Impact Investing in Europe

Extract From European SRI Study 2014

Created with the support of

EUROSIF MEMBER AFFILIATES

AG2R La Mondiale
Amundi Asset Management
Arabesque
Aviva Investors
AXA Investment Managers
Bloomberg LP
BlueOrchard
BNP Paribas Investment Partners
Caisse des Dépots et Consignations
Candriam Investors Group
CM-CIC Asset Management
CSSP- Center for Social and Sustainable Products
Deutsche Asset & Wealth Management
ECP International
Edmond de Rothschild Asset Management
EIRIS
EMG CSR Consultancy
Erste Asset Management
Ethix SRI Advisors AB
Ethos Foundation
Etica Sgr
Federation des Experts Comptables Europeens (FEE)
Foretica
FTSE Group
Fundacion Ecologia y Desarrollo (ECODES)
Generali Investments Europe
Generation Investment Management LLP
Groupama Asset Management
J. Safra Sarasin Group
Henderson Global Investors
Hermes Equity Ownership Services Ltd.
HSBC
INOKS Capital
Inrate AG
Kepler Cheuvreux
KPMG
LGT Capital Management
Meeschaert Gestion Privée
Mercer
MSCI
Natixis Asset Management
Nordea Investment Funds S.A.
Northern Trust Asset Management
Notenstein Private Bank
Novethic
oekom research AG
Oikocredit
Pictet Asset Management S.A.
Pioneer Investments
responsAbility
RobecoSAM AG
Schroders
ShareAction
Sparinvest
Standard Life Investments
Standard & Poor's Indices
Sustainalytics
Sustainable Business Institute
Threadneedle Asset Management
Triodos Bank
Trucost
UBS
Union Investment
Vigeo
2nd Degree Investing

NATIONAL SIFS IN EUROPE

Belsif*, Belgium
Dansif, Denmark
Finsif, Finland
Forum Nachhaltige Geldanlagen* (FNG) e.V., Austria, Germany, Liechtenstein and Switzerland
Forum per la Finanza Sostenibile* (FFS), Italy
Forum pour l'Investissement Responsable* (FIR), France
Norsif, Norway
Spainsif*, Spain
Swesif*, Sweden
UK Sustainable Investment and Finance Association* (UKSIF), UK
Vereniging van Beleggers voor Duurzame Ontwikkling* (VBDO), the Netherlands

* Member of Eurosif

The views in this document do not necessarily represent the views of all Eurosif member affiliates. This publication should not be taken as financial advice or seen as an endorsement of any particular company, organisation or individual. While we have sought to ensure that this information is correct at time of print, Eurosif does not accept liability for any errors.

© Eurosif A.I.S.B.L.
All rights reserved. It is not permitted to reproduce this content (electronic, photocopy or other means) without the explicit and written permission of Eurosif.

Impact Investing in Europe

In recent years, Impact investing has gained significant attention from policy-makers and investors. It was a topic for the first time at the World Economic Forum Annual Meeting 2013 in Davos, Switzerland, and in June 2013, the UK hosted the first G8 Social Impact Investment Forum, the first event to use the G8 platform to discuss social investment.

Eurosif initially attempted to measure the European Impact investing market in its 2012 edition of the present study. The current edition draws upon the work carried out previously and expands it. This year, Eurosif and its member SIFs have surveyed their traditional network of industry participants while expanding the coverage of the survey to local organisations specifically identified as impact investors.

WHAT MAKES IMPACT INVESTING SPECIFIC?

Impact investing is a term coined in 2007 at the Bellagio Summit convened by the Rockefeller Foundation in the U.S. Since then, the term has gained acceptance on both sides of the Atlantic. Increasingly, the term is synonymous to 'social investments' (while some investment categories may not be directly seen as 'social,' they all ultimately aim at improving socio-economic, social or environmental conditions), especially in Europe.

Impact investing spans a large range of 'social' issues and themes that can broadly be classified into two categories:

- Social integration, be it about access to affordable housing, health, finance, education, personal care or employability, to name a few examples. Microfinance would fall under this category;
- Sustainability-related projects in the field of production and access to, for instance, renewable energy, food, water, sustainable agriculture. This category is heavily focused on developing markets.

With growing light shed on this 'strategy', confusion has sometimes arisen between Impact investing and Sustainable and Responsible Investment (SRI). Impact investing has been presented as the next phase of SRI (SRI 2.0) by some market commentators. Impact investing has also been presented as a new asset class by others. These representations are misleading.

In fact, Impact investing is an umbrella term that transcends several asset classes (e.g. fixed income, equity) and is another distinct way to channel funding to social organisations or enterprises that seek to tackle specific social challenges through market mechanisms.

Alternative funding for these enterprises would come from philanthropy, public money and more recently, crowd funding. While grants (philanthropy) are not technically Impact investing (no expectation of a financial return), they can and do play an important role for funding social enterprises, especially in their incubation and early development phase. Public support continues to be also very important for the development of the social enterprise market.

What is clear is that Impact investors seek to generate both a financial return (to various extents) alongside a social one (social impact). Impact investors are socially motivated (Paul Brest & Kelly Born, 2013[1]). As such, Eurosif legitimately considers that Impact investing as 'just' another way to implement an SRI strategy, being aware that it has its own ecosystem and challenges at the same time.

Impact investing does, however, exhibit a few distinct features from other, more traditional SRI strategies. The table below displays definitions provided by various organisations that have performed recent work around Impact investing and provides a list of what these organisations perceive to be key characteristics of Impact investing.

