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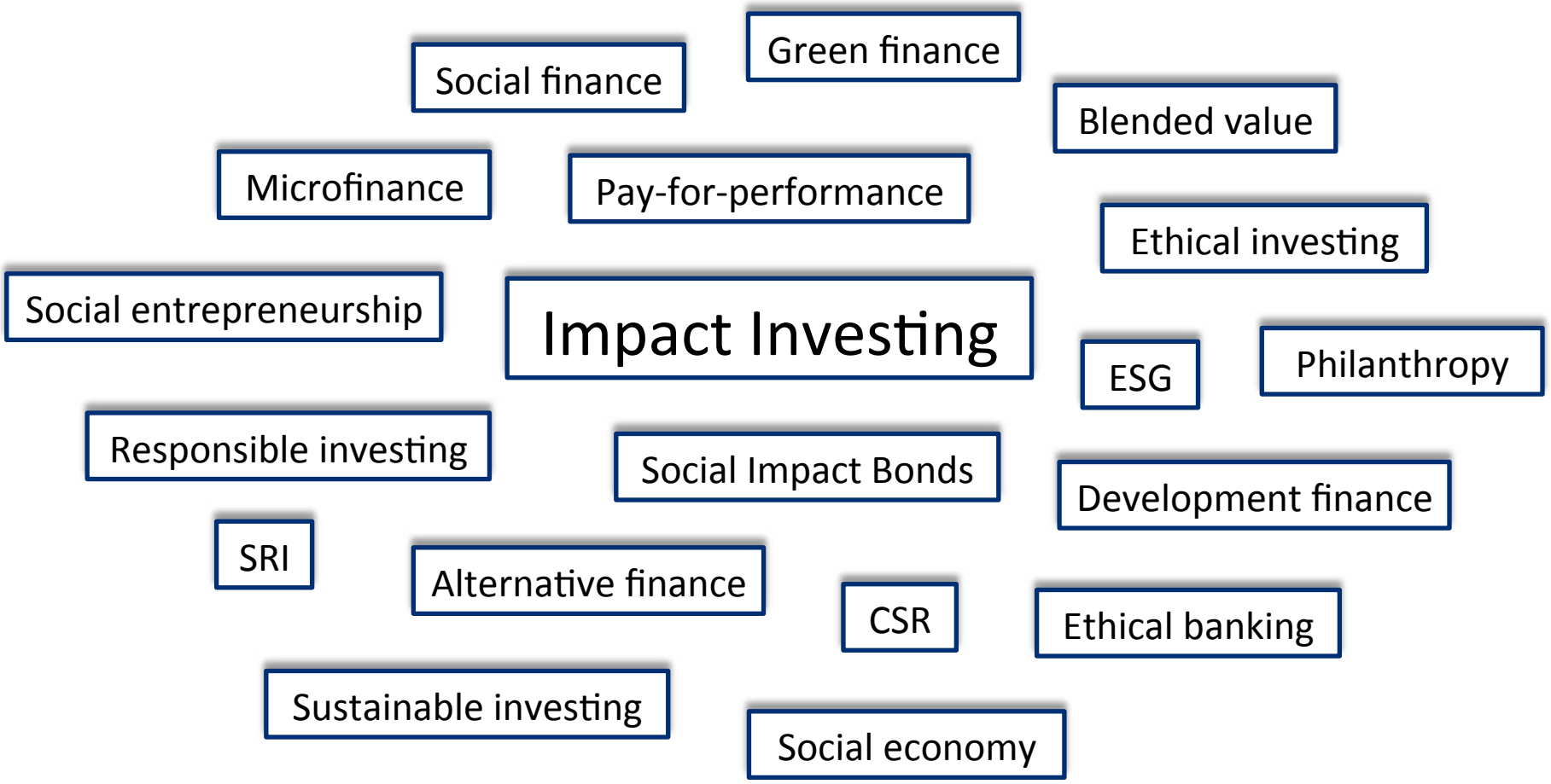
Impact Investing

From the Margin to the Mainstream

What is impact investing?



What is impact investing?

Term coined in 2007 by the Rockefeller Foundation.Definition now used by World Economic Forum (WEF 2013)

Approach to investment

Impact investing is an approach to investment that intentionally seeks to create positive social or environmental benefits alongside financial return.

