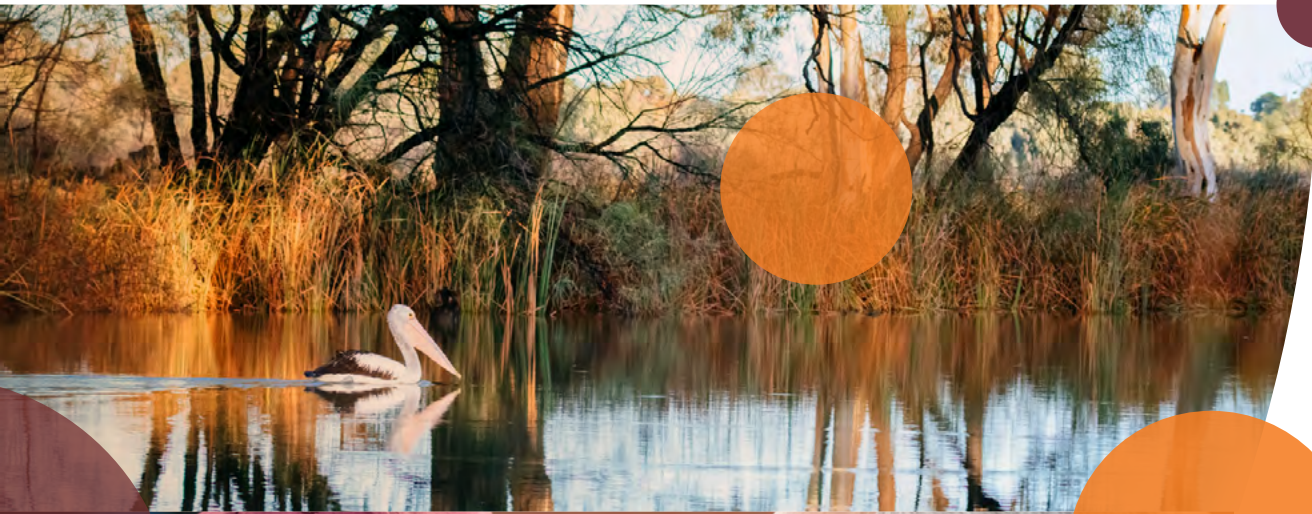


Benchmarking Impact

Australian Impact Investment Activity and Performance Report 2018



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The Nature Conservancy: cover, page 20
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ABOUT THIS REPORT

This report is published by the Responsible Investment Association Australasia (RIAA) in partnership with the Centre for Impact, Swinburne University.

The project was led by Dr Erin I Castellias of the Centre for Social Impact, Swinburne, guided by and with contributions from Simon O'Connor and Carly Hammond at RIAA, with data analysis support provided by Suzanne Findlay.

The report was edited by Melanie Scaife and design layout by Loupe Studio.

About the Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) is the peak industry body representing responsible, ethical and impact investors across Australia and New Zealand.

RIAA has an active network of over 220 members who manage more than \$9 trillion in assets globally. These members include super funds, fund managers, consultants, researchers, brokers, impact investors, property managers, community banks, community trusts, faith-based groups, financial advisers and individuals.

Our goal is to see more capital being invested more responsibly – shifting more capital into sustainable assets and enterprises, as well as shaping responsible financial markets to underpin strong investment returns and deliver a healthier economy, society and environment.

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 the Centre for Social Impact, Swinburne University

The Centre for Social Impact, Swinburne University (CSI Swinburne) is a multi-disciplinary research centre based at Swinburne University of Technology. Our research strives toward positive social change through improving the systemic and organisational conditions that shape communities.

CSI Swinburne was established in 2014 to contribute to Swinburne University of Technology's mission to create social and economic impact through science, technology and innovation. We form part of the national CSI network, a partnership between the University of New South Wales, University of Western Australia and Swinburne University of Technology.

CSI Swinburne integrates research, learning and engagement to produce high-quality outputs that are dynamic, accessible and useful. Our research is located at the intersection between social and organisational sciences and the humanities, and focuses on four key themes:

- social innovation
- social investment and philanthropy
- enterprise for social goals
- measuring social impact

Since opening, CSI Swinburne has produced ground-breaking research in collaboration with not-for-profit, philanthropic, public sector and social enterprise actors, which has made demonstrable impacts on public policy.

