

IMPACT INVESTING ASSET OWNER TREND REPORT



PHENIX
CAPITAL

Phenix Capital • 2 April 2019



Content

Executive Summary	2
Impact Investor Survey Universe	3
Investor type	3
Assets under management of organisation	3
Size of mandate and allocation	3
Geography of survey respondents	4
Impact Investing: The New Fiduciary Duty?	5
Fiduciary duty	5
Impact mandate	5
Impact allocation in % of total AUM	5
Organisation of impact team	6
Expectation for target allocation size over the next three years	6
Impact Investing & Geography	7
Geographical breakdown of mandates	7
Increase in allocation to the SDGs	8
Return Expectations & Measurement	9
Return and Risk/Return Profile of impact mandate (compared to the rest of the portfolio)	9
Impact Performance Measurement	9
Asset Class Preferences	10
Increase in Investment in various asset classes	10
Increase in investment in various asset classes by investor type	10
Blended finance integral to the toolkit.	11
Challenges to executing an impact investing mandate.	11
Conclusion	12
About Phenix	13

Executive Summary

“Investments made with the intention to generate positive, measurable social and environmental impact alongside a competitive financial market return” (GIIN)

To mark the 5th anniversary of Impact Summit Europe, we conducted a survey of asset owners and institutional investors—64 responded in total—to gain clarity on their impact investment mandates.

The overall sample may seem small in total number of investors surveyed, but collectively the institutions interviewed represent more than €9 trillion in assets under management.

The universe, many with an existing impact investing programme, or developing one, make up a significant portion of the impact and Sustainable Development Goals investing industry as whole.

The goal is to provide a current picture of the industry highlighting investors’ goals and their main challenges and create a base for mapping out Impact Investing Asset Owner Trends on an ongoing basis.

The highlights of the survey are:

A majority of asset owners interviewed believe that **achieving a positive environmental and societal impact is integral to their fiduciary duty.**

Almost two-thirds of the survey’s respondents report, or expect, the return on the impact mandate to be in line with that of the general portfolio, although 27% reports or expects higher returns.

Mandates are diverse by geography, asset classes and themes, but **the environment is of primary concern.** In aggregate investors plan to add to Good health and well-being

(SDG 3), Affordable and Clean Energy (SDG 7), and Climate Action (SDG 13).

Particularly for larger portfolios, the **lack of opportunity, liquidity and execution** are among the biggest challenges reported by impact investors.

Other challenges include sourcing and analysing impact managers and scepticism around impact, with **concerns on green-washing and measuring impact.**

Different types of investors have different investment requirements: pension funds and insurance companies want to increase their allocations to private market and public debt; while wealth managers and banks currently plan to increase allocation to public markets (equity and debt).

Knowing what is required to shift the dial, as highlighted in this report, is one of the key next steps to collaborating to create solutions to solve the problems.

One way is to learn is from the 33% of institutional investors that have 10% or more allocated.

Phenix Capital set up Impact Summit Europe five years ago to support investors on their impact investing journey and at the same time help to solve the SDG funding gap.

“Our mission is to catalyse and mobilise \$800 billion over the next seven years for the SDGs and this mission drives everything we do,” says Sophie Robé, Founder & Co-CEO, Phenix Capital.

IMPACT INVESTOR SURVEY UNIVERSE

A diverse group of investors, majority European, with a focus on impact and SDG

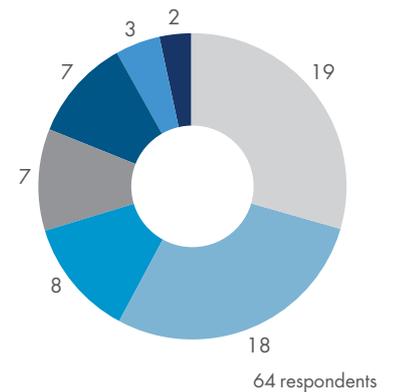
To mark the 5th anniversary of Impact Summit Europe, we conducted a survey of asset owners and institutional investors—64 responded in total—to gain clarity on their impact investment mandates.

The 64 institutions interviewed are asset owners with an interest in impact investing or a desire to create a specific investment mandate to generate a positive environmental and societal impact next to their ability to deliver financial return to their beneficiaries and clients.

The following graphs are the universe by investor type, assets under management, geography and size of mandate and allocation.

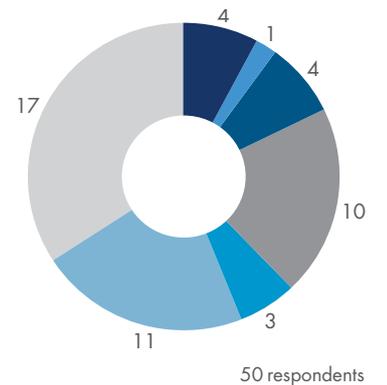
Investor type

The survey universe represents a diverse set of institutions including banks, wealth managers, pension funds and their fiduciary managers, insurance companies, family offices, foundations, endowments, and development finance institutions.



