

IMPACT INVESTING DECISION-MAKING:

INSIGHTS ON FINANCIAL
PERFORMANCE



ACKNOWLEDGMENTS

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Reviewers

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About the Global Impact Investing Network (GIIN)

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

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LETTER FROM THE DIRECTOR

Dear Reader,

Impact investing offers an enticing promise in a world deeply fraught with indisputable social and environmental challenges, such as climate change, poverty, and inequality. As an investment strategy, impact investing can positively contribute toward tackling many of those challenges while also generating financial returns.

As these strategies have become increasingly attractive to a variety of players, many investors are keen to understand not only impact results but also financial performance of their impact investments.

I am pleased to present this report, which reflects our latest findings and perspectives on resources used to understand financial performance of impact investments.

The GIIN's research and deep industry engagement have led us to understand that financial performance is seldom considered in isolation from any other facets driving the success of a portfolio. Encouragingly, this report highlights that financial and impact performance are close bedfellows, being evaluated with growing sophistication. Increasingly, investors are dynamically considering multiple components that affect performance, adopting a holistic approach to decision-making, which considers both impact and financial results alongside traditional investment factors such as risk, capacity, liquidity, and fiduciary considerations.

The report also highlights gaps in financial performance benchmarks that must be addressed. This presents an opportunity for industry data providers to meet the demand for financial performance benchmarks that incorporate impact funds and offer investors more comprehensive sources of data.

We are confident that as the market matures, providers will continue to deepen data sets and increasingly integrate impact data, researchers will continue to probe the intersection between impact and financial performance, and investors will disclose more of their impact and financial performance data. The resulting information will better equip investors to ever-more-efficiently direct capital toward investment strategies that will foster a planet on which the social and environmental fabric thrives.

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Nearly nine in ten impact investors find that their portfolios are either meeting or exceeding their financial performance expectations.



INTRODUCTION

As the industry has continued to grow in depth, diversity, and sophistication, so too have impact investors' approaches to understanding performance in multi-faceted ways. Impact investors consider a range of levers in tandem – including financial and impact objectives, risk, liquidity, and resource capacity – when allocating capital, managing investments, and assessing performance. In making decisions, impact investors seek to balance these factors and deploy the least amount of capital for the greatest financial and impact outcomes, thereby maximizing their outcome efficiency.¹ Ultimately, a strong understanding of impact investment performance can enable investors to make well-informed choices and meet their diverse performance objectives.

Impact Investing Decision-Making: Insights on Financial Performance focuses on financial performance, one important factor investors consider when managing portfolio performance and making investment decisions. In fact, 70% of impact investors report that impact investments are financially attractive relative to other investment opportunities, citing this as a somewhat or very important reason for making impact investments.² Additionally, nearly nine in ten impact investors find that their portfolios are either meeting or exceeding their financial performance expectations.³ Building on the GIIN's 2017 brief, [GIIN Perspectives: Evidence on the Financial Performance of Impact Investments](#), this report offers additional insight to the market on performance and investor approaches to decision-making.⁴

This report explores performance through a synthesis of six existing published studies and analyses on financial performance based on the GIIN's [2020 Annual Impact Investor Survey](#), offering perspectives on performance across asset classes. In a series of five spotlights, this report also provides practical examples to reflect how investors assess various levers to drive decisions on capital allocation and performance. Key findings included in this research:

As the industry has continued to grow in depth, diversity, and sophistication, so too have impact investors' approaches to understanding performance in multi-faceted ways.

KEY FINDINGS INCLUDED IN THIS RESEARCH:

1 Impact investors are approaching performance and capital allocation with increasing sophistication, considering various facets that influence performance to maximize outcome efficiency;

3 Risk-adjusted, market-rate returns can be achieved through impact investments, contingent on asset manager selection and investment strategy, and;

2 Financial performance varies significantly based on asset class and the diverse set of objectives that impact investors pursue;

4 Impact debt funds are especially important for risk mitigation and diversification.

For current impact investors, these findings can improve strategic planning, provide transparency on the various facets of performance, and offer insight into comparisons with peers. For new entrants to the impact investing industry, this report illustrates dynamic decision-making approaches and the potential to achieve financial performance in line with expectations.

1 Matthew Lee, Arzi Adbi, and Jasjit Singh, "Categorical Cognition and Outcome Efficiency in Impact Investing Decisions," *Strategic Management Journal* 41, no. 1 (January 2020): 86–107, <https://doi.org/10.1002/smj.3096>.

2 Dean Hand, Hannah Dithrich, Sophia Sunderji, and Noshin Nova, [2020 Annual Impact Investor Survey](#), 10th ed. (New York: The Global Impact Investing Network, June 2020).

3 Hand et al., [2020 Annual Impact Investor Survey](#).

4 Abhilash Mudaliar and Rachel Bass, [Evidence on the Financial Performance of Impact Investments](#) (New York: The Global Impact Investing Network, November 2017).

REPORT METHODOLOGY

Report scope

This report synthesizes the industry's existing published and publicly available research and offers perspectives on the financial performance of impact investments and funds. Expanding upon the 2017 brief, *GIIN Perspectives: Evidence on the Financial Performance of Impact Investments*, this report focuses on various facets of impact investment performance, including risk, financial return, and impact. Based on a scoping exercise, the research was bound as follows:

- **Impact investing:** Synthesis of findings pertains only to impact investments, as per the generally accepted definition, “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.”
- **Private markets:** This report explores private debt, private equity, and real assets, the most commonly used asset classes in the impact investing industry. Analyses do not assess public-market instruments given the lack of clarity, as yet, into how to proactively manage impact portfolios and measure impact in the context of public markets.
- **Market-rate returns:** This report includes analyses and publications primarily focused on impact investments and funds seeking risk-adjusted, market-rate returns, and not those seeking below-market-rate returns.
- **Publication timeline:** In order to ensure findings are relevant and timely, this report includes only benchmark updates and reports that were published between 2018 and 2020.

A full list of study participants and advisors can be found in Appendix 2.

Research process

SCOPING

The Research Team held a range of one-on-one discussions with field-builders, providers of impact investing benchmarks, academics, and other researchers to assess available studies and benchmarks in the impact investing industry. The resulting insights shaped the scope of the research, informed which external resources were included, and influenced the perspectives offered throughout.

DATA COLLECTION

The Research Team conducted extensive desk research to identify available resources on the financial performance of impact investments. The Research Team also solicited input and perspectives from two existing providers of financial performance benchmarks – Cambridge Associates and Symbiotics – in order to better understand the methodology and performance findings of each published impact benchmark.⁵

During this process, the Research Team found that there has not been significant movement in the available body of industry research on the financial performance of impact investments. However, there has been significant research on financial performance in analogous markets, including Environmental, Social, and Governance (ESG) investing and Socially Responsible Investing (SRI).⁶ To shed additional light on financial performance, the Research Team assessed the GIIN's 2020

⁵ In 2015, the GIIN collaborated with Cambridge Associates and Symbiotics to encourage the development of benchmarks on the financial performance of impact investments. Since 2018, both organizations have continued to maintain their respective benchmarks. The benchmarks, associated data, and analytics are managed independently of the GIIN. The GIIN has no access to the data or methodological influence.

⁶ ESG is defined as a set of standards for a company's operations that socially conscious investors use to screen potential investments, typically to mitigate against environmental, social or governance risks. Responsible investing is defined by the United Nations Principles for Responsible Investing (UNPRI) as a strategy and practice to incorporate ESG factors in investment decisions and active ownership.

Impact Investor Survey dataset, specifically regarding 161 impact investors seeking risk-adjusted, market-rate returns. The Research Team subsequently conducted six focus group discussions with investors focused on private equity and private debt. During these discussions, a total of 31 participants shared their perspectives on setting financial performance targets, measuring financial performance against those targets, and verifying financial performance externally. The Research Team also conducted five one-on-one interviews with organizations featured in spotlights throughout this report to explore how various factors influence performance and decision-making.

DATA ANALYSIS

To synthesize the focus group discussions, each was analyzed for key words and recurring patterns. The Research Team also analyzed financial performance data collected on the GIIIN's *2020 Impact Investor Survey* between February and April 2020. To align the findings to the scope described above, the Research Team analyzed data pertaining to only those 161 investors that: (1) seek market-rate returns and (2) have allocated at least half of all their impact investing assets to private-market instruments. When appropriate, analyses are presented excluding outlier respondents that have outsized influence on aggregate findings; this has been noted where applicable. Most analyses described in the narrative are statistically significant at the 90% confidence level; cases where findings are not statistically significant are indicated.

SYNTHESIS AND DRAFTING

This report synthesizes the scope, key findings, and implications of this subset of the *2020 Impact Investor Survey* data alongside six studies published between 2018 and 2020. Since this report derives insights from existing, published research in the industry, the Research Team engaged with the authors of each included publication to ensure accuracy and in some cases, gained additional insights not readily available from the publications. This report has also been externally reviewed to ensure appropriate interpretation of the findings.

CAVEATS AND CONSIDERATIONS

This research fits within a broader learning effort to explore the performance of impact investments in both financial and impact terms. As with any research, findings should be interpreted with certain limitations in mind.

1. AVAILABILITY OF PUBLISHED RESEARCH

While much research has been published on the financial performance of analogous strategies, such as ESG, responsible, and sustainable investing, less work has focused on the financial performance of impact investments specifically. Nonetheless, this report synthesizes existing research published between 2018 and 2020 on the financial performance of impact investments. Throughout the scoping and data-collection processes, impact investors consistently referenced analogous markets; the relevance of financial performance in these markets for impact investing is explored in the GIIN Perspectives (page 43).

2. CONSTRAINTS OF PUBLISHED RESEARCH

Existing benchmarks on the financial performance of impact investments have several key limitations. As such, findings may not reflect industry performance as a whole within a given asset class and should be interpreted within the caveats associated with each relevant benchmark, as explored section by section in this report.

3. LIMITED VIEW OF PERFORMANCE

Impact performance is beyond the scope of this report.⁷ As the impact investing industry matures, it will be increasingly critical to expand the available research on and tools for achieving outcomes efficiency, a concept introduced in this report (page 5) to reflect the multi-faceted considerations that influence performance.

4. SELF-SELECTION BIAS

Participation in GIIN-led focus group discussions during this research was optional, and all insights shared were self-reported. In addition, some questions on the *2020 Impact Investor Survey*, including those on realized financial returns, were optional; this may result in biased data. However, all responses are anonymized and reported in aggregated, which may help to mitigate such biases.

⁷ The GIIN has separately explored impact results associated with impact investments at the sector level in a separate research study, [Understanding Impact Performance](#) and additionally released a [Methodology for Standardizing and Comparing Impact Performance](#).

GIIN PERSPECTIVES: DECISION-MAKING IN IMPACT INVESTING

Financial performance is an important factor for asset owners and managers to consider when shaping investment management strategies, informing capital allocation decisions, and supporting their quest for alpha. However, while financial performance is one critical consideration when driving decision-making, it is not the only one; impact investors are always exercising a variety of choices to optimize their portfolio performance. As such, impact investors find themselves making data-driven decisions across a range of variables at the intersection of financial performance, impact performance, and risk.⁸

This is not unique to impact investors. Any investor, impact-focused or not, must make choices to achieve their ultimate goals. The notion of ‘risk-adjusted, market-rate returns’ carries within it the principle of Modern Portfolio Theory. Taking a risk-free rate as its starting point, the theory advocates that a portfolio’s expected return increases with risk. A theoretical portfolio is constructed to find the optimum data points along a Capital Market Line that perfectly balances optimal financial return with the level of risk taken. The resulting efficiency frontier curve provides the rational investor with a tool to best determine the level of choice between desired financial return and perceived risk.

This choice is a central concept for investors, and portfolio construction practice has evolved to the point that its rationale is no longer in question. With both impact investing and analogous investment strategies—such as ESG investing, sustainable investing, and responsible investing—seeing record capital inflows,⁹ it is clear that these investments should consider all facets that are relevant to the particular investment thesis. For impact investors, a limited focus on risk and return cannot sufficiently reflect the outcomes they seek with their investments.

Emerging research has more recently suggested the concept of ‘outcomes efficiency.’¹⁰ Defined as investments that deploy the minimum amount of capital to realize a combination of financial and impact outcomes, this research posits that when investors objectively consider evidence-based outcomes, capital allocation is more efficient. While cognitive bias, or assumptions, regarding the presumed relationship between financial and impact performance can result in poor investment decision-making, investors have a number of tools available to reduce the effects of such bias, including the following:¹¹

- Investors can use strong research that reflects evidence of both financial and impact performance results. Such research includes the range of financial performance benchmarks investors draw on for historical financial results, prior experience, peer investor experience, and impact performance dashboards developed by the IRIS+ system¹² to identify indicators of historical impact results.
- Investors can estimate the opportunity cost of capital deployment by taking several investment facets into account alongside risk and return, such as liquidity, resource capacity, impact performance expectations, and impact risk tolerance.

While financial performance is one critical consideration when driving decision-making, it is not the only one; impact investors are always exercising a variety of choices to optimize their portfolio performance.

8 The Impact Frontiers Collaboration has developed four steps to help investors integrate impact with financial analysis in their decision-making. Learn more about the handbook [here](#).

9 Hortense Bioy, “Sustainable Fund Flows Hit Record in Q2,” *MorningStar*, August 4, 2020.

10 Matthew Lee, Arzi Adbi, and Jasjit Singh, “Categorical Cognition and Outcome Efficiency in Impact Investing Decisions,” *Strategic Management Journal* 41, no. 1 (January 2020): 86–107, <https://doi.org/10.1002/smj.3096>.

11 Matthew Lee and Jasjit Singh, “How to Overcome ‘Warm Glow’ and Other Barriers to Effective Impact Investment Decisions,” *Stanford Social Innovation Review*, June 29, 2020.

12 IRIS+ is the generally accepted system for impact investors to measure, manage, and optimize their impact. Learn more [here](#). The GIIN has also developed impact performance dashboards with credible, comparable impact data allowing investors to understand and compare their impact portfolios with peers to help drive data-driven decisions. See impact performance dashboards [here](#).

By referencing an evidence base and even by weighting each facet, today's rational investor can dynamically consider which choices they wish to make to ensure that their investments are efficient relative to their intended returns thesis.

This recognition of a multi-faceted approach to decision-making is especially important for new entrants. As evidenced in a series of focus group discussions with impact investors, asset managers in particular identify that new entrants to the impact investing industry tend to request performance data that demonstrates a return profile on par with any impact-agnostic investment.

In reality, experienced impact investors conduct their research relative to their investment mandate and exercise a multi-dimensional approach to decision-making, considering various facets that enable them to achieve satisfactory impact and financial performance in line with their goals. While some impact investors have limited capacity to be flexible on financial performance, others do not and will act accordingly to achieve satisfactory returns given their goals and strategy. Across a variety of goals and mandates, impact investors' ability to satisfy multiple criteria is illustrated in the GIIN's *2020 Impact Investor Survey*, where 88% of respondents reported that their portfolio was performing in line with or exceeding their financial performance expectations and 99% reported the same for their impact performance expectations.¹³

Choices made to achieve impact investment outcome efficiency are explored in five investor spotlights featured throughout this report. For each spotlight, organizations shared their perspectives on the relative significance of each of the following facets when managing performance and making capital allocation decisions:

- **Financial return objectives:** The extent of financial returns that an investor seeks relative to a pre-defined financial threshold.
- **Impact objectives:** The extent of the impact returns an investor seeks relative to a pre-defined impact threshold.
- **Financial risk tolerance:** Capacity to accept risk of financial loss relative to financial return expectation.
- **Impact risk tolerance:** Capacity to accept risk of intended impact not being realized relative to impact return expectation.
- **Resource capacity:** The extent to which the investor has the resources, such as skills, financial funds, and capacity, to provide for all the costs associated with making impact investments, including setting goals, measuring results, and reporting on results.
- **Liquidity constraints:** The extent of time/duration after which the investor needs the investment to be readily convertible to cash.

¹³ Hand et al., *2020 Annual Impact Investor Survey*.

