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Perspectives on Progress

The Impact Investor Survey

Social Finance

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Executive Summary

- Our third annual survey on the impact investment market sheds light on this nascent and growing market by collecting data on investors' expectations and experiences in 2012, as well as their plans for 2013.
- Respondents report that they committed USD 8bn to impact investments in 2012, and that they plan to commit USD 9bn in 2013.
- Most respondents report that their portfolios' financial and impact performance are in line with their expectations, with nearly two-thirds of the sample targeting market rate financial returns on their impact investments.
- Ninety-six percent of respondents measure their social and/or environmental impact, and four out of five fund managers highlight the importance of impact measurement for raising capital.
- While respondents believe the market continues to be challenged by a lack of appropriate capital across the risk/return spectrum and a shortage of high quality investment opportunities, they indicate progress is being made evenly across these and other indicators of market growth.

Table of Contents

Appendices

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The Impact Investor Survey

Defining impact investments
For the purpose of the survey, we define impact investments using the definition employed by the Global Impact Investing Network:

"Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable 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."

In 2012, impact investments continued to gain attention among investors and philanthropists alike as a means for innovative financial solutions to promote positive social and environmental change. However, the impact investment market is characterized today by a paucity of publicly available data. With the goal of shedding light on this growing set of investments and the investors that make them, J.P. Morgan and the Global Impact Investing Network (GIIN) partnered to produce this impact investor survey.

This survey is the third in a series of reports, started in 2010, that aim to capture and represent a sample of impact investors' perceptions of the state of the market as well as the performance of their portfolios. As such, this survey covered: organizational information to determine the nature of the respondent population, the objectives with which respondents are investing, historical and planned investment activities, the performance of their current portfolios and their experiences with impact measurement[1]. We also collected data about client appetite for impact investment products from those respondents that offer such products to their clients.

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[2]. The GIIN collected and then anonymized all respondent data via an online platform before sending the full anonymized data set to J.P. Morgan for analysis.

Characteristics of the survey respondent sample

In order to fairly represent the population of survey respondents, we asked several questions about the way these organizations define themselves and their impact investment approaches[3]. In this section, we present these results to give readers a feel for the portion of the market that we have captured. **We make no claim that this sample is representative of the market.** We did, however, make efforts to include organizations across sectors and regions to ensure diversification within the sample.

While the term "impact investing" is relatively new, the practice is not, with more than 42% of respondents making impact investments over a decade ago.

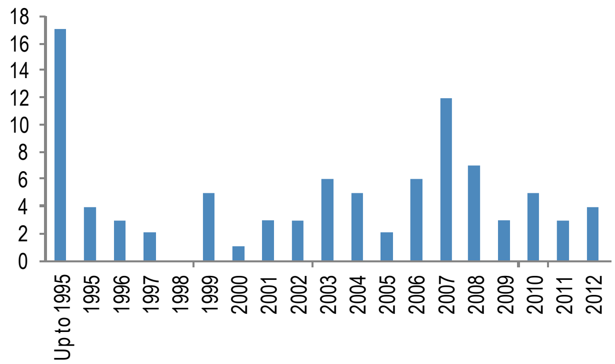
Survey respondents report that they committed USD 8bn to impact investments in 2012, and plan to commit USD 9bn in 2013

There are 99 organizations that participated in the 2012 survey. Figure 1 shows the number of respondents by the year of their first impact investment, in order to give some context as to the experience level of the organizations reporting data. This reflects that while the term "impact investing" is relatively new, the practice is not, with more than 42% of respondents making impact investments over a decade ago. Most of these respondents reported data on the number and notional value of investments they have made in total and in 2012 as well as what they plan to make in 2013 (Table 1).

[1] The survey was conducted between November 26 and December 7, 2012.
[2] This amount refers to either the respondents' self-reported impact investment assets under management or the self-reported capital committed for impact investment.
[3] Throughout, we represent what they chose to answer rather than, for example, splitting out "other" answers into the categories provided as we might have done for the "private equity fund" that didn't choose to define itself as a "fund manager".

Figure 1: Number of respondents by year of first impact investment

Number of respondents = 91; Chart shows the number of respondents that made their first impact investments in each year



Source: GIIN, J.P. Morgan.

Table 1: Impact investments made by respondents

Number of respondents differs, see below; Respondents entered figures

Statistic	Since inception		In 2012		Planned for 2013	
	#	USD, mm	#	USD, mm	#	USD, mm
Mean	199	411	29	91	32	104
Median	35	111	7	25	10	25
Sum	17,552	36,181	2,570	8,011	2,792	9,074
n =	88	88	89	88	88	87

Source: GIIN, J.P. Morgan.

DM and EM categorization

The categories included in the developed markets are: U.S. & Canada; Western, Northern & Southern Europe; and Oceania. The emerging markets include: Sub-Saharan Africa; Latin America & Caribbean (including Mexico); East & Southeast Asia; South Asia; Eastern Europe, Russia & Central Asia and Middle East & North Africa. Respondents reporting “No single headquarter location” or “Global” were not included in either.

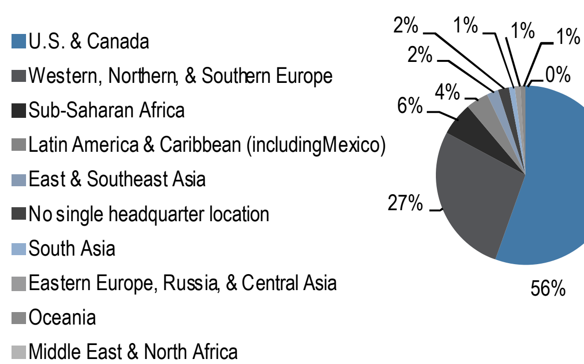
The survey respondents that provided the data included in Table 1 represent a set of investors that have allocated USD 36bn to impact investments since their organizations began making impact investments. Of this total, USD 8bn was committed in 2012. This group also plans to commit USD 9bn in 2013. While respondents plan to slightly increase the number of transactions they make, from 7 in 2012 to 10 in 2013 (at the median), the median amount they are each planning to allocate in 2013 is the same as for 2012 - USD 25mm.

DM home to most respondents; over half of respondents are fund managers

From Figure 2, we see that respondent organizations are mostly headquartered in developed markets (DM) with the US & Canada representing 56% of the sample and Western, Northern and Southern Europe representing 27%. Fourteen percent of respondent organizations are headquartered in emerging markets (EM).

Figure 2: Location of respondents' headquarters

Number of respondents = 99; Respondents chose one answer

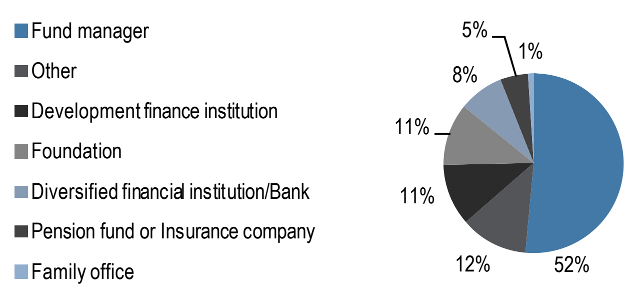


Source: GIIN, J.P. Morgan.

NB: Throughout, legends are shown in order of data in the pie chart, from top, clockwise.

Figure 3: Respondents by organization type

Number of respondents = 99; Respondents chose one answer



Source: GIIN, J.P. Morgan.

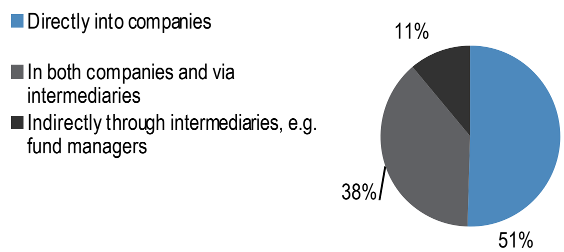
Splitting out just those respondents headquartered in EM, we see that 43% are headquartered in Sub-Saharan Africa and one-third in Latin America & Caribbean (which we will abbreviate as “LAC”, and which includes Mexico). We also find a sample bias towards fund managers over other organization types – they make up just over half of the overall sample, as shown in Figure 3, and 86% of the respondents that are headquartered in EM regions.

