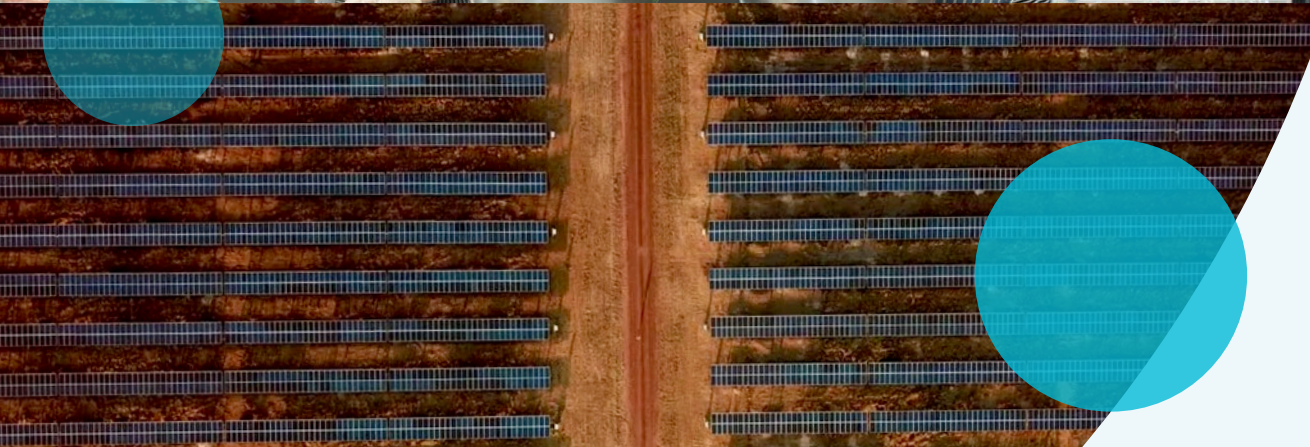


Benchmarking Impact

Australian Impact Investor Insights, Activity and Performance Report 2020



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\$19.9 billion

Value of Australian impact investment products as at 31 December 2019

111

Impact investment products widely on offer to Australian investors as at 31 December 2019

87%

% of impact investment products targeting environmental outcomes

x 10

Impact investment products targeting social outcomes has increased tenfold to \$2.5 billion

5.3% p.a.

2018–2019 weighted average annualised financial return across impact investment products in different asset classes

93%

% of impact investors whose impact expectations are being met or exceeded by their current impact investments

92%

% of impact investors whose financial expectations are being met or exceeded by their current impact investments

\$100 billion

Potential demand from Australian investors over the next 5 years for impact investment products

76%

% of investors who expect competitive or above market rates of returns on their impact investments

90%

% of investors who believe that impact investing will become a more significant part of the investment landscape

Active impact investors need more **investable deals, and evidence/track record of social impact and financial performance**

Measurable impact, mission alignment and financial returns are the leading motivators for allocating funds to impact investing among active impact

Sustainable Development Goals are the most widely used framework for measuring and communicating impact



32,000

Number of homes for people on low to moderate incomes, living with disability, or transitioning out of homelessness



788,000

Healthcare treatments & mental health interventions delivered



200,000

People provided with access to financial services



483,235

Megalitres of water saved, treated or delivered



5 million

tCO2e abated/ avoided and 84,000 GWh renewable energy produced



446

Jobs secured by candidates previously excluded from employment



37,856

Homes provided with electricity

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Thank you

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AMP Capital is one of Australia's leading investment managers. As part of the AMP Group, it shares a history spanning 170 years, and today AMP Capital globally manages over \$203 billion (as at 31 December 2019) on behalf of clients through a network of 19 office locations in developed and emerging markets around the world.

AMP Capital has over 70 years' experience managing investments for Australian and international investors. During this time it has evolved from a traditional funds management organisation to a broad-based investment management company, providing services to all sectors of the financial services industry. AMP Capital provides investment management services to a range of entities, including superannuation schemes, corporates, local bodies, insurance providers, trusts and charitable organisations.

For AMP Capital, considering ESG factors provides greater insight into areas of risk and opportunity that impact the value, performance and reputation of its investments. As a leader in responsible and ethical investing, it was one of the first investment managers globally to sign up to the United Nations-backed Principles for Responsible Investment (PRI), and has been integrating ESG factors into decision-making and active ownership practices for almost two decades. Today it is at the forefront of new responsible investment initiatives such as impact investing, recognising that many clients both want their investments to do no harm and also expect positive social or environmental outcomes.

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AMP Capital, as Industry Sponsor, and the Federal Government's Department of the Prime Minister and Cabinet, as Supporting Partner, generously provided funding for this report.

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We are grateful to all those investors who participated in the 2020 Impact Investment Survey (Part 1) and those that provided product data (Part 2) including Affirmative Investment Managers, Christian Super, Indigenous Business Australia, Impact Investment Group, KangaNews, Kilter Rural, QBE Insurance Group, Sacred Heart Mission, Social Enterprise Finance Australia Ltd, Social Outcomes and Social Ventures Australia.

Foreword

As Chair of the Expert Panel of the Commonwealth Government's Social Impact Investing Taskforce, I welcome the critical contribution of the Responsible Investment Association Australasia's 2020 *Benchmarking Impact* report.

This report comprehensively documents the developing impact investing market in Australia. Its findings and data are deeply informing and complementary to the work of the Taskforce, and strongly reinforce the findings from our interim report that:

- existing and prospective social impact investors have an active appetite to invest significantly more capital – in *Benchmarking Impact* the 125 surveyed investors are interested in committing *five times* more to impact investments than they are currently allocating;
- the shortage of social impact investment opportunities that transparently measure social outcomes and financial performance is a major barrier to growth of the market – *Benchmarking Impact* highlights feedback from impact investors that emphasises the need for improved impact reporting and measurement and the provision of access to government data; and
- there is a lack of intermediaries who can advise on and create social impact investing to stimulate market growth – in this report, respondents' perceptions about catalysts and barriers to market growth reinforce the need to nurture intermediaries who create the impact-oriented investment deals that will convert appetite into substantially increased investment.

Benchmarking Impact highlights the encouraging headline growth in impact investing. It is very clear that that growth in green bonds and environmentally-focused impact investments, representing 87% of the total impact investing pool of just under \$20 billion, speaks to the growing sophistication of the market.

While I note socially-focused impact investments have significantly increased from the previous survey to \$2.5 billion from just under \$250 million, much of this increase comprises real asset-based investments in housing as well as \$A denominated impact investments into developing nations. The industry dynamics in the social impact investing space speak to a fast evolving but still relatively immature market.

The challenge the Social Impact Investing Taskforce outlined in the our interim report is: how do we mobilise the forces that will convert what still has the characteristics of a 'cottage industry' into the kind of well-structured and sophisticated market that will liberate exponential pools of funding that generates both reasonable financial returns and clear social impact?

There are many clues in the *Benchmarking Impact* report that provide guidance on this.

The rapid scaling of the green bond and environmental market reflects the development of clear financial and environmental performance measures. Sophisticated market intermediaries and product development have played a clear and important role. The higher level of financial returns achieved on impact investments targeting environmental outcomes has also clearly been a factor in attracting mainstream and larger scale investment interest.

The detailed responses from impact investors in this report make clear that they will respond positively as 'product' opportunities emerge. This confirms the strong feedback the Taskforce had in a series of extensive consultations about the preparedness to invest more – subject to there being access to impact investing opportunities of larger scale, with clear metrics of financial and social purpose.

RIAA has been a pioneer of long term thinking and responsible investing. The sector-leading work in *Benchmarking Impact* will provide practical guidance as the Taskforce develops recommendations to the Commonwealth Government to help transform the impact investing market. Our aligned vision is of the capacity to access significant pools of capital that achieve financial returns and measurable social impact, and in the process, contribute substantially to positive community outcomes.



Michael Traill AM

Chair, Expert Panel, Commonwealth Government's Social Impact Investing Taskforce



About this report

Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020 brings together, for the first time, two flagship pieces of research focused on the Australian impact investment market:

1. The 2020 Australian Impact Investment Survey – completed by 125 investors spanning a diverse range of investor types across Australia – probes the awareness of and interest in impact investing among investors not yet active in impact investing as well as the current motivations, intentions and perceived roadblocks to increased investment among Australian investors already engaged in impact investing. For the first time, it unpacks the impact measurement and management practices and challenges faced by active impact investors.
2. The 2020 Australian Impact Investment Activity and Performance study – collecting and aggregating data spanning 117 retail and wholesale impact investment products that were widely offered to Australian investors during the study period (1 January 2018 to 31 December 2019) – measures how the Australian impact investment market size, activity and performance are changing over time.

This report is published by the Responsible Investment Association Australasia (RIAA) in partnership with Deakin Business School at Deakin University.

The project was led by Fabienne Michaux, Adrian Lee and Ameeta Jain from the Department of Finance at Deakin Business School with data analysis support from Tripti Rathi and Amanjot Singh, guided by and with contributions from Carly Hammond, Nicolette Boele, Kylie Charlton and RIAA's Impact Investment Forum committee members. The report was edited by Melanie Scaife and Katie Braid, with design layout by Loupe Studio.

ABOUT THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 300 members managing more than \$9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

In 2017, RIAA launched the Impact Investment Forum to support the development of the market for impact investing in our region and to promote the integration of impact across investment portfolios. The forum is focused on growing awareness and knowledge of impact investing; building the capacity of impact investing advisers and practitioners; broadening networks; and influencing policy in support of impact investing.

ABOUT DEAKIN BUSINESS SCHOOL

Deakin University is one of Australia's fastest growing universities, ranked in the top 1% of universities globally. Research at Deakin is about changing the world. With a diverse range of research areas, close links with industry and first-class facilities, Deakin research creates real-world, far-reaching impact. Deakin has a deep history of collaboration through partnerships with industry leaders, communities, government and research to solve problems, share ideas and inspire work-ready graduates.

Deakin Business School is an internationally accredited business school in the top 1% of business schools globally. It is one of only 150 schools worldwide to hold both Association to Advance Collegiate Schools of Business International (AACSB) and European Quality Improvement System (EQUIS) accreditation. As a signatory to the Principles for Responsible Management Education (PRME) since 2011 and PRME champion for the 2018–2019 cycle, Deakin Business School is motivated to advance the Sustainable Development Agenda and has an embedded and transparent approach to sustainability, focusing on what matters most across its social, environmental and economic performance. By leveraging innovative digital technologies, it offers globally connected and flexible educational programs as well as rigorous and impactful research.

Executive summary

2020 is a year like no other, with the global COVID-19 pandemic impacting communities and economies worldwide, on the back of Australia's most devastating bushfire season in history. These events have brought the interdependencies between our society, environment and economy into sharp focus, and reaffirm the relevance of impact as the third paradigm of investing, alongside risk and return.

Impact investing is currently a small part of the global financial system in dollar terms: the Global Impact Investing Network (GIIN) estimates the size of the global impact investing market to be US\$502 billion¹ compared with the more than US\$100 trillion of the world's total financial stock. However, it has emerged as a powerful strategy for investors to intentionally direct capital towards economic, social and environmental outcomes and is at the forefront of this growing awareness and shift in thinking.

The impact investing community is championing innovative approaches that demonstrate how capital can be directed towards delivery of measurable positive social and environmental outcomes. It is leading development of market infrastructure, including development of a shared language, frameworks and tools for measuring and managing impact more comprehensively and consistently.

It is also raising awareness that all our investment decisions have positive, negative, intended and unintended impacts – whether or not we stop to think about them – and driving towards clarity and transparency about those impacts so investors and other stakeholders can make more informed decisions. This includes both from the perspective of how social, environmental and economic factors might affect the financial performance of investments as well as how the activities and organisations financed through those investments impact on economic, social and environmental outcomes for people and the planet.

Quality data and transparency about market demand, activity and performance (both impact and financial) is critical for the continuing development of impact investing, highlighting the ground-breaking work of early pioneers, encouraging those not yet active to participate and paving the way for mainstream adoption.

This report brings together, for the first time, two flagship pieces of research focused on the Australian impact investment market:

1. The 2020 Australian Impact Investment Survey – completed by 125 investors spanning a diverse range of investor types across Australia – probes the awareness of and interest in impact investing among investors not yet active in impact investing as well as the current motivations, intentions and perceived roadblocks to increased investment among Australian investors already engaged in impact investing. For the first time, it unpacks the impact measurement and management practices and challenges faced by active impact investors.
2. The 2020 Australian Impact Investment Activity and Performance study – collecting and aggregating data spanning 117 retail and wholesale impact investment products that were widely offered to Australian investors during the study period (1 January 2018 to 31 December 2019) – measures how the Australian impact investment market size, activity and performance are changing over time.

KEY FINDINGS

Investor activity is broadening and deepening, with more investors becoming active in impact investing and investors already active increasing their allocations to impact investing both in terms of dollar amount and number of investments.

This growth trajectory looks set to continue in the medium term with investor awareness and interest among those not yet active in impact investing (precursors to future demand and activity) across all investor types also growing and most investors believing impact investing will become a more significant part of the investment landscape over the next five years.

Impact investing set to grow

- Investors would ideally like to increase their proportional allocation towards impact investments more than fivefold to \$100 billion over the next five years (to 4% of assets under management – AUM – from 0.7% currently) →PART 1 AND →PART 2

Current size of the impact investment market

- The total value of impact investment products as at 31 December 2019 that are widely offered to Australian investors has risen 249% to \$19.9 billion (including \$8 billion in foreign domiciled products), from \$5.7 billion as at 31 December 2017 as reported in the 2018 study. →PART 2
- The total number of impact investment products as at 31 December 2019 is up 118% to 111 products, from 51 products as at 31 December 2017 as reported in the 2018 study. →PART 2

¹ Mudaliar, A, Bass, R. Dithrich, H & Nova, N, 2019 Annual Impact Investor Survey, Global Impact Investing Network, 2019.

Growing awareness and interest

- Investor awareness of impact investing has grown considerably among respondents not yet active in impact investing. 59% of respondents are aware or highly aware of impact investing compared with only 38% in the 2016 survey. → [PART 1](#)
- Investor interest in impact investing has grown significantly. 61% of respondents not yet active in impact investing are interested or very interested in impact investing compared with 40% of respondents in the 2016 survey. → [PART 1](#)

Environmental vs social impact

- The vast majority – \$17.4 billion or 87% – of impact investments widely offered to Australian investors as at 31 December 2019 comprise products targeting environmental outcomes, a three-fold increase on the \$4.9 billion as at 31 December 2017 as reported in the 2018 study. → [PART 2](#)
- \$2.5 billion of the impact investments widely offered to Australian investors as at 31 December 2019 comprise products targeting social outcomes – a significant (10 times) increase on the \$242 million reported in the 2018 study, but still only 13% of the total product universe. → [PART 2](#)
- Investors generally don't mind whether their impact investments support the generation of social or environmental impacts. Investors expressing a preference are fairly evenly split between the two, with 19% favouring social impact and 18% favouring environmental impact. → [PART 1](#)

Impact across asset classes

- As at 31 December 2019, impact investment products widely offered to Australian investors are dominated by green, social and sustainability (GSS) bonds, at \$17 billion or 85% of the product universe. The remaining \$2.9 billion in impact investments held by Australian investors comprise real assets (\$2.2 billion), private debt (\$287 million), public equity (\$195 million), private equity (\$97 million), social impact bonds (SIBs) (\$66 million) and others (\$44 million). → [PART 2](#)

Impact investing by investor type

- Dedicated impact managers and intermediaries are on the rise and account for 76% (but only 0.3% of AUM) of impact investments managed by Investment Managers, Intermediaries & Advisers. → [PART 1](#)
- Trusts, Foundations & not-for-profits (NFPs) and Individuals & Family Offices demonstrate a stronger home-state bias for impact generated from their impact investments than other investor types. Investment Managers, Intermediaries & Advisers and Asset Owners are the most likely investor types to seek investments generating impact outside Australia. → [PART 1](#)
- By stage of business growth, Trusts, Foundations & NFPs and Individuals & Family Offices show the highest appetite for early stage seed/start-ups and venture-stage companies, while Asset Owners and Diversified Financial Institutions show the least appetite. → [PART 1](#)

Financial performance

- The weighted average annualised returns (net of fees) during the study period (1 January 2018 to 31 December 2019) for impact investments widely offered to Australian investors ranged between 3.5% for private debt and 11.3% for public equity. GSS bonds averaged 5.1% p.a., while real assets returned 7.4% p.a. and SIBs returned 3.9% p.a. → [PART 2](#)
- Financial returns on impact investments targeting environmental outcomes are higher at 5.5% p.a. on a weighted average basis for 2018–2019 than for impact investments targeting social outcomes (4.4% p.a. in the same period). → [PART 2](#)
- Respondents to the 2020 Australian Impact Investment Survey report that overwhelmingly (92%) their impact investments are meeting or exceeding their financial return expectations. → [PART 1](#)
- Financial return expectations among Australian investors are high, with three quarters of investors expecting competitive or above market rates of return on their impact investments. → [PART 1](#)
- 25% of investors are willing to accept below market rates of return and only 1% of investors target capital preservation. → [PART 1](#)

Impact performance

- 93% of investors report that the impact performance of their impact investments is meeting or exceeding their expectations. → [PART 1](#)
- Impact investments widely offered to Australian investors are contributing to a broader and deeper range of outcome areas, including abating/avoiding 5 million tCO₂e; producing 84,000 GWh renewable energy; saving, treating or delivering 483,235 mega-litres of water; financing 32,000 homes; providing 200,000 people with access to financial services; creating 530,000 jobs; delivering 788,000 healthcare treatments and mental health interventions; reaching 3 million students and training 179,000 teachers; providing information and communications technology services to over 5 million people; and vaccinating more than 2,000 children in developing countries during the study period (1 January 2018 to 31 December 2019). → [PART 2](#)
- The majority of impact investment products as at 31 December 2019 is overwhelmingly directed towards conservation, environment and agriculture (\$16.8 billion or 84%), followed by multiple outcomes (\$1.8 billion or 9%), and housing and local amenity (\$766 million or 4%) and income and financial inclusion (\$327 million or 2%). → [PART 2](#)
- Current impact investment allocations and future interest is spread across all 17 Sustainable Development Goals and a diverse range of outcome areas, but clean energy, environment and conservation, and housing and homelessness rank highest among investors. → [PART 1](#)

Motivations for impact investing

- Achieving measurable social, environmental or cultural impact is the leading motivator for most active impact investors (76%), followed by mission alignment (60%) and financial returns (35%). Client/member/trustee demand is also an important motivator – especially for Investment Managers, Intermediaries & Advisers and Asset Owners. → [PART 1](#)

Impact investment preferences

- Investors generally don't have a specific state or territory preference for their domestically focused impact investments. Investment Managers, Intermediaries & Advisers and Asset Owners are the most likely investor types to seek investments generating impact outside Australia. → [PART 1](#)
- Impact investors desire early-stage products, e.g. seed/start-ups and venture-stage companies. However, the data indicates that there are very few widely available products investing in early-stage products. → [PART 1](#)

Blended capital transactions

- Investors are open to considering participation in blended finance investments in the future. Individuals & Family Offices, Trusts, Foundations & NFPs and some Investment Managers, Intermediaries & Advisers are more likely than other investor types to participate on concessional terms or as a grant provider. Asset Owners and Diversified Financial Institutions are more likely to participate on a non-concessional basis. → [PART 1](#)

Catalysts for and barriers to impact investing

- The three most important catalysts to enable active impact investors to increase their allocation to impact investing are: more investable deals, evidence of social impact and evidence of financial performance or a longer track record. → [PART 1](#)
- The leading barriers to investors not yet active in impact investing are: lack of reliable research, information and benchmarks, needing more evidence or a longer track record of financial performance and a lack of client/member/trustee demand. → [PART 1](#)
- The leading barriers to investors increasing their allocations towards impact investments in developing countries are: political and regulatory risk, a lack of internal expertise in emerging markets and a lack of liquidity. → [PART 1](#)

Role of government in market building

- Investors agree governments have a key enabling role to accelerate the Australian impact investment market through a variety of initiatives including tax incentives for investors, capacity building for impact businesses, clarifying fiduciary duty to include consideration of impact, and improving impact reporting and measurement by providing access to government data. → [PART 1](#)

Impact management and measurement

Most active impact investors are endeavouring to measure and manage impact, motivated by wanting to better understand the impact of their investments, manage or improve their impact performance and report on impact to stakeholders. Many have moved on from trying to get buy-in for impact measurement and management to actively working out how to implement it within their organisations.

- More active investors are measuring 'what' outcomes their investments are contributing to (84%), 'who' experiences the outcome (49%) and 'how many' and for 'how long' stakeholders experience the outcome (48%) than are measuring their 'contribution' to the impact (34%) or the 'risk' that impact does not occur as expected (28%). → [PART 1](#)
- 40% of active impact investors are not setting impact goals. → [PART 1](#)
- Overwhelmingly, investors cite access to standardised and comparable tools and frameworks as the leading challenge to measuring and managing impact. → [PART 1](#)
- Use of available frameworks and tools is more fragmented and shallower in Australia than globally. In Australia, the Sustainable Development Goals framework is the most widely used framework for measuring, managing and communicating impact, followed by Principles for Responsible Investment and Impact Management Project. → [PART 1](#)

Introduction

As we write, the global context for impact investing is rapidly shifting amid the worldwide COVID-19 pandemic, bringing into even sharper focus the interdependencies between economic, social and environmental outcomes and financial performance. In response to the crisis, G20 Leaders released a joint statement on 26 March 2020² noting the intertwined health, social and economic impacts of the pandemic are “a powerful reminder of our interconnectedness and vulnerabilities”.

The sheer size of the world’s capital markets relative to global GDP and universal ownership by the largest institutional investors make the links between financial performance and economic, social and environmental outcomes increasingly unavoidable in investment markets. At the same time, societal and customer expectations are shifting, with more members and customers wanting to understand how their investments are contributing to positive social or environmental outcomes and solutions – or at least not causing harm to people or the planet. This was highlighted in community response to the recent bushfires across Australia. Perhaps the COVID-19 pandemic, alongside the growing focus on the risks posed by climate change, will finally serve as the catalyst for a new paradigm of risk, return and impact in investment markets as we evolve our expectations of the role and purpose of capital in our society.

THE IMPORTANCE OF IMPACT DATA

The importance of robust impact investment data (including investor insights) is well recognised in Australia and internationally. Such data is particularly sought to measure investor activity and the demand for impact investments as well as to provide a recognised set of financial and impact data and performance benchmarks for both Australia’s impact investing market and the broader global market.

It is for these reasons that the Australian Advisory Board on Impact Investing recommended in its 2014 strategy, *Delivering on Impact*, that a regular impact investment survey of Australian investors be conducted, as well as engaging in a detailed analysis of Australian impact investment activity and performance data. This resulted in the first editions of the impact investment survey and the Benchmarking Impact study being published by Impact Investing Australia, the 2020 editions of which are now combined into this single report.

This report is prepared for investors, asset managers, intermediaries, advisers, enterprises, not-for-profit organisations, government agencies and others who have a stake in and/or seek to better understand the impact investment market in Australia.

It can help investors understand aggregate performance figures and trends and provide insights into the interests, experiences and challenges of other investors in the Australian market. It can provide product manufacturers and deal makers with evidence that may support decision-making on product development. It can provide asset consultants and wealth advisers insights on investor interest and demand that can assist in understanding their evolving needs. It can also help asset managers by providing a benchmark from which to assess market activity and their own performance and investment strategies. It can help for-purpose businesses seeking to understand the market dynamics of the impact investment market as a potential source of capital. It can help inform government and other policy makers with data and insights that highlight potential areas for policy development.

Ultimately, this data helps to inform how well this approach to responsible investing is meeting investor expectations, addressing enterprises’ capital needs and fulfilling its promise to help address our pressing social and environmental challenges, including helping to achieve the Sustainable Development Goals (SDGs) by 2030.

² Extraordinary G20 Leaders’ Summit: Statement on COVID-19, 26 March 2020.



ABOUT IMPACT INVESTING

Impact investing is one of many ways to engage in responsible investment, as outlined in RIAA's responsible and ethical investment spectrum (Figure 1).

The uptake and growth of impact investing is a response within the finance sector to increasing investor demand and the enduring societal and environmental challenges that we face globally and locally.

Impact investing is one of many approaches to responsible investing, with its key features being that there is **intent** to help solve social or environmental problems and that the impact can be and is **measured**. Ideally, an impact investment will also provide **additionality**, i.e. delivery of benefits beyond what would have occurred in the absence of the investment.

Impact investing holds great promise as a tool for positive change because it embeds positive impact into financial tools that traditionally focused only on commercial value creation. In this way, it harnesses

private-sector mechanisms and capital to address social and environmental issues in ways complementary to the efforts of government and philanthropy.

GLOBAL IMPACT INVESTING MARKET CONTEXT AND OVERVIEW

The global impact investing market is diverse and is continuing to grow and mature, reaching US\$502 billion and 13,000 deals being managed across 1,340 organisations globally in 2018, according to the Global Impact Investment Network's (GIIN) ninth annual impact investor survey,³ and is expected to reach US\$1 trillion by 2024.⁴ It is also becoming increasingly sophisticated, with impact measurement and management central to many investors' goals and practices.⁵ According to the GIIN survey,⁶ two thirds of impact investing products are managed through specialist impact intermediaries. Two thirds of investors target market-rate returns, one third target concessional rates of return, with 15% of investors targeting returns that are closer

Impact investments are investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return (GIIN). These investments are made in developing and developed markets, across asset classes and sectors, and target financial returns ranging from below market rate to above market rate returns.

³ Mudaliar et al.

⁴ Social Impact Investment Taskforce, *Impact Investment: The Invisible Heart of Markets*, Social Impact Investment Taskforce, 2014.

⁵ Mudaliar et al.

⁶ Mudaliar et al.

FIGURE 1 RIAA's responsible and ethical investment spectrum

TRADITIONAL INVESTMENT		RESPONSIBLE & ETHICAL INVESTMENT							PHILANTHROPY
		ESG INTEGRATION	ACTIVE OWNERSHIP – CORPORATE ENGAGEMENT & VOTING	NEGATIVE SCREENING	SCREENING NORMS-BASED SCREENING	POSITIVE/BEST-IN-CLASS SCREENING	SUSTAINABILITY-THEMED INVESTMENT	IMPACT INVESTING (& COMMUNITY INVESTING)	
FOCUS	Limited or no regard for ESG factors	Consideration of ESG factors as part of investment decision	Using shareholder power to influence corporate behaviour	Industry sectors or companies excluded/ divested to avoid risk and better align with values	Screening out investments that do not meet minimum standards & including investments that meet defined ESG criteria	Investments that target companies or industries with better ESG performance	Investments that specifically target sustainability themes eg: clean energy; green property	Investments that target positive social & environmental impact and provide either a market or below market rate	Grants that target positive social & environmental impact with no financial return
IMPACT INTENTION	Agnostic	Avoids harm			Benefits stakeholders				
		Contributes to solutions							
ALLOCATING CAPITAL	Delivers competitive financial returns								
	Manages ESG risks								
	Pursues ESG opportunities								
	Intentionality: delivery of impact is central to underlying asset/investment								
Impact of investment is measured & reported									

* This spectrum has been adapted from frameworks developed by Bridges Fund Management, Sonen Capital and the Impact Management Project

to capital preservation than market rate. The majority of investors (56%) target both social and environmental outcomes, 36% target only social objectives and 7% target only environmental objectives. Overall, investors are satisfied that the impact outcomes and financial performance of their impact investments are in line with their expectations. Impact investors also believe they have a role to play in contributing to field-building and market development activities.

Increasingly, impact investing is capturing the attention of policy makers around the world – including governments and multilateral organisations – as a strategy to draw private capital into solving some of the world's most entrenched challenges, including delivering on the SDGs by 2030, which requires the reallocation of public and private investment flows at scale. The underlying tenets of impact investing are also apparent in the crafting of the European Union's EU Taxonomy for Sustainable Activities and the proposed EU Green Bond Standard.

The establishment of the international Social Impact Investment Taskforce (SIIT) in 2013 under the United Kingdom's presidency of the G8 provided legitimacy and a centralised locus of control for impact investing efforts around the world. This included the establishment of various national advisory boards, including the Australian Advisory Board and its operating arm, Impact Investing Australia, in 2014. The SIIT transitioned out of the G8 into the Global Steering Group for Impact Investing (GSG) in 2015. The SIIT and GSG have brought together leaders across finance, business, philanthropy and government to share knowledge and collaborate across sectors and geographies. These efforts have underpinned market-building activities and ecosystem development among the now 23 member countries plus the EU and supporting network organisations that participate as active observers. They have also precipitated the emergence of peak bodies, capacity-building organisations and specialist impact intermediaries, and the development of frameworks and tools.