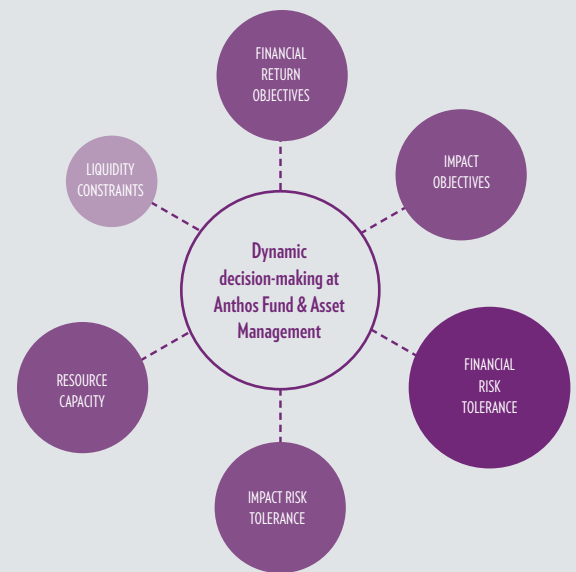
SPOTLIGHT

ANTHOS FUND & ASSET MANAGEMENT

Anthos Fund & Asset Management (Anthos) is an investment company headquartered in the Netherlands that provides values-based asset management to the Brenninkmeijer family, their philanthropies, and pension funds of group entities. With regard to its impact portfolio, Anthos has evolved from focusing on local opportunities in emerging markets to focusing on multi-asset impact investing, using a strategic asset allocation model across multiple development themes, including population development, poverty alleviation, resilient climate, WASH (water, sanitation, hygiene), and access to finance. Anthos has made 17 fund investments to date around the world, including into emerging markets like India, Brazil, Kenya, and South Africa, as well as several regional plays in Sub-Saharan Africa, Southeast Asia, and non-Brazil Latin America.

To build a portfolio that has both impact viability and sustainability, Anthos equally weighs the financial and impact potential of investments. Its private market investments have recently started to exceed their financial returns expectations and impact targets since the portfolios' inception in 2013/2014.

Note: The variation in size and color of circles depicts the relative importance of each facet for Anthos Fund & Asset Management when managing performance and making capital allocation decisions.



FINANCIAL RETURN OBJECTIVES

Financial return objectives play an **important** role in shaping Anthos' capital allocation decisions. The company seeks to achieve market-rate returns, setting financial targets that are aligned with mainstream markets. While setting absolute targets for financial returns is often difficult for a multi-asset-class portfolio, all of Anthos' portfolios are gradually moving towards price-index objectives with mark ups to meet clients' objectives: generating real returns with moderate growth and with impact. For their new multi-asset impact fund, Anthos targets inflation plus 3%, assuming full portfolio deployment according to the fund's asset-allocation model.

Additionally, across the entire organization, Anthos conducts scenario analyses of major macroeconomic events that could affect potential risk and return. For example, when assessing historical financial returns data for ESG and impact funds, Anthos has most recently applied a COVID-19 lens, recognizing that returns may be affected by the pandemic, taking longer to achieve. Financial return objectives are consequently contextualized depending on macroeconomic scenarios, considering interest rates, currency fluctuation, and geopolitical risk, among other factors.

IMPACT OBJECTIVES

Achieving its impact performance objectives plays an **important** role in shaping Anthos' capital allocation decisions. Anthos designs customized impact scorecards for every deal in its fund, forecasting the investment's expected impact returns. These scorecards are shaped by key impact metrics identified jointly by Anthos and its fund managers; impact metrics naturally vary by the fund managers' selection and the impact sector or theme.¹⁴ Scorecards are monitored annually, and fund managers are asked to forecast impact returns over three to five years from the time of investment. If realized impact is significantly lower than forecasted impact, Anthos works with its fund managers to conduct a root-cause analysis each year in order to identify the business-model shortcomings or context-specific external factors driving the impact underperformance, re-adjusting impact objectives accordingly.

¹⁴ See Anthos' framework [More than Measurement](#), which became a foundational building block for the Impact Management Project.

FINANCIAL RISK TOLERANCE

Given its focus on long-term sustainability, Anthos is conservative with its financial risk tolerance, which plays a **very important** role in shaping its investment decisions. Anthos conducts sensitivity analyses across its debt, equity, and real assets investments at both the organization and fund level. Each fund manager with which Anthos works is requested to conduct a “traffic-light analysis” to assess level of financial risk (i.e. high, medium, low) and to share details of fund-level cash runway and the financial viability of their portfolio companies.

IMPACT RISK TOLERANCE

Anthos has a slightly higher tolerance for impact risk than for financial risk, but generally takes a very conservative approach to both. Potential impact risk plays an **important** role in Anthos’ capital allocation process. For example, Anthos will not invest in areas with outsized financial returns but high impact risk. Similar to its approach to assessing financial risk, to understand impact risk, Anthos conducts sensitivity analyses across various sectors or themes within its portfolio. Risk is captured as part of its impact scorecards. At the fund level, each type of impact risk is identified separately and quantified on a standardized scale to build a composite risk score, which ultimately shapes whether Anthos makes an investment.

RESOURCE CAPACITY

With a rapidly growing portfolio and a small impact investing team, resource capacity is becoming increasingly **important** for Anthos. Anthos takes a thorough approach to every investment made across its portfolios – both impact and impact-agnostic. All investments must be approved by both the Managing Director of Impact and a Managing Director of the specific traditional asset-class portfolio, a design meant to encourage cross-pollination of knowledge and expertise across the organization. As Anthos expands to include more ESG and impact investments in its portfolio, it anticipates a greater need for resource capacity, particularly to validate the integrity of its impact data.

LIQUIDITY CONSTRAINTS

Anthos considers liquidity to be slightly **less important** than other variables given the time horizons (at least five years) of many of its impact investments. The role liquidity plays in shaping investment decisions has evolved over the years. Traditionally, Anthos has associated impact investing with 100% illiquidity and high risk. However, Anthos is increasing its allocation to impact investments this year due to the high resilience of impact investments, even during the COVID-19 pandemic. To further mitigate liquidity constraints, Anthos maintains a strategic cash position (roughly 5%) and includes public market investments in its multi-asset class portfolio (up to 25%).

OVERVIEW: FINANCIAL PERFORMANCE

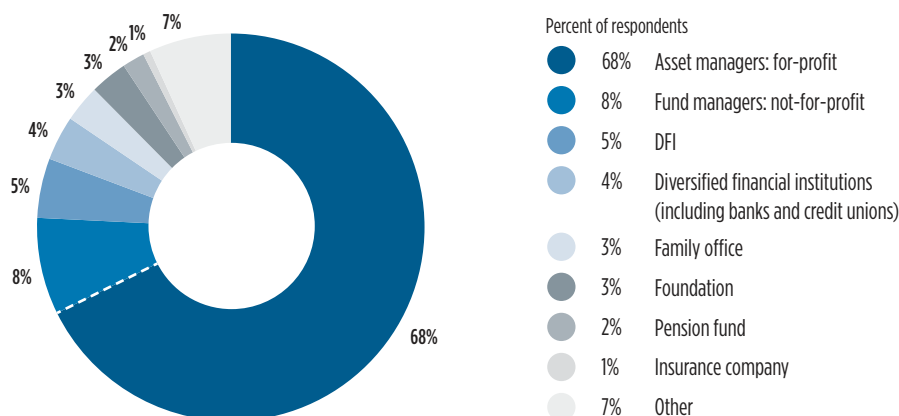
The GIIN's 2020 *Impact Investor Survey* offers insights into the financial performance of impact investments across the three most common asset classes in the impact investing industry: private equity (70% of investors), private debt (58%), and real assets (17%).¹⁵ This section focuses on survey data from 161 market-rate-seeking impact investors globally investing primarily in private markets.

Sample overview

Just over three in four impact investors in this sample are asset managers, with the majority as for-profit asset managers (68%; Figure 1). Development finance institutions (DFIs), diversified financial institutions, family offices, and foundations collectively comprise another 15% of the sample.

FIGURE 1: ORGANIZATION TYPE

n = 161 impact investing organizations



Note: 'Other' organizations include permanent investment companies, real estate developers, sovereign wealth funds, and independent federal government agencies.

Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*

Impact investors are also geographically dispersed, with 39% headquartered in the U.S. & Canada, followed by just under a quarter headquartered in Western, Northern, and Southern Europe. While a majority of investors in this sample are based in developed markets (72%), nearly half of respondents invest more than 75% of their portfolio into emerging markets. About 42% of investors are focused on private equity, while 19% are focused on private debt and just 11% are focused on real assets.¹⁶ Interestingly, just under half of this sample are Small Investors (49%), while the remainder are Medium Investors (22%) and Large Investors (27%).¹⁷

Collectively, impact investors in this sample managed more than USD 111 billion in impact investing assets,¹⁸ with 32% and 31% allocated through private debt and real assets, respectively, followed by 28% through private equity (Figure 2). Although only 5% of AUM are allocated through public equity or public debt, about one in five respondents have at least some allocation to public markets, reflecting the fairly large share of impact investors allocating relatively small amounts of capital to public markets.

¹⁵ Hand et al., *2020 Annual Impact Investor Survey*.

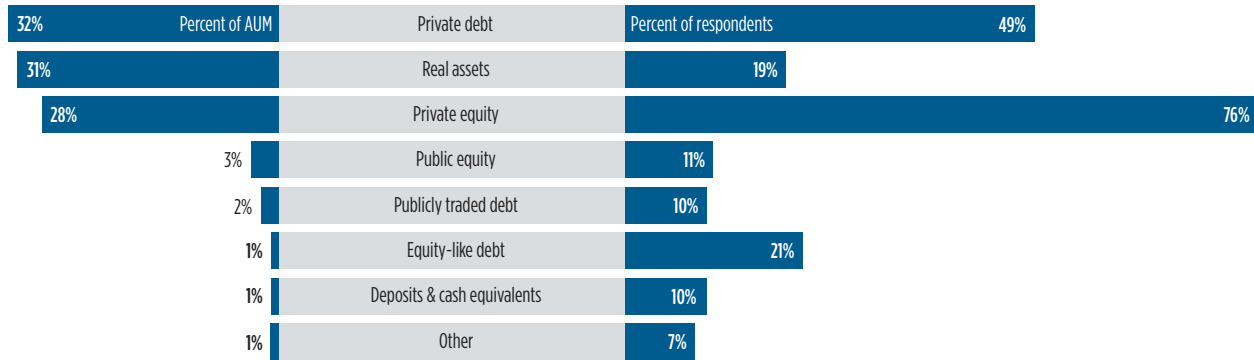
¹⁶ Those focused on a certain asset class allocate at least 75% of their current impact investment AUM to that specific asset class, whether private equity, private debt, or real assets.

¹⁷ Respondents with total impact investment AUM less than or equal to USD 100 million are considered 'Small Investors,' respondents with total impact investment AUM greater than USD 100 million and less than or equal to USD 500 million are 'Medium Investors,' and respondents with total impact investment AUM greater than USD 500 million are 'Large Investors.'

¹⁸ This figure excludes two large outliers.

FIGURE 2: ALLOCATIONS BY ASSET CLASS

Left side – Percent of AUM excluding outliers, n = 159; AUM = USD 111 billion.
 Right side – Percent of respondents with any allocation to each asset class, n = 179; respondents may allocate to multiple asset classes.



Note: 'Other' includes guarantees, mezzanine financing, and social outcomes contracts.

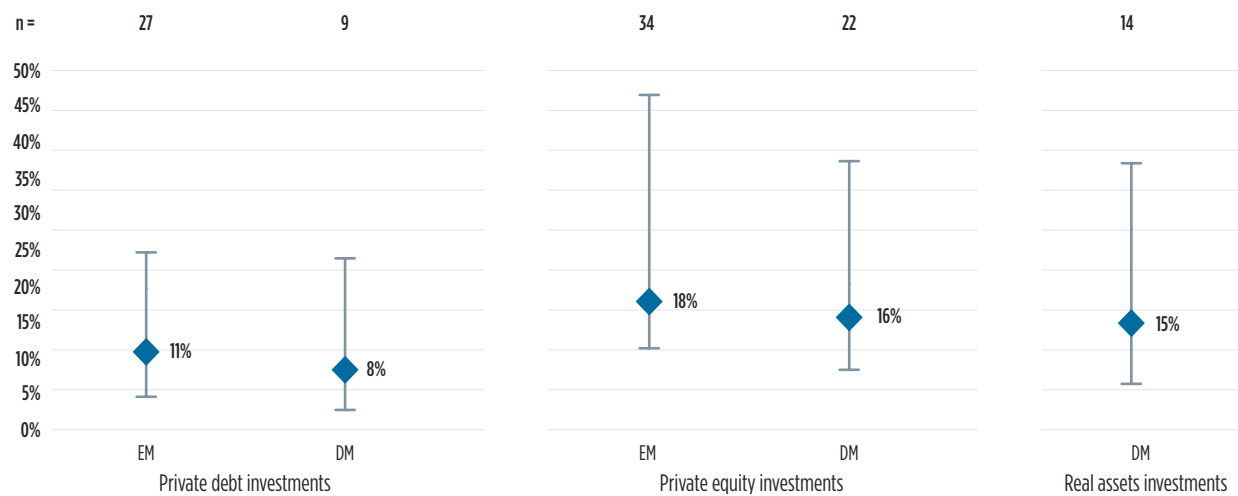
Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*

Realized financial returns

In total, 98 market-rate-seeking investors disclosed data on average gross realized returns since inception, across their private market impact investing portfolios. Figure 3 shows average realized returns across various peer groups. Private equity investments saw higher average returns and greater variation than did private debt investments; investments in emerging markets saw greater variation than did investments in developed markets. The top 10% of emerging-market private equity investments earned the highest realized returns, all generating returns in excess of 29%; the top 10% of emerging market private debt investments reported realized returns greater than 14%. The bottom 10% for both private equity and private debt investments reported less than 6% realized returns.

FIGURE 3: AVERAGE GROSS REALIZED RETURNS SINCE INCEPTION FOR MARKET-RATE-SEEKING IMPACT INVESTMENTS

Number of respondents shown above each bar; year of first impact investments ranges from 1956 to 2019, with 2010 as the median year. Averages are shown beside each diamond; error bars show 10th to 90th percentiles.



Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*

TABLES 1 AND 2: AVERAGE GROSS REALIZED RETURNS ACROSS PEER GROUPS

PRIVATE DEBT INVESTMENTS			Average realized returns		PRIVATE EQUITY INVESTMENTS			Average realized returns		
Peer group		n	Emerging Market	Developed Market	Peer group		n	Emerging Market	Developed Market	
Investor type	Impact-only investments	33	9%	7%	Investor type	Impact-only investments	50	16%	17%	
	Both impact and impact-agnostic investments	13	15%	10%		Sector	Both impact and impact-agnostic investments	17	23%	16%
Sector	Energy	24	10%	9%	Sector		Energy	36	17%	18%
	Food & agriculture	22	6%	6%		Investor size	Food & agriculture	39	27%	16%
Investor size	Small	18	10%	9%	Investor size		Small	39	20%	17%
	Medium	12	12%	10%		Medium	Medium	9	16%	13%
	Large	14	9%	6%			Large	Large	17	16%

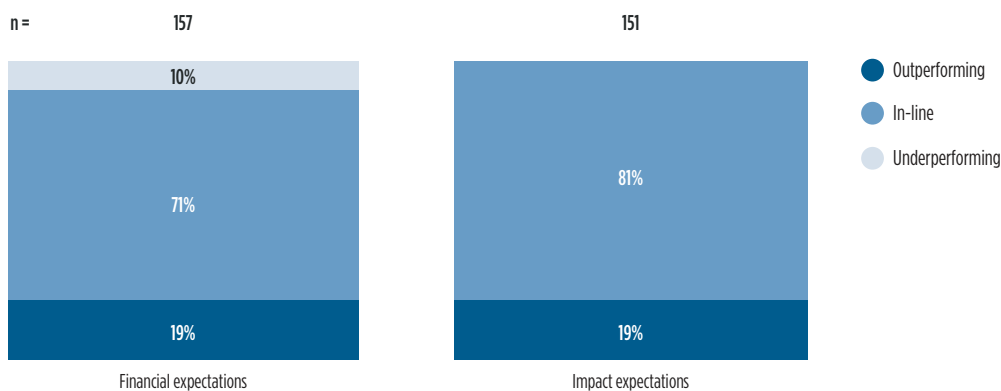
Note: Impact-only investments refer to investor organizations whose entire portfolio is impact-oriented. Both impact and impact-agnostic investments refer to those organizations who make impact investments and make non-impact investments, which could include ESG, responsible, or sustainable investments or traditional investments. Sector peer groups include impact investors with any allocation to the energy and food & agriculture sectors.

Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*

To help appropriately contextualize the realized returns, respondents also shared information on the financial and impact performance of their investments relative to their targets and expectations. Nearly three-quarters of respondents (71%) reported performing in-line with their financial expectations and another 19% reported outperforming relative to their financial expectations (Figure 4). About eight in ten respondents (81%) indicated performing in-line with impact expectations. While only 10% of respondents reported underperforming on their financial expectations, none reported underperforming relative to their impact expectations.

FIGURE 4: PERFORMANCE RELATIVE TO FINANCIAL AND IMPACT EXPECTATIONS

Number of respondents shown above each bar; some respondents choosing 'not sure' have not been included.



Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*

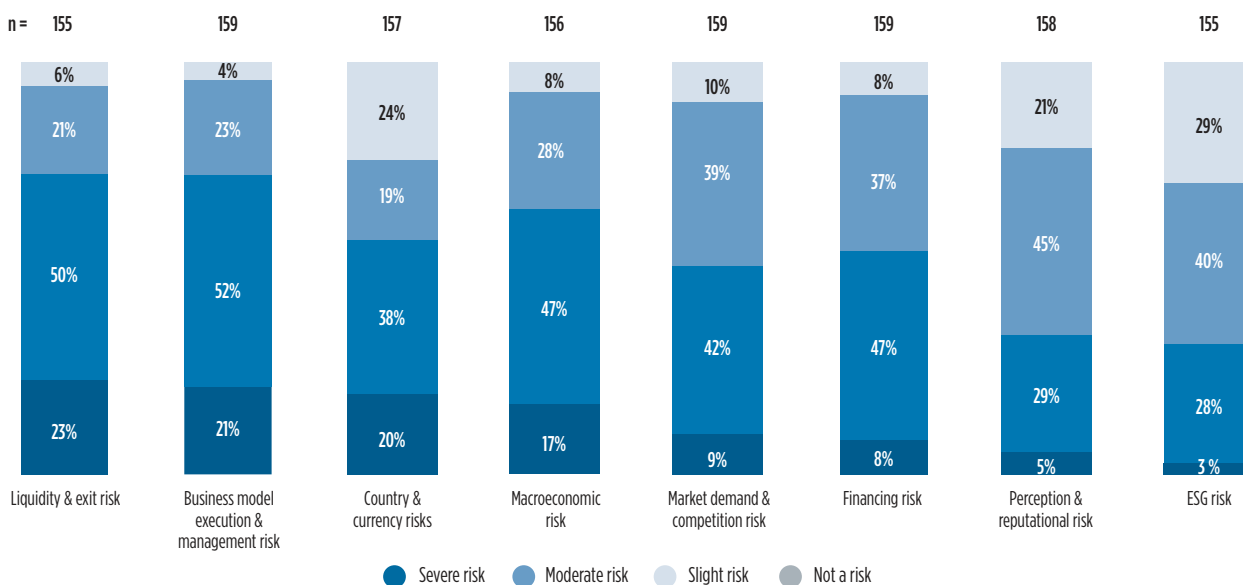
Over a quarter of Private Debt-Focused Investors (26%) reported outperforming their financial expectations and 24% reported outperforming their impact expectations; these same figures stood at 16% and 18%, respectively, for Private Equity-Focused Investors. Performance relative to expectations also varied by regional focus. Just under one-third of investors focused on sub-Saharan Africa outperformed relative to their financial expectations, compared to 19% of investors focused on the U.S. & Canada. However, 21% of investors focused on sub-Saharan Africa reported underperforming relative to their expectations, compared to 5% of investors focused on the U.S. & Canada.

Portfolio Risks

Impact investors assess, measure, and manage several types of portfolio risk. The largest share of investors reported perceiving at least ‘moderate’ business model execution & management risk and liquidity & exit risk (73% of investors for both; Figure 5). More than half of investors also perceived moderate or severe country & currency risk, financing risks, and market demand & competition risk. The dynamic relationship between financial risk and return is explored further on page 5 alongside a discussion of impact risk, impact results, and related topics.

FIGURE 5: CONTRIBUTORS TO IMPACT INVESTING PORTFOLIO RISK

Number of respondents shown above each bar; some respondents choosing ‘not sure’ are not included. Ranked by percent selecting ‘severe risk.’



Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*.

Perception of financial risk also varies by peer group. The share of Private Equity–Focused Investors perceiving severe liquidity & exit risk is four times greater than the share of Private Debt–Focused Investors (28% versus 7%). In contrast, a greater share of Private Debt–Focused Investors perceives severe country & currency risks (29% versus 19% of Private Equity–Focused Investors and 12% of Real Assets–Focused Investors). Further, 36% of Emerging Market–Focused Investors perceive severe country & currency risks, compared to just 4% of Developed Market–Focused Investors.

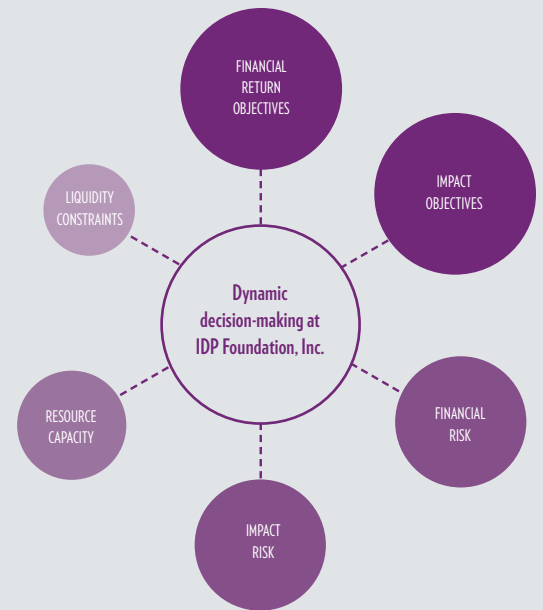
SPOTLIGHT

IDP FOUNDATION, INC.

IDP Foundation, Inc. (IDPF) is a private, nonprofit foundation focused on providing access to education to alleviating poverty. IDPF seeks market-rate financial returns alongside impact by investing its endowment in both private and public markets. IDPF additionally makes program-related investments across asset classes and geographies in both emerging and developed markets.

IDPF leverages investments from its endowment and program-related investments for social and environmental impact. The Foundation's unique organizational structure enables IDPF to target high-impact objectives alongside competitive, market-rate financial returns, balancing financial objectives alongside values and mission in its portfolios.

Note: The variation in size and color of circles depicts the relative importance of each facet for IDP Foundation, Inc. when managing performance and making capital allocation decisions.



FINANCIAL RETURN OBJECTIVES

IDPF seeks market-rate returns through its endowment, which has evolved since 2013 to become increasingly impact-oriented. As of 2020, more than 95% of investments made through IDPF's endowment are mission-aligned. Its financial return objectives play a **very important** role in its capital allocation decisions and measurement of performance. To select impact-oriented products and assess financial performance, IDPF works with its financial consultants at Graystone Consulting, who share quarterly reports on financial performance at both the portfolio level and individual fund manager level. Driven by its Investment Policy Statement, IDPF compares the financial performance of its diverse, multi-asset portfolio using its own custom composite benchmark, or policy index. The policy index combines passive index performance for each asset class into a single, blended benchmark that mirrors the asset allocation. This approach enables IDPF to isolate the value added by the active strategies and fund managers in its portfolio. Each time a new investment manager or strategy is added to the portfolio, the Foundation's investment committee determines the appropriate allocation size in light of factors such as expected returns and risk budget. The investment committee also identifies the appropriate benchmark against which to assess performance.

IMPACT OBJECTIVES

Impact considerations similarly play a **very important** dual role in the Foundation's capital allocation decisions. Impact analysis is seamlessly integrated into each step of the investment process, from the initial search for fund managers to the measurement and management of performance. IDPF conducts a rigorous impact and financial due diligence process for ESG and impact fund managers. In its Investment Policy Statement, IDPF targets several impact categories, such as climate change, community development, and education, and additionally aligns its investment goals to the UN SDGs. The team proactively captures data through individual fund manager impact reports to assess the impact of each investment in its portfolio. The fund managers integrate various proprietary internal and third-party impact measurement tools and frameworks, including those from the Sustainability Accounting Standards Board and MSCI, Inc., to gauge their specific areas of impact. Taking a total portfolio approach to asset allocation, IDPF uses Morgan Stanley's proprietary, holdings-based impact reporting system, which evaluates alignment with IDPF's mission and provides the Foundation the ability to monitor and measure its overall impact success on a quarterly basis.

FINANCIAL RISK

IDPF considers financial risk, or the volatility of expected returns, for every existing and potential investment in its endowment, which plays an **important** role in its capital allocation. As a foundation with 501(c)(3) tax status, IDPF faces different tax consequences for risk and volatility, affording IDPF flexibility and enabling its rapid conversion from traditional to impact investments within its endowment. On the other hand, IDPF needs to maintain sufficient liquidity to support its grant-making activities. In cases where a potential investment offers a compelling impact opportunity but financial risk that is deemed to be too high, the Foundation has the flexibility to include that investment as part of its program-related investments portfolio.

IMPACT RISK

IDPF strives to identify investments with strong correlations between positive financial outcomes and significant impact. Opportunities for scalable impact and growth are therefore critical to assess in order to ensure that the investment strategy achieves its stated objectives. Given this philosophy, impact risk is inherently tied to each investment's financial risk and plays an **important** role in capital allocation. However, impact risk plays a more influential role for program-related investments and grants compared to investments from the endowment, because these investment opportunities are smaller-scale and non-regulated. The program-related investments mechanism is an especially valuable tool that enables IDPF to exercise more flexibility in pursuing catalytic impact opportunities while potentially assuming greater financial risk. For example, IDPF has made program-related investments into several early-stage opportunities with significant potential for generating social impact.

RESOURCE CAPACITY

While IDPF is not a large organization, the team can execute on its investment, program-related investments, and grant portfolios alike. IDPF has no investment professionals internally, hiring Graystone Consulting in an advisory role to provide the needed financial expertise. As a result, resource capacity is **less important** when IDPF is making allocation decisions. IDPF also collaborates with Institutional Shareholder Services, using their Ethix Screening Solutions to screen potential and existing investments that may violate IDPF's impact goals. The IDPF and Graystone teams collect, track, and analyze impact metrics at both the total program and individual asset manager levels. Its external advisory partnerships have let IDPF garner the necessary expertise to execute investments that meet or exceed both their financial and impact objectives.

LIQUIDITY CONSTRAINTS

As a medium-sized foundation, IDPF needs a balance of liquid and illiquid investments in order to support consistent grant-making and achieve its long-term growth objectives. Liquidity constraints play a **somewhat important** role as the Foundation utilizes Monte Carlo modeling analysis as a tool to evaluate the appropriate mix of asset classes across public and private markets. This forward-looking asset allocation analysis includes projected grant distributions, which helps to understand future liquidity needs and the implications of asset allocation and spending levels on the endowment. This perspective enables the investment committee to make effective decisions and ensures that the Foundation achieves its mission as reflected through its impact investments and grants.

PRIVATE EQUITY: FINANCIAL PERFORMANCE

Introduction

Private equity is the most common asset class in the impact investing industry, with over three-quarters of market-rate-seeking investors (76%) making private equity investments that account for 28% of total impact AUM.¹⁹ As described in the section on the *2020 Impact Investor Survey* subsample (page 9), a clear majority of Private Equity-Focused investors (86%) reported performing in line with or exceeding their financial performance expectations, with average realized financial returns ranging from 16% in developed markets to 18% in emerging markets.

Impact investors active in private equity indicated using a number of tools to assess the financial performance of their impact investments. Some of these include the following more widely used impact-agnostic benchmarks.

TABLE 3: COMMON BENCHMARKS USED BY PRIVATE EQUITY IMPACT INVESTORS

Impact-agnostic benchmark	Description
Morningstar	Morningstar Indices are offered across several asset classes, including equity, alternatives, multi-assets, and ESG in public markets. Investors can select their preferred asset type, geography, and return type (among other factors) to access the benchmark most relevant to their strategy. For example, the Developed Markets ex-North America Sustainability index provides exposure to equities with low ESG risk ratings, comprising primarily large- and mid-cap stocks of non-North American developed markets, focused mainly on the industrials and financial services sectors.
MSCI World	The MSCI World Index comprises 1,607 constituents that capture large- and mid-cap companies in public markets across 23 countries in developed markets. Investors may also choose other MSCI indices depending on their geography of investment (e.g., MSCI US, MSCI Emerging Markets, etc.). The five most represented sectors in this index include information technology, health care, financials, consumer discretionary, and industrials.
PitchBook	PitchBook Benchmarks provide benchmark private market fund performance statistics across private equity, venture capital, debt, real assets, funds of funds, and secondary strategies. For each group, the benchmark highlights internal rates of return (IRR), multiples, and Public Market Equivalents by vintage, along with quarterly returns data. All data are sourced from individual Limited Partnership (LP) reports, ranging across geographies and sectors.
Preqin	Preqin Private Equity benchmarks cover the Net-to-LP performance data of over 7,000 private equity funds globally, across sectors and vintage years. Data includes IRR, multiples, quartile rankings, called capital, distributions, and cash flow. Investors can also access PME and custom benchmarks, along with fund league tables. Access is limited to subscribers only.

While some impact investors report using such benchmarks as proxies for private equity investments to compare yields and returns, none of these indices incorporate impact performance objectives or impact risk, two critical dimensions that impact investors take into account to varying degrees when making decisions about capital allocation.

¹⁹ This is based on the subset of respondents to the GIIN's *2020 Annual Impact Investor Survey* that target risk-adjusted, market-rate returns, as explored on page 9 of this report. This does not include public or listed equities, through which 11% of market-rate respondents allocated impact capital. For more information on full findings from the Survey, please see [here](#).

This section explores the following publications, which provide additional insight on the financial performance of impact investments:

- A working paper titled “Impact Investing” authored by Brad M. Barber, Adair Morse, and Ayako Yasuda of the University of California;
- An International Finance Corporation (IFC) working paper titled “Long-Run Returns to Impact Investing in Emerging and Developing Markets” authored by Shawn Cole, Martin Melecky, Florian Mölders, and Tristan Reed;
- The Cambridge Associates’ Private Equity and Venture Capital Benchmark; and
- Symbiotics’ *Private Assets Impact Fund 2020 Report*.

Barber, Morse, and Yasuda, “Impact Investing” (University of California)

AUTHORS: BRAD M. BARBER, ADAIR MORSE, AND AYAKO YASUDA

PUBLISHED: DECEMBER 2019

This paper, [Impact Investing](#), asks whether organizations’ choices to invest in dual-objective venture capital funds are consistent with the notion that they derive a utility from impact returns. In particular, the research estimates how much willingness to pay (WTP) organizations exhibit and assesses willingness to pay for impact across organization types.

METHODOLOGY

The paper focuses on impact funds, predominantly venture capital (VC) and growth equity funds, structured as traditional private equity funds. Only funds that intentionally seek to generate positive social and environmental impact alongside financial returns were included in the data.

This paper addresses three research questions:

- Are investors intentionally willing to forgo expected financial return in exchange for impact return?
- Does the WTP depend on the source of the capital, namely pension fund, bank, or development organization?
- Does the evidence suggest any factors that explain the variation in investors’ willingness to pay for impact? (For example, differences in impact objective, ownership, or legal framework for capital.)

To assess the difference in financial returns based on past performance between impact VC funds and non-impact VC funds, the authors used Prequin’s Investor Intelligence and Performance Analyst datasets to construct a sample of 24,000 VC and growth equity investments by 3,500 investors from 1995 to 2014, reflecting 4,659 funds. Conducting desk research to identify capital sources, the authors coded investor types and impact objectives to narrow the sample down to 159 funds meeting the criteria to be considered impact funds. The datasets were analyzed by regression, controlling for independent factors such as differences in industry, vintage year, fund sequence, and geography. The authors investigated whether investors willingly forego expected returns at the time of their impact investment decision using a discrete choice (yes/no) methodology. By measuring the sensitivity of investment rate to a fund’s expected return, the authors converted desirability of impact into a WTP for impact.

SAMPLE OVERVIEW

This sample included 159 VC and growth equity impact funds selected based on the criterion that each fund must state dual impact and financial objectives.



Fund size: Average commitment size for impact funds was USD 27.1 million, compared to the USD 22.2 million average commitment size of an impact-agnostic fund.



Geographic focus: Funds are invested globally, with a greater focus on developing or emerging markets as compared to impact-agnostic funds. About a third of impact funds focused on North American investments, followed by 27% on developed Europe and 23% on Africa. Just 15% focused on Asia Pacific and 12% focused on Central and South America.