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July 2018

THANK YOU TO OUR SPONSOR



Impact Investment Group Pty Ltd (IIG) is a leading Australian impact investment fund manager and investor. Established in early 2013, IIG has originated and transacted on investments in commercial real estate, renewable energy and venture capital.

IIG's mission is to shift capital towards investments that blend financial returns with deep social and environmental impact, and to lead by example in using all our resources to create the world we want to live in. IIG believes that values-aligned investment can be sustainable and profitable for all stakeholders. IIG is an early adopter of impact investing principles and is regarded as a thought leader in the Australian impact investment sector.

IIG is one of the portfolio of companies of Small Giants, the family office of Daniel Almagor (IIG Chairman) and Berry Liberman. IIG is also one of Australia's first certified B Corporations in Australia and believes in using the power of business to drive positive social and environmental change. IIG is also a member of RIAA and the Global Impact Investing Network.

FOREWORD

From small beginnings only a handful of years ago, impact investing is now finding its stride in Australia and becoming a significant part of our investment industry landscape.

Benchmarking Impact 2018 maps out the recent growth, dynamics and performance of impact investing in Australia over the past two and a half years and describes an industry that has truly broken out of its infant stage. From financial advisers in private wealth through to institutional investors, from specialist impact fund managers through to some of the largest global investors, impact investing is now being considered by participants across all parts of the finance industry, with increasing numbers dipping their toes in the water.

This report, following on from the pioneering pilot study conducted by Impact Investing Australia, highlights that funds flowing into impact investments have quadrupled since 2015, shaping a highly diverse market that delivers positive financial returns for investors while also benefiting the environment and impacting the lives of tens of thousands of people through employment pathways, education, and health services among other activities.

Many of the funds and products described within these pages are being invested into by Australia's largest superannuation funds and other investors such as philanthropic trusts and foundations, keen to create a place for impact within their own asset allocations.

Driven by the compelling proposition that our investments have the potential, not only to deliver often-comparable commercial financial returns, but also to contribute to a measurably better society and environment, investment committees are now looking to see how their own investments can contribute to the next phase of growth in this market.

When compared to the broader financial market, some may argue that the size of impact investments remains small and as a result, inconsequential. However, this would be to miss the much greater market influence

of impact investing, which goes to the very nature of how investing is considered.

This emerging industry has some deep lessons for finance – highlighting that all of our investments have an impact, whether positive, negative or neutral, whether intentional or not – and that the trillions of dollars flowing around capital markets today are shaping the Australia of tomorrow.

Impact investment, and in particular the rigour behind the measurement of social and environmental outcomes, is teaching the finance community at large to think about and measure the impact that it is having, beyond solely the generation of financial returns.

Benchmarking Impact 2018 shows a myriad of social and environmental impacts that Australian impact investments are delivering including 700 vulnerable families assisted, 369 employment pathways or jobs created; 22,688 students supported; 1069 clients receiving health and well-being services, 2,110,000 tons of CO₂-e avoided and 950 megalitres of water delivered to wetlands, creeks and ecosystems.

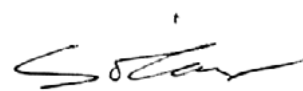
In addition, investors are increasingly reporting on how their investments are contributing to delivering on the UN Sustainable Development Goals, an area that we are seeing again influence the portfolios of investors well beyond the impact investment market.

Australians are fundamentally attracted to the idea that their investments can shape a better world, with our own research showing that 9 in 10 Australians expect their super and other investments to be invested responsibly and ethically. Impact investment provides the vehicle to deliver on these expectations and help people do good and do well at the same time.

RIAA is working to bring impact to scale: to move from the edges of the investment market into the centre. This means increasing the capital flowing into impact

investments, as well as taking the important lessons provided by this field to the broader investment community, so that impact is considered equally alongside risk and return.

On behalf of RIAA and our research partner, the Centre for Social Impact at Swinburne University, we hope you enjoy reading *Benchmarking Impact 2018* and look forward to working with you to further build this important market.



Simon O'Connor, CEO
Responsible Investment Association
Australasia

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EXECUTIVE SUMMARY

CONTEXT AND BACKGROUND

The significant role that capital plays in shaping our society and environment is in focus more than ever before. Correspondingly, many investors are beginning to look at the impacts of their investments and gain a better understanding of the different contributions they are making to communities and the planet. At the same time, social entrepreneurs and not for profit organisations are exploring innovative ways to expand the size, scope and sustainability of the work they do in addressing societal challenges, and to supplement funding provided by government and philanthropy.

