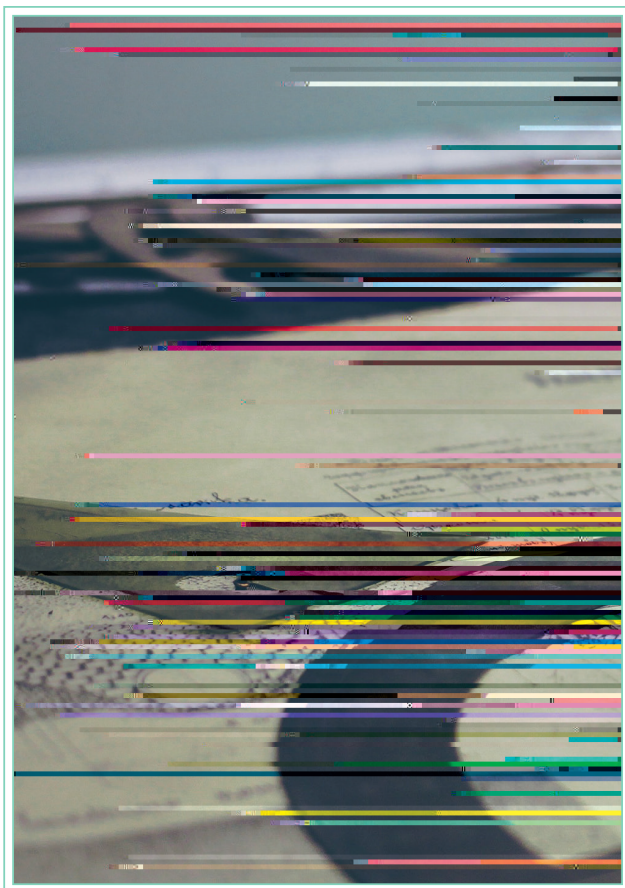


# IMPACT INVESTING

An Introduction



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This guide is part of Rockefeller Philanthropy Advisors' Philanthropy Roadmap series, and acts as an introduction to impact investing. To begin developing and implementing your impact investing strategy,

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Impact investments are defined as investments made into companies, organizations, and funds with the intention to generate social or environmental impact alongside a financial return.

While this definition leaves room for a broad set of investments, two

Some strategies emphasize financial return while still seeking to benefit society. Other approaches put social impact first, accepting returns that vary from below-market rate to a simple repayment of principal.

Finding one's place along the spectrum is a key consideration for any impact investor. At the far right, one motivated primarily by social impact might make a low interest loan or recoverable grant to a charity. At the other end, a financially driven approach might lead to an equity investment in a public company based on its integration of corporate social responsibility (CSR).

# Why Does Impact Investing Matter?

Regardless of where one lands on the spectrum, impact investing provides a tool for achieving social good with a wider array of assets than traditional philanthropy. Private foundations in the U.S., for example, can achieve social good with not only their 5% required annual payout, but also with the 95% endowment corpus that remains invested. To put this in perspective, U.S. foundations make annual grants totaling \$60 billion, while holding assets totaling \$865 billion.

For over a century,  
the field of impact investing:  
has been characterized by:  
a lack of standardization:  
and a focus on impact measurement.

# Where is Impact Investing Going?

As individuals and organizations seek new ways to tackle the problems that matter to them, market-based approaches are becoming better understood and more widely practiced.

Here are some key indicators of impact investing's growing influence:

## MARKET SIZE & GROWTH

From the US SIF Foundation's 2016 Report, assets under management that incorporate ESG considerations totaled \$8.72 trillion—a 33% increase over 2014. These assets now account for more than one out of every five dollars under professional management in the United States.

## FOUNDATION INTEGRATION

In addition to the use of program-related investments (PRIs), foundations are beginning to invest endowment money for impact as well as financial growth. Many of the world's largest foundations have pledged a significant portion of their endowments towards impact investing, with the Ford Foundation's \$1 billion commitment being the largest to date.

## GOING MAINSTREAM

Surveys of high-net-worth households indicate that achieving social impact is important to over 90% of respondents with interest set to grow as the millennial generation engages as philanthropists, creating conditions for more experimentation and innovation. Furthermore, 2017 GIIN Survey respondents saw progress in key indicators of industry

growth, such as the availability of qualified professionals, data on products and performance, and high-quality investment opportunities.

## INSTITUTIONAL INTEREST

Impact investing has caught the attention of institutional investors, driven by client interest. BlackRock, Goldman Sachs, Bain Capital, and TPG are just a few that have taken significant steps to integrate impact investing into their asset management offerings. Moreover, across the financial industry the number of SRI (socially responsible investing) mutual fund and ETF offerings has grown rapidly over the past few years. MSCI and Morningstar—leading providers of independent investment research—have also released ESG indices and ratings to inform investment decisions.

