

Insight into the Impact Investment Market

An in-depth analysis of investor perspectives
and over 2,200 transactions

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See page 29 for analyst certification and important disclosures.

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Glossary:

Below we define several terms we will use within this report

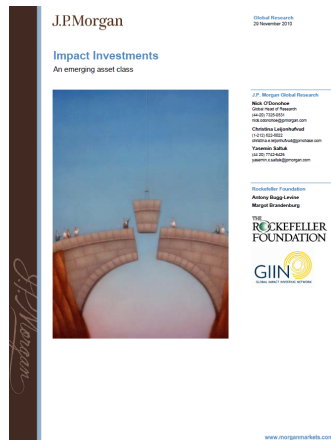
- **Capital type:** A reference to the owner of the capital deployed in the investment, e.g., proprietary capital belonging to the individual or investing organization itself, or fiduciary capital on behalf of clients.
- **Impact business:** A financially-sustainable enterprise that operates with a social and/or environmental mission.
- **Impact investment:** Investment intended to create positive impact alongside financial return.
- **Investment thesis:** The goal of an investor with respect to how they weight financial return and social and/or environmental impact in their investment goals, e.g., balancing both financial returns and impact or optimizing one while maintaining a minimum target (or “floor”) for the other.
- **Profit-status:** The status of a company or fund as for-profit or non-profit.
- **Relative performance view:** The investor’s expectation regarding whether the impact investment’s financial return will be outperforming, competitive or concessionary relative to similar non-impact investments.

Impact investment survey, one year on

Impact Investments: An Emerging Asset Class

J.P. Morgan, The Rockefeller Foundation and the GIIN, Nov 2010

[Click here for full PDF](#)



For more on the GIIN, see www.thegiin.org

Impact investments are investments intended to create positive impact alongside financial return. Over the past few years, traditional investors have been increasingly interested by the nascent impact investment market and in 2010, the Global Impact Investing Network (“GIIN”), the Rockefeller Foundation and J.P. Morgan collaborated on a piece of research titled *Impact Investments: An Emerging Asset Class*, which examined the market landscape, the characteristics of investments, and the size of potential investment opportunities¹. Last year’s work included a survey that yielded data on over 1,000 private impact investment transactions. This year, the GIIN and J.P. Morgan have partnered on an expanded survey, capturing data on over 2,200 private transactions totaling over USD 4bn of investment. In complement to this investment survey, we also surveyed investor views on investment philosophy and the overall development of the sector. The 2011 survey returned data from a broader and more geographically diverse pool of respondents. The questions explore returns, risk and impact measurement practices in more depth and also gauge general market perceptions.

For both market participants and observers, the overall performance of the impact investment market is difficult to measure. Not only are there few public transactions, but the information that is available tends to cover discrete sub-groups operating in different regions (e.g., national investor networks) or within different sectors (e.g., clean tech & energy). In our research, we have attempted to bridge those regional and sector divides to bring a high-level lens onto the impact investment marketplace, with which we examine investor perceptions of the industry as well as the performance of their investments. In this piece, we present the conclusions from this survey, starting with investor perceptions of the impact investment industry, its growth to date and its future potential.

Notes on the survey

The survey was conducted in two parts: an online investor perception survey and an Excel-based portfolio survey. For the perception survey, questions ranged from general views on the market to investment philosophy applied in making and managing investments. The portfolio survey asked about sector, instrument type, geography, return expectations, realized returns, risks and fees for each investment. Together, these two surveys give us a snapshot of the market overall and the investments that comprise it, and we will refer to both within each section of this report to craft the overall picture that emerges.

Survey administration and data collection were overseen by the GIIN, which also ensured that all data was presented to J.P. Morgan with the names of respondents and investments removed to preserve anonymity in data analysis. Survey respondents were solicited by reaching out to the networks of the GIIN and J.P. Morgan, including members of the GIIN Investors’ Council². The survey was also sent to a

¹ *Impact Investments: An Emerging Asset Class*, J.P. Morgan, The Rockefeller Foundation, Global Impact Investing Network, Nov 2010.

² Members of the GIIN Investors’ Council are leading active impact investors who are operating at scale and across diverse geographies and sectors, and committed to industry development. For a list of current members, see <http://www.thegiin.org/cgi-bin/iowa/council/member/index.html>.

subset of fund managers listed on the GIIN's ImpactBase³ and ImpactAssets 50⁴ that meet the criteria of having at least USD 25mm in assets under management. A total of 52 organizations responded to the perception survey, and 42 of those respondents provided portfolio data. Please see the Appendix for a list of survey participants. While we have improved the reach of the survey from last year, we refrain from referencing this set as representative of the whole impact investor population. Rather, survey data should be read as indicative of the experience of some impact investors.

Structure of the report

There are many different ways in which we could present the data. We choose to organize the information by topic rather than by the survey through which the data was collected (i.e., perception survey and portfolio survey). To set the context, we start with the investor perception of the market, before presenting our analysis of the relationship between impact and financial returns. Then, we delve more deeply into the return expectations and realized returns reported, impact measurement and financial risk.

Acknowledgements

This report was made possible thanks to the contributions of many individuals and organizations. First and foremost, we would like to acknowledge and thank the 52 organizations that participated in the investor perception and portfolio surveys. We are grateful for their contribution of valuable data to this research. The full list of survey participants can be found in the Appendix.

Our colleagues at the GIIN and J.P. Morgan also contributed their time and energy to this piece of research. We thank Amy Bell, Tone Rosingholm and Jamie Dunchick from J.P. Morgan and Christina Browne, Min Pease, Luther Ragin, Jr. and Charlotte Schmidlapp from the GIIN for their valuable contributions.

³ ImpactBase, a project of the GIIN, is a searchable online database of impact investment funds. See <http://www.impactbase.org/>.

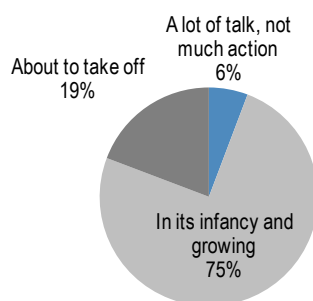
⁴ ImpactAssets 50 offers an annual list of experienced private debt and equity impact investment funds. See <http://www.impactassets.org/impactassets-50>.

A market in its infancy and growing

Our sample of impact investors is optimistic about the potential growth of the impact investment market, while acknowledging that the industry is still very young. On average, survey respondents believe that the number of random institutional or high net worth individual (“HNWI”) investors who “know what impact investing is” has doubled from two years ago. However, three-quarters of respondents would still describe the current impact investing market as “In its infancy and growing”, rather than “About to take off” (19%). Figure 1 shows the distribution across the answer choices that received votes; there were three other answer choices that received no votes: “In its prime”, “A potential bubble”, and “Slowing down”.

Figure 1: The state of the current impact investment market

52 respondents chose one answer



Source: GIIN, J.P. Morgan.

Table 1: Investments made and planned by each reporting organization

52 respondents provided data

	Planned investments in next year (USD, mm)	Investments made since inception (Number)
Mean	75	159
Median	25	29
Max	1,000	1,500
Min	0	2

Source: GIIN, J.P. Morgan. Readers should note that the survey was executed in July - Sep 2011. Respondents did not necessarily submit their full portfolio to our portfolio survey.

Almost USD 4bn planned for investment over coming year from respondents

The 52 investors that responded to our online survey have indicated that they plan to invest a total of USD 3.8bn in the 12 months following the survey⁵. The average and median amount per investor are USD 75mm and USD 25mm, respectively, as shown in Table 1. Again, we see a wide range of size, including one investor who planned to invest up to USD 1bn in the 12 month period. As a measure of the experience of our respondent pool, we also asked how many investments have been made by the organization since its inception. Characteristically, we see another wide range of responses, with an average of 159 but the median at 29. Some of these respondents will be lenders, who can deploy a greater number of investments in a shorter span of time than, say, private equity investors. Nonetheless, these figures point to the growing activities of our respondent pool, who also believe that impact investments will play an increasing role in portfolios in the coming years.