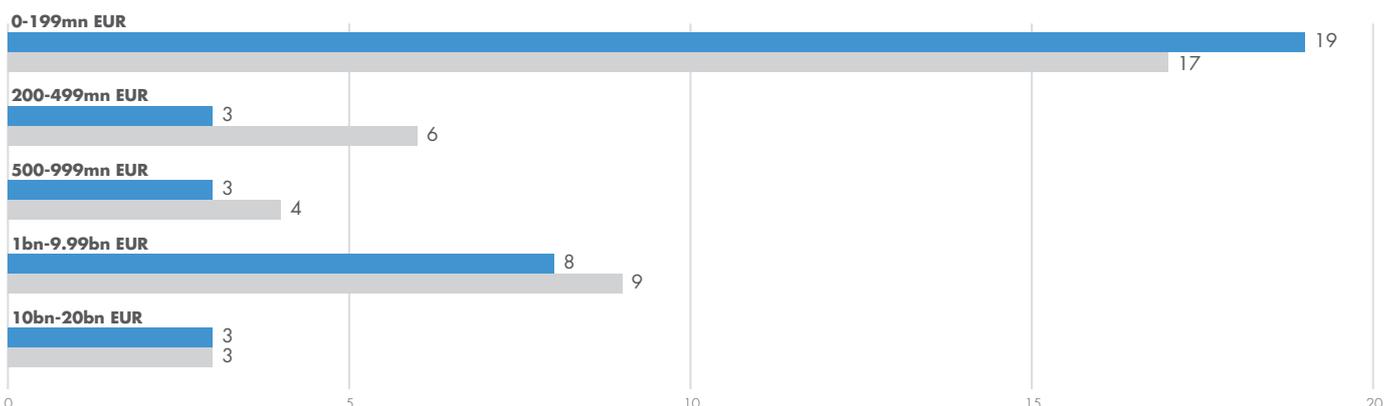
Assets under management of organisation

The investors surveyed collectively manage more than €9 trillion. More than half represent larger institutions with over €20 billion in assets under management.