Impact categories: Out of 159 impact funds, 43% focused on addressing poverty, followed by 42% that targeted SMEs and undercapitalized markets and 33% that target regional development (i.e., geographic regions with a material constraint on investment).

KEY FINDINGS

Based on realized financial returns, the authors found that impact funds have a mean internal rate of return (IRR) of 3.7% and median of 6.4%, compared to a mean IRR of 11.6% (median of 7.4%) for impact-agnostic funds (see Table 4). Compared to impact-agnostic funds, private impact funds earn 4.7 percentage points lower IRR after controlling for industry, vintage year, fund sequence, and geography. The authors also assessed performance based on percentile rank, estimating a fund's performance relative to a cohort of funds of the same vintage and geography. The data indicate that impact-agnostic funds have a mean percentile ranking of 0.49 (at the median, 0.50), while impact funds have a median rank of 0.34 (at the median, 0.28). In the theoretical WTP models, investors are willing to accept between 2.5 and 3.7 percentage points lower IRRs for impact funds, reflecting investors' varying objectives and ability to balance financial returns and impact goals.

The authors found that impact funds have a mean internal rate of return (IRR) of 3.7% and median of 6.4%, compared to a mean IRR of 11.6% (median of 7.4%) for impact-agnostic funds.

TABLE 4: PRIVATE EQUITY FUNDS' IRR AND IMPACT FUNDS' WILLINGNESS TO PAY (WTP)

	Private equity VC and growth impact funds	Impact-agnostic VC and growth funds
Mean IRR (%)	3.7	11.6
Median IRR (%)	6.4	7.4
Willingness-to-pay (percentage points)	2.5 – 3.7	–

Source: Barber, Morse, and Yasuda, "Impact Investing."

Mission-oriented development organizations and foundations have high WTP, at 3.4 to 6.2 percentage points in expected excess IRR, perhaps reflecting their strong commitment to impact-oriented missions. Similarly, organizations that are signatories to the UNPRI have high WTP. There is no evidence to suggest that investors with organizational charters requiring the maximization of shareholder wealth have lower WTP, but investors subject to legal restrictions that require financial returns (for example, the U.S. Employee Retirement Income Security Act) exhibit a comparatively lower WTP relative to the average. For example, endowments, corporations, institutional managers, wealth managers, and private pension funds have a lower WTP for impact.

Investors' WTP also varies by type of impact. Impact funds focused on environmental impact, poverty alleviation, and women or minorities demonstrate the highest estimated WTP. Those focused on small and medium-sized enterprises and infrastructure (such as health and education) tend to exhibit lower WTP. The results also reflect different WTP by geographic region. North Americans have a positive WTP for impact, but their WTP is much lower than that of investors from Europe, Africa, and Latin America.

STUDY CAVEATS AND LIMITATIONS:

- **VC and growth equity focus:** Though this paper analyzed a subset of private equity investments, namely VC and growth funds, the findings reflect the WTP across different institution types. Additionally, WTP may look markedly different for other types of private equity investments in impact investing.
- **Impact definition:** The authors intended only to include impact funds that seek to generate a positive and measurable social and/or environmental impact alongside financial return. However, to assess each fund's adherence to this definition, the research selected funds that explicitly market a dual agenda and did not assess the extent to which funds measure their impact.
- **Time-bound research:** The WTP estimates are contingent on the time period analyzed by the authors (1995 to 2014). While the findings pertain to this time period, they cannot be used to predict returns or speak to future financial returns expectations.

IFC: Long-Run Returns to Impact Investing in Emerging Markets and Developing Economies

AUTHORS: SHAWN COLE, MARTIN MELECKY, FLORIAN MÖLDERS, AND TRISTAN REED

PUBLISHED: AUGUST 2020

This policy research working paper, [Long-Run Returns to Impact Investing in Emerging Markets and Developing Economies](#), assesses every private equity investment made by the IFC across 130 countries.

METHODOLOGY

The authors tested for differences in financial returns across private equity investments, measuring returns using a public market equivalent (PME), based on a complete set of cash flows to and from all of the IFC's 2,509 equity investments into companies or funds between 1956 and 2019. The dataset includes monthly cash flow, USD value, and most recent mark-to-market valuation of investments that remain in the portfolio. Using a distributions and contributions cash flow analysis, the authors calculated the financial performance at both the investment- or fund-level and at the portfolio-level using the Kaplan and Schoar (2005) public-market equivalent as the measure of financial return. Findings in this research are statistically and economically significant.²⁰ This research considers all investments made by the IFC to be impact investments.

KEY FINDINGS

The IFC's portfolio of private equity investments obtained a public market equivalent of 1.15, which implies that the portfolio generated 15% more over its lifetime than an equivalently timed public index. Similarly, the portfolio generated a PME of 1.30 when compared to MSCI's Emerging Market Index. The authors also identified two predictors of performance at the investment level: market size and financial system openness and development. As economies relax capital controls and deepen their banking sectors, financial returns to the IFC decrease. The authors noted that international markets are imperfectly integrated, reflecting a gap and market need that impact investors can fill.

²⁰ To learn more about the authors' approach to analyzing the IFC's financial performance and its measure of return to calculate a PME, please see [here](#).

Country risk factors—political risk, perceived corruption, and ease of doing business—do not appear to significantly influence financial performance, but macroeconomic conditions do: a 1% increase in cumulative annualized real GDP growth over the eight-year life of an average investment is associated with an additional 6.62 percentage points of additional return on that investment. Local currency depreciation is associated with lower financial performance, while local inflation is associated with higher returns.

STUDY CAVEATS AND LIMITATIONS

- **Selection bias:** The entire sample of investments has been made by a single investor; as the authors state in this research, the results are not representative of the entire private equity impact investing market in developing countries. Nonetheless, since in each investment the IFC co-invests with other private investors, the results are informative about the returns in the markets in which it operates. Additionally, since the study includes all investments IFC has made, including write-offs, the study is not subject to survivorship bias.
- **Limited risk exposure:** The IFC is a sister institution of the World Bank Group, a development finance institution that provides loans to governments around the world. While the IFC's charter prohibits it from taking guarantees from governments, its affiliation with the World Bank may offer their investments a unique protection from expropriation that is not available to other investors. While these findings indicate that country risk factors, such as capital market openness and development, do not significantly influence financial performance, this finding may be a property of the IFC's market position.
- **Applicability:** The average size of each investment made by the IFC is not comparable to most other players in the impact investing market. Given the scale of the IFC's operations and its consideration of impact investments as focused on economic development, it is naturally in a unique position.

Cambridge Associates' Private Equity and Venture Capital Impact Investing Benchmark

AUTHORS: CAMBRIDGE ASSOCIATES

PUBLISHED: JUNE 2020

Cambridge Associates produces quarterly updates to its [Private Equity and Venture Capital Impact Investing Benchmark](#), drawing on fund- and investment-level performance information to report historical financial performance of private equity and venture capital impact investments.

METHODOLOGY

The benchmark includes both private equity and venture capital investments with an explicit intent to generate social impact, focused on private closed-ended funds available to institutional investors. Private equity investments across different parts of the capital structure are included, both growth and subordinated capital. Those seeking solely environmental impact or with an ESG or negative screening strategy are excluded. The benchmark includes only funds that target risk-adjusted, market-rate returns, with target returns of 15% or higher net IRR for growth and venture capital and 10% or higher for subordinated capital.

Funds included in the benchmark submit their annual audited financial statements; Cambridge Associates calculates returns based on the pooled IRR, total value to paid-in (TVPI) multiples, and distribution to paid-in (DPI) multiples.

SAMPLE OVERVIEW

In total, 89 funds qualified and submitted data for inclusion in the benchmark, collectively managing USD 14.7 billion assets. The benchmark analyzed private equity and venture capital impact funds over the vintage years 1998 – 2019.



Sector: The overwhelming majority of funds are invested in multi-industry (84%), followed by 9% focused on information technology, 5% on financial services, and 1% on consumer/retail.²¹



Vintage: While 28% of funds fall between vintages 2011 and 2014, just under a quarter (24%) fall between 2015 and 2019, and 19% are between 2008 and 2010.



Geography: Over half of assets under management in the sample are allocated to the United States (55%), followed by 28% to Africa and 13% in other global emerging market.



Fund size: More than half (53%) of funds in this sample manage between USD 10 million and USD 100 million, while 40% manage more than USD 100 million and just 7% manage less than USD 10 million.

KEY FINDINGS

The net pooled IRR since inception across the 86 funds for which data is available is 6.58% (6.30% at the median).²² Aligned with the common knowledge that asset manager selection is key in private markets, there is significant dispersion in results between the overall upper-quartile funds (11.08% net returns) and the lower quartile (0.96%), with the standard deviation consistently exceeding 9% across peer groups (Table 5).

Funds with the lowest IRR since inception (0.85%) were from the vintage years 2005 to 2007, floated just prior to the 2008 Financial Crisis. Conversely, funds with the highest IRR (16.48%) were from the vintage year 2002 – 2004, just after the dot-com recession ended. Net returns are significantly higher for smaller funds sizes (less than or equal to USD 100 million, at 8.60%) as compared to larger fund sizes (greater than USD 100 million, at 6.03%).

Aligned with the common knowledge that asset manager selection is key in private markets, there is significant dispersion in results between the overall upper-quartile funds (11.08% net returns) and the lower quartile (0.96%).

TABLE 5: NET RETURNS SINCE INCEPTION (1998 – 2018)

	Overall	Emerging market funds	Developed market funds	Fund size ≤USD 100 million	Fund size > USD 100 million
Pooled return (%)	6.58	6.04	7.63	8.60	6.03
Mean (%)	5.79	4.52	6.76	4.98	7.03
Median (%)	6.30	4.57	8.24	5.53	6.92
Upper quartile (%)	11.08	9.23	12.05	10.58	11.52
Lower quartile (%)	0.96	-0.19	2.29	-1.21	2.45
Standard deviation (%)	9.68	9.98	9.43	10.06	9.06
n	86	37	49	52	34

Source: Cambridge PE/VC Impact Benchmark, June 2020

²¹ Cambridge Associates does not offer a breakdown of the multi-industry category.

²² The IRR presented in this section by Cambridge Associates are net of fees, expenses, and carried interest. IRR since inception represents the net returns of private equity and venture capital funds formed between 1998 and 2018.

CAVEATS AND LIMITATIONS

- **Limited to social impact:** The inclusion criteria for this benchmark allow social impact funds to participate and exclude funds focused exclusively on environmental impact. This benchmark does not analyze impact performance findings or risk factors, an important limitation of interpreting these financial returns data.
- **Concentration bias:** There is significant concentration by vintage year; nearly 30% of funds were set up between 2011 and 2014. This concentration may reflect the increased capital flows toward alternate asset classes immediately following the 2008 Financial Crisis. There is significant geographic concentration in emerging markets, particularly in the United States (55% fund capitalization) and sub-Saharan Africa (29%).
- **Time horizon bias and limited sample size:** Most funds take at least six years to settle into their final quartile ranking; as a result, funds or benchmark performance metrics from more recent vintage years may carry less meaning. Small sample sizes and limited time horizons will overweight earlier funds and underweight newer ones, skewing results for the horizon pooled returns.
- **Selection bias:** Not all impact funds included in Cambridge Associates' full private market database, which comprises more than 8,100 funds, are necessarily included in its impact benchmark. Cambridge Associates selects some impact funds for inclusion in its impact benchmark but does not include all available impact funds in its analyses. The impact benchmark may not reflect overall performance of private equity impact investments.
- **Survivorship bias:** Tracking performance requires a full set of financial statements since a fund's inception. However, when funds included in the benchmark stop sharing their financial data for any number of reasons, the fund's entire performance history is removed from the benchmark database. The survivorship bias towards funds that remain may skew returns upwards. However, given the illiquid nature of private equity investments, underperforming private investment partnerships are likely to continue to exist and still require reporting to limited partners, even if the original manager ceases operations.

Symbiotics' Private Asset Impact Fund Report 2020

AUTHORS: BRENDAN MACKINNON, RAMKUMAR NARAYANAN, AND BASILE QUARTIER
PUBLICATION: OCTOBER 2020

The [Private Asset Impact Fund Report](#) analyzed more than 150 investment funds targeting emerging and frontier markets with a development impact focus. The report builds upon Symbiotics' Microfinance Investment Vehicles Survey and Private Debt Impact Funds benchmark, with a focus on all investment vehicles allocated to both private debt and private equity.

METHODOLOGY

Symbiotics identified and contacted 435 private asset impact funds (PAIFs) and 215 managers across fixed income funds, equity funds, and mixed funds, targeting emerging and frontier markets in private markets. In total, analysis included 157 funds affiliated with 78 managers.

SAMPLE OVERVIEW

Of the full sample of 157 PAIFs, the majority are fixed-income funds (61%), followed by 22% that are private equity funds and 17% that are mixed funds. This section is focused only on the 34 private equity funds.



Investment instrument: Private equity in the sample accounts for an outstanding investment amount of USD 3.2 billion, with 82% of investments made through common equity and 18% made through preferred equity.



Fund type and size: Only four funds included in the private equity sample are open-ended, while the majority of equity funds (30) are closed-ended. The average size of private equity funds included in the sample was USD 58 million. On average, private equity funds have 11 investees.



Sector: About 38% of private equity funds in the sample are focused on microfinance, while another 38% invest across multiple sectors, categorized as 'multi-sector.' Another 9% of funds in the sample each focus on climate and energy and SME development.



Geography: In total, 45% of direct impact investments made through private equity funds in the sample were allocated to South Asia, followed by Sub-Saharan Africa (22%) and Latin America & the Caribbean (24%). The top three countries receiving investments through private equity funds in the sample were India, Bolivia, and Mexico.



Investment strategies: On average, private equity funds in the sample invested nearly 100% of their total assets into impact-related activities. Additionally, cash levels for equity funds sat at just 1%. The average size of committed capital was USD 93 million, and less than two-thirds (63%) are called, or paid-in. Only two equity funds in the sample use leverage strategies or some kind of debt mechanism to finance their overall capital.

KEY FINDINGS

Financial Performance

In 2019, private equity impact funds had annual dividend yields of 1.6%.²³ Private equity funds focused on climate and energy received slightly larger dividend yields, at 3.7%, compared to those focused on other sectors. The median price-to-book ratio was highest for investments made into East Asia & the Pacific and South Asia, at 2.3 and 2.0 respectively.

Unleveraged private equity impact funds generated net annual USD-denominated returns of 6.3% and 4.6% for mixed funds.²⁴ For leveraged funds²⁵, the equity tranche USD-denominated returns amounted to 2.7% and 4.0% in EUR-denominated returns. Financial returns for leveraged equity varied by sector, with climate and energy equity funds generating net annual USD-denominated returns of 3.0%, higher than microfinance (1.6%). For microfinance, net returns have varied; between 2006 and 2019, equity microfinance funds averaged USD-denominated returns of 9.0%.

Additional insights on the financial performance of PAIFs across private equity, private debt, and mixed funds may be found in the Symbiotics report.

Unleveraged private equity impact funds generated net annual USD-denominated returns of 6.3% and 4.6% for mixed funds.

²³ Dividend yields are calculated by dividing dividend income by the equity portfolio.

²⁴ Net returns are calculated based on dividend levels and exit valuations, minus total expenses and performance fees.

²⁵ "Leverage refers to the use of debt (borrowed funds) to amplify returns from an investment or project." Adam Hayes and Margaret James, "Leverage," [Investopedia](https://www.investopedia.com/terms/l/leverage.asp), last updated July 2, 2020.

Impact Performance

Symbiotics also assessed impact performance based on how funds use impact investing principles within their investing strategy (SDG intention), how funds engaged in the investment process (ESG integration), and how funds deploy capital to maximize outreach and inclusion to bottom-of-the-pyramid households (BOP outreach). This analysis reflects all PAIFs across private debt, private equity, and mixed funds.

A majority of PAIFs (80) have dedicated SDG reporting to their investors. While more than 100 funds use their own internal measurement and management systems to map to the SDGs, about 45 report using IRIS+.²⁶ Most PAIFs (133) integrate ESG screening into their investment decision processes. In terms of outreach, about 47% of the average PAIF's direct impact portfolio is allocated to lower-middle-income countries, followed by 43% to upper-middle-income countries. On average, investees have 40,000 employees (1,400 at the median) and finance 1.2 million end-clients (204,000 at the median). In total, 58% of end-clients are based in rural areas, and about two-thirds are women.