TABLE 1: Definitions and Key Characteristics of Impact Investing

Source	Definition	Key Characteristics
OECD[2]	Social investment is the provision of finance to organisations with the explicit expectation of a social, as well as financial, return.	• Involves private investment that contributes to the public benefit; • Explicit social dimension; • Hybrid funding involving private investment that contributes to the public benefit; • Financial goals can range from capital preservation to a market rate of return.
Global Impact Investing Network (GIIN)[3]	Impact investments are investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.	• Intentionality - The intent of the investor to generate social and/or environmental impact through investments is an essential component of Impact investing; • Investment with return expectations - Impact investments are expected to generate a financial return on capital and, at a minimum, a return of capital; • Range of return expectations and asset classes – Impact investments generate returns that range from below market to risk-adjusted market rate. Impact investments can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital and private equity; • Impact measurement - A hallmark of Impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments.
World Economic Forum (WEF)[4]	• Impact investing is an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured; • It does intentionally and explicitly set out to deliver the dual objective of social/environmental outcomes and financial returns (which may be below market, at market or above market).	• An investment approach and not an asset class (a criterion by which investments are made across asset classes); • Intentionality matters. Investments that are motivated by the intention to create a social or environmental good are Impact investments. • Outcomes, including both the financial return and the social and environmental impact, are actively measured; • Impact investing is unique in that the investor may be willing to accept a lower financial return in exchange for achievement of a social outcome; • Covers all investments that intentionally seek to create measurable social or environmental value, regardless of the stage of maturity of the enterprise.
European Commission[5]	• European Social Enterprise Funds (EuSEF) are funds (undertakings) investing at least 70% of raised capital in social businesses.	• Social businesses are businesses whose primary objective is the achievement of measurable, positive social impacts (art. 3(d)ii); • Procedures to measure the social impact investee businesses have committed to must be in place together with specific indicators (art. 10); • Investors must be informed about targeted and actual social impacts and the measurement methodologies used (art. 14d).
IESE research project [6]	• Any profit-seeking investment activity that intentionally generates measurable benefits for society.	• Correlation between impact and financial return: the financial return drivers of the funded business model cannot be dissociated from impact objectives; • Social impact must be intentional; • Social impact must be measurable; • It needs to generate positive benefits for society.

Source: Eurosif

Some of the key characteristics mentioned by the different sources can delineate Impact investing from other forms of SRI, but not all of them. For instance, the intention to create an impact (e.g. social, environmental) does not represent an absolute distinct feature of Impact investing since many other SRI strategies can be used to (or seek to) generate such an impact (examples: Engagement and voting or Sustainability themed), while others would be more neutral (for instance, ESG integration can both proactively seek to generate positive ESG impact or simply be motivated by better risk management considerations).

It appears, however, that two features mentioned by several sources in the table represent strong differentiators with respect to all other SRI strategies: (a) the explicit expectation of measurable social impacts and (b) the active measurement of these. Impact investors seek to generate measurable benefits and actively measure these. This is a core characteristic of Impact investors and is what makes them distinct from other SRI investors, at least at this stage of the SRI market development. This can be explained in part by the way Impact investing is implemented in practice. Typically, Impact Investors invest in a portfolio of social enterprises that are seeking to generate social benefits for a specific local community (whether in an OECD country or a developing one). This proximity with the investee company and the geographical focus of the latter makes the measurement of social impacts in many ways less cumbersome than for an investment in a listed company, sometimes with global presence.

That said, while the Impact investing term has gained wide acceptance in recent years, it should not overshadow the fact that Europe has a longstanding tradition of solidarity and funding of the so-called 'third sector' (or social and solidarity economy). Impact investing, in its modern Anglo-Saxon acception, as used in this study, does not fully account for the diversity of the European 'social economy' landscape. It does not fully include, for instance, the longstanding European tradition of social co-operatives and social banks specialising in the third sector, mutual aid societies, etc., i.e. organisations that are created to meet a general or mutual interest, to contribute to common good or to meet a specific social demand from certain segments of the population. There are numerous examples of such organisations to be found in Europe, such as Umweltbank in Germany, Banca Etica in Italy or Triodos Bank in the Netherlands.

THE EUROPEAN IMPACT INVESTING MARKET AT A GLANCE

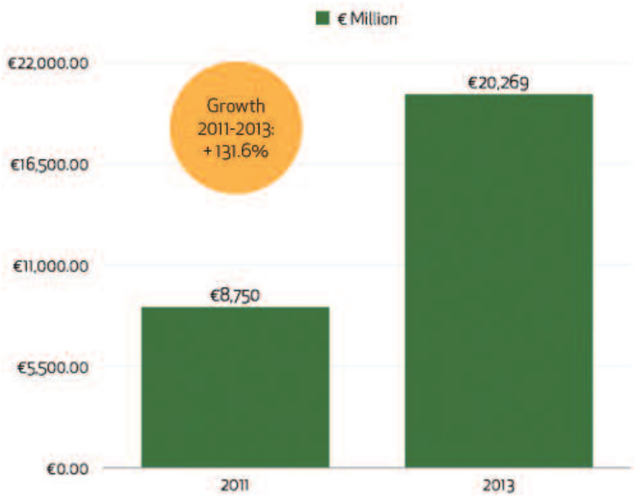
Impact investing takes different shapes across European markets. As other SRI strategies, but in different ways, local Impact investing markets are heavily influenced by local history and sensitivities. They are also heavily dependent on how the local social and financial systems are structured which determines the mix of public and private capital. Therefore, the reader is cautioned not to jump too quickly to conclusions based on some of the figures reported, especially on a country-by-country basis. By the nature of the methodology followed, these figures only look at one source of funding to local social enterprises. As mentioned above, a diversity of funding systems exist but are not in scope for this study. The European estimates reported here should however provide a good sense of where the market currently directionally stands in terms of how much professionally managed private money is flowing into the sector.

According to the responses collected by Eurosif for the Study, the European Impact investing market has grown significantly between 2011 - the first time Eurosif started to measure the market - and 2013 to reach about € 20 billion.