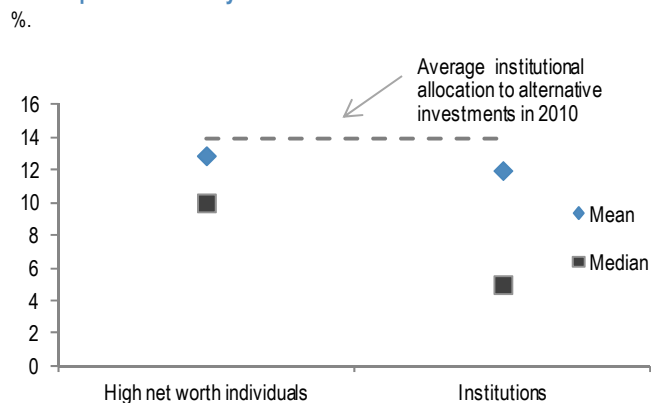
Impact investments expected to constitute 5%-10% of portfolios in 10 years

When survey participants responded to the questions “In 10 years time, what do you believe will be the average allocation to impact investments in HNWI and in institutional investors’ overall portfolios?”, they put forward a significant range of views for each type of investor. The average was 13% and 12% for HNWI investors

⁵ Readers should note that the survey was executed in July - Sep 2011.

and institutional investors, respectively, but the median was lower and showed more discretion: HNWI investors would allocate 10%, while institutions would allocate only 5% (Figure 2).

Figure 2: Average allocation to impact investments in investors' overall portfolios in 10 years time



Source: GIIN, IMF, J.P. Morgan. Institutional allocation to alternative investments is the average of the allocation for pension funds and asset managers in 2010, as shown in Table 2. Readers should note that the survey was executed in July - Sep 2011.

Table 2: Global asset allocation by asset class and investor type %, Data for 2010.

	Pension funds	Asset managers	Average institutional allocation
Traditional asset classes			
Cash	6.5	2.4	4.5
Equities	34.5	44.9	39.7
Bonds	46.7	37.1	41.9
Subtotal	87.7	84.4	86.1
Alternative asset classes			
Real estate	4.7	5.6	5.2
Hedge funds	1.4	2.2	1.8
Private equity	0.6	4.6	2.6
Commodities	0.1	1.0	0.6
Other	5.5	2.1	3.8
Subtotal	12.3	15.6	14.0

Source: IMF, J.P. Morgan.

The figures that emerge at the median seem reasonable when compared to current asset allocations across instruments types. The IMF's Survey on Global Asset Allocation⁶ concluded that pension funds allocated 12.3% and asset managers allocated 15.6% of their portfolios to alternative investments in 2010 (Table 2). These assets include real estate, hedge funds, private equity, commodities, and "other". In Figure 2, we compare our respondents' replies to the average institutional alternative investment allocation in 2010. While it may be a stretch to think that impact investments on average will constitute as much of institutional investors' overall portfolios as all of the alternative assets listed in Table 2, a 5% allocation, which is the median survey response, seems more reasonable. Given the average 1.8% of assets that hedge funds comprise and the average 2.6% of assets that private equity funds comprise in these institutional investors' portfolios, a 5% allocation for impact investments may still be ambitious, particularly given the liquidity constraints in volatile markets. We will be interested to see how the relative allocations compare over the coming years.

Lack of track record is the most critical challenge to industry growth

While the responses above point to optimism about the industry growth, many impact investors will acknowledge that significant challenges remain in delivering that growth. When asked to rank the three most critical challenges to growth of the impact investment industry, respondents highlighted "Lack of track record of successful investments" as the most significant. The options "Shortage of quality investment opportunities" and "Inadequate impact measurement practice" were

⁶ <http://www.imf.org/external/pubs/ft/gfsr/2011/02/pdf/ch2.pdf>

chosen as the second and third most critical challenges across the sample⁷. The other choices are listed in ranked order in Table 3, with the number of votes received.

Table 3: Challenges to industry growth

52 respondents ranked the top three; Number of votes for first place, second place, third place shown.

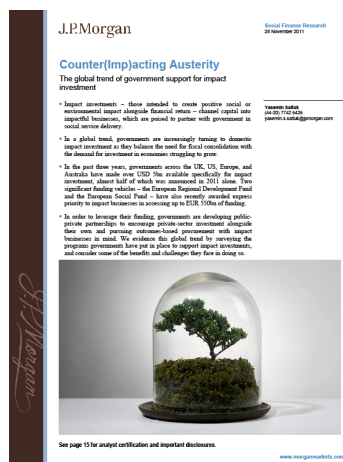
		First	Second	Third
1	Lack of track record of successful investments	24	4	7
2	Shortage of quality investment opportunities	9	10	6
3	Inadequate impact measurement practice	6	8	10
4	Lack of innovative deal/ fund structures to accommodate portfolio companies' needs	4	6	2
5	Lack of common vernacular for talking about impact investing	2	6	6
6	Inadequate absorptive capacity of investees	2	5	7
7	Few exit opportunities	3	3	7
8	Recruiting investment professionals with the right mix of skills	1	8	2
9	Insufficient collaboration among investors	1	2	5

Source: GIIN, J.P. Morgan.

The theme that emerges from the investor perceptions presented above is one of cautious optimism regarding the growth of the impact investment market. This optimism may be a reaction to recent positive market developments such as increasing government support and the development of infrastructure to facilitate impact measurement and market transparency. In the next section, we present some of these developments to corroborate what our respondents have put forward.

Counter(Im)acting Austerity: The global trend of government support for impact investment
 J.P. Morgan, Nov 2011

[Click here for full PDF](#)



Government support and infrastructure development promote growth

Governments around the world deepen support of impact investment sector

There is a global trend across developed markets to support (financially or otherwise) the impact investment sector, and we direct readers to J.P. Morgan's recent publication *Counter(Im)acting Austerity* for more detail. In brief, we reference here a few recent initiatives that have been supporting the growth of the industry:

- The United Kingdom (“UK”) government has established Big Society Capital, an impact investor with potentially GBP 600mm (USD 960mm) in capital to serve as a cornerstone investor leveraging further private capital. It will also support the development of new products for the impact investment sector, including “social impact bonds”, in which investors receive dividends linked to successful social results⁸.
- In the United States (“US”), the Overseas Private Investment Corporation committed USD 285mm to catalyze USD 875mm of investment into six impact investment funds in emerging markets, an example of growing support for impact investments by development finance institutions. The US Small Business Administration also launched an Impact Investment Initiative, pledging USD 1bn over five years to support domestic businesses operating in underserved communities. The initiative matches capital raised by private investment funds through a public-private partnership.

⁷ These priorities remain in the same ranked order regardless of which sub-sample we check. We isolated investors that have made investments in debt or in equity and those that have investments in developed markets or emerging markets, and saw no difference in the results.

⁸ For more, see *Counter(Im)acting Austerity*, Y Saltuk, J.P. Morgan, 28 Nov 11.

- The Australian Government's Social Enterprise Development and Investment Funds initiative established the country's first investment funds for domestic social enterprise late-stage seed and growth capital. The funds have been seeded with government first loss capital, include matching capital from private sector funders, and will provide flexible, tailored financial products and support to social enterprises.

When asked to rank the importance of government and/or regulatory policy incentives in accelerating the growth of impact investing over the next five years, our survey participants responded with an average of 4 out of 5, where 1 meant "not important at all" and 5 meant "very important". Interestingly, the examples above evidence that select governments around the world are indeed taking action to support the marketplace⁹.

Infrastructure developments promote access to information

The market is also becoming more transparent with the development of tools that increase the available information about products and investments. For example, the GIIN released the first Impact Reporting and Investment Standards ("IRIS")¹⁰ performance data report, presenting initial findings of aggregated performance data from more than 2,300 mission-driven organizations. Further, two new tools will help potential investors who are seeking to identify and explore possible impact investment options:

- In February 2011, the GIIN launched ImpactBase, a global online database of impact investment funds. Ten months after commencement, it has over 385 subscribers and over 125 listed funds.
- ImpactAssets, a non-profit financial services company, offered its first annual public list of 50 experienced private debt and equity impact investment fund managers, with the aim of increasing transparency for investors¹¹.

Investors support standards and services for measuring and reporting impact

In addition to these information-sharing initiatives, the investor community also supports market tools that facilitate impact measurement, reporting, and assessment. Twenty-nine leading impact investors signed a letter of support for the GIIN's IRIS initiative and for standardized social, environmental and financial performance measurement and reporting as an industry best practice. Separately, fifteen investors declared their preference for Global Impact Investing Reporting System ("GIIRS")-rated companies and funds¹². Forty funds have also committed to receiving a GIIRS rating, which will assess their social and/or environmental impact.

Having seen the general investor perception of the market and a broader context for the industry today, we now analyze in more detail the approach investors take to making investments with a dual purpose. In particular, we explore how investors consider the relationship between financial returns and successful impact for the investments they make.