As a key responsible investment approach, impact investing is emerging as a powerful strategy for investors to intentionally direct capital towards solutions for the entrenched issues we face, from housing shortages to financial exclusion to tackling our climate crisis. In doing so, investors have the opportunity to better meet their members' or customers' needs, can potentially achieve greater portfolio diversification and – at the same time – help deliver scale to achieving positive social and environmental outcomes.

In order to grow the market for impact investments, the need for data is paramount to measure investor activity and the demand for impact investments, and to build a recognised set of data around the financial *and* impact performance of impact investment products.

WHAT THE REPORT MEASURES AND WHY

The *Benchmarking Impact 2018* report is the second study to measure the investment activity and performance of the Australian impact investment market. It follows on from the pilot study published in 2016 by Impact Investing Australia to document market development, build the evidence base for the sector and illustrate impact investment performance from a financial and social impact perspective.

This follow-up study shows how the impact investment market is growing in Australia and sheds light on the diversity of investable products, investment strategies and types of impacts being measured. This report features data for the period 1 July 2015 to 31 December 2017 from 24 organisations overseeing 51 retail and wholesale impact investment products in Australia.

KEY FINDINGS

Investment activity

- The data set of investable impact investment product has grown from \$1.2 billion since the last report as at 30 June 2015 to \$5.8 billion at 31 December 2017¹.
- Growth is driven largely by the increase in green bonds, which account for \$4.9 billion of the 2018 data set. However, the other types of impact investment products represented by the remaining data set have also grown rapidly from nearly \$300 million in total, to nearly \$1 billion in total over the same period.
- Fixed income investments dominate the data set by dollar weighting, driven by the rapid growth of green bonds.
- Excluding green bonds, the highest concentration of investments by dollar weighting is in real assets, including property and infrastructure.

- By the number of investments, most investments are comprised of private debt, much of which is made up of loans to social enterprises.
- Environmental investments (96%) far outweigh social investments (4%) on a dollar-weighted basis.

Investment performance – financial and impact

- Financial returns for assets in the data set broadly reflect the returns in the 2016 data set and are generally tracking in line with investor expectations. Private debt investments in aggregate are achieving a gross 8.0% p.a. since-inception return relative to global investor expectations of between 2.7%–7.0% for this asset class.
- Impact performance of this data set shows a large increase in cumulative impact relative to 2016 levels. For example, in 2016, the data set reported only 3.9 tonnes of carbon dioxide equivalent emissions avoided. In the 2018 data set, this number has grown dramatically by many orders of magnitude to over 2,110,000 tonnes of CO₂-e avoided or abated. This is likely due, in part, to the growth in environmental assets in the data set, as well as more time for the assets in the 2016 data set to accumulate benefits, which can now be reported.
- The United Nations Sustainable Development Goals (SDGs) are gaining significant traction. The SDGs are the most reported impact framework to be adopted by respondents, with Goal 11: Sustainable Cities and Communities receiving the greatest amount of investment dollars above the other 16 SDGs.
- In addition to what is included in data analysis for the main data set, this report highlights other investment activity. For example, 12 high net worth investors and private and public ancillary funds reported an additional \$12 million of direct investment activity in Australian impact investments (**see the private market activity section on page 34**).