STUDY LIMITATIONS

- **Sample limitations:** While the PAIF Survey included 157 funds, only 35 are focused on private equity. Additionally, all findings are based on self-reported data.
- **Geographic bias:** This study only includes investments made into emerging and frontier markets and therefore does not reflect the financial performance of developed-market investments. These may look markedly different.
- **Impact considerations:** The PAIF Survey assesses impact performance based on SDG-aligned intentions, ESG integration, and BOP outreach; however, the impact metrics used in this study are focused on scale and do not reflect impact outcomes associated with the impact funds. Moreover, ESG integration and SDG mapping does not fulfill the criteria for being an impact investor, which requires active measurement and management of impact.

²⁶ Learn more about the IRIS+ Core Metrics Sets [here](#).

GIIN PERSPECTIVES:

PRIVATE EQUITY

Private equity impact investments can generate market-rate returns, depending on varying investment goals and objectives: Impact investments in private equity that strive for competitive returns demonstrate the potential to achieve market-rate returns similar to those of analogous investments. As the paper from the University of California illustrates, the median private equity impact fund generated an IRR of 6.4%, as compared to 7.4% for impact-agnostic funds. The IFC study found that its private equity impact investments outperformed the S&P 500 by 15%.²⁷ In Cambridge Associates' Q2 2020 benchmark, impact fund performance since inception (15-year time horizon) exceeded that of several public equity benchmarks.²⁸

Financial returns vary significantly, with widespread dispersion in financial performance: As in mainstream financial markets, impact investments demonstrate significant variation in returns, with an average standard deviation of 9.68%, based on the Cambridge benchmark. The results of the GIIN's 2020 *Impact Investor Survey* also reflected this widespread dispersion, with the top 10% of private equity portfolios in emerging markets generating realized returns greater than 29%, while the bottom 10% generated returns below 6%. Asset manager selection can therefore play a critical role in achieving market-rate returns; however, non-financial support provided by impact investors along with other factors may also play an important role. The drivers of performance therefore merit further research.

Investors' objectives shape financial performance: Impact investors have significant decision-making power and can shape their financial performance based on their target objectives. As highlighted in the University of California research, impact investors demonstrate clear motivation to achieve impact returns alongside financial return, displaying a willingness to achieve desired impact targets alongside financial returns. This varies by organization types, illustrating that a diversity of objectives and strategies influences performance. Investors with fiduciary mandates or charters that mandate the maximization of shareholder wealth do not necessarily demonstrate lower willingness to pay for impact. Based on the findings of the GIIN's 2020 *Impact Investor Survey*, investors that make both impact and impact-agnostic investments generate higher gross realized returns, at 23% on average, than those making impact-only investments (16%). This reflects the potential for many types of impact investors to generate their desired financial returns and meet their performance objectives.

Smaller funds tend to outperform market and investor expectations: On the GIIN's 2020 *Impact Investor Survey*, 23% of Small Investors reported outperforming their expectations. Contrary to common belief, as the Cambridge benchmark has reported, smaller funds (below or equal to USD 100 million) exceeded the financial performance of larger funds (greater than USD 100 million), generating returns of 8.60% versus 6.03%. Since smaller funds also tend to be more flexible, such funds can often leverage strong opportunities with ease. Together, these findings suggest that smaller funds can achieve strong financial performance, outperforming in terms of both expectations and actual returns.

The GIIN's 2020 Impact Investor Survey also reflected this widespread dispersion, with the top 10% of private equity portfolios in emerging markets generating gross realized returns greater than 29%, while the bottom 10% generated returns below 6% since inception.

²⁷ However, this study only analyzed investments made by the IFC, with protection against expropriation risk.

²⁸ The Cambridge Associates benchmark makes the comparison between private equity impact funds and public equity funds. Given the GIIN's research findings that some impact investors report referencing public market benchmarks, this comparison offers additional insight into how performance compares between impact and impact-agnostic funds. Impact funds do achieve lower returns, on average, than the MSCI World Index and Russell 2000, as shown through a comparison with public equity equivalent benchmarks in the Cambridge Associates findings.

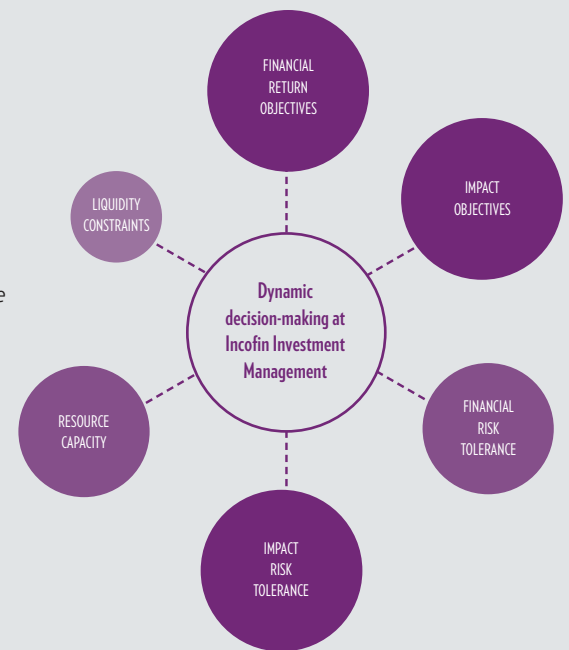
SPOTLIGHT

INCOFIN INVESTMENT MANAGEMENT

Headquartered in Belgium with regional offices around the world, Incofin Investment Management is an impact fund manager that invests in emerging markets. Incofin strives to improve the lives of vulnerable people in emerging markets in the agriculture and financial services sectors while delivering its investors attractive returns. As of June 2020, Incofin has provided USD 3.0 billion in debt and equity financing to more than 350 investees across 65 countries.

Incofin works alongside its asset owners—which include DFIs, pension funds, insurance companies, funds of funds, financial institutions, industry partners, and high-net-worth individuals—to consider various facets that influence decisions about capital allocation. With a track record of 20 years in both private debt and equity impact, Incofin asserts that financial and impact performance objectives both influence performance outcomes at the portfolio level.

Note: The variation in size and color of circles depicts the relative importance of each facet for Incofin Investment Management when managing performance and making capital allocation decisions.



FINANCIAL RETURN OBJECTIVES

Financial return objectives play a **very important** role in Incofin's investment strategy. To set financial targets for its equity funds, the Incofin team gathers information on past and current financial performance and on past equity transaction IRR of potential target companies. Using that data, Incofin projects a theoretical portfolio allocation that accounts for the following variables: time to deploy capital during the investment period, transaction ticket size, investment period timeframe, write-off assumptions, and local currency depreciation. As Incofin adds each transaction-specific IRR to the portfolio, Incofin uses the model to derive a projected portfolio-level hard currency gross and net IRR. Incofin's valuation committees meet quarterly to assess the fair market value of its stake in each portfolio company, using valuation methodologies aligned with private equity guidelines, such as the International Private Equity and Venture Capital Valuation Guidelines.²⁹

For debt, portfolio-level IRR targets are derived from the minimum expected net IRRs of the fund's shareholders, taking into account expenses and expected default rates. Incofin's debt team then tests the competitiveness of this IRR in the field to ensure its investment offering is deemed attractive by potential target companies and compares well against local sources of debt funding, when available. Incofin furthermore collects country-level risk data and additional financial performance metrics, allowing its debt investment managers to analyze the performance of potential investees and adjust IRR expectations according to a company's risk profile. While Incofin is keen to compare its fund-level performance to other impact investors in the industry, the fund manager asserts that the lack of sufficient financial performance benchmarks makes it challenging to complete such comparisons.

IMPACT OBJECTIVES

Impact is central to Incofin's mission. The fund manager considers impact objectives to be **very important**, on par with financial objectives, when making its capital allocation decisions, and Incofin integrates impact measurement and management (IMM) into its investment processes for both debt and equity investments.

²⁹ For more on the International Private Equity and Venture Capital Valuation Guidelines, see [here](#).

When originating its equity investments, Incofin selects investees with a clear impact thesis, as defined by genuine social intent and willingness to develop impact measurement indicators aligned with Incofin's impact methodology.³⁰ For example, in 2019, Incofin invested in Juhudi Kilimo, a Kenyan microfinance institution with a mission to “provide market-driven, wealth-creating financial services for rural smallholder farmers and enterprises while achieving a positive social impact.”³¹ Incofin manages its impact using its proprietary impact measurement tool, ECHOS 2.0, and also aligns to sector-specific standards. For instance, for its microfinance investments, Incofin's due diligence questionnaire incorporates industry standards such as SPI4-ALINUS, which was developed by CERISE under the leadership of the Social Performance Task Force (SPTF).³² While Incofin is keen to compare its own impact performance to others in the industry, for now, Incofin can only benchmark its microfinance portfolio's impact performance against the CERISE SPI4 ALINUS database, which contains 327 recent, high-quality social audits of microfinance institutions worldwide. Incofin also strives to support its investees by offering technical assistance to further develop their impact management systems.

FINANCIAL RISK TOLERANCE

Incofin considers many strategic financial risks associated with its investments, particularly in emerging markets. As such, financial risk tolerance plays an **important** role in Incofin's decision-making, with level of risk varying by asset class, sector, geography, and maturity of investee. To minimize financial risk, Incofin has developed a set of risk management and assessment tools and frameworks, which are embedded in its due diligence process. For example, Incofin monitors country risk through a framework updated annually using data from the World Bank and the Economist Intelligence Unit, among others. The fund manager monitors currency evolution quarterly in partnership with currency hedging service providers. Incofin's primary tools to mitigate risk include portfolio diversification strategies, hedging instruments, insurance policies, and the robustness of its overall due diligence process. It considers the cost of risk when determining expected net IRRs at the investment level; higher-risk deals are expected to yield correspondingly higher returns. With an annual loan loss rate of 0.4% since inception for its debt portfolio (as of June 30, 2020) and a realized hard currency IRR in EUR of 17% for its equity portfolio, Incofin has demonstrated ability to mitigate financial risk.

IMPACT RISK TOLERANCE

Impact risk plays a **very important** role in Incofin's strategy and portfolio management. Incofin assesses impact risk prior to investment, aligned with the CDC Code of Responsible Investing and the IFC Performance Standards. Before performing onsite due diligence, potential investees are screened to ensure compatibility with the fund's impact mandate through tools such as an Exclusion List, IFC GMAP (for social and environmental practices in agriculture), and sustainable certifications (for agricultural value chains). During due diligence, Incofin's Environmental and Social (E&S) risk questionnaires are adapted to focus on those E&S risks that are most relevant for the company's specific sector, helping to set a framework for a productive discussion with the company. External E&S auditors are mobilized if the target investee's risk categorization is medium or high. In collaboration with its equity investees, Incofin also strives to design an E&S risk mitigation plan, which is executed in the first year after investment. Incofin annually assesses progress of each investee's E&S risk management efforts across factors such as client protection principles for the microfinance sector and environmental practices for investments in agriculture.

³⁰ Incofin assesses three factors related to its investees' social missions: (a) an investee's client base and the extent to which the investee targets underserved clients; (b) the benefit for end stakeholders in terms of living standards or empowerment; and (c) whether services provide are affordable, transparent, and high-quality.

³¹ Learn more about Juhudi Kilimo [here](#).

³² CERISE SPI4 is a social performance audit tool offering a common language for reporting to stakeholders. Learn more [here](#).

RESOURCE CAPACITY

Resource capacity plays an **important** role in Incofin's approach to portfolio management and capital allocation. Incofin makes a concerted effort to allocate resources to effectively manage its impact funds, especially in terms of IMM expertise, with various types of staff. The investment team, with more than 40 investment professionals globally, is trained to perform E&S due diligence and includes an impact perspective throughout the investment process. The risk department, which monitors Incofin's compliance with E&S risk management against its asset owners' requirements. Finally, the Technical Assistance team leads capacity-building efforts to improve investees' IMM processes.

LIQUIDITY CONSTRAINTS

Liquidity is a **somewhat important** consideration for both debt and equity investments. On the debt side, Incofin manages and advises both open- and closed-ended funds. For example, for microfinance debt funds, Incofin provides two- to three-year senior loans and ensures cashless rollovers when possible in order to help investees smoothly manage their liquidity. On the equity side, asset owners often prefer closed-ended funds with an average ten-year lifespan, which offers greater certainty on when invested amounts will be returned to limited partners. Incofin believes that exit considerations are important to ensure an investment delivers not only strong financial returns but also a sustainable commitment to impact. In this regard, Incofin uses a "Fitness and Compatibility" matrix that aims to assess a potential buyer's qualities such as reputation in the market, stability of leadership, commitment to social performance, sector experience, rationale for investment, and cultural fit with the investee to be acquired.

PRIVATE DEBT: FINANCIAL PERFORMANCE

Introduction

Private debt is the second-most commonly used asset class in the impact investing industry, with nearly half of impact investors (49%) allocating impact capital through private debt, which accounts for 32% of AUM. As described in the section on the GIIN’s 2020 *Impact Investor Survey* (page 9), private debt investments realized average gross returns since inception of 11% on average in emerging markets and 8% in developed markets.

Impact investors focused on private debt use various benchmarks and resources to compare their performance to peers in the industry. Others use no external benchmarks and may focus on absolute return strategies. Several Private Debt-Focused impact investors indicated using the benchmarks below.³³

TABLE 6: COMMON BENCHMARKS USED BY PRIVATE DEBT IMPACT INVESTORS

Impact-agnostic benchmark	Description
S&P Global Leveraged Loan Index	The S&P Leveraged Loan Index has 1,845 constituents and measures the performance and yield to maturity of the global syndicated leveraged loan market, representing U.S. and European loans. Sub-indices are available based on currency, maturity, and sector, among others.
Morgan Stanley Emerging Market Debt Fund	The Fund invests in a wide range of sovereign, quasi-sovereign, and corporate debt securities in emerging markets, featuring data on historical net asset value (NAV), growth of investments (at NAV), historical yields, and average annual NAV returns. Investments are made across 10 countries—the top three are Mexico, Indonesia, and China—and primarily through sovereign, non-Brady bonds. ³⁴
JP Morgan Emerging Market Indices	This series comprises three indices focused on emerging markets. The Emerging Market Bond Index measures the total return performance of international government bonds and corporate bonds issued by emerging countries. The Index measures Brady bonds, and later iterations also include dollar-denominated loans and Eurobonds. J.P. Morgan also recently launched the Government Bond Index-Emerging Markets (GBI-EM) series and the Corporate Emerging Markets Bond Index (CEMBI) series, both of which feature additional indices with region-specific coverage (e.g., Asia, Russia, and Latin America).

While some impact investors report using such benchmarks to compare their performance for their private debt investments on the basis of yields and returns, these indices do not incorporate impact objectives and impact risk, two critical dimensions that impact investors take into account throughout the investment process.

This section explores findings on financial performance from the following impact investing benchmarks, all produced by Symbiotics: 2019 Private Debt Investment Fund benchmark and 2020 Private Asset Impact Fund Report.

³³ Based on responses to the 2020 Annual Survey and participant perspectives shared in a series of focus group discussions in July 2020.

³⁴ “Brady bonds are sovereign debt securities, denominated in U.S. dollars (USD), issued by developing countries, and backed by U.S. Treasury bonds.” James Chen, “Brady Bonds,” [Investopedia, last updated October 23, 2019](#).

Symbiotics' Private Debt Impact Fund Survey

AUTHOR: SYMBIOTICS

PUBLISHED: 2019

Symbiotics conducted this second edition study, [The Financial Performance of Impact Investing through Private Debt](#), based on 2017 financial data to establish evidence on the financial performance of private debt impact funds.³⁵

METHODOLOGY

This study targets private debt impact funds (PDIFs). Symbiotics included independent investment vehicles with an intention to generate social and/or environmental impact alongside a financial return and for which fixed income investments represented at least 85% of their non-cash assets over a five-year average. Additionally, this study only included funds for which audited financial statements were available. Symbiotics retrieved information from publicly available financial statements and calculated the net returns of each fund based on the growth of Net Asset Value (NAV) per share.³⁶

SAMPLE OVERVIEW

The 2019 benchmark includes 92 PDIFs, including Microfinance Investment Vehicles (MIVs) that are represented in the separate MIV Survey produced by Symbiotics.