⁹ Again, for more, see *Counter(Im)acting Austerity*, Y Saltuk, J.P. Morgan, 28 Nov 11.

¹⁰ The GIIN's Impact Reporting and Investment Standards is a common language for describing the social, environmental and financial performance of mission-driven organizations. See www.iris.thegiin.org.

¹¹ See <http://www.impactassets.org/impactassets-50>.

¹² GIIRS assesses the social and environmental impact (but not the financial performance) of companies and funds using a ratings approach analogous to Morningstar investment rankings or S&P credit risk ratings. See www.giirs.org.

Return and impact: Diverse perspectives

The universe of impact investing is characterized by a philosophical approach to balancing the simultaneous pursuit of social and/or environmental impact and financial returns. In understanding the marketplace, it is also critical to map out the range of philosophies with which investors approach this market.

Exploring the relationship between impact goals and return targets

In general, impact investments can accommodate a wide range of impact goals and return targets. Global investor collaboration – like the USD 25mm investment into the African Agricultural Capital Fund, which comprised USD 17mm of equity funding from the Bill & Melinda Gates Foundation, the Gatsby Charitable Foundation, and the Rockefeller Foundation, and a USD 8mm commercial loan from J.P. Morgan Social Finance, 50% of which was guaranteed by the US Agency for International Development (“USAID”) – can leverage the diversity of these goals to deploy capital while accommodating different risk and return targets.

In order for these kinds of transactions (and impact investments generally) to succeed, one needs an understanding of the relationship between financial returns and impact. Some believe, for example, that financial performance and impact are dependent variables in inverse proportion, implying that increasing one should decrease the other. Others feel that the two are independent, which would allow for both to increase together. While realized performance data is not yet substantive enough to analyze this historically, we did ask questions in our survey to gain insight on how our respondents perceive this relationship. In this next section, we present our survey findings on this topic.

Some will swap return for impact, but don't think it's generally necessary

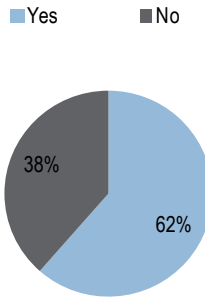
One question that attracts impassioned debate among impact investors is the question of how to characterize the relationship between social and/or environmental impact and financial return. Naturally, traditional investors considering impact investments want to know whether pursuing a secondary goal – impact – requires a sacrifice on the primary goal – financial returns. Traditional philanthropists might consider the question in reverse.

Given there is not yet enough history to analyze this quantitatively, we asked our survey participants for their views via two questions. Figure 3 shows the responses for the first: 62% of our respondents would, as impact investors, sacrifice financial returns for greater impact. And yet, as Figure 4 shows, 60% of respondents do not believe that a trade-off is generally necessary between impact and financial returns¹³. Interestingly, all of those that would *not* sacrifice returns for greater impact (20 investors), also replied that they do not believe a return/impact trade-off is generally necessary. And about one-third of those that *would* sacrifice returns for greater impact (11 investors out of 32), also believe that a trade-off is not generally necessary. The remaining two-thirds of investors that would sacrifice returns (21 investors) believe that the trade-off is necessary.

¹³ Note that the majority is made up of different populations in each case, i.e., the 30 or 31 organizations that represent the 62% or 60% in the two questions are not significantly overlapping sets.

Figure 3: As an impact investor, would you sacrifice financial returns for greater impact?

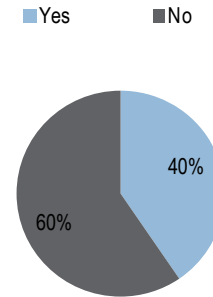
52 respondents chose one answer



Source: GIIN, J.P. Morgan.

Figure 4: Generally speaking, do you think a trade-off between financial returns and impact is necessary when making impact investments?

52 respondents chose one answer



Source: GIIN, J.P. Morgan.

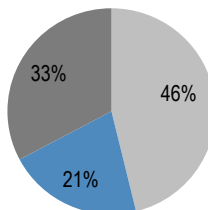
46% balance impact and financial return, others prioritize one over the other

The nature of this perceived relationship between impact and financial returns also points to the varied investment approaches investors take. Financially, some invest equity, while others make loans or facilitate third-party investment by providing guarantees. With respect to impact, some promote general economic growth or the delivery of products or services to underserved populations, while others are focused on addressing environmental issues for the broader population. In describing their investment thesis for balancing financial return and impact, 46% of our respondents indicated that they balance both, while the remaining 54% optimize one while setting a floor for the other (Figure 5). Within the impact objectives, respondents prioritize either social (58%) or both in equal measure (34%); and only 8% pursue environmental impact. As with many of the findings from this survey, we remind the reader that these characteristics represent the set of respondents and may not necessarily be extrapolated to represent the broader investor universe. Interestingly, serving low-income populations was a goal shared across nearly the whole population: 94% of investments reported were made into businesses that are intended to benefit low-income populations.

Figure 5: Investment thesis

52 respondents chose one answer

- Balance both financial returns and impact
- Optimize financial returns with an impact floor
- Optimize impact with a financial floor

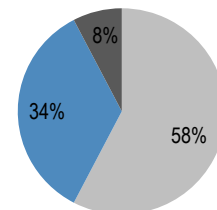


Source: GIIN, J.P. Morgan.

Figure 6: Primary impact objective

52 respondents chose one answer

- Social
- Both
- Environmental



Source: GIIN, J.P. Morgan.

Return expectations: Consistent variation

Given the range of philosophical approaches to impact investing, we are unsurprised to find an equally varied landscape across return expectations. In this section, we begin to incorporate the data from our portfolio survey and present our findings with respect to return expectations. Before we analyze the return expectations for the population of transactions we collected, we first present a high-level overview of the nature of those investments. As we will see, the population is diverse in its currency, instrument type, region and sector exposures.

Currency, instrument, region and sector characteristics

Currency exposures remain dominated by hard currency

Beyond returns, impact and risk, there are many other characteristics of investments that determine how the investment will behave. For example, many impact investments are made into emerging markets, where currency risk can arise. Most of the investments reported in our survey have been made in hard currency (91% were made in USD, EUR, CAD or GBP, as Table 4 shows), with only 9% of investments made in one of 38 other currencies. While hard currency investments into emerging markets may protect investors from direct currency risk, this risk will remain with investees, indirectly affecting the investor as a result.

Table 4: Currency of reported investments

Blue shaded rows sum the reported data to give overall figures. Hard currency sums USD, EUR, CAD, GBP data and soft currency data includes the transactions referencing the 38 other currencies reported.

	Number	%	Notional (USD, mm)	%
USD	1,862	88%	3,801	88%
EUR	55	3%	167	4%
CAD	4	0%	4	0%
GBP	3	0%	7	0%
Hard (sum of above)	1,924	91%	3,980	92%
Soft (38 currencies)	198	9%	345	8%
Total	2,122	100%	4,325	100%

Source: GIIN, J.P. Morgan. Respondents reported currency of investment and (in a separate question) notional in USD at time of investment.

Table 5: Instrument type of reported investments

Blue shaded rows sum the white rows above to give overall figures. Debt and Equity are sums of the rows above, respectively. Real Assets are reported.

	Number	%	Notional (USD, mm)	%
Private debt	1,345	61%	2,296	52%
Bilateral loan agreement	152	7%	191	4%
Deposit	106	5%	70	2%
Guarantee	10	0%	73	2%
Equity-like debt	48	2%	78	2%
Public debt	1	0%	2	0%
Debt (sum of above)	1,662	75%	2,710	62%
Private equity	548	25%	1,655	38%
Public equity	2	0%	10	0%
Equity (sum of above)	550	25%	1,665	38%
Real Assets (reported)	1	0%	2	0%
Total	2,213	100%	4,377	100%

Source: GIIN, J.P. Morgan.

Range of investment instruments being utilized

Investors also have at their disposal many different forms of investment, each of which has different implications for the investee company. For example, equity investments allow the investor to put capital into the organization without requiring regular dividend or interest payments, but dilute the ownership stake. Debt investments, on the other hand, will usually require regular coupon payments but will not dilute ownership. There are varied instruments being utilized to help impact businesses grow, and Table 5 shows the dispersion of the reported investments across those categories. Within debt investments, the majority of investments reported were senior unsecured investments (59% of investments, as shown in Table 6), though there was also a substantial portion of senior secured debt (35% of investments).