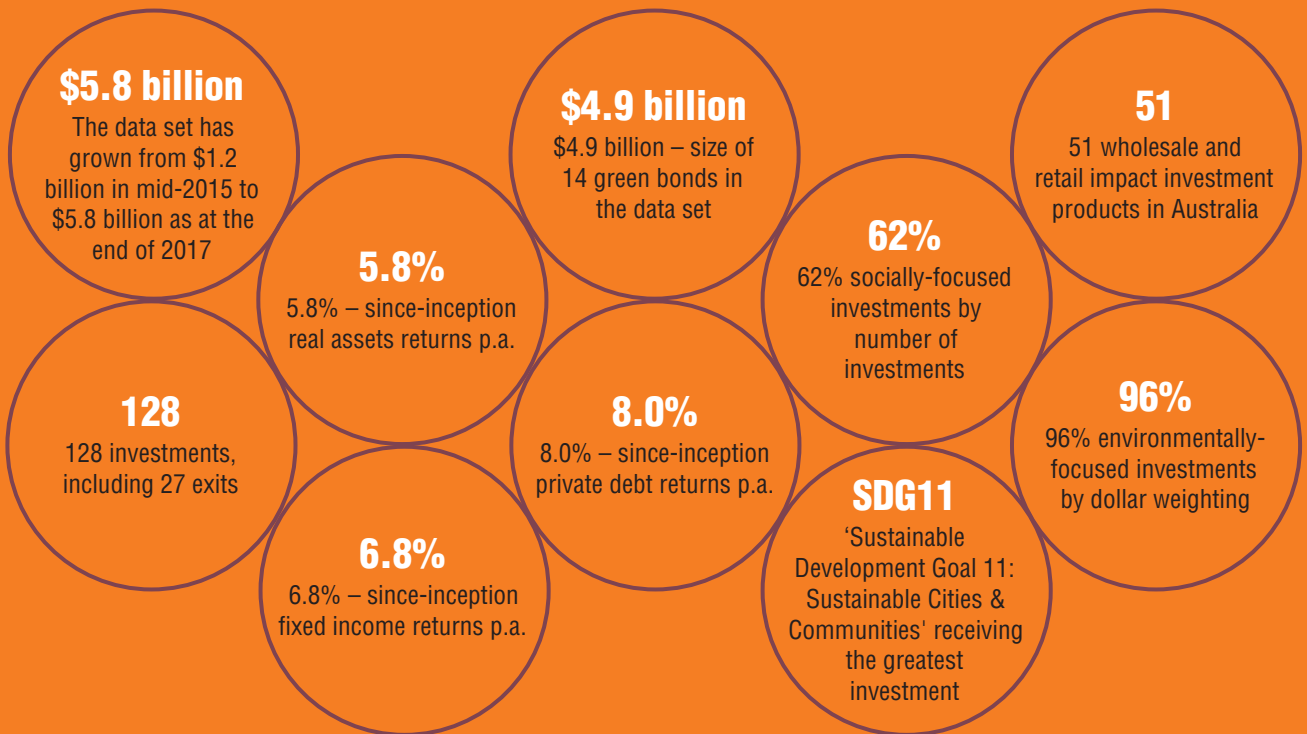
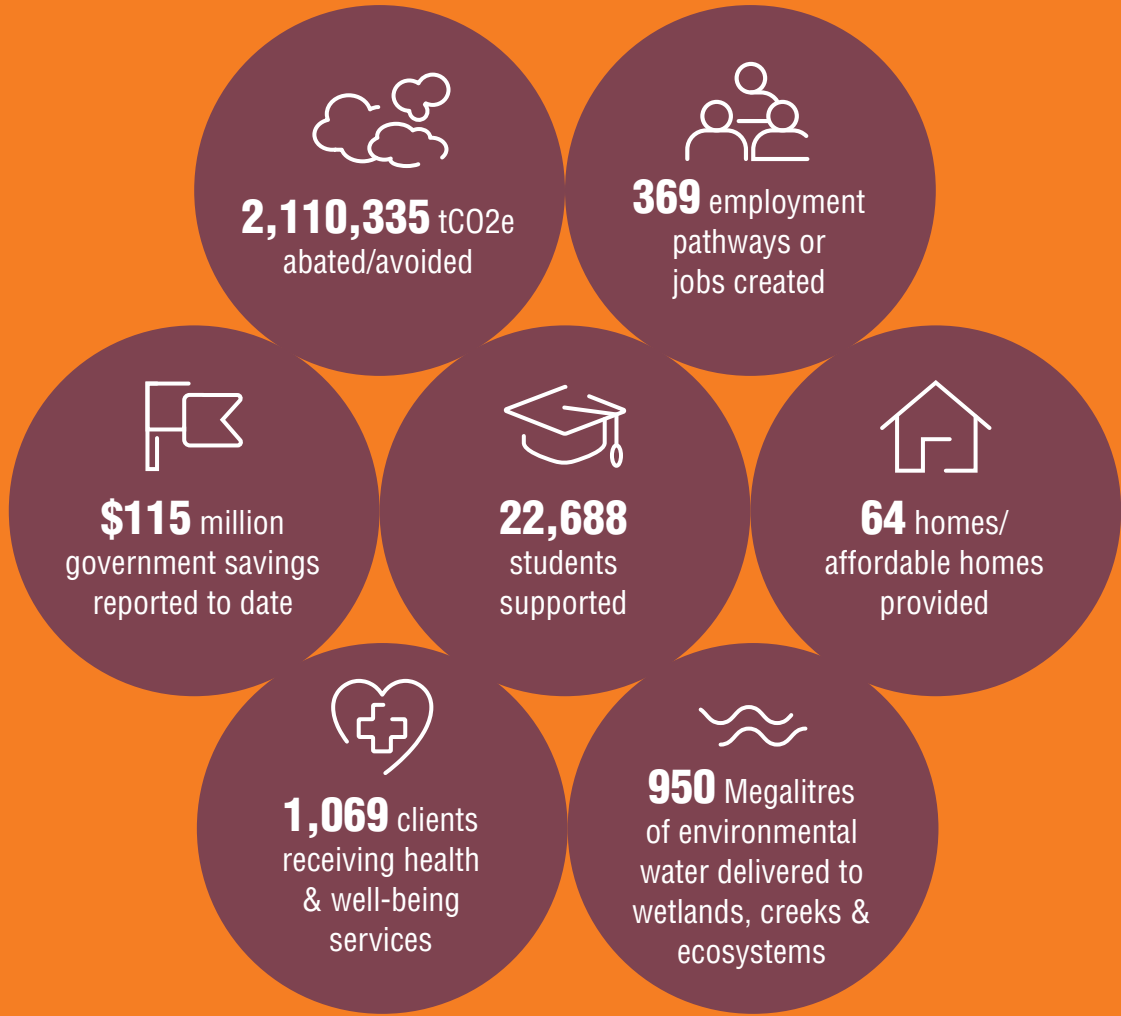
EMERGING THEMES