AUSTRALIAN IMPACT INVESTING MARKET CONTEXT AND BACKGROUND

Australia's investment landscape

Australia is the world's 13th largest economy and ranked 53rd by population. By virtue of its compulsory superannuation system, it is ranked sixth globally for total managed assets (\$3.9 trillion)⁷ and fourth for pension assets (\$3 trillion).⁸ Australia has the fastest growing pool of pension assets in the world and has the second highest rate of pension assets to GDP (138%) after the Netherlands.⁹

The responsible investment market in Australia grew 13% in 2018 to \$980 billion, or 44% of professionally managed assets under management (AUM). Dominant strategies are environmental, social and governance (ESG) integration (45%) and corporate engagement/shareholder action (36%), with negative screening on the increase (13%). Sustainability-themed investing and impact and community investing accounted for 4% and 1% of strategies respectively.¹⁰ Much more of the focus to date among mainstream investment managers and asset owners has been on incorporating ESG risk factors into financial investment analysis rather than on understanding how organisations and activities financed by investments contribute to positive, negative, intended and unintended economic, social and/or environmental outcomes on others (i.e. people and planet), and strategically positioning portfolios to enhance positive and reduce negative impacts.

Awareness of, interest in and demand for impact investing products in Australia are on the increase, as borne out in our report and survey findings. Drivers include the changing context, the emergence of dedicated impact investment intermediaries (who are playing a critical and leading role in the development of impact investing in Australia), increasing investor demand for impact investment products, mainstream institutional investors grappling with universal ownership, more impact entrepreneurs seeking impact investment capital, and increased government attention.

Australian policy environment

Commonwealth Government

The Commonwealth Government has several measures in place to support the development of the domestic social impact investment market. In 2017, the Commonwealth released a social impact investing discussion paper¹¹ and in response published the Australian Government Principles for Social Impact Investing.¹² Since the 2017-18 Budget, the Commonwealth has announced \$57 million in initiatives. This includes:

- \$22.3 million over ten years to partner with state and territory governments on social impact investing projects;
- \$8 million over four years towards a Sector Readiness Fund to grow the social impact investing market by providing capability-building grants to impact businesses looking to become investment ready;
- \$6.7 million over four years to build the capacity of the Australian social impact investing sector to measure its outcomes and impacts;
- \$15.7 million over three years to fund the co-design, implementation and evaluation of three payment-by-outcomes funding trials in the social services sector; and
- \$5 million to establish a Social Impact Investing Taskforce to provide evidence-informed recommendations on a strategy for the Commonwealth's role in the social impact investing market – in particular, how social impact investing can provide solutions to address entrenched disadvantage and some of society's most intractable social problems.

The Commonwealth Government also oversees a number of social impact investing programs that advance the interests of Aboriginal and Torres Strait Islander people, in particular through Indigenous Business Australia (IBA). IBA is a commercially-focused corporate Commonwealth entity with a mandate to assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency, and to advance the commercial and economic interests of Aboriginal and Torres Strait Islander people. IBA runs three core programs that enables it to co-invest alongside Indigenous communities, families and enterprise, to generate economic, social and cultural impact. Its activities deliver outcomes that drive the creation of jobs, businesses, home ownership, capability and capacity development, prosperity, sound investments and wealth. These outcomes help to build inter-generational wealth and lasting benefits for Aboriginal and Torres Strait Islander households, owners, employees, families and communities.

⁷ Australian Bureau of Statistics, Managed Funds Australia, Dec 2019, viewed 29 March 2020, <<https://www.abs.gov.au/ausstats/abs@nsf/mf/5655.0>>.

⁸ Association of Superannuation Funds of Australia, Superannuation Statistics, viewed 29 March 2020, <<https://www.superannuation.asn.au/resources/superannuation-statistics>>.

⁹ Melbourne Mercer Global Pension Index, The Australian Superannuation System.

¹⁰ Responsible Investment Association Australasia, *Responsible Investment Benchmark Report 2019 Australia*, 2019.

¹¹ Department of the Treasury, *Social impact investing – discussion paper*, Australian Government, Canberra, 2017, viewed 8 April 2020, <<https://treasury.gov.au/consultation/social-impact-investing>>.

¹² Department of the Treasury, *Australian Government principles for social impact investing*, Australian Government, Canberra, 2017, viewed 8 April 2020, <<https://treasury.gov.au/programs-initiatives-consumers-community/social-impact-investing/australian-government-principles-for-social-impact-investing>>.

The Commonwealth Government has also focused on the potential of social impact investing from Australia into the Asia-Pacific region. The Department of Foreign Affairs and Trade (DFAT) has a number of programs and partnerships designed to increase impact investment in the region, with a particular focus on gender. Examples include the Scaling Frontier Innovation program; DFAT's partnerships with the GIIN; Convergence; the Aspen Network of Development Entrepreneurs; the Pacific Readiness for Investment in Social Enterprise; and the Emerging Markets Impact Investment Fund.

State governments

State government strategies around impact investing vary. The Government of New South Wales (NSW), for example, released a social impact investment policy in 2015 and is the only state with a dedicated Office of Social Impact Investment. Victoria has a strong policy focus on enabling investment in impact businesses, including having introduced Australia's first Social Procurement Framework, which has the potential to significantly expand the impact business market. Both NSW and Victoria have become issuers of green bonds – NSW under a broader sustainability bonds program where it is seeking to align funded projects to the SDGs. Several states, including NSW, Victoria, Queensland and South Australia, have all commissioned social impact bonds around key outcomes areas including homelessness, out-of-home care and re-offending.

Shifting sentiment across the Australian financial services sector

Sustainability is becoming a more significant issue across the Australian financial services sector. In large part this is being led by the convergence of climate-related risks and future financial performance within the foreseeable investment time horizon. It is also being driven by changing consumer and societal expectations and the realities of the interdependencies between financial returns and economic, social and environmental outcomes – which are unavoidable given the size of the world's financial sector relative to the real economy.

The recent bushfires across Australia are a case in point, with many superannuation fund managers fielding increased inquiry from members about the composition of portfolios, wanting to ensure their savings are not funding organisations that are contributing to negative climate effects.

In response to the changing context and shifting sentiment, an industry-led initiative called the Australian Sustainable Finance Initiative (ASFI) was established in 2019. ASFI is a collaboration of Australia's major banks, superannuation funds, insurance companies, financial sector peak bodies, civil society and academia. ASFI intends to develop a Sustainable Finance Roadmap in 2020 to recommend pathways, policies and frameworks to enable the financial services sector to contribute more systematically to the transition to a more resilient and sustainable economy and to help Australia meet its commitments in relation to the SDGs, the Paris Agreement and the Sendai Framework for Disaster Risk Reduction.

The pioneering work and learning that has already taken place in impact investing are contributing to this broader discussion, and the early signs of convergence between mainstream and impact investing thinking and approaches are emerging.

Mount Majura Solar Farm outside Canberra, financed by Impact Investment Group, has a capacity of 2.3 MW and delivers clean energy to the ACT Government.



Part 1:

Australian impact investor insights

1.1 ABOUT THE 2020 AUSTRALIAN IMPACT INVESTMENT SURVEY

Context and background

The 2020 Australian Impact Investment Survey, now in its second edition, builds on the foundations established in the inaugural *Impact Investing Australia 2016 Investor Report*, which gathered data on Australian investor attitudes towards impact investing by:

- measuring the levels of awareness and interest in impact investing by those not participating or investing in the sector as well as their intentions to invest in the future;

- measuring current activity, investor motivations, intentions and perceived challenges for investors already active in the sector;
- setting the baseline to measure changing levels of awareness, interest and activity over time; and
- establishing a uniquely Australian data set that can contribute to the evidence base globally and complement existing initiatives outside of Australia.

In this expanded second edition, reflecting the evolution of the market since 2016, there is a new section and dedicated focus on impact measurement and management practices of active impact investors.

1.2 THE RESPONDENTS

Investor types

Respondents were asked to provide information about themselves or their organisations, selecting from 12 possible investor types including 'other'. The researchers then consolidated these classifications into the following five investor types to segment and group respondents to facilitate presentation of the results:

(1) Individuals & Family Offices; (2) Trusts, Foundations & NFPs (not-for-profits); (3) Investment Managers, Intermediaries & Advisers; (4) Asset Owners (including superannuation funds); and (5) Diversified Financial Institutions. These investor types are used throughout this report.

- Individuals & Family Offices comprises responses from 20 individuals and 7 family offices.
- Trusts, Foundations & NFPs comprises responses from 12 trusts or foundations, 3 public or private ancillary funds and 7 not-for-profits.
- Investment Managers, Intermediaries & Advisers comprises responses from 12 advisers, 31 asset/fund managers and 13 impact investing intermediaries.
- Asset Owners comprises responses from 14 asset owners (which includes superannuation funds and 1 response from a government entity).
- Diversified Financial Institutions comprises responses from 3 commercial/retail banks and 2 investment banks.

While there are only five respondents in the Diversified Financial Institutions group, given their size, and the fact that their impact-related activities may extend beyond investment management, for instance, to include banking and insurance products and services, they are shown separately so as not to distort the results of other groups.

AT A GLANCE

Respondents:

- 125 respondents participated in the 2020 Australian Impact Investment Survey – 56 Investment Managers, Intermediaries & Advisers, 27 Individual Investors & Family Offices, 22 Trusts, Foundations & Not-for-profits (NFPs), 15 Asset Owners (including superannuation funds) and 5 Diversified Financial Institutions.

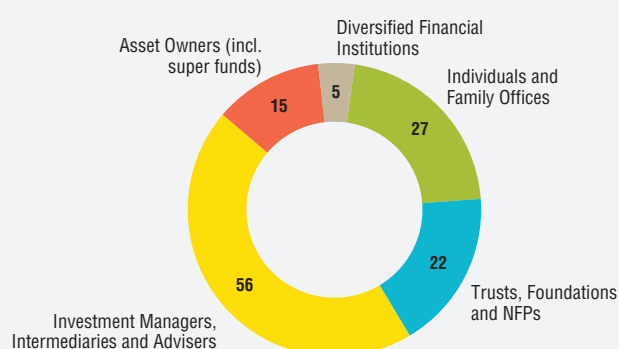
Assets under management:

- 73 (58%) respondents disclosed the value of their assets under management (AUM), collectively controlling \$1,722 billion of assets.

Impact investment allocation:

- \$13 billion (or 0.7% of total AUM) is allocated to impact investments by the 58% of respondents who disclosed their AUM.
- Individuals & Family Offices are allocating the highest proportion of their AUM (12%) to impact investments (but have the lowest amount of AUM); Trusts, Foundations & NFPs and Diversified Financial Institutions are each allocating 1%, Investment Managers, Intermediaries & Advisers 0.4% and Asset Owners 0.3%.

FIGURE 2 Respondents by investor type – all respondents (n=125)



These investor types vary from those used in the 2016 survey, reflecting the shift in the composition of respondents in this 2020 Impact Investment Survey as compared with the 2016 survey. Most notably, there is a larger proportion of Asset Owners and Investment Managers,

Intermediaries & Advisers participating in the 2020 Impact Investment Survey (and a correspondingly lower proportion of Trusts, Foundations & NFPs).

FIGURE 3 Respondents by location – all respondents (n=125)

Note: 5% of respondents are based outside of Australia.

Investor location

Most respondents are headquartered in New South Wales (43%) and Victoria (34%) – the most populous states and where most financial and investment sector activity is centred (Figure 3). All states and territories are represented in the sample. Five percent of respondents indicate that they are domiciled overseas but have operations in Australia.

Funds invested

Of the 125 respondents, 73 (or 58%) provided the value of their AUM. The total disclosed capital captured by the 2020 Impact Investment Survey is A\$1,722 billion – significantly higher than the A\$333 billion disclosed by 76% of respondents in the 2016 survey. This reflects the much higher proportion of institutional investors with larger AUM – Investment Managers,

Intermediaries & Advisers and Diversified Financial Institutions (61%) – participating in the 2020 Impact Investment Survey as compared with the sample in 2016 (28%), which was dominated by trusts and foundations, not-for-profits and individuals (72% of respondents in the 2016 survey compared with 39% in the 2020 survey) with relatively smaller AUM. Table 1 shows the number of respondents disclosing their AUM and the aggregate amount of capital being managed by investor type.

As to be expected, there is a wide dispersion in terms of AUM across and within the different investor types, reflecting the breadth and depth of the sample size from individual investors and boutique impact investment managers to large mainstream institutional superannuation funds and banks.

Of the total disclosed A\$1,722 billion AUM, about A\$13 billion is currently allocated to impact investments by those Australian respondents. Extrapolating for the 42% of respondents who did not disclose their AUM (i.e. \$13 billion divided by 58%), this would correspond to \$22 billion. This is very close to the A\$19.9 billion of impact investing product widely offered to Australian investors at 31 December 2019 that is identified in the 2020 Australian Impact Investment Activity and Performance study (see Part 2 of this report).

Individuals & Family Offices report the highest proportional allocations to impact investments at 12% of AUM (but have the lowest amount of AUM), followed by Trusts, Foundations & NFPs at 1% of AUM (which appears low given the potential opportunity to align investments with mission among this purpose-driven group of investors) and Diversified Financial Institutions also at 1% of AUM, followed by Investment Managers, Intermediaries & Advisers at 0.4% of AUM. Asset owners report allocating the lowest proportion of AUM to impact investments (0.3%).

It is also worth noting that 76% of Investment Managers, Intermediaries & Advisers' impact AUM is managed through dedicated impact managers and intermediaries (those with an allocation of 95% or more to impact investments), meaning that impact investments managed by mainstream Investment Managers, Intermediaries & Advisers accounts for only 0.1% of their AUM. These estimates are caveated by the fact that data is self-declared and respondents may define what constitutes impact investments differently, but nonetheless provide context and serve as a useful point of reference.

TABLE 1 Capital managed by investor type

	Individuals and Family Offices	Trusts, Foundations and NFPs	Investment Managers, Intermediaries and Advisers	Asset Owners (incl. super funds)	Diversified Financial Institutions	Total
Total number of respondents	27	22	56	15	5	125
Number of respondents disclosing AUM	11	17	24 [#] 9 [*]	9	3	73
% respondents disclosing AUM	41%	77%	59%	60%	60%	58%
Total AUM disclosed (A\$ million) (n=73)	434	4,729	598,446 [#] 1,935 [*]	258,198	858,500	1,722,242
Average AUM per respondent (A\$ million) (n=73)	39	278	24,935 [#] 215 [*]	21,517	286,167	Not meaningful
Estimated aggregate current impact investment AUM – based solely on those respondents disclosing AUM (A\$ million) (n=50)	53	56	613 [#] 1,901 [*]	845	9,150	12,618
Estimated average current impact investment AUM per respondent (A\$ million) (n=50)	5	3	26 [#] 211 [*]	94	3,050	Not meaningful
Estimated current weighted average impact investment AUM as a % of total disclosed AUM (n=50)	12%	1%	0.1% [#] 98% [*]	0.3%	1%	0.7%

*Results for respondents who reported > 95% allocation to impact investments (i.e. dedicated impact investment managers, intermediaries & advisers).

#Results for respondents who reported < 95% allocation to impact investments (i.e. mainstream investment managers, intermediaries & advisers).

1.3 AWARENESS, INTEREST AND ACTIVITY

Impact investment activity

Respondents were asked to indicate whether they are currently active or not yet active in impact investing (Figure 4). Sixty-nine percent of respondents state they are active in impact investing, markedly up from the 41% who responded affirmatively in the 2016 survey, suggesting impact investment activity among Australian investors is growing. The shape of demand is also changing, with more institutional Investment Managers, Intermediaries & Advisers, Asset Owners and Diversified Financial Institutions showing interest and becoming active in impact investing, as evidenced by the composition of respondents in the 2020 Impact Investment Survey compared to the 2016 Survey.

The investor types reporting the highest incidence of respondents who are active in impact investing are Asset Owners (87%) and Individuals & Family Offices (82%), followed by Trusts, Foundations & NFPs at 68%, Investment Managers, Intermediaries & Advisers at 59% and Diversified Financial Institutions at 60% (Figure 5).

Although a larger proportion of respondents are now actively making impact investments, and the absolute dollar amount of impact investments held by Australian investors has grown substantially since the 2016 survey, the total amount of impact investments made relative to total AUM remains small at 0.7% overall (Table 1). Promisingly though, are the indications from respondents that they expect impact investing to grow (see section 1.6), suggesting that the recent growth trajectory for impact investing is set to continue.

Activity among active impact investors

For respondents who indicated they are active in impact investing, Figure 6 overleaf shows the value of their impact investments as a proportion of their total AUM. Proportional allocations towards impact investment have risen relative to the findings in the 2016 survey. Fifty-seven percent of respondents indicate their allocation to impact investments represents 10% or more of their total AUM compared to 48% of respondents in the 2016 survey. Forty-three percent of respondents indicate their allocation to impact investments represents less than 10% of their total AUM compared with 52% in the 2016 survey.

While 45% of impact Investment Managers, Intermediaries & Advisers participating in the 2020 Impact Investment Survey

AT A GLANCE

Impact activity:

- 69% of respondents identify as active impact investors – significantly higher than the 41% who identified as active impact investors in the 2016 survey.
- 57% of respondents active in impact investing indicate their allocation to impact investments exceeds 10% of their total AUM, and 40% indicate that they hold more than ten impact investments in their portfolio (up from 14% in 2016).

Motivations:

- Achieving measurable social, environmental or cultural impact (76% of respondents), mission alignment (60% of respondents) and financial returns (35% of respondents) are the leading motivators for allocating funds to impact investments.
- Client/member/trustee demand is an important motivator for 52% of Investment Managers, Intermediaries & Advisers and 38% of Asset Owners.

Awareness and interest:

- 59% of respondents not yet active in impact investing are aware or highly aware of impact investing (38% in 2016); only 13% have limited to no awareness of impact investing (24% in 2016).
- 61% of respondents not yet active in impact investing are interested or highly interested in impact investing (40% in 2016); only 5% remain sceptical about impact investing, and no respondents indicate that they have no interest in impact investing (together 18% in 2016).

FIGURE 4 Impact investment activity by investor type – all respondents (n=125)

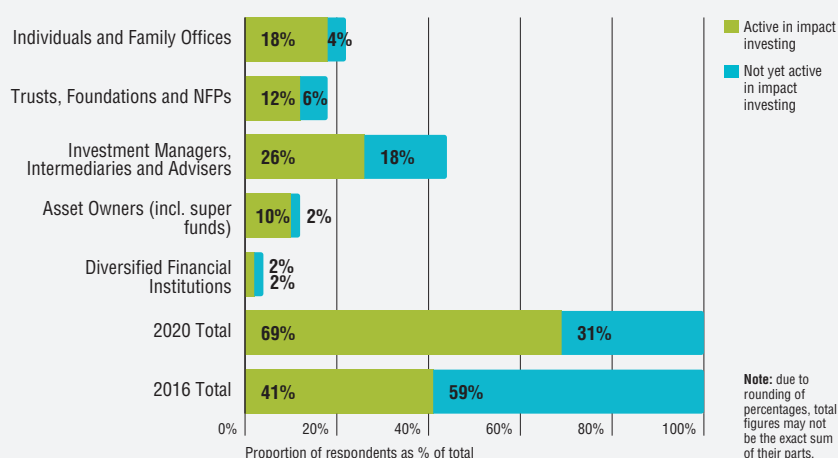


FIGURE 5 Total respondent impact investment AUM by investor type – respondents active in impact investing (n=50)

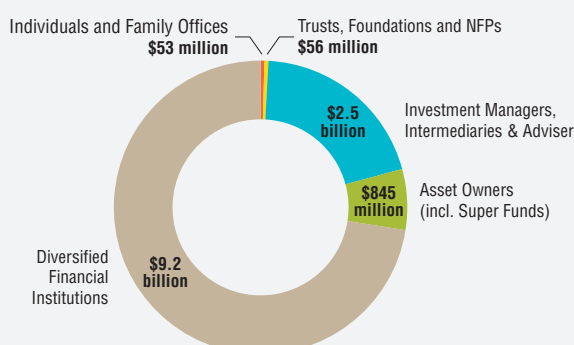
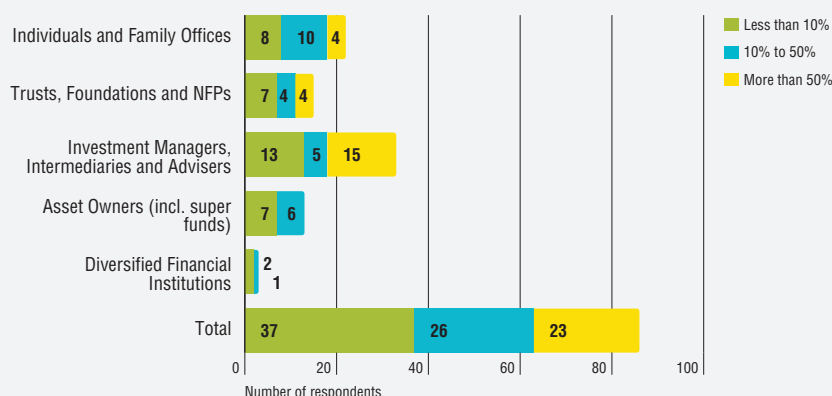
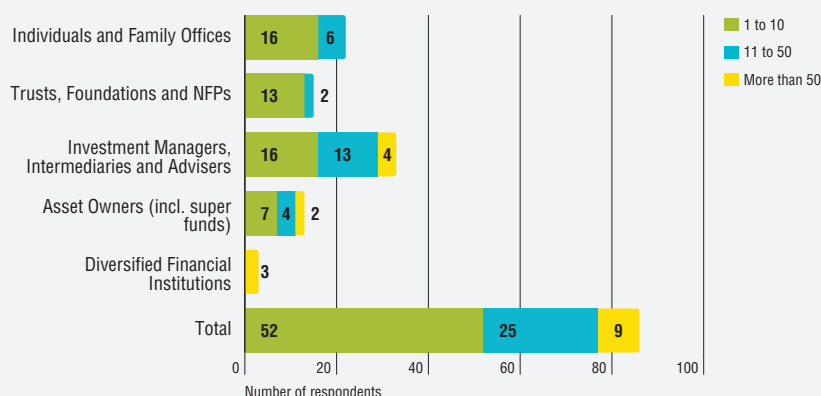


FIGURE 6 Percentage of total AUM allocated to impact investments – respondents active in impact investing (n=86)**FIGURE 7 Number of impact investment deals in investment portfolio – respondents active in impact investing (n=86)**

indicate allocations of 50% or more to impact investments, these almost exclusively represent dedicated impact investment managers, who relative to mainstream Investment Managers, Intermediaries & Advisers have smaller AUMs (see Table 1). While these dedicated impact Investment Managers, Intermediaries & Advisers represent a very small proportion of the total survey sample AUM (0.22% of all respondents ex-Diversified Financial Institutions), their \$1.901 billion of impact investments represent 55% of total impact investments (\$3.468 billion) made by all respondents ex-Diversified Financial Institutions. This demonstrates the important role these actors are playing in the Australian impact investment ecosystem.

Respondents active in impact investing were asked how many impact investments (i.e. transactions or investment in impact funds) they hold in their portfolio (Figure 7). The number of impact investments that respondents hold in their portfolios has increased significantly since the 2016 survey. Forty percent of respondents

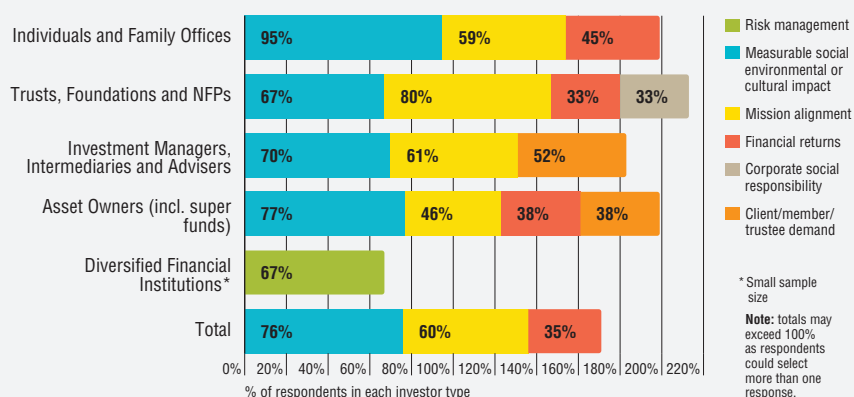
indicate holding more than ten impact investments, significantly more than the 14% of respondents in the 2016 survey. While the majority (60%) of respondents indicate holding ten or less impact

investments in their portfolios, this is down considerably when compared with the 86% of respondents in the 2016 survey. Further, the proportion of respondents holding five or less impact investments has decreased significantly to 50% in the 2020 Impact Investment Survey from 73% in the 2016 survey. While capital remains reasonably concentrated in a relatively small number of impact investments for the majority of respondents, the significant growth in respondents reporting more than ten – and in some cases more than 50 – impact investments demonstrates a significant shift from 2016.

Consistent with their relatively smaller AUMs, smaller numbers of impact investments (ten or less) are most prevalent for respondents with lower AUMs including Trusts, Foundations & NFPs (87%) and Individuals & Family Offices (73%) – with no respondents in these investor types holding more than 50 impact investments. In contrast, 12% of Investment Managers, Intermediaries & Advisers, 15% of Asset Owners and 100% of Diversified Financial Institutions indicate they hold more than 50 impact investments, although for Diversified Financial Institutions, this probably includes banking and/or insurance products as well as investment products.

Motivations for investing among active impact investors

Respondents who indicated they are active in impact investing were asked to provide their top three motivations for making impact investments (Figure 8). Achieving measurable social, environmental or cultural impact is the leading motivator for most respondents (76%), followed by mission alignment (60%) and financial returns (35%).

FIGURE 8 Main motivators driving allocation to impact investments for respondents who are active in impact investing, top three responses (n=86, r=258)

* Small sample size
Note: totals may exceed 100% as respondents could select more than one response.

Not surprisingly, commitment to impact seems to be a primary motivator for many respondents, although not at the expense of financial returns – including among Individuals & Family Offices and Trusts, Foundations & NFPs. Financial returns was a less pronounced driver for these investor types in the 2016 survey.

Demand from clients, members and/or trustees are among the top three motivators for making impact investments for Investment Managers, Intermediaries & Advisers (52% of respondents) and Asset Owners (38% of respondents), underscoring both the opportunity and the challenge of educating and empowering individual stakeholders and consumers to demand more sustainable investment options. Interestingly, 85% of fund managers responding to the GIIN's 2019 global Annual Impact Investor Survey indicated client demand as a motivation for impact investing – much higher than the incidence reported among respondents to the Australian 2020 Impact Investment Survey, suggesting that client demand is a much higher driver for growth in impact investing outside Australia.¹³

For Diversified Financial Institutions, risk management is the leading motivator (67% of respondents), perhaps indicating that changing community expectations and climate-related risks are increasing institutional focus on the interdependence between financial, social and environmental outcomes.

In the 2016 survey, mission alignment was the leading motivator, followed by client/member/trustee demand and financial returns. Interestingly, financial returns did not make the top three motivators for Individuals or Trusts and Foundations in 2016, but comes in at number three for both investor types in the 2020 Impact Investment Survey.

Awareness and interest among investors not yet active in impact investing

Awareness of and interest in impact investing among investors not yet active in impact investing are key indicators of future conversion into active impact investors. The 31% of respondents who indicated they are not yet active in impact investing were asked about their awareness (Figure 9) and interest (Figure 10) in impact investing to serve as a gauge of likely future participation.

Both awareness of and interest in impact investing have increased considerably among respondents not yet active in impact investing since the 2016 survey. Fifty-nine percent of respondents indicate they are

aware or highly aware of impact investing compared with only 38% in 2016. This is with the backdrop of an increase in capital flows into impact investments over the same period.

Only 13% of respondents indicate they have limited to no awareness of impact investing compared with 24% of respondents in the 2016 survey. Trusts, Foundations & NFPs and Investment Managers, Intermediaries & Advisers are the only investor types with respondents indicating they have limited to no awareness of impact investing, compared with respondents across all investor types in the 2016 survey.