This represents an annual growth of 52.3%. [Note again that these figures measure actual investments made by professional private investors and not commitments of public or philanthropic funding]. This year, in close cooperation with its national member SIFs, Eurosif has increased its coverage of European Impact investment managers, including smaller and more local players.

It is likely that the reported figure remains below the real market to some extent, yet the growth remains impressive.

FIGURE 1: Growth of Impact Investing in Europe



Source: Eurosif

When breaking down this European figure by market as shown in Table 10, a few countries appear to be leading the pack. The Netherlands and Switzerland stand out as leading markets, followed by a group of significant countries including the UK, France, Italy, Germany and Sweden. Here again, figures are to be taken with extreme caution and analysed in the context of the specific methodology used by Eurosif:

- The UK figure is likely to be underestimated. In addition, this figure also reflects the fact that the Eurosif surveydoes not account for philanthropic and public money, key sources of funding to the UK social enterprise market.
  Yet, the £1.2 billion (€1.4 billion) assets in Impact investing reported exceed the prediction of a landmark report published late 2012, estimating that the UK social investment market would reach £1 billion by 2016.[7] This is also consistent with the £500 Mio institutional market size, reported by the City of London in a recent report commissioned by the Social Investment Research Council and Big Society Capital; [8]
- Nordic markets are under-represented as no data was available for Finland, Denmark and Norway. Nevertheless, there is evidence of institutional money invested into microfinance in some of these markets. For instance, Storebrand (Norway) or KLP (Norway) are knownto have Impact investments that are not captured by the survey;
- In the same fashion, Belgium and Luxembourg are missing from the sample. These markets are important contributors and vectors of growth for Impact investing due to the importance of their local private banking sector. Luxembourg is also a key country for the domiciliation for Microfinance Investment Vehicles. Some of these local assets are however captured by surveying product sponsors domiciled in other markets. For example, when Banque Degroof distributes a microfinance fund managed out of Switzerland to its Belgian clients, these assets are captured in Swiss data.

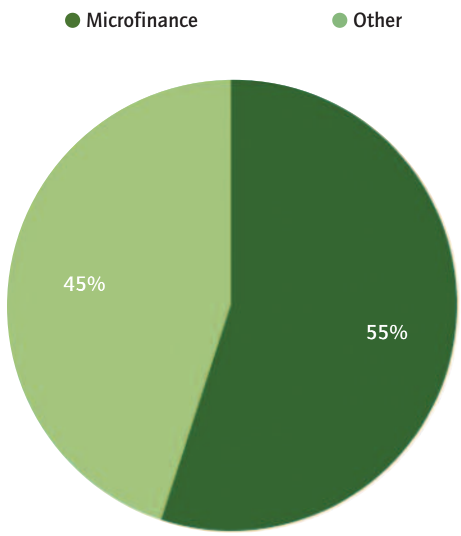
TABLE 2: Overview of Impact Investments by Country

Country (€ Mn)	2013
Austria	€ 217
France	€ 1,020
Germany	€ 1,366
Italy	€ 2,003
Netherlands	€ 8,821
Spain	€ 87
Sweden	€ 1,058
Switzerland	€ 4,231
United Kingdom	€ 1,400
Other EU	€ 65
Europe	€ 20,269

Source: Eurosif

A closer look at the type of Impact investments made by European asset owners and asset managers at the end of 2013 reveals that about 55% of these seem to be made into microfinance. The other category includes community investing, social business investment, as well as thematic investments, especially with environmental or renewable energy themes, and development finance (Figure 2).

FIGURE 2: European Impact Investing by Type



Source: Eurosif

ASSET OWNERS AND IMPACT INVESTING

It will not come as a surprise that High Net Worth Individuals (HNWI), via their advisors (private banks and family offices), represent a strong source of finance for the sector as evidenced by recent research conducted by Eurosif ("HNWI and Sustainable Investments, 2012"). These investors have no particular formal or regulatory investment constraints to deal with (other than trans-generational wealth preservation), as opposed to most institutional investors and are therefore more open in general to long-term investment with different risk profiles. Several European private banks have understood this and have entered the market by distributing or even structuring themselves Impact investment solutions for their clients. French BNP Wealth Management (since 2004), German Private Bank Berenberg and Belgian Banque Degroof (since 2006) are examples of mainstream banks that have entered this market very early.

Foundations (and charitable organisations), which remain first and foremost providers of "concessionary" money (grants), represent another potential important source of "non-concessionary" funding (expectation of a dual financial and social return). To Eurosif's knowledge, data is not available on how much money is invested by European foundations into Impact investments. While it is fair to assume that foundations play a big role given their focus and based on U.S. experience and anecdotal evidence, it is important to remember that the legislative framework for foundations differs from one country to another. This can play a big role in directing their investment policy and may enable or slow their engagement in the market. In Germany, for example, legislation governing foundations gives priority to capital preservation. This requirement limits opportunities to invest in social / Impact investments that do not provide for market-rate financial returns. This could explain why German foundations, with total assets estimated at €100 billion, have a potential that seems to be untapped as a major source of funding for German social entrepreneurs. [9] Nevertheless, there are German foundations with Impact investment exposure. For instance, BMW Stiftung, Herbert Quandt and the Eberhard von Kuenheim Stiftung are invested in a tuition-financing fund by Brain Capital [10]. When it comes to institutional investors, the picture is more complex. While acknowledging a relatively low penetration rate of Impact investing in institutional portfolios at this stage in general, Eurosif's research brings evidence of rapidly mounting interest. This interest remains, however, concentrated, especially at the larger end of the defined-benefit pension fund market. Yet, data collected for this study presents anecdotal evidence that other institutional players start to tiptoe into the sector.