Although not shown in the table, we also learned that 94% of equity investments (93% of notional) reported represent minority stakes in the investee fund or company.

Table 6: Classifying security for debt investments

Number and notional of investments reported within each category.

	Number	%	Notional (USD, mm)	%
Senior unsecured	918	59%	1,446	62%
Senior secured	539	35%	642	27%
Subordinate secured	50	3%	124	5%
Subordinate unsecured	40	3%	129	6%
Total	1,547	100%	2,342	100%

Source: GIIN, J.P. Morgan.

Regional distribution shows both emerging and developed markets activity

Regional distribution can also play a part in the assessment of investment opportunities. Some investors will seek to diversify geographically so as to avoid region- or country-specific risks. Table 7 shows the regional distribution of the transactions reported through our survey. We see that the population is distributed across developed and emerging markets. We note the contribution of data from Western Europe and Australia & New Zealand is low probably due to a bias in our sample and not a reflection of inactivity in the regions.

Table 7: Region of reported investments

Blue shaded rows sum the white rows above to give overall figures. "Global" and "Emerging Markets" were available as answer choices; we reference the reported data rather than sums in the rows where specified.

	Number	%	Notional (USD, mm)	%
Latin America	629	30%	639	15%
Sub-Saharan Africa	251	12%	297	7%
South & Southeast Asia	228	11%	240	6%
Eastern Europe, Russia & Central Asia	227	11%	317	8%
Emerging markets (as reported)	52	2%	276	7%
Middle East & North Africa	34	2%	25	1%
South Pacific	0	0%	0	0%
Emerging Markets (sum of above)	1,421	67%	1,794	44%
US & Canada	632	30%	2,122	51%
Western Europe	21	1%	47	1%
Australia & New Zealand	0	0%	0	0%
Developed Markets (sum of above)	653	31%	2,169	53%
Global (as reported)	32	2%	159	4%
Total	2,106	100%	4,122	100%

Source: GIIN, J.P. Morgan.

Sector exposure diverse as well

The sector in which the investee operates is also a determinant of risk. Some investors may specialize in one particular sector to leverage a competitive advantage, while others may diversify exposures to avoid concentration in one sector. As Table 8 shows, the sector with most representation in our data set is microfinance; food & agriculture and clean energy & tech are second and third, respectively. Additionally, we note that 85% of reported investments (63% of notional) were made into companies rather than funds.

Table 8: Sector distribution across investments

Number and notional of investments reported within each category.

	Number	%	Notional (USD, mm)	%
Microfinance	742	34%	1,612	37%
Food & agriculture	339	15%	247	6%
Clean energy & tech	291	13%	281	6%
Cross-sector	286	13%	650	15%
Other	270	12%	436	10%
Housing	165	7%	906	21%
Healthcare	59	3%	89	2%
Education	44	2%	139	3%
Water & sanitation	17	1%	16	0%
Total	2,213	100%	4,377	100%

Source: GIIN, J.P. Morgan.

We asked respondents for two kinds of return expectations: Baseline and downside. Baseline return expectations are those in the most likely scenario (as determined by the respondent). Downside expectations are those expected in a downside scenario (again, as determined by the respondent). In this section, we analyze the baseline expectations, and we return to downside expectations later, in the Risk section (page 22).

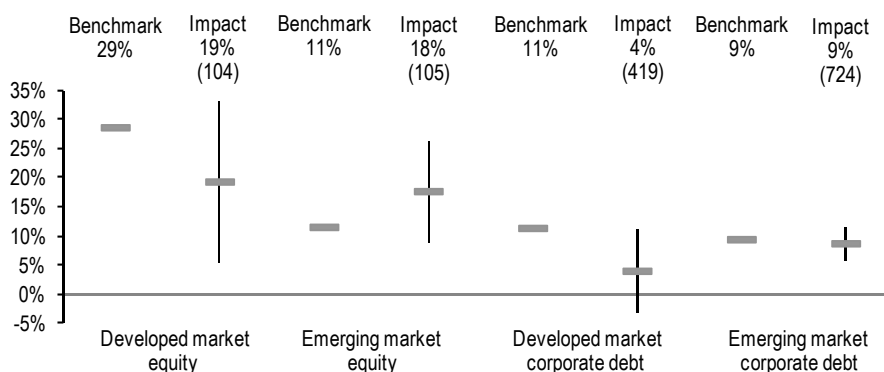
Confirming the significant range of return expectations

When we performed our survey last year, one of the outstanding conclusions from the expected return data was the significant range of figures that were submitted within each instrument type and region category. This year, we confirm that the population of investments reported reveals again a significant range of expectations. For debt and equity investments in developed and emerging markets, Figure 7 shows the average baseline expected return, the range of expected returns within one standard deviation, and the number of observations that informs those statistics¹⁴. We note a few interesting observations from this data below.

Figure 7: Baseline expected returns and benchmarks

y-axis: Annual internal rate of return ("IRR") or yield (gross, in USD)

The horizontal bars show the average baseline expected return for impact investments reported or average realized return for benchmarks (listed at the top of the chart), the vertical bars show the standard deviation of survey responses, and the number of observations informing each average is shown in parentheses.



Source: GIIN, J.P. Morgan. Note that the lower standard deviation for Developed Market Debt is below zero: -3%. Benchmark returns are average annual returns for: Cambridge Associates US Venture Capital Index and Emerging Markets Venture Capital and Private Equity Index, for vintage years over the period 1989 – 2008 (the longest data history available for both, and excluding the more recent vintages as Cambridge Associates recommends for data quality); and J.P. Morgan's Developed Markets High Yield index and Corporate Emerging Market Bond ("CEMBI") Index, over the period 2002 – 2011 (the longest data history available for both). The emerging market debt impact investment expected return is 8.7% relative to the benchmark average return of 9.4%. The number of investors who responded for each instrument, and the number of investments in the sample (respectively) are: DM Equity = 14, 104; EM Equity = 18, 105; DM Debt = 12, 419; EM Debt = 18, 724. Vintage years for reported impact investments are 1990 – 2011, with one transaction each in 1970, 1972 and 1988.

¹⁴ Readers should note that the data set for equity investments is much smaller than that for debt investments.

Similar return expectations for DM and EM equity

Investors' baseline return expectations for equity investments are nearly the same on average regardless of region: the average baseline expected return for developed market ("DM") equity investments is 19% annual IRR, while the same figure for emerging market ("EM") equity investments comes in at 18%. Given the small number of observations informing these averages, we discount the slight difference in the absolute figures and conclude that the equity investment expectations are fairly in line regardless of region. We note here that there seems to be a higher average baseline expected return for EM debt investments than for DM debt, but as we will see later (page 17), this relationship is not as simple as it appears. We will examine this point in more detail below; here, we highlight the range of expected returns before commenting on the benchmarks shown in Figure 7.

Greater range in DM expected returns than EM, for both equity and debt

There is a clear difference in the range of expectations reported, for both equity and debt. The standard deviations for DM and EM equity expected returns differ by 5 percentage points: 14% for DM equity and 9% for EM equity. Similarly, the standard deviations for DM and EM debt expected returns differ by 4 percentage points: 7% for DM and 3% for EM. One might try to interpret this as a reflection of higher expected volatility within the developed market investment universe - we refrain from drawing such a conclusion as yet, and will return to this question in the risk section (page 22) where we analyze it with additional data.

Benchmarking against traditional investments

Putting impact investments into context with similar non-impact investments is not easy given the paucity of realized return data (as we will see later). In order to identify the potential nature of this relationship, we compare the data we do have – expected returns – with the historical performance of benchmarks in each region and instrument type. We show the average annual return for the benchmarks alongside the average expected return for the impact investments in Figure 7. The data exhibits a lower return expectation for developed market impact investments than for traditional investments in the same region (for both equity and debt). For emerging markets, by contrast, the impact investment return expectations are more in line if not higher than the benchmarks' realized returns. This could be a result of the low realized returns in those regions over the historical period presented (vintage years of 1989 – 2008 for equity and annual returns from 2002 – 2011 for debt), compared with the returns realized in developed markets, or it could result from higher relative performance expected from emerging market impact investments. In the next section, we see how investors responded when asked about their views on how they expected their investments to perform relative to benchmarks (defined as similar non-impact investments). First, we comment on the choice of benchmarks in the grey box below.