Most respondents make direct investments into companies; even split between managers of proprietary and client capital

Figure 4 highlights that 89% of our respondents invest directly into companies (51% do only that), while 49% invest through intermediaries (11% exclusively so). The predominance of direct investors may be a natural consequence of the fact that 52% of respondents are fund managers – indeed, 78% of fund managers report making only direct investments rather than investing through intermediaries[4]. In terms of the capital they are investing, respondents were fairly evenly split between those that invest proprietary capital (30%), those that invest capital on behalf of clients (39%), and those that invest both (31%) (Figure 5).

Figure 4: Respondents allocating directly to companies or through intermediaries such as fund managers

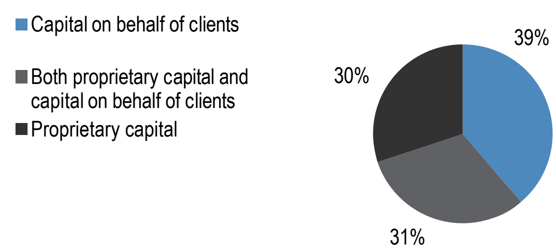
Number of respondents = 99; Respondents chose one answer



Source: GIIN, J.P. Morgan.

Figure 5: Type of capital invested – proprietary vs. client capital

Number of respondents = 99; Respondents chose one answer



Source: GIIN, J.P. Morgan.

In this section, respondents report their areas of focus, e.g. 34% of respondents focus on investing in Sub-Saharan Africa and 57% focus on food & agriculture. The reader should not conflate this with the amount of capital that has been or will be invested in that region or sector[5].

Geographic focus: Sub-Saharan Africa and LAC maintain priority

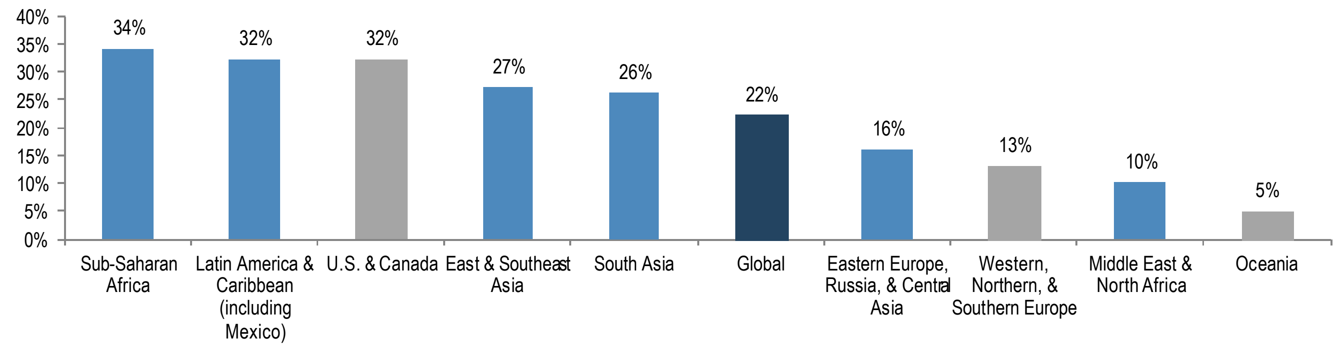
When stating the geographic and sector focus for their investments, respondents were asked to select all that apply among the answer choices provided. As a result, the charts in Figure 6 and Figure 7 show the percentage of respondents that focus on the respective geographies and sectors. The geographic focus of our respondents is similar to what we found in our 2011 survey, which showed a primary focus on Sub-Saharan Africa and LAC, followed by East, Southeast & South Asia among EM regions. Among DM regions, many respondents are focused on opportunities in the US & Canada, and all but one invest only in the regions in which they are headquartered (the one exception invests in two DM regions).

[4] There is also a link to being headquartered in EM, since 88% of those organizations make only direct investments, and we note the overlap between organizations headquartered in EM and fund managers (specified above).

[5] In 2011, our transaction survey allowed us to determine the amount of capital allocated. The 2012 survey was framed differently, hence the distinction.

Figure 6: Geographic investment focus

Number of respondents = 99; Respondents chose all that apply; Light blue indicates EM, grey indicates DM and dark blue highlights global



Source: GIIN, J.P. Morgan.

Sector focus: Even interest across numerous sectors

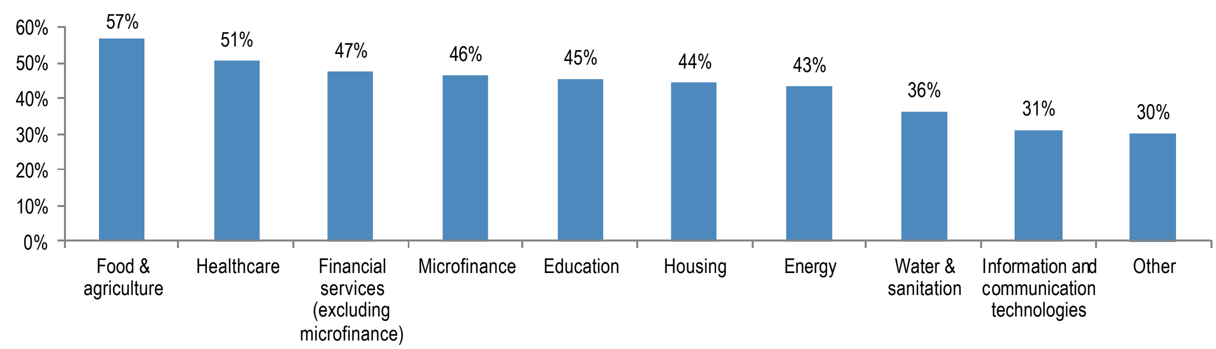
The sector focus of our respondents (Figure 7) indicates an increasing focus on sectors outside of microfinance and other financial services, with food & agriculture taking priority and healthcare in second place. Sectors reported in "Other" responses included community development, conservation and natural resources, arts & culture and real estate. In our 2011 transaction survey, food & agriculture comprised 15% of the reported transactions and was second to microfinance (34%) while healthcare represented only 3% of investments reported[6]. This could imply that future transaction surveys will see an increase in the allocations to food & agriculture or healthcare (depending on the availability of quality transactions within those sectors).

Most respondents invest across multiple sectors

We also note that the majority of respondents (86%) focus on multiple sectors. The 14% of respondents focused on single-sector opportunities include the following sectors: food & agriculture, financial services, microfinance and energy.

Figure 7: Sector investment focus

Number of respondents = 99; Respondents chose all that apply

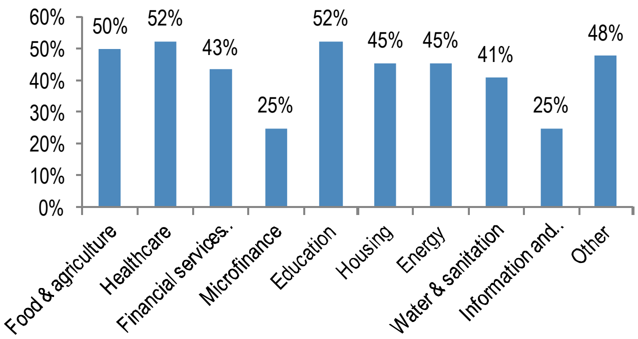


Source: GIIN, J.P. Morgan.

[6] Readers should note the difference in the two data sets: the 2011 survey represents transactions completed whereas this 2012 survey asked for sectors in focus, which is a more forward-looking indicator.