Sixty-one percent of respondents indicate they are interested or very interested in impact investing compared with 40% of respondents in the 2016 survey, and 95% are at least curious about the concept. Only

5% of respondents remain sceptical about impact investing (all comprising Trusts, Foundations & NFPs and Investment Managers, Intermediaries & Advisers respondents) compared with 18% of respondents who indicate they are sceptical or uninterested in the 2016 survey.

These results indicate that the appetite for impact investment among respondents not yet active in impact investing is very strong, and stronger than it was in the 2016 survey. This suggests that demand for impact investing will continue to grow, especially if perceived and/or actual barriers to impact investing can be removed and enablers or incentives for impact investing increased as discussed later in this report.

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FIGURE 9 Awareness of impact investing among respondents not yet active in impact investing (n=39)

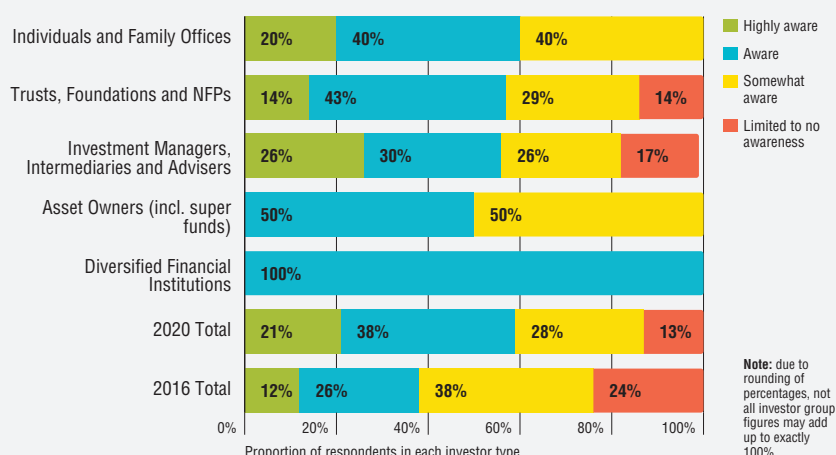
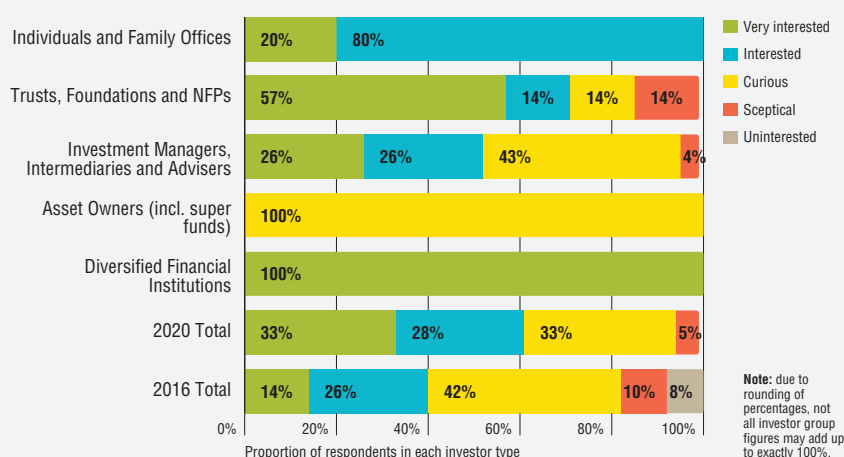


FIGURE 10 Interest in impact investment among respondents not yet active in impact investing (n=39)



1.4 THE SHAPE OF INVESTOR DEMAND

AT A GLANCE

Geography:

- 78% of respondents don't have a specific state or territory preference for their domestically focused impact investments.
- 91% of respondents are open to considering investments with impact occurring outside Australia – especially in Asia, the Pacific and Africa.
- 69% of respondents are interested or very interested in investments where the impact occurs in developing countries. Political and regulatory risk, a lack of internal expertise in emerging markets and a lack of liquidity are key barriers to increasing allocations to developing markets.

Impact areas:

- Respondents are deploying a range of impact strategies across the Impact Management Project's 'ABC' spectrum. Respondents who are active in impact investing are more likely to favour impact investments that target 'contributing to solutions' than other respondents (88% active vs 77%).
- 63% of investors are agnostic as to whether their impact investments generate a social or environmental impact; 19% favour social impact, 18% favour environmental impact.

- Current impact investment allocations and future interest is spread across all 17 SDGs and a diverse range of outcome areas: clean energy, environment and conservation, and housing and homelessness rank highest among respondents.

Type of investment:

- Private equity and venture capital and companies and businesses in their growth phase are the favoured asset classes for future impact investments.
- 53% of respondents would consider both direct investments and investments through a fund.

Blended finance investments:

- 39% of respondents active in impact investing have participated in blended finance transactions; 72% of all respondents are open to considering participating in blended finance investments in the future.
- Individuals & Family Offices, Trusts, Foundations & NFPs, and some Investment Managers, Intermediaries & Advisers are more likely to participate on concessional terms or as a grant provider than Asset Owners and Diversified Financial Institutions.

Preference for geographic location

Respondents were asked questions about their geographic preferences for where the impact from their impact investments occur.

Interest in investments with impact within Australia

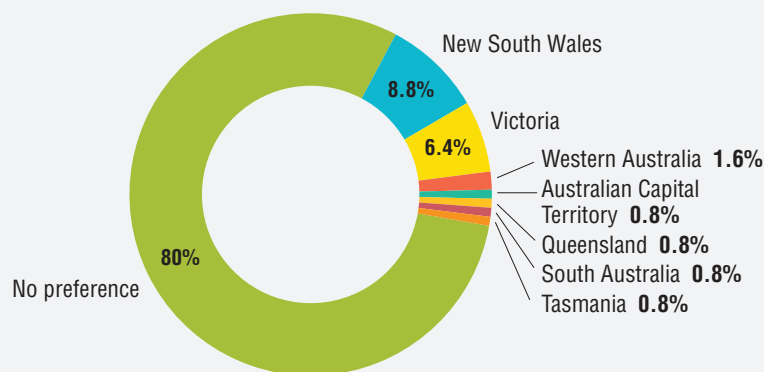
For investments where the intended impact is within Australia, only 21% of respondents indicate that they have a specific state or territory preference about where the impact of their investments is expected to occur (Figure 11). This trend was a little stronger for investors who are already active in impact investing (23%) versus investors who are not yet active in impact investing (18%).

This is significantly lower than the 39% recorded in the 2016 survey, which predominantly reflected the much higher proportion of respondents not yet active in impact investing recording specific state and territory preferences in the 2016 survey (56% versus 20% for the respondents who are already active in impact investing) and the higher proportion of respondents from investor types that tend to have stronger home-state biases – including as may be defined within their constitutional mandates. Of all investor types, Trusts, Foundations & NFPs indicate the strongest state- or territory-specific preference (45%) followed by Individuals & Family Offices (31%).

Interest in investments with impact outside Australia

Ninety-one percent of respondents are at least somewhat interested in investments

FIGURE 11 Preferred domestic state or territory of impact – all respondents (n=125)



with impact occurring outside of Australia (Figure 12) – although 26% prefer investments with impact occurring in Australia. Sixteen percent of respondents indicate a preference for investments where the impact occurs outside Australia. Investment Managers, Intermediaries & Advisers (21%) and Asset Owners (20%) are

most likely to seek investments where the impact occurs outside Australia.

A much higher proportion of respondents in the 2016 survey had no interest in investments with impact occurring outside Australia (35% versus 9%). This shift is probably largely attributable to the change

in the composition of survey respondents. Trusts, Foundations & NFPs comprised a larger segment of the 2016 survey and are the least likely group of respondents to be interested in investments where the impact occurs outside of Australia. In addition, a lack of availability of domestic impact investments with attractive attributes may also be a contributing factor towards increasing interest in investments with impact occurring outside Australia.

FIGURE 12 Interest in investments with impact outside Australia – all respondents
(n=125 for interest outside Australia; n=114 for interest in developing markets)

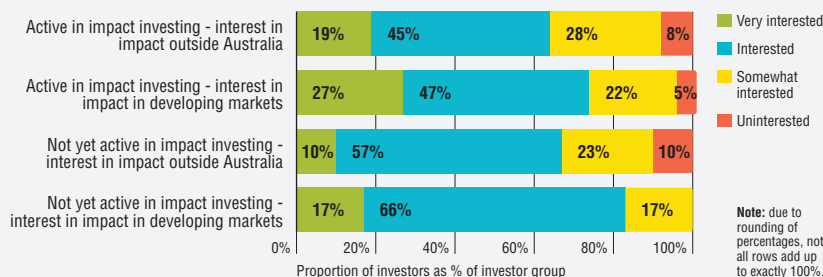
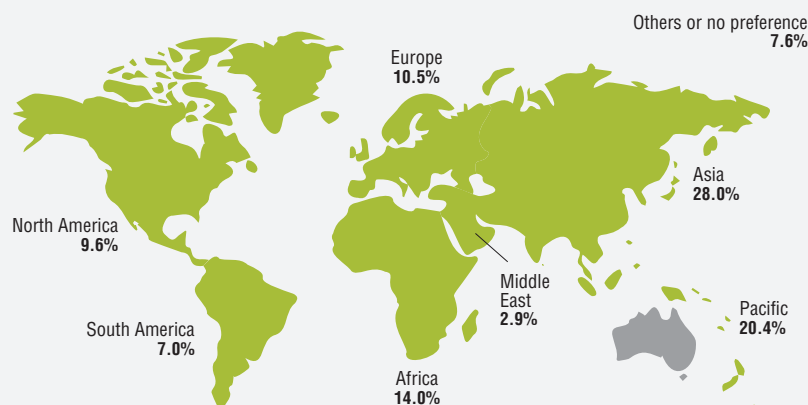


FIGURE 13 Preferred international region-specific impact – all respondents, top five responses (n=114, r=314)

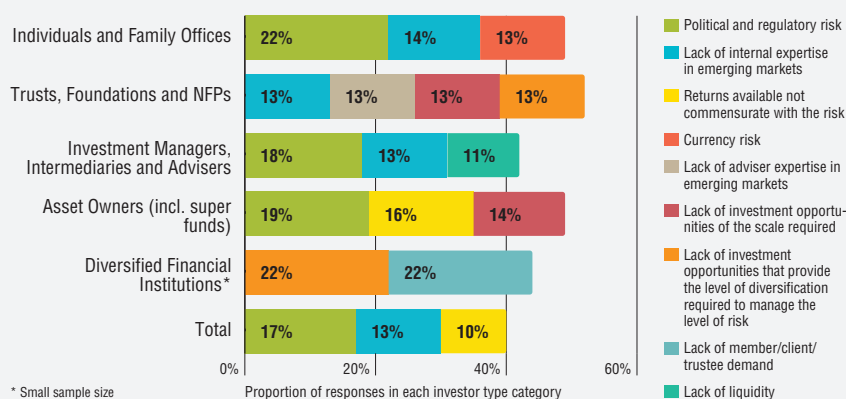


Among the respondents who indicate at least some level of interest in investments with impact occurring outside Australia, the regions those respondents indicate they are most interested in investing in are Asia (28% of responses), the Pacific (20%) and Africa (14%), indicating a focus on impact in the Asia-Pacific region and developing markets (Figure 13).

For those respondents who indicate they are at least somewhat interested in investments with impact occurring outside Australia, 76% indicate they are interested or very interested in opportunities to invest where the impact occurs in developing countries (Figure 12) – consistent with the regional preferences indicated above (Figure 13). Ninety-six percent of respondents who have an interest in foreign domiciled impact investments are interested in investments where the impact occurs in developing countries.

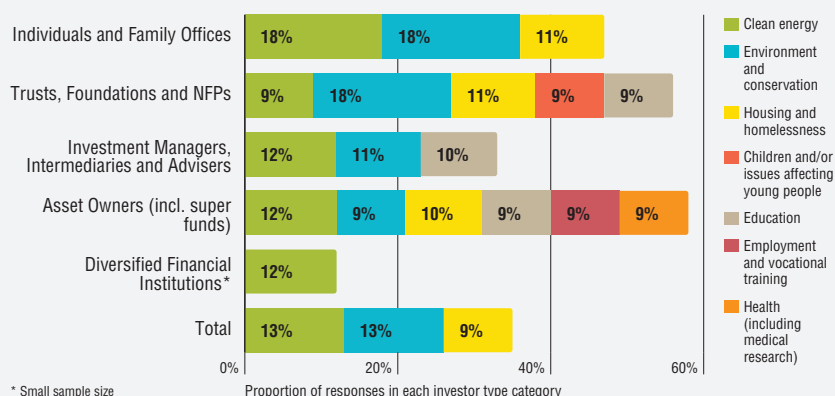
Respondents who are active in impact investing were asked for their views on any barriers they or their organisations might have to increasing their allocation to investments that support the generation of impact in developing countries (Figure 14). The leading barriers identified by these respondents are political and regulatory risk (17% of responses), a lack of internal expertise in emerging markets (13%) and a lack of liquidity (10%). This presents an opportunity to consider how these barriers might be mitigated to translate this interest into increased activity – especially from the perspective of Australia's development role within the Asia-Pacific region.

FIGURE 14 Barriers respondents active in impact investing face to increasing their allocation to investments with impact in developing countries, top three responses (n=86, r=241)

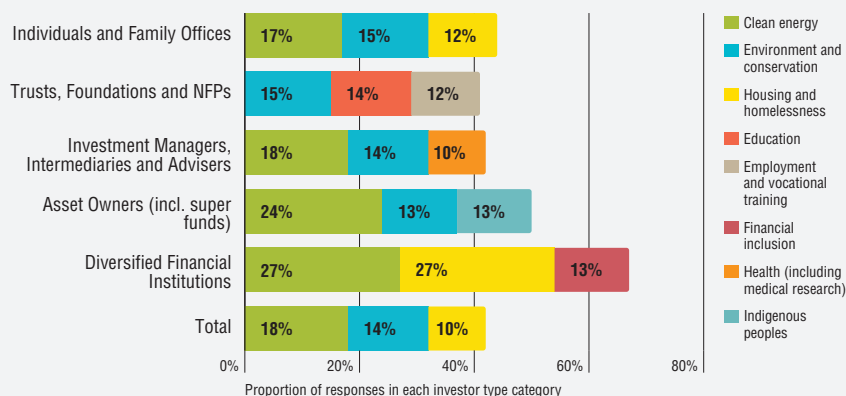


Preferred impact areas

Respondents who are active in impact investing were asked to indicate which impact areas their current impact investments are focused on. The frequency of respondents' answers is shown in Figure 15 overleaf. Current impact investments are spread across a diverse range of outcome areas, with clean energy (13%), environment and conservation (13%) and housing and homelessness (9%) rating highest among respondents. This in part may reflect not only respondents' individual preferences, but also product availability and the disproportionate

FIGURE 15 Top impact areas of respondents active in impact investors by portfolio allocation, top three responses (n=86, r=478)

* Small sample size

FIGURE 16 Preferred future impact areas – all respondents, top three responses (n=125, r=347)

contribution of green bonds and clean energy investments to the available product universe. In 2016, investments targeting children and/or issues affecting young people (16%) and clean energy (15%) were the highest ranked responses, which coincided with the issuance of the first two Australian social impact bonds (SIBs) targeting children and/or issues affecting young people.

All respondents were asked whether they or their organisations were more interested in impact investments that support the generation of social impacts or environmental impacts. The majority of respondents (63%) indicate they do not have a preference. Those respondents who did express a preference are fairly evenly divided with 19% of respondents indicating they are more interested in impact investments that generate social impacts and 18% of respondents indicating they are more interested in impact investments that generate environmental

impacts. This differs somewhat to global experience where, according to the GIIN's 2019 Annual Impact Investor Survey, a much higher proportion of respondents (36%) target only social objectives while only 7% target only environmental objectives.¹⁴

Interestingly, when all respondents were asked about which areas of impact they or their organisations would be most interested in investing in for future impact investments, there is a clear preference for impact investments in the clean energy, and environment and conservation impact areas (Figure 16). While responses are spread across a diverse range of outcome areas, clean energy (18%) and environment and conservation (14%) rate highest among respondents, followed by housing and homelessness (10%) education (8%), health (7%) and gender equality or economic opportunities for women (6%). Impact investments targeting outcomes for Indigenous peoples was ranked eighth (5%) in terms of respondents' stated preferences for future outcome areas of interest. These

CASE STUDY: NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION (NHFC) – AUSTRALIA'S AFFORDABLE HOUSING BOND AGGREGATOR

In 2018, NHFC (a corporate Commonwealth entity and financial intermediary) and its Affordable Housing Bond Aggregator (AHBA) was established. NHFC's debut issue of \$315 million fixed rate ten-year social bonds in March 2019 was oversubscribed by nearly \$1 billion, with demand from both domestic and international investors. Its second issue in November 2019, also for \$315 million, achieved fixed rate financing at 2.07% for 10.5 years.

NHFC's social bonds are guaranteed by the Commonwealth of Australia, rated 'AAA', repurchase agreement (repo) eligible with the Reserve Bank of Australia and hold high quality liquid assets status – all elements that support higher demand and lower margins.

The AHBA provides low cost, long-term loans to registered community housing providers (CHPs) to support the provision of social/affordable housing and aggregates and finances those loans through issuing long-term social bonds at a lower rate and for a longer term than the CHPs could achieve on their own. The government is well placed to use its balance sheet in this way and price risk more keenly than the institutional investment market may be prepared to do as CHPs are highly regulated and derive a high proportion of revenues from stable government-supported income payments (the government in effect is taking risk on its own policy settings).

Previous research has shown that investors treat regulatory and political risk and counterparty (CHP) risk as high in this sector. This creates a win-win for CHPs and the government, as all savings support the sustainability of the sector and/or are reinvested in additional social/affordable housing outcomes.

preferences could be anchored somewhat by the current universe of available impact investment products, or could indicate that other investment factors may be influencing future preferences, for example perceptions around risk and liquidity, a preference for physical assets and security, or a need for track-record of financial performance.

¹⁴ Mudaliar et al.



Given the increasing engagement of investors with the SDGs, respondents were also asked to indicate their current allocations and future preferences for impact investments targeting specific SDG themes.

Respondents who are active in impact investing were asked to indicate which SDG themes their current impact investments are focused on. The frequency of respondents' answers are shown in Figure 17. Only 3% of respondents indicate that the SDGs are not relevant to their organisation. Current impact investments are spread across all 17 SDG themes, with SDG 7 – affordable and clean energy (10%), SDG 11 – sustainable cities

and communities (9%), SDG 3 – good health and well-being (8%) and SDG 13 – climate action (8%) ranking highest among respondents.

Interestingly, outside Australia and consistent with the stronger focus on social outcomes relative to Australian Impact Investment Survey respondents, respondents to the GIIN's 2019 global Annual Impact Investor Survey listed decent work and economic growth, no poverty, reduced inequalities and good health and well-being as the most common SDG themes targeted by those investors.¹⁵ Market rate investors are more likely to target affordable and clean energy,

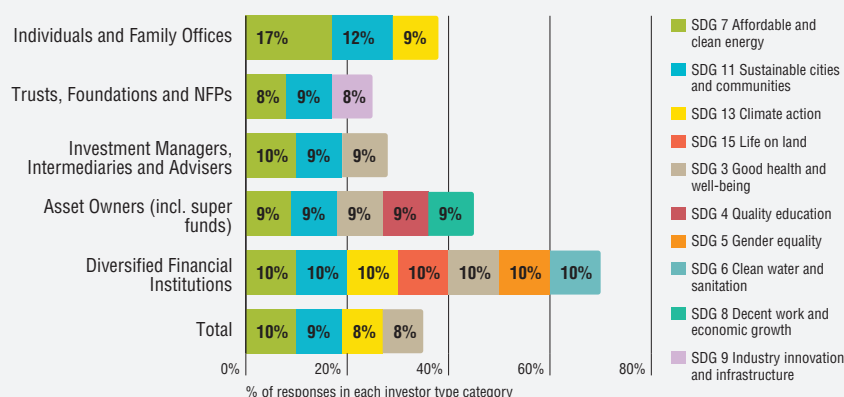
climate action, and infrastructure – more similar to the preferences indicated by respondents to the 2020 Australian Impact Investment Survey and consistent with the higher proportion of those respondents seeking competitive market rates of return or higher.

15 Mudaliar et al.

CASE STUDY: INDIGENOUS BUSINESS AUSTRALIA PROSPERITY FUNDS AND IREIT – CO-INVESTMENT MODEL

The Indigenous Business Australia Prosperity Funds (\$190 million) and IREIT (\$123 million) are creating impact through mainstream investments by co-investing alongside Australian Indigenous organisations to build investment capacity and confidence. Before these funds were established, participating organisations were primarily invested in cash and term deposits with a small allocation to property. Co-investing alongside Indigenous Business Australia and other Indigenous organisations has enabled investors in these funds to improve their investment maturity and governance, in turn strengthening their organisational economic independence, sustainability and resilience or increasing their organisational capacity to deliver programs on country.

FIGURE 17 Top Sustainable Development Goal themes – respondents active in impact investing by portfolio allocation, top three responses (n=86, r=555)



While depth of engagement with the SDGs was not specifically explored in the 2020 Impact Investment Survey, there is a strong focus in the sector and by civil society organisations globally to shift private sector engagement with the SDGs from alignment of current activities to the 17 goals to more proactive contribution towards specific SDG outcomes and targets through reorienting and redirecting capital to where investment is needed most.

All respondents were asked about which SDG themes they or their organisations would be most interested in investing in for future impact investments (Figure 18). All 17 SDGs are represented in respondents answers, with impact investments targeting SDG 7 – affordable and clean energy (15%), SDG 13 – climate action (12%) and SDG 11 – sustainable cities and communities (10%) being the most frequent responses, followed by SDG 3 – good health and well-being (7%), SDG 4 – quality education (7%) and SDG 5 – gender equality (6%).

Preferred impact strategies

To better understand investor motivations and impact intentions as to the nature and depth of impact they would ideally like to target through their future impact investments, respondents were asked to indicate their preferred impact strategies (Figure 19). These impact strategies were framed using the Impact Management Project's (IMP) convention and 'ABC' impact classifications, which are being adopted by a growing number of impact and mainstream investors to assess and communicate impact in a consistent way:

- acting to avoid harm (mitigating or reducing negative outcomes for people and the planet, i.e. 'efforts' data, focus of ESG);
- benefiting stakeholders (generating positive outcomes for people and the planet); or
- contributing to solutions (generating substantial positive change for otherwise underserved people and the planet).

Overall, respondents indicate a preference for deploying a range of impact strategies across the 'ABC' spectrum. Respondents who are active in impact investing are more likely to favour impact investments that target contributing to solutions than other respondents (88% active vs 77%). More transparency about the nature and depth of impact being contributed to is needed to strengthen impact integrity, trust and confidence in the sector and help investors make more informed impact investment decisions.

FIGURE 18 Preferred future Sustainable Development Goal themes – all respondents, top three responses (n=125, r= 343)

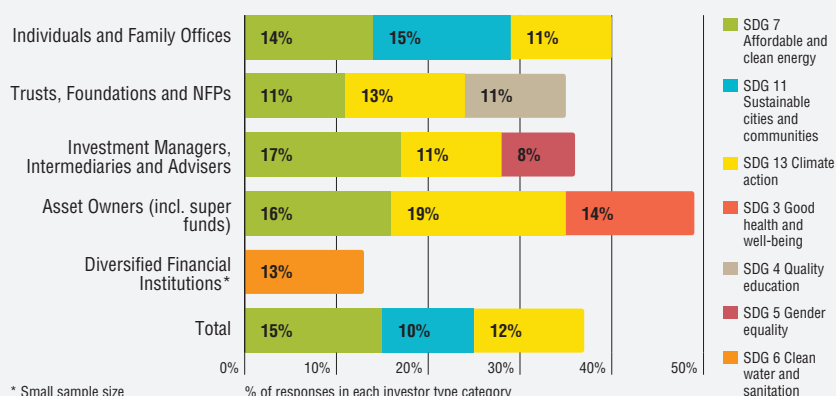
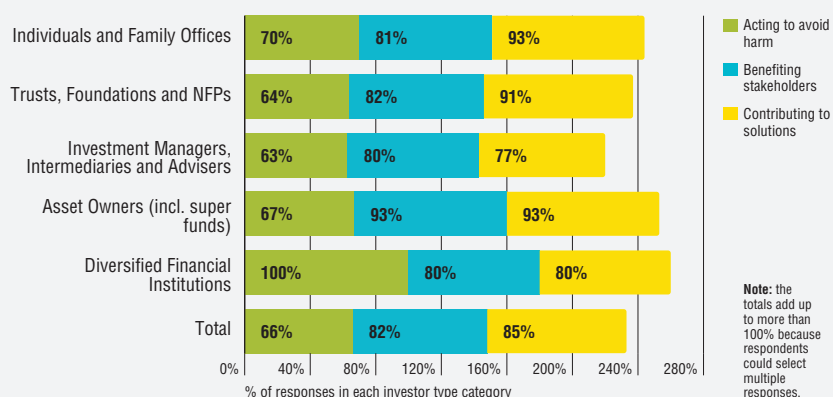


FIGURE 19 Preferred impact strategies – responses from all respondents (n=125, r=299)



CASE STUDY: THE ROLE OF FOUNDATIONS IN IMPACT INVESTING – LEARNING FROM THE LORD MAYOR'S CHARITABLE FOUNDATION (LMCF) AND HERON FOUNDATION

Flexible and concessional rate capital is an important enabler for impact investing (e.g. through blended finance structures), helping to mobilise private capital flows towards impact – as is the case in the J2SI social impact investment (see next case study).

In Australia, LMCF, Australia's oldest and largest community foundation with a corpus in excess of \$200 million, is making impact investments from its corpus that align with its core impact areas, including investing in the digital platforms Hireup and Yume and launching the Affordable Housing Loan Fund in partnership with Social Enterprise Finance Australia. A key learning for LMCF is it's not enough for management to be involved with impact investment; it must involve the investment committee and the board.

In the United States, Heron Foundation (corpus circa \$300 million) realised the scale of the problems it was trying to address required more significant resources than its mandated 5% payout ratio. In response, Heron shifted its focus to deploying 100% of its capitals (financial – including corpus, social and human etc.) for mission. Heron's learning includes looking beyond traditional asset allocations to take an enterprise view; indirect investments through funds or intermediaries can have more impact than direct investments; and one team – removing the barriers between investing and giving in staffing and operations to mobilise all resources towards mission – and building systems to support this way of working.

Preference for future investment types

All respondents were asked which investment asset classes they would prefer their future impact investments in (Figure 20). Responses indicate that respondents prefer a diverse range of investment types for their impact investments. Overall, frequency of responses from respondents indicates their preference for future impact investments in the form of private equity or venture capital (19%) followed by real assets (18%), pay-for-performance instruments (15%), public equity (15%) and private debt (14%).

Respondents who are not yet active in impact investing favour public equity (20%) compared with 13% among respondents who are active in impact investing). This may reflect a greater appreciation among respondents who are active in impact investing of the relative challenges of

achieving impact (in particular, minimising negative outcomes) through public equities (see Spotlight on public equities in Part 2 of this report).

There are also variations in preferences between investor types, with Individuals & Family Offices favouring private equity or venture capital, public equity and real assets (each at 18%), Trusts, Foundations & NFPs favouring private equity or venture capital (24%), Investment Managers, Intermediaries & Advisers favouring real assets (19%), Asset Owners favouring real assets and pay-for-performance instruments (each at 19%) and Diversified Financial Institutions favouring debt (42%).

Preferred stage of business growth for direct investments in companies or businesses

All respondents were asked to indicate their top three preferred stages of growth

when investing directly in companies or businesses (Figure 21). Frequency of respondents' responses indicates a preference for growth-stage companies (24%), followed by mature publicly traded companies (19%), venture-stage companies (18%), mature private companies (18%), and lastly seed/start-up-phase companies (14%).

Trusts, Foundations & NFPs and Individuals & Family Offices show the highest appetite for early-stage seed/start-ups (30% and 17% respectively) and venture-stage companies (27% and 19% respectively). On the other hand, Asset Owners and Diversified Financial Institutions indicate limited appetite for seed-/start-up-phase companies (3% and 8% respectively) or venture-stage companies (12% and 0% respectively).