In December 2013, Bank Berenberg, one of Germany's oldest private banks and LGT Venture Philanthropy, announced the first close of their social impact fund, Impact Ventures UK (IVUK), after raising £20.8 million from investors. IVUK will invest in enterprises that create strong positive social impact for disadvantaged people and communities in the UK as well as generating a financial return.
Investors include the London Borough of Waltham Forest Pension Fund, Deutsche Bank via the DB Impact Investment Fund, Stichting Anton Jurgens Fonds and £10 million from Big Society Capital. (Source: www.berenberg.com).

Insurers have had historically little involvement in social investment as underlined by a recent World Economic Forum report from 2013.[11] However, a few recent moves indicate that this may change as illustrated in Table 3.

TABLE 3: Examples of Impact Investment Initiatives by European Insurers

Institution	Year	Investment
Axa Group	2013	• Launched the Group's «Impact Investment» initiative, aiming to allocate capital to social investment; • Themes include: climate change, health & longevity, socio-economic risks; • Initial €150 million commitment; • Exploring a fund-of-(Impact investing) funds structure, primarily microfinance, private equity and structured bond funds; • About 70% exposure to developing markets; • Targeted annual return: 4% to 8%
Aviva France	2013	• Launch of the "Aviva Impact Investing Fund France", a dedicated fund to finance the growth of French social enterprises; • Partnership with Comptoir de l'Innovation, a French specialist Impact investor, to whom the governance of the fund has been delegated; • Themes include: healthcare, social integration, social housing and education; • Initial €10 million investment; • Targeted annual return (net of fees): 3.5% to 4.5 %.
Legal & General	2013	• Announced the launch of an infrastructure investment programme, focused on "transport and energy projects, house-building, property and education" with additional investments in care homes (£70 million) and hospitals (£89 million); • £15 billion commitment; • L&G already had investments in social housing, green energy and student accommodation.
Zurich Insurance Group[12]	2013	• Worked to develop a strategy for Responsible Investment; • Will invest in assets that generate a targeted and measurable positive impact, but also offer a financial return commensurate with risk, with the goals of supporting sustainable economic development and making communities more resilient; • Focuses on opportunities where the return fully compensates for the risk • Is developing a strategy for Impact investing within each of the major asset classes in which Zurich invests already; • As of January 2014, Zurich had invested more than $200 million in various green bonds.

Source: Eurosif, based on companies' websites / press releases.

A key challenge for Impact investing penetration of the institutional segment is that it is largely composed of so-called liability-constrained investors such as defined-benefit pension funds and insurers. These need to maintain sufficient assets to meet all liabilities, both current and future. This fiduciary responsibility will influence them when trading-off between financial return and social purpose. It is likely to penalize Impact investments that target below-market risk adjusted financial returns. Insurers, for instance, will favour lowrisk fixed income-like products. However, for certain forms of Impact investments where there is no expected trade-off or where their "risk budget" allows them, some of these investors are starting to allocate capital to Impact investments.

Another key challenge for Impact investing in the institutional space is the relative lack of products 'at scale', and the absence of track records similarly to what they require from mainstream products. Institutional investors can invest large, multi-million tickets. They need access to products offering a sufficient pool of opportunities. They are therefore reluctant to invest due diligence efforts for smaller funds. They also tend to prefer investments in products where risks are shared with other investors in a balanced way and where they remain with minority stakes. This explains, for example, why some larger investors sometimes prefer to structure the opportunities themselves rather than engaging with social investment product providers.

Another way to build scale for them would be to consider fund-of- (impact) funds structures (FoF). An example of this is the recent announcement by AXA IM that they will be launching such a FoF (See Table 3). In 2009, in response to demand from charity clients, CCLA launched the COIF Charities Ethical Investment Fund. This global and UK equities fund applies a range of ESG screening criteria but also has a specific allocation for "high impact investments" in sectors such as microfinance, immunisation bonds and timber that make up approximately 1% of the portfolio.

An example of "high impact investments" is Triodos Microfinance, a Fund providing loans and equity to microfinance institutions and banks in Asia. Such a structure mixing traditional SRI investments with Impact investments also exists in France with the so-called 'solidarity funds' or '90/10 funds' (90% in conventional investments and 10% in social investments) and offers interesting exposure to Impact investments while managing scale.

Asset managers designing Impact investment solutions for their institutional clients will need to keep such considerations in mind.

Yet Impact investing has started appealing to institutional investors like pension funds. A survey conducted with 47 UK-based pension funds in October 2012 showed that 20% of respondents thought that it was the role of pension funds to invest in Impact investment and that of these, 70% (7 pension funds) have already made what they consider to be an Impact investment, this proportion being set to increase.[13] In the Netherlands, Dutch Pension Fund PGGM is known to have made significant Impact investments. Other examples of pension funds with exposure to Impact investing include KLP (Norway), PKA (Denmark) or more recently a group of five UK local authorities pension funds that have conducted due diligence in 2013 as part of the "Investing for Growth" initiative (I4G) in order to deploy capital to Impact investments, as recommended by a 2012 report commissioned by the Local Authority Pension Fund Forum (LAPFF). As of June 2014, £152 million have been committed by I4G to five Impact Investment Funds.