## GOVERNMENT INVOLVEMENT

Policymakers and government entities have also shown increased interest. At the national level, the U.S. National Advisory Board on Impact Investing provides a framework for federal policy action in support of impact investing. [ipfdnnnnnd621 \(.\)-2G.4 \(n5.1 \(v\)9f i\)3.2\(b.3 \(r\)2.39.](#)

## COMPETITIVE INVESTMENT RETURNS

Numerous studies now point to the competitive nature of impact investment financial returns. For example, a report by Cambridge Associates & GIIN shows that impact investment funds launched between 1998 and 2004—those that are largely realized (converted to cash)—have outperformed funds in a comparable fund universe.

## TAXONOMY & IMPACT MEASUREMENT

As impact investing gains traction among a wider range of investors, efforts to codify impact measurement have been amplified. A number of relevant frameworks now exist, an example of which is the Impact Reporting and Investment Standards (IRIS)—an early taxonomy providing the foundation for impact measurement. New accounting standards are also in development by the Sustainable Accounting Standards Board (SASB) to track social metrics in public companies.

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## Impact Investing

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Donors and investors say they are attracted to impact investing for a variety of reasons, including:

## RETURN ON INVESTMENT

In general, an impact investor can reinvest the same money in a series of socially beneficial projects or organizations. Even a simple return of principal creates philanthropic leverage unattainable





which helped with home repair or title adjudication. Elizabeth also became engaged with CU on a personal level, gaining a deep understanding of their work. After plans for redeveloping the colonias materialized, she met with CU's executive team and asked them what would really help push their work forward. Their answer: being able to control tracts of land and build aordable housing, which was clearly an expensive endeavor. CU brought up the idea of a loan. At rst, the possibilities were unclear as Elizabeth wasn't sure if she could make



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HARNESSING MARKETS TO SCALE CHANGE  
OMIDYAR NETWORK

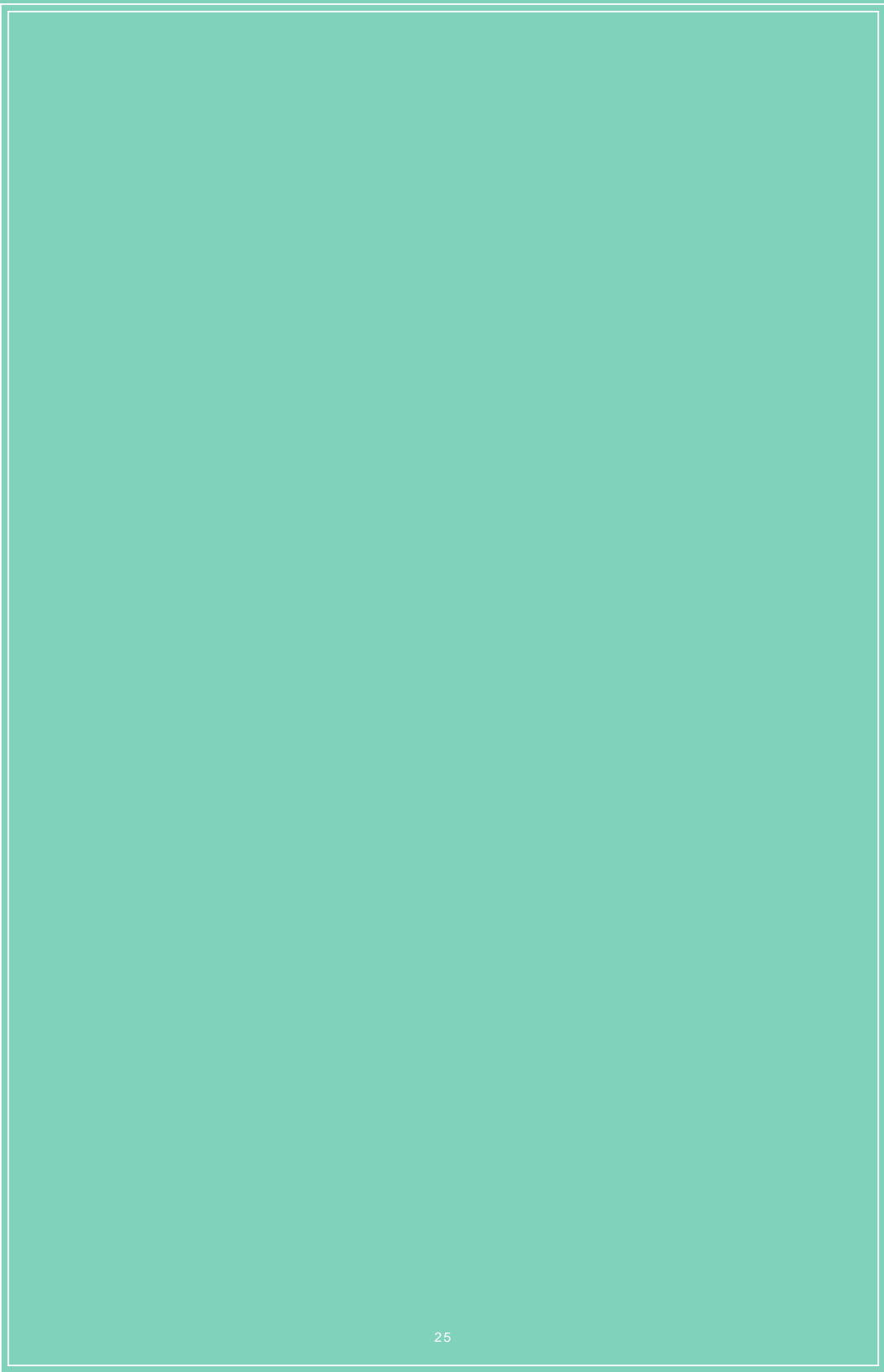
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**P**ierre Omidyar, founder  
of eBay, and his wife