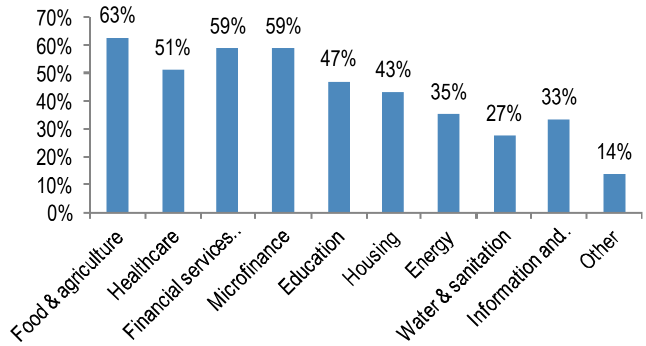
In order to better understand the sector focus, we parse out the data reported by those investing in DM (Figure 8) and those investing in EM (Figure 9)[7]. Notably, for respondents investing in DM regions, the healthcare and education sectors are tied for the top spot, followed by food & agriculture, energy and housing and then financial services, with few respondents focused on microfinance or information and communication technologies[8]. For EM investors, food & agriculture remains the sector in focus for the largest group of respondents, followed by financial services and microfinance.

Figure 8: Sector focus for developed market investors
Number of respondents = 44; Sector focus reported by any respondent that invests in developed markets (12 also invest in emerging markets)



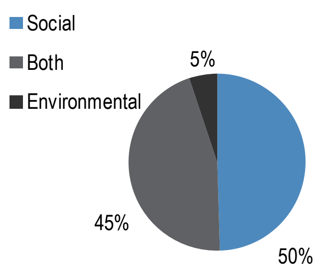
Source: GIIN, J.P. Morgan. Full sector names are as above in Figure 7.

Figure 9: Sector focus for emerging market investors
Number of respondents = 51; Sector focus reported by any respondent that invests in emerging markets (12 also invest in developed markets)



Source: GIIN, J.P. Morgan. Full sector names are as above in Figure 7.

Figure 10: Primary impact objective
Number of respondents = 99



Source: GIIN, J.P. Morgan.

Impact objective: Survey sample focused on social impact objectives

In terms of the impact objective with which these investors allocate capital, 50% of our respondent group primarily focuses on social impact, and the remaining 45% target both social and environmental impact. Only 5% indicated a primarily environmental focus (all of whom are fund managers). This should not be interpreted as indicative of the market's orientation. Rather we interpret this as a bias in our sample, and the results should be interpreted accordingly.

[7] In this and other sub-sample analyses throughout, we include data from any respondent that meets the criterion being considered, even if they also meet other criteria. For example, in Figure 8 we include data for those that invest in developed markets but do not require that they are exclusive to that region in order to be included in the sub-sample.
[8] Many respondents selected "Other".

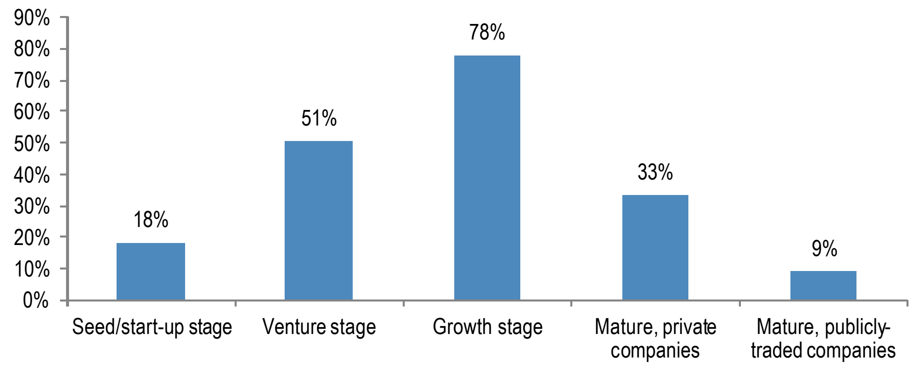
Stage of business: Growth-stage investments most preferred by respondents

While respondents were able to select more than one, there was an overwhelming preference for growth-stage businesses (78% of respondents), followed by venture-stage (51%) and mature, private companies (33%).

In order to understand the risk appetite and return expectations of our respondent group, we asked survey participants, both those investing directly into companies and those investing through intermediaries, to report at what stage of company development they prefer to invest[9]. While respondents were able to select more than one option, there was an overwhelming preference for growth-stage businesses (78% of respondents), followed by venture stage (51%) and mature, private companies (33%). The lower percentage of respondents that prefer seed/start-up stage (18%) or mature, publicly-traded investments (9%) gives an indication of the risk appetite of the investor base surveyed and/or of the investable market opportunity.

Figure 11: Stage of company development at which respondents prefer to invest

Number of respondents = 93; Respondents chose all that apply. Those that chose N/A not shown



Source: GIIN, J.P. Morgan.

Instruments: Private equity & debt common, equity-like debt also popular

Interestingly, 44% of respondents use equity-like debt structures and 18% of respondents report using guarantees.

Respondents also reported the instruments that they use to make impact investments (Figure 12)[10]. Unsurprisingly, most of the respondents state using private equity and private debt instruments – 83% use private equity and 66% use private debt. Interestingly, 44% of respondents use equity-like debt structures and 18% of respondents reported using guarantees, higher numbers than we expected.

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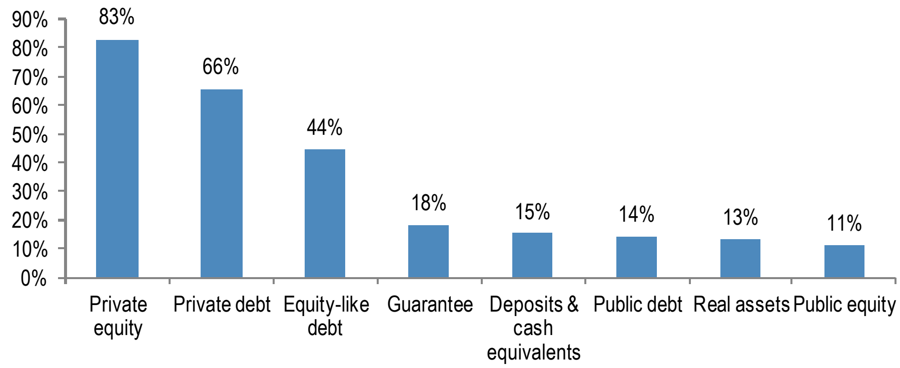
[9] We use the following definitions for the investment stages: ***Seed/Start-up:*** Business idea exists, but little has been established operationally (pre-revenues); ***Venture:*** Operations are established, company may or may not be generating revenues, but not yet positive EBITDA; ***Growth:*** Company has positive EBITDA and is scaling output; ***Mature:*** Company has stabilized at scale and is operating profitably.

[10] We used the following definitions for the instruments used to invest: ***Deposits and cash equivalents***: Cash management strategies that incorporate intent toward positive impact; ***Private debt***: Bonds or loans placed to a select group of investors rather than being syndicated broadly; ***Public debt***: Publicly traded bonds or loans; ***Equity-like debt***: An instrument between debt and equity, such as mezzanine capital or deeply-subordinated debt. Often a debt instrument with potential profit participation. E.g. convertible debt, warrant, royalty, debt with equity kicker; ***Private equity***: A private investment into a company or fund in the form of an equity stake (not publicly traded stock); ***Public equity***: Publicly traded stocks or shares; ***Real assets***: An investment of physical or tangible assets as opposed to financial capital, e.g. real estate, commodities; ***Guarantee***: A non-cancellable indemnity bond backed by an insuring entity in order to guarantee investors the receipt of all or part of principal and/or interest payments.

Figure 12: Instruments used to invest

Number of respondents = 99; Respondents chose all that apply



Source: GIIN, J.P. Morgan.

Dissecting by organization type, we find that private equity is used almost equally by fund managers and non-fund manager respondents (86% vs 79%) while guarantees are used more by non-fund managers (31%) than by fund managers (only 6%). Development finance institution respondents also indicated a preference toward debt – ten of the eleven use debt investments, while six use equity.