FIGURE 20 Preferred impact investment types – all respondents, top three responses (n=125, r=435)

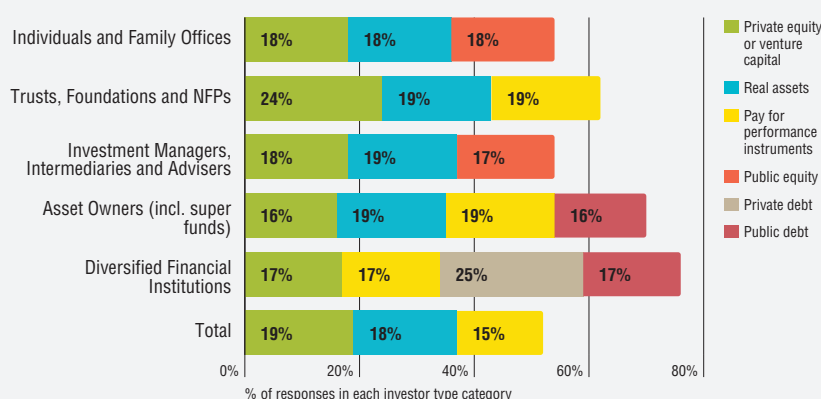
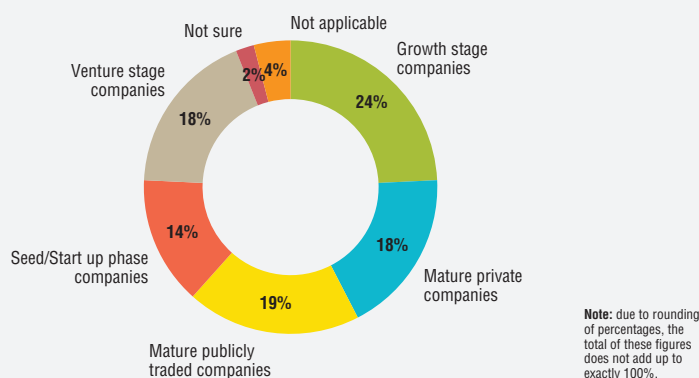


FIGURE 21 Preferred stage of growth for investments in companies – responses from all respondents (n=125, r=294)



CASE STUDY: JOURNEY TO SOCIAL INCLUSION (J2SI) SOCIAL IMPACT INVESTMENT

In August 2018, Victoria launched its first Social Impact Investment (SII). The \$10 million five-year SII partnership brings together Sacred Heart Mission (SHM), government, social services, community housing providers, investors and philanthropy to share the risk of successfully supporting 180 people (60 per year, with support being provided to each cohort for three years) to exit long-term homelessness. The SII is enabling SHM to expand its J2SI program, which is based on a rapid housing approach (i.e. providing stable and secure housing as the first step towards ending homelessness).

The transaction structure incorporates payment for outcomes, a deferred social impact bond and philanthropic guarantees to reduce financing costs. The Victorian Government unconditionally funds the first half of the J2SI SII program costs in full. After that, the government funds the remainder of the program costs (and potential performance payments of up to \$500k) if performance targets are met. To cover the second half of the program costs, the Catholic Development Fund has provided \$4 million in low-cost debt finance backed by a first loss guarantee from SHM (up to \$1 million) and up to \$4.5 million in contingent grants (in effect guarantees) from philanthropic providers.

Preference for direct or managed investments

Respondents were asked to specify their preference for investing directly or indirectly through a fund manager (Figure 22). The majority of respondents indicate they would consider both direct and indirect impact investments (53%).

Twenty-two percent of respondents indicate they would only consider direct investments and 7% of respondents indicate they would only consider indirect investments through a fund. The remaining 18% of respondents have a preference for one or the other, but this does not preclude them considering alternate investments. Among different investor types, Investment Managers, Intermediaries & Advisers unsurprisingly stand out for having a very strong preference for direct investments – 38% will only consider direct investments, and a further 9% prefer direct investments over indirect investments through funds.

Respondents who are active in impact investing were asked whether they have participated in blended finance investments or have intentions to do so in the future. Blended finance investments strategically use development finance, philanthropic funds and/or concessional finance to mobilise (or crowd in) private capital flows towards impact. Many solutions may not be financeable in the private markets without some form of funding or concessional (rate and/or terms) financing support (e.g. social housing).

The majority (61%) of respondents indicate they have not participated in blended finance investments to date (Figure 23). Some respondents, mostly Individuals & Family Offices and Trusts, Foundations & NFPs, but also some Investment

FIGURE 22 Preference for direct investments vs managed funds – all respondents (n=125)

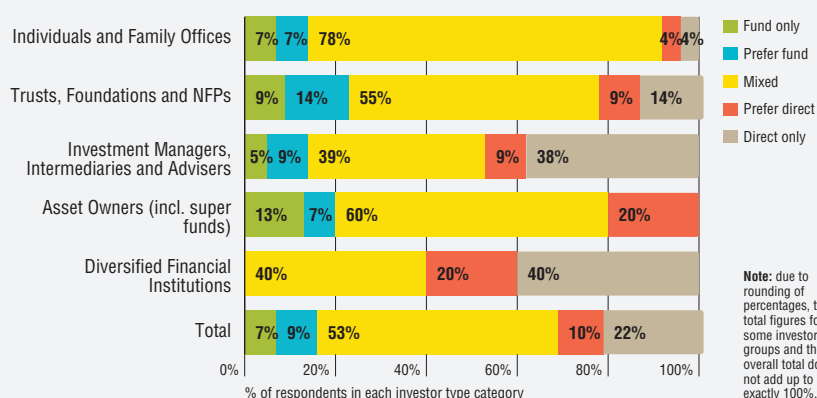
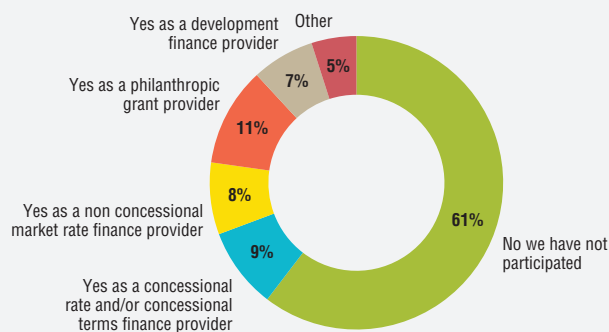


FIGURE 23 Participation in blended finance impact investments – respondents active in impact investing (n=86)

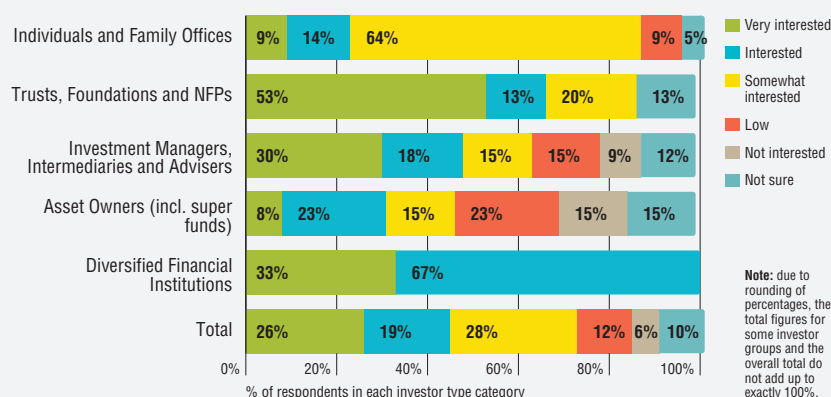


Managers, Intermediaries & Advisers, indicate they have participated in blended finance investments as a philanthropic grant provider (11%), concessional rate and/or concessional terms finance provider (9%) or as a development finance provider (7%). Asset Owners and Diversified Financial Institutions are more likely to

have participated in blended finance investments as a non-concessional market rate finance provider.

As can be seen in Figure 24, most respondents (72%) are open to considering participation in blended finance investments in the future, with 44% indicating they are interested or very interested. In particular, 53% of Trusts, Foundations & NFPs are very interested in participating in blended finance transactions in the future and have a higher propensity to participate on concessional terms or as a grant provider. This presents an opportunity to explore and better align cross-sectorial interests, priorities and different forms of capital to potentially crowd in private sector investment and optimise scarce grant or concessional capital to scale outcomes.

FIGURE 24 Interest in participating in blended finance impact investments in the future – respondents active in impact investing (n=86)



SPOTLIGHT: **BLENDED FINANCE TRANSACTIONS**

Investors who are open to accepting lower than market rates of return offer opportunity to create blended financing models that can 'crowd in' or make it more attractive for mainstream capital with market-rate expectations to participate in some transactions that may otherwise be considered by them to be not investable. Blended finance is the strategic use of development finance, grants (e.g. philanthropic or government) and/or concessional finance to mobilise private-sector

capital flows towards impact. By accepting more risk, offering concessional terms and/or below market rates of return, these investors can de-risk investments and/or enable higher rates of return to attract other investors. In Australia, Individuals & Family Offices, Trusts, Foundations & NFPs and, to a lesser extent, Investment Managers, Intermediaries & Advisers are more likely than Asset Owners or Diversified Financial Institutions to participate in impact investments on concessional terms.

The opportunity to create blended finance models would seem to be more constrained in Australia than globally given the smaller proportion of Australian investors willing to accept below market rates of return. According to the GIIN's 2019 Annual Impact Investor Survey, 34% of respondents are willing to accept below market rates of return (compared with 24% in Australia), with nearly half of these (15%) targeting returns close to capital preservation.

1.5 FINANCIAL AND IMPACT RETURNS – EXPERIENCES AND EXPECTATIONS

Financial return expectations

Respondents who are active in impact investing were asked about their financial return expectations from their impact investments while respondents who are not yet active in impact investing were asked to indicate the type of financial return they or their organisations are likely to expect from future impact investments (Figure 25).

The majority of all respondents expect competitive or above market rates of return from their impact investments (77% for those respondents who are active in impact investing and 74% for respondents who are not yet active in impact investing). Diversified Financial Institutions and Asset Owners have the highest expectations for competitive market rates of return or higher at 100% and 87% respectively. This is considerably higher than the 62% of respondents who were active impact investors and the 60% of respondents who were not yet active in impact investing who indicated as much in the 2016 survey. This probably reflects in part the different composition in respondents between the two surveys, with a higher proportion of Investment Managers, Intermediaries & Advisers, Asset Owners and Diversified Financial Institutions participating in the 2020 Impact Investment Survey when compared with the 2016 survey, which was dominated by Trusts, Foundations & NFPs and Individuals & Family Offices.

Interestingly, 24% of respondents indicate a willingness to accept below market rates of return. Fourteen percent of respondents indicate that their financial return expectations depend on a range of factors including, among other things, the extent of ESG and/or impact performance

AT A GLANCE

Financial return expectations:

- Financial return expectations are high, with competitive or above market rates of return from impact investments expected by 77% of respondents who are active in impact investing and 74% of respondents who are not yet active in impact investing.

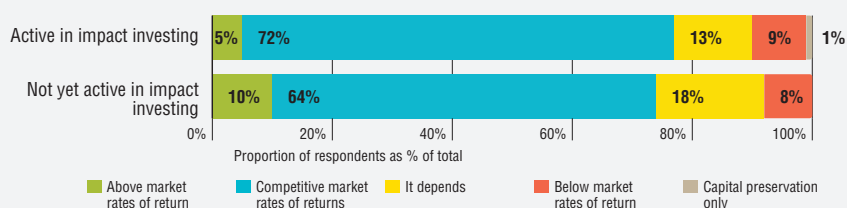
Realised financial performance versus expectations:

- 92% of respondents who are active in impact investing indicate that their financial return expectations are either being met or exceeded by their current impact investments.

Impact performance versus expectations:

- 93% of respondents who are active in impact investing indicate that their impact expectations are being met or exceeded by their current impact investments.

FIGURE 25 Financial return expectations – all respondents (n=125)



expected (i.e. where impact is higher, they will consider accepting a lower rate of financial return) and client preferences. Another 9% of respondents indicate they expect below market rates of return on their impact investments while 1% of respondents indicate they expect capital preservation only on their impact investments. This differs to global experience where, according to the GIIN's 2019 Annual Impact Investor Survey, 34% of respondents are willing to accept below market rates of return, with nearly half of these (15%) targeting returns close to capital preservation¹⁶ – much higher than the 1% of Australian respondents who answered that they expected capital preservation only.

Respondents to the Australian 2020 Impact Investment Survey willing to accept below market rates of return are more likely to be Individuals & Family Offices, Trusts, Foundations & NFPs and, to a lesser extent, Investment Managers, Intermediaries & Advisers (who in part are advising those clients in line with their preferences and expectations), although on the whole these investor types still hold a predominant expectation of competitive market rates of return or better. The willingness to accept lower than market rates of return among

¹⁶ Mudaliar et al.

FIGURE 26 Realised financial performance of impact investments against expectations – respondents active in impact investing (n=86)

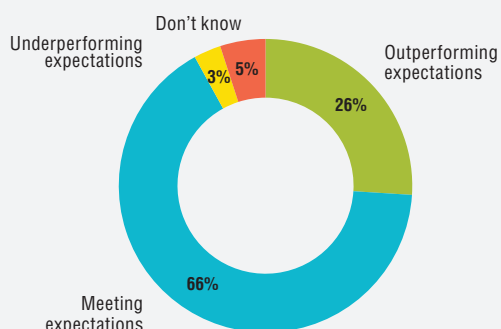
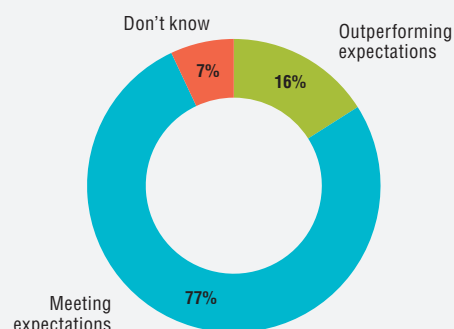


FIGURE 27 Impact performance of impact investments against expectations – respondents active in impact investing (n=86)



these investor groups likely reflects their taking a blended approach and reasoning that those investments' impact will contribute to their philanthropic mission or goals and/or achieve outcomes that would otherwise be achieved with no returns (i.e. through grants or donations).

Realised financial performance vs expectations

Respondents who are active impact investors are very satisfied with the realised financial performance of their impact investments, and even more satisfied than respondents to the 2016 survey. Respondents who are active in impact investing were asked how their current impact investments have performed relative to their initial financial return expectations (Figure 26). Ninety-two percent of respondents indicate that their impact investments are meeting (66%) or outperforming (26%) their initial financial return expectations. Three percent of respondents (comprising 5% of Individuals & Family Offices and 13% of Trusts, Foundations & NFPs) indicate that the

financial performance of their current impact investments are underperforming their initial financial return expectations, much lower than the 16% of respondents who indicated underperformance relative to initial financial return expectations in the 2016 survey. Five percent of respondents indicate they don't know how their current impact investments are performing relative to their initial financial return expectations, which is considerably lower than the 18% of respondents in the 2016 survey who answered the same. This reduction may indicate a maturing of investor approaches towards their impact investments and increasing accessibility of information on which to rely.

Impact performance vs expectations

Respondents who are active impact investors are also very satisfied with the impact performance of their impact investments. Respondents who are active in impact investing were asked how their current impact investments have performed relative to their initial impact expectations (Figure 27). Ninety-three percent of respondents indicate that their impact

investments are meeting (77%) or exceeding (16%) their initial impact expectations.

No respondents indicate that their impact investments are underperforming their initial impact expectations, consistent with the results from the 2016 survey. This does, however, beg questions such as whether ex-ante targets are being set by investors and/or whether the level of risk aversion is too high such that financing is not being directed towards innovation where there would be an expectation that not everything will succeed.

Seven percent of respondents indicate they don't know how their impact investments are performing relative to initial impact expectations, which is considerably lower than the 20% of respondents in the 2016 survey who answered the same. This reduction may indicate a maturing of investor approaches towards their impact investments and increasing accessibility of information on which to rely. Asset Owners (15%) and Individuals & Family Offices (9%) are more likely not to know how their impact investments are performing relative to initial impact expectations relative to other investor types.



1.6 FUTURE INVESTOR DEMAND AND CHALLENGES

AT A GLANCE

Increasing significance of impact investing:

- 90% of respondents strongly agree or agree that impact investing will become a more significant part of the investment landscape over the next five years.
- 93% of respondents who are not yet active in impact investing are likely or highly likely to consider impact as an important consideration in their future investment decisions.

Future allocations to impact investing:

- Respondents would like to increase their impact investment allocation fivefold to 4% of AUM or approximately \$100 billion over the next five years.

Catalysts to increase impact investing allocations:

- More investible deals (59% of respondents), evidence of social impact (38% of respondents) and evidence of financial performance or a longer track record (37% of respondents) would enable currently active impact investors to increase their allocations to impact investment.

Barriers preventing investors from entering the market:

- A lack of reliable research, information and benchmarks (23% of respondents), needing more evidence or a longer track record of financial performance (18% of respondents) and not enough investible deals or knowledge about impact investing (each 13% of respondents) are the leading barriers preventing investors from entering the market.

Government's enabling role:

- The key enablers identified by investors that government could implement to accelerate market development in Australia include providing tax or fiscal incentives to investors; capacity building for impact businesses including incubators, accelerators and investment readiness services; providing access to government data; clarifying fiduciary duty to include consideration of impact; and creating a wholesaler 'fund of funds' to provide capital to impact-driven investment funds.

Perceptions about the future of impact investing

An overwhelming majority of respondents (88% of respondents who are already active in impact investing and 92% of respondents who are not yet active in impact investing) agree that impact investing will become a more significant part of the investment landscape over the next five years (Figure 28). This is an increase as compared to the 2016 survey where the figures were 72% and 79% respectively.

When asked about the likelihood of including social, environmental and cultural impact as an important consideration in their own investment decisions over the next five years, an overwhelming 93% of respondents who are not yet active in impact investing (compared with 78% in the 2016 survey) stated that it was 'highly likely' (67%) or 'likely' (26%) that they would (Figure 29). Notably, among this group, the proportion of respondents stating it is 'highly likely' has risen considerably – from 27% to 67%. Only 5% of respondents thought it 'unlikely' that impact would become an important consideration in their future investment decisions.

Ideal future allocations to impact investment

All respondents were asked to indicate what proportion of their investment portfolio they ideally would allocate to impact investments over the next five years.

FIGURE 28 Perceived likelihood that impact investing will become more significant over the next five years – all respondents (n=125)

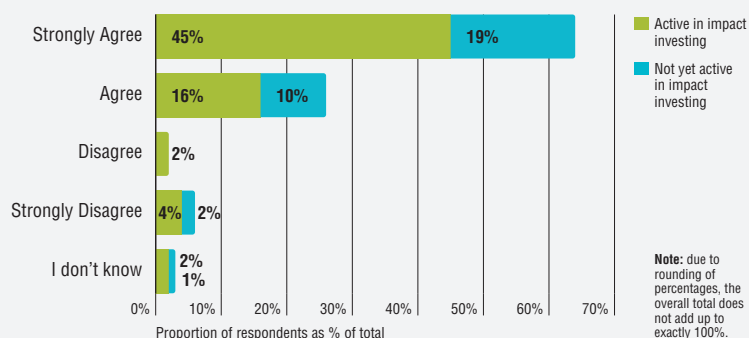


FIGURE 29 Likelihood of considering impact metrics in future investment decisions – respondents not yet active in impact investing (n=39)

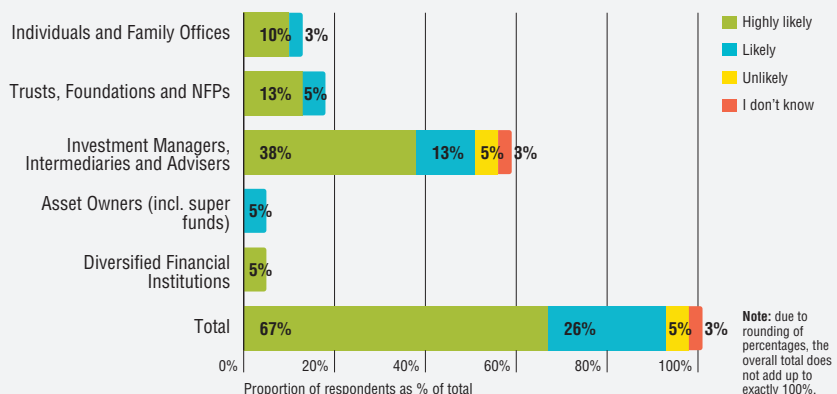
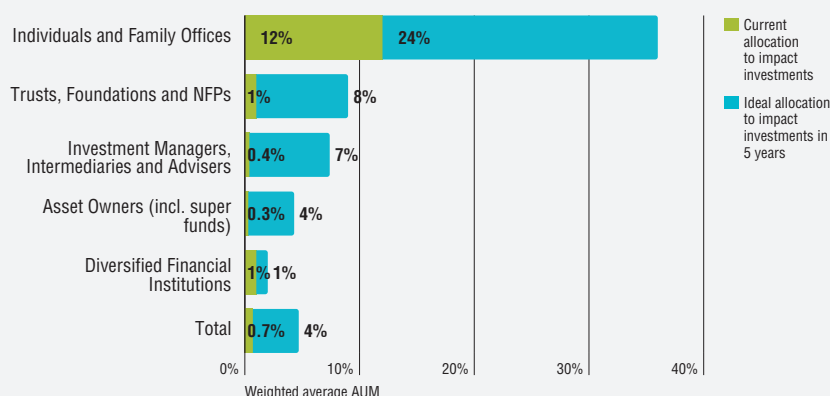


FIGURE 30 Current and ideal future proportion of AUM allocated to impact investment over the next five years – based on current allocations of respondents active in impact investing (n=50) and ideal future allocation of all respondents disclosing AUM (n=73)



Respondents indicate that on average, they would ideally allocate 43% of their AUM to impact investments over the next 5 years. Yet notably, respondents with smaller AUMs overwhelmingly expect to allocate a higher proportion of their AUM to impact investing than respondents with larger AUMs who expect to allocate lower proportions of their AUM to impact investing. To mitigate the potential for respondents with smaller AUMs and expectations for very high future allocations to impact investment to distort and inflate the average, analysis focused on the 58% of respondents who disclosed their current AUM, in order to calculate future demand for impact investing on a weighted average (by current AUM) basis.

On a weighted average basis, respondents indicate that their ideal allocation towards impact investments will increase five-fold over the next five years to 4% of AUM from 0.7% currently (Figure 30). The most significant projected increases are reported by Investment Managers, Intermediaries & Advisers (to 7% of AUM from 0.4% currently), Asset Owners (to 4% of AUM from 0.3% of AUM currently), Trusts, Foundations & NFPs (to 8% of AUM from 1% of AUM currently), and Individuals & Family Offices (to 24% from 12% currently). Diversified Financial Institutions expect to maintain their allocation to impact investment as a percentage of their AUM at 1%.

Overwhelmingly respondents who are active in impact investing intend to increase their allocations to impact investment further, while those who are not yet active in impact investment intend to start making allocations to impact investment over the next five years. A small number of large organisations (by AUM) contribute disproportionately to that projected demand. A small number of respondents indicate that they intend

to maintain or even decrease their proportionate allocation to impact investment.

These large projected ideal allocations to impact investing indicate a strong interest in impact investing and that availability of “investable” opportunities (as defined by investors) and potentially other barriers are currently holding investors back. Of course, these are preferred, ideal allocations, and realising these preferences depends on several factors, not least of which is availability of suitable impact investment products that meet respondents financial, risk and impact needs and preferences.

Using the data provided by the 58% of respondents who disclosed their AUM, along with the data provided on ideal future allocations to impact investing, the estimated future demand for impact investing over the next five years from Australian investors is in the vicinity of \$100 billion.

In order to calculate this, each respondent's ideal future allocation to impact investing was applied to their respective current AUMs

to yield a weighted average approximation of \$64 billion in aggregate demand over the next five years for the 58% of respondents who disclosed their current AUM (4% of their current aggregated AUM). This comprised \$22 billion from active impact investors (a 75% increase on current activity – most notably from Investment Managers, Intermediaries & Advisers and Asset Owners) and \$42 billion from investors not yet active in impact investing.

Then, extrapolating for the 42% of respondents who did not disclose their AUM (i.e. \$64 billion divided by 58%), this would suggest a maximum possible demand for impact investments from Australian investors of \$110 billion over the next 5 years – however this assumes the profile of the 42% of respondents who did not disclose their AUM mirrors that of the 58% of respondents who did. Given the wide variation in AUM between respondents, there is potential for a wide margin of error in this estimation.

Applying the same methodology to the 2016 survey data would have yielded future demand for impact investments to 2021 of \$23.7 billion as compared to the identified universe of impact investment products widely offered to Australian investors as at 31 December 2019 (\$19.9 billion) as calculated in the 2020 Australian Impact Investment Activity and Performance study comprising Part 2 of this report. This suggests that applying the same methodology to the 2016 survey data yielded a conservative estimate, somewhat underestimating the future demand. Applying the five-fold increase in ideal allocation towards impact investing over the next five years to the current identified universe of impact investment products widely offered to Australian investors and outstanding as at 31 December 2019 (\$19.9 billion), yields \$99.5 billion (\$19.9 billion multiplied by 5). This supports the \$100 billion estimate for future impact investing demand from Australian investors over the next five years.



Catalysts for increased impact investment allocations

Respondents who are active in impact investing cite more investable deals (59%), evidence of social impact (38%) and evidence of financial performance or longer track record (37%) as the most important factors that will likely enable them or their organisations to increase their allocations to impact investment (Figure 31). In the 2016 survey, 33% of respondents cited a lack of investable deals. This change is likely attributable to the greater proportion of investor types with larger AUMs in the 2020 Impact Investment Survey and the significant increase in demand and activity since 2016.

Variations are evident across investor types. Individuals & Family Offices reported evidence of social impact (73%) and more investable deals (73%) as most important followed by more reliable information

and benchmarks (50%); 60% of Trusts, Foundations & NFPs want more reliable information and benchmarks, as well as evidence of long-term financial performance (60%) and more investable deals (40%); Investment Managers, Intermediaries & Advisers believe that more investable deals (52%) and an increase in client demand (48%) are required; for Asset Owners and Diversified Financial Institutions the most important catalyst would be an increase in the number of investable deals (77% and 67% respectively). Unsurprisingly, given their scale, Asset Owners also identify larger deal sizes in their top three responses (46%), as do Investment Managers, Intermediaries & Advisers (27%).

Barriers to investing for impact

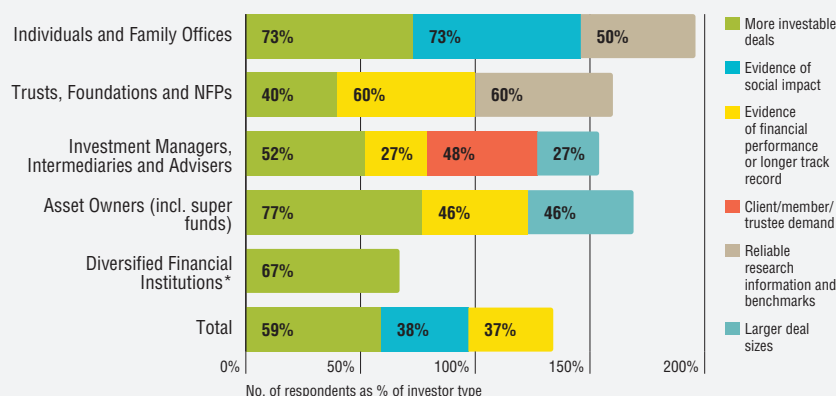
To ascertain whether there are specific barriers holding back participation in the impact investment market from a broader

range of investors, respondents who are not yet active in impact investing were asked about what was stopping them or their organisations from making allocations to impact investment (Figure 32).

Responses are diverse with only one factor accounting for 10% or more of responses. Across all respondents, a lack of reliable research information and benchmarks (10%), followed by needing more evidence or a longer track record of financial performance (8%) and a lack of client/member/trustee demand (7%) are the highest ranked barriers. Some respondents also noted the challenges with classifying listed equities as impact investments.