Choice of benchmarks

Benchmarking performance is challenging, and in this case even more so since we are benchmarking return expectations against realized returns. Figure 7 shows the return expectations (average and dispersion) reported for various investment types in our impact investment survey against benchmarks that we believe are appropriate given the risk of the asset class. For debt we believe the indices that best replicate the credit quality of an impact investment portfolio are J.P. Morgan's Developed Markets High Yield and Corporate Emerging Market Bond indices. For equity we recognize the early stage nature and relatively small investment sizes of impact

investments and have chosen Cambridge Associates US Venture Capital Index and Emerging Markets Venture Capital and Private Equity Index for vintage years 1989 through 2008. Vintage years post 2008 have been excluded as there are too small a number of harvested investments to make the data meaningful.

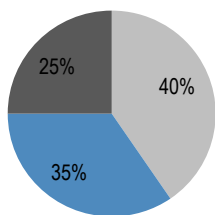
In order to make a meaningful comparison of backward looking (realized) and forward looking (expected) returns, we use a through-the-cycle approach in choosing our time period of benchmarks, which results in the data shown in Figure 7. The choice of time frame results in moderate variations for the debt returns (if we focus on the past five, rather than ten-plus years, both benchmarks would drop by about 50 or 100 basis points for developed and emerging markets, respectively), but has a significant impact on the resultant venture capital or equity returns. Narrowing our time frame to the years post the dot-com bubble (1999 – 2008 vintages) for example results in an average annual return of only 6% in US venture capital against a return of over 15% in emerging markets.

We also note that the average realized returns of the investment management community often lag the expected, forecast or projected returns when the investment is being made. We have no reason to suppose that the impact investing community will be any different.

Figure 8: Capital type managed

52 respondents chose one answer

- Proprietary capital
- Both proprietary capital and fiduciary capital on behalf of clients
- Fiduciary capital on behalf of clients



Source: GIIN, J.P. Morgan.

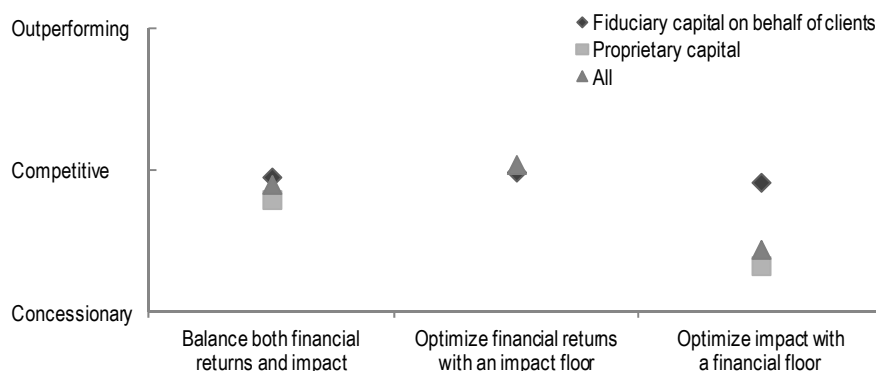
Capital type, investment thesis and profit-status shape relative return expectations

We investigate the relative return targets in more depth by analyzing them by type of capital managed, since we hypothesize that investors managing money on behalf of others will be less likely to make a return trade-off relative to benchmarks. Many of the investors surveyed manage proprietary capital (i.e., capital that belongs to them), while others manage fiduciary capital on behalf of clients. Figure 8 shows the split among our respondents: 40% manage proprietary capital only, 35% manage both proprietary and fiduciary capital, and 25% manage fiduciary capital only. In Figure 9, we cross-reference the investment thesis and capital type with the average relative performance view per investor. The average relative performance view was measured by asking how each investment's expected return would compare to a similar non-impact investment. Figure 9 shows that most respondents pursue what they believe are competitive returns, regardless of whether they balance returns and impact, or optimize returns. However, those investors that classify their investment thesis as one that “optimizes impact with a financial floor” are generally more concessionary in the returns they expect, unless they manage purely fiduciary capital. Interestingly, we note that the one investor managing fiduciary capital that aims to optimize impact with a financial floor is seeking financial returns that they believe compete with similar non-impact investments.

By relative performance view, we refer to the respondent's expectation as to whether the investment's financial return will be outperforming, competitive or concessionary relative to similar non-impact investments

Figure 9: Return expectations by investment thesis, relative performance view and capital type

For each investment reported, investors select whether the return is expected to be outperforming, competitive or concessionary relative to similar non-impact investments. We average across investments for each investor, then average across investors within each investment thesis category (balancing financial return and impact, or optimizing one or the other). For further analysis, we also show the average for those investors that manage purely fiduciary or proprietary capital.



Source: GIIN, J.P. Morgan. Number of investors represented within each data point is: "Balance" = 19 All, 8 Proprietary capital only, 5 Fiduciary capital only; "Optimize financial returns" = 9 All, 0 Proprietary capital only, 4 Fiduciary capital only; "Optimize impact" = 11 All, 9 Proprietary capital only, 1 Fiduciary capital only.

Competitive returns from for-profit companies; concessionary from non-profits

For each investment, the funding recipient was specified as operating for-profit or non-profit. We compare this information with the relative performance views to determine whether there might be a relationship. We find that 84% of investments into non-profit companies or funds were made with concessionary return expectations (relative to similar non-impact investments). Similarly, 93% of investments made with competitive return expectations went into for-profit companies or funds. But how did the numerical return expectations compare with these qualitative statements? We did not have sufficient equity data to perform this analysis in a meaningful way, so we focus on debt.

Debt return expectations linked to profit-status

When setting out our questions, we anticipated that numerical answers to the question "baseline expected returns" would reflect the relative performance views investors indicated: i.e., investments expected to be competitive should have a baseline expected return that is higher than the baseline expected return for those investments expected to be concessionary. However, when we analyzed the data, we noticed that the profit-status of the investee business was linked more closely to the expected return on debt investments than the relative performance view, as we show in Table 9. Debt investments in non-profits are expected to yield 4% and 3% on average, for concessionary and competitive investments, respectively, while debt investments into for-profits were expected to yield almost twice as much: 7% or 8% on average for concessionary and competitive investments, respectively (shaded).

Table 9: Expected return – Non-profit vs for-profit global debt

Respondent's baseline scenario expected return (Gross annual yield, in USD); Number of observations in parentheses.

	Non-profit		For-profit	
	Concessionary	Competitive	Concessionary	Competitive
Debt	4% (346)	3% (46)	7% (183)	8% (345)

Source: GIIN, J.P. Morgan.

Mixed evidence of an EM risk premium in debt expectations

Higher EM debt return expectations may reflect profit-status more than region

In traditional financial markets, one can find a risk premium (higher expected and/or realized yields) for investments in emerging markets¹⁵. From looking at Figure 7, that risk premium seems to be present for debt impact investments. As the chart shows, debt investments made in developed markets are reported to have an average baseline expected return of 4%, while those made in emerging markets are expected to return 9% on average. However, given we have already identified that the return expectations for debt investments are differentiated by profit-status, we check the seeming risk premium against this factor as well.

No EM risk premium in expectations for competitive, for-profit debt investments

In this vein, we show in Table 10 the same analysis we showed above in Table 9, only we split out the developed market (“DM”) and emerging market (“EM”) data. What we find is that EM debt investments do show some consistent risk premium priced into return expectations, as evidenced by the first three columns of Table 10. However, this risk premium seems to disappear for competitive investments into for-profit businesses (circled in Table 10).

Table 10: Expected return – Non-profit vs for-profit debt, by region

Respondent’s baseline scenario expected return (Gross annual yield, in USD); Number of observations in parentheses. DM = Developed Markets, EM = Emerging Markets

Debt	Non-profit		For-profit	
	Concessionary	Competitive	Concessionary	Competitive
DM	3% (265)	2% (39)	2% (25)	8% (74)
EM	6% (78)	8% (7)	7% (158)	8% (179)

Source: GIIN, J.P. Morgan.

Relative performance views align with expected returns

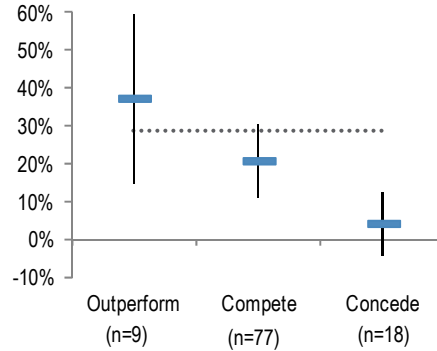
The range of expected returns shown in Figure 7 is better revealed by categorizing the investments by the investor’s view on the relative performance of each investment. In Figure 10 - Figure 13 we show the average baseline expected return for DM and EM equity and debt within each category of relative performance view: Outperforming, competitive, and concessionary. In each figure, we confirm our hypothesis that relative performance views should translate into numerical expected returns that align with those views. We also show the same benchmark performance that we referenced in Figure 7 for comparison.