This year's report draws some conclusions from the self-reported investment activity and performance data, as well as interviews. Notable themes include:

- **Building the investment pipeline:** more early stage support, blended finance and concession rate return investors are needed to grow the market.
- **Not all impact is created equal:** the diversity of investment approaches and strategies across the impact investment market means that different investments bear different costs and drive varying degrees of impact. Gaining a better understanding of the holistic nature of impact – such as any negative impacts of investments and whether there is 'additionality'² – will help guide investment decision-making and may also improve the quantum and quality of social and environmental impact that can be delivered.
- **How is data being used and by whom?** The 2018 study illustrates that there is still a need for understanding and developing impact management and measurement approaches. These require the ability to understand complex social issues deeply and translate these understandings into accessible and simple impact management frameworks, and to engage people, notably beneficiaries and those directly affected by investments, in this process.
- **'Impact' is a powerful concept that extends beyond impact investments:** Impact investing is one approach to responsible investment within a broader spectrum, including screening and sustainability-themed investments. With surging commitments to responsible investment locally and globally, the lessons learned from impact investment are relevant across capital markets to ensure all investments are managing and reporting on 'impact'. This presents a great opportunity to leverage a much greater pool of capital to respond to the entrenched environmental and social challenges we face.

¹ Data collection now aligns with the calendar year in keeping with RIAA's standard reporting timeframes. This marks a shift from the pilot study, which aligned with the Australian financial year. Consequently, *Benchmarking Impact 2018* contains data on investment activity taking place from 1 July 2015 – where the pilot study left off – through to the end of the calendar year 2017 (31 December 2017), thus documenting activity over a two-and-a-half-year period.

² 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.





INTRODUCTION

The importance of robust impact investment data 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.

The initial pilot to measure Australian impact investment market activity and performance, *Benchmarking Impact 2016*, was launched in late 2016 and included performance data on 15 retail and wholesale impact investment products valued at \$1.2 billion in the Australian market as of 30 June 2015. This study, conducted by Impact Investing Australia, was the world's first to measure impact investment market size and performance at a country level, and demonstrated that aggregate financial returns by asset class were broadly aligned with investor expectations. It also demonstrated early trends in social impact measurement and illustrated outcomes are taking place across a variety of areas and are at relatively early stages of maturity in terms of impact measurement sophistication.

Benchmarking Impact 2018 builds on this important work to measure how the Australian impact investment market size, activity and performance are changing over time. It is designed to inform stakeholders interested in better understanding the Australian impact investment market and encourage a broader range of investors to participate in impact investing.

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. 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 is also our intention that this report supports the community sector in understanding and exploring the role of private capital in helping the sector to deliver on its various missions.

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.

METHODOLOGY

This study outlines clear boundaries that build on the pilot study *Benchmarking Impact 2016* to inform productive analysis³. The design of that study was informed by a comprehensive literature review⁴ and consultations with over 100 stakeholders globally to determine the appropriate criteria from which to examine market activity and performance in the Australian context. Based on feedback from market participants, and focused consultations with key stakeholders, this study draws on the 2016 design and both expands the boundaries slightly and contracts the focus of the study.

