From the Margins to the Mainstream: Assessment of Impact Investment Sector and Opportunities to Engage Mainstream Investors

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Executive Summary

Over the last few years, much excitement has been generated around the term "impact investing" – an investment approach that intentionally seeks to create both financial return and measurable positive social or environmental impact. Despite the buzz, there is limited consensus among mainstream investors[1] and specialized niche players on what impact investing is, what asset classes are most relevant, how the ecosystem is structured and what constraints the sector faces. As a result, there is widespread confusion regarding what impact investing promises and ultimately delivers.

This report is a result of engaging over 150 mainstream investors, business executives, philanthropic leaders and policy-makers through interviews, workshops and conference calls. The overall objective of the Mainstreaming Impact Investing initiative is to provide an initial assessment of the sector and identify the factors constraining the acceleration of capital into the field of impact investing. The report is divided into five key sections.

Section 1 outlines the motivation, focus and scope of the initiative. It concludes that the *primary* asset owners that are allocating capital to impact investments today include development finance institutions, family offices and high-net-worth individuals,[2] but that the sector can only realize its potential if other types of asset owners will allocate additional capital towards impact investments.

Section 2 defines impact investing, and most importantly, identifies areas of confusion in an effort to clarify how impact investing is different from traditional investing. It cites two examples of large-scale asset owners that are allocating capital towards investments that intentionally seek to create social or environmental value in addition to generating financial return.

Section 3 provides a snapshot of the state of the sector. It identifies the participants that are most actively involved in the impact investing ecosystem, and describes how these organizations are making investments across the various asset classes. It concludes with the observation that although the growth in impact investing has been driven largely by niche players, leading mainstream investors have now begun to allocate relatively small pools of capital to impact investments.

Section 4 describes the constraints that asset owners face when considering allocation of capital to impact investments. Most of these constraints can be attributed to one of the four broad overarching challenges: early-stage ecosystem, small average deal size, fit within asset allocation framework and double bottom line. The objective of this section is to identify and isolate the most prevalent challenges so that they can begin to be addressed and overcome by leading investors in the impact investing ecosystem.

Section 5 outlines key recommendations that various participants should take to advance impact investing out of the margins and into the mainstream. It concludes that mainstreaming impact investing will require a concerted effort and collaborative coordination among many participants, including impact investment funds, impact enterprises (investment targets), philanthropists and foundations, governments and financial intermediaries. The appendix recognizes that mainstream investors have a potential role to play as well, and outlines ideas for how investors that are interested in becoming more active in the impact investing sector could get started.

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[1] Mainstream investors include asset owners (e.g. pension funds, insurance firms, etc.) and asset managers (e.g. private equity firms, mutual funds) that are not actively investing in impact investments nor are informed about this emerging approach to investing.

[2] Statement refers to global markets, more broadly; this may not be true for all individual markets or geographies.