For Individuals & Family Offices, needing more evidence or a longer track record of financial performance is a key barrier (18%). For Trusts, Foundations & NFPs, key barriers include reliable research and

FIGURE 31 Main factors that would contribute to an increase in impact allocation – respondents active in impact investing, top three responses (n=86, r=249)

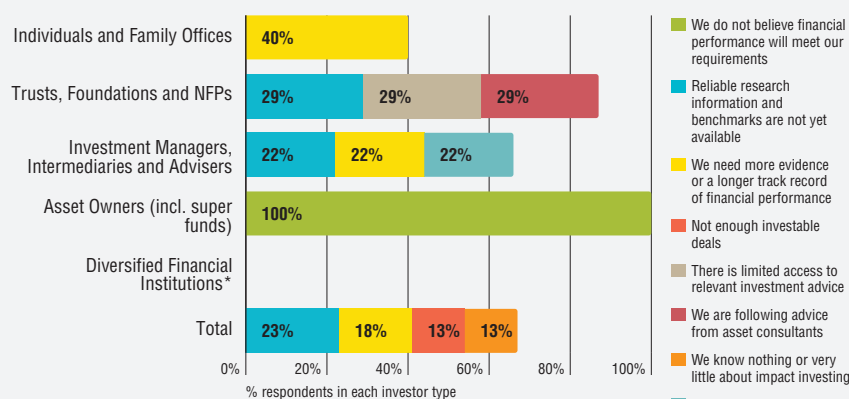


CASE STUDY: IMPACT INVESTMENT READY GROWTH GRANTS – BUILDING THE PIPELINE OF INVESTABLE SOCIAL ENTERPRISES

Managed by Impact Investing Australia (IIA), the Impact Investment Ready Growth Grants program has supported 33 organisations since 2015 on their journey to investment readiness. The Growth Grants provide impact businesses and mission-driven organisations with grants of up to \$140,000 for business, financial, legal and other capacity-building support from providers to secure investment. In late 2018, IIA was selected as the administrator of the \$7 million Australian Government Sector Readiness Fund (SRF) funded by the Department of Social Services.

Recipients of growth grants that have gone on to successfully raise private equity capital rounds include Hireup – an innovative Australian online platform founded in 2014 to enable people with disability and their families to directly find, engage, manage and pay for support workers – helping them to scale quickly in lockstep with national rollout of the NDIS; AbilityMade – an innovative Australian for-purpose enterprise producing low-cost custom-made Foot Orthoses for children through 3D printing; and Maths Pathway – an online teaching and learning platform that focuses on growth, not attainment, by supporting every student to make progress from wherever they happen to start from, now in use by over 2,200 teachers and 57,000 Australian students.

FIGURE 32 Main factors preventing respondents not yet active in impact investing from investing for impact, top three responses (n=39, r=88)



benchmarks not being available (15%), limited access to relevant financial advice (15%) and following the advice from asset consultants (15%), while for Asset Owners, key barriers include not believing financial performance of impact investments will meet their requirements (33%), not enough investable deals (17%) and reliable research information and benchmarks not being available (17%).

Respondents' perceptions about catalysts and barriers suggests that an increase in investable deals, longer track record of both financial and impact performance coupled with reliable research and benchmarks and access to relevant financial advice are key to increasing future demand for impact investing, which are not insurmountable. An increase in client/member/trustee demand would also be helpful. These themes are consistent with the Australian Advisory Board on Impact Investing's recommendations in its 2018 *Scaling Impact* report that suggest scaling impact and investment, building the field and making it easier to participate are key to widening participation and deepening impact practice in Australia (Table 2).

Government's enabling role to accelerate impact investing

Constructive and targeted policy mechanisms have been integral to removing barriers, creating incentives to participate and accelerating the development of impact investing in several countries. The Global Steering Group's *Catalysing an Impact Investing Ecosystem: A Policy Maker's Toolkit* unpacks various policy tools different countries have harnessed to catalyse their own impact ecosystems.

In Australia, investors are aligned across investor types as to the top five enablers that government could implement to accelerate the impact investing market in Australia (Figure 33). These include providing tax incentives for investors that reduce tax burdens or provide other fiscal incentives (14% of responses), capacity building that provides impact businesses with tools to support and grow their businesses including incubators, accelerators and investment readiness services (10% of responses), clarifying fiduciary duty to include consideration of impact (9% of responses) and creating a wholesaler 'fund of funds' to provide capital to impact-driven investment funds (8% of responses). In addition, Diversified Financial Institutions identify the creation of an impact stock exchange (a centralised database and crowdfunding platform that connects investors and impact

businesses) while Trusts, Foundations & NFPs single out providing support programs to educate current market participants and future generations on impact investing.

In comparison, when respondents to the GIIN's 2019 Annual Impact Investor Survey were asked which policy tools have proven effective in their own countries, the top

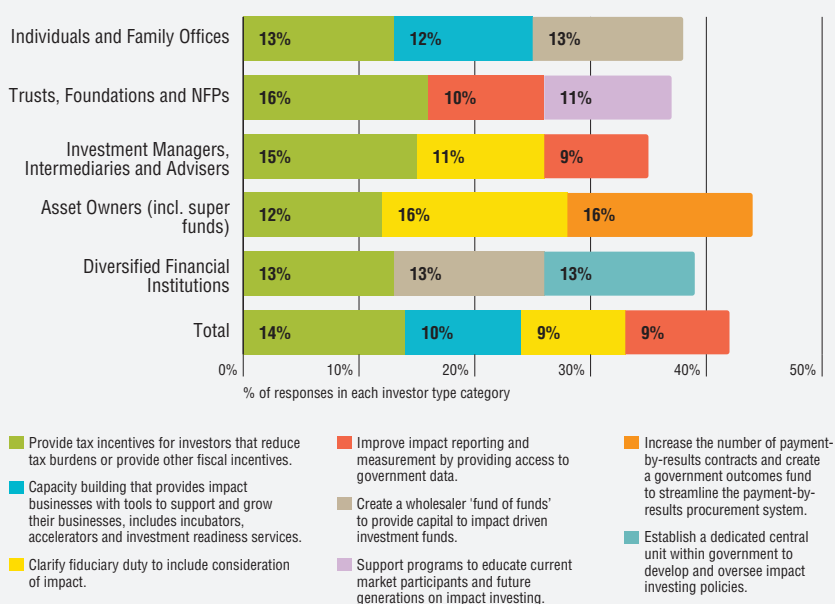
responses were tax or other incentives for impact investors and social enterprises, capacity building for investees, direct impact investing and including impact considerations in fiduciary duty.

TABLE 2 Widening participation and deepening impact practice in Australia

Scaling impact and investment	Building the field	Making it easier to participate
<ul style="list-style-type: none"> Strengthening and deepening intermediaries to design solutions, unlock capital and direct it on appropriate terms and generate a pipeline of quality deals 	<ul style="list-style-type: none"> Developing industry-based principles and standards consistent with global benchmarks to set expectations and drive consistency, comparability and impact integrity 	<ul style="list-style-type: none"> Raising awareness and educating to grow demand for more impactful choices and build capacity
<ul style="list-style-type: none"> Designing for scale so, where appropriate, solutions can scale and investment can be aggregated 	<ul style="list-style-type: none"> Adopting impact management and measurement tools and standards, including integration of impact and financial goals to enable impact management to be embedded 	<ul style="list-style-type: none"> Growing and strengthening impact networks and platforms to develop capacity and leadership, connect people and data and facilitate information sharing and collaborations
<ul style="list-style-type: none"> Designing for impact by taking a solution focused approach 	<ul style="list-style-type: none"> Building enabling infrastructure that addresses barriers to scale and promote development of impact-oriented industries 	<ul style="list-style-type: none"> Widening the opportunity set of products and solutions
	<ul style="list-style-type: none"> Securing constructive engagement of governments and policy makers to further enable impact investment 	<ul style="list-style-type: none"> Increasing transparency and disclosure of impact goals and performance
		<ul style="list-style-type: none"> Removing regulatory barriers and creating incentives (e.g. tax treatment)

Source: Australian Advisory Board on Impact Investing 2018, *Scaling Impact: Blueprint for collective action to scale impact investment in and from Australia*.

FIGURE 33 What government can do to enable and accelerate impact investing – all respondents, top three responses (n=125, r=357)



1.7 EMERGING THEMES IN IMPACT MEASUREMENT AND MANAGEMENT PRACTICE

AT A GLANCE

Key motivations for measuring and managing impact:

- Better understanding impact (65% of respondents), managing or improving impact performance (65% of respondents) and reporting on impact to stakeholders (59% of respondents) are the top three motivations among investors for measuring and managing the impact performance of their investments.

Current impact measurement practices:

- Respondents are embedding impact measurement and management into operations and governance through board and/or investment committee oversight (47% of respondents), integrating impact into business strategy, policies and processes (46% of respondents) and assigning a senior person to oversee impact (41% of respondents); 53% of Trusts, Foundations & NFPs are linking their granting to the their impact investment strategies.
- The leading framework used by respondents to manage impact is the SDGs (51%), followed by PRI (32%) and IMP (25%).
- The majority of respondents (64%) focus on measuring positive impacts, and mostly on only a couple of key positive impacts; 31% of respondents indicate trying to measure all substantial positive and negative impacts.

- 40% of respondents do not set impact goals; only 18% of respondents set impact goals at both the portfolio level and the investment level.
- More investors measure impact periodically throughout the life of investments (73% of respondents) than before investments are made (53% of respondents) or at or after exit (8% and 7% of respondents).
- 51% of respondents are considering stakeholder perspectives; some respondents (27%) are involving stakeholders in defining what impacts matter and in the collection of impact data (19%).
- More respondents are measuring 'what' outcomes their investments are contributing to (84%), 'who' experiences the outcome (49%) and 'how many' and for 'how long' stakeholders experience the outcome (48%) than are measuring their 'contribution' to the impact (34%) or the 'risk' that impact does not occur as expected (28%).

Impact measurement challenges:

- Overwhelmingly, the top challenge to impact measurement relates to the need for standardised and comparable tools and frameworks. Other notable challenges include a lack of resources and integrating impact into standard business processes and financial decision-making.

Impact measurement and management practice

As the market for impact investing continues to grow and develop, focus is naturally shifting towards how to measure, manage and report impact more effectively and consistently. Impact measurement is one of the most defining characteristics of impact investing, but has been one of the most challenging aspects for the market to implement. Significant advances have been made since 2016 in building out market infrastructure to facilitate efforts towards creating a collective

understanding about the core elements of impact measurement and management and improving impact management practices and disclosure (some of which are described in more detail in the Spotlight on impact management tools breakout box on Page 41). RIAA has also established its Impact Management & Measurement Community of Practice (IMMCOP) to facilitate the sharing of leading practice knowledge and resources for impact management and measurement and help RIAA members build their understanding and capabilities, as well as connect with local and global developments in the space.

This section seeks to examine how Australian impact investors are approaching their own impact management practice, where there are opportunities for further development and the challenges they are experiencing along the way, capturing responses from those respondents who indicated that they are currently measuring social and environmental impact in their investment portfolio.



Key motivations for measuring and managing impact performance of investments

Respondents who are active in impact investing were asked to indicate whether they are measuring and managing the impact performance of their impact investments and, if so, their key motivations for doing so (Figure 34).

Nearly all (85 of the 86) respondents that are active in impact investing indicate they are measuring and managing the impact performance of their impact investments. Resoundingly across all investor types, the leading motivations for measuring and managing impact performance are to better understand its impact (65% of respondents), to manage or improve its impact (65% of respondents) and to report on impact to stakeholders (59% of respondents). Meeting increasing client/stakeholder demand (27% of respondents) is the next highest-ranking motivation, especially for Investment Managers, Intermediaries & Advisers (45% of respondents). Twenty percent of respondents also cited improving financial performance as a motivation for measuring and managing the impact of their investments.

Key motivations for measuring and managing impact performance among respondents to the GIIN's 2020 second edition of *The State of Impact Measurement and Management Practice* report reflected both impact and business imperatives – including to understand whether they are making progress against their impact goals, improving impact performance, proactively reporting impact to key stakeholders, capturing business value, marketing or fundraising and addressing client demand for impact information.¹⁷

Embedding impact measurement and management into operations and governance

Respondents were asked to indicate how their organisations are embedding impact measurement and management into their operations and governance structures (Figure 35). The top three responses are:

- board and/or investment committee having oversight of impact strategy and progress (47%);
- integrating impact into business strategy, policies and processes (46%); and
- assigning responsibility and accountability for overseeing impact to a senior person (41%).

FIGURE 34 Key motivations for measuring and managing impact performance of investments – respondents active in impact investing, top three responses (n=85, r=247)

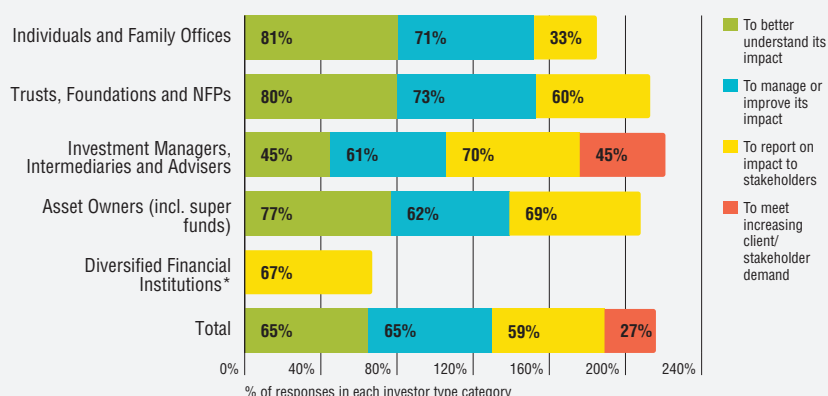
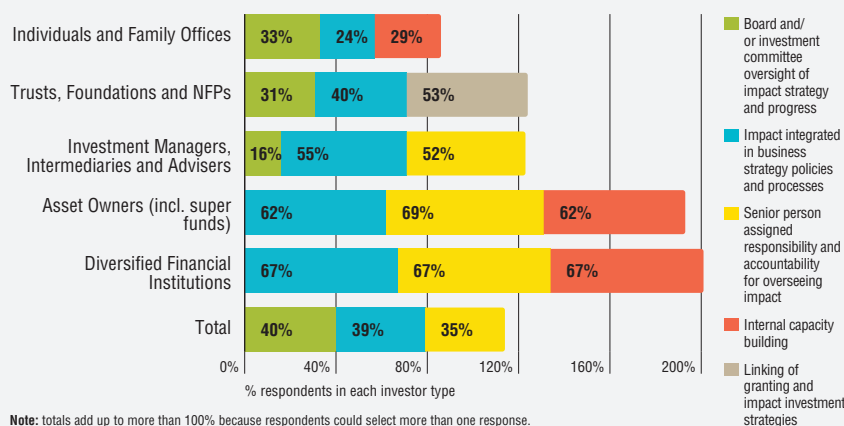


FIGURE 35 Embedding impact measurement and management practices into operations and governance – respondents active in impact investing, top three responses (n=85, r=204)



Thirty-five percent of respondents are also building internal impact measurement and management capacity. While not in the top three responses for those investor types, 53% of Asset Owners and 33% of Diversified Financial Institutions list board and/or investment committee oversight of impact strategy and progress. Fifty-three percent of Trusts, Foundations & NFPs are linking granting and impact investment strategies.

Only 8% of respondents are tying performance and remuneration in part to the achievement of impact KPIs, which is in contrast to experience outside Australia, where 17% of respondents in the GIIN's 2020 second edition of *The State of Impact Measurement and Management Practice* indicated that a proportion of compensation is tied to the achievement of impact goals for some staff (10%) or all staff (7%).¹⁸

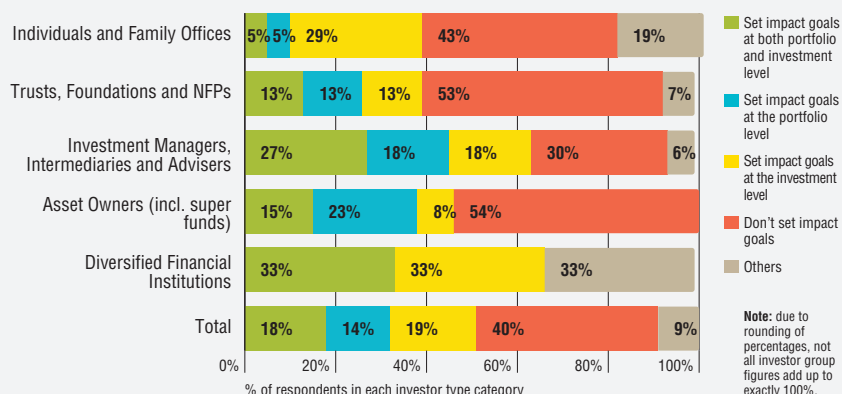
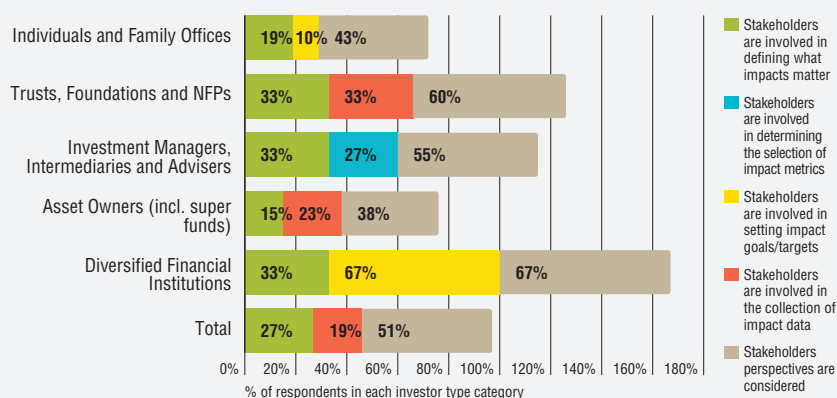
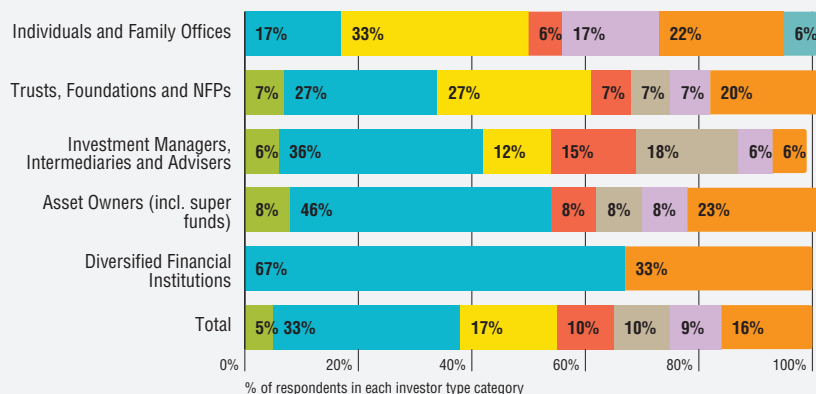
Setting impact goals

Respondents were asked whether they set impact goals to understand the level at which respondents are setting impact goals: portfolio, investment or both (Figure 36 overleaf).

- 40% of respondents indicate that they do not set impact goals at all;
- 19% of respondents indicate they set impact goals at the individual investment level;
- 14% of respondents indicate they set impact goals at the portfolio level; and
- 18% of respondents indicate setting impact goals at both the portfolio and individual investment level.

¹⁷ Bass, R, Dithrich, H, Sunderij, S & Nova, N, *The State of Impact Measurement and Management Practice*, Second Edition, Global Impact Investing Network, 2020.

¹⁸ Bass et al.

FIGURE 36 Setting impact goals – respondents active in impact investing (n=85)**FIGURE 37 Involving stakeholders (beneficiaries) in investors' impact measurement and management practices – top three responses from respondents active in impact investing (n=85, r=147)****FIGURE 38 Impact measurement practices – % responses from respondents active in impact investing (n=85)**

This is in stark contrast to experience globally according to the GIIN's *The State of Impact Measurement and Management Practice*, where a much higher proportion of respondents indicated they set impact targets at the investment level, portfolio level or at both the portfolio and investment level. Further, in considering how impact targets are set, the top two responses from respondents in the GIIN's global study were by assessing the size of the problem to be addressed in their target markets and setting targets in line with global development agendas such as the SDGs – indicating a strategic approach to setting impact goals.¹⁹

Individuals & Family Offices are much more likely than the other investor types to set impact goals at the individual investment level than at the portfolio level or both the investment and portfolio levels. The 19% 'other' for Individuals & Family Offices reflects reliance on advisers to manage impact. The 33% of 'other' for Diversified Financial Institutions reflects one respondent who currently is not setting impact goals but is working towards it.

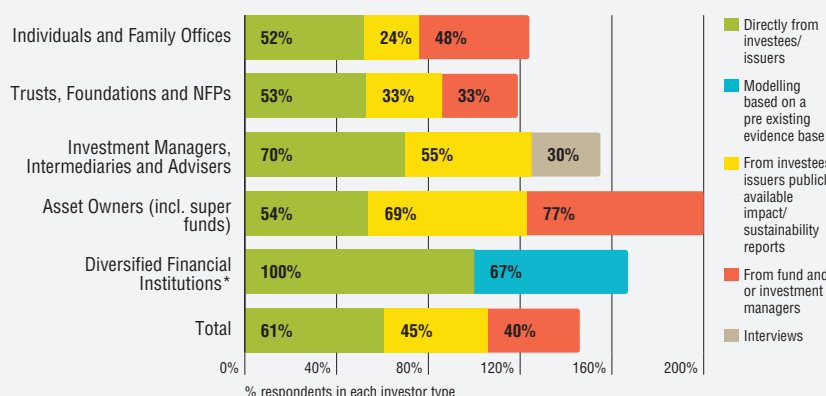
An important consideration that cannot be gleaned from the data is when those impact goals are being set. It is not clear whether respondents are setting strategic impact goals at the portfolio level to guide and inform their investment decisions (i.e. before or after investments are made). If impact goals are being set after the investment decision is made, an opportunity exists to shift towards ex-ante goal setting at both the portfolio and investment level to inform investment and capital allocation decision-making rather than using them ex-post as a monitoring and reporting tool.

Involving stakeholders (beneficiaries)

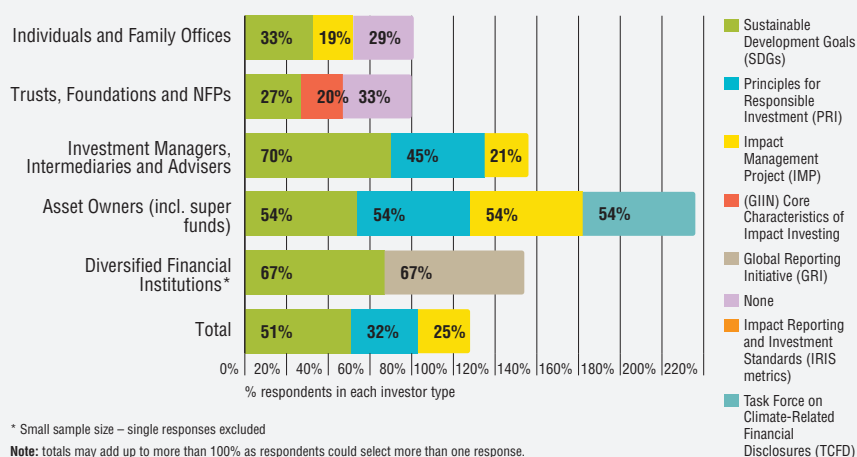
Respondents were asked about how involved stakeholders (i.e. those that experience the impacts) are in their impact measurement and management practices (Figure 37). Just over half of respondents (51%) say they consider stakeholder perspectives. A smaller proportion of respondents are seeking to include more meaningful and inclusive participation of stakeholders as part of their impact measurement and management practices. For instance, involving stakeholders in

- defining what impacts matter (27%);
- the collection of impact data (19%);
- determining the selection of impact metrics (16%);
- setting impact goals/targets (15%); and
- evaluating impact data (14%).

¹⁹ Bass et al.

FIGURE 39 Impact data collection methods – respondents active in impact investing, top three responses (n=85, r=208)

* Small sample size – single responses excluded **Note:** totals may add up to more than 100% because respondents could select more than one response.

FIGURE 40 Frameworks, tools and metrics used by respondents active in impact investing to measure and manage impact, top three responses (n=85, r=235)

* Small sample size – single responses excluded

Note: totals may add up to more than 100% as respondents could select more than one response.

While in many instances, end investors will not be directly connected to the stakeholders who are impacted by the activities financed by their investments, ensuring meaningful and inclusive participation of stakeholders in the investment value chain is recognised as an important element to ensure meaningful impact as experienced by those affected is created and that unintended consequences are avoided. Hence, moving beyond considering stakeholder perspectives is a future area of opportunity to strengthen impact integrity and improve future impact investing outcomes.

Current approaches to impact measurement

Respondents were provided with eight options and asked to select the option that best represented their approach to measuring the impact performance of their

impact investments (Figure 38 on previous page). The top three responses across all respondents indicate they are using:

1. a combination of proprietary and third-party metrics and/or frameworks and anecdotal/qualitative evidence (33%);
2. anecdotal or qualitative evidence only (17%); and
3. third-party frameworks and anecdotal or qualitative evidence (22%).

Investment Managers, Intermediaries & Advisers and Diversified Financial Institutions are more likely to use proprietary metrics and/or frameworks than other investor types. Individuals & Family Offices (33%), Trusts, Foundations & NFPs (27%) and to a lesser extent Investment Managers, Intermediaries & Advisers (12%) are more likely to use only anecdotal or qualitative evidence in measuring impact.

Impact data collection methods

Respondents were asked about their impact data collection methods (Figure 39). The three most common modes of impact data collection across all investor types are collecting directly from investees/issuers (61% of respondents), collecting from investees/issuers' publicly available impact/sustainability reports (45% of respondents) and collecting from fund or investment managers (40% of respondents).

The accessibility and comparability of data and information can be a key challenge for users, including investors. Collecting quality data was also identified as a key challenge for respondents participating in the GIIN's global 2020 second edition *The State of Impact Measurement and Management Practice*, as was a lack of transparency on impact performance.²⁰ Some of those challenges are highlighted in Part 3 of this report, as experienced in conducting the 2020 Australian Impact Investment Activity and Performance study for Australian impact investment products.

How impact data is being used

Having collected impact data, respondents were asked how they or their organisations then used that data. The leading uses across all investor types are to:

- measure and monitor impact performance of impact investments (72% of respondents);
- inform decisions about investment making (66% of respondents);
- communicate and report impact performance to stakeholders (62% of respondents); and
- set and refine impact goals for investments (32%) – most notably among Asset Owners and Diversified Financial Institutions – and for marketing purposes (26% of respondents).

Trusts, Foundations & NFPs, Investment Managers, Intermediaries & Advisers and Diversified Financial Institutions also use impact data as a learning tool for beneficiaries or investees. Only 13% of respondents select using the data to inform investment exit decisions (including exit timing), suggesting opportunity to strengthen learning feedback loops, including in understanding sustained impact post exit.

Use of impact tools, metrics and frameworks

Respondents were asked about the tools, metrics, frameworks or standards they or their organisations are using to measure and manage impact (Figure 40). The results are widely dispersed across the options

provided, with some respondents noting others as well. This dispersion reinforces anecdotal evidence about current challenges in the market to make sense of what is an increasingly crowded space, and to drive a level of standardisation that promotes trust, confidence and comparability across impact investment options.

The SDGs is the top ranked response across all investor types (51% of respondents). This is followed by Principles for Responsible Investment (PRI) at 32% of respondents – notwithstanding the PRI talk to a much broader range of responsible investment strategies beyond impact. The Impact Management Project is the third-ranked response (25% of respondents). The International Finance Corporation's

(IFC) Operating Principles for Impact Management released in 2019 are already being used by nearly 11% of respondents. Thirty-three percent of Trusts, Foundations & NFPs and 29% of Individuals & Family Offices are not using any tools, metrics, frameworks or standards and are using less tools on average (under 2) than Investment Managers, Intermediaries & Advisers (3.1 tools on average), Asset Owners (4.2 tools on average) and Diversified Financial Institutions (5 tools on average).

Similar to the Australian experience, impact investors globally are using a broad number of impact tools, metrics and frameworks according to the GIIN's global 2020 second edition of *The State of Impact Measurement and Management Practice*, however, take-up of the leading frameworks is deeper, including use of the SDGs, IRIS Catalog of Metrics and IRIS+ Core Metric Sets, Impact Management Project's five dimensions of impact, UNPRI and IFC's Operating Principles for Impact

Management, indicating a higher degree of convergence than is currently observable in the Australian context.²¹

What impacts are measured?