Sector: Financial services, including microfinance, was the most represented sector of investment in the sample, comprising 54% of AUM, followed by energy and infrastructure (24%) and multi-sector funds (14%). Other sectors represented include food and agriculture, education and culture, housing, and healthcare. In terms of assets, small business finance funds grew the most, at an average rate of 44% per year.



Fund size: The average fund size was USD 261 million (USD 117 million at the median). However, fund size varied significantly based on primary sector; energy and infrastructure funds tend to be the largest (USD 686 million on average), while food and agriculture funds were the smallest (USD 76 million).



Investment strategy: PDIFs used a variety of investment strategies, including leverage, hedging, and both direct and indirect investment. Almost half of funds are now leveraged, as compared to one-third in 2012. The amount of leverage also increased to 45% of total assets in 2017 compared to 26% in 2012. A growing share of funds also hedge their portfolios; by 2017, the majority of funds were at least partially hedged against currency fluctuations.

³⁵ Some PDIFs included in this benchmark that are MIVs were also included in the 2019 MIV Survey.

³⁶ In cases where this information was not available, Symbiotics approximated the NAV per share growth using primary financial statement data.

KEY FINDINGS

On average, PDIFs generated a net return of 1.9% over the period 2013–2017.³⁷ The five-year average annual portfolio yield was 6.7%. USD-denominated funds experienced the highest yearly net returns, at 2.7% over the five-year period and 3.3% in 2017. By comparison, the overall return of funds offering share classes in various currencies was a much lower 1.2% on an annual five-year average and 0.9% for the 2017 fiscal year.³⁸

On a risk-adjusted basis, PDIFs demonstrated strong financial performance and minimal volatility, with a Sharpe ratio of 5.17 over the five-year period, compared to microfinance funds at 5.02 and U.S. stock at 1.52.³⁹ The Sharpe ratio for PDIFs over the period is higher than that of any compared asset class assessed in this study, demonstrating the relatively strong risk-adjusted returns of private debt impact investments. Symbiotics finds only a small correlation between PDIFs and other asset classes; the highest correlations, with cash at 0.75 and emerging market bonds at 0.67, indicate that private debt impact investments do not move in tandem with other asset classes. Private debt impact funds generate higher and more stable financial returns than microfinance funds, developed market bonds, emerging market bonds, world stocks, U.S. stocks, alternatives, or cash.

Fully unhedged funds had higher five-year average returns (3.5%) than did fully hedged funds (2.1%), but annual volatility in returns for fully unhedged funds was significantly higher (5.5%) compared to fully hedged funds (0.7%). As with hedging, leveraging strategies also impacted financial returns. Levered funds saw higher returns of 2.6% on average compared to 1.4% for unlevered funds but experienced slightly higher annual volatility (0.9% versus 0.7%). Given that the portfolio yield and total expenses of both levered and unlevered funds are similar, this indicates that leverage alone increased returns with only a marginal increase in volatility.

Investment strategies and sector of investment influenced the financial performance of private debt investments. Gross portfolio yields for direct investments were the highest in food and agriculture (9.8%) and small business finance (9.7%) over a five-year annual average.⁴⁰ However, in food and agriculture and small business finance, many of the funds made direct investments. Expenses also varied based on characteristics of the funds.

STUDY LIMITATIONS

- **Sample bias:** The PDIF Survey comprises a sampling of 43 funds, and all findings are based on financial statements. Given the sample size, it is challenging to assess and interpret findings on a segmented basis, for example by sector or geography. The financial performance of the PDIF Survey is also driven by key characteristics of the benchmark constituents and how they have changed over time; the results will thus reflect changes based on the share of constituents that opt to participate, reflecting a potential constituent bias.
- **Geographic bias:** The overwhelming majority of private debt funds included in the PDIF Survey focus on emerging markets, resulting in a geographic skew to the data. Unlike the 2018 PDIF Survey, this year's 2019 PDIF Survey does not include Community Development Loan Funds, which invest almost exclusively in the United States.
- **Consideration of impact:** Symbiotics aligns with the generally accepted definition of impact investing for this research. However, when identifying PDIFs in this sample, Symbiotics considered SDG mapping as an indication of impact, which does not reflect the real impact results associated with impact funds.

³⁷ All net returns were reported as five-year averages.

³⁸ Although this study was published in 2019, data presented in the report pertains to the 2017 fiscal year.

³⁹ The Sharpe ratio is used to help investors understand the return of an investment compared to its risk, measuring the average return earned in excess of the risk-free rate per unit of volatility. While these findings are based on just six periods of annual data, they are aligned with findings from the SMX-MIV Debt Index of Microfinance Private Debt Funds, which is similar in key characteristics and based on 72 monthly observations over the same time period.

⁴⁰ Findings segmented by sector are more challenging to interpret given the limited sample size, where 'n' varied from 3 to 41 depending on the sector.

On a risk-adjusted basis, PDIFs demonstrated strong financial performance and minimal volatility, with a Sharpe ratio of 5.17 over the five-year period.

Symbiotics' Private Asset Impact Fund Report 2020

AUTHOR: SYMBIOTICS

PUBLISHED: OCTOBER 2020

The Private Asset Impact Fund Report analyzes more than 150 investment funds targeting emerging and frontier markets with a development impact focus. According to Symbiotics' analysis, this represents USD 22 billion in AUM and builds on Symbiotics' MIV Survey and Private Debt Impact Funds benchmark, this time including investment vehicles allocated to both private debt and private equity. This report therefore includes private debt impact funds included in both the Private Debt Impact Fund (PDIF) report and the MIV Survey.

METHODOLOGY

Symbiotics identified and contacted 435 private asset impact funds (PAIFs) and 215 managers across fixed income funds, equity funds, and mixed funds with an impact focus that target emerging and frontier markets. The team subsequently collected, aggregated, and reported on data from 157 funds affiliated with 78 managers. All indicators were converted to USD using end-2019 currency exchange rates.

PAIFs included met the following criteria: (a) were a stand-alone investment vehicle; (b) had an impact focus as part of their investment strategy, defined as having clear intention to generate and measure social and/or environmental impact alongside financial return; (c) had invested more than 85% of their portfolio in private assets; and (d) had invested more than 85% of their portfolio in emerging and frontier markets. Asset owners, government entities, development financial institutions, funds of funds, and holding/networks were excluded from this study, which also includes past participants in the MIV Survey and PDIF Survey.

SAMPLE OVERVIEW

In the full sample of 157 PAIFs, the majority are fixed income funds (61%), while 22% are private equity funds and 17% are mixed funds. The following is an overview of sample characteristics specific to fixed income funds.



Instrument: Private debt accounts for an outstanding investment amount of USD 15.1 billion, with 92% of investments made through senior debt and 8% made through subordinated debt.



Fund type and size: Sixty-five funds included in the fixed income sample are open-ended, while the remaining 31 funds are closed-ended. The average size of fixed income funds included in the sample was USD 172 million, and the average fixed income fund invests into 58 investees. The average maturity of private debt investments at disbursement ranged from just six months to 152 months.



Sector: A majority of fixed income funds are focused on microfinance (59%), followed by SME development (11%), climate and energy (10%), and food and agriculture (7%).



Geography: The largest share of direct impact investments made through fixed income funds was allocated to Latin America & the Caribbean (30%), followed by Eastern Europe & Central Asia (25%) and about 10% to each of East Asia & the Pacific and South Asia. The top three countries of investment include India, Ecuador, and Cambodia.



Investment strategy: On average, fixed income funds invested just under 80% of their total assets into impact-related activities. Additionally, cash levels for fixed income funds sit at 10%, which may reflect their higher needs for liquidity. About 32 fixed income funds are leveraged. Most debt investments made through fixed income funds and mixed PAIFs were in hard currency (64%) with the remaining 36% made in local currencies. Most PAIFs (66%) offer fixed interest rates, with a growing trend toward floating interest rates (34% of the total debt portfolio).

KEY FINDINGS

Average annual portfolio yields are 7.6% on a weighted average basis and 8.7% on a simple average basis, with significant variation by investee type and hedging strategy. Unleveraged private debt impact funds generated net annual returns of 4.3% for fixed income funds (USD-denominated returns) and 4.6% for mixed funds (USD-denominated returns).

Average annual gross yields varied with hedging strategy, as highly hedged PAIFs generated 7.1% average annual yields as compared to 7.6% for partially hedged funds and 8.4% for highly unhedged funds.⁴¹ Loan loss reserves as a percentage of the total portfolio amounted to 2.9% for fixed income and mixed-asset PAIFs. Annual loan-loss provisions and loan write-offs during 2019 amounted to 0.8% and 0.3%, respectively. Management fees were 1.3% of average total assets, and the total expense ratio (TER) amounted to 2.1%.

The median portfolio sovereign risk rating for fixed income funds is Ba3, based on Moody's long-term sovereign risk ratings scale.⁴² In total, 38% of PAIF's investments are considered investment-grade. Symbiotics also assessed the returns and volatility of the SMX MIV Debt USD Index, the more mature microfinance fund segment, to assess the immediate consequences of the COVID-19 pandemic on the microfinance sector. Microfinance funds have shown significantly less volatility than other asset classes assessed in this study, with a compound annual net return of 3.49%. Over a 15-year period, cumulative volatility stands at 0.62%, significantly lower than emerging and developed market stocks, government bonds, commodities, or hedge funds. While volatility for 2020 (YTD) sits at 0.92%, this still remains lower than other asset classes, reflecting the low risk associated with microfinance private debt funds.

Analysis of the impact performance of funds in this sample was conducted across private debt, private equity, and mixed funds. For insights into the impact performance of all PAIFs, please see page 23.

STUDY LIMITATIONS

- **Geographic bias:** This study only includes investments made into emerging and frontier markets and therefore does not reflect the financial performance of developed market investments, which may look markedly different.
- **Impact considerations:** The PAIF Survey assesses impact performance based on SDG-aligned intentions, ESG integration, and BOP outreach; however, the impact metrics used in this study are focused on scale and do not reflect impact outcomes associated with the impact funds. Moreover, ESG integration and SDG mapping do not fulfill the criteria for impact investment, which requires the active measurement and management of impact.

Average annual portfolio yields are 7.6% on a weighted average basis and 8.7% on a simple average basis, with significant variation by investee type and hedging strategy.

⁴¹ Highly hedged PAIFs are those with an unhedged proportion of their local currency portfolio of 5% or less; partially hedged PAIFs are those with an unhedged proportion of their local currency portfolio between 6% and 95%; and highly unhedged PAIFs are those with an unhedged proportion of their local currency portfolio of more than 85%.

⁴² Learn more about Moody's Rating Scale [here](#).

GIIN PERSPECTIVES: PRIVATE DEBT

Private debt impact funds can generate risk-adjusted, market-rate financial returns:

On the GIIN's 2020 *Impact Investor Survey*, gross realized, average financial returns ranged from 8% for developed market investments to 11% for emerging market investments. Similarly, Symbiotics' findings indicate a weighted average yield of 7.6% among fixed income impact funds and a five-year average portfolio yield of 6.7% among private debt impact investing funds. Further, for microfinance private impact funds, the Microfinance Fixed Income Funds outperformed the industry benchmark (the SMX-MIV Debt Index) in terms of rate of financial return in EUR, USD, and CHF, further reflecting the potential for impact debt funds to generate market-rate financial returns.

Impact debt funds can play an important role in risk reduction and diversification: On a risk-adjusted basis, the private debt impact funds in the Symbiotics research have demonstrated strong financial performance, with the highest Sharpe ratio (5.17) across asset classes assessed in the study. As evidenced in the studies, private debt impact funds can be a low-risk investment, offering diversification benefits and providing a stable investment opportunity with attractive financial benefits, especially within a multi-asset, diversified portfolio. Hedging strategies can play an important role in the financial risk and return profile of private debt impact investments, as to be expected, though naturally this approach is associated with its own set of costs. Leverage strategies also play a distinct role in impact investments; with portfolio yields and total expenses on par between levered and unlevered funds, the benefits of leverage would seem to outweigh the costs.

Financial returns across private debt investments remain stable and tend to align with investor expectations: As shown in Symbiotics' 2020 *Private Asset Impact Fund Report*, average annual gross yields have fluctuated only slightly from 10% prior to the 2008 financial crisis to about 7% in 2019. This relative stability reflects the lower volatility and higher maturity of debt funds. Additionally, the SMX MIV Debt USD Index has seen the lowest volatility since inception across asset classes assessed in the study. These findings align with the GIIN's 2020 *Impact Investor Survey*, in which nearly every (97%) private debt impact investor targeting market-rate returns reported either meeting or exceeding their financial performance expectations.

As evidenced in the studies, private debt impact funds can be a low-risk investment, offering diversification benefits and providing a stable investment opportunity with attractive financial benefits, especially within a multi-asset, diversified portfolio.

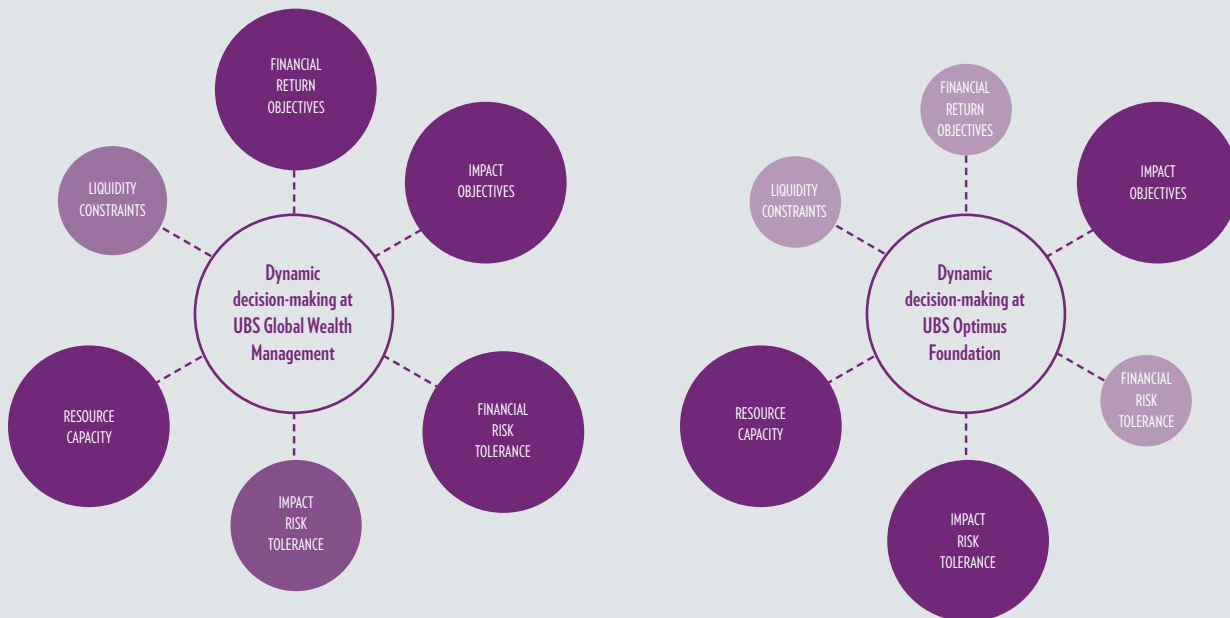
SPOTLIGHT

UBS GLOBAL WEALTH MANAGEMENT AND UBS OPTIMUS FOUNDATION

UBS Global Wealth Management (GWM) is a global wealth manager, with impact investing exposure managed through its sustainable and impact investing offering, and philanthropic exposure through the UBS Optimus Foundation. UBS GWM makes investments across multiple impact themes and UN Sustainable Development Goals (SDGs) through private market funds and through shareholder and bondholder engagement public market funds. UBS Optimus Foundation focuses on healthcare, education, the environment, and climate around the world.

Both UBS GWM and UBS Optimus Foundation consider various factors when allocating investment or philanthropic capital for impact. However, given the different return philosophies and performance targets, with UBS GWM seeking market-rate returns in investment portfolios and Optimus seeking capital preservation, they attach different levels of importance to each factor in their decision-making, as indicated below.

Note: The variation in size and color of circles depicts the relative importance of each facet for UBS Global Wealth Management and UBS Optimus Foundation when managing performance and making capital allocation decisions.



FINANCIAL RETURN OBJECTIVES

Financial performance objectives are **very important** in shaping UBS GWM's capital allocation decisions. UBS GWM sets these objectives at the fund level and assesses a fund manager's ability to generate market-rate returns. Investments are compared to other market-rate-seeking investments within the same asset class, using external reference benchmarks and respective fund return statements.