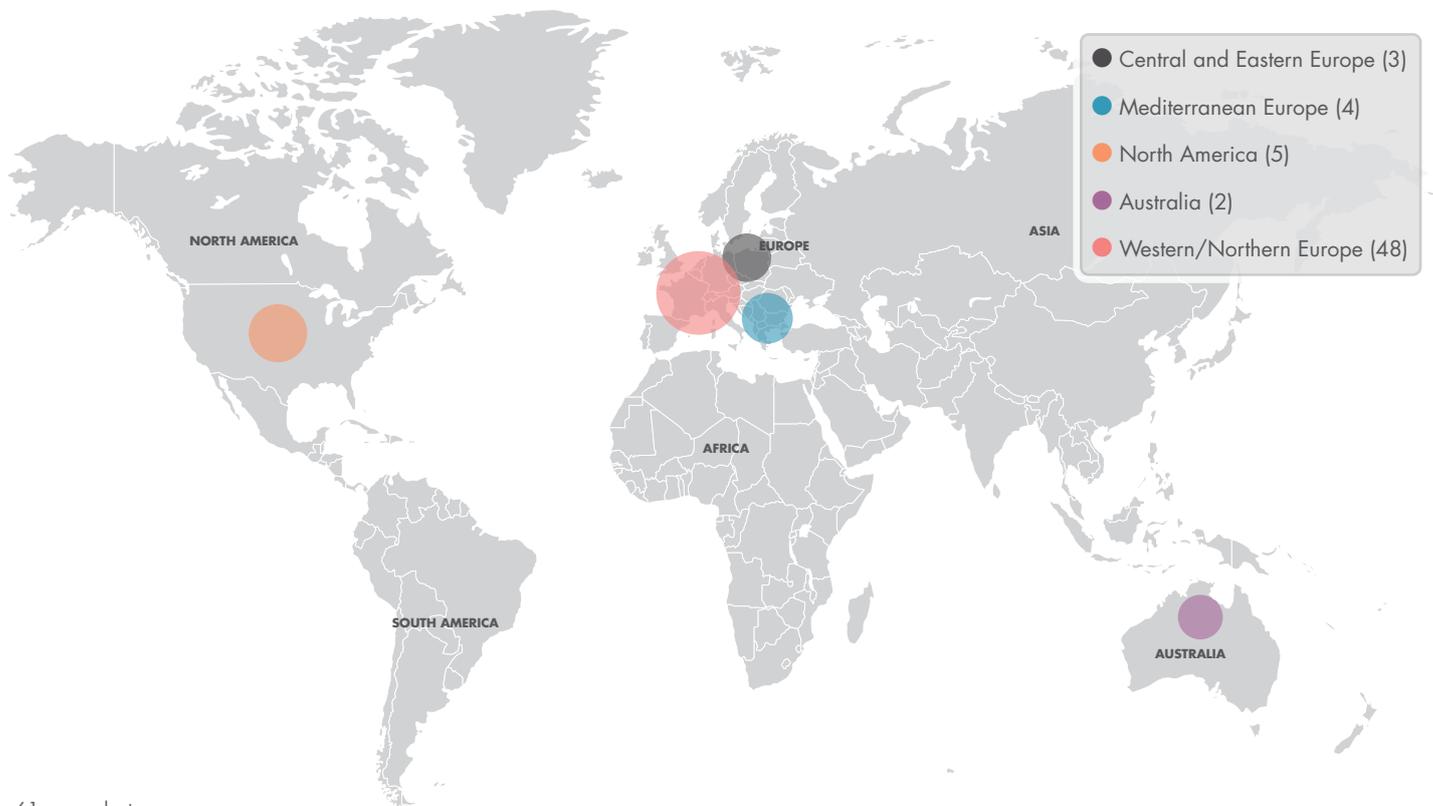
Size of mandate and allocation

Despite many impact portfolio still representing only a small part of an investor's total allocation, individual portfolios range in size from €10 million to \$20 billion. The majority of investors in this inaugural survey currently have an impact mandate size of under €200 million.



Geography of survey respondents

Due to the geographical bias of the annual Impact Summit Europe, the majority of investors interviewed (65%) are head quartered in Europe.



IMPACT INVESTING: THE NEW FIDUCIARY DUTY?

“We see it as our fiduciary duty to generate societal benefits with our (impact) investments”

– Karlijn van Lierop, Head Responsible Investment and Governance, MN

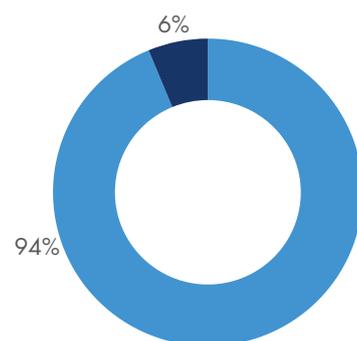
Historically, many investors’ fiduciary duty precluded them from allocating to anything that did not put returns first. At the same time as the SDGs were launched, the PRI, UNEP FI, UNEP Inquiry and UN Global Compact published the report *Fiduciary Duty in the 21st Century* that concluded that “Failing to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty”.

Fiduciary duty

Question: Do you believe generating impact is part of your fiduciary duty?

Not surprisingly, considering the target group of participants to Impact Summit Europe, a vast majority (more than 90%) believe a positive impact to be part of their fiduciary duty. Accepting that making a positive impact is now increasingly seen as part of an investor’s fiduciary duty, the respondents were asked whether or not they had an impact mandate; size of the impact mandate; how their impact investing team is organised and if the target allocation would change over the next three years.

■ Yes ■ No



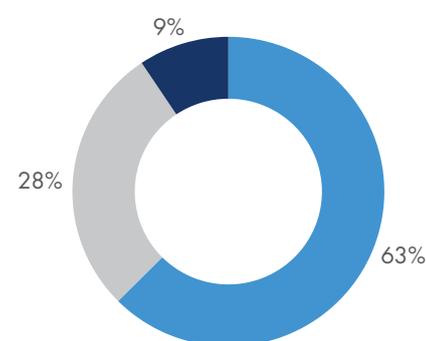
64 respondents

Impact mandate

Question: Do you have an impact mandate?

Almost two-thirds of respondents have a mandate to generate positive impact, and those that do not yet have a mandate are developing one. Only a small number currently have no allocations planned. For those with an impact mandate (or clarity on the development of one), the sizes of the mandate range between €10 million and €20 billion with a majority in the €0-€200 million range.

■ Yes ■ No ■ Currently Developing

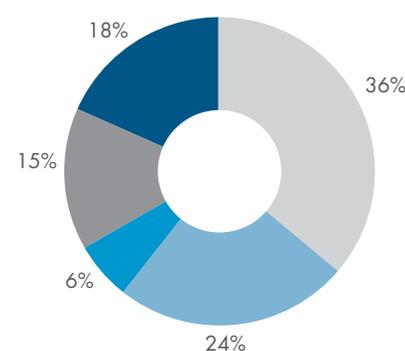


64 respondents

Impact allocation in % of total AUM

More than half of those investors that responded have an impact allocation in place. Of this group of 33 respondents: 36% have less than 1% allocated; 24% have less than 5%; 15% have between 5% and 19.99%; and 18% have more than 20% allocated to impact investments.

■ Under 1% ■ 1 - 4,99% ■ 5 - 9,99% ■ 10 - 19,99% ■ 20% and plus



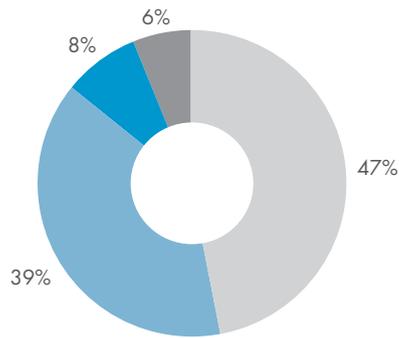
33 respondents

Organisation of impact team

Question: **How is/will your impact team be organised?**

One of the key issues in entering this space is resources. Can an existing team take on the duties or are additional resources required? There are different ways to implement an impact mandate in a portfolio.

There were 64 respondents to this survey. The group is split between those that use their regular and mainstream resources for both impact and traditional investments, and those with a dedicated impact investing team.



