
<tr>
<th>PRI/Grant ratios</th>
<th>Made in 2013 USD mm (n=15)</th>
<th>2014 target USD mm (n=14)</th>
<th>Made in 2013 USD mm (n=15)</th>
<th>2014 target USD mm (n=14)</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>30</td>
<td>33</td>
<td>368</td>
<td>394</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Median</td>
<td>10</td>
<td>20</td>
<td>150</td>
<td>160</td>
<td>7%</td>
<td>13%</td>
</tr>
<tr>
<td>Sum</td>
<td>446</td>
<td>462</td>
<td>5,024</td>
<td>5,521</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.

Program-related investments

According to the US Internal Revenue Service (IRS), Program Related Investments are those in which:

- The primary purpose is to accomplish one or more of the foundation’s exempt purposes;
- Production of income or appreciation of property is not a significant purpose; and
- Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.

Table 19: Program-related investments’ motivations

Our PRI-investor sample has committed USD 446mm in 2013 and plans to increase this amount by three percent in 2014.

USD 446mm invested in 2013, with plans for three percent more in 2014

Our PRI-investor sample has committed USD 446mm in 2013, as Table 18 shows, and plans to increase this amount by three percent in 2014. The PRI commitments made in 2013 and planned in 2014 represent roughly the same ratio of total grants disbursed or planned each year, at the aggregate level.

Table 18: Size of PRIs made and targeted

<table>
<thead>
<tr>
<th>PRI/Grant ratios</th>
<th>Made in 2013 USD mm (n=15)</th>
<th>2014 target USD mm (n=14)</th>
<th>Made in 2013 USD mm (n=15)</th>
<th>2014 target USD mm (n=14)</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>30</td>
<td>33</td>
<td>368</td>
<td>394</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Median</td>
<td>10</td>
<td>20</td>
<td>150</td>
<td>160</td>
<td>7%</td>
<td>13%</td>
</tr>
<tr>
<td>Sum</td>
<td>446</td>
<td>462</td>
<td>5,024</td>
<td>5,521</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: GIIN, J.P. Morgan.


69 Only three US based foundations in our sample indicated not making PRIs.
Out of the 15 US-based foundations making PRIs in our sample, eight have indicated that their entire impact investment portfolio qualifies as PRI and seven that their PRI program is a subset of a broader impact investment portfolio. This suggests that, for the latter group, some impact investments are also made out of their endowments. Indeed, six respondents indicated that endowment professionals participate in PRI portfolio management, while seven indicated that they do not\(^70\).

In terms of regional distribution, about three quarters of the total respondent PRI portfolio is concentrated in Northern America (73%) followed by South Asia (10%) and SSA (6%), as illustrated in Figure 54. Some regions like MENA as well as Oceania have received no PRI from any of our respondents.

\textbf{Figure 54: Total PRIs AUM by geography}

\textit{n = 15; Average weighted by PRIs made since inception; Total PRIs made since inception = USD 3.6bn}

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{figure54}
\caption{Total PRIs AUM by geography.}
\end{figure}

Source: GIIN, J.P. Morgan. See Table 2 for region codes used in the text.

Healthcare accounts for a large part of PRIs (24%), followed by Housing (23%) and Financial Services (15%).

In terms of sector distribution, Healthcare accounts for a large part of PRIs (24%), followed by Housing (23%) and Financial Services (15%), while Education (3%), Energy (1%) and ICT (1%) account for much smaller parts of the overall PRI portfolio, as shown in Figure 55.

\textbf{Figure 55: Total PRIs AUM by sector}

\textit{n = 15; Average weighted by PRIs made since inception; Total PRIs made since inception = USD 3.6bn}

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{figure55}
\caption{Total PRIs AUM by sector.}
\end{figure}

Source: GIIN, J.P. Morgan

---

\(^{70}\) Two respondents did not provide an answer to this question.
In terms of instruments, 73% of the total PRI portfolio is invested through debt instruments (65% Private Debt, 8% Equity-like Debt) and 8% is invested through Private Equity (Figure 56). Public Equity (1%) is still a very small part of the total PRI portfolio. Respondents did report that “other” instruments made up 15% of their portfolios.

Figure 56: Total PRIs AUM by instrument
n = 14; Average weighted by PRIs made since inception; Total PRIs made since inception = USD 3.6bn

Source: GIIN, J.P. Morgan.
Concluding thoughts

This survey has presented a set of investors that committed USD 10.6bn in 2013 and plan to commit USD 12.7bn in 2014, a target increase of 19%. This year, our sample has increased by 26% to reach 125 respondents that collectively manage a total of USD 46bn of impact investments. We have made a number of improvements to our methodology that allowed us to provide more precise data on the aggregate portfolio breakdown of our respondent group. We have also added a number of questions to better understand some key emerging trends in impact investing such as the use of catalytic capital and program-related investments or important themes in our market such as investing in first-time fund managers.