Respondents were asked about the impacts they endeavour to measure (Figure 41). Sixty-four percent of respondents indicate they focus only on measuring positive impacts (44% focusing on a couple of key positive intended impacts and 20% trying to measure all substantial positive intended impacts). This is in stark contrast to findings in the GIIN's *The State of Impact Measurement and Management Practice*, where 91% of respondents indicated that they assess possible negative impacts during investment screening/due diligence and 49% actively manage and mitigate against negative impacts.²²

A further 11% of respondents indicate they try to measure all substantial positive and negative intended impacts, while 20% are trying to measure all substantial positive, negative, intended and unintended impacts of their impact investments. Individuals & Family Offices and Trusts, Foundations & NFPs are much more likely to focus on a couple of key positive intended impacts than other investor types (67% and 60% of responses from those investor types respectively), while Asset Owners and Investment Managers, Intermediaries & Advisers are more likely to try to measure all substantial positive, negative, intended and unintended impacts than other investor types (38% and 27% of those investor types respectively).

This highlights a key challenge for the impact investing community. Focusing on a couple of key positive outcomes or only positive outcomes, with a lack of transparency and accountability for negative and unintended impacts that may occur through supply and value chains as a result of those investment activities, challenges the impact integrity of impact investing. This behaviour will likely undermine investor and other stakeholder trust and confidence, and put at risk the core purpose of impact investing – to have positive impact on people and the planet alongside a financial return.

Respondents were also asked about the aspects of impact they or their organisations are endeavouring to measure using the shared logic and language of the Impact Management Project's five dimensions of impact²³ to gauge the nature and depth of impacts being taken into account by respondents, including how targeted the investments are towards underserved populations (Figure 42).

²⁰ Bass et al.

²¹ Bass et al.

²² Bass et al.

²³ Impact Management Project, Impact Management Norms, n.d., <<https://impactmanagementproject.com/impact-management/impact-management-norms/>>.

FIGURE 41 Comprehensiveness of impact measurement practices, respondents active in impact investing (n=85)

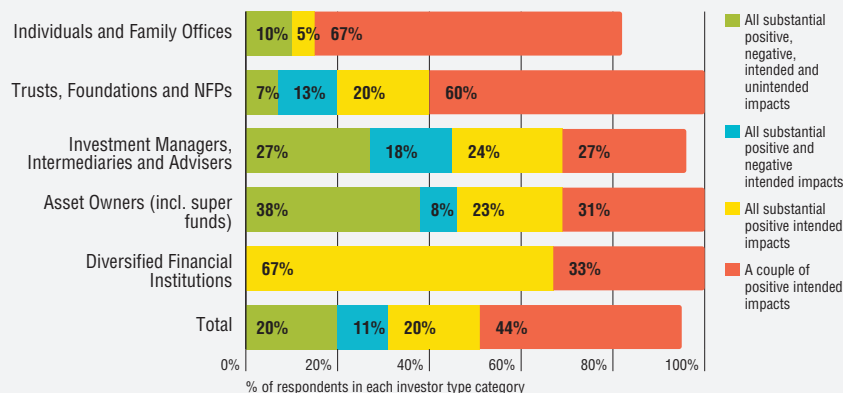
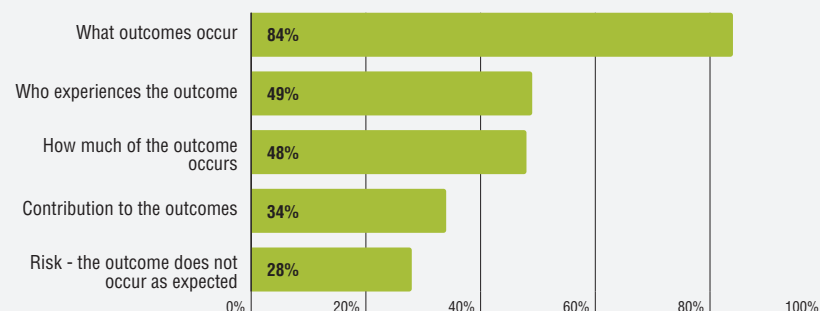


FIGURE 42 Aspects of impact being measured – respondents active in impact investing (n=85, r=214)



Note: these classifications represent the Impact Management Project's five dimensions of impact: what outcomes your investments are contributing to and how important these outcomes are to the people or planet experiencing them; who experiences the outcome; how underserved are the stakeholders in relation to the outcome?; how many stakeholders are experiencing the outcome, what degree of change they are experiencing, and how long they are experiencing the outcome for?; your contribution to the outcome accounting for what would likely happen anyway; and the risk to people and planet that the impact does not occur as expected.

Most respondents (84%) who are measuring and managing the impact of their investments are measuring 'what' outcomes the investments are contributing to. Nearly half of those respondents are also measuring 'who' experiences the outcome and how underserved the stakeholders are in relation to the outcome (49%) and 'how many' stakeholders are experiencing the outcome, what degree of change they are experiencing and how long they are experiencing the outcome for (48%). A smaller proportion of respondents are measuring the 'contribution' of the investment relative to what would likely have happened anyway (34%) and the 'risk' to people and planet that the impact does not occur as expected (28%).

Trusts, Foundations & NFPs are even less likely than other respondents to measure the contribution of the investment relative to what would likely have happened anyway (13%) and the risk that impact does not occur as expected (13%). Asset Owners & Investment Managers, Intermediaries & Advisers are more likely than other respondents to measure the contribution of their investments to outcomes accounting for what would likely have happened anyway (54% and 45% respectively).

When is impact measured?

Respondents were asked to indicate when they or their organisations measure impact (Figure 43). The three leading responses are periodically (at least annually) during the life of the investment (73% of respondents), before making an investment decision (53%), and after an investment decision has been made (29%). This means that nearly half of respondents are not measuring impact before making investment decisions, suggesting that there is opportunity for impact to be used more strategically in future to inform investment decisions. Only 15% of respondents are measuring impact at the time the investment is exited (8%) or after exit to assess sustained impact post investment (7%).

Impact reporting practices

Respondents were asked to indicate how their organisation is reporting its impact intentions and performance (Figure 44). Results are mixed across investor types. The top three responses overall are:

- publishing a dedicated impact performance report (31% of respondents);
- providing impact performance reports to internal management teams, investment committees and/or the board (29% of respondents); and

FIGURE 43 When impact measurement occurs – respondents active in impact investing (n=85, r=153)

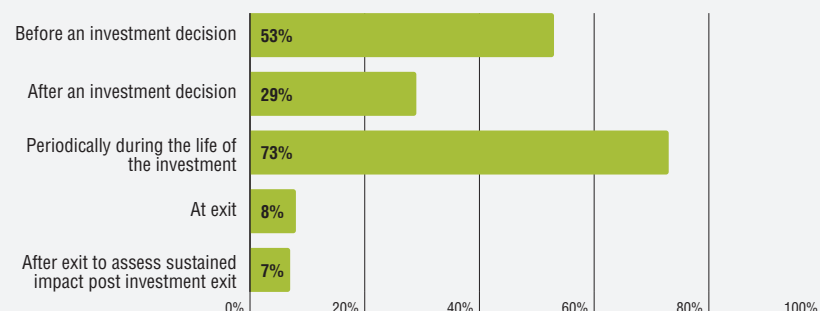
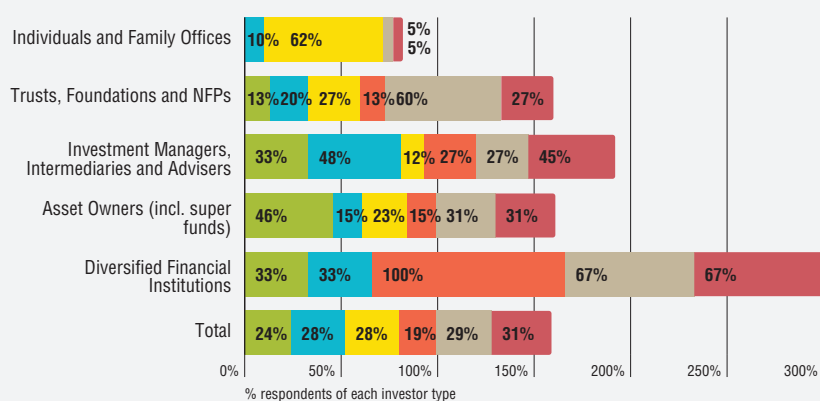


FIGURE 44 Reporting of impact intentions, results and performance – responses from respondents active in impact investing (n=85, r=143)



Note: totals may add up to more than 100% as respondents could select more than one response.

- disclosing the organisation's impact strategy and/or goals to stakeholders, for instance in information memoranda, public disclosure statements or equivalent (28% of respondents).

Twenty-eight percent of respondents are not reporting on their impact performance, however, this includes 62% of Individuals & Family Offices, most of whom would not be expected to report externally.

Impact reporting seems to be more widespread globally, according to the GIIN's 2020 second edition of *The State of Impact Measurement and Management*. Seventy-four percent of respondents in that study reported producing impact reports for stakeholders and 49% of respondents produce impact reports that are available to the public, while 44% produce impact reports for management and staff.

Impact management and measurement challenges

Respondents were asked to indicate their key challenges in implementing impact measurement and management practices in their organisations (Figure 45 overleaf). Fifty-eight percent of all responses relate to the need for standardised and comparable tools and frameworks.

Challenges frequently cited by respondents include:

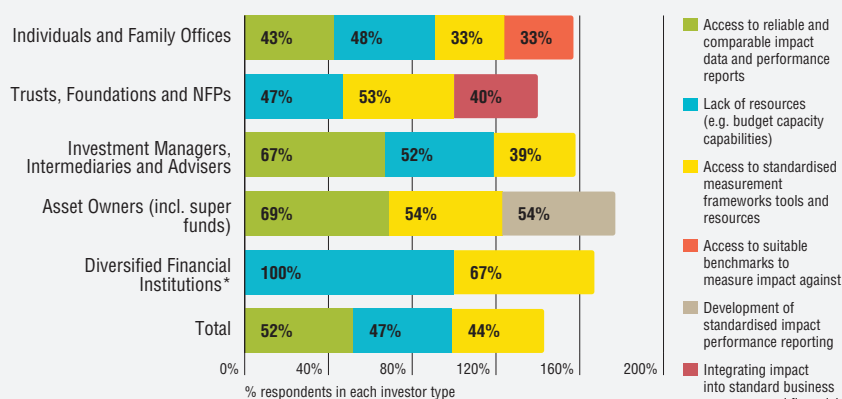
- access to reliable and comparable impact data and performance reports (52% of respondents);
- a lack of resources (47% of respondents);
- access to standardised measurement frameworks, tools and resources (44% of respondents);
- development of standardised impact performance reporting (33% of respondents);

- access to suitable benchmarks to measure impact performance against (31% of respondents); and
- integrating impact into standard business processes and financial decision-making (31% of respondents).

Eighteen percent of respondents consider that aligning expectations with external advisers and 7% of respondents consider getting buy-in across the organisation to be among their top three challenges in implementing impact measurement and management practices in their organisations.

This suggests the focus is moving on from raising awareness and building buy-in to working out how to integrate impact measurement and management into investment practices and decision-making.

FIGURE 45 Key challenges to implementing impact measurement and management practices – respondents active in impact investing, top three responses (n=85, r=237)



* Small sample size Note: totals may add up to more than 100% as respondents could select more than one response.

Active impact investors

SPOTLIGHT: EMERGING IMPACT MEASUREMENT AND MANAGEMENT (IMM) TOOLS

Standardised IMM practices are emerging to strengthen the impact integrity, legitimacy and performance of impact investing and to underpin market development and growth.

IMM frameworks/tools	Purpose	Focus
IMM shared logic and language (e.g. Impact Management Project frame-work – five dimensions of impact, 15 data categories, 'ABC' impact classifications)	To build a shared logic and language for IMM and global consensus on how to measure, manage and communicate impact	Measuring all positive, negative, intended and unintended outcomes that matter to those experiencing them; increasing clarity, consistency and comparability about the nature and depth of impact being created or contributed to
Impact investing principles frameworks (e.g. IFC Operating Principles for Impact Management; UNEP FI Principles for Positive Impact Finance; GIIN Core Characteristics of Impact Investing)	To reduce complexity and confusion for investors and improve impact integrity	Defining the core distinguishing elements of impact investing and establishing a common discipline around impact management (IFC); Developing a common understanding of impact across the value chain (UNEP FI); Providing clarity about what it means to practice impact investing (GIIN)
Impact metrics and taxonomies (e.g. GRI metrics aligned with SDG targets; IRIS+ impact metrics aligned with SDG targets and IMP's five dimensions of impact; EU Taxonomy for Sustainable Activities)	To consistently measure the impact performance of investments; to improve impact integrity and comparability through creation of standardised and evidence-based metrics	Aligning relevant private sector metrics and metric-sets to specific outcomes (e.g. SDG targets) and across the five dimensions of impact (IRIS+)
Other tools and resources: (e.g. Pacific Community Ventures (PVC) Impact Due Diligence Guide; Blab SDG Action Manager; Social Value International's (SVI) standard on applying Principle 1: Involve Stake-holders; World Benchmarking Alliance (WBA) SDG impact benchmarks – under development)	To improve consistency, efficiency, and effectiveness of IMM approaches deployed; to share knowledge about different approaches and what works; to improve impact integrity; to enable impact performance benchmarking	Impact due diligence (PVC); alignment of practices/activities with UN Global Compact's ten principles and the SDGs (Blab); involving stakeholders in impact design, collection and evaluation (SVI); mapping current evidence-based targets and existing standards at an industry level)
IMM practice standards and assurance: (e.g. UNDP SDG Impact Practice Assurance Standards – under development)	To increase flow of private capital towards SDG-enabling investments; to improve impact integrity; interoperability with other principles and reporting frameworks	IMM practices and assurance of those practices; embedding consistent language about the nature and depth of SDG impact (SDG targets and IMP framework); shifting from alignment of current activities with the SDGs and opportunistic approaches, to more strategic integration of SDGs in decision-making supported by consistent and rigorous processes and sound governance; a focus on all material positive, negative, intended and unintended outcomes on people and planet – including the issuer's or fund manager's broader responsible business practices

Nightingale Housing, supported by various Australian impact investors, delivers triple bottom line housing at cost, that is socially, environmentally and financially sustainable.



Part 2:

Australian impact investment activity and performance

2.1 ABOUT THE 2020 AUSTRALIAN IMPACT INVESTMENT ACTIVITY AND PERFORMANCE STUDY

Context and background

This 2020 Australian Impact Investment Activity and Performance study builds on the work of two previous editions: *Benchmarking Impact: Australian Impact Investment Activity*

and *Performance Report 2018*, conducted by RIAA with the Centre for Social Impact at Swinburne University, and the inaugural study *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016*, conducted by Impact Investing Australia.

The study was established to measure the investment activity, the social and environmental outcomes and the financial performance of impact investments held by Australian investors.

2.2 OVERVIEW OF THE DATA SET

The 2020 Australian Impact Investment Activity and Performance study includes data on 117 retail and wholesale impact products (across 66 organisations) widely offered to Australian investors, totalling \$20.2 billion, that were active during part or all of the study period (1 January 2018 to 31 December 2019).

As not all of the products were still active as at 31 December 2019²⁴, investment activity analysis is derived from 111 products totalling \$19.9 billion, unless otherwise indicated.

Criteria for inclusion

To qualify for inclusion in the 2020 study, investment products needed to show that, by 31 December 2019, they had committed capital, were making investments and could demonstrate the key features of impact investing as outlined in RIAA's Responsible and Ethical Investment Spectrum (see Figure 1), i.e. they were:

- intentionally seeking to create positive social and/or environmental benefits;
- measuring both the social/environmental outcomes and financial return performance; and
- deliberately seeking financial returns (i.e. not grant making).

As an additional layer of criteria, this study focuses on widely available retail and wholesale impact investment products:²⁵

- issued in Australian dollars by an Australian domiciled issuer;
- issued in Australian dollars and into Australian territories by a non-Australian domiciled issuer (e.g. kangaroo bond issues); or
- offered to Australian investors through an Australian domiciled fund manager.²⁶

For the first time, two public equity impact funds are included, while recognising the debate and challenges around classifying public equity impact funds as impact investments (see Spotlight on impact investing in public markets). A further two products classified under public equities

AT A GLANCE

- The 2020 Australian Impact Investment Activity and Performance study includes data on 117 retail and wholesale impact products across 66 organisations, totalling \$20.2 billion that were widely offered to Australian investors and active during part or all of the study period (1 January 2018 to 31 December 2019)
- 78 products (67% by number) and \$12.2 billion (60% by value) are Australian domiciled; 39 products (33% by number) or \$8 billion (40% by value) are domiciled offshore.

relate to mainstream equity funds where the impact is generated at the investor level (see Case study on Indigenous Business Australia Prosperity Funds and IREIT – co-investment model).

Private market activity is excluded from the main study because it is not widely offered and data is difficult to access. However, private market investments – for example, angel investing and direct private equity, or balance-sheet investments made by investors into enterprises, programs and projects – play a vital role in the Australian impact investing landscape (see Spotlight on private markets activity written by Kylie Charlton), not least of which in making capital available to fund seed and early-stage growth enterprises coming to market with innovative solutions (see Case study on Impact Investment Ready Growth Grants).

Within the product universe, \$12.2 billion (60%) comprises Australian domiciled impact investments while the remaining \$8 billion (40%) comprises impact products domiciled offshore but available to Australian investors through A\$ denominated issues into Australia (e.g. kangaroo bond issues) or held by Australian funds that are then offered to Australian investors in A\$ through those funds. While this is the first time foreign domiciled products have been included in the 2020 Australian Impact Investment Activity and Performance Benchmark study, this doesn't significantly alter comparisons with prior studies as the majority of this issuance has occurred in the past two years (i.e. within this study period).

All 117 of the products included in the product universe are open to wholesale investors, and three of these products are

also open to retail investors. Organisations in the universe include investment managers, banks or diversified financial institutions, development finance institutions, government agencies, impact investment intermediaries, service providers and organisations that did not fit into the aforementioned categories. Investment activity data includes self-reported data from six organisations (referred to as 'respondents' in this report) as well as publicly available data for the remaining organisations and products where data was not provided.

Information is not available for all products. As such, the total sample size differs across different data points. As a guide:

- **investment activity analysis** is derived from self-reported and publicly available data on 111 products, unless otherwise indicated;
- **financial performance data** is aggregated at the product level, with 65 products reporting returns during the study period, as well as 7 exits or repayments; and
- **impact performance data** is also aggregated from product-level data, which was reported across 82 products during the study period.

²⁴ Six exits occurred during 2018. One exit occurred during 2019 on 31 December 2019. That exit is captured as an exit during the period, but it is also included in the total number and value of impact investments as at 31 December 2019 because it was still active on this date.

²⁵ Therefore, it is only impact investment products – such as funds, bonds and unit trusts – open to multiple Australian investors, that are included in the product universe, main body and analysis of this study.

²⁶ This is a change from the 2018 study, which only included Australian domiciled impact investment products, whether or not they were held by Australian investors.

SPOTLIGHT: PRIVATE MARKET ACTIVITY

by Kylie Charlton, Australian Impact Investments

An essential building block to the maturation and scale of impact investment in Australia beyond the activity of the retail and wholesale market, is the direct investment of private investors into various enterprises, programs and projects.

Direct investments are diverse in nature and undertaken by a range of investors, including Australian-based public ancillary funds, private ancillary funds, family offices and high-net-worth individuals. They provide not only a critical flow of capital that enables recipients to execute on strategies to deliver environment and social outcomes, but also serve an important role in piloting new and innovative investment approaches that over time may be replicated at scale and productised for the retail and wholesale market.

The grounding characteristic of most direct investments are established relationships between the investor and investee that provide a starting point for a conversation to explore the potential of investment. Quite often, although not always, direct investments may be part of a deliberate phased strategy to expand the capital sources of an investee beyond start-up grants as they build market traction and scale in their operations. Being small in size (less than \$2 million) and predominantly into early-stage businesses, these investments are typically outside of opportunities targeted by the managers of impact investment products as the transaction economics are challenging.

Alignment of impact intent and commitment to impact are driving motivations behind direct investment activity. Investors are seeking opportunities to direct investment capital to achieve specific social and environmental objectives, while investees are seeking investors that fully understand and are committed to their impact objectives. The importance of impact intent leads, not surprisingly, to a strong bias of investors to opportunities that can be categorised as “contributing to solutions” under the Impact Management Project convention. It also necessitates capacity to set impact goals and, in turn, measure, report and manage on these impact goals.

Examples of direct investments exemplifying these core characteristics include:

- \$600,000 SAFE for AbilityMade, a for-purpose technology company making custom-made 3D printed orthoses for children with disabilities;
- \$300,000 R&D Loan for Hone, an early-stage start-up developing a suite of products enabling real-time in-field measurement of soil, crop and produce health;
- \$3,000,000 Seed Round for Loop+, an early-stage health technology company developing solutions for the care management of pressure injuries of wheelchair users;
- \$700,000 Loan for The Sycamore School, a start-up specialised primary school for autistic children; and
- \$500,000 BOLD for Xceptional, an early-stage technology service company improving employment opportunities for people with autism spectrum disorder (ASD) and promoting neurodiversity in the workplace.

These examples illustrate the role direct investment activity plays in piloting innovative investment approaches in the Australian market. AbilityMade's SAFE was one of the first instances in Australia of use of the Simple Agreement for Future Equity conceptualised by the YCombinator, an accelerator in the United States*. Xceptional's BOLD – or Beneficial Outcomes Linked Debt - is an Australian-first that financially incentivises delivery of target impact.

Consistent with the findings of this report, these examples also evidence the absence of early-stage product and the role direct investment plays in supporting early-stage companies developing business models to address pressing social and environmental challenges. In three of the five examples above, private investors were the sole source of capital. In the case of Loop+, private investors sat alongside established venture capital funds, namely, Yamaha Motor Ventures and Giant Leap Fund. The loan financing for The Sycamore School brought a syndicate of private investors together with Foresters Community Finance.

Early-stage companies being the predominant recipient of direct investment supports the finding in Part 1 of this report that Trusts, Foundations & NFPs and Individuals & Family Offices have the highest appetite for early-stage seed/start-ups and venture-stage companies. These investor groups comprise the majority of participants in direct investments.

Despite the important role private market activity plays in expanding the supply of capital for impact enterprises, especially those in the early growth stage, and the development of the impact investment market in Australia, access to expertise and resources to execute on such opportunities is a constraining factor. Despite appetite to engage, many investors lack the in-house expertise required to either structure or undertake due diligence, and most financial advisers are not resourced to be able to provide advice on such opportunities. Similarly, few impact enterprises have ready access to the necessary expertise to lead them through an investment process (See Case study: Impact Investment Ready Growth Grants).

As demand for investment opportunities addressing pressing social and environment challenges continues to grow and entrepreneurs seeking to address these challenges emerge, the expertise and resources will emerge to unearth direct investment opportunities and guide the flow of private capital in an efficient manner. Collaborative syndicates sharing resources may form, while financial advisers and asset consultants driven by client demand will recognise the need to embrace impact as the third paradigm of investing, alongside risk and reward. Regardless of how these challenges are solved, private market activity can be expected to continue to serve a critical role in the development of the impact investment market.

* SAFE (Simple Agreement for Future Equity) is a financing instrument whereby the investor agrees to make a cash payment (which is not a loan) to a company in exchange for a contractual right to convert that amount to shares when a pre-agreed trigger event occurs. The trigger event is usually the closing of a priced equity round but also includes an exit event. The number of shares the investor receives on conversion depends on the amount of the upfront cash payment and the share price of the priced equity round or the exit event (as applicable). Typically shares will be issued at a discount to the share price of the equity round or exit event to reward the investor for backing the company early. Notably if the trigger event is an exit an investor can usually choose to either receive their investment amount back or convert that value into shares.

2.3 INVESTMENT ACTIVITY

AT A GLANCE

- The total value of impact investment products widely available to Australian investors as at 31 December 2019 has risen 249% to \$19.9 billion from \$5.7 billion as at 31 December 2017 as reported in the 2018 study.
- The total number of impact investment products widely available to Australian investors is up 118% to 111 products as at 31 December 2019, from 51 products as at 31 December 2017 as reported in the 2018 study.
- Green, social and sustainability (GSS) bonds dominate the value of impact investment products at \$17 billion (85%) and the number of products at 49 (44% of the 111 products).
- GSS bonds aside, the remaining \$2.9 billion in impact investments held by Australian investors comprise real assets (\$2.2 billion), private debt (\$287 million), public equity (\$195 million), private equity (\$97 million), social impact bonds (SIBs) (\$66 million) and others (\$44 million).
- The vast majority – \$17.4 billion (87%) – of impact investments target environmental outcomes, a three-fold increase on the \$5.7 billion as reported in the 2018 study. \$2.5 billion (13%) target social outcomes, an increase of 933% on the \$242 million of investments targeting social outcomes as reported in the 2018 study.
- A large proportion of impact investment products by number of products are targeting the mature (43%) or growth/mature stage of business investment (23%).
- By dollar-weighting, the majority of impact investments are directed towards conservation, environment and agriculture (\$16.8 billion or 84% of the value of products), followed by products pursuing multiple outcomes (\$1.8 billion or 9%), housing and local amenity (\$766 million or 4%) and income and financial inclusion (\$327 million or 2%).
- By number of impact investment products, just over half are directed to conservation, environment and agriculture (60 products or 54% of universe), followed by products pursuing multiple outcomes (24 products or 22%) and families, community and inclusion (9 products or 8% of the universe).
- Using the SDG framework, most impact investment products are invested in SDG 7 – affordable and clean energy (\$8.4 billion or 42%), followed by SDG 13 – climate action (\$6.3 billion or 32%) and SDG 11 – sustainable cities and communities (\$2.5 billion or 13%).
- By number of impact investment products, SDG 11 – sustainable cities and communities leads other outcome areas with 32 or 29% of products directed towards this goal, followed by affordable and clean energy (17 or 15% of products) and climate action (14 or 13% of products).

Overall investment activity

The market for impact investments in Australia continues to grow significantly, with the total value of impact investment products widely available to Australian investors as at 31 December 2019 totalling \$19.9 billion across 111 impact investment products (Figure 46). This is a significant increase (249%) on the \$5.7 billion across 51 products as at 31 December 2017 as included in the 2018 study.

This continues the year-on-year growth that has been observed since the data series commenced in 2010 (Figure 47).

GSS bond activity

Growth in absolute terms is dominated by GSS bond activity (Figure 48), which is now \$17 billion or 85% of the value of impact investment products as at 31 December 2019, having grown 248% since 31 December 2017 as reported in the 2018 study. GSS bonds comprise 49 of the 111 products or 44% of all impact investing products as at 31 December 2019. Also of note, GSS bond activity:

- principally comprises kangaroo issues from offshore domiciled organisations including multilaterals;
- includes the National Housing Finance and Investment Corporation's (NHFIC) first two social bond issuances which total \$630 million; and
- includes green bond issuances from Australian organisations, including the four major banks.