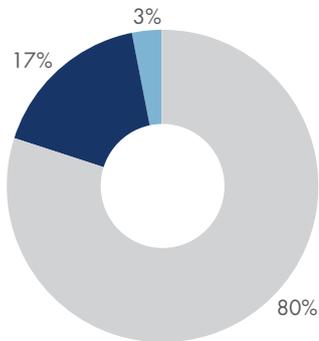
64 respondents

■ Cross-functional ■ Dedicated impact team ■ No team ■ Not sure yet

Expectation for target allocation size over the next three years

Question: **How do you expect your target allocation size to change in the next three years?**

A vast majority of respondents (almost 80%) expect to increase the target allocation over the next three years.



64 respondents

■ Increase ■ Remain similar ■ No allocation planned

IMPACT INVESTING & GEOGRAPHY

Impact investing can be looked at through a number of lenses: geographically and thematically. A larger number of investors are starting to adopt the UN's Sustainable Development Goals as a framework for their investment in impact.

The Sustainable Development Goals

“SDGs are critical to the world economic growth. Investors – whether impact or not – need to think about the SDGs” – Ruth Horowitz, Chief Operating Officer, IFC

In 2015, all of the United Nations Member states adopted the 2030 Agenda for Sustainable Development. The agenda is a blueprint for peace and prosperity for people and the planet, now and into the future.

At its heart are 17 Sustainable Development Goals also referred to as the SDGs or the Global Goals, which are an urgent call for action by all countries to work together to end poverty and other deprivations.

But the goals are more than just a call to action, they also provide a ‘thematic’ framework for the allocation of public and private resources. It is estimated that the SDG funding gap requires new investments of \$2.5 trillion annually.

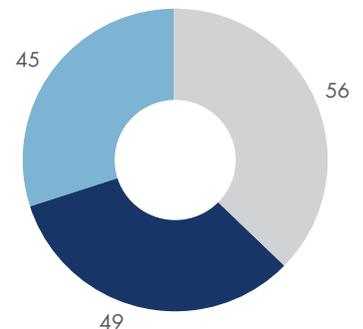
Addressing the SDGs could open up economic opportunities worth up to \$12 trillion by 2030, making them the ideal thematic framework for institutional investors with an impact mandate.

Geographical breakdown of mandates

Question: **Which regions does your mandate allow you to invest in?**

Geographically, investors allocate or plan to allocate equally to developed markets, emerging markets, and locally in the home country.

■ Developed markets ■ Developing/frontier markets ■ Local/home country

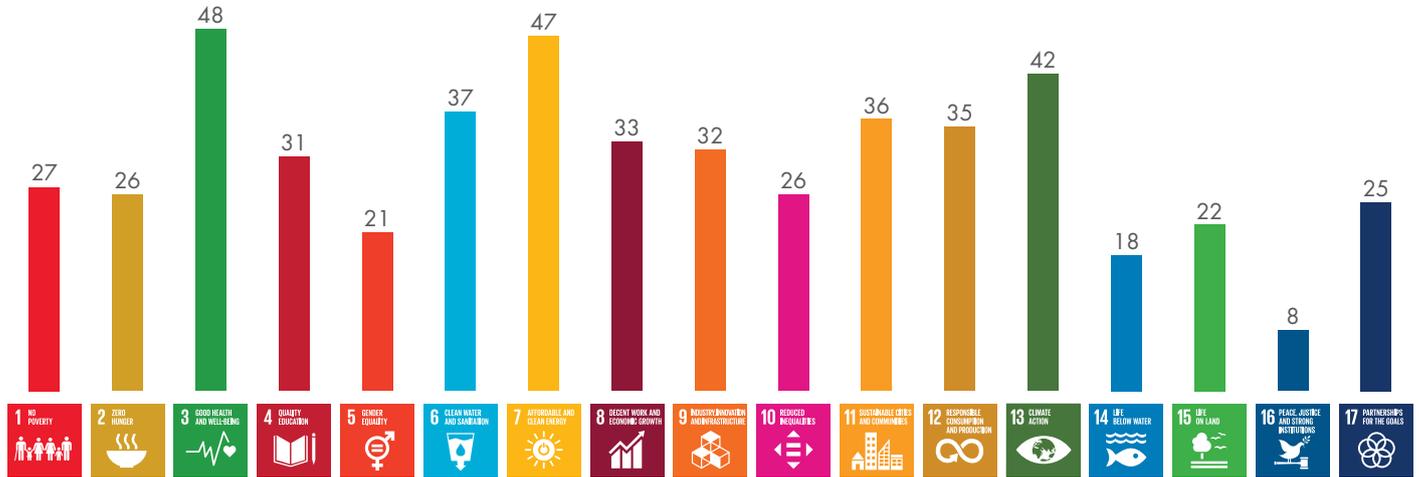


64 respondents
(multiple answers possible)