By contrast, relative to other factors, financial performance objectives are **less important** for UBS Optimus. The foundation prioritizes impact first and is willing to forego market-rate returns in order to maximize its impact. As a result, UBS Optimus Foundation targets capital preservation at the portfolio level, though individual impact investments have a wide range of financial potential. When deploying philanthropic capital into these impact investments, Optimus has sometimes found tradeoffs between the financial and impact performance, particularly in early-stage companies and in countries that present high currency risk.

IMPACT OBJECTIVES

Both UBS GWM and UBS Optimus Foundation use the UN SDGs and associated indicators and targets as general guidelines for setting priorities and tracking performance.

Impact performance objectives are **very important** for UBS GWM. The asset managers it works with on impact investing solutions are required to incorporate an ex-ante impact thesis into each underlying investment and to select and track a set of impact metrics to help guide the engagement with the company or project throughout the investment period. Asset managers must also regularly report on impact, outlining progress towards the overall impact objectives of the fund and its underlying investments. Since UBS clients invest across a variety of themes and sectors over various periods of time, it is difficult to aggregate impact performance objectives at the client portfolio level.

Impact performance objectives are also **very important** for UBS Optimus Foundation. In fact, they are the most important factor shaping its allocations. The foundation works closely with investee organizations that already have strong evidence of impact or that have the capacity to design programs that can demonstrate impact. Their evaluations are consistent with the OECD's Development Assistance Committee's Evaluation criteria.⁴³ Beyond investing directly from its own portfolio, UBS Optimus Foundation actively assesses how to use its flexible capital to de-risk opportunities and catalyze more commercial capital, including market-rate-seeking impact investments, to make further progress toward its deep impact objectives. The UBS Optimus Foundation strives to use data to inform its management and strategic decisions. The Foundation also works to build the capacity of investee organizations to use data, and it seeks to share learnings with and learn from its peers. The Foundation's impact framework measures performance at the investment, portfolio, and organizational levels, verifying impact through a combination of investee- and Foundation-managed third-party evaluations.

FINANCIAL RISK TOLERANCE

Assessing the potential financial risk of its impact investments is **very important** to UBS GWM. Impact investments in a given sector (e.g., infrastructure) are assessed relative to the investment strategy and financial risks comparable to impact-agnostic investments in the same sector.

For UBS Optimus Foundation, however, financial risk tolerance is **less important** in shaping decisions. The Foundation is willing to accept significant amounts of financial risk if an impact investment aligns with its impact objectives.

IMPACT RISK TOLERANCE

UBS conducts an ex-ante assessment of impact risks when evaluating potential asset managers, weighing an asset manager's ability to identify and react to potential impact risk. Impact risk is an **important** factor for UBS GWM in selecting its partners, and it actively evaluates impact risks and progress towards impact objectives throughout the life of each fund.

Similarly, assessing the potential for impact risk is **very important** to UBS Optimus Foundation. The Foundation assesses a fund or investee's track record of generating meaningful, long-term impact based on documented evidence of previous evaluations the investee has conducted. In the absence of credible impact evaluations, the Foundation requires investees of funds to have in place a robust theory of change and an evidence base or rationale for the proposed investment, along with adequate monitoring and evaluation frameworks.

⁴³ OECD Development Assistance Committee, "Evaluation Criteria," <https://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm>.

RESOURCE CAPACITY

Both UBS GWM and UBS Optimus Foundation have dedicated impact staff and expertise in impact assessment, which play a **very important** role in helping them achieve their financial and impact performance objectives.

UBS GWM has a dedicated sustainable and impact investing team that develops and sets impact investing frameworks and standards for assessing asset managers, conducts impact assessments for each potential impact fund, monitors progress toward overall impact objectives, informs and educates advisors and private investors about impact investing, and engages with the wider industry to set common principles and criteria for impact management. The team collaborates closely with other expert teams across the firm that focus on fund due diligence, product development, and distribution. UBS GWM also works closely with the UBS Optimus Foundation, UBS Asset Management, and the broader UBS Group to build expertise and product and service offerings around impact-related topics and solutions.

UBS Optimus Foundation has deep, sector-level expertise in assessing impact, which ultimately informs the framework through which the Foundation achieves its impact goals. UBS Optimus Foundation also benefits from its connection to UBS GWM, a global wealth manager, through which it leverages UBS's expertise and fund distribution capabilities. For example, UBS and UBS Optimus Foundation are currently developing a blended finance initiative in which outcomes in education, health, livelihoods, and environment will drive financial returns.

LIQUIDITY CONSTRAINTS

Liquidity is **somewhat important** in shaping UBS GWM's capital allocation decisions. While UBS GWM invests across the liquidity spectrum, most of its private-market investments have low liquidity, given its focus on private equity.

For UBS Optimus Foundation, liquidity is **less important** given its longer time horizons and the Foundation's capacity for patient capital and below-market-rate returns. The Foundation focuses less on liquidity and more on long-term sustainability, engaging with players in local ecosystems and governments to ensure that delivered impact remains sustainable.

REAL ASSETS: FINANCIAL PERFORMANCE

Introduction

Just under one in five (19%) impact investors seeking market-rate returns allocate capital to real assets, accounting for 31% of total impact AUM.⁴⁴ In total, 11% of market-rate investors are focused on real assets and allocate at least 75% of their total portfolio to real assets. As discussed in the GIIN's *2020 Impact Investor Survey* section (page 9),⁴⁵ on average, real asset impact investors seeking market-rate returns generated 15% in average gross realized returns. They most commonly reported facing macroeconomic risk, which 65% of real asset investors identified as a severe or moderate risk; 53% identified liquidity & exit risk as a severe or moderate risk.

In order to understand typical financial performance and benchmark the industry, several investors indicated using impact-agnostic benchmarks on real assets (Table 7).⁴⁶

TABLE 7: COMMON BENCHMARKS USED BY REAL ASSETS IMPACT INVESTORS

Impact-agnostic benchmark	Description
NCREIF Timberland Index	The Timberland Index measures the quarterly time series composite return of U.S. timber properties acquired in private markets for investment purposes. The Index is subdivided into five geographic regions within the United States: Pacific Northwest, South, Northeast, Lake States, and Other. The Index publishes quarterly returns data and total market value at both the national and regional levels.
NCREIF Farmland Index	This index measures the quarterly time series composite return of U.S. farmland properties (e.g., permanent, row, and vegetable cropland) acquired in private markets for investment purposes, primarily on behalf of pension funds. The Index is subdivided into two property types: permanent cropland and annual cropland. The Index publishes quarterly returns data and total market value, both in aggregate and by property type.
NCREIF Property Index (NPI)	The NPI provides a historical measurement of property-level unleveraged composite total returns and constitutes operating properties acquired and held primarily for investment purposes. The Index is subdivided into five property types: apartments, hotels, industrial, office, and retail. Quarterly returns data and total market value are published both in aggregate and by property type.

Note: Impact investors responding to the *2020 Annual Impact Investor Survey* did not report using the NCREIF Property Index; however, it has nonetheless been included here alongside the other NCREIF real asset benchmarks to offer a balanced view across real assets.

While the industry has not seen significant recent developments in benchmarking the financial performance of real asset impact investments, Cambridge Associates produces quarterly updates to its benchmark on real estate, timberland, and infrastructure, offering transparency on the impact investing asset class.

⁴⁴ As per the GIIN's *2020 Annual Impact Investor Survey* for real asset investors targeting risk-adjusted, market-rate returns.

⁴⁵ Hand et al., *2020 Annual Impact Investor Survey*.

⁴⁶ Based on impact investors' responses to both the GIIN's *2020 Annual Impact Investor Survey* and a series of focus group discussions conducted in July 2020 for the purpose of this research.

Cambridge Associates Real Assets Impact Investing Benchmark

AUTHOR: CAMBRIDGE ASSOCIATES

PUBLISHED: JUNE 2020

Cambridge Associates produces quarterly updates to its [Real Assets Impact Investing Benchmark](#) drawing on fund- and investment-level performance information to report the historical financial performance of private real asset funds. The most recent update shows the financial performance of real assets as of June 30, 2020.

METHODOLOGY

The benchmark includes funds that invest in various real assets—timberland, real estate, and infrastructure—with a stated intention to generate social and/or environmental impact alongside a financial return. While not all impact investment funds target risk-adjusted, market-rate returns, this benchmark restricts itself to market-rate investments in order to ensure a uniform dataset.

Cambridge Associates has identified a list of relevant impact investing funds using a variety of external databases and networks. The data were subsequently divided by sector and associated risk/return profile into timber, real estate, and infrastructure. The benchmark calculates IRR net of fees and expenses. Findings are presented based on each of the three benchmarks.

SAMPLE OVERVIEW

In total, 77 qualifying funds submitted data across the three real assets benchmarks: timber (26 funds), real estate (24 funds), and infrastructure (27 funds). Each fund included in the benchmark has a stated intention to generate positive social and/or environmental impact through timber, real estate, or infrastructure investments.

Timber funds

The overwhelming majority of timberland funds were allocated in developed markets, with 83% of total fund assets concentrated in the United States and 16% in other developed markets. Just 2% of fund assets were in emerging markets. Timber is the oldest impact real asset included in this benchmark and the only one with a fifteen-year financial history. Most funds are from vintage years 2005 to 2010 (54% of funds), with 23% from vintage years 1997 to 2004. The remaining 23% are from 2011 to 2018. Fund size varied significantly, with 54% of funds smaller than USD 250 million and the remaining 46% of funds larger than or equal to USD 250 million.

Real estate funds

Nearly two-thirds of real estate fund assets (65%) were allocated to the United States, with 16% allocated toward other developed markets and just 19% allocated to emerging markets. Funds were concentrated in vintage years 2011 to 2014 (38% of funds), followed by vintage years 2008 to 2010 (29%). Only 38% of funds were larger than USD 250 million, and 63% of funds were smaller than or equal to USD 250 million.

Infrastructure funds

Three-quarters of infrastructure funds were allocated to the United States, 19% were directed toward developed markets outside of the United States, and only 7% were allocated to emerging markets. No infrastructure funds from vintage years prior to 2005 were included in this benchmark; most funds (67%) are more recent, from vintage years 2011 to 2018. Infrastructure fund sizes are relatively large as compared to real estate and timberland funds, with 37% of infrastructure funds larger than USD 500 million and only 11% smaller than or equal to USD 100 million.

KEY FINDINGS

Timber funds generated a pooled net IRR of 3.63%, while real estate funds generated 1.07% and infrastructure generated 2.69%.⁴⁷ However, returns differ significantly based on the financial performance measure used (Table 8). There is significant dispersion in returns across the upper and lower quartiles, in particular for real estate and infrastructure, with the standard deviation as high as 12.45% for infrastructure funds.

TABLE 8: IRR DISTRIBUTION SINCE INCEPTION (1997 – 2018)

	Timber Funds	Real Estate Funds	Infrastructure Funds
Pooled return (%)	3.63	1.07	2.69
Mean (%)	4.23	6.85	2.93
Median (%)	4.37	8.17	5.49
Upper quartile (%)	6.48	15.28	8.04
Lower quartile (%)	2.98	1.93	-2.51
Standard deviation (%)	4.41	10.67	12.45
n	26	22	27

Source: Cambridge Associates Real Assets Impact Investing Benchmark, Q2 2020

Over a ten-year horizon, infrastructure and timber generated slightly higher pooled horizon returns (3.39% and 3.37% respectively) compared to real estate impact funds (2.56%). Yet, on an analysis of more recent one-, three-, and five-year horizons, infrastructure generated the highest returns (4.06% over one year, 4.92% over three years, and 4.13% over five years). For timber impact funds, the comparable public market index is the NCREIF Timberland Index, against which impact funds have lower returns across all time horizons. While the 15-year time horizon shows significantly lower performance for the impact funds (6.18% for the NCREIF Index compared to 3.33% for timber impact funds), more recent time horizons demonstrate returns much closer to the public benchmark. Real estate funds generated 1.05% on a 15-year horizon, lower than the FTSE NAREIT All Equity Index (6.89%) or the FTSE NAREIT Developed Real Estate Index (4.85%). However, neither public index provides an appropriate comparison in terms of financial instrument and geography. The 15-year time horizon is not available for the infrastructure impact fund. However, on a 10-year horizon, infrastructure impact funds generated 3.39%, compared to the UBS Global Infrastructure Constructed Index at 7.16%.

STUDY CAVEATS AND LIMITATIONS

- Limited sample:** In total, a sampling of 76 impact funds were included in this benchmark. When split into the three distinct benchmarks representing each real asset type, however, the number of included funds is naturally much smaller. Additionally, many included real assets impact funds are relatively young and have no significant historic track record. Given the limited sample size and youth of the funds included, performance findings do not necessarily reflect the market.
- Geographic bias:** The overwhelming majority of funds included are based in developed markets, with most timber, real estate, and infrastructure funds in the sample focused on the United States, resulting in a significant geographic skew.
- Lack of segmented analysis:** The benchmark does not offer additional analysis of financial returns by fund size or geographic region, meaning only limited insights can be derived from the data presented.

⁴⁷ The IRR presented in this section by Cambridge Associates are net of fees, expenses, and carried interest

GIIN PERSPECTIVES:

REAL ASSETS

Real asset impact investors can generate market-rate returns, but realized returns vary widely: Realized returns vary significantly not only by time horizon and segment but also within segments, reflecting wide dispersion and potential to generate market-rate returns or underperform relative to comparable benchmarks. As shown in the Cambridge benchmark, returns varied significantly, with dispersion in infrastructure impact funds ranging from 8.04% to -2.51%. Similarly, for respondents to the GIIN's 2020 *Impact Investor Survey* with real assets, average gross realized returns for those investments ranged from 8% to 23%. This reflects the critical role of asset manager selection in generating attractive financial returns. Most real asset investors (65%) also reported that macroeconomic factors pose a severe or moderate portfolio risk, demonstrating the role that macroeconomic risk plays across real asset investments in particular.

Realized returns vary significantly not only by time horizon and segment but also within segments, reflecting wide dispersion and potential to generate market-rate returns or underperform relative to comparable benchmarks.

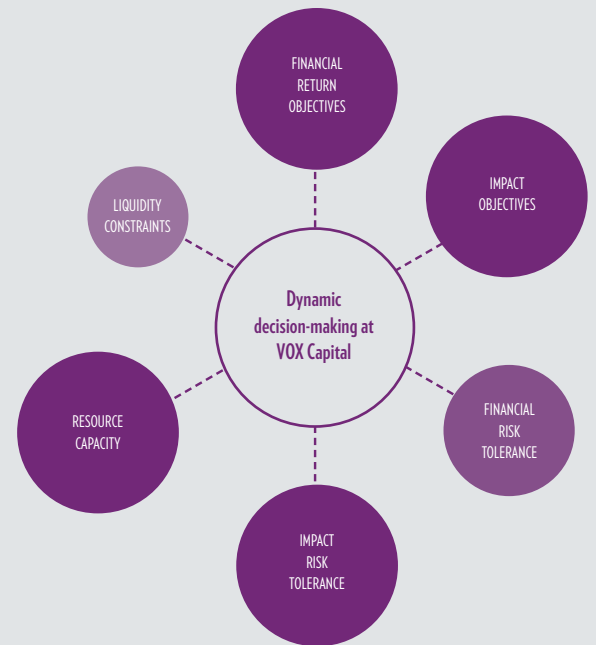
SPOTLIGHT

VOX CAPITAL

Vox Capital is an investment management firm focused on providing financial solutions through early-stage venture capital and debt investments into the health, education, and financial services sectors in Brazil. Vox has made 31 investments since its inception in 2009 and currently manages four investment funds in both VC and credit.

Vox integrates impact, risk, and return into each investment decision, all of which influence its capital allocation decision-making. With a well-defined target market and investments into highly demanded products or services in underserved areas, Vox achieves both its financial and impact objectives.

Note: The variation in size and color of circles depicts the relative importance of each facet for Vox Capital when managing performance and making capital allocation decisions.