CRITERIA FOR INCLUSION

This study focuses on measuring the size, activity and performance of impact investment products in the Australian market. Specifically, to be included in the study's impact investment universe, investment products needed to demonstrate that as of 31 December 2017 they had committed capital, were making investments and met 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 and financial performance of these investments; and
- deliberately seeking financial returns (i.e. not grant-making).

As an additional layer of criteria, this report focuses on retail and wholesale impact investment products domiciled in Australia.

FIGURE 1 RIAA'S RESPONSIBLE AND ETHICAL INVESTMENT SPECTRUM

	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT					PHILANTHROPY
		ESG INTEGRATION (including shareholder engagement & voting)	NEGATIVE SCREENING (& norms based)	POSITIVE OR BEST-IN-CLASS SCREENING (& norms based)	THEMATIC/ SUSTAINABILITY THEMED INVESTMENTS	IMPACT INVESTING MARKET RATE CONCESSIONARY RATE	
FOCUS	Limited or no regard for environmental, social and governance factors	Consideration & analysis of environmental, social and governance (ESG) factors as part of investment decision making	Industry sectors or companies excluded/ divested from to avoid risk or better align with values	Investments that target companies or industries with better ESG performance	Investments that specifically target sustainability themes eg clean energy, green property	Investments that target social and environmental impact and deliver market rate financial returns Investments that target social and environmental impact and deliver below market rate returns	Grants that target positive social and environmental impact with no financial return
IMPACT INTENTION	Agnostic	Avoids harm		Benefits stakeholders			
				Contributes to solutions			
FEATURES		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

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

However, to capture and examine further market activity, this report piloted an examination of the impact investment activity of private ancillary funds, public ancillary funds and high net worth individuals and family offices. There are several pioneering foundations and family offices within the Australian impact investment ecosystem, and, as such, efforts have been made to capture and characterise some of this activity, which is included in the private market activity section of this report (see page 34).

Are green bonds included?

This report includes green bonds, as they meet the study criteria for inclusion by intentionally targeting positive environmental impacts, deliberately seeking positive financial returns, and measuring both.

However, it was suggested in consultations for this study that green bonds may have clearly differentiated impact strategies, and because of the difference in size and scale between green bonds and smaller unit trusts, investment activity has been reported in two formats where it makes sense to do so:

- 1 aggregate investment activity with green bonds; and
- 2 aggregate investment activity without green bonds.

What isn't included?

There are several wholesale impact investment products operating in the Australian marketplace with significant participation of Australian investors, which are domiciled and actively investing offshore. These are excluded from the main study on the basis of not being domiciled in Australia.

As in the 2016 data set, particular asset classes have not produced impact investment products to date, such as cash funds, which are required to hold highly liquid investments by investing in money markets.

Other asset classes are negotiating the boundaries of what constitutes an impact investment. For example, this study does not include any of the emerging public equities funds being labelled as impact funds. These products are excluded based

A NOTE ON WHAT CONSTITUTES 'IMPACT'

As the field of impact investment matures, the boundaries and thresholds for what constitutes 'impact' are being negotiated. This study continues to take an inclusive approach and adopt the stance that impact can take many shapes both in terms of investment strategy and measurement. It can be characterised by deep and narrow impact, such as in social impact bonds that address the complex needs of individuals in a particular community over several years. It can be 'light green' as some might characterise some green bond products that refinance existing assets. It can be 'dark green' such as a water fund that invests surpluses in restoring wetlands and ecosystems. Some suggest that if there isn't

proof of whether the investment provided any social or environmental benefit that would not have occurred anyway, or evidence of 'additionality' or the 'counter-factual', then it may not constitute impact.

There is a growing discussion calling for a deeper examination of holistic impact, which extends beyond the consideration and measurement of positive social impacts to also capture unintended and potentially negative consequences. These debates are important for the field to maintain a sense of integrity and transparency about what it purports to create and what it considers a key differentiator from mainstream investing.

either on unclear or insufficient intentionality or measurement of social/environmental outcomes, however, this area is evolving rapidly. See the breakout box on **impact investing in public markets** (see page 22) for further discussion of public equities funds.