Indicators of the state of the impact investment market

In order to understand the state of the broader impact investment market, we asked respondents about the challenges they identify in the market, their perspectives on indicators of growth, and specific experiences with their investment pipelines in 2012.

The third biggest challenge reported in 2011 – "Inadequate impact measurement practice" – falls to sixth and is replaced by "Difficulty exiting investments."

Lack of appropriate capital and quality opportunities challenge industry growth

Respondents identified the top challenges to the growth of the impact investment industry today as being "lack of appropriate capital across the risk/return spectrum" and "shortage of high quality investment opportunities with track record". These two challenges retain the top spots whether we split out fund managers from other investors, or EM investors against DM investors. However, while these challenges retain their top spots from our 2011 survey (and are ranked fairly closely to one another), the third biggest challenge in 2011 – "inadequate impact measurement practice" – has fallen to sixth and has been replaced by "difficulty exiting investments". This may be a function of the different respondent samples.

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: (number of respondents that ranked it first × 3) + (number of respondents that ranked it second × 2) + (number of respondents that ranked it third × 1). NB: If the scores are tied, the rank will be the same for two choices.

Table 2: The most critical challenges to the growth of the impact investing industry today

Number of respondents = 99; Respondents ranked the top three

Rank	Score	Available answer choices
1	143	Lack of appropriate capital across the risk/return spectrum
2	140	Shortage of high quality investment opportunities with track record
3	76	Difficulty exiting investments
4	58	Lack of common way to talk about impact investing
5	53	Lack of innovative deal/fund structures to accommodate portfolio companies' needs
6	48	Inadequate impact measurement practice
7	44	Lack of research and data on products and performance
8	32	Lack of investment professionals with relevant skill sets

Source: GIIN, J.P. Morgan.

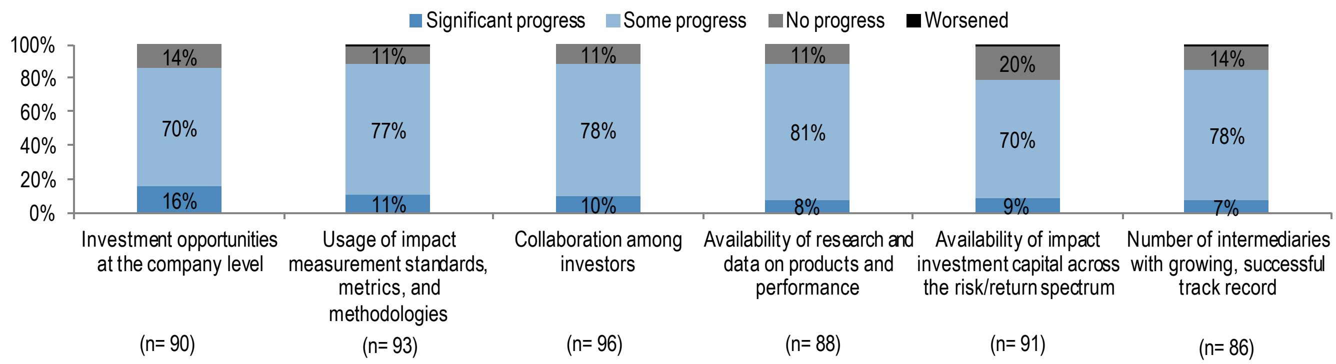
In general, the results show that a majority of respondents believe that "some progress" has been made fairly evenly across the six indicators of market growth, with no significant views that any of these indicators have worsened.

Respondents note even progress across indicators of market growth in 2012

The indicators for general market growth that we included in the survey span a wide range, from progress on investment activities at the company level to availability of research and data on products and performance. Respondents ranked the progress made in 2012 for each indicator, as shown in Figure 13. In general, the results show that a majority of investors believe that at least "some progress" has been made fairly evenly across these indicators, with no significant views that any of these indicators have worsened. The one indicator that shows slightly less progress than the others is the "availability of impact investment capital across the risk/return spectrum."

Figure 13: Progress made in 2012 for indicators of general market growth

Number of respondents differs, see below; Respondents that answered "not sure" not included



Source: GIIN, J.P. Morgan.

NB: Indicators are sorted by the weighted average of responses where the answer choices are ranked in order from 4 to 1.

Splitting out by investor types, fund managers are more positive about progress on investment opportunities at the company level (24% reported significant progress whereas non-fund managers report only 5%). Splitting out by region of investment focus, we find similar sentiments from those that reported focusing on investments in EM: 21% reported significant progress on investment opportunities at the company level versus only 8% for respondents focusing on DM investments.

Respondents say government policies can help them make impact investments

In an effort to alleviate the challenges of growing the nascent impact investment market, and recognizing the potential value of financially sustainable capital that serves a social purpose, several governments have been increasing their support to impact investors and the broader market in various ways[11]. As governments and field-building organizations allocate resources to support the growth of this market, we wanted to understand where our survey respondents felt governments should focus their attention. Figure 14 shows the result of the question, which asked respondents to indicate how helpful they felt each of six government actions would be, if at all, to help them make impact investments. Perhaps unsurprisingly given the top two challenges in Table 2, respondents rate "technical assistance for investees" highest followed by "tax credits or subsidies" and "government-backed guarantees".

[11] See *Counter(Imp)acting Austerity*, Y Saltuk, J.P. Morgan, Nov 2011 at http://www.jpmorganchase.com/corporate/socialfinance/publications.htm.

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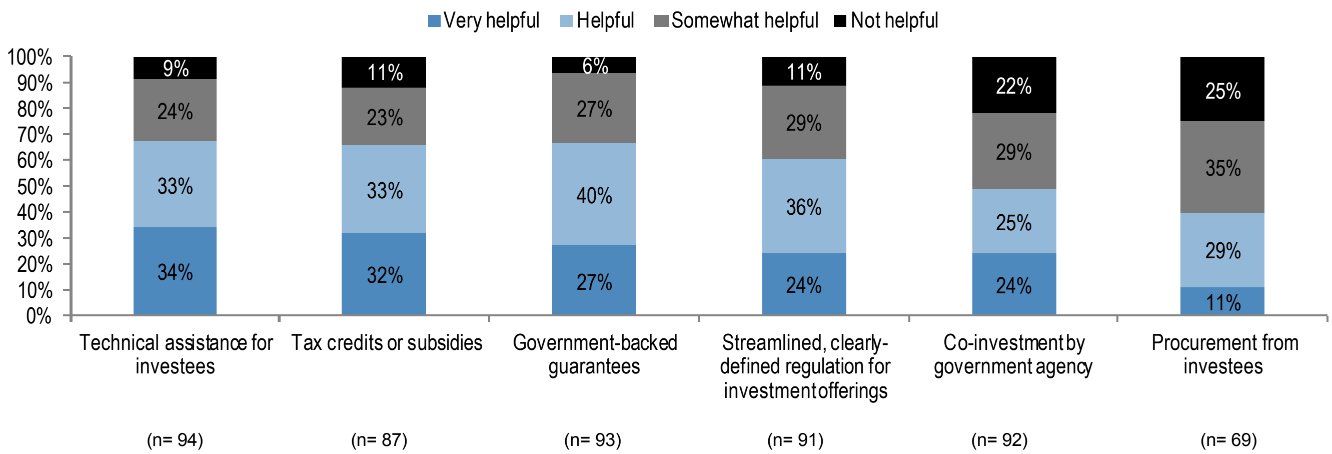
Figure 14: Respondents report which government policies, if any, would help them make impact investments
Number of respondents differs, see below; Respondents that answered "not sure" not included



Source: GIIN, J.P. Morgan.
NB: Answer choices are sorted by the weighted average of responses where the answer choices are ranked in order from 4 to 1.

Respondents focused on EM regions indicate technical assistance would help them make impact investments more than it would for those investing in DM regions.