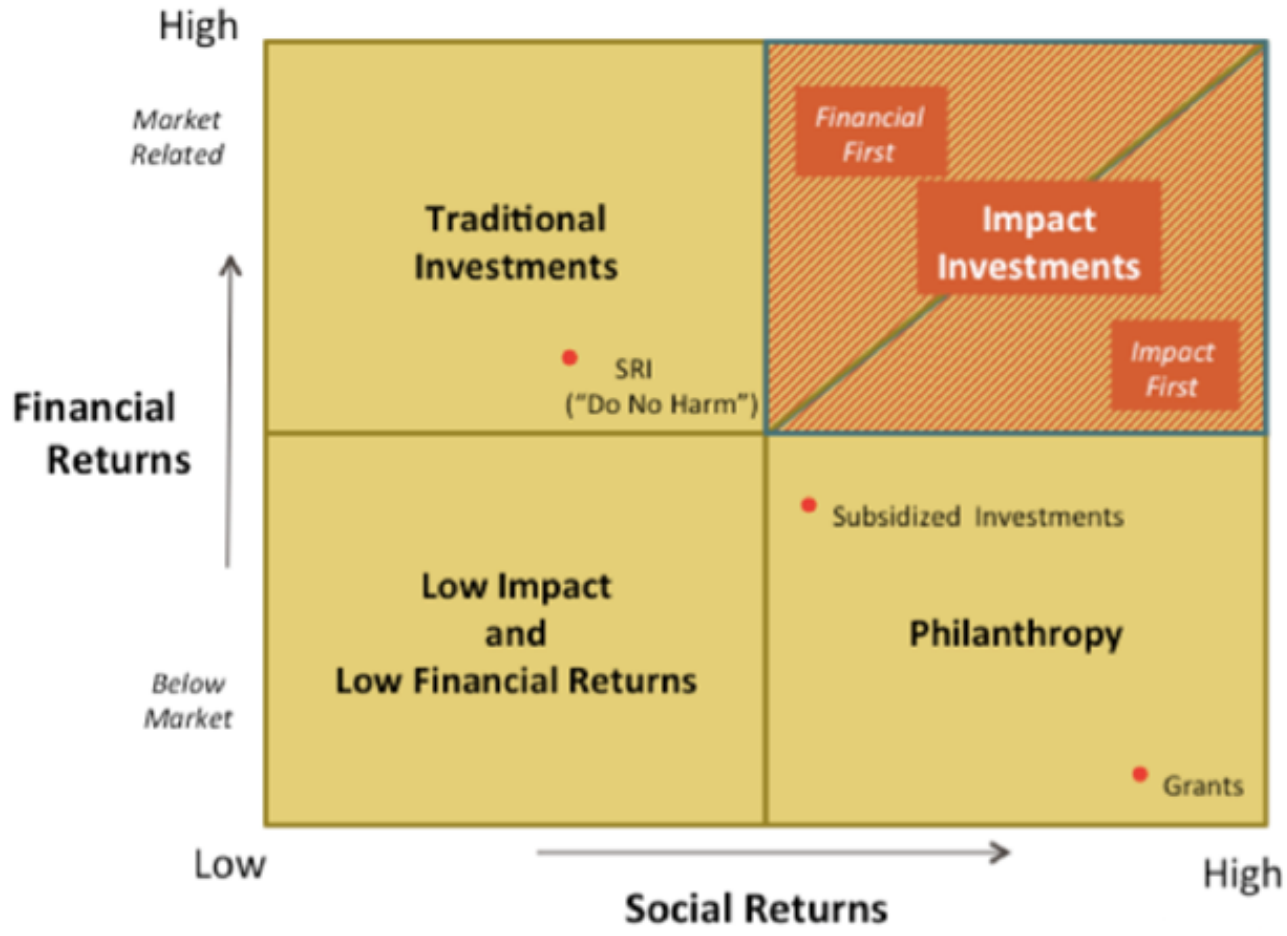
Field of academic research

Creating frameworks for impact investing for measuring impact, evaluating theories of change,recommend policy,COP21, 22.

From Investing to Impact Investing

Investing	SRI	Impact Investing
Single bottom line: Financial profit	Triple bottom line: Economic; Social; Environmental	Positive social or environmental impact alongside financial return.
"The business of business is business."	**At minimum: avoid doing harm!**	**Intentionality to do good! Additionality (new business finance)**

Investment Spectrum



Impact Investing Ecosystem

Investors, social entrepreneurs, policy-makers, research institutions, etc.

GIIN GLOBAL IMPACT INVESTING NETWORK

IMPACTASSETS

The ROCKEFELLER FOUNDATION

Bridges Ventures

SCHWAB FOUNDATION FOR SOCIAL ENTREPRENEURSHIP

SAID BUSINESS SCHOOL | UNIVERSITY OF OXFORD

Nesta Impact Investments

Triodos Investment Management

IMPACT INVESTING AUSTRALIA

SJF VENTURES

BIG SOCIETY CAPITAL

and many more…

Market size

Market estimates vary depending on definitions and criteria	
Source	**Market size estimate**
Monitor Institute (2009)	US$ 500 billion by 2020
JP Morgan & Rockefeller Foundation (2010)	US$ 400 billion – 1 trillion by 2020
Calvert Foundation (2012)	US$ 650 billion by 2020
World Economic Forum (2013)	US$ 15-28 billion as of 2013
Global Impact Investing Network (GIIN) membership survey (2016)	US$ 77.4 billion of impact investing assets managed by GIIN members as of 2015

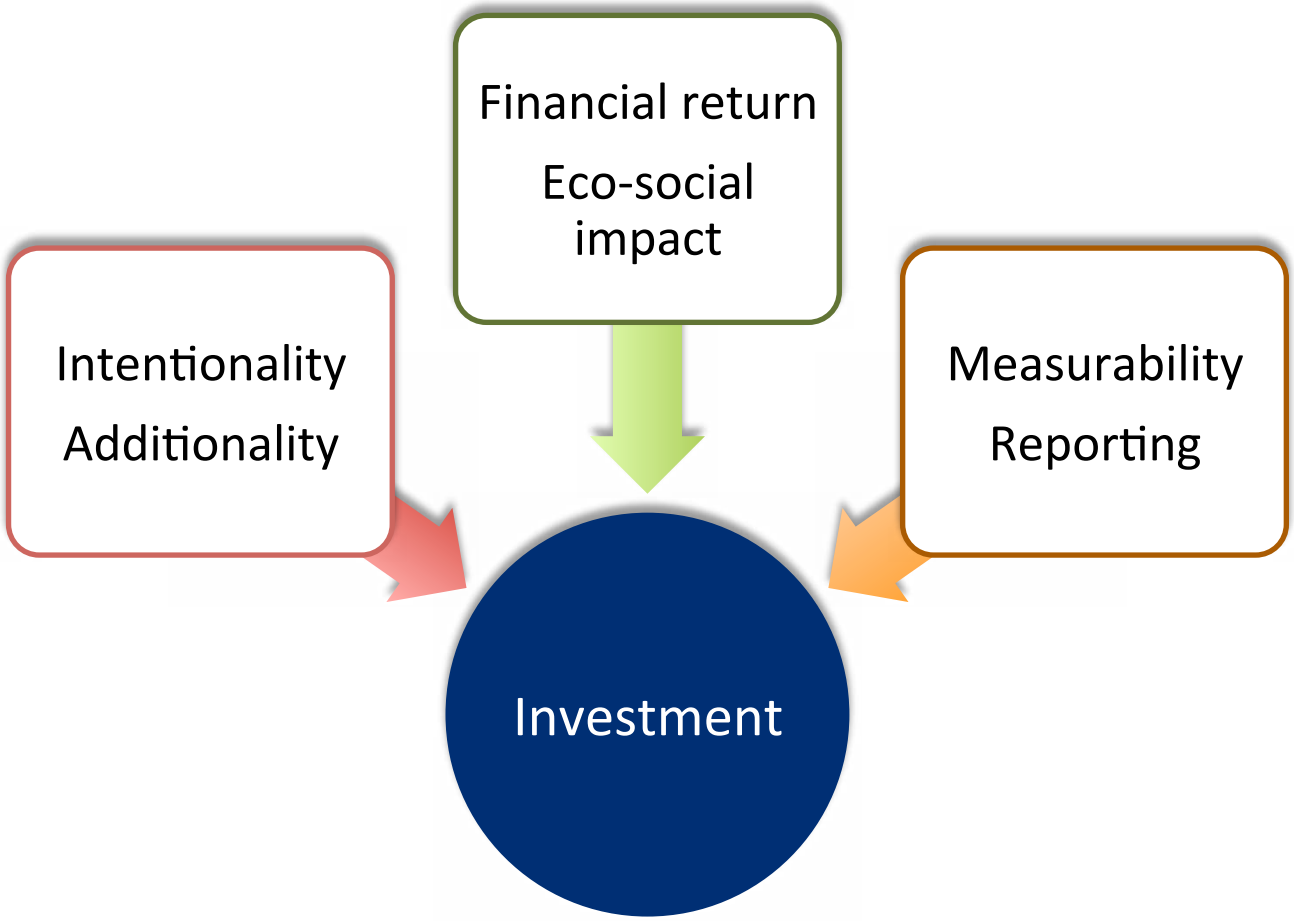
Market size

- To reach the US$ 500 billion expectation by 2020, the impact investing market should grow at a 45% annual rate.
- For comparison: on average, SRI in the U.S. grew by 11% per year between 1995 and 2012 (US SIF 2012).