Increase in allocation to the SDGs

Increased investments in the SDGs

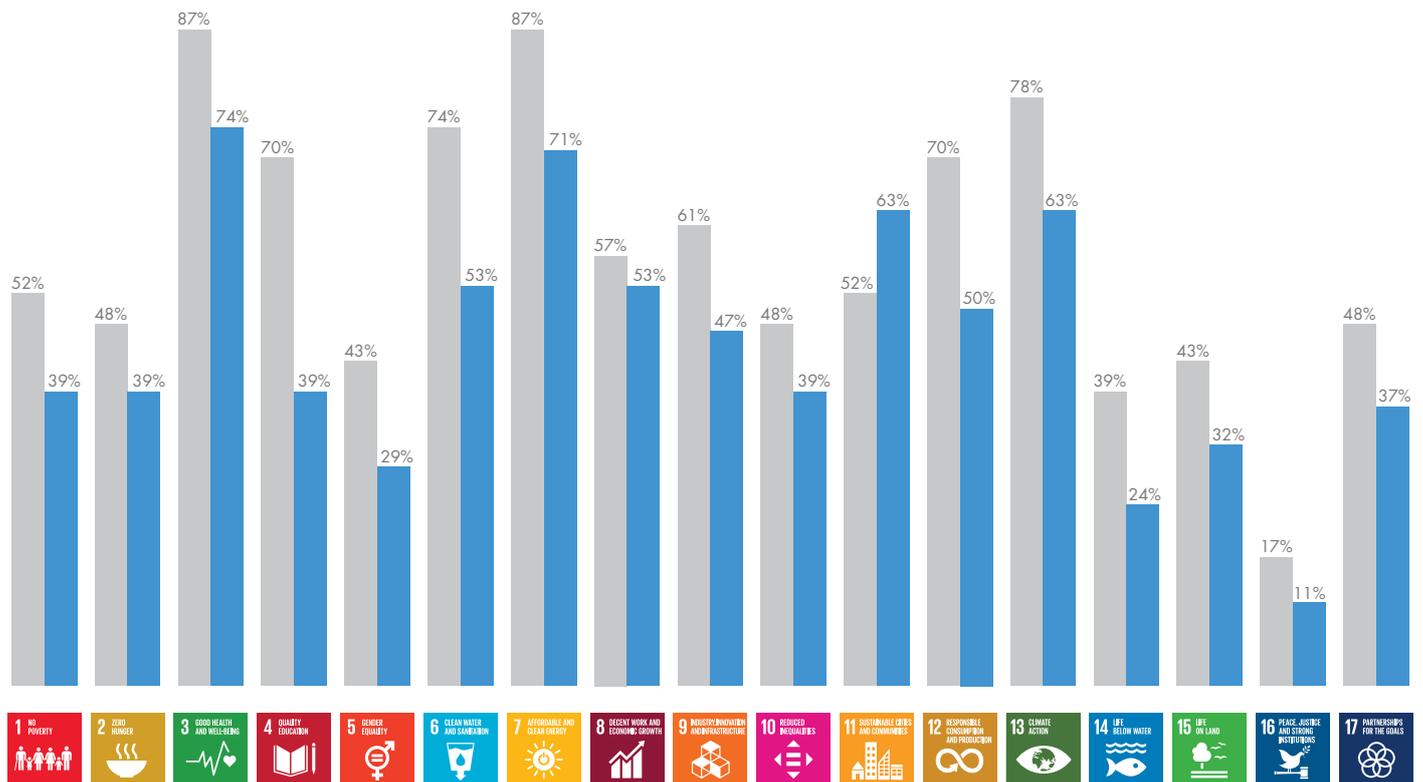
In terms of Sustainable Development Goals (SDGs), 61 investors responded to the survey that they are planning to increase allocations to Good health and well-being (SDG 3), Affordable and Clean Energy (SDG 7), and Climate Action (SDG 13). Clean Water and Sanitation (SDG 6), Sustainable Cities and Communities (SDG 11), and Responsible Consumption and Production (SDG 12) are also high on the preference list, highlighting how environmental issues are at the forefront of investors' minds. This is in line with our expectations considering a heightened awareness for environmental issues in Europe.



61 respondents (multiple answers possible)

Increase in allocation to the SDGs by investor type

When compared with foundations, pension funds, and insurance companies (which we consider separately here as they tend to represent longer term pools of capital), banks, wealth managers and high-net worth individuals (lumped together as they can be more opportunistic) plan to add more to a majority of the SDGs. For both groups the "least popular" – as it is considered the least investable – is SDG 16 (Peace, Justice, and Strong Institutions).



■ Banks, Wealth Managers, Family Offices, and HNWI

■ DFIs, Foundations, Pension Funds, and Insurances

61 respondents (multiple answers possible)

RETURN EXPECTATIONS & MEASUREMENT

Unlike many of the other form of socially responsible investing, the Global Impact Investing Network (GIIN) definition states that impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a competitive financial market return.