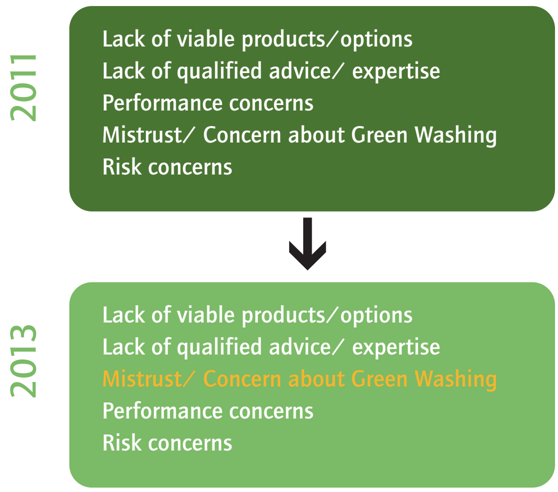
THE FUTURE OF IMPACT INVESTING IN EUROPE

Our survey reveals that perceived challenges by European Investors when considering social investments are broadly similar to those in 2011. The lack of viable products and options remains a top concern. As mentioned previously in this section, institutional investors in particular (a key focus of this study) are seeking products exhibiting:

- Scale and scalability to match institutional minimum investment sizes, e.g. € 5 million; [14]
- Track record (notably in terms of financial performance);
- Investment characteristics matching their asset allocation constraints (liquidity, volatility, investment style, etc.).

A second challenge is the relative lack of knowledge and expertise of institutional investors as illustrated by the survey results. While awareness of Impact investing seems to grow, professional investors need more support to understand how Impact investing works and how investment risks can be managed. They also need more clarity about how social impacts can be measured in a comparable way, a key requirement for investors during their due diligence process.

FIGURE 3: Barriers to Impact Investing



Source: Eurosif

Other impediments to the growth of the European Impact investing market have been well documented. These could be addressed by policy-makers to secure further engagement by professional investors in the sector and include, in particular:

- The need to further develop market infrastructure and mechanisms. Transaction costs and information asymmetry are still very high in the market. Strengthening the Impact investing intermediary and brokerage ecosystem is essential. Capacity should be built around existing and new specialised intermediary structures and platforms.
  The emergence of Social Stock Exchanges also offer great potential (see Case Study 1: Social Stock Exchange);
- The need to refine and develop widely accepted and comparable social impact performance standards. As highlighted above, impact measurement is a key feature of Impact investing and something that investors require. By nature, social and socio-economic benefits are difficult to measure. Today, many Impact investment fund managers have developed proprietary tools to fill the gaps. This makes comparisons cumbersome for investors. Some initiatives like IRIS or GIIRS could go a long way addressing this issue (see Focus 3: Social Impact Measurement and Reporting Initiatives Highlights);
- Fostering financial innovation and a broader range of financial instruments. This would allow social enterprises to attract capital at the various stages of their development and help investors cover the full risk/return spectrum. This is a top issue as evidenced by our own survey as well as a recent JP Morgan survey. In that regard, funds, funds-of-(impact) fund structures and "Pay for Success" instruments such as Social Impact Bonds (SIBs) are promising new developments.

Case Study 1: The Social Stock Exchange (SSX)

The SSX launched at the G8 Social Investment Summit in June 2013, is designed to be the leading global venue for finding publicly tradable securities in social-impact businesses. The SSX allows Impact investors to find companies whose values they share and into whom they might want to invest. The SSX is not currently a trading platform; companies and securities admitted to the Social Stock Exchange must already be listed on a recognized stock exchange. However, the SSX is designed to improve access to capital - specifically 'impact' capital from engaged investors - for organisations that are for-profit social impact businesses, most likely from sectors that create high intrinsic social value such as health; social and affordable housing; education; leisure; sustainable transport; clean-technology and renewable energy; waste, water and recycling; green and ethical consumerism; and bonds that are issued by charities or other social enterprises and non-profits.

The SSX is based in the UK but is designed to include companies and organisations from around the world, providing the oxygen of capital to alleviate social and environmental problems at home, within the EU and wider western world, and in developing nations. Its founding investors include Big Society Capital, Joseph Rowntree Charitable Trust and Panahpur, and it enjoys the support of the London Stock Exchange and the City of London Corporation. The SSX currently has 12 organisations on the platform ranging from PLC's that provide water purification in the developed and developing nations through to charities issuing publicly traded fixedincome products.

The SSX seeks to connect socially focused businesses with investors looking to generate social or environmental positive change as well as financial return from their investment. This is done by providing investors with information to identify and compare organisations that deliver value to society and the environment, specifically through the mandatory publication of a standardised impact report. The SSX has a transparent, independent and rigorous admission process to ensure that the companies listed adhere to a clear set of values, standards and disclosures that seek to provide impact evidence. It serves the social investment ecosystem by providing a mechanism for Impact investors who want to develop or deploy a public equities or public debt investment strategy.

Focus 1: Social Impact Measurement and Reporting Initiatives Highlights

Impact Reporting and Investment Standards (IRIS)[15] is an initiative of the Global Impact Investing Network (GIIN). It is a catalogue of standardised metrics that can be used to measure and describe the social, environmental, and financial performance of social organisations and businesses. It is designed to help Impact investors evaluate deals. IRIS metrics have been available since 2009 and are free. It is widely used by Impact investors in the U.S. and also in the UK, Germany and the Netherlands.

Global Impact Investing Ratings System (GIIRS)
GIIRS is a system for assessing the social and environmental impact of social companies and social funds using a rating and analytical approach analogous to Morningstar investment rankings and Capital IQ financial analytics. GIIRS ratings are analogous to Morningstar investment rankings or S&P credit risk ratings but don't take into account financial performance. GIIRS is also popular in the U.S. and the Netherlands.

A new standard to allow social enterprises to better measure their social impact was published by the European Commission in June 2014. The standard will help European social enterprises to benefit from funding via the European Social Entrepreneurship Funds (EuSEFs) and its Programme for Employment and Social Innovation ("EaSI"). The standard is developed in a report endorsed by an expert group on social entrepreneurship (GECES) set up by the Commission.

Other notable initiatives exist such as the recent **Outcomes Matrix** developed by the Big Society Capital in the UK in partnership with Investing for Good, New Philanthropy Capital and the SROI Network.