"Impact investing is currently growing linearly. In order for it to grow exponentially, we need to find a way to incorporate mainstream investors into the mix."

Randall Kempner, Executive Director, Aspen Network of Development Entrepreneurs, Aspen Institute, USA (WEF 2013)

What makes a good impact investment?



Areas for impact investment

- Renewables
- Energy efficiency and distribution
- Mass transit and public transport
- Waste and pollution control
- Low carbon buildings

- Agriculture
- Land regeneration
- Water and wetland management
- Fisheries and aquaculture
- Forest management

- Sustainable manufacturing
- Pharmaceuticals and biotech
- Enabling technologies
- Electric vehicles
- Smart cities

- Financial services
- Community development
- Education and Health
- Poverty alleviation
- and more…

Market potential – Environmental & IT Impact

In the post-COP21 world, a strong business case can be made central principle driving infrastructure development, technological R&D, and innovation.

The idea of sustainability permeates the whole economy, and combined with ICT, cleantech will lead to creative destruction across many industries, not just energy and transport.

Investment opportunity

Market potential – Social entrepreneurship

- In the coming decades, the millennial generation will inherit trillions of dollars in both financial and non-financial assets.
- According to The Deloitte Millennial Survey (2016), this generation puts a much stronger emphasis on the impact that businesses have on society.
- Social entrepreneurship is on the rise around the world (SGS 2016).

Investment opportunity

Market potential – COP 21, COP 22

Spurring low carbon climate resilient growth and avoiding the lock in costs of high carbon systems require redirection of investment and financial flows to green finance, green infrastructure and green energy (ESRCCC 2015). US$ 90 trillion have to be invested in new green infrastructure until 2030 (IPCC 2015) i.e. US$ 5-6 trillion p.a.

According to International Energy Agency (IEA) Investment Needs is US$ 3-4 trillion stretched over 35 years (IEA 2015). Transition to Green Energy & Infrastructure, Resource Efficiency, Innovation in Automotive, Aircraft, Shipping is key complemented by Clean Supply Chains and Green Agriculture (IIGC2015).

Investment opportunity

Opportunity! – Better Growth Better Climate

- For Paris/Marakesh COP 21 /CO“ 22 global infrastructure investment must nearly all be clean/green from now on (Pfeiffer et al, 2016).
- Infrastructure is central to COP21/22 and SDG and spurring growth.
- Expected Future emissions of existing power plants alone will take us over 2°C with 50 % probability (Pfeiffer et al. 2016).
- To go CO2 negative we need Reforestation, Rehabilitation, Capture in Soil and CCS.
- All four Impact Investing Quadrants contribute to this new paradigm.
- 2016).

Investment opportunity

Market potential – Finance SME, Agrobusiness

Emerging economies' SME and agrobusiness benefit from financial services. Finance is particularly important for the broad masses of micro-entrepreneurs and SMEs: they offer new or improved income and growth opportunities in their economies.

For financial service providers that have aligned themselves to this customer segment, the potential for building up and expanding is enormous. The basis and drivers for their success are the great market potential and additional level of customer use, which they can convey in the form of more appropriate, financial services.

Investment opportunity

Impact investing

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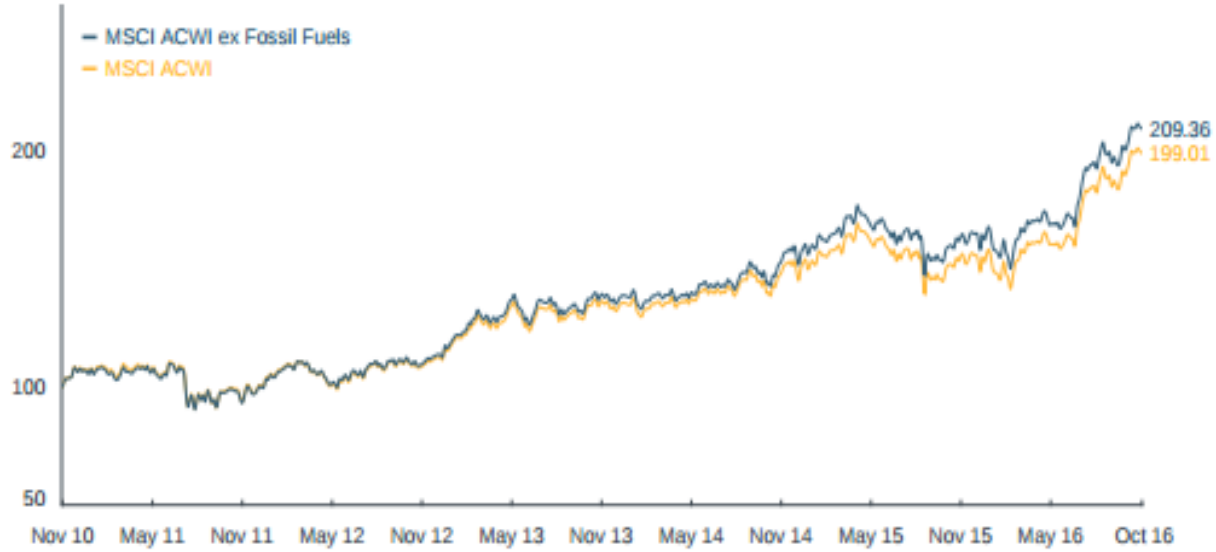
lower financial returns?

For environmental impact – not true!

- Divesting from fossil fuels improves portfolio performance (MSCI 2016).
- More often than not, high sustainability standards translate into lower cost of capital, better stock market performance, and higher long-term returns (Clark et al. 2015; Morgan Stanley 2015).