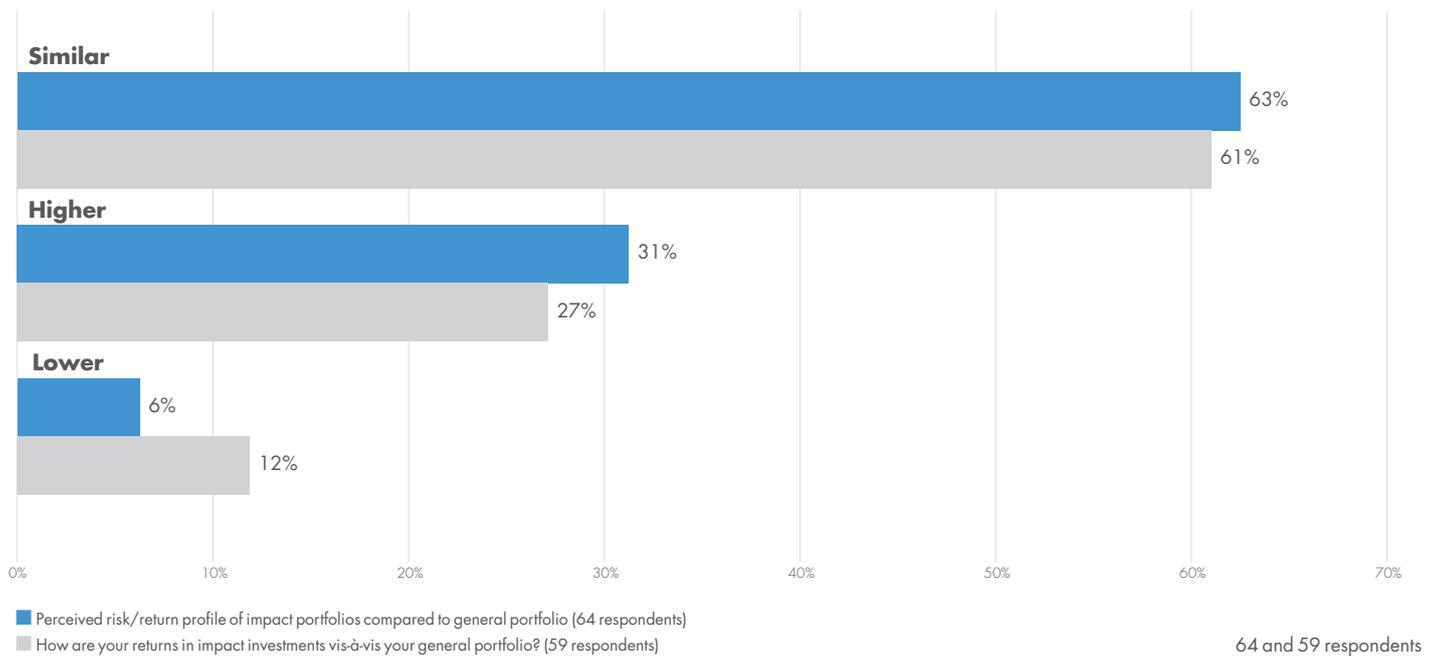
“It is no longer acceptable to produce returns for clients at any cost to society, says Dirk Meuleman, Co-CEO, Phenix Capital. For this reason, the survey looked at investor expectations for risk and return, and how performance is currently being measured. Standardisation of impact and performance measurement is imperative for the market to mature.

Return and risk/return profile of impact mandate (compared to the rest of the portfolio)

Almost two-thirds of the survey’s respondents report, or expect, the return on the impact mandate to be in line with that of the general portfolio, although 27% reports or expects higher returns.

At the same time, a majority views the risk/return profile of the impact mandate as similar to that of their general portfolio, or higher (31%).

Of those who responded to both questions, almost half tends to view both return and risk-adjusted return as similar to that of the rest of the portfolio.

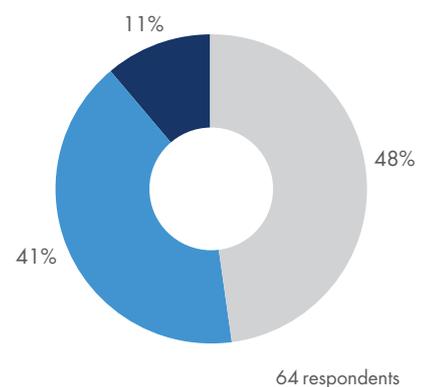


Impact performance measurement

Question: How do you measure/plan to measure impact performance?

Only a relatively small minority does not measure impact (11%), those that do (89%) use either a mix of proprietary metrics (41%) or standard frameworks such as IRIS, GIIRS, or Impact Management Project (48%).

- Through standard frameworks (e.g. IRIS, GIIRS, IMP etc.)
- Through proprietary metrics not aligned to external frameworks
- I do not/will not measure impact performance