ZOOM ON THE RISE OF SOCIAL IMPACT BONDS (SIBS)

Social Impact Bonds (SIBs) were pioneered in the United Kingdom in 2010.[16] SIBs are not to be confused with traditional bonds. They are a pay-for-success contract between a private investor, an originator, typically a public entity, and "delivery organisation" (a social enterprise, for instance). The investor commits capital to the social enterprise that is responsible for addressing a social challenge (e.g. recidivism, homelessness, etc.). The investor is paid a financial return based on the outcomes actually achieved as a result of a successful intervention (e.g. fewer people in prison which means less costs for public authorities). SIBs are interesting forms of public-private partnerships and an innovative way to translate socially desirable outcomes into measurable economic returns. This explains why SIBs have gained significant momentum in recent years and captured the attention of some investors. As of December 2013, there were 16 operational SIBs in the UK, and more planned. SIBs have also been launched in Germany (Benckiser Foundation, its subsidiary Juvat gGmbH and municipalities and the federal state of Bavaria), in Belgium (by Kois Invest in cooperation with Duo For a Job and Brussels Employment Agency Actiris) and in the Netherlands (ABN Amro, Start Foundation and City of Rotterdam) where interest is mounting.[17]

Case study 2: Threadneedle Social Impact Bond Fund

To date Impact investment has been associated with illiquid, higher risk private investment (often equity-based) into ventures that have a very direct outcome. The challenge for asset managers has been to develop a credible, mainstream (daily priced) investment product, which can appeal to a broad investor base. The Threadneedle UK Social Bond Fund, the first of its kind, was launched in December 2013 to meet these challenges. The Fund is a partnership between Threadneedle, the UK asset manager, and Big Issue Invest, a leader and innovator in backing social businesses in the UK.

The Fund offers a diversified social bond portfolio that targets positive social benefits and outcomes, as well as market-like risk-adjusted returns in line with traditional UK corporate bond portfolios. Big Issue Invest, working with Threadneedle's Governance & Responsible Investment team, has developed a unique Social Assessment Methodology that positively screens all investable bonds with a focus on the degree to which they deliver positive outcomes across eight fields of social development, including: healthcare, community services, transport and communication, utilities and the environment, education, employment and training, financial inclusion and social housing. This provides the framework under which the social attributes and intensity of an investment are assessed for consideration alongside its yield and liquidity characteristics, in building a balanced, diversified portfolio.

In addition, the partnership allows continuous monitoring of social performance via the Social Advisory Committee, comprised of three Big Issue Invest representatives, an independent Chair and two Threadneedle representatives. Importantly, this Committee will produce an annual report on the social outcomes of the Fund.

The Fund launched with £10 million of seed investment from Big Society Capital, the world's first social investment bank, and £5 million from Threadneedle. It is the first fund of its kind with daily liquidity, presence on distribution platforms, retail pricing and convenient access to the social investment space to a broad range of investors.

CONCLUSION

The past two years have been marked by impressive growth of Impact investing assets. This growth has been supported by the arrival of new institutional investors in the market. This might indicate, on the one hand, that the awareness of Impact investing as a specific SRI strategy has made significant progress, and that on the other hand, some of the barriers to entry, such as the lack of investment opportunities, instruments or risk perceptions, have started to ease.

Yet, this impressive growth should not mask that Impact investing remains a peripheral strategy within SRI that has not yet realized its full potential. For instance, if just 0.012% of UK pension fund assets were allocated to social investment, the size of this would double the UK Impact investing market.

To secure further growth, policy-makers, both at EU level and nationally, as well as players alongside the investment chain (asset managers, intermediaries, distributors), need to continue to build a more conducive environment. Efforts around transparency and the refinement of impact measurement standards as well as financial innovation will be important success factors in that regard.

It is too early to predict which market share of the European professionally-managed assets market Impact investing will be able to capture given the many challenges, but it seems clear that Impact investing is here to stay and will continue to grow to significant levels, both in Europe and globally.

Glossary and Abbreviations

Asset manager	Organisation or individual managing investments on behalf of a client.
Asset owner	Owner of investments managed by asset manager.
Best-in-Class investment selection	Approach where leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria.
CAGR	Compound Annual Growth Rate.
Community investing	Investments into local communities either directly or through channels, such as local community development banks, credit unions and loan funds. They focus on affordable housing, small business creation, development of community facilities and the empowerment of women and minorities.
Engagement and voting on sustainability matters	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.
ESG	Environmental, Social and Governance.
Exclusion of holdings from investment universe	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors or countries.
GSIA	Global and Sustainable Investment Alliance (www.gsi-alliance.org).
High Net Worth Individuals Impact investment	Individual with more than US$1 million in liquid financial assets. Impact investments are investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances.
Institutional investor	Large professional investors such as pension funds for instance. In this study, Institutional investors may comprise asset managers and asset owners, to the extent the latter internallymanage a part of their invested assets.
Institutional mandate	Bespoke investment portfolio designed for professional investor (institutional separate account or separately managed account are other common terms used by the industry).
Integration of ESG factors in financial analysis	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
Microfinance	Microfinance generates a social value by improving access to financial services, mostly in emerging and developing economies. Commonly, investments into microfinance are channeled through microfinance investment vehicles, which are independent investment funds that allow private and public capital to flow to microfinance institutions.
nc	Not calculated.
nm	Not measured.
Norms-based screening	Screening of investments according to their compliance with international standards and norms.
Pooled fund	Collectively managed investment vehicle, pulling monies from multiple investors.
PRI	Principles for Responsible Investment.
Retail fund	Pooled fund primarily targeting the retail market (see above).
Retail investor	Non-professional investor.
SIF	Sustainable Investment Forum.
SRI	Sustainable and Responsible Investment.
Sustainability themed investment	Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG.