CUMULATIVE INDEX PERFORMANCE - GROSS RETURNS (GBP) (NOV 2010 – OCT 2016)

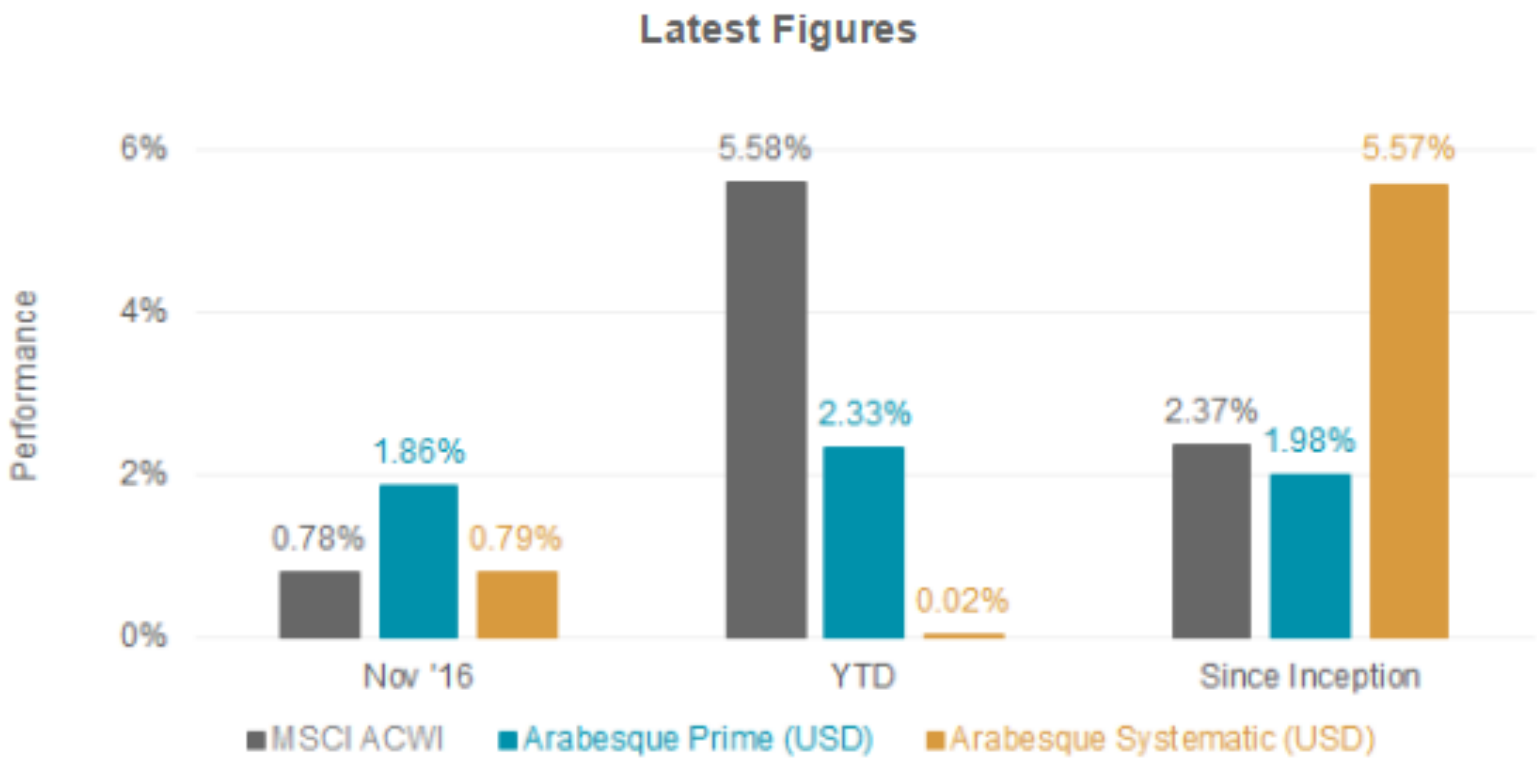


ANNUAL PERFORMANCE (%)

Year	MSCI ACWI ex Fossil Fuels	MSCI ACWI
2015	5.82	3.84
2014	13.23	11.22
2013	22.68	21.15
2012	13.47	11.67
2011	-6.32	-6.17

For environmental impact – not true!

Arabesque Partners: focusing on ESG does not mean lower returns



For environmental impact – not true!

From a study done by the South Pole Group (2016)

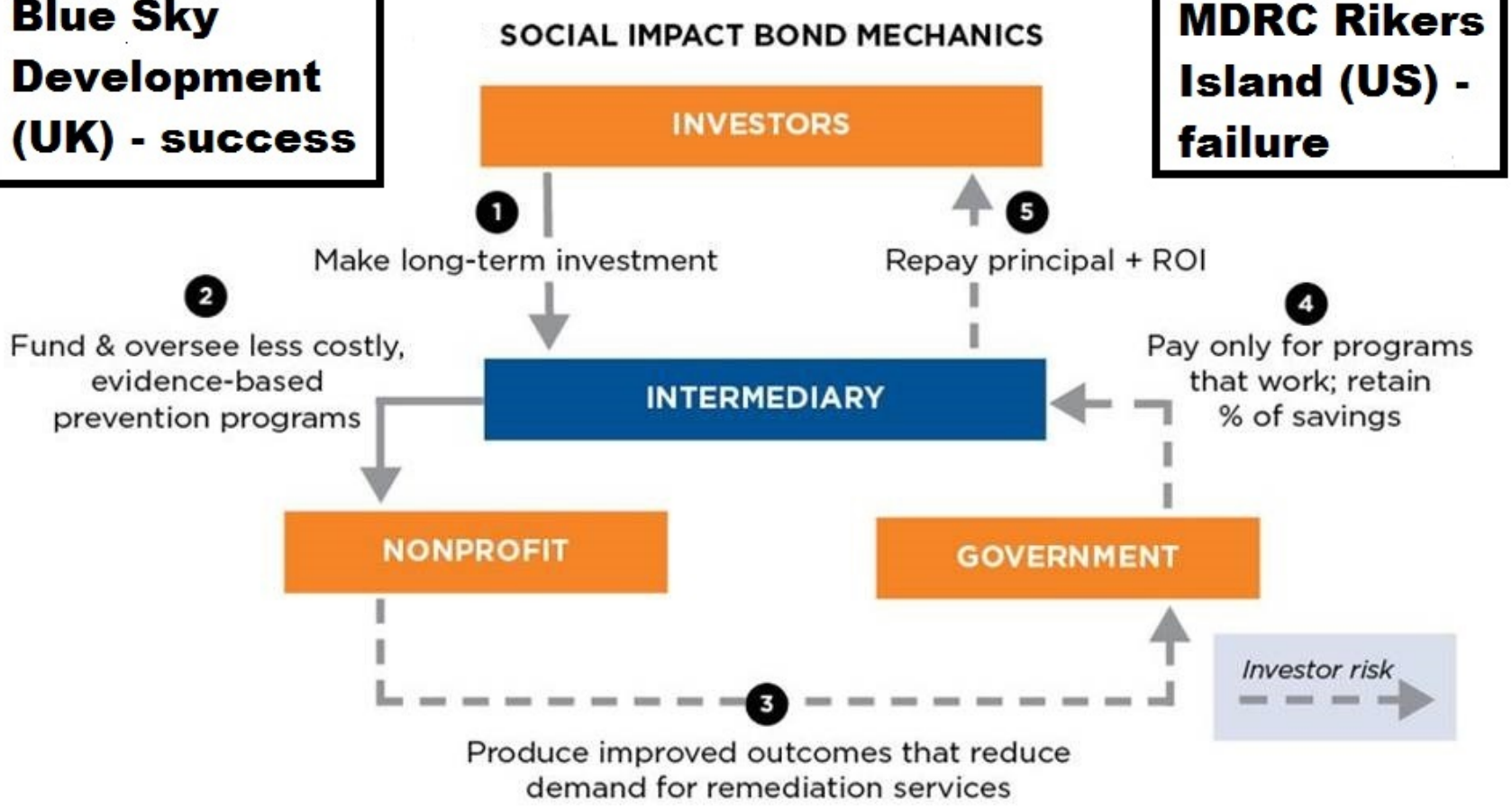
"Almost all more climate-friendly indices studied show a higher return than their respective conventional benchmark indices (ten of the eleven cases)."