Splitting out the respondents by region of investment, we find respondents focused on EM regions indicate technical assistance would help them make impact investments more than for those investing in DM regions – 44% of EM investors vs. 24% of DM investors felt that it would be "very helpful." We find the reverse perspective for tax credits or subsidies – 40% of DM investors felt this kind of intervention would be "very helpful" vs. 22% of EM investors. These interventions by government could address some of the biggest challenges respondents identified. Tax credits and subsidies could encourage capital across the risk/return spectrum, and technical assistance could help mitigate business execution risks.

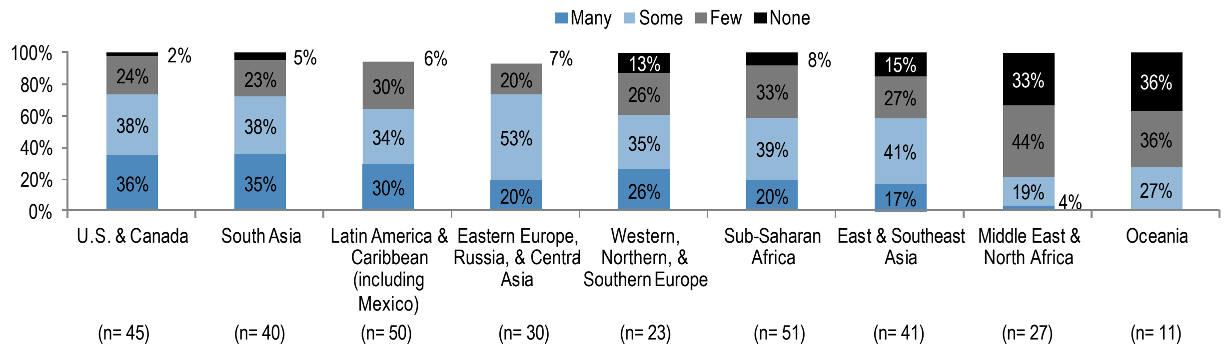
Most robust pipelines reported in US & Canada, South Asia, LAC

In order to better understand the quality of deal flow indicated by Figure 13, and also given that "shortage of quality investment opportunities" was one of the top challenges reported in our 2011 impact investor survey, we asked respondents to share how many of the impact investment opportunities they considered passed their initial impact and financial screens, for each region in which they considered investments in 2012[12]. The results are shown in Figure 15.

[12] See *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 at http://www.jpmorganchase.com/corporate/socialfinance/publications.htm.

Figure 15: Number of investment opportunities considered in 2012 that passed initial impact and financial screen

Number of respondents differs, see below; Respondents answered only for regions in which they considered investments



Source: GIIN, J.P. Morgan.

NB: Regions are sorted by the weighted average of responses where the answer choices are ranked in order from 4 to 1.

While Sub-Saharan Africa has been the region with the most focus for our respondents, their reported pipeline of investment opportunities there has been less robust than that for South Asia or Latin America.

Sub-Saharan Africa, East & Southeast Asia pipelines less robust for respondents despite their significant focus

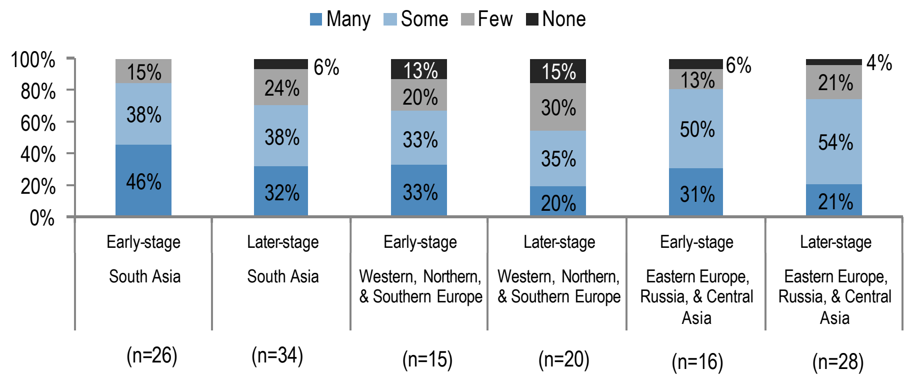
The results for the overall sample show that the top three regions for investment opportunities that pass the initial screens of our respondents are: the US & Canada; South Asia; and LAC. In 2012, the most challenging regions for our respondent group to source investment opportunities that met initial screens were: Middle East & North Africa and Oceania. When we compare this chart to the regions of focus for our respondents – Figure 6 – we note that while Sub-Saharan Africa has been the region with the most focus for our respondents, their reported pipeline of investment opportunities has been less robust than that for South Asia or LAC. We can make the same observation for East & Southeast Asia. Perhaps investors' focus on these regions will help generate a more robust pipeline going forward[13].

Pipelines in South Asia and Europe pass initial screens more for early-stage investors than for later-stage investors

Breaking out the respondents that prefer early-stage versus later-stage investments highlights some distinction in the quality of deal flow for these two respondent groups in three regions: South Asia; Western, Northern & Southern Europe; and Eastern Europe, Russia & Central Asia. In all three of these regions, more early-stage than later-stage investors reported having found "many" opportunities that passed their initial screens. Figure 16 shows this breakout for these three regions – the other regions showed minimal difference between respondents focused on early vs. later-stage investments.

[13] We have interpreted these results as respondent pipelines being more or less robust in 2012, but this could also be related to how strict their criteria were.

Figure 16: Number of investment opportunities considered in 2012 that passed initial impact and financial screen, split out by early-stage and later-stage investors
Number of respondents differs, see below; Respondents answered only for regions in which they considered investments

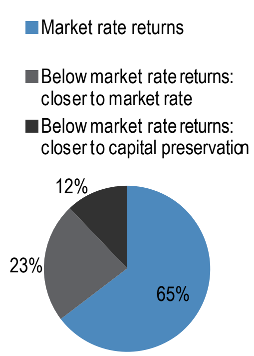


Source: GIIN, J.P. Morgan.
NB: Early-stage investors are those respondents that reported investing in "Seed/start-up stage" or "Venture stage", as indicated in Figure 11. Later stage investors are those that reported investing in "Growth stage" or "Mature" companies. Overall, there are 52 early-stage investors and 80 later-stage investors, with 39 of these respondents overlapping both categories.

We also analyzed whether the respondents' return expectations – as reported in Figure 17 – had any correspondence with the number of opportunities that passed their initial screens. We hypothesized that respondents with lower return expectations might have reported more investments passing their initial screens than those with market-rate return expectations, but we did not find evidence of this or any other significant trend.

Expectations and performance: Return, risk and impact

Figure 17: Target financial returns principally sought by respondents
Number of respondents = 99



Source: GIIN, J.P. Morgan.

Majority of respondents principally seek market rate financial returns

We included several survey questions about the return and risk profiles that respondents expect and experience. In Figure 17, we show respondents' indications of how their target impact investment return expectations compare to what they view as the market rate for those investments[14]. Interestingly, 65% principally target "market rate returns" and 35% target returns that are "below market rate". Of those that reported principally targeting below-market returns, two-thirds qualified their targets as being "closer to market rate" and one-third qualified their target returns as "closer to capital preservation". Further, of the 65% of respondents that principally target "market rate returns", 36% would consider impact investments with below market returns as well.

In setting these financial return expectations, 46% of all respondents reported using benchmarks. However, if we split respondents by return expectations, we find that 63% of market rate investors use benchmarks. By contrast, only 17% of those that are targeting below market rate returns use benchmarks to set their financial return expectations. Some of the reported benchmarks used by those targeting market rate returns include Cambridge Associates venture capital vintage year benchmarks, Cambridge Private Equity Index, LIBOR, MSCI Emerging Markets Indices, Consumer Price Index and Barclays U.S. Aggregate Bond Index. The reported benchmarks used by those targeting below market rate returns varied significantly.

[14] We did not define market returns and left it to the respondent to interpret.