¹⁵ This is historically a phenomenon that derived from the perception that there are higher sovereign and currency risks in emerging than in developed markets, which add to the corporate risk of the investment itself. Given the economic challenges that many developed countries face today, one could argue that developed market exposures are equally as risky, if not more so. We refrain from this debate, and simply present what respondents reported.

Baseline return expectations by relative performance views

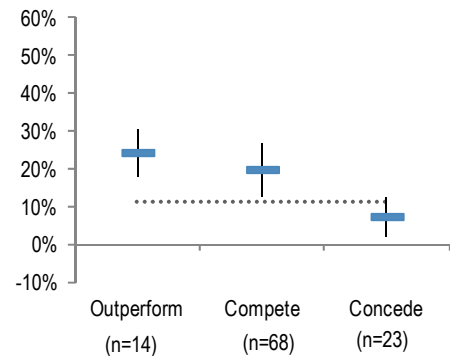
y-axis: Annual internal rate of return ("IRR") or yield (gross, in USD)
 The horizontal bars show the average baseline expected return for impact investments reported with the respective relative performance view, the vertical bars show the standard deviation of survey responses, and the number of observations informing each average is shown in parentheses. The dotted line shows the benchmark return, as calculated in Figure 7.

Figure 10: DM Equity



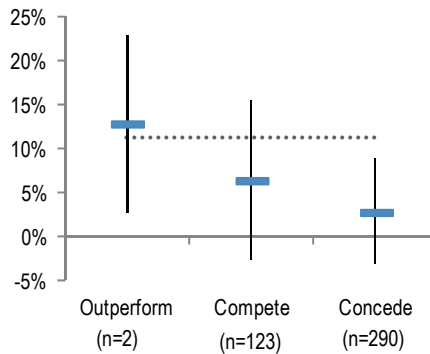
Source: GIIN, J.P. Morgan. Vintage years 1992 to 2011, with one transaction from 1972.

Figure 11: EM Equity



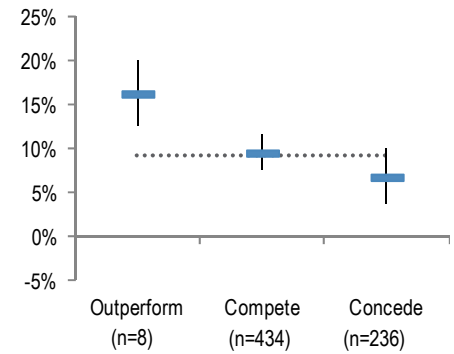
Source: GIIN, J.P. Morgan. Vintage years 1998 to 2011.

Figure 12: DM Debt



Source: GIIN, J.P. Morgan. Vintage years 1997 to 2011, with one investment in 1970, one investment in 1988 and two investments in 1990.

Figure 13: EM Debt

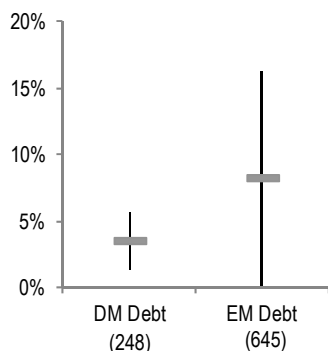


Source: GIIN, J.P. Morgan. Vintage years 1997 to 1999.

Realized debt returns: As expected

Figure 14: Realized debt returns

The horizontal bars show the average realized return reported, the vertical bars show the standard deviation of responses, and the number of observations informing each average is shown in parentheses.



Source: GIIN, J.P. Morgan.

Debt realized returns in line with investor expectations

In general, we have much less data for realized returns than for expected returns, and this disparity is amplified for the equity investments, which are a small sample to begin with: only 43 equity investments were reported with realized returns, relative to 209 that were reported with baseline return expectations¹⁶. By contrast, 893 debt investments were reported with realized returns, relative to the 1,143 that were reported with baseline return expectations. As such, we focus on the realized debt returns reported. The realized returns reported for debt investments are very much in line with the expected returns (Figure 7) for this instrument type and region. Figure 14 highlights that the average realized return for DM debt is 4%, which compares to an average baseline expectation of 4%. Similarly, the average realized return for EM debt is 8%, which compares to an average baseline expectation of 9%.

Hint of EM risk premium in realized debt returns, but small sample limits conclusion

The natural follow-up question is to explore the realized return data by relative performance view and by profit-status, since we saw above that those characteristics play a role in defining the return expectation. Table 11 shows the realized returns for these categories, with the number of observations in parentheses. Immediately, we notice that the realized debt returns are in line with the expectations shown in Table 10 in all categories but one: competitive, for-profit investments. This is the category where the expectations in Table 10 revealed no difference between DM and EM, but it seems the realized returns do reflect some difference. However, the data set for realized returns for competitive debt investments into DM for-profit companies is only 49 observations. The data points to a higher realized return from emerging market debt investments than from developed market debt investments, and we will look for evidence with regard to this relationship in future analyses.

Table 11: Realized return – Non-profit vs for-profit competitive debt

Respondent's realized return (Gross annual yield, in USD); Number of observations in parentheses. DM = Developed Markets, EM = Emerging Markets

Debt	Non-profit		For-profit	
	Concessionary	Competitive	Concessionary	Competitive
DM	4% (153)	2% (27)	3% (9)	2% (49)
EM	7% (64)	7% (7)	8% (84)	6% (194)

Source: GIIN, J.P. Morgan.

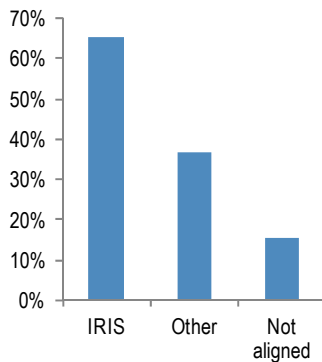
¹⁶ Note that the 43 transactions reporting realized returns are a subset of the 209 transactions reporting baseline returns, and similarly for debt.

Impact measurement: Building standards

Our definition of impact investments requires that the investment intends to deliver positive social and/or environmental impact alongside financial return. The measurement of that impact will be key for many investors in determining whether or not they have succeeded in that aim. In this section, we see how investors are managing the impact measurement of their portfolios, and utilizing third-party standards to do so.

Figure 15: Number of investors aligned with third-party impact measurement standards

52 respondents chose all that apply



Source: GIIN, J.P. Morgan.

Deal quality sufficient; third-party metrics gaining use

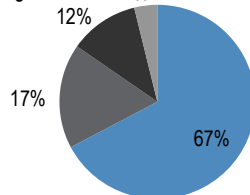
Deals meet impact and return targets overall

While the financial returns are one important aspect of measuring the success of impact investments, the social and/or environmental outcomes that result from those investments are the complementary aspect. As indicated in our survey, investors find that the deals they are considering are mostly meeting expectations for both financial and impact targets (Figure 16). For deals in which the respondents have investments, that impact is being measured using the investor's system for half of the respondents (Figure 17). When compared with our data from last year, we note that the percentage of respondents using third-party systems increased from 21% to 31%, and the percentage that use the investee's system (i.e., that of the business in which the investment was made) declined from 24% to 17%¹⁷. Within the impact measurement system, the metrics being used are aligned with external standards for all but eight of our respondents. This means that 85% of respondents are using metrics aligned with IRIS (65%) and/or another external set of standards (37%), as shown in Figure 15¹⁸.

Figure 16: Assessment of deals considered against impact and return expectations

52 respondents chose one answer

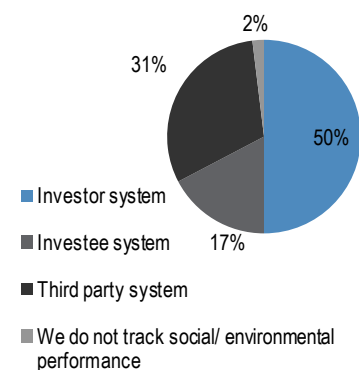
- Overall mostly meet expectations for both
- Overall mostly meet impact targets but not financial targets
- Rarely meet expectations for both
- Overall mostly meet financial targets but not impact targets



Source: GIIN, J.P. Morgan.