"If the return is juxtaposed against the risk involved, then in eight out of the eleven cases, the investor has a better risk-return ratio in climate-friendly indices compared to the respective conventional benchmark index."

For social impact, depends...

Blue Sky Development (UK) - success

MDRC Rikers Island (US) - failure



Theory of Change (ToC)

Theory of Change is a comprehensive description and illustration of why and how a certain change is expected to take place.

Defining goals

What would success look like?

"Backcasting"

Identifying all the conditions required to get from here to there?

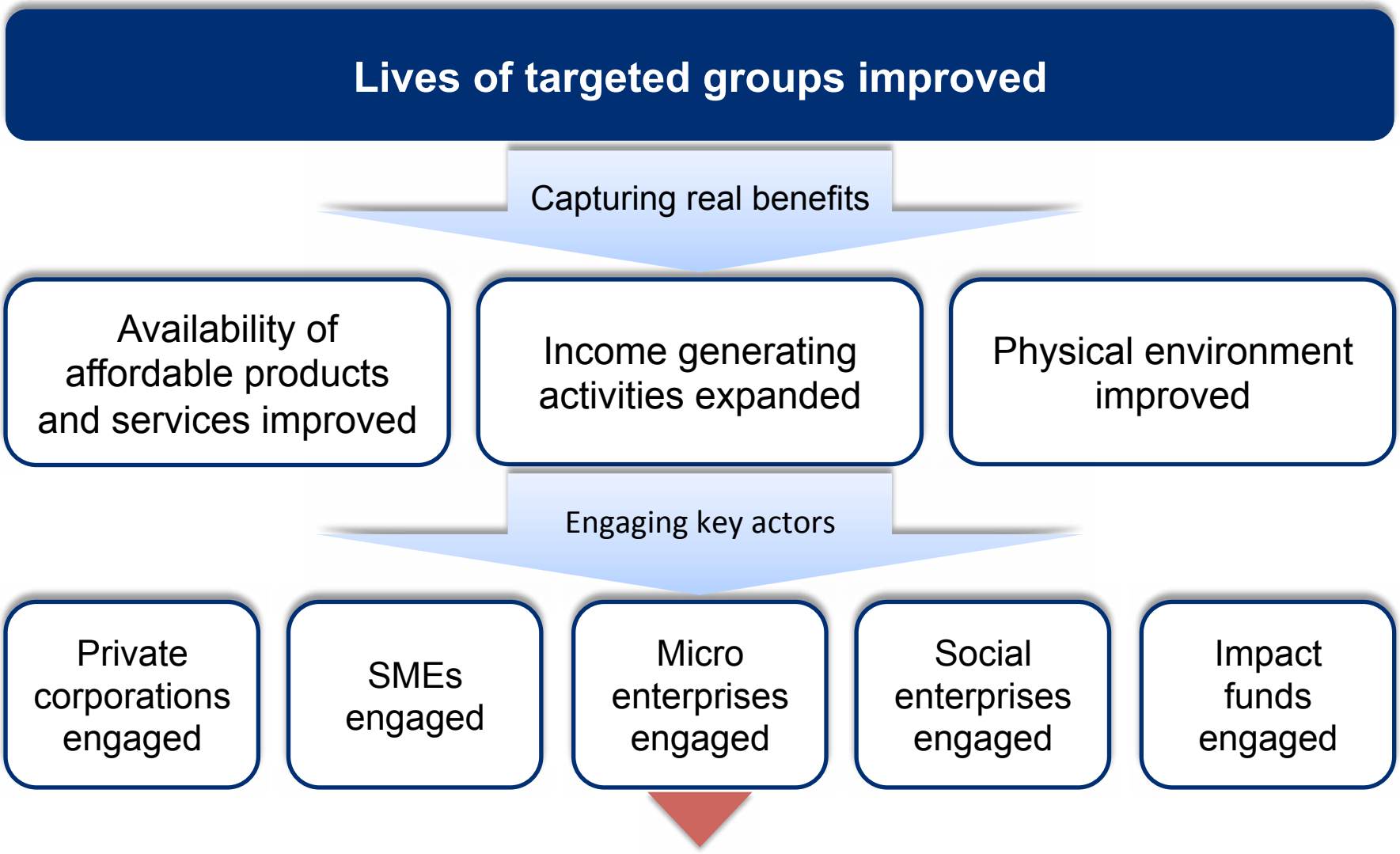
Mapping

Creating a visual pathway that can be used for strategy.

Strategy

Identifying necessary steps and developing indicators to measure success.