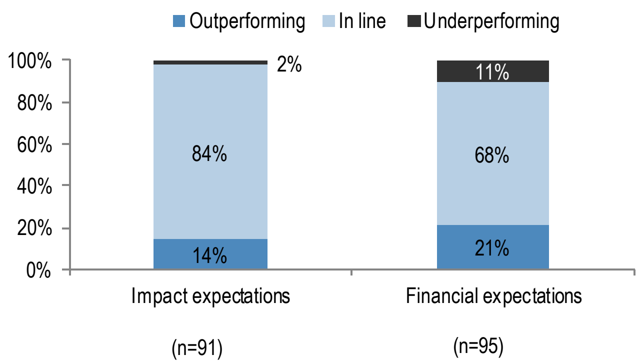
84% of respondents reported that their portfolio's impact performance is in line with their expectations.

Impact and financial performance largely in line with respondents' expectations

Whatever the expectations with which our respondents invested, 84% reported that their portfolio's impact performance is in line with their expectations. Fourteen percent reported that their portfolio's impact is outperforming expectations (leaving only 2% underperforming). On the financial side, 68% reported in-line performance, with 21% outperforming and 11% underperforming expectations.

Figure 18: Respondents' portfolio performance relative to their expectations

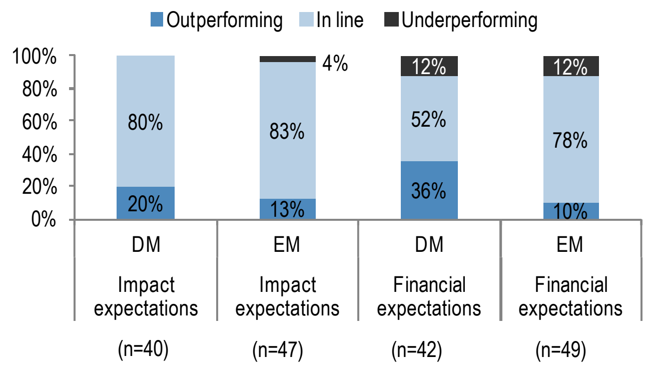
Number of respondents differs, see below; Respondents that answered "not sure" not included



Source: GIIN, J.P. Morgan.

Figure 19: Respondents' portfolio performance relative to their expectations – split out by DM and EM investment focus

Number of respondents differs, see below; Respondents that answered "not sure" not included



Source: GIIN, J.P. Morgan.

Of the respondents that reported impact outperformance relative to expectations, 77% were seeking "market rate returns" and the remaining 23% were seeking "below market: closer to market-rate" – none were seeking "below market, closer to capital preservation."

Splitting out the sample across DM and EM-focused investors, we find DM investors are more satisfied on both counts, with the outperformance gap particularly pronounced on the financial side. Interestingly, of the respondents that reported impact outperformance, 77% were seeking "market rate returns" and the remaining 23% were seeking "below market rate returns: closer to market rate" – none were seeking returns closer to capital preservation.

Sixty-four percent of equity investor respondents stated that they had at least one, if not many, investments significantly outperform their financial return expectations while delivering the expected impact.

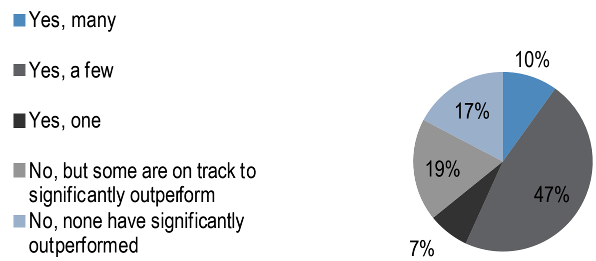
Many equity investors report at least one impact investment has delivered significant financial outperformance while delivering on impact

In order to better understand respondents' financial outperformance and the potential for "home runs" in this market, we asked the equity investor respondents how many of their equity investments have significantly outperformed their financial return expectations while delivering the expected impact[15]. The results of this question are shown in Figure 20, and 64% of respondents stated that they have had at least one, if not many, investments significantly outperform in this way. A further 19% of respondents claimed that some of their equity investments are on track to significantly outperform their expectations, though none had yet.

[15] We focused on equity investors since we were looking for significant outperformance of the type that venture capitalists pursue in traditional investments.

Figure 20: Number of equity investments that significantly outperformed financial expectations while delivering the expected impact

Number of respondents = 81; Only organizations making equity investments chose one answer



Source: GIIN, J.P. Morgan.

Business model execution & management risk top concern for respondents

To better understand the challenges impact investors face in managing their investments, we asked respondents to rank the top three contributors to risk in their impact investment portfolios. The top three risks identified were “business model execution & management risk”, “country & currency risks”, and “macroeconomic risk.” The full list is shown in Table 3. Business model risk was top for all sub-samples of our data set. “Country & currency risks” were second on the list for respondents focusing on EM investments, while they ranked seventh for respondents focusing on DM investments. Inversely, macroeconomic risks were second in the list for DM investments while they were ranked fifth for EM-focused investors.

We also asked investors to report whether their portfolios had experienced significantly more and/or worse covenant breaches or material adverse changes in 2012 than they had expected. Ninety-three percent reported that they had no such experience, and some of those that did provided comments to explain their experience. These comments included reference to funds with flaws in management or transparency, foreign currency exposure, constraints on public funding for investees that contract with governments, drought, premature exit at a valuation lower than expected, and tight liquidity in the bank sector.

Table 3: Biggest contributors of risk to respondents' portfolios

Number of respondents = 99; Respondents ranked the top three

Rank	Score	Available answer choices
1	167	Business model execution & management risk
2	87	Country & currency risks
3	81	Macroeconomic risk
4	74	Market demand & competition risk
5	70	Liquidity & exit risk
6	58	Financing risk, e.g. lack of follow on capital
7	48	Perception & reputational risk

Source: GIIN, J.P. Morgan. See scoring methodology grey box on page 9.

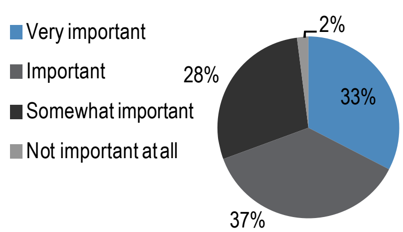
Impact measurement

Ninety-six percent of the respondents report that they use metrics to measure social/environmental impact, leaving only 4% that do not.

As the impact investment market develops, so are several industry initiatives seeking to establish standardized metrics for impact measurement. In surveying our respondent population, we find that 70% of respondents feel that standardized impact metrics are "important" or "very important" to the development of the industry (Figure 21). The usage of metrics aligned with such standards is also significant: 82% of respondents reported using metrics that align with IRIS or other external standards, as shown in Figure 22[16]. We find that a higher percentage of respondents making investments into DM regions – 42% – are not aligned with any external standards (this figure is only 22% for respondents investing in EM regions). Overall, 96% of respondents report that they use metrics to measure social/environmental impact, leaving only 4% that do not. Of the total time respondents spend on impact investing, they report spending 10% on impact measurement (at the median).

Figure 21: Importance of standardized impact metrics to industry development

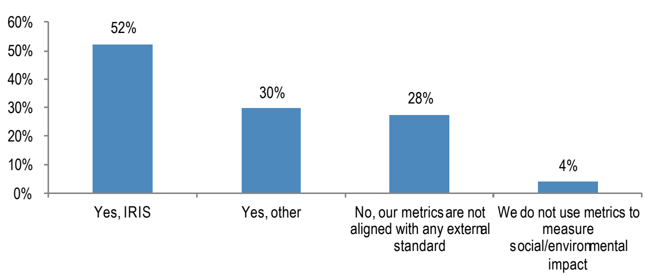
Number of respondents = 98; Respondents chose one answer



Source: GIIN, J.P. Morgan.

Figure 22: Alignment of impact metrics with external standards

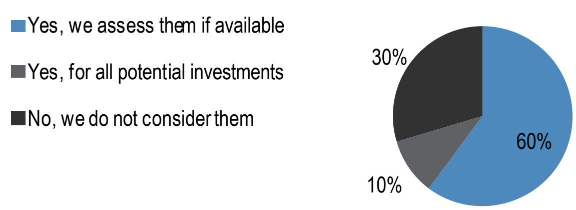
Number of respondents = 98; Respondents chose all that apply



Source: GIIN, J.P. Morgan.