ASSET CLASS PREFERENCES

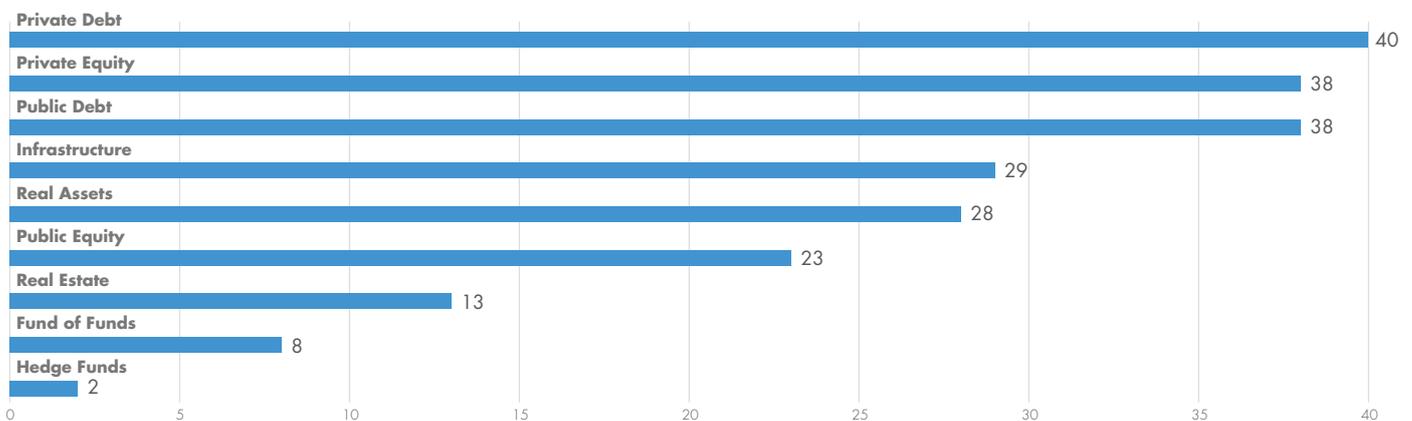
If the GIIN's *Roadmap for the Future of Impact Investing: Reshaping Financial Markets* is to become the future face of finance, then impact investing has to be the way to invest.

For this reason, expanding the range of instruments that both provide a social or an environmental impact as well as a return, is essential both across the private and public markets.

Survey respondents were asked where their increased impact allocations would be made; what their asset preference is; and the likelihood of considering blended finance.

Increase in investment in various asset classes

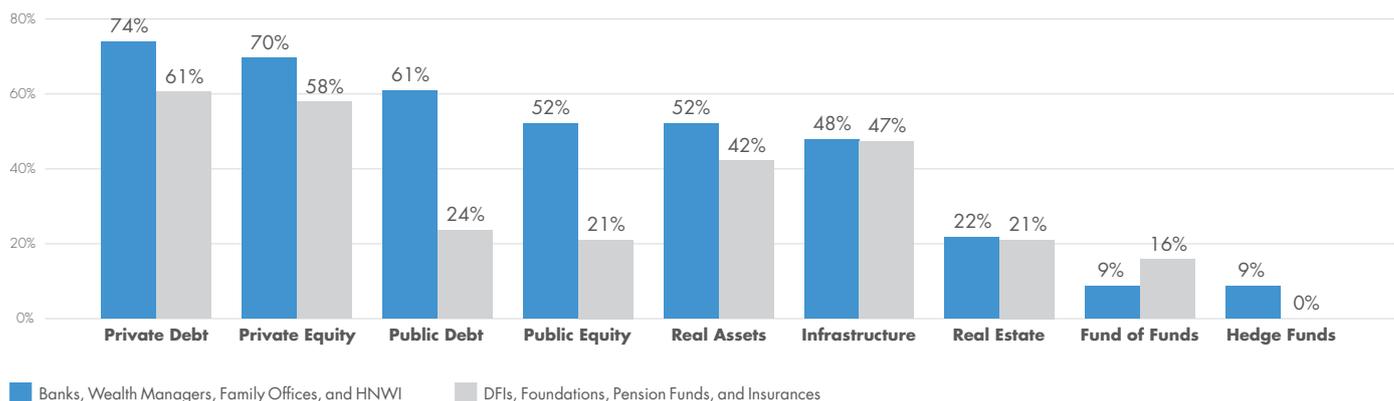
Looking at the answers of the 61 respondents to this question, it is clear that investors plan to add to private investments and particularly private debt, private equity, and infrastructure. In liquid investments public debt is the most often cited asset class.



61 respondents

Increase in investment in various asset classes by investor type

The increase in impact investment in public equity and public debt is mostly by banks and wealth managers (less significant for pension and insurance).

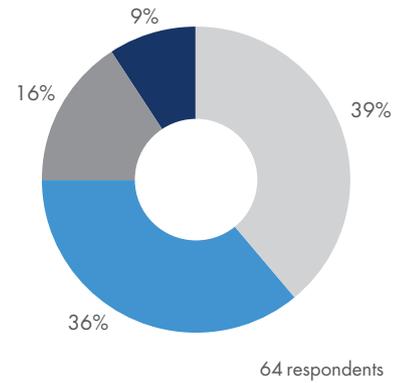


61 respondents

Blended finance integral to the toolkit

A vast majority of respondents has invested or considers investing in blended finance, where 'concessionary' capital, in the form of public or philanthropic funds helps to attract private capital.