List of Surveyed Organisations

A Plus Finance • Aberdeen Asset Management Finland • Absolute Portfolio Management GmbH • ACATIS Fair Value Investment AG • Aegon Asset Management • AEW Europe • AFA Försäkring • Agicam • Agrica • Alcyone Finance • Alliance Trust Investments • Allianz GI France • Allianz Global Investors • Allianz Popular Pensiones /Allianz Popular Asset Management • Allianz Real Estate France • AMF • Amundi Asset Management • Amundi Immobilier • AP1 • AP2 • AP3 • AP4 • AP6 • AP7 • Aquila Capital Structured Assets GmbH • ASR Nederland N.V. • ATLANTIS SEGUROS • Aviva Investors France • AXA IM • Banca Reale Spa • Bank für Kirche und Caritas eG • BANK IM BISTUM ESSEN eG • Bank J. Safra Sarasin • Bank Vontobel AG • Bankhaus Schelhammer & Schattera Kapitalanlagegesellschaft m.b.H. • Bankia Pensiones S.A. E.G.F.P. • Banque Cantonale de Genève – BCGE Asset Management • BAWAG P.S.K. INVEST GmbH • BayernInvest Kapitalanlagegesellschaft mbH • BBVA ASSET MANAGEMENT, S.G.I.I.C, S.A. • Bethmann Bank AG • Bethmann Bank AG - Vermögensverwaltung - • BlueOrchard Finance S.A. • BNP Paribas Cardif • BNP Paribas IP • BNP Paribas REIM • Caisse des Dépôts • Caja Ingenieros Gestión SGIIC, SAU • Candriam Asset Management • Care Group AG • Cassa di previdenza aziendale per i dipendenti della Banca MPS • CATUS AG Vermögensverwaltung • CCR AM • Cedrus AM • CM-CIC AM • CNP Assurances • Colonial First State Global Asset Management • Cometa Pension Fund • Comgest • COMPAGNIA DI SAN PAOLO • CONINCO Explorers in finance SA • Consorzio Etimos S.c. • Cooperlavoro Fondo Pensione Complementare • Corum AM • CPR AM • Craton Capital Ltd • Credit Suisse AG • Danske Capital • De Pury Pictet Turrettini & Cie S.A. • Deka Investment GmbH • Delta Lloyd Asset Management • Deutsche Asset & Wealth Management • Deutsche Zurich Pensiones, E.G.F.P. • Diamant Bleu Gestion • DNB Asset Management • Ecofi Investissements • Edmond de Rothschild AM • ENERTRAG EnergieInvest GmbH • eQ Asset Management Ltd • ERSTE ASSET MANAGEMENT • Etablissement de Retraite Additionnelle de la Fonction Publique (ERAFP) • Etera Mutual Pension Insurance Company • Ethias • Ethos Services SA • Etica Sgr • Evangelische Kreditgenossenschaft eG • Evli Bank Plc • F&C Investments • Federal Finance Gestion • Fédéris Gestion d'Actifs • Ferd Social Entrepreneurs • Fideuram Asset Management Ireland • FIDURA Private Equity Fonds • Finance in Motion GmbH • Financière de l'Echiquier • Folketrygdfondet • FONDAZIONE CARIPLO • FONDENERGIA • Fonditel pensiones • FONDO DE PENSIONES DE EMPLEADOS DE BBVA • FONDO DE PENSIONES SANTANDER EMPLEADOS • Fondo pensione complementare pe ri dipendenti della BMPS post 91 • Fondo pensione per i dipendenti del gruppo credito valtellinese • Fondo Pensioni del Gruppo Sanpaolo IMI • Fondo Pensioni del Personale del Gruppo BNL/BNP Paribas Italia • Fonds de Réserve pour les Retraites (FRR) • Fongepar Gestion Financière • Fronteris Energie AG • Generali Investments Europe • GLS Bank • GOOD GROWTH INSTITUT für globale Vermögensentwicklung mbH • Groupama AM • Groupe OFI • Handelsbanken Asset Management • Hauck & Aufhäuser (Schweiz) AG • Hermes Fund Managers • HSBC Global AM (France) • Humanis Gestion d'Actifs • HYPO CAPITAL MANAGEMENT AG • Ilmarinen • Impax Asset Management • ING Investment Management International • Invesco Asset Management Deutschland GmbH • Invest in Visions GmbH • Investec Asset Management • IRCANTEC • Kames Capital • Kammarkollegiet • KBC Asset Management • KEPLER-FONDS KAG • Keva • KLP • La Banque Postale AM • La Financière Responsable • La Française AM • La Francaise REM • Lacuna AG • LBBW Asset Management Investmentgesellschaft mbH • Legal & General Investment Management • LGT Capital Management • LocalTapiola Asset Management • Loyalis • MAIF • Mandarine Gestion • MAPFRE VIDA DOS F.P. • MEAG • Meeschaert AM • Menzis Zorgverzekeraar • Meriten Investment Management GmbH • Metropole Gestion • Migros Bank AG • Missionszentrale der Franziskaner • Mistra • Natixis AM and Mirova • Neuflize OBC Investissements • NORD/LB Kapitalanlagegesellschaft AG • Nordea Asset Management • Nordea Investment Management • Norwegian Government Pension Fund/Finansdepartementet • Notenstein Privatbank AG • oeco capital Lebensversicherung AG • ÖKOWORLD LUX S.A. • Oltre Gestioni srl • Palatine AM • Perial AM • PGGM Vermogensbeheer B.V. • Pictet Asset Management • Pioneer Investments • Pocztylion - Arka Powszechne Towarzystwo Emerytalne S.A. • Pohjola Asset Management • Polsko-Amerykański Fundusz Pożyczkowy Inicjatyw Obywatelskich Sp. z o.o. • Primonial REIM • Pro BTP Finance • ProVita GmbH • Quaestio Capital Management SGR S.p.A. Unipersonale • Quantex AG • Quilvest Gestion v Raiffeisen Kapitalanlagegesellschaft mbH • Raiffeisen Schweiz Genossenschaft • Rathbone Greenbank Investments • responsAbility Investments AG • RobecoSAM AG • Roche-Brune AM • Rothschild & Cie Gestion Group • RTVE PENSIONES, FONDO DE PENSIONES • RURAL PENSIONES EGFP • Sarasin & Partners LLP • Schoellerbank Invest AG • Schroders • SEB Investment Management • Security Kapitalanlage Gesellschaft • Skandia Fonder • Skandia Lebensversicherung AG • Skandia Liv • Società Reale Mutua di Assicurazioni • Sofidy • Sparkasse Oberösterreich Kapitalanlagegesellschaft mbH • Sparkasse OEE • Standard Life Investments • State Pension Fund (VER) • Steyler Bank GmbH • Storebrand • Swedbank Robur • Swisscanto Asset Management AG • Sycomore AM • Symbiotics SA • The Church of Sweden • The Church Pension Fund • Threadneedle Investments • Towarzystwo Inwestycji Społeczno-Ekonomicznych SA • Triodos Investment Management • Truestone Impact Investment Management • UBI Banca • UBS Global Asset Management • Union Investment • Unipol Gruppo Finanziario S.p.A. • Van Lanschot Bankiers & Kempen Capital Management • Varma Mutual Pension Insurance Company • Veritas Investment GmbH • Viveris REIM • VOIGT & Coll. GmbH • Volksbank Invest Kapitalanlagegesellschaft m.h.H. • Windwärts Energie GmbH • Zürcher Kantonalbank