Figure 23: Use of third-party ratings of social/environmental factors for making investment decisions

Number of respondents = 98; Respondents chose one answer



Source: GIIN, J.P. Morgan.

With the development of third-party ratings of social and environmental performance, 70% of our respondents report using them in some capacity for their investment decisions, with 10% requiring them for all potential investments (Figure 23). Social/environmental performance ratings used by respondents included CARS, GIIRS, Microrate and Planet Rating.

[16] Impact Reporting and Investment Standards (IRIS) is a set of metrics that can be used to measure and describe an organization's social, environmental and financial performance. www.iris.thegiin.org

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Investor motivations and drivers of demand

To better understand the landscape of investors that are beginning to consider the impact investment market and gain insight into when and why they choose to make impact investments, we surveyed two types of investors: investors that allocate capital to both traditional and impact investments, and organizations that offer impact investment products – product providers – to their clients. We present these findings in this section.

Traditional investors report responsibility, efficiency and financial attractiveness as top motivations for making impact investments

In our experience, an increasing number of traditional investors have been considering the strategic role that impact investments might play in their portfolios. In order to better understand what might attract these new market participants, we asked traditional investors already allocating capital to impact investments what motivated them to do so. The responses, as determined by respondents ranking their top three motivations, are shown in Table 4. The responses highlight both social and financial motivations, with the top three noted as commitment to being a responsible investor, efficiency in meeting impact goals and financial attractiveness relative to other opportunities.

Table 4: Top motivations for traditional investors to allocate capital to impact investments

Number of respondents = 35; Respondents ranked up to three

Rank	Score	Available answer choices
1	61	They are a part of our commitment as a responsible investor
2	38	They are an efficient way to meet our impact goals
3	27	They are financially attractive relative to other investment opportunities
4	26	We are responding to client demand
5	25	They provide an opportunity to gain exposure to growing sectors and geographies
6	21	They offer diversification to our broader portfolio
7	5	We do so to meet regulatory requirements

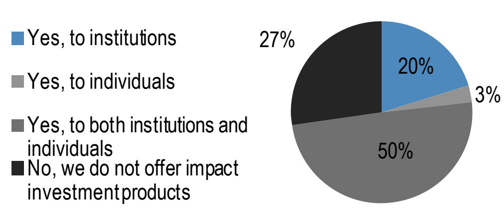
Source: GIIN, J.P. Morgan. See scoring methodology grey box on page 9.

Product providers find investors early in the process of allocating capital

Many of our survey respondents – 73% to be exact – offer impact investment products to investors in addition to being investors themselves. Fund managers make up 64% of this sub-sample, and the others include foundations, development finance institutions, and diversified financial institutions/banks. While most of these institutions offer products to both institutions and individuals (which includes both retail and high net worth individuals), a minority offer to only one type of client, as summarized in Figure 24.

Figure 24: Respondents' client base

Number of respondents = 99; Respondents chose one answer

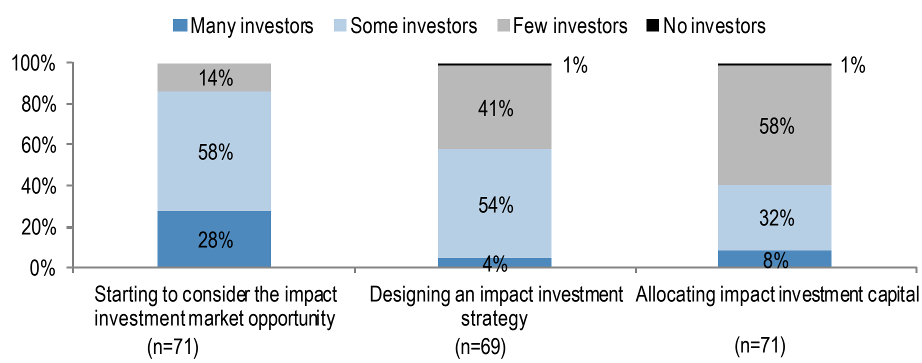


Source: GIIN, J.P. Morgan

Eighty-six percent of product providers felt that "many" or "some" investors are starting to consider the impact investment market opportunity and 40% felt that "many" or "some" investors are allocating impact investment capital.

We asked these product providers how they perceived the degree of interest exhibited by their investor clients for impact investment, as measured by the progress these clients are making towards allocating capital. Figure 25 illustrates the responses reported across three stages of progress. Eighty-six percent of respondents felt that "many" or "some" investors are starting to consider the impact investment market opportunity, 58% felt that "many" or "some" investors are designing an impact investment strategy, and 40% felt that "many" or "some" investors are allocating impact investment capital. Given the young but growing stage of this market, we anticipated these results and expect that allocations will increase over time. However, it is a positive surprise that many respondents report more than a few investors already designing an impact investment strategy.

Figure 25: Product providers' description of extent of investors' interest
Number of respondents differs, see below; Respondents that answered "not sure" not included

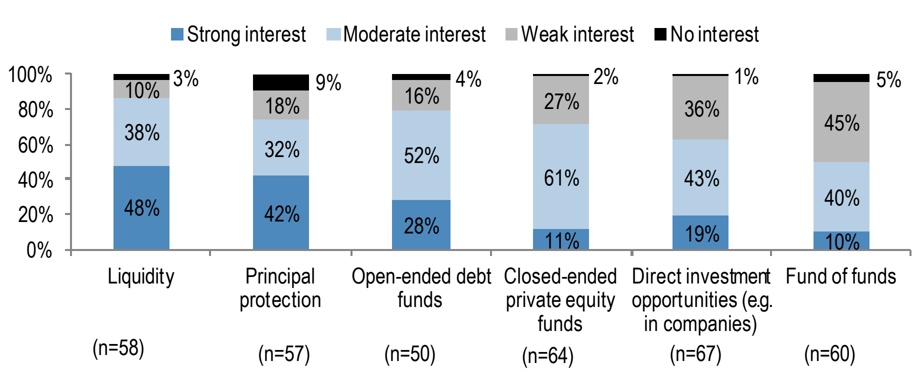


Source: GIIN, J.P. Morgan.

Clear client interest in risk-mitigating features; mixed interest across structures

We also asked the product provider respondents to rank the interest they see from clients for certain fund structures and structural features. While respondents perceive clear interest from their clients in such risk-mitigating features as principal protection and liquidity, there is more mixed interest for open-ended debt funds, closed-ended private equity funds, funds of funds and opportunities to invest directly into companies. The results are summarized in Figure 26.

Figure 26: Degree of interest for impact investment structures and structural features
Number of respondents differs, see below; Respondents that answered "not sure" not included



Source: GIIN, J.P. Morgan.

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Fund managers' experience

51 fund managers raised USD 3.5bn in 2012 and target USD 5.7bn in 2013

The 51 respondents that self-identified as fund managers have raised USD 3.5bn over the course of 2012, with the median per manager at USD 21mm[17]. In 2013, they target raising USD 5.7bn, with the median per manager at USD 60mm. They ranked their primary investors in terms of percentage of total capital as "family office/HNWI", "development finance institution" and "diversified financial institution/bank." The full list is shown, ranked, in Table 6.

Table 5: Capital raised in 2012 and targeted in 2013 by fund managers

Number of respondents = 51; Respondents entered figures in USD mm

Statistic	In 2012	Targeted for 2013
Mean	69	112
Median	21	60
Sum	3,530	5,725

Source: GIIN, J.P. Morgan.

Table 6: Fund managers' primary investors

Number of respondents = 51; Respondents ranked up to three, in terms of percentage of total capital

Rank	Score	Investor type
1	67	Family office/HNWI
2	59	Development finance institution
3	43	Diversified financial institution/Bank
4	42	Pension fund or Insurance company
5	40	Foundation
6	12	Endowment (excluding foundations)
7	11	Retail investor
7	11	Fund of funds manager

Source: GIIN, J.P. Morgan. See scoring methodology grey box on page 9.