An interesting example is Australia's first gender equality bond, issued by NAB in 2017 to provide financing to organisations certified by the Workplace Gender Equality Agency as Employers of Choice for Gender Equality.⁵ Although examined, this bond was not considered to meet the criteria for the study because the organisations receiving the finance do not have limitations on what they do with the capital, i.e. the capital does not have to be used to generate positive social impact.

It is worth noting that 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 of intentionality to achieve targeted 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 2018*.

DATA COLLECTION

Data was collected using a questionnaire on market size, activity and performance. Questions specifically asked about the number and amount of investable product under management; the number of impact investment assets; asset-level investments, distributions and exits; and asset-level social/environmental performance.

The social and environmental performance data collection frameworks followed the same outcome areas and beneficiary groups as laid out in the *Benchmarking Impact 2016* report. These nine different outcome areas and 16 beneficiary groups were derived from an extensive literature review. In addition, respondents were asked about which impact measurement frameworks they are adopting to measure and report impact, and specifically about whether and how they are tracking impact in relation to the 17 SDGs (see Table 1).

TABLE 1 SOCIAL AND ENVIRONMENTAL PERFORMANCE DATA COLLECTION FRAMEWORKS

Outcome areas	Beneficiary groups	Sustainable Development Goals
<ol style="list-style-type: none"> 1. Education and early childhood 2. Mental health and well-being 3. Physical health and disability 4. Families, communities and inclusion 5. Housing and local amenity 6. Employment, training and participation 7. Arts, culture and sport 8. Income and financial inclusion 9. Conservation, environment and agriculture 	<ol style="list-style-type: none"> 1. People living with learning disabilities 2. People living with physical disabilities 3. People living in poverty 4. Long-term unemployed people 5. People living with addiction 6. People with long-term health issues 7. People living with mental health needs 8. Vulnerable older people 9. Vulnerable young people 10. Refugees and asylum seekers 11. Indigenous people 12. Ecosystem and biodiversity 13. Social trade or business 14. Homelessness 15. Animals 16. Other 	<ol style="list-style-type: none"> 1. No Poverty 2. Zero Hunger 3. Good Health and Well-being 4. Quality Education 5. Gender Equality 6. Clean Water and Sanitation 7. Affordable and Clean Energy 8. Decent Work and Economic Growth 9. Industry, Innovation and Infrastructure 10. Reduced Inequality 11. Sustainable Cities and Communities 12. Responsible Consumption and Production 13. Climate Action 14. Life Below Water 15. Life on Land 16. Peace and Justice Strong Institutions 17. Partnerships to achieve the Goals

Source: Impact Investing Australia 2016; adapted from Big Society Capital 2015; OECD 2015; IRIS Metrics 2016; United Nations 2018⁶

Two versions of the questionnaire were administered: managers were requested to complete a more detailed performance-focused spreadsheet which informs the main body of this report and private investors were invited to complete an abbreviated online questionnaire for the private market activity section of this report (see page 34). These questionnaires were informed by the 2016 study, feedback from market participants from the 2016 study, and consultations with key stakeholders. Copies of the questionnaires are included in the Appendices Report.

Where data was not provided for impact investment products, publicly available data was sourced.

In addition to surveys, respondents were invited to take part in interviews about sector trends, impact measurement, challenges and opportunities. 15 organisations participated in semi-structured interviews that lasted between 30 minutes and one hour either face-to-face or on the telephone. Additionally, one social entrepreneur was interviewed to begin to explore issues about cost of capital and the possible mismatch between supply and demand for capital. This is intended to be preliminary and developed in future rounds of this study as it was not within the scope of this report to extensively interview multiple entrepreneurs. The qualitative interview data informed analysis and is woven throughout the discussion and framing of this report. The interview guide is also included in the Appendices Report.

Data was collected on investment activity taking place from the second half of the 2015 calendar year (1 July 2015) through to the end of the calendar year 2017 (31 December 2017).

All date ranges are reported in calendar years unless otherwise indicated, i.e. 2015 includes all days between 1 January 2015 and 31 December 2015. When dates are reported as ‘first half’ (1H), this includes dates between 1 January and 30 June; whereas ‘second half’ (2H) indicates dates between 1 July and 31 December.

All dollar figures are reported in Australian dollars.

³ See Castellás, Findlay & Addis 2016.
⁴ See, for example, Addis et al. 2013; Ebrahim et al. 2015; and Wilson et al. 2015.
⁵ For more on NAB’s gender equality bond, see <<https://news.nab.com.au/investors-put-500-million-behind-worlds-first-social-bond-promoting-workplace-gender-equality/>>.
⁶ See references section for Castellás et al. 2016; Big Society Capital 2015; Wilson et al. 2015; Impact Reporting and Investment Standards 2018; and United Nations Department of Economic and Social Affairs 2018.