■ Consider to invest ■ Currently invested ■ What is blended finance? ■ No



Challenges to executing an impact investing mandate

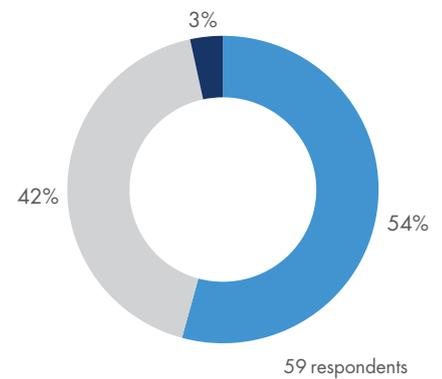
Question: How do you rate the quality of the deal flow you have experienced in impact investing?

Deal flow, execution and education among the biggest challenges.

More than half of respondents believe that the deal flow in impact investments is not satisfactory.

Challenges often cited include the following:

- Lack of opportunity / size of market
 - Opportunities not sufficiently large especially for the larger investors
 - Insufficient quantity of good funds
- Execution: sourcing and evaluation
 - Sourcing impact funds with the right risk and return characteristics
 - Finding opportunities related to specific themes of interest
 - Conducting due diligence on impact funds
- Lack of education, disagreements between stakeholders
 - Stakeholders/clients have different views
 - Divergent views between generations of stakeholders (with the younger generations of investors keener to generate a positive impact with the investment portfolio)
 - Some maintain the view that impact must be below market return
- Scepticism and question marks regarding impact investing
 - Concerns around greenwashing
 - Lack of standards in impact measurement
 - Short track records and a view that impact investing still has to mature



■ Insufficient
■ Satisfactory
■ Abundant

Conclusion

There is no doubt that impact investing has reached a tipping point; the theme of the 5th annual Impact Investing Summit. The impact investing sector is maturing, as evidenced by increasing allocations and greater diversity in impact mandates.

Beyond the asset owners interviewed, there is anecdotal evidence based on the delegates at Impact Summit Europe, over the last five years, that there is an increase in the number of investors with an impact investing mandate or developing one.

In terms of geographic investment focus, attention is spread almost equally between emerging /frontier and developed market. Some investors even want opportunities to generate 'local' impact.

Environmental issues – climate in particular – remain a key concern, although other topics and themes are being explored. The instruments utilised are becoming more diverse, with investors considering a broad set of private and liquid asset classes.

Among this group of experienced impact investors, blended finance seems to be now an integral part of the toolkit.

Interestingly, a majority of impact investors have realised or expect returns in line with those of the rest of their portfolios, albeit at times with higher risk.

Despite this, concerns remain on the viability of impact investing, in terms of liquidity, particularly for larger investors, and the ability to execute on investment strategies.

There are still questions on benchmarks, impact measurements, and standards required to bring this nascent market to maturity. But one of the key drivers is the United Nation's 2015 call to action: "Transforming our world: the 2030 Agenda for Sustainable Development".

The trillions of dollars required to finance the SDGs needs to come from both the public and private sector, supporting development aid.

"We need to cooperate to find ways to overcome hurdles to see the capital go to where it is needed the most," says Dirk Meuleman, Co-CEO, Phenix Capital.

With Impact Summit Europe and other activities, Phenix Capital aims to continue to provide education, practical solutions, and answers to the many questions that still surround impact investments.

As Piet Klop, Senior Advisor Responsible Investment, PGGM, one of Impact Summit Europe's strategic partners says: **"Impact Summit provides clarity on what impact means to different kinds of investors, including institutional investors."**





PHENIX C A P I T A L

About Phenix Capital

Our vision is to help to end poverty, protect the planet and ensure prosperity for all by aligning institutional capital to the United Nations Sustainable Development Goals (SDGs).

Our mission is to catalyze 5% of assets from institutional investors and asset owners to direct at least \$800 billion towards closing the SDG financing gap.

Phenix Capital assists investors such as pension funds, insurance companies, endowments, wealth managers, family offices, foundations and religious institutions by turning their investment beliefs into tangible impact investment solutions across all asset classes and markets that target a competitive financial return, and simultaneously, contribute to a better world.

Consulting

Phenix Capital provides impact investment strategy consultancy services for institutional investors and asset owners in the following areas:

- integrating impact investments into a traditional investment mandate
- framing an impact investment policy statement
- developing impact criteria
- sourcing scalable impact strategies and structuring an impact portfolio
- performing impact due diligence on fund managers
- defining impact measurement, reporting, monitoring and review processes.

Impact Fund Database

Phenix Capital is launching Global Impact Platform, an impact fund database for institutional investors.

Global Impact Platform will provide access to a curated universe of investment funds that have a clear proposition to generate positive impact, alongside targeting competitive financial returns.

Events & Community

Phenix Capital convenes events for institutional investors and asset owners throughout the year with the aim to build a global impact investing community. By providing an educational platform that facilitates meaningful dialogue between thought leaders and practitioners, asset

owners are able to share knowledge, exchange best practices and build lasting relationships. In addition to Impact Summit Europe, the flagship event now in its 5th year, Phenix Capital also hosts Impact Summit America, Impact Summit France and Impact Seminar Series.

Contact Us

Phenix Capital • Barbara Strozilaan 101 • 1083 HN Amsterdam, The Netherlands
Tel: +31 20 240 27 31 • info@phenixcapital.nl

www.phenixcapital.nl



PHENIX
CAPITAL

WWW.PHENIXCAPITAL.NL