# Is Impact Investing a

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Whether impact investing is a strategy you should consider will depend on your values and goals, and on how well you understand the opportunities before you. Impact investing can be daunting



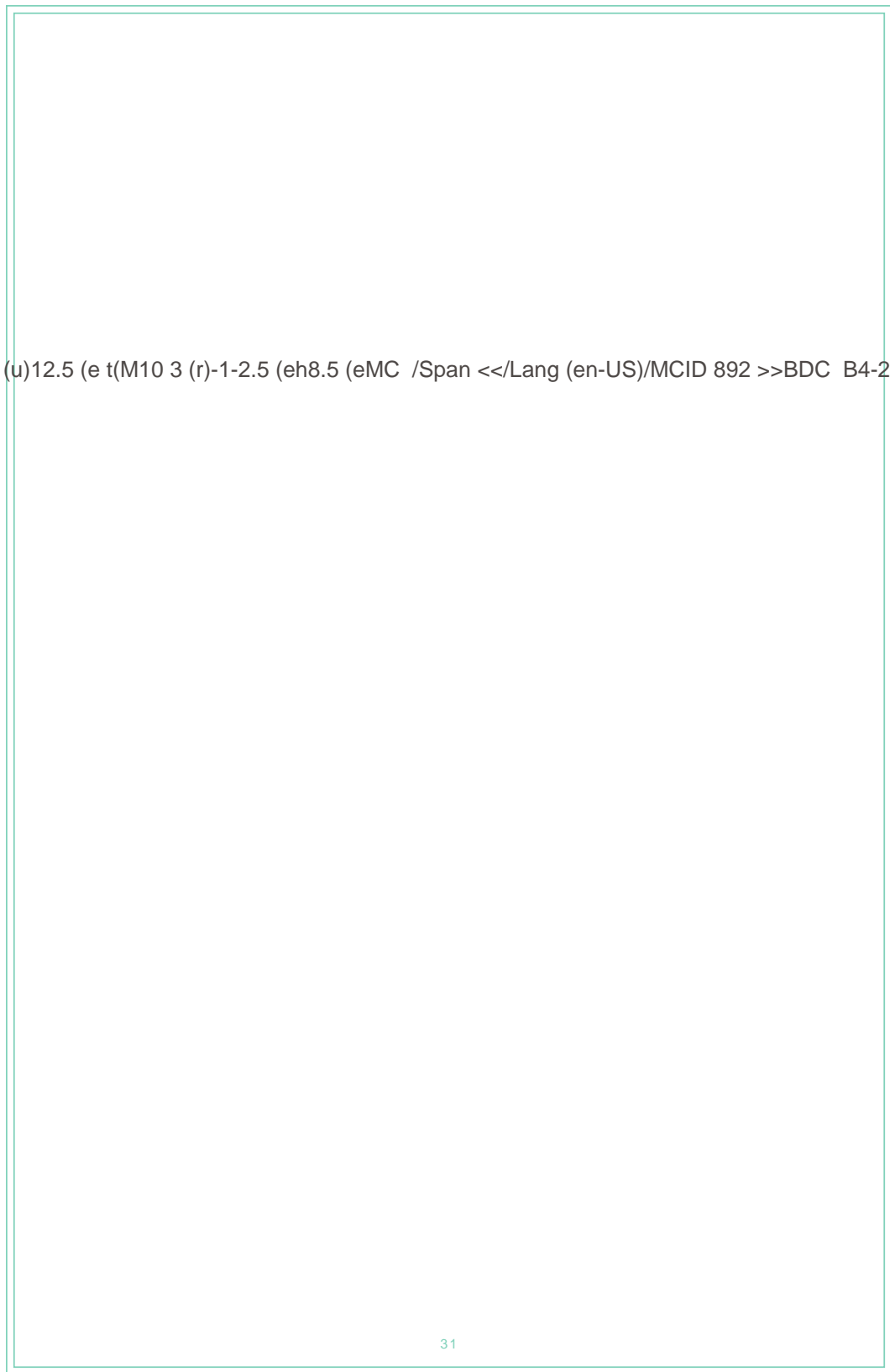






Investment  
designed to result in positive social or environmental benefits  
while generating financial returns that are comparable to similar  
conventional instruments.

Investments from  
a foundation's endowment that seek to achieve specific goals  
to advance the foundation's mission while targeting market



## ENDNOTES

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