FIGURE 46 Number and value of impact investment products by asset class as at 31 December 2019 (n=111)

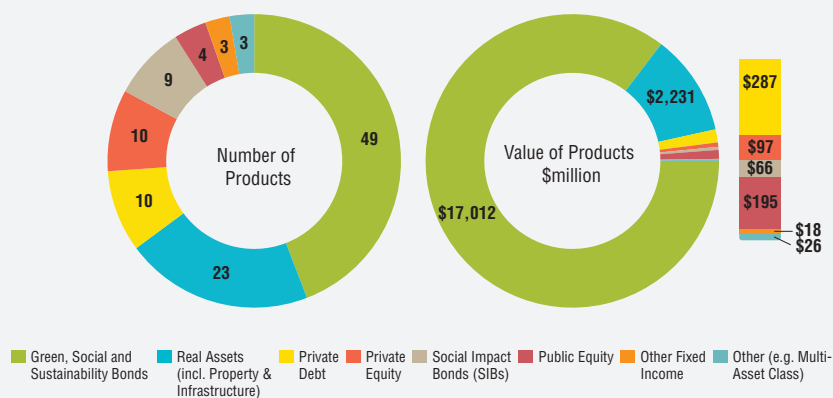


FIGURE 47 Number and value of impact investment products as at 31 December 2010–2019

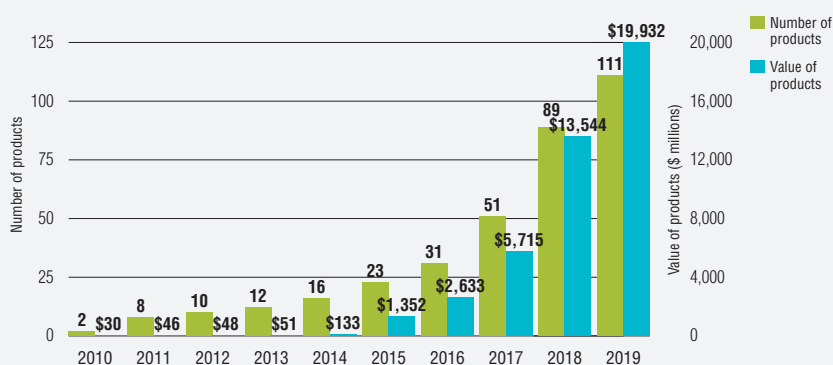
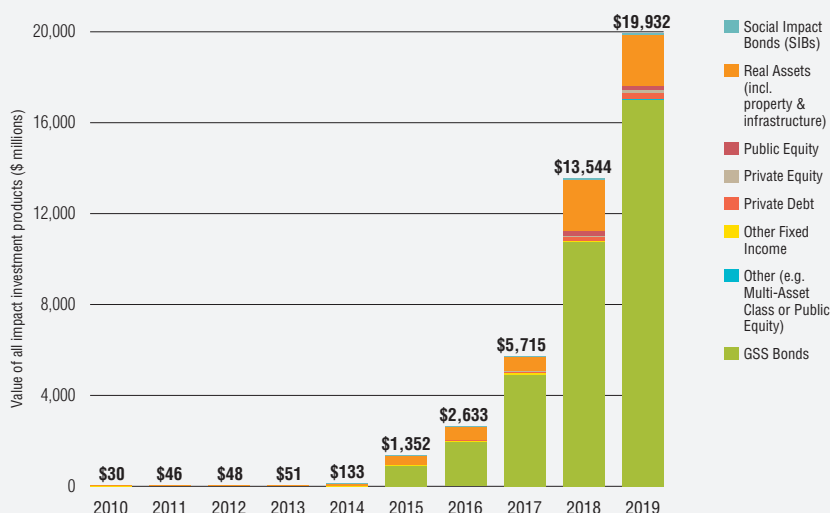
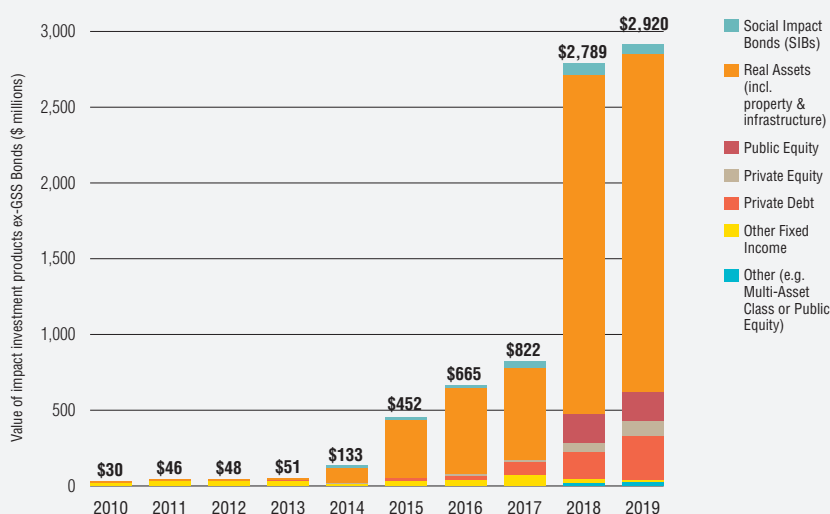
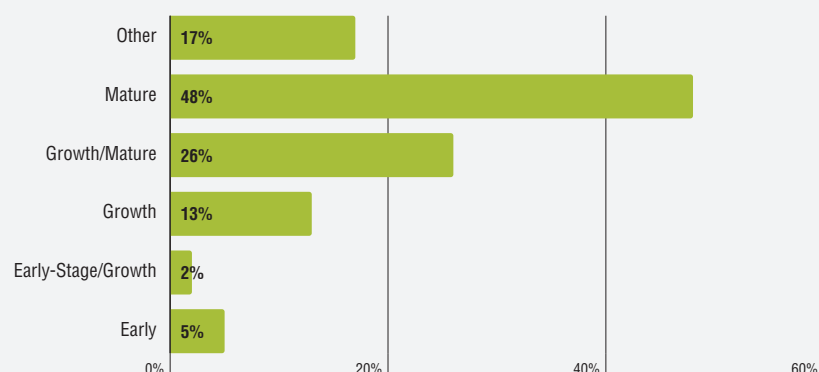


FIGURE 48 Value of impact investment products by asset class as at 31 December 2010–2019 (\$ millions)**FIGURE 49 Value of impact investment products by asset class ex-GSS bonds as at 31 December 2010–2019 (\$ millions)****FIGURE 50 Number of impact investment products by stage of investment as at 31 December 2019 (n=111)****All other impact investments activity (ex GSS bonds)**

The pace of growth of all other impact investments was marginally higher than that of GSS bonds (albeit from a much lower base), growing to \$2.9 billion at 31 December 2019 from \$822 million at 31 December 2017, a growth of 253% over that period (Figure 49).

Impact investment asset classes (ex-GSS bonds) are as follows:

- Real Assets (76% by value or \$2.2 billion and 37% by number or 23 products)
- Private Debt (10% by value or \$287 million and 16% by number or 10 products)
- Private Equity (3% by value or \$97 million and 16% by number or 10 products)
- Public Equity (7% by value or \$195 million and 6% by number or 4 products)
- Social Impact Bonds (SIBs) (2% by value or \$66 million and 15% by number or 9 products)
- Other Fixed Income (1% by value or \$18 million and 5% by number or 3 products)
- Others including Multi Asset Class (1% by value or \$26 million and 5% by number or 3 products).

Figures 48 and 49 display the year-on-year growth in the value of impact investments products by asset class as at 31 December each year from 2010 to 2019 for all impact investment products and impact investment products ex-GSS bonds respectively.

Investment activity by stage of investment

Impact investment products are weighted towards mature-stage companies, accounting for 43% or 48 of the 111 products as at 31 December 2019 (Figure 50). This is followed by products targeting a combination of growth/mature-stage companies (23% or 26 products), growth (12% or 13 products) and other (15% or 17 products). 'Other' relates to products that do not make investments which have defined stages such as SIBs.

Figure 50 also shows that very few widely available products invest in early-stage products despite the 2020 Impact Investment Survey findings in Part 1 of this report finding investors desire early-stage products. Most early-stage investments are offered through private markets and as such, are not included in the universe for the 2020 Australian Impact Investment Activity and Performance study. The large tilt towards mature-stage investments suggests that most products hold established assets with well-established cash flows (e.g. established property or infrastructure).

SPOTLIGHT: **IMPACT INVESTING IN PUBLIC EQUITY MARKETS**

For the first time, public equity impact funds (the Pengana WHEB Sustainable Impact Fund and the Inspire Australian Equities Fund, formerly the 8IP Australian Equity Impact Fund) have been included in the study.

WHEB Sustainable Impact Fund demonstrates strong intentionality in terms of the core purpose of the businesses it invests in, applies an ESG overlay, proactive engagement with companies (including exiting investments if engagement efforts fail) and a commitment to impact measurement and public transparency. The Inspire Australian Equities Fund selects companies whose main business activities are aligned with positive impact areas and that show benefit to stakeholders and contribution to solutions. As the companies are typically outside the ASX300, their business activities are less diffused than larger organisations, making it easier to trace how investor funds flow to intended areas.

Classifying public equity funds as impact investments is subject to much debate, with valid concerns about impact washing and traceability of impact, including:

- how much of a company's revenues should be focused on generating positive impact for it to be classified an impact investment. Even if it is a high proportion, should it account for other business activities that may be having negative and unintended impacts?
- the degree to which positive impacts can be achieved and attributable to an investor if it does not own enough of the company's stock to influence its management.
- how impact can be assessed or claimed when it cannot be measured when public companies are not reporting their direct and indirect impacts on people and the planet consistently or comprehensively.

Notwithstanding these challenges, the GIIN reports that public equities was the fastest-growing impact investing strategy among global impact investors between 2014 and 2018. And public equities are not alone in posing challenges to impact investing (see Spotlight on GSS bonds).

By virtue of the characteristics of this asset class, proving real economy benefits and contributions for public equities is difficult. After an initial public offer, when capital genuinely

flows to the initial investors of the company, the purchase and sale of listed shares do not result in money flowing to social or environmental benefactors, mostly only to the other holders of shares in a secondary market. This is similar to the early arguments against GSS bonds being classified as impact investments, due to refinancing of existing activities where it can be argued that no real 'additionality' or 'contribution' has been realised. However, as with public equities, it is more important to create a market and signal that social and sustainability matters than overly limiting eligibility to the point that a market never emerges.

Strides are being made in the public equities space (such as through improved management, measurement and disclosures) and it is likely that more public equity impact funds will feature in future Benchmarking Impact studies. For instance, the Melior Australian Impact Fund has a highly honed team with a campaign of corporate engagement – even with companies not in its portfolio – seeking to improve the overall performance of companies, particularly in areas relevant to the SDGs. It was not included in this year's study as its unique style of impact sought did not fully meet the study's criteria.

Investment activity by impact focus (by dollar weighting)

17.4 billion (87% of the value of products as at 31 December 2019) target environmental outcomes while \$2.5 billion of impact investment products (13%) target social outcomes. This marks a 933% increase on the \$242 million of investments targeting social outcomes as at 31 December 2017 as reported in the 2018 study.

By dollar weighting (Table 3 overleaf), the vast majority of investment activity is taking place in conservation, environment and agriculture investments (Outcome Area 9) (\$16.8 billion or 84%), followed by investments with multiple outcomes (\$1.8 billion or 9%) and investments focused on housing and local amenity (Outcome Area 5) (\$766 million or 4%).

The reason for the large weighting in housing and local amenity stems from GSS bonds (\$763 million) being directed towards housing affordability efforts and, in particular, the inclusion of the first two bond issuances (\$630 million) from National Housing Finance and Investment Corporation (NHFIC), the newly created Australian Affordable Housing Bond Aggregator (see

Case study: National Housing Finance and Investment Corporation (NHFIC) – Australia's Affordable Housing Bond Aggregator).

The next highest concentration of investment activity by dollar weighting is in income and financial inclusion (Outcome Area 8) (\$327 million or 2%), followed by physical health and disability (Outcome Area 3) (\$176 million or 0.9%), which is largely driven by healthcare-related products. Although a small amount relative to other outcome areas, this Outcome Area has grown almost twentyfold in size from the 2018 study when it was just \$9.1 million. Most of this is attributable to foreign domiciled products.

Investment activity by impact focus (by number)

By the number of investments (Table 4 overleaf), 24 or 22% of the impact investment products as at 31 December 2019 comprise investments pursuing multiple outcomes. For those with a more specific focus, outcome areas span eight of the nine outcome themes. Conservation, environment and agriculture (Outcome Area 9) consist of the majority of products (60 or 54% of universe). Families, community and

CASE STUDY: AUSTRALIAN FARMLANDS FUNDS – INVESTING IN REAL ASSETS FOR A SUSTAINABLE AND RESILIENT FARMING FUTURE

Kilter Rural established Australian Farmlands Funds in August 2018 to purchase and renew a portfolio of underutilised irrigated farmland, water and environmental assets in the southern Murray-Darling Basin region to deliver high-value organic and conventional crops that are less water intensive and more drought resistant. The Funds' \$20 million Phase 1 investment was fully subscribed in October 2018.

Kilter Rural takes a long-term stewardship approach towards its farmland investments centred on sustainability and resilience. Its investment thesis is to create enduring income from improved yields, multiple revenue streams and capital growth through large-scale farmland intervention to protect and enhance ecological systems while sustaining agricultural production for the long term.

TABLE 3 Value of impact investment products by asset class and outcome area as at 31 December 2019, \$ millions (n=111)

OUTCOME AREA	Private Debt	Private Equity	Public Equity	Real Assets	Other Fixed Income	GSS Bonds	SIBs	Other (incl. multi asset class)	Total
1 Early Childhood and Learning					2				2
2 Mental Health and Wellbeing									
3 Physical Health and Disability	130	1.3		44.6					175.9
4 Families, Community and Inclusion							47.4	23	70.4
5 Housing and Local Amenity						762.9		3	765.9
6 Employment, Training and Participation	20	8.6							28.6
7 Arts, Culture and Sport				7					7
8 Income and Financial Inclusion	.5	13.6	190	123					327.1
9 Conservation, Environment and Agriculture	80	26		1,905.3		14,758.4			16,769.7
10 Multiple Outcomes	56.3	47.5	4.8	151	15.9	1,491	19		1,785.4
Total	286.8	96.9	194.8	2,230.9	17.9	17,012.3	66.4	26	19,932

TABLE 4 Impact investment products by asset class and outcome area as at 31 December 2019 (n=111)

OUTCOME AREA	Private Debt	Private Equity	Public Equity	Real Assets	Other Fixed Income	GSS Bonds	SIBs	Other (incl. multi asset class)	Total
1 Early Childhood and Learning					1				1
2 Mental Health and Wellbeing									
3 Physical Health and Disability	1	1		1					3
4 Families, Community and Inclusion							7	2	9
5 Housing and Local Amenity						4		1	5
6 Employment, Training and Participation	1	1							2
7 Arts, Culture and Sport				1					1
8 Income and Financial Inclusion	1	2	2	1					6
9 Conservation, Environment and Agriculture	1	1		20		38			60
10 Multiple Outcomes	3	5	1	2	2	8	3		24
Total	7	10	3	25	3	50	10	3	111

inclusion (Outcome Area 4) is the second-largest concentration by number of products, with nine products or 8% of the universe. This is reflective of the higher number of SIB products in this category. The next highest concentration by number is in income and financial inclusion (Outcome Area 8) with six products or 5%, followed by housing and local amenity (Outcome Area 5) with five or 4% of the 111 products.










Impact investment products as at 31 December 2019 were mapped to the SDGs they address (Table 5 overleaf). Products addressing multiple SDGs were put into a multi SDG category (\$990 million or 5% of commitments). Products that could not be

linked to an SDG due to lack of information were left blank (\$248 million or seven products). When analysing the volume of investment activity by dollar amount, the majority of products fall into SDG 7 – affordable and clean energy (\$8.4 billion or 42%), followed by SDG 13 – climate action (\$6.3 billion or 32%) and SDG 11 – sustainable cities and communities (\$2.5 billion or 13%).

The large allocation in sustainable cities and communities is mainly due to GSS bonds and real asset products, particularly related property and infrastructure. By number of products, most products are in sustainable cities and communities (32

products), affordable and clean energy (17 products) and climate action (14 products). Reduced inequalities accounts for 10 products, which is due to the large number of SIBs that have comparatively much smaller transaction sizes. The composition is largely similar to the 2018 study findings despite an expansion of the universe to include international investments offered to Australian investors.

TABLE 5 How impact investment products as at 31 December 2019 map to the Sustainable Development Goals (SDGs) (n=111)

3 GOOD HEALTH AND WELL-BEING 	Value of products (\$ millions) 212 Value of products (%) 1.1 Number of products 7 Number of products (%) 6.3
4 QUALITY EDUCATION 	Value of products (\$ millions) 506 Value of products (%) 2.5 Number of products 3 Number of products (%) 2.7
7 AFFORDABLE AND CLEAN ENERGY 	Value of products (\$ millions) 8,426 Value of products (%) 42.3 Number of products 17 Number of products (%) 15.3
8 DECENT WORK AND ECONOMIC GROWTH 	Value of products (\$ millions) 21 Value of products (%) 0.1 Number of products 5 Number of products (%) 4.5
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	Value of products (\$ millions) 79 Value of products (%) 0.4 Number of products 5 Number of products (%) 4.5
10 REDUCED INEQUALITIES 	Value of products (\$ millions) 492 Value of products (%) 2.5 Number of products 10 Number of products (%) 9
11 SUSTAINABLE CITIES AND COMMUNITIES 	Value of products (\$ millions) 2,544 Value of products (%) 12.8 Number of products 32 Number of products (%) 28.8
13 CLIMATE ACTION 	Value of products (\$ millions) 6,346 Value of products (%) 31.8 Number of products 14 Number of products (%) 12.6
14 LIFE BELOW WATER 	Value of products (\$ millions) 68 Value of products (%) 0.3 Number of products 1 Number of products (%) 0.9
Blank or no SDG reported	Value of products (\$ millions) 990 Value of products (%) 5 Number of products 10 Number of products (%) 9
Multiple SDGs reported	Value of products (\$ millions) 248 Value of products (%) 1.2 Number of products 7 Number of products (%) 6.3

SPOTLIGHT: GREEN/SOCIAL/SUSTAINABILITY (GSS) BONDS

Most activity in the green/social/sustainability (GSS) bond market centres around use-of-proceeds green bonds, although interest in social and broader sustainability-related bonds and general-purpose SDG-linked bonds is growing. According to the Climate Bonds Initiative, the green bond market issued US\$167 billion in 2018 – up from US\$37 billion of issuance in 2014.

To date, most GSS bonds have been structured as use-of-proceeds bonds – issued in accordance with the Green and Social Bond Principles (International Capital Market Association) or the Climate Bond Standard – with strict accountability around how the bond proceeds can be applied towards eligible green, social or climate-related projects and activities but issued as a general unsecured debt obligation of the issuer. Revenue, project and securitised use-of-proceeds bonds have also been issued.

The accountability measures around verified GSS bond use-of-proceeds are strong and the existing market conventions have been extremely successful in terms of supporting market development and signalling demand for GSS product.

However, certain aspects of GSS bonds are being called into question as expectations around impact/sustainability-labelled product and what that means continue to increase. This includes the use of GSS bonds to refinance existing activities – sometimes with lengthy lookback periods – calling into question whether GSS bonds are contributing to solutions that benefit people and the planet or just a cheap refinancing tool for issuers. Further, while GSS bonds have strict accountability measures around the application of bond proceeds, there are no such checks or requirements around the Issuer's broader ESG performance and responsible business practices. Nor is there a requirement for a credible link to the Issuer's corporate or sustainability strategy, including that the activities being financed through GSS bonds relate to sustainability issues most relevant to the Issuer's business and the impact it has on people and the planet (i.e. are strategic, not purely opportunistic). The proposed EU Green Bond Standard, for example, is attempting to highlight and address some of these issues.

SPOTLIGHT: ACHIEVING IMPACT THROUGH REAL ASSETS

Real assets is the most prevalent impact asset class held by Australian investors after GSS bonds. Real assets is an asset class many investors are familiar and comfortable with, and often seek out to provide diversification, income-based returns and a hedge against future inflation risk in investment portfolios.

In Australia, real assets impact investments include financing solar and wind farms, sustainable commercial buildings (new and rejuvenated), healthcare assets and environmental, agricultural and cultural assets, including the establishment of a classical instrument fund and rejuvenation of wetlands of cultural significance to Indigenous communities.

2.4 FINANCIAL & IMPACT PERFORMANCE

AT A GLANCE

- 2018–2019 average annualised returns (net of fees) ranged between 3.5% for Private Debt and 11.3% for Public Equity. Real Assets returned 7.4%, GSS bonds returned 5.1% and SIBs returned 3.9%. Insufficient data was available to report on Other Fixed Income (in 2019), Other (including Multi Asset Class) or Private Equity.
- Investor commitments are contributing to a broadening range of outcome areas, including abating/avoiding 5 million tCO₂e; producing 84,000 GWh renewable energy; saving, treating or delivering 483,235 mega-litres of water; financing 32,000 homes; providing 200,000 people

with access to financial services; creating 530,000 jobs; delivering 788,000 healthcare treatments and mental health interventions; reaching 3 million students and training 179,000 teachers; providing information and communications technology (ICT) services to over 5 million people; and vaccinating more than 2,000 children in developing countries during the study period (1 January 2018 to 31 December 2019).

Financial performance

Financial performance data is reported on 65 of the 117 products in the 2020 data set, and results are broadly reflective of the returns outlined in the 2018 data set.

The overall dollar-weighted average return (net of fees) across asset classes for 2018–2019 (Table 6) ranged from 3.5% on Private Debt to 11.3% on Public Equities. GSS bonds – which account for most investment in dollar terms – returned 5.1% p.a. in average annualised returns for 2018–2019. Real Assets returned 7.4% and SIBs returned 3.9% p.a. There was insufficient data available to report financial returns for Private Equity, Other Fixed Income (in 2019) or Other (including Multi Asset Class).

Financial returns achieved on impact investments targeting environmental outcomes were higher at 5.5% p.a. for 2018–2019 than for impact investments targeting social outcomes at 4.4% p.a. for 2018–2019.

Nearly half of this differential can be explained by the inclusion of the first two NHFIC issuances totalling \$630 million or 25% of the \$2.5 billion universe of impact

investments targeting social outcomes. These two issuances were issued at an average interest rate of 2.2% reflecting both timing issues (i.e. lower prevailing interest rate environment) and the nature of the investment (i.e. debt classified as highly liquid and repurchase agreement eligible and guaranteed by the Commonwealth of Australia rated 'AAA'). The remaining differential may comprise a combination of contributing factors. For example, certain

investors that intentionally target deep impact for underserved and disadvantaged communities and beneficiaries (i.e. social impact performance) may invest with the expectation of lower financial returns.

Figure 51 shows the returns by asset class since 2014 where data is available to do so. Some asset classes are grouped together as disaggregated historical data is unavailable.

FIGURE 51 Aggregated annualised financial performance of impact investment products by asset class (%) from 2014 to 2019

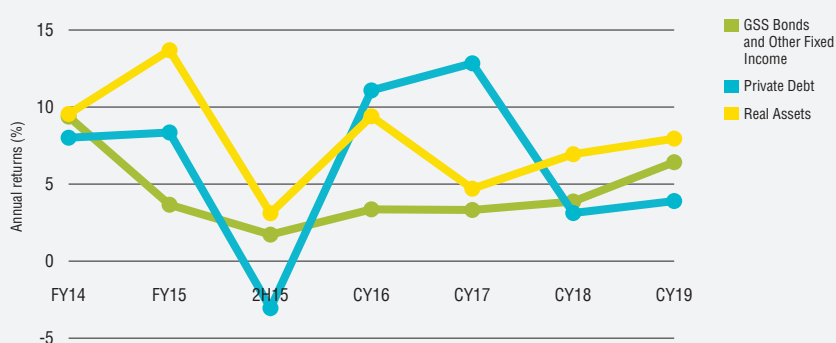


TABLE 6 Weighted average financial performance of impact investments (2018–2019) (n=65)

	Other Fixed Income	GSS Bonds	Private Debt	Public Equity	Real Assets	SIBs	All
Number of products as of 31 Dec 2019		42	4	2	13	4	65
Number of exits during 2018–2019	1	1			4	1	7
Value of products (\$m) as at 31 Dec 2019	.	16,151.7	24.6	4.8	736.8	33.4	17,131.3
Annual returns 1 Jan 2019–31 Dec 2019	-	6.4%	3.9%	24.8%	7.9%	3.9%	6.4%
Annual returns 1 Jan 2018–31 Dec 2018	5.8%	3.9%	3.1%	-8%	6.9%	3.9%	4.1%
Average annualised (p.a.) returns 2018–2019	.	5.1%	3.5%	11.3%	7.4%	3.9%	5.3%

SPOTLIGHT: SOCIAL IMPACT BONDS

Social impact bonds (SIBs) are a type of payment-for-outcomes instrument. While there are variations on the theme, a social service provider enters into an outcomes-based contract, typically with a government, which agrees to pay for the services subject to the service provider delivering the agreed outcomes.

Outcomes-based contracts can help service commissioners and providers to better align, coordinate and integrate service delivery around desired outcomes – rather than activities and outputs that may not result in desired outcomes. However, they can put pressure on providers' balance sheets, which may not have capacity to deliver services in advance of payment or take the risk of non-payment if outcomes are not achieved. To resolve these issues, a SIB can be issued. The issuance proceeds from the SIB are used by the service provider to finance the delivery of the outcomes. SIB holders are repaid by the outcomes funder (i.e. the government) if the service provider successfully delivers the outcomes. Investors' returns (principal and interest) are contingent on the service provider's delivery of social outcomes specified in the outcomes-based contract. As indicated by respondents in the 2020 Impact Investment Survey, there is demand from Australian investors for outcomes-based transactions.

Governments in NSW, Victoria, Queensland and South Australia have all commissioned SIBs. The NSW Government commissioned the first two 'social benefit bonds': one to restore children in out-of-home care to their families and one to prevent entry into out-of-home care. Since then, there have been a further six investments valued at over A\$200 million supporting better services for 16,000 people and families in NSW. The NSW Government has also piloted other initiatives such as a rate card for homelessness (an Australian first). Queensland's Treasury has launched three SIBs in the areas of re-offending, youth homelessness and out-of-home care for Aboriginal and Torres Strait Islander children. The Aspire SIB commissioned by South Australia focuses on homelessness in Adelaide. The Social Impact Bonds Pilot program in Victoria has generated three programs surrounding stable housing for young people leaving home care and chronic homelessness (see Journey to Social Inclusion J2SI case study).

SIBs can be used as an effective incubator for policy innovation to try new ways of delivering social services, and importing what works back into day-to-day service commissioning. This includes reorienting the focus to paying for outcomes rather than paying for activities or outputs, and towards early intervention

and prevention of long-term social issues. SIBs can also provide increased accountability and transparency around outcomes delivery by defining desired outcomes or targets up front and then measuring and reporting actual performance against those targets during the term of the SIB. This promotes an evidence-based approach, and can lead to better understanding of the problem, what works, what doesn't work and why. SIBs can also provide a framework for cross-sector collaboration, bringing different types of capital to work together to find better ways to solve and fund/finance social issues.

At the same time, SIBs can be complex and costly to administer. Often times, service providers' program funding does not include the additional costs associated with administering SIBs, including rigorous impact measurement. There is also a risk if not properly managed that SIBs may channel investment and interest to activities that are easy to measure rather than activities that are important, and the selection of metrics is critical to avoid 'cherry picking' and unintended consequences. SIBs have proved challenging to scale, however the greatest opportunity for scale of impact is likely the importing of what's learned back into day-to-day service commissioning rather than a proliferation of SIBs.

Impact performance

Outcomes and/or impact performance during the study period (1 January 2018 to 31 December 2019) is reported on 82 of the 117 products or 70% of the 2020 study's product universe.


The types of environmental and social benefits are captured by various indicators that have been added together where it made sense to do so. Table 7 overleaf represents the aggregate outcomes and impact performance that were reported by outcome area.

It is difficult to assess the 'performance' of assets that purport to generate social benefits. This is because many of the social metrics reported list inputs or outputs, rather than outcomes, such as the activities funded (i.e. mental health sessions) or number of beneficiaries supported (i.e. students or artists supported) and outcomes rather than impacts, such that contribution to those outcomes is not clear.

Reflecting the large increase in issuance of green bonds in 2018 and 2019, there has been a corresponding increase in environmental outcomes when compared to the cumulative output data from 2010–2017 included in the 2018 study. During the study period (1 January 2018 to 31 December 2019), 55 million tonnes of carbon dioxide equivalent (tCO₂e) was abated or avoided, which is 27.5 times more than that of the 2.1 million tCO₂e reported between 2010–2017 in the 2018 study. There has also been an almost doubling of renewable energy installed capacity from 17,047 MW to 33,288 MW. Water savings have also increased exponentially.