Figure 17: Impact measurement system

52 respondents chose one answer



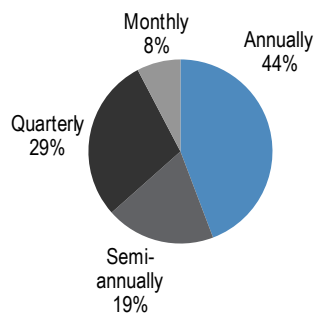
Source: GIIN, J.P. Morgan.

¹⁷ Readers will note that in *Impact Investments* (Nov 2010) the chart showing impact measurement systems does not reflect the figures referenced above. This is due to the fact that here we calculate the percentage of respondents that use various systems, whereas the corresponding chart in the previous research showed the percentage of reported investments.

¹⁸ Note that the figures add up to more than 85% because we asked investors to select all that apply. Some investors' metrics are aligned with IRIS as well as another third-party standard.

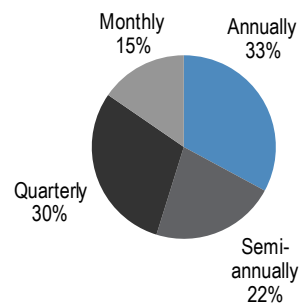
With the development of impact rating systems like GIIRS, investors may be able to increase their understanding of the impact of investments they are considering and compare that impact across various investments. Fifty-four percent of our respondents said they plan to adopt a rating system like GIIRS once sufficient market coverage is established. One of the objectives of the development of such tools as IRIS and GIIRS is to facilitate measurement of the impact being delivered by investments. This can be a time and resource consuming process, so we asked our respondents how frequently they measure both the impact and the financial performance of their investments. Most of our survey respondents are measuring impact either annually or quarterly (Figure 18). We find similar timing for the financial valuations (Figure 19). The two charts highlight, though, that there is a range of valuation time frames employed by investors.

Figure 18: Frequency of impact measurement
52 respondents chose one answer



Source: GIIN, J.P. Morgan.

Figure 19: Frequency of financial valuation
Percentage of 2,020 investments that reported on this question



Source: GIIN, J.P. Morgan. Notional-weighting shows similar results.

Risk: Expected to match traditional investments

Risk is central to any investment analysis, and the relative risk in impact investments has been debated by market participants and observers alike. For example, some will say that a business in underserved areas reaches new markets where competition is low, promoting success for the business. Others will argue that such areas are underserved because it is difficult to efficiently and profitably deliver goods and services. In this section, we present our respondents' views on the risks inherent in their impact investments, and find that generally they are similar to those in non-impact investments.

Illiquidity and uncertainty around financial returns cited as biggest risks

Investors were asked to choose the top two risks they face in making impact investments. The biggest risk was identified as “Illiquidity or long tenors of investments”, and the second choice was “Uncertainty regarding achievement of stated financial returns.” Again, we split the population by instrument type and investment region, but found no substantial difference¹⁹. The full set of answer choices is shown in ranked order in Table 12.

Table 12: Biggest risks investors face

52 respondents ranked the top two; Number of votes for first place and second place shown.

	First	Second
1 Illiquidity or long tenors of investments	13	16
2 Uncertainty regarding achievement of stated financial returns	13	12
3 Uncertainty regarding achievement of stated impact objectives	11	10
4 Political/ macroeconomic risk associated with targeted regions	8	6
5 Backing a management team without an established track record	7	5
6 Risk that profiting from low-income consumers can be considered exploitative	0	3

Source: GIIN, J.P. Morgan.

Similar level of risk expected relative to traditional investments

Despite the fact that respondents highlighted significant risks to making impact investments, 60% compared the risk as “similar” to that of comparable non-impact investments. Of the remaining respondents, 31% viewed the risk as higher, and just over 9% thought it was lower (numbers are rounded). These questions were asked at the investor-level (through our perception survey) as an overall question about the relative risk in the market. At the portfolio-level, we complemented this question by asking about downside return expectations.

¹⁹ If we select only those investors that have investments in developed markets, then the two biggest risks are the same, just in reverse order of priority.

Table 13: Measuring expected risk in EM debt

Data references 253 transactions reported by nine investors

Average baseline return expectation	8%
Average downside return expectation	5%
Expected risk (Difference)	3%

Source: GIIN, J.P. Morgan. Nine investors responded with distinctive data for baseline and downside return expectations on emerging market debt. Only those investments that reported a difference in these two expectations were used in this calculation.

Downside scenarios in EM debt investments expected to cut returns by 3%

In an attempt to measure risk for long-term investments, many of which have yet to mature or be exited, we asked about the expected downside return on each transaction. We specifically did not define what we meant by “downside” for two reasons: firstly, asking our respondents to translate their “downside” into our “downside” would be onerous; secondly, we wanted to capture what our respondents deem the amount of risk worth considering when making investment decisions. As with realized returns, there were only a small number of observations for equity investments, so we focus on the debt data. Within debt investments, those that were made in developed markets did not differentiate between the downside and the baseline return expectations, so we exclude them from our analysis. For debt investments into emerging markets, investors reported baseline return expectations of 8% and downside expectations of 5%. This gives the difference – or what we might call the “expected risk” of these transactions – of 3%, which means that in downside scenarios, investors expect to discount their baseline expected return by 3 percentage points. Table 13 summarizes these findings.

Risk events occurred in 7% of reported transactions

Another measure of risk is not financial, but based on breaches of contract terms or significant changes to the investment proposition. We asked survey participants to specify, for each transaction they listed, whether the investment had breached any covenants or experienced a material adverse change. Some of these events reference late reporting relative to what was agreed at investment, while others reflect debt restructuring. Across the 2,213 investments reported, 147 – or 7% of the population of transactions – have experienced one of these “risk events”. If we analyze by investors, we find that thirteen investors out of the forty two respondents that provided portfolio data reported having at least one risk event within their portfolios, and six reported more than five events. Since the portfolios range in size, we also note that seven investors revealed risk events in more than 10% of their investments.

Other characteristics of the sample

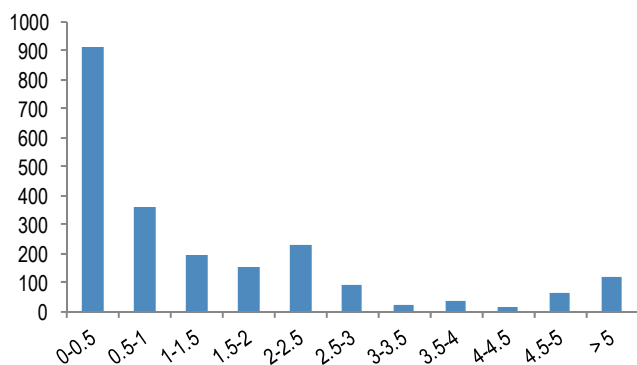
We present in this section some of the other characteristics, like investment size, management fees and type of exits that investors reported about their portfolios.

Size, fees and exits

Last year's survey found that most transactions were small in size, and this year we can confirm the same conclusion. Figure 20 shows the histogram of investment sizes reported, where we see the majority are less than USD 1mm, and only relatively few are greater than USD 5mm. The average across the sample is USD 2mm. Figure 21 shows those deals between USD 5mm and above. Both last year and this year, transactions larger than USD 10mm make up about 2% of the deals reported. This can result from the fact that some respondents are reporting direct loans to impact businesses, while others are reporting investments into funds (which tend to be able to absorb a larger investment and then disperse funds to portfolio companies).

Figure 20: Size of investments

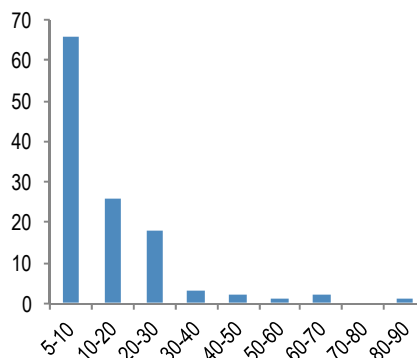
Histogram shows the number of investments reported with committed investment size (USD equivalent at time of investment, in millions) between the lower bound (exclusive, except for first bucket) and the upper bound (inclusive). Total number of transactions is 2,211.



Source: GIIN, J.P. Morgan.