ToC for impact investing (Jackson & Harji 2012)



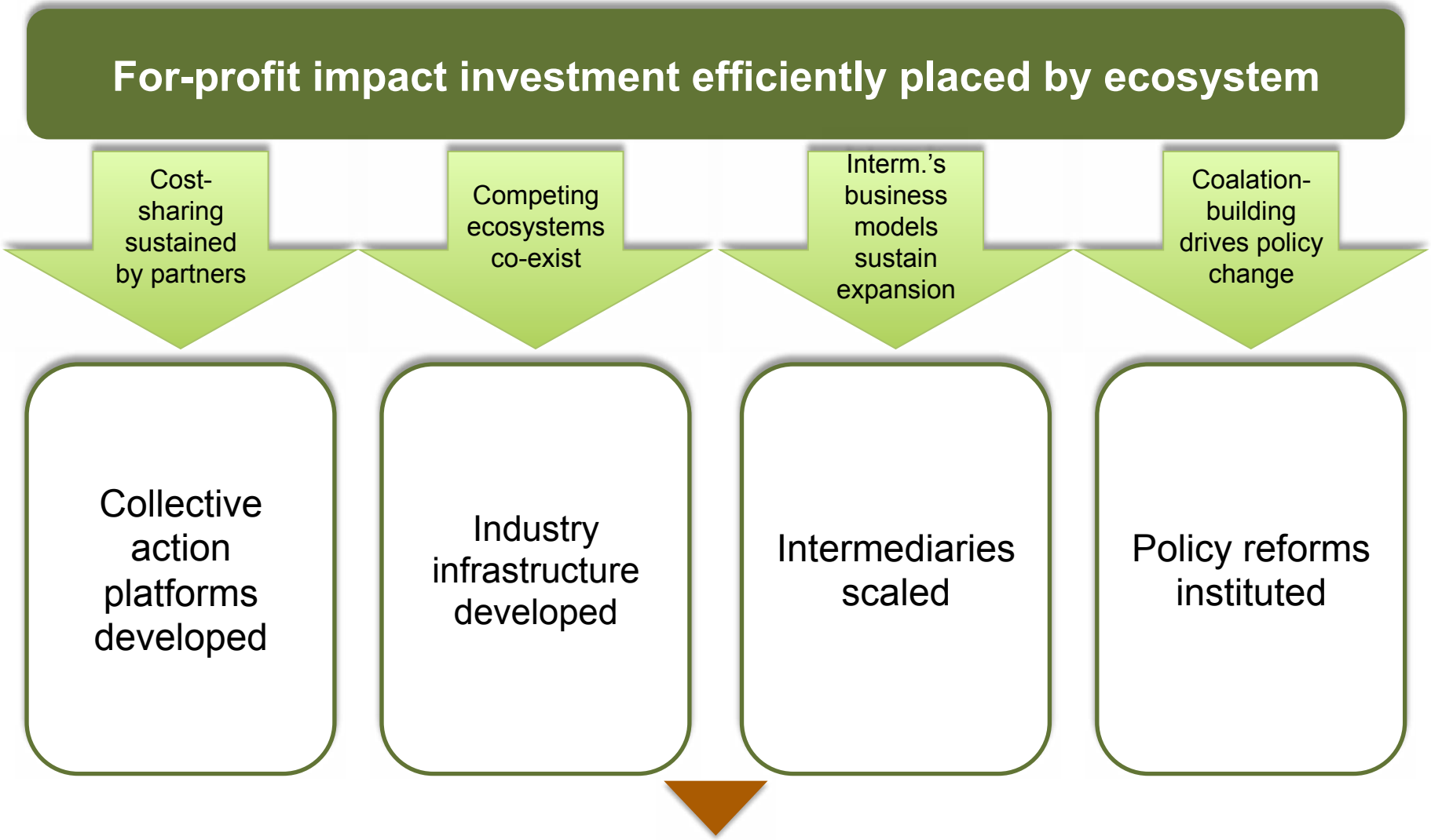
ToC for impact investing (Jackson & Harji 2012)

Number and size of for-profit impact investments increased

Economic conditions, regulatory incentives encourage investing

- Public/private pension funds engaged
- Foundations, endowments engaged
- Private equity funds engaged
- Family offices engaged
- Non-profit social and green funds engaged
- Government agencies engaged
- Retail investors engaged

ToC for Impact investing (Jackson & Harji 2012)



ToC for Impact investing (Jackson & Harji 2012)

Catalyzing activities undertaken

Example: activities undertaken by the Rockefeller Foundation

- Grants for collective action platforms approved
- Grants for industry standards approved
- Grants for scaling intermediaries approved
- PRIs for scaling intermediaries executed
- Grants for research and advocacy approved
- Communications outreach carried out
- Brokerage and networking carried out

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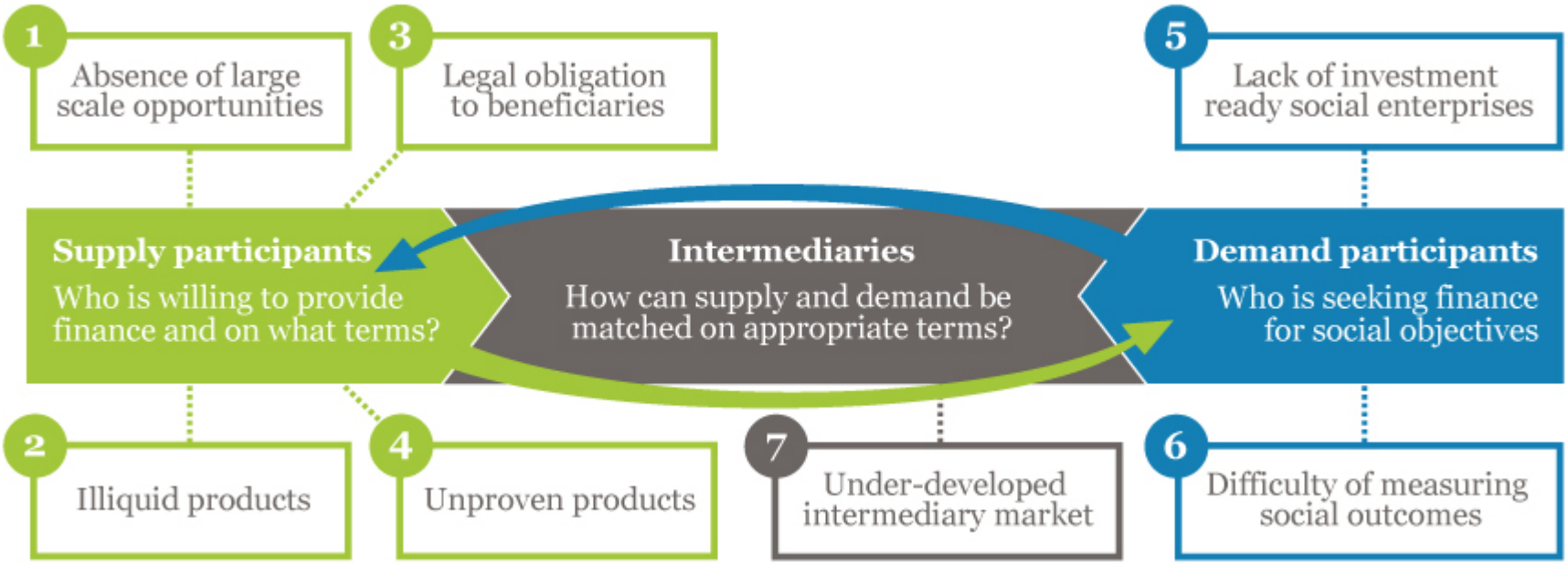
COP 21/22 Framework allows for Efficient Placement of Impact Investment within an currently building ecosystem supported by a developing theory of change mitigating impact investing challenges.