FINANCIAL RETURN OBJECTIVES

Vox Capital seeks competitive, market-rate returns, setting financial targets aligned to traditional, non-impact markets for each asset class. Financial performance objectives play a **very important** role in Vox's capital allocation decisions. To set financial targets for equity investments, Vox compares the prospective investee's financial history to the performance of similar companies, accounting for sector, geography, and stage of business. When assessing the financial performance of its two venture capital funds, Vox uses each company's net asset value (NAV), applying a weighting to assess portfolio-level financial performance. To compare fund-level performance, Vox uses internal rate of return (IRR) and total value paid-in (TVPI), comparing performance for each fund's vintage year using the Cambridge Associates Private Investment Benchmark. Vox's second venture capital fund ranks among the top quartile of VC funds globally (2017 vintage) based on the Cambridge benchmark (Q1 2020 update). For its credit fund, Vox sets a target rate based on the benchmark rate CDI (rate of the 'Certificado de Depósito Interbancário'), which is usually used to price fixed-income instruments in Brazil. Vox's credit fund has generated 7.64% return net of fees since inception to June 2020, which equates to 110.6% of the CDI benchmark rate.

IMPACT OBJECTIVES

Impact objectives equally play a **very important** role when Vox allocates capital, on par with financial return objectives. Vox integrates impact analysis into the investment process, conducted for each investment alongside analysis of financial returns and risk. Vox sets impact targets at the investment level, based on the scale of the social or environmental challenge its investee seeks to address. Vox subsequently maps its impact targets by defining key performance indicators (KPIs) for each investee and additionally using standardized impact indicators at the theme or sector level. For example, in its education theme, Vox assessed the scale of the educational challenge in Brazil, targeted an improvement in student performance, validated a potential solution through a Theory of Change, and measured impact using IRIS+ standardized metrics and the IMP's five dimensions of impact. Vox manages its impact using its ImpactMeter, a matrix that plots each investee based on stakeholder reach, engagement, potential for transformation, and level of business maturity.⁴⁸

For some investments, Vox has partnered with universities to develop independent impact assessments and identify the causal effect an investee's product or service has for its stakeholders.

⁴⁸ Learn more about Vox Capital's ImpactMeter [here](#).

Vox's approach to impact management has enabled Vox not only to track the growth and impact of its investments but also to identify negative impact. Vox uses the collected information and analysis when making investment decisions.

FINANCIAL RISK TOLERANCE

Financial risk plays an **important** role at Vox, influenced by the nature of capital Vox manages and its fiduciary mandates. Vox has approximately 60 Limited Partners across its equity funds, including high-net-worth individuals, investment funds, family offices, and government institutions. Vox believes that diversification can strengthen returns, producing enhanced returns during economic upturns while reducing negative returns during downturns. As such, Vox includes in its portfolio a blend of higher-risk, early-stage investments with mature companies. To further mitigate financial risk, Vox invests in different sectors, such as education, financial services, and healthcare. Upon approval from its Investment Committee, Vox in part outsources legal and accounting due diligence to third-party providers in order to identify a variety of risks, including fraud and corruption. Each investment risk is identified and classified by level of importance, which influences whether Vox makes the investment.

IMPACT RISK TOLERANCE

Achieving its impact objectives is imperative for Vox; impact risk thus plays a **very important** role in its capital allocation and performance management. For example, Vox decided to write off an investment into an affordable housing project in São Paulo due to impact risk. Despite the stakeholders' short-time benefits of living in this housing development, the development's location rendered families even more vulnerable given a lack of access to basic services. With a fiduciary obligation to help its investees improve both impact and financial performance, Vox's portfolio management team worked with the company to improve its business model and address this. However, the company remained unable to address lack of basic services, resulting in the loan write-off. Similarly, Vox's investment committee has previously rejected impact investments that did not meet its impact performance expectations despite attractive financial performance (and vice versa). Vox assesses impact risk during due diligence as part of its analysis of the five dimensions of impact. After investment selection, Vox builds an impact plan with each investee that includes impact risks and KPIs and uses the ImpactMeter to monitor its investments.

RESOURCE CAPACITY

Vox possesses sufficient capacity to run its impact fund, spending an average of 10% of its total organizational budget on measuring and managing impact. As a result, resource capacity plays a **very important** role when Vox is making capital allocation decisions and managing performance, especially in terms of integrating impact into the investment process. Vox is dedicated to impact, with its investment team supporting the investees from a strategic and tactical level on both financial and impact performance. With a growing portfolio, Vox is expanding its team further to ensure a variety of expertise. Furthermore, investment professionals at Vox have expertise across venture capital, entrepreneurship, and social impact, which Vox believes enables the team to integrate impact into all of its investment decisions. The impact management professional at Vox joins each Investment Selection Committee convening to jointly drive decision-making and ensure each investment meets both impact and financial thresholds. Vox also contributes to field-building in the impact investing ecosystem, playing leadership roles with the Brazilian National Advisory Board, ANDE, and the Brazilian VC Association Working Group on Impact Investing.

LIQUIDITY CONSTRAINTS

While Vox's debt fund has a strong need for liquidity, its equity funds do not. Vox's equity funds have a 10-year term with a two-year optional extension, while its debt funds can be liquidated in 120 days. The role of liquidity thus varies significantly by asset class and plays a **somewhat important** role in its processes. Nonetheless, due to the longer time horizons of many of its impact investments, Vox relies on patient capital. The need for liquidity is not influential in Vox's approach to managing its investments and allocating capital.

GIIN PERSPECTIVES: ROLE OF FINANCIAL PERFORMANCE DATA FROM ANALOGOUS MARKETS

Impact investors frequently reference analogous investment approaches and financial performance benchmarks used in ESG, sustainable, and responsible investing. This was highlighted in both the GIIN's *2020 Impact Investor Survey* report and in a subsequent series of focus group discussions with impact investors.⁴⁹ Like the impact investing ecosystem, these analogous markets seek to incorporate various facets into their investment approach. These analogous investment approaches that are referenced by impact investors may incorporate additional considerations (for example, materiality) into their investment strategies in their main bid to seek value for stakeholders.⁵⁰ Analogous markets also do not yet feature rigorous impact measurement and management at their core. Nonetheless, the lack of sufficient data on the financial performance of impact investments may reflect a key reason for impact investors' repeated reference to analogous markets.

While the synthesis of publications included in this report may offer some insight into the financial performance of impact investments in private equity, private debt, and real assets, analysis is nonetheless constrained by the available financial performance data. Further, desk research for this report revealed little development or growth of benchmarks tracking the financial performance of impact investments, despite the demand of a growing impact investing sector (as evidenced by a range of market-sizing efforts).⁵¹

A lack of transparency and rigor around the sharing of financial performance data is one key industry challenge noted by respondents to the GIIN's *2020 Impact Investor Survey*. A clear majority of respondents share their impact and financial performance data with key internal stakeholders (88% sharing each). More than one in three share their financial and impact performance data with third-party analytics organizations (34% and 36%, respectively). However, while nearly six in ten respondents share their impact performance data with the public, only 27% publicly share financial performance data, reflecting the dearth of available information on the financial performance of impact investments.

In effect, then, impact investors are operating with insufficient financial performance data of impact investments, with one in five impact investors relying on impact-agnostic benchmarks.⁵² Thus, some impact investors unsurprisingly draw on performance data in analogous markets as the closest available proxy. Both existing impact investors and new entrants to the market need sufficient (in both volume and vintage) and accessible performance data to inform their asset allocation strategies and to evaluate their comparative performance record over time.

This report offers some transparency by synthesizing the existing performance data across the three most common asset classes and includes the impact-agnostic benchmarks that impact investors have referenced when comparing their own performance to impact-agnostic peers.

Both existing impact investors and new entrants to the market need sufficient (in both volume and vintage) and accessible performance data to inform their asset allocation strategies and to evaluate their comparative performance record over time.

⁴⁹ Hand et al., *2020 Annual Impact Investor Survey*.

⁵⁰ For more on ESG investing approaches, see the OECD's "ESG Investing: Practices, Progress, and Challenges" report [here](#).

⁵¹ The GIIN's market sizing effort can be found in the *2020 Annual Impact Investor Survey* [here](#). The International Finance Corporation's market sizing can be found [here](#).

⁵² Hand et al., *2020 Annual Impact Investor Survey*.

CONCLUSION AND NEXT STEPS

As the industry continues to grow, impact investors are approaching investment performance and decision-making with increasing sophistication. Financial return is an important but non-exhaustive factor in assessing performance, as impact investors consider a variety of facets in making decisions—including target objectives, liquidity requirements, resource capacity, fiduciary obligations, and risk—to maximize both financial and impact performance.

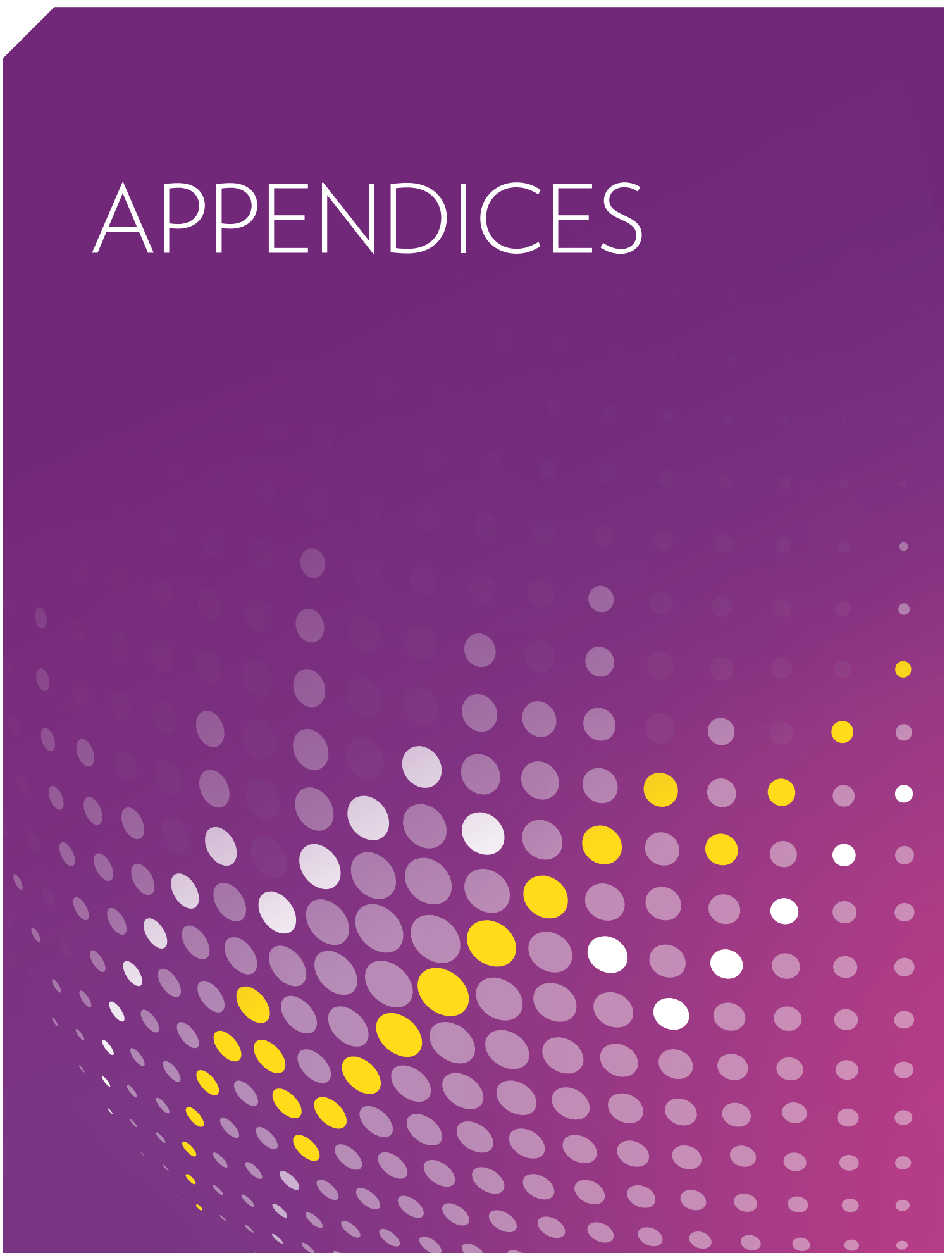
To make informed decisions about capital allocation and performance management, impact investors require credible, rigorous data. However, without a sufficient body of research on the financial performance of impact investments, impact investors have sought information from various sources. Whether relying on data from benchmarks in analogous markets, existing benchmarks within the impact investing industry, or their own historical performance, impact investors leverage existing data to inform their decision-making and manage their portfolios to meet a diverse set of objectives and find alpha, with overwhelming satisfaction when it comes to their performance.

Based on existing industry information, this report strives to enable well-informed capital allocation decisions and to allow new players to enter the market armed with credible information. It aspires to enhance transparency on impact investment performance and provide additional insights for impact investors to strengthen their own processes of setting objectives and making decisions. While impact investors that seek market-rate returns can indeed achieve them, financial performance naturally varies with asset class, targeted financial and impact goals, and the diverse strategies they pursue. Given widespread dispersion in financial returns across funds, asset manager selection, along with varying investment strategies and other drivers of performance, clearly play important roles in achieving strong financial performance.

The insight provided here into the financial performance of impact investments may enable current impact investors to strengthen their decision-making and offer transparency for those investors interested in entering the industry. Yet, significant work remains to deepen insights on the intersection between impact and financial performance and to enable informed decision-making to maximize outcome efficiency. Maximizing both financial and impact outcomes will require a rigorous, ingrained practice of disclosure and data-sharing by impact investors and a nuanced understanding of decision-making across a variety of facets, including performance objectives, risk, liquidity, fiduciary mandate, and resource capacity. Both impact investors and those looking to enter the industry are invited to consider how each of these facets influence their own performance management and capital-allocation decisions. Further research on the intersection between impact and financial performance, along with drivers of such performance, may expand the industry's knowledge of performance over time, helping investors to drive toward more efficient and effective impact investment decision-making.

Maximizing both financial and impact outcomes will require a rigorous, ingrained practice of disclosure and data-sharing by impact investors and a nuanced understanding of decision-making across a variety of facets, including performance objectives, risk, liquidity, fiduciary mandate, and resource capacity.

APPENDICES



Appendix 1: Financial performance resources

PRIVATE EQUITY

Brad M. Barber, Adair Morse, and Ayako Yasuda. “Impact Investing.” NBER Working Paper No. w26582, University of California at Davis and Berkeley, December 2019, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2705556.

Shawn Cole, Martin Melecky, Florian Mölders, and Tristan Reed. “[Long-Run Returns to Impact Investing in Emerging Markets and Developing Economies](https://documents.worldbank.org/en/publication/documents-reports/documentdetail/171981598466193496/long-run-returns-to-impact-investing-in-emerging-market-and-developing-economies).” Policy Research Working Paper No. 9366, International Finance Corporation (IFC), Washington, DC, August 2020, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/171981598466193496/long-run-returns-to-impact-investing-in-emerging-market-and-developing-economies>.

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ADDITIONAL RESOURCES

Morningstar: <https://www.morningstar.com/>

MSCI World: <https://www.msci.com/home>

Pitchbook: <https://pitchbook.com/>

Prequin: <https://www.preqin.com/>

S&P Global Leveraged Loan Index: <https://www.spglobal.com/spdji/en/indices/fixed-income/sp-global-leveraged-loan-index/#overview>

Morgan Stanley Emerging Market Debt Fund: <https://www.morganstanley.com/im/en-us/financial-advisor/product-and-performance/closed-end-funds/taxable-fixed-income/emerging-markets-debt-fund.shareClass.NO.html>

JP Morgan Emerging Market Indices: <https://www.jpmorgan.com/insights/research/indices/product>

NCREIF: <https://www.ncreif.org/data-products/>

Appendix 2: Study participants

We would like to acknowledge respondents to the GIIN's [2020 Annual Impact Investor Survey](#). We are also most grateful for the following participants who shared their insights and perspectives throughout this research process:

ACTIAM	LISC
Antera Gestão de Recursos	Lok Capital
Anthos Fund and Asset Management	Norsad Finance Limited
Calvert Impact Capital, Inc.	Obviam AG
Capital Impact Partners	Praxis Mutual Funds
Christian Super	Seattle Foundation
Cordaid Investment Management	The JumpFund LP
Creation Investments	The Lemelson Foundation
DBL Partners	The Life Initiative
DWS	The Sasakawa Peace Foundation
Goodwell Investments	TriLinc Global, LLC
His Fund	UBERIS S.A.
IDP Foundation	UBS Global Wealth Management and UBS Optimus Foundation
Impact First investments / Pitango VC	Vox Capital
Incofin Investment Management	Wespath Benefits and Investments
INOKS Capital	
Lendable	

DISCLOSURES

The Global Impact Investing Network (“GIIN”) is a nonprofit 501c(3) organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

Readers should be aware that the 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.

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