The 125 respondents had diverse perspectives on the state of the impact investment market, and varied experience with investment opportunities and portfolio management. Overall, most respondents reported that their portfolios’ impact and financial performances are in line with their expectations, with some reporting outperformance. Respondents identified business model execution and management as the top risk to their portfolios, and believe that the market continues to be challenged by a shortage of high quality investment opportunities as well as a lack of appropriate capital across the risk/return spectrum. However, they indicated progress being made evenly across these and other indicators of market growth and highlighted some key initiatives governments could undertake in order to address some of these risks and challenges.

We find these conclusions promising and reflective of a market moving from a proof of concept phase to a growth phase, and hope that the expanded dataset we have presented will help investors to further develop their impact investment portfolios.
Appendix I: Acknowledgements

The authors are grateful to the many organizations listed below that took the time to participate in the survey, making this level of depth and analysis possible. We believe their contributions are critical to the development of the field, and we salute their dedication to sharing their experiences with the broader market.

We also thank the GIIN team – in particular Ellen Carey, Giselle Leung, Melody Meyer, Luther Rarin, Jr., Sapna Shah, and Brett Stevenson – and the J.P. Morgan Social Finance team for their invaluable contributions. We could not have produced this research without the help of these individuals. However, the authors maintain full responsibility for any errors herewithin.

The GIIN and J.P. Morgan would like to thank those who beta tested the 2013 Impact Investor Survey. We appreciate the time and thoughtful feedback provided by: Tanya Beja, Head of Industry and Institutional Relations, IGNIA; Amy Bell, Executive Director and Head of Principal Investments, Social Finance, J.P. Morgan; Huib-Jan de Ruijter, Director Financial Markets, FMO; Henry Gonzales, Head Research, responsAbility Investments AG; Christine Looney, Senior Program Investment Officer, Ford Foundation; David Rossow, Senior Program Investment Officer, Gates Foundation; Danyal Sattar, Social Investment Manager, Esmée Fairbairn Foundation; Liz Sessler, Investment Marketing Manager, Enterprise Community Partners; Sara Taylor, Investment Officer, Frontier Investments Group, Accion; and Madeline Wu, Program-Related Investment Associate, Packard Foundation.

Table 19: Survey participants

<table>
<thead>
<tr>
<th>Names of organization respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aavishkaar</td>
</tr>
<tr>
<td>Accion International</td>
</tr>
<tr>
<td>Acumen</td>
</tr>
<tr>
<td>Adobe Capital</td>
</tr>
<tr>
<td>AgDevCo</td>
</tr>
<tr>
<td>Alitheia Capital</td>
</tr>
<tr>
<td>AlterFin</td>
</tr>
<tr>
<td>Annie E. Casey Foundation</td>
</tr>
<tr>
<td>Anonymous 1</td>
</tr>
<tr>
<td>Anonymous 2</td>
</tr>
<tr>
<td>Anonymous 3</td>
</tr>
<tr>
<td>Anonymous 4</td>
</tr>
<tr>
<td>Anonymous 5</td>
</tr>
<tr>
<td>Aquifer Limited</td>
</tr>
<tr>
<td>Armstrong Asset Management</td>
</tr>
<tr>
<td>AXA IM</td>
</tr>
<tr>
<td>Beartooth Capital</td>
</tr>
<tr>
<td>Big Society Capital</td>
</tr>
<tr>
<td>BlueOrchard Finance S.A.</td>
</tr>
<tr>
<td>Bridges Ventures LLP</td>
</tr>
<tr>
<td>Business Partners International</td>
</tr>
<tr>
<td>Calvert Foundation</td>
</tr>
<tr>
<td>CDC Group Plc</td>
</tr>
<tr>
<td>Christian Super</td>
</tr>
<tr>
<td>City Bridge Trust</td>
</tr>
<tr>
<td>Community Capital Management, Inc.</td>
</tr>
<tr>
<td>Community Reinvestment Fund, Inc.</td>
</tr>
<tr>
<td>Comptoir de l'Innovation</td>
</tr>
<tr>
<td>Consorsa Elmos s.c.</td>
</tr>
<tr>
<td>Cordaid</td>
</tr>
<tr>
<td>Core Innovation Capital</td>
</tr>
<tr>
<td>CoreCo Central America</td>
</tr>
<tr>
<td>Creation Investments Capital Management, LLC</td>
</tr>
<tr>
<td>Credit Suisse</td>
</tr>
<tr>
<td>DBL Investors</td>
</tr>
<tr>
<td>DEG</td>
</tr>
<tr>
<td>Deutsche Bank</td>
</tr>
<tr>
<td>Developing World Markets</td>
</tr>
<tr>
<td>Ecosystem Integrity Fund</td>
</tr>
<tr>
<td>Ecosystem Investment Partners</td>
</tr>
<tr>
<td>EKO</td>
</tr>
<tr>
<td>Elevate Equity</td>
</tr>
<tr>
<td>Enclude</td>
</tr>
</tbody>
</table>
Names of organization respondents—continued