Field of investment funds growth

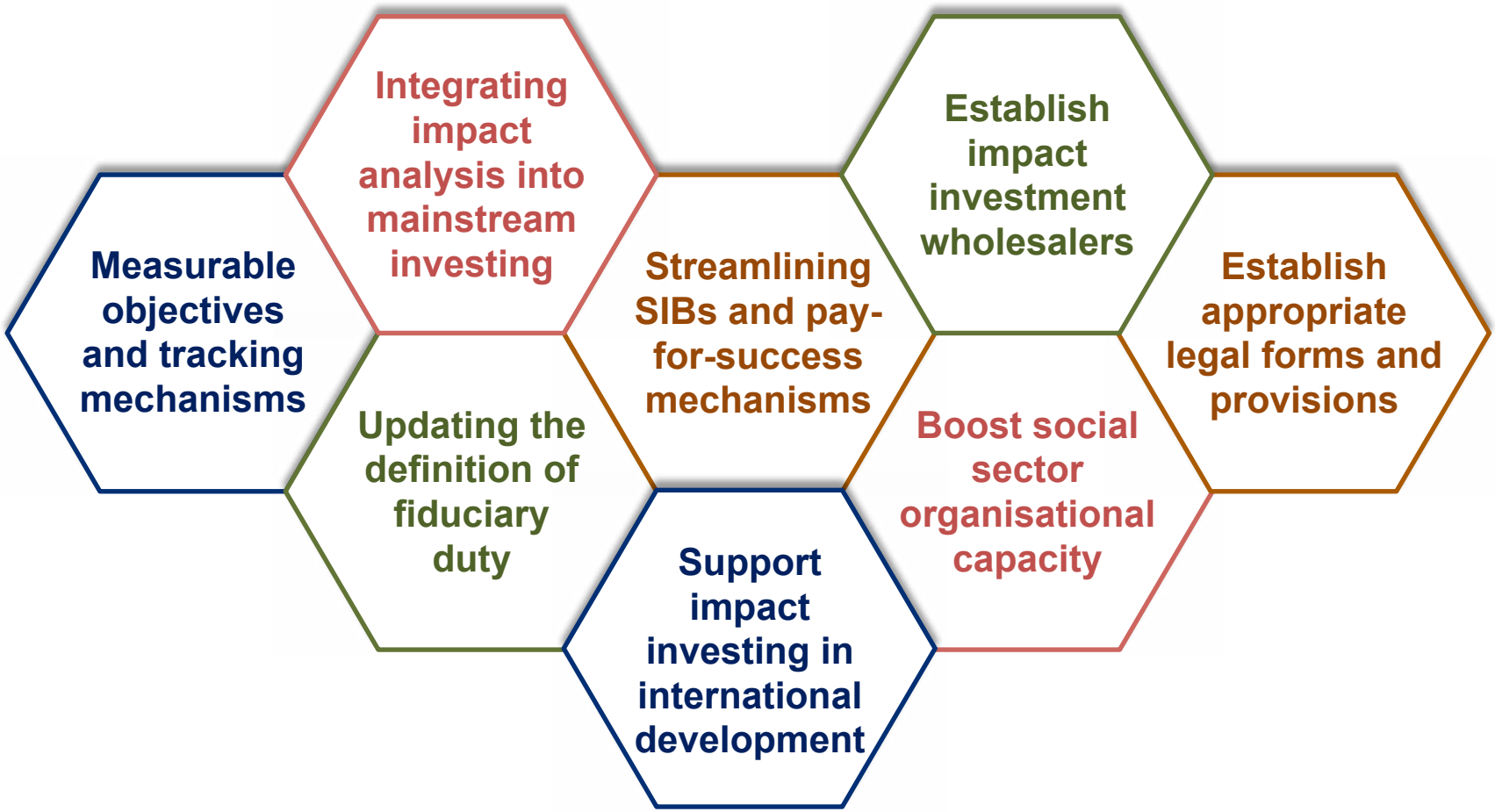
Invest in green infrastructure, energy, energy efficiency combined with ITC to implement COP21, 22.

What makes impact investing challenging?