Splitting the sample by headquarter location in Table 7 and Table 8, we find that for fund manager respondents headquartered in DM regions, "family office/HNWI" remains the top investor category, followed by "pension fund or insurance company" second and "development finance institution" dropping to fifth. For fund manager respondents headquartered in EM regions, "development finance institution" and "family office/HNWI" remain top investor categories, with "foundation" third.

Table 7: Primary investors for fund managers headquartered in DM regions

Number of respondents = 37; Respondents ranked up to three, in terms of percentage of total capital

Rank	Score	Investor type
1	50	Family office/HNWI
2	37	Pension fund or Insurance company
3	34	Diversified financial institution/Bank
4	28	Foundation
5	27	Development finance institution
6	11	Endowment (excluding foundations)
7	9	Retail investor
7	9	Fund of funds manager

Source: GIIN, J.P. Morgan. See scoring methodology grey box on page 9.

Table 8: Primary investors for fund managers headquartered in EM regions

Number of respondents = 12; Respondents ranked up to three, in terms of percentage of total capital

Rank	Score	Investor type
1	29	Development finance institution
2	14	Family office/HNWI
3	11	Foundation
4	7	Diversified financial institution/Bank
5	3	Pension fund or Insurance company
6	2	Retail investor
6	2	Fund of funds manager
8	0	Endowment (excluding foundations)

Source: GIIN, J.P. Morgan. See scoring methodology grey box on page 9.

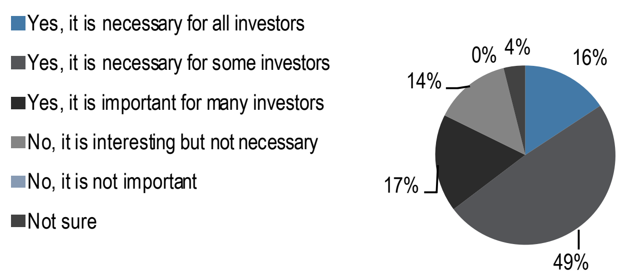
Breaking out the sub-sample by target return profiles, we find that "family office/HNWI" remains a top investor category (first or second) across target return profiles, while development finance institutions drop from second among clients of funds targeting "market rate returns" to sixth among clients of funds targeting "below market rate returns, closer to capital preservation". By contrast, retail investors as well as endowments are ranked last among clients of funds targeting "market rate returns", but are among the top client categories for fund managers targeting "below market rate returns, closer to capital preservation".

[17] We note that 5 of the 51 fund managers indicated that they invest only proprietary capital.

Fund managers say impact measurement critical to attract and raise capital

We also asked about the role of impact measurement in attracting and raising capital for these fund managers and found that 82% believed that impact measurement was necessary or important to attract and raise capital from investors. Further, 16% felt strongly enough to state that it was necessary for all investors and no respondent stated that it was not important. The full results are shown in Figure 27.

Figure 27: The role of impact measurement in raising capital for fund managers
Number of respondents = 51



Source: GIIN, J.P. Morgan.

Looking Forward

This survey has presented a set of investors that committed USD 8bn to impact investments in 2012, and plan to commit USD 9bn in 2013. While we do not have a reference point by which to measure the portion of the market we have captured with this sample, we are pleased to note that our survey sample has almost doubled from the previous year, providing a rich data set.

The 99 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 highlighted the importance of impact measurement, both for the purposes of raising capital and for general industry development. Notably, 96% of respondents measure their social and/or environmental impact.

Respondents identified business model execution and management as the top risk to their portfolios, and believe the market continues to be challenged by a lack of appropriate capital across the risk/return spectrum as well as a shortage of high quality investment opportunities. 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 for this young and growing market, and hope that the data we have presented will help investors to further develop their impact investment portfolios.

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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 Adam Gromis, Giselle Leung, Melody Meyer, Kim Moynihan, Dennis Price, Luther Ragin, Jr., and Sapna Shah – 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 2012 Impact Investor Survey. We appreciate the time and thoughtful feedback provided by: Amy Bell, Vice President, Social Finance, J.P. Morgan; Huib-Jan de Ruijter, Director Financial Markets, FMO; Tahira Dosani, Director of Global Engagement and Strategic Projects, LeapFrog Investments; Christine Looney, Senior Program Investment Officer, Ford Foundation; Danyal Sattar, Finance Fund Manager (social investment), Esmee Fairbairn Foundation; and Liz Sessler, Sr. Investment Marketing Manager, Enterprise Community Partners.

Table 9: Survey participants

Names of organization respondents
Accion
Adva Capital
Akeida Capital Management
Alterfin
Annie E. Casey Foundation
Anonymous 1
Anonymous 2
Anonymous 3
Appolaris
Armstrong Asset Management
Bamboo Finance
BAML Capital Access Funds
Big Society Capital
BlueOrchard Finance S.A.
Business Partners International
Calvert Foundation
CASEIF II - Lafise Investment Management
Caspian Advisors Private Limited
Comptoir De L'Innovation (CDI) Investissement
Christian Super
Community Capital Management
Composition Capital Partners
Creation Investments
Credit Suisse
Daiwa Securities Group Inc.
DBL Investors
Developing World Markets
DOEN Foundation
EcoEnterprises Fund
Ecotrust
Elevar Equity
Enterprise Community Partners
Equilibrium Capital
ETF Manager LLP

…continued on next page

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Names of organization respondents…continued
FMO
Ford Foundation
Generation Investment Management
Global Partnerships
Gray Ghost Ventures
Hooge Raedt Social Venture, B.V.
Huntington Capital
I&P
IGNIA
Incofin Investment Management
Injaro Agricultural Capital Holdings Limited
Inter-American Investment Corporation, Inter-American Development Bank Group
Investeco Capital Corp.
Iroquois Valley Farms, LLC
J.P. Morgan
J.W. McConnell Family Foundation
Jonathan Rose Companies
KfW
LeapFrog Investments
Living Cities
MainStreet Partners
Media Development Loan Fund
Michael & Susan Dell Foundation
MicroCredit Enterprises
MicroVest Capital Management
Morgan Stanley
Mountain Cleantech
Multilateral Investment Fund, Inter-American Development Bank Group
Nonprofit Finance Fund
Northern California Community Loan Fund
Oikocredit
Omidyar Network
Overseas Private Investment Corporation (OPIC)
Pacific Community Ventures
Phatisa
PhiTrust Partenaires
Prudential
RBC Global Asset Management, Inc.
responsAbility
Root Capital
RSF Social Finance
Sarona Asset Management
Small Enterprise Assistance Funds (SEAF)
ShoreBank International Ltd. (SBI)
SJF Ventures
SNS Impact Investing
Sonen Capital
SP Fund Managers
Staalbankiers
The Bill & Melinda Gates Foundation
The David and Lucile Packard Foundation
The F.B. Heron Foundation
The Lyme Timber Company
The Rockefeller Foundation
The Social Investment Business Group
TIAA-CREF
Treetops Capital
Triodos Investment Management
UFF
Unitus Impact
Vox Capital
Voxtra
W.K. Kellogg Foundation
Working Capital for Community Needs (WCCN)
XSML

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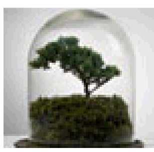
Appendix II: Further Reading: Impact Investment Research

J.P. Morgan Social Finance

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



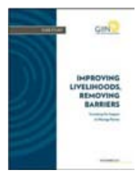
Counter(Imp)acting Austerity:
The Global Trend of Government Support for Impact Investment
J.P. Morgan, Nov 2011

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

The GIIN

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

Data Driven: A Performance Analysis for the Impact Investing Industry
GIIN, Sep 2011

KL Felicitas Foundation IRIS Case Study
GIIN and the KL Felicitas Foundation, Apr 2011

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