- Esmée Fairbairn Foundation
- FMO
- Ford Foundation
- GAWA Capital
- Gaylord & Dorothy Donnelley Foundation
- Global Partnerships
- Goodwill Investments
- Grassroots Capital Management and Caspian Advisors
- GeoFin
- Habitat for Humanity International
- HRSV
- Huntington Capital
- IGNIA
- Impact Community Capital, LLC
- Impact Finance Management
- Incofin Investment Management
- Injaro
- Insitor Management
- Inter-American Development Bank
- Investeco Capital Corp.
- Investisseurs & Partenaires
- Inquioz Valley Farms, LLC
- Jonathan Rose Companies
- JPMorgan Chase
- Kesge Foundation
- Laffse Investment Management, Fund Manager of CASEIF Funds
- LeapFrog Investments
- LIT Venture Philanthropy
- Living Cities
- Lundin Foundation
- MacArthur Foundation
- MainStreet Capital Partners Ltd.
- MarcoCap
- Media Development Investment Fund
- Medical Credit Fund
- Michael & Susan Dell Foundation
- National Community Investment Fund
- Nesta Investment Management
- NewWorld Capital Group
- Nonprofit Finance Fund
- Northern California Community Loan Fund
- OkoCredit - Equity
- Omidyar Network
- Pacific Community Ventures
- Pearl Capital Partners
- Persistent Energy Partners
- PhlTrust Partenaires
- Prudential
- Rabo Rural Fund
- responsAbility Investments AG
- RobecoSAM
- Robert Wood Johnson Foundation
- Rockefeller Foundation
- Root Capital
- Royal Bank of Canada
- Sarona Asset Management Inc.
- Shared Interest
- SJF Ventures
- SNS Asset Management
- Social Investment Business Group
- Stichting DOEN
- Stonebrand Asset Management
- Terra Global Capital, LLC
- The California Endowment
- The Children's Investment Fund Foundation (UK)
- The David and Lucile Packard Foundation
- The PB Heron Foundation
- The Lyme Timber Company
- TIAA-CREF
- Treetops Capital
- Trillium Asset Management
- Triodos Investment Management
- Triple Jump
- U.S. Fund for UNICEF
- UBS
- UK Green Investment Bank
- Unluls Impact
- Unluls Seed Fund
- Vox Capital
- Voxtra
- W.K. Kellogg Foundation
- XSML
Appendix II: Further Reading: Impact Investment Research

**J.P. Morgan Social Finance**

- *Perspectives on Progress: The Impact Investor Survey*
  J.P. Morgan and the GIIN, Jan 2013

- *A Portfolio Approach to Impact Investment A Practical Guide to Building, Analyzing and Managing a Portfolio of Impact Investments*
  J.P. Morgan, Oct 2012

- *Insight into the Impact Investment Market: An in-depth analysis of investor perspectives and over 2,200 transactions*
  J.P. Morgan and the GIIN, Dec 2011

- *Counter(Imp)acting Austerity: The Global Trend of Government Support for Impact Investment*
  J.P. Morgan, Nov 2011

- *Impact Investments: An Emerging Asset Class*
  J.P. Morgan, The Rockefeller Foundation and the GIIN, Nov 2010

**The GIIN**

- *Catalytic First-Loss Capital*
  GIIN, Oct 2013

- *Getting Started with IRIS*
  GIIN, Sep 2013

- *Diverse Perspectives, Shared Objective: Collaborating to Form the African Agricultural Capital Fund*
  GIIN, Jun 2012

- *Impact-Based Incentive Structures: Aligning Fund Manager Compensation with Social and Environmental Performance*
  GIIN, Dec 2011

- *Improving Livelihoods, Removing Barriers: Investing for Impact in Mtanga Farms*
  GIIN, Nov 2011
Disclosures

J.P. Morgan (“JPM”) is the global brand name for J.P. Morgan Securities LLC (“JPMS”) and its affiliates worldwide.

This report is written by the Social Finance research team and is not the product of J.P. Morgan’s research departments.

J.P. Morgan Social Finance is a business unit that serves the market for impact investments, meaning those investments intended to generate positive impact alongside financial return. The group allocates capital, publishes thought leadership and provides advisory services to investor and issuer clients of the firm.

Readers should be aware that the Global Impact Investing Network (“GIIN”) has had and will continue to have relationships with many of the organizations identified in this report, through some of which the GIIN has received and will continue to receive financial and other support.

J.P. Morgan is an inaugural sponsor of the GIIN and a founding member of its Investors’ Council.

J.P. Morgan analysts are solely responsible for the investment opinions and recommendations, if any, in this report.

The GIIN has contributed information towards this report that it believes to be accurate and reliable but the GIIN does not make any warranty, express or implied, regarding any information, including warranties as to the accuracy, validity or completeness of the information. The GIIN also expressly disclaims any responsibility for this report, which is written by J.P. Morgan, including its potential distribution with any other materials, for investment purposes or otherwise.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMS and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMS distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

Copyright 2014 JPMorgan Chase & Co. and the Global Impact Investing Network, a special project of Rockefeller Philanthropy Advisors, Inc.