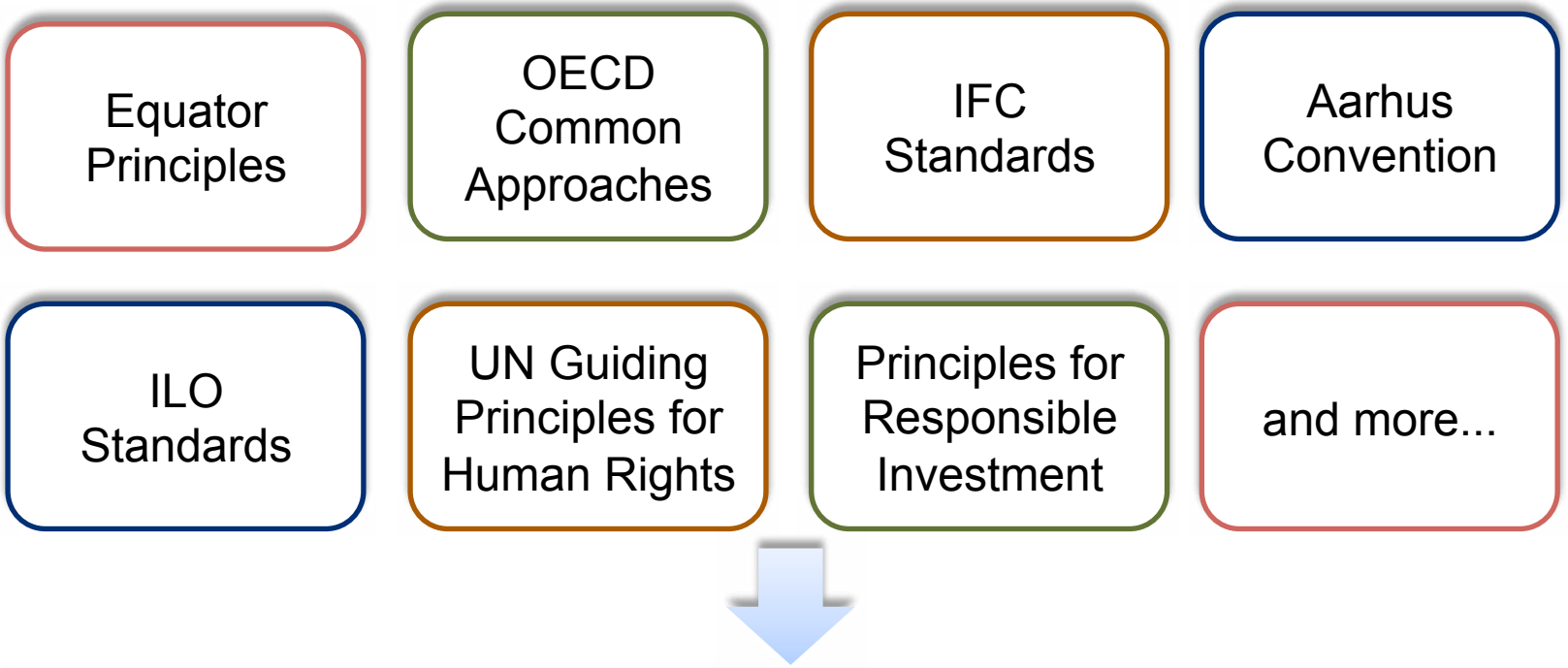


Underdeveloped Impact investing ecosystem means that challenges faced by investors, intermediaries and entrepreneurs are compounded. With COP21/22 the Tipping Point is reached. Fast development expected.

Suggestions from the G8 Taskforce (2014)



Global Administrative Law



In an industry governed by the principal-agent theory, initiatives such as these serve as a necessary corrective to help guide investments.

Impact Investing Research

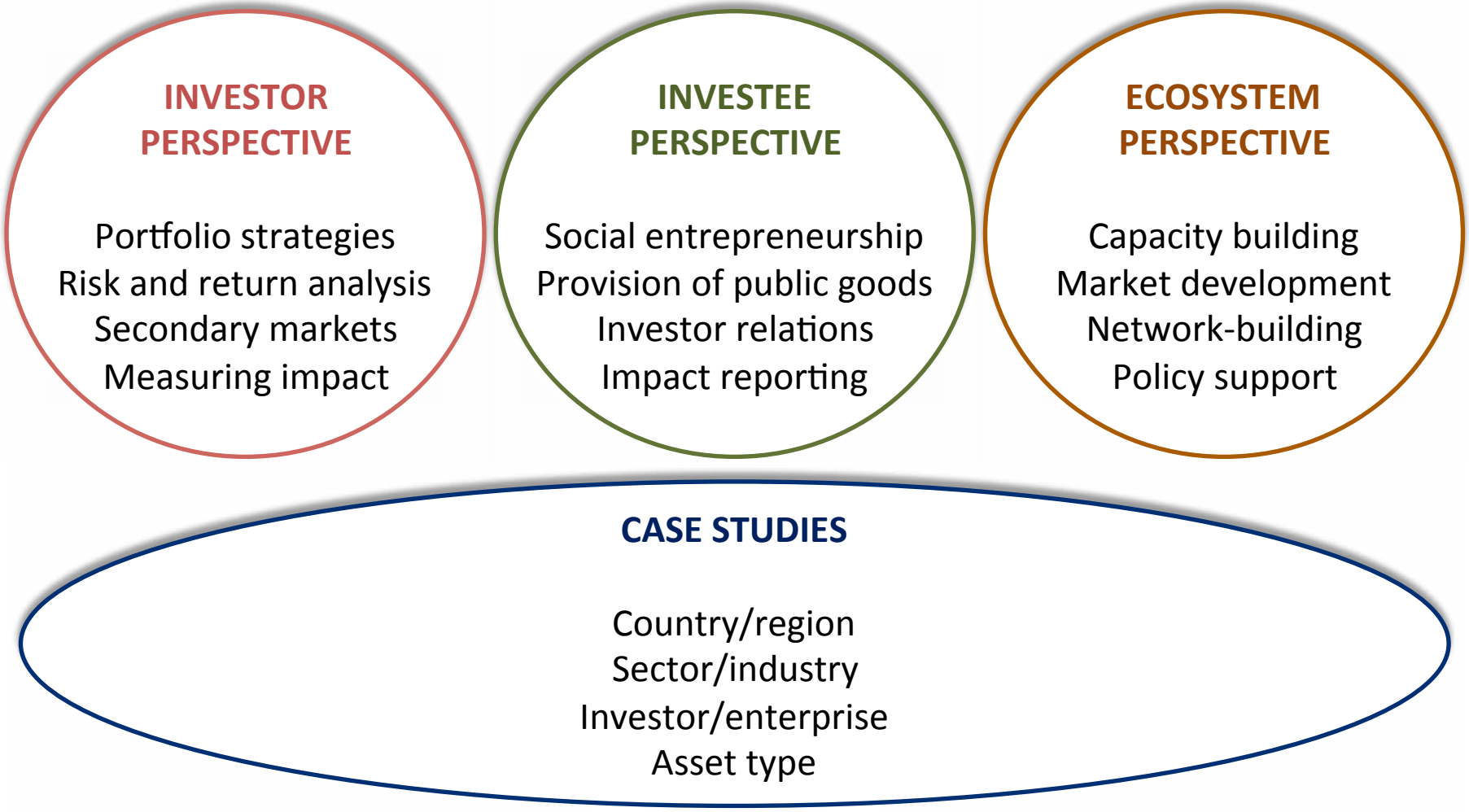
A literature review by Daggers & Nicholls (2016) found 73 items of academic research against 261 items of practitioner- and policy-oriented research.

- Many impact investing researcers have not yet published their work. Most are driven by personal interest and often lack institutional support.
- Key definitions, issues, theories are still in the process of formation.
- Lack of common definitions and terminology.
- Lack of publicly available aggregated data sets.

Impact Investing Research

Major institutions with dedicated research initiatives (Daggers & Nicholls 2016)		
Institution	**Initiative / Centre**	**Country**
Carleton University	Carleton Centre for Community Innovation	Canada
Duke University	CASE: The Centre for the Advancement of Social Entrepreneurship	USA
Georgetown University	Beeck Centre for Social Impact and Innovation	USA
Harvard University	IRI: The Initiative for Responsible Investment	USA
Heidelberg University	CSI: The Centre for Social Investment	Germany
University of New South Wales, Swinburne University of Technology, The University of Western Australia	Centre for Social Impact	Australia
University of Pennsylvania	Wharton Social Impact Initiative	USA

Impact Investing Research Themes



Thank you!

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