TABLE 7 Aggregated output and outcome performance data for impact investment products during the study period (1 January 2018 to 31 December 2019) (n=82)

Outcome area	Metrics category	Aggregated output and outcome performance data 2018-2019	SDGs
1 Early childhood and learning	1.1 Students	17,867 students supported; 1 school community expanded to provide a sustainable future for the school; 3,000,000 students taught; 406,000 days of tertiary education provided; 1,886 green facilities provided for students	4
	1.2 Teachers	179,000 teachers trained	4
2 Mental health and wellbeing	2.1 Clients	189 people experiencing mental health issues supported with 12% reduction in NWAUs (total hospital activity) relative to control group; 288,000 youth interventions	3
	2.2 Counselling sessions	416 counselling sessions	3
3 Physical health and disability	3.1 Health beneficiaries	2,182 children vaccinated in developing countries; \$1.7 million in savings from health and environmental damage avoided; 55,732 people provided with safe water supply	3
	3.2 Patient care	\$1.2 million estimated healthcare savings from improved treatment plan adherence; 170,000 episodes of patient care; 179,200 people receiving healthcare treatments; 176,400 people receiving preventative healthcare	3
4 Families, community and inclusion	4.1 Families and children supported	215 families supported to stay together with 32% reduction in entries to out of home care (compared to control group); 70 families helped to restore children to family or avoid out-of-home care; 74 young people supported to transition from out-of-home care to adulthood; 8,320 children reached through youth programs	3
	4.2 Social inclusion	240 young people at risk of reoffending supported; 69% reduction in reoffending rate for 297 vulnerable people (compared to control group)	3
	4.3 Access to essential services	6,240 breakfast programs for children; 3,120 food deliveries to families; 156,000 meals provided	1, 2
5 Housing and local amenity	5.1 Homes provided	35 people living with disability housed and 18 specialist disability homes built; increased supply of social housing (743 homes); increased supply of 660 social housing homes supported through low cost long term financing to CHPs; 20,750+ individuals housed in affordable housing; 9,430 affordable housing units financed; 417 homeless people supported into secure and stable housing (rapid housing/housing first approach) with wrap around support services provided; \$1.8 million in government savings; for 297 people, 75% reduction in short term/emergency accommodation (compared to control group)	11
	5.2 Temporary beds	1,283 bookings for domestic violence emergency accommodation; 1,500 people supported each week with food, clothes and shelter	3
6 Employment, training and participation	6.1 Employment pathways	446 jobs secured by candidates previously excluded from employment; 217 young people supported in employment coaching program to get ready for work and develop life skills; 529,000 people employed	8
	6.3 Training provided	639 education program graduates; social café training provided to 6 people	8
7 Arts, culture and sport	7.1 Artists supported	2 instruments added to ACO Instrument Fund and on permanent loan to ACO; co-located arts community supported	11
	7.2 Arts, culture, sport supported	29,048 people supported to participate in the arts and/or arts programs	11
8 Income and financial inclusion	8.1 Communities supported	48 indigenous organisations supported to build investment capacity and confidence leading to increased economic independence, sustainability and resilience or increasing capacity to deliver programs on country; flood protection provided to 484,206 people; 994km of powerlines provided; rural electrification to 37,856 homes	10
	8.2 Access to financial services	150 moderate income households provided with mortgage finance to access home ownership; 200,875 people provided with access to micro-loans; 11,460 women provided with access to loans; 4,860 low income households provide access to home loan finance	10
	8.3 Digital inclusion	5,561,400 people supported with ICT services	10
	8.4 Growth in revenue/ turnover	\$10 million gross sales volume generated for independent retailers	8
9 Conservation, environment and agriculture	9.1 Emissions reductions	55,381,976 tCO ₂ e abated/avoided	13
	9.2 Renewable energy	84,259 GWh renewal energy produced; renewable energy capacity increased by 33,288 MW; 4 loans to finance rooftop solar PV and solar hot water	13
	9.3 Disease reduction	480 illnesses/diseases avoided	3
	9.4 Environmental water	172 hectares of wetlands inundated	14, 15
	9.5 Flora and fauna	Restoration of threatened wetlands and wet lands of cultural significance to Aboriginal communities; 171,006 hectares of forest restored; 195,165 sqm land protected; 4 waste dumps rehabilitated; 43,400 million tons of waste reduced	14, 15
	9.6 Self-determination	Engagement with traditional owners to manage ecological outcomes	10, 11
	9.7 Water savings	483,235 megalitres of water saved, treated or delivered	11
	9.8 Green building efficiencies	Improved energy and/or water efficiency of 16 buildings and 484,890 sqm of floor space	11
	9.9 Carbon neutral transport	5.3 billion kms of carbon neutral delivery	11
	9.10 Farmers supported	170,743 farmers reached; 4 underutilised farms purchased for renewal and regeneration to deliver resilient and sustainable high value organic and conventional crops; 123,295 hectares of farmland irrigated	8, 9, 10



A young girl performs in UMAMI, a production by Shopfront's Bodylines Ensemble. Shopfront Arts Co-op, supported by Social Enterprise Finance Australia (SEFA), delivers outreach, accessibility and emerging artists programs to culturally and linguistically diverse, disabled and at-risk youth.

Part 3: Discussion

Impact investing is moving from the niche to the mainstream with growing awareness and interest from investors not yet engaged in impact investing, coupled by significant growth in impact investing by dollar amount and the number of investment products widely available to investors.

This presents both opportunities (such as achievement of scale) and challenges (such as depth of impact).

The importance of additionality

Available impact investment products are dominated by green, social and sustainability (GSS) use-of-proceeds bonds issued under ICMA's GSS bond principles and/or certified by the Climate Bonds Initiative. These instruments have been key in creating a market and signalling untapped demand for environmentally and more recently socially oriented investment products. However, while there are strict controls and assurance around use-of-proceeds, a high proportion of GSS bonds refinance existing activities, hence additionality is not assured.

Public equity impact funds, while gaining popularity with investors as an asset class for impact investing, remain challenging with regards to attribution of investor contribution and measurement of impact.

Boosting 'social' impact investments

Further research is warranted into why there is an under-representation of impact investments targeting social outcomes (i.e. as compared with environmental outcomes) in the universe of products widely offered to Australian investors (\$2.5 billion of \$19.9 billion as of 31 December 2019, or 13%).

Reducing the differential between realised and unrealised demand for impact investments targeting social outcomes may be possible through a variety of policy mechanisms including establishing vehicles such as the Access Foundation in the United Kingdom to focus on proving up early-stage concepts and strengthening the pipeline of deeper impact 'investable' products.

Given financial returns is an important motivator among investors for impact investing, exploring ways to bolster cash flows on socially oriented programs (by outcomes payers, typically governments, paying closer to market rates for those services, for example) or close funding gaps (as exists in the funding and financing of social housing) is key to increasing the pipeline of investable transactions targeting social outcomes. This is especially so as the majority of investors (63%) are agnostic

as to whether their impact investments contribute to the generation of social or environmental outcomes, making impact investments targeting environmental outcomes a close substitute (in the eyes of the majority of investors) for impact investments targeting social outcomes.

One example where this is taking effect is in the funding mechanisms and marketisation of disability services (which has spurred several new social enterprises) and specialist disability housing under the National Disability Insurance Scheme (NDIS). Another example is the inclusion of annual per-unit subsidies from governments in recent social housing redevelopment proposals that enable community housing providers to borrow a higher proportion of project costs than would otherwise be achievable, increasing their overall borrowing and ability to finance additional social housing supply.

Critical role of dedicated impact managers and intermediaries

Dedicated impact managers and intermediaries are on the rise and account for the vast majority of impact product managed by Investment Managers, Intermediaries & Advisers, notwithstanding accounting for a fraction of aggregated AUM. This reinforces the important role these specialists are playing in leading the development of impact investing in Australia and globally, where two thirds of impact investing product is managed through specialist impact intermediaries.

There is opportunity to identify key gaps in the ecosystem and support the entrance of specialist intermediaries to fill those gaps – for example, the establishment of an impact investing wholesaler.

Democratising impact investing

The overwhelming majority of impact investment opportunities – both those widely available and existing in a fund structure (as included in Part 2 of this report) and direct investments – are only available to wholesale or sophisticated investors. However broad participation in impact investment is important for realising the potential of this field, including attracting more funds across all stages of business development, enabling the wider population to express their values through how they invest their money, and building stronger relationships between customers, enterprises and communities. Mechanisms for broadening these opportunities, such as equity crowdfunding, are worthy of deeper consideration and exploration to unpack the wider market activity and potential.

Challenges in benchmarking financial performance of impact investment products

Financial performance data was only available for 65 or 55% of the 2020 Australian Impact Investment Activity and Performance Benchmark study data set. In some instances, even the value of impact investment product on offer to investors was not available. Further, there is often very little information available about what the initial targeted returns were (i.e. targeting market rate or concessional rates), making benchmarking challenging, as comparing to standard mainstream benchmarks or indices may not be relevant or appropriate. Given that measurement of both financial and impact performance are defining characteristics of impact investing, more accessibility and transparency in the public domain about financial performance of impact investments would be helpful to enable the market to make more informed decisions and support the integrity and credibility of the sector.

Greater role for trusts and foundations to play

For charitable trusts and foundations, impact investing provides an additional mechanism to achieve impact beyond traditional grant-making and deploy a greater proportion of capital in support of their mission. However survey data reveals that in Australia, trusts and foundations (and NFPs) have a low proportional allocation to impact investing (average of 1%), suggesting there is more work to be done in engaging this group of investors around deepening their impact investing activity, bringing more catalytic capital to blended finance structures and consequently, helping to deliver impact investments which without such a contribution, may not be possible.

Need for greater transparency, consistency and comparability of impact data

There is an opportunity for the Australian impact investing market to converge around adoption of a standard methodology for defining impact, as well as the use of impact conventions and frameworks in management, measurement and reporting as is happening globally.

Definitional convention for impact investing: There are various definitions for impact as applied across the investment sector. Mainstream investors, through the Principles for Responsible Investment, have promulgated the Global Sustainable Investment Forum's version, and the GIIN's definition is arguably the most widely used by those principally engaged in impact

investing. Informally through the governance of the Impact Investment Forum, RIAA is working to refine this definition so that it is relevant for application in the marketplace. The adoption of a standardised definition will help support the measurement and analysis of the sector's growth and impact and accordingly enable impact investing to reliably evidence its value to the financial services sector, other stakeholders and beneficiaries. Discussion still needs to take place around minimum practice concepts of intent and contribution or additionality for products to be classified as impact, rather than positively screened or sustainability-themed investments.

Impact conventions and frameworks for management, measurement and reporting:

The emergence of the practitioner-inclusive Impact Management Project's 'ABC' impact classifications makes an important contribution – both in terms of providing a shared language, and also greater transparency about the nature and depth impact being contributed to. Generally, impact reporting is self-reported without third-party assurance and limited to activity and output measures. To inform investment decision-making, strengthen impact integrity and promote market development, there is a need for more standardised, comprehensive, reliable, comparable and transparent impact reporting.

Third-party assurance of impact practices, data and reports relied upon by investors and other stakeholders adds an additional and needed level of integrity, trust and confidence in impact investing – which will underpin market development and growth.

Data access: Access to centralised, integrated impact data and analysis would benefit impact management and decision-making, also helping to identify impact areas of greatest need. There is potentially a role for governments in the coordination and provision of such a platform or service.

Stakeholder engagement: There is also an opportunity for the Australian impact investing market to incorporate more meaningful stakeholder engagement (with those who experience the impacts) into impact practices and decision-making.

Capacity building would enhance clarity and help investors understand how the currently available conventions, frameworks and tools fit together and how best to incorporate them and impact into investment decision-making.

Many of our biggest challenges require blended finance solutions

Blended finance models may support tackling some of our most entrenched challenges, which otherwise will struggle to be addressed through impact investments structured entirely on a commercial basis. The pool of concessional rate and/or terms capital available in Australia is limited and much smaller than seems to be available in markets outside Australia. There is opportunity to think creatively about how this gap might be filled in the Australian context. This could include policy incentives that increase investors' willingness to participate in impact investments on concessional terms and help with the establishment of funds to prove up early-stage concepts and strengthen the pipeline of deeper impact 'investable' products.

Impact is everyone's business

The innovative approaches and market infrastructure pioneered by the impact investing community - including development of a shared language, frameworks, conventions and tools - have much broader application to mainstream investment markets as society continues to question the role and purpose of capital and as we look to funding and financing recovery post COVID-19.

Understanding and responding to demand for capital

Both studies undertaken as part of *Benchmarking Impact* are focused on building a greater understanding of the supply of impact investment capital, current and future. More dedicated work is needed to unpack the investee experience, including the capital requirements of priority impact areas requiring investment and market-related challenges as encountered by NFPs, purpose-driven businesses and initiatives. Only with a thorough understanding of both sides of the marketplace – the supply and demand of impact capital – can we begin to sincerely align interests and put finance to work where it is most needed.

Staff members preparing meals in the kitchen at Providential Homes' head office. Providential Homes provide food, clothing and shelter to over 300 guests each week and is supported by Social Enterprise Finance Australia (SEFA).



Part 4: Glossary

Additionality: Additionality is a determination of whether an investment has delivered benefits above what would have occurred in absence of the investment, which may be measured against a control group or measure of the counter-factual. (See Contribution)

Asset class: A category of investment, defined by its main characteristics of risk, liquidity and return. Major asset classes are cash, fixed income, public equity, private equity and real assets.

Blended finance: Blended finance refers to the strategic use of public or private funds, including concessional capital, to mobilise additional commercial investment into impact investments. Blended finance solutions can provide financial support to a high-impact project that would not attract funding on strictly commercial terms because the risks are considered too high and the returns are either unproven or not commensurate with the level of risk. (See Concessional capital and Layered capital)

Bond: A formal contract to repay borrowed money with interest at fixed intervals. Like a loan, the holder of the bond is the lender, the issuer or seller of the bond is the borrower, and the coupon is the interest. The seller of the bond agrees to repay the principal amount of the loan at a specified time (maturity). (See Social Impact Bond, or GSS Bond)

Concessional capital: Concessional capital refers to investments that sacrifice some financial return in order to make a high-impact project viable. (See Blended finance)

Contribution: Contribution, in relation to impact investments, usually refers to the extent to which an investor contributed to a social or environmental outcome through considering what would have happened in absence of their activities (See Additionality)

Fixed income: An asset class, where returns are received at regular intervals and at predictable levels. The most common type of fixed income security is the bond.

Green, social and sustainable (GSS) bond: A GSS bond refers to any type of bond where the proceeds are exclusively applied to environmental and/or social initiatives or projects.

Dividends: Proceeds paid by the company to an investor as a return on an original investment. Dividends can be paid either in cash or in kind, i.e. additional shares of stock.

Exit/Exit strategy: A moment when an investor gets rid of their stake in a company and therefore makes a profit or loss on the money they invested. It can happen by them selling their share to another investor, another firm, or by the company listing on the public stock exchange.

First loss capital: Refers to socially and environmentally-driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment in order to catalyse the participation of co-investors that otherwise would not have entered the deal.

Fund: A collective investment scheme that provides a way of investing money alongside other investors with similar objectives. Individual investors are allowed access to a wider range of investments than they would be able to access alone and also reduces the costs of investing through economies of scale.

Fund manager: The individual(s) responsible for overall fund strategy, as well as the buying and selling decisions relating to securities in a fund's portfolio.

Green bond: A bond issued to raise finance for climate-change solutions, such as renewable energy, energy efficiency or climate-change adaptation.

Guarantee: An agreement to perform the obligations of a third party if that party defaults. When a third party guarantees a loan, it promises to pay in the event of default by the borrower.

Hybrid investment: Traditionally hybrid investments refer to investments that combine elements of equity and debt. In Impact Investing, it refers to investments that combine elements of grants and investments.

Impact: Impact is the effect an organisation's actions have on the well-being of the community or the environment. One way to think about differentiating social or environmental impact from outcomes is to assess outcomes and subtract what would have happened in absence of the intervention. So, impact is a measure of the benefit that has resulted from the intervention. Example: changes among clients (i.e. more sophisticated financial behaviour among microfinance clients).

Impact investing: Impact investments are targeted investments made into organisations, projects or funds with the intention of generating positive, measurable social and environmental outcomes, alongside a financial return.

Metric: A metric is broadly defined as a data point or system of measurement. In our survey, metrics are ways of measuring performance toward your desired investment outcomes. While in some cases metrics and indicators can be used interchangeably, the subtle difference is that metrics provide a measure of outputs, outcomes or impacts, whereas indicators focus on outputs that indicate progress toward outcomes and impact.

Outcome: A change, or effect, on individuals or the environment that follow from the delivery of products and services. Example: changes among clients (e.g. doubling of household income among microfinance clients).

Outcome Area²⁷: A thematic sector where there is an attempt to create change for specific beneficiaries. Example: early childhood and education.

Education and early childhood:

Includes all learning and education sector investments, including service provision, facilities, access to, improvements in and support of: adult and ongoing learning, TAFE, tertiary, university, high school, primary school, childcare, early learning centres, and early childhood (ages 0–5) support services.

Mental health and well-being: Includes investments to mental illness and wellness support services, research, and institutions, including support services to those living with mental illness.

Physical health and disability: Includes investments to physical illness and wellness support services, research and institutions, including support services to those living with physical disabilities. In developing markets, includes access to potable water, sanitation and food.

Families, communities and inclusion: Includes investments in organisations and initiatives that promote social cohesion, social inclusion, family well-being, community participation, and social capital building (such as improvements in relationships and trust) including urban redevelopment and regeneration.

Housing and local amenity: Includes investments in affordable housing, independent living skills, provision of housing (such as crisis, with caregivers), provision of finance for housing, community buildings and communal facilities, such as community centres, parks, and public spaces.

Employment, training and participation: Includes investments in any activities, organisations and initiatives that support increased pathways to employment and job creation opportunities for vulnerable, marginalised, long-term unemployed or under-employed groups.

Arts, culture and sport: Includes investments to support and promote events, training, and public benefit in the arts (including music, fine arts, visual arts, theatre, and creative movement), sports, and other manifestations of human creative and intellectual achievements, including those that celebrate the diversity of ideas, customs and behaviours.

²⁷ These Outcome Areas, as used in this report and in previous Benchmarking Impact studies, were inspired by Big Society Capital's Outcomes matrix.

Income and financial inclusion:

Includes investments in organisations, initiatives and activities that promote financial equality, address issues of poverty, provide financial services to those who have historically been financially excluded, and address issues of income inequality.

Conservation, environment and agriculture:

Includes investments in programmes, technologies and organisations that promote ecological health, biodiversity, natural environmental protection, improved and more sustainable systems of agriculture through the supply chain, and address or work toward solving environmental challenges, such as: climate change, air pollution, water pollution, ecosystem degradation, waste disposal and contamination.

Intermediary: An individual or organisation that raises funds from investors, including individuals and organisations, and re-lends these funds to other individuals and organizations or offers intermediation services between other parties. Services that can be provided by intermediaries include: introducing parties to the deal; gathering evidence and producing feasible options; facilitating negotiations between parties; raising investor capital; establishing a special purpose vehicle; and managing performance.

Issuer: An issuer is a legal entity that develops, registers and securities – such as bonds – for the purpose of financing its operations. Issuers may be governments, corporations or investment trusts.

Kangaroo bond: Bond products domiciled offshore but available to Australian investors through A\$ denominated issues into Australia.

Layered capital/structure: Investment structures that blend different types of capital with different risk-return requirements and motivations. (See Blended finance)

Mezzanine finance: A hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default.

Outputs: Tangible, immediate practices, products and services that result from the activities that are undertaken. Outputs lead to Outcomes. Example: number of clients served by an impact organisation (e.g. microfinance loans extended).

Patient capital: Loans or equity investments offered on a long-term basis (typically 5 years or longer) and on soft terms (e.g. capital/interest repayment holidays and at zero or sub-market interest rates).

Private debt: Private debt is debt from a loan from a private entity such as a bank. Generally, debt is secured by a note, bond, mortgage or other instrument that states the repayment and interest provisions.

Public equity: An asset class where individuals and/or organisations can invest in a publicly listed company by buying ownership in shares or stock of that company.

Private equity: An asset class where money is invested into a private company, or the privatization of a company. Most investors aim to invest into a company, take a majority stake, improve the company and then exit their investment at a large profit.

Real assets: Investments into identifiable and tangible assets whose value is derived from physical properties. Includes investments in real estate, forestry, land and agriculture.

Responsible investing: Responsible investing, also known as ethical investing or sustainable investing, is a holistic approach to investing, where social, environmental, corporate governance and ethical issues are considered alongside financial performance when making an investment. There are many different ways to engage in responsible investment, and investors often use a combination of strategies such as negative or positive screening; environmental, social and governance (ESG) integration; and impact investing.

Retail investor: Investors that do not meet the threshold test as a wholesale investor. (see Wholesale investor).

Seed capital/investment: Financing/capital provided to research, assess and develop an initial concept before a business has reached the start-up phase.

Social enterprise: An organisation with innovative solutions set out to solving social and environmental problems. Social enterprises can take the form of non-profit, for-profit, and hybrid businesses.

Social impact bond (SIB): A financial instrument that pays a return based on the achievement of agreed social outcomes, also known as pay-for-success. Private investors provide capital to a service provider to achieve improved social outcomes. If these outcomes are achieved, there are cost savings to Government or other funders that can be used to repay that upfront investment plus a financial return. Also known as a Social Benefit Bond.

Social premium: A quantum of social benefit. Particularly around pricing social benefit such as weighing up the potential social benefit and a need accepting a lower financial return or discount.

Start-up: A company that is in the first stage of its operations. These companies are often seeded with capital in its early stages as they attempt to capitalize on developing a product or service for which they believe there is a demand, or a problem that needs solving.

Sustainability-themed investing:

Sustainability-themed investing relates to investment in themes or assets that specifically relate to sustainability themes. This commonly involves funds that invest in clean energy, green technology, sustainable agriculture and forestry, green property or water technology where the fund has the explicit objective of driving better sustainability outcomes alongside financial returns.

Venture capital (VC): Capital invested by investors into start-up companies with a potential to grow.

Vulnerable populations: Populations who, in general, experience disadvantage, financial and/or social exclusion and who experience diminished capacities to anticipate, cope with, resist and recover from harm.

Wholesaler investor: Classification type of investor who falls into either professional or sophisticated investor categories. To be classified as a sophisticated investor the investor must either (a) have net assets of at least \$2.5 million or gross income for each of the last two financial years of at least \$250,000 (as appears on a certificate given by a qualified accountant which is no more than six months old); or (b) must pay a minimum subscription amount of \$500,000 for the securities being offered. To be classified as a professional investor, the investor must either be a financial services licensee or have or control gross assets of at least \$10 million. (see Retail investor)

This glossary is collated from numerous sources including RIAA, Impact Investing Australia, Australian Bureau of Statistics, the Global Social Impact Investment Steering Group, NSW Department of Premier and Cabinet and the OECD.



25 King is a commercial office tower in Brisbane developed by Impact Investment Group. Made with pioneering engineered timber, the 6-star Green Star rating building boasts the highest levels of environmentally sustainable design and construction.

Part 5: Appendices

5.1 METHODOLOGY

Australian Impact Investment Survey

The Australian Impact Investment Survey was distributed to Australian investors in December 2019 and held open until mid-January 2020.

The research had the approval of the Deakin University Human Research Ethics Committee.

To view the survey visit: <https://responsibleinvestment.org/benchmarking-impact-2020-external-appendices/>

This survey was constructed using an online survey platform (Qualtrics) and distributed via collaborating organisations and direct email using RIAA's membership base and other sources. We would like to acknowledge and thank the following organisations for their support in distributing the survey to their members, clients and/or stakeholders:

- Australian Impact Investments
- Impact Investment Summit Asia Pacific
- Impact Investment Group
- JBWere
- Koda Capital
- Philanthropy Australia
- Small Giants
- Social Impact Hub

Survey limitations

While the number and distribution of respondents in the 2020 Impact Investment Survey and the amount of AUM respondents control is meaningful in the Australian context, the survey was not designed to be statistically representative and the distribution channels used for this survey make it more likely for investors already active or interested in impact investing to participate in the survey. This potential sample bias means that survey results may not be representative of the market as a whole, for instance, high levels of active representation may not reflect the level of activity among those investor types more broadly in the population.

By the survey's nature, responses are self-declared, with the A\$13 billion of impact investment assets under management (AUM) subject to differing interpretations of what constitutes an 'impact investment'. While an audit of those investments is outside the scope of this report, the quantum nominated by respondents is useful for context and as a reference point, particularly as a comparator to results of the first survey conducted in 2016.

Other limitations of the survey include the following:

- Sample size – care must be taken with extrapolating findings where sample sizes are small, especially from sub-categories where the sample is particularly small relative to the research population; this is particularly so for the Diversified Financial Institutions category, which comprises five respondents.
- Sample bias – although only some of the distribution channels would indicate a bias towards impact investment, we recognise the channels of distribution and the higher likelihood that investors positively predisposed towards impact investing are more likely to have completed the survey.
- Definitional issues – the early stage of the market's development and lack of a common language may have reduced the consistency with which respondents interpreted and answered survey questions. (Note that respondents were provided with a definition of impact investing and examples of impact investments to enhance consistency in application and care was taken to reduce jargon and spell out meaning within the survey questions.)
- The boundaries of the 2020 study have shifted from those set out in the 2018 study – most notably to include offshore domiciled impact investment product held by Australian investors and excluding Australian domiciled product placed into offshore markets. There may also be some variations in the definition of products that are more socially oriented versus those that are more environmentally oriented, for instance, where it has been deemed that the primary purpose is to generate social outcomes even where the mechanism to do so is through renewable energy or sustainable agriculture, for instance. A small number of products have been included in socially oriented products, notwithstanding their underlying assets being mainstream, as the impact is generated at the investor level (Indigenous participation). The results from previous studies have not been restated to align with this change, however the variations are not significant enough to alter the overall direction and picture.

2020 Australian Impact Investment Activity and Performance Benchmark study

This study outlines clear boundaries that build on the pilot study *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016* and the subsequent study *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2018*.

To align this study with other RIAA reports, the 2020 study shifts those boundaries slightly by focusing more specifically on the activities of Australian investors – rather than impact investment product domiciled in Australia. As such, this study seeks to include impact investments domiciled outside Australia that Australian investors hold and excludes Australian domiciled impact investments that have been sold to investors outside Australia.

Data collection

A questionnaire was distributed to all eligible funds and issuers asking for data such as the number and value of impact investment products, investor commitments, impact and financial return performance and exits. We received six returned questionnaires from fund managers/asset owners, with the remaining universe's data being hand collected (i.e. desk-topped) from periodic fund reports, impact reports and fund websites.

To view the questionnaire visit: <https://responsibleinvestment.org/benchmarking-impact-2020-external-appendices/>

The outcomes performance data collection frameworks followed the same outcome areas and beneficiary groups as used in the 2016 and 2018 Benchmarking Impact studies. In this study, language and concepts from the Impact Management Project's (IMP) five dimensions of impact and 'ABC' impact classifications were included to frame additional questions about impact measurement and management, however it proved difficult to report on this basis given these conventions are not yet widely used in the Australian market.

Data was collected on investment activity taking place for each of the 2018 and 2019 calendar years. All date ranges are reported in calendar years unless otherwise indicated.

All dollar figures are reported in Australian dollars.

Limitations of this study

- Universe identification – there is no publicly available, comprehensive database of impact investments held by Australian investors. Therefore, identification and compilation of impact investments for inclusion in this study has relied on the insights and knowledge of RIAA, the reference group members, the researchers and desk top analysis. Further, we have assumed that Australian domiciled and denominated product is 100% held by domestic investors, where in reality, it is likely that at least some of this A\$ denominated product has been sold to non-Australian domiciled

investors. Therefore, the reliability and completeness of the product universe, especially for offshore domiciled impact investment product held by Australian investors, cannot be assured, although the compiled universe remains useful for context and as a reference point, particularly as a comparator to results of the first two Benchmarking Impact studies conducted in 2016 and 2018. We thank KangaNews for providing access to its database of GSS bonds sold into the Australian market by Australian and offshore domiciled issuers.

- Data availability, quality and comparability – impact and performance data on impact investments is not at a stage where it is uniformly available, of a consistent quality and comparable. There are often gaps in the data, which where feasible, have been filled by making assumptions and these are noted where relevant throughout the report.
- Definitional issues – the delineation between thematic/sustainability-themed investments and impact investments is not always clear. There are billions

of dollars invested in Australia in sustainability-themed funds, many of which are delivering strong environmental and/or social outcomes. These include renewable energy, green property, sustainable agriculture and forestry funds, as well as public equities funds targeting sustainable companies. A number of these funds report on the environmental and/or social outcomes that they are delivering, and it could be argued under certain definitions that these are impact investment funds, or they could be configured in a way that could be defined as impact investments. For this report, where products have not met the criteria for intentionality to achieve social and/or environmental outcomes as well as measurement of social and/or environmental outcomes, they typically have been deemed 'thematic or sustainability-themed investments' or 'positively screened funds' and are captured in RIAA's broader-focused Responsible Investment Benchmark Report 2020.

- The boundaries of the 2020 study have shifted from those set out in the 2018 study – most notably to include offshore domiciled impact investment product held by Australian investors and excluding Australian domiciled product placed into offshore markets. There may also be some variations in the definition of products that are more socially oriented versus those that are more environmentally oriented, for instance, where it has been deemed that the primary purpose is to generate social outcomes even where the mechanism to do so is through renewable energy or sustainable agriculture, for instance. A small number of products have been included in socially oriented products, notwithstanding their underlying assets being mainstream, as the impact is generated at the investor level (Indigenous participation). The results from previous studies have not been restated to align with this change, however the variations are not significant enough to alter the overall direction and picture.

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