Figure 21: Investments greater than USD 5mm

Histogram shows the number of investments reported with committed investment size (USD equivalent at time of investment, in millions) between the lower bound (exclusive, except for first bucket) and the upper bound (inclusive). Total number of transactions greater than USD 5mm is 119.



Source: GIIN, J.P. Morgan.

Table 14: Splitting average investment size by company and fund

Average investment size			
	USD mm		USD mm
Company	2	Equity	2
		Debt	1
Fund	5	Equity	7
		Debt	4

Source: GIIN, J.P. Morgan.

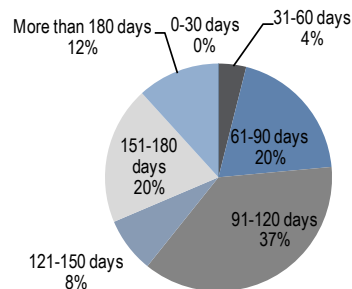
Indeed, 70% of investments reported (although only 50% of notional) were made into small and medium-sized enterprises (“SME”) and in separating out fund investments from company investments we find a difference. Direct investments into companies are USD 2mm on average, whereas fund investments are USD 5mm on average. We also find a slight difference in average size when splitting by debt and equity instruments within the company and fund investments: company equity investments are USD 2mm on average, while company debt investments are USD 1mm on average. Fund equity investments are USD 7mm, and fund debt investments are USD 4mm on average.

Closing deals takes a wide range of time

Respondents reported the time it takes to close an impact investment transaction will vary from as little as 31-60 days to more than 180 days. Figure 22 shows the distribution of responses when we asked investors how much time on average elapsed between receiving the business plan to actual investment into the business. We see a significant range across the options, with no investors choosing 0-30 days and 12% indicating that transactions can take more than 180 days on average to complete. Unfortunately, we cannot dig much deeper into why certain deals take longer, since it was asked as part of the investor perception survey, rather than in conjunction with specific transactions.

Figure 22: Average time from receipt of business plan to close of deal

52 respondents chose one answer



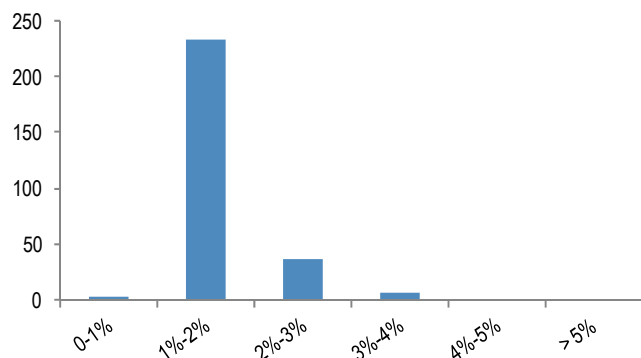
Source: GIIN, J.P. Morgan.

Impact investment fund fees are comparable with traditional fund fees

Across the fund management industry, the average management fee is 2% and the average carry fee is 20%. We find that impact investment funds are charging fees in line with these standard fund management fees, as the average fees are exactly 2% and 20% for management and carry, respectively. We show the distribution of both management and carry fees through histograms in Figure 23 and Figure 24. As carry fees often reference a hurdle rate, we also asked survey participants to provide this data point. The average hurdle rate reported is 7%, based on 52 non-zero observations across 11 investors.

Figure 23: Management fees

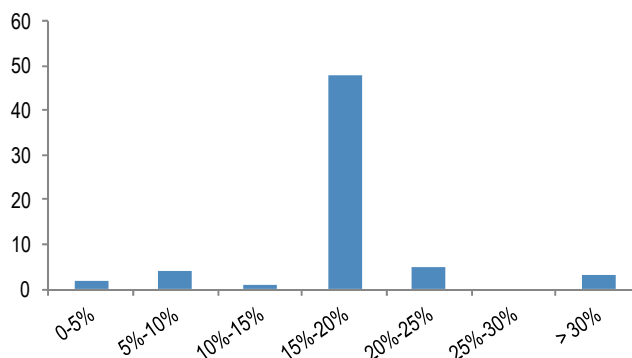
Histogram shows the number of transactions reported as having management fees between the lower bound (exclusive, except for first bucket) and the upper bound (inclusive).



Source: GIIN, J.P. Morgan. Number of observations: 281.

Figure 24: Carry fees

Histogram shows the number of transactions reported as having carry fees between the lower bound (exclusive, except for first bucket) and the upper bound (inclusive).



Source: GIIN, J.P. Morgan. Number of observations: 63.

Few exits realized to date

The investments reported are mostly investments that are outstanding. In other words, investors have deployed the capital and the capital remains in use with the investee. Investors have exited just over 10% of investments reported; the various means of exit reported are listed in Table 15. Debt matures and equity exits are often made through trade sale or buy-outs, so we are not surprised to find those listed in the data. However, the option features – which allow investors to buy the right (but not the obligation) to, say, exit the investment at a given price in the future – are interesting examples of the structures being used to accommodate bespoke investor and investee interests. In future work, we hope to learn more about how impact investors are using optionality to build an end-date into their investment structures.

Table 15: Means of exit from investment (if occurred)

Number and notional of investments reported within each category.

	Number	%	Notional (USD, mm)	%	Instrument type
Matured	234	82%	194	61%	All debt
Trade sale	22	8%	110	35%	21 equity, 1 debt
Canceled or terminated option	21	7%	11	3%	7 equity, 14 debt
Mgmt buy-out	8	3%	2	0%	All equity
Mgmt buy-in	0	0%	-	0%	
Initial public offering	1	0%	1	0%	All equity
Total	286	100%	318	100%	

Source: GIIN, J.P. Morgan.

Looking ahead

Investor respondents signaled tempered optimism for the near term and a healthy outlook for the longer-term prospects of the impact investing industry. Over a 10-year horizon, survey participants believe that institutional and HNWI investors will allocate 5% and 10% of their portfolios to impact investments, respectively. While this may be optimistic, respondents also pointed out that the market is still in its infancy with challenges that reflect the market's nascent stage, like a lack of substantial track record.

As a reflection of their positive outlook on the market, the investors surveyed are planning to deploy a total of USD 3.8bn in the next year. These investments will benefit from a number of promising developments for the market. Third-party impact measurement standards are experiencing higher utilization, and there is greater access to information about current investment opportunities and historical performance. In addition to these developments from the private sector, governments are playing an increasing role in the impact investment market by launching investment funds and seeding intermediaries to catalyze private investment.

The turmoil in the global economy has created a great deal of uncertainty for the outlook of financial markets, so it is particularly difficult to predict how the next year will unfold. However, this survey of leading investors suggests that, while the impact investment industry requires time to realize its potential, we can anticipate progress in the year ahead. We hope that these investor perception and portfolio surveys will facilitate that progress by improving transparency, providing insights into the nature of the impact investment market.

Appendix I: Survey participants

We would like to acknowledge and thank the following survey participants for contributing valuable data to this research.

Organizations that completed both the investor perception and portfolio surveys

- ACCION
- Acumen Fund
- Ambers&Co Capital Microfinanzas
- Annie E. Casey Foundation
- Anonymous 1
- Anonymous 2
- Calvert Foundation
- Creation Investments Capital Management
- The David & Lucile Packard Foundation
- Developing World Markets
- DOEN Foundation
- E+Co
- EcoEnterprises Fund
- Equilibrium Capital Group
- Ford Foundation
- Gatsby Charitable Foundation
- Global Partnerships
- Gray Ghost Ventures
- Grassroots Capital Management & Caspian Advisors Private Limited
- IGNIA
- Incofin Investment Management
- Inter-American Development Bank – Opportunities for the Majority (OMJ)
- Huntington Capital
- J.P. Morgan
- LeapFrog Investments
- Living Cities
- Lundin Foundation
- Media Development Loan Fund
- MicroVest
- Minlam Asset Management
- Pacific Community Ventures
- Prudential
- Renewal2 Investment Fund
- The Rockefeller Foundation
- Root Capital
- Sarona Asset Management
- Satori Capital
- ShoreBank International
- SJF Ventures
- SNS Asset Management
- TIAA-CREF
- W.K. Kellogg Foundation

Organizations that completed the investor perception survey

- Armonia
- BAML Capital Access Funds
- Community Capital Management
- Ecosystem Investment Partners
- FMO
- GreaterCapital (Joint Venture with Cadiz Asset Management)
- The Lyme Timber Company
- RSF Social Finance
- The Tony Elumelu Foundation
- Triodos Investment Management

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