This list is not exhaustive as some respondents preferred not to have their organisation's name disclosed

Endnotes

1 Standford Social Innovation Review, Paul Brest and Kelly Born, "When Can Impact Investing Create Real Impact?," Fall 2013.

2 K. Wilson, "New Investment Approaches for Addressing Social and Economic Challenges", OECD Science, Technology and Industry Policy Papers, No. 15, OECD Publishing, 2014.

3 http://www.thegiin.org.

4 World Economic Forum, "From the Margins to the Mainstream", 2013.

5 Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds.

6 Uli Grabenwarter & Heinrich Liechtenstein, IESE research project, "In search of gamma: An Unconventional Perspective On Impact Investing".

7 Boston Consulting Group and Big Society Capital, "The First Billion", 2012.

8 City of London, "New Specialist Sources of Capital For The Social Investment Market", 2014.

9 Höchstädter & Scheck, "Mapping the Social Impact Investing Market in Germany", 2014.

10 Ibid.

11 World Economic Forum, "From the Margins to the Mainstream", 2013.

12 Standford Social Innovation Review, "Making Impact Investing a Priority", 2014.

13 Social Finance Ltd, Microfinance, "Impact Investing and Pension Fund Investment Policy Survey", 2012.

14 See City of London, "New Specialist Sources of Capital for the Social Investment Market", 2014, page 103 for example.

15 Source: GIIN website and http://www.ssireview.org/blog/entry/why_iris.

16 Social Finance UK launched the world's first SIB in 2010 to fund interventions aimed at reducing the rate of recidivism among ex-offenders leaving Peterborough prison.

17 ABN Amro, "Social Impact Bonds opportunities and challenges for The Netherlands", September 2013.

Credits

Sponsors

Project Supervisor
François Passant

Editor
Anne Emson

Media Relations
Anastasius Mpulassikis

Contributors
Anders Nordheim
François Passant

Design
Transfer Studio

Printed by
Vanden Broele

Printed on
Recycled Paper

About Eurosif

Eurosif is the leading pan-European sustainable and responsible investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets. Eurosif works as a partnership of Europe-based national Sustainable Investment Forums (SIFs) with the direct support of over 65 Member Affiliate organisations drawn from the sustainable investment industry value chain. These Member Affiliates include institutional investors, asset managers, financial services, index providers and ESG research and analysis firms totalling over ¤1 trillion assets. Eurosif's indirect European network spans across over 500 Europe-based organisations. Eurosif is also a founding member of the Global Sustainable Investment Alliance, the alliance of the largest SIFs around the world. The main activities of Eurosif are public policy, research and creating platforms for nurturing sustainable investing best practices.

www.eurosif.org
www.gsi-alliance.org

MEMBER AFFILIATE BENEFITS

EU Public Policy

- Be informed through exclusive webinars, policy e-flashes providing details on how Eurosif is involved in the debates and updates on discussions at the European Commission and European Parliament.
- Engage as an active participant to Eurosif's Lobbying Advisory Group, a group that brings technical input into Eurosif's EU policy responses.
- Participate in events with EU-policy-makers on specific topics of interest.

Groundbreaking Pan-European Research

- Get preferred access to research produced by Eurosif.
- Learn about marketplace developments and best practices through ad-hoc working groups and networking events.
- Profile and share your expertise by acting as an advisory member to research initiatives or contributing to Eurosif thematic reports.

Visibility and Industry Network

- Leverage Eurosif's newsletter and social media to inform the industry about your recent developments, vacancies and SRI events.
- Take advantage of Eurosif's Annual Event, dedicated to Member Affiliates from all around Europe, to network with your peers and learn about their practices.
- Sponsor Eurosif landmark pan-European studies to increase your visibility. Members can sponsor Eurosif's studies with a discounted price compared to non-member sponsors.
- Benefit from special discounts at a range of industry events.

If you are interested in becoming a Eurosif Member Affiliate please contact us at contact@eurosif.org.
For more information please visit www.eurosif.org.

Follow us on Twitter at www.twitter.com/eurosif.

Eurosif A.I.S.B.L
333 Rue du Progrès,
B-1030 Brussels
Belgium
Tel: +32 (0)2 274 14 35
contact@eurosif.org
www.twitter.com/eurosif
www.eurosif.org