OVERVIEW OF THE DATA SET

This report includes data from 24 organisations that oversee 51 retail and wholesale impact investment products domiciled in Australia and were actively making investments in the market as at 31 December 2017 (n=51 products).

All 51 of these products are open to wholesale investors, and two of these products are also open to retail investors. The breakdown of organisations by type comprises six asset managers or fund managers; five banks or diversified financial institutions; four development finance institutions; two government agencies; one impact investment intermediary; one insurance company; one university; one service provider; and three organisations that did not fit into the aforementioned categories.

Investment activity data includes self-reported data from 17 organisations (referred to as 'respondents' in this report) as well as publicly available data for a further seven organisations where data was not provided.

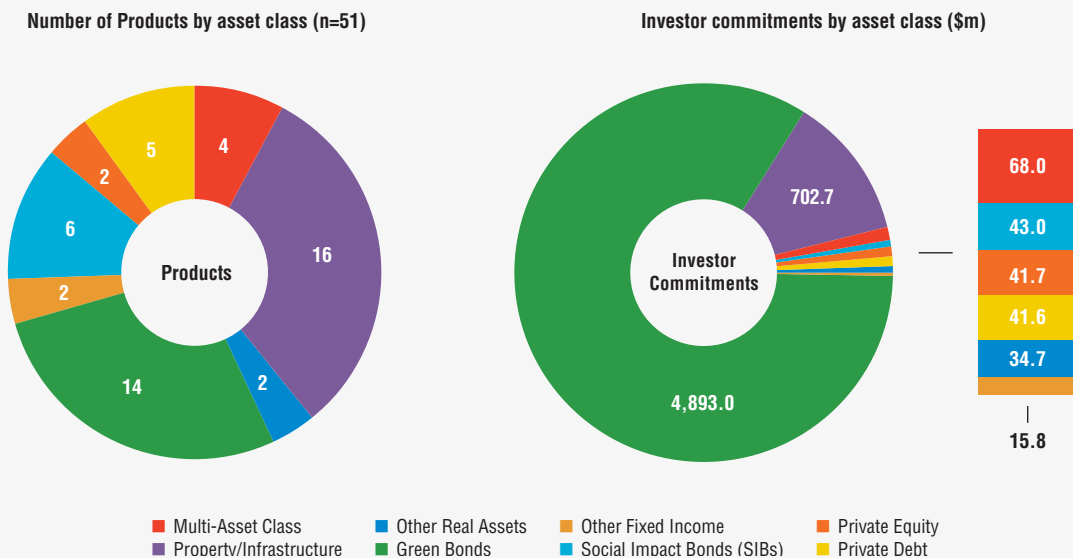
Investment activity analysis is derived from self-reported and publicly available data on investor commitments (n=51 products) as well as analysis derived from self-reported deal-level or asset-level data (n=101 assets) at 31 December 2017.

Financial performance data is aggregated from deal-level or asset-level data and includes 128 investments made between 2010 and 2017 (n=128 assets), with 101 assets actively being managed at 31 December 2017 and 27 exits or repayments.

Impact performance data is also aggregated from deal-level data, though impact performance was only reported on 70 investments (n=70 assets) from 2010 to 2017.

The private market investment activity section (see page 34) is based on 12 responses from public ancillary funds, private ancillary funds and high net worth investor groups on their impact investment activities (n=12 investors).

FIGURE 2 THE 2018 DATA SET IS COMPRISED OF 51 PRODUCTS ACROSS MULTIPLE ASSET CLASSES



DATA PROVIDERS

The following 24 organisations have products that are included in the main dataset and/or contributed data and information to inform this study.^{7,8}

ANZ



MANDATE Commercial bank
STRATEGY Refinancing existing products on ANZ's books that are classified 'green' (green properties and renewable energy)
PRODUCTS Green Bond
PRIMARY IMPACT Environment
MEASURES Carbon Dioxide equivalent emissions savings, energy savings, renewable energy generated

Artesian Venture Partners



MANDATE Venture Capital (VC)
STRATEGY Seed and follow-on investments in clean-energy-focused start-ups from approved accelerators, incubators, angel groups and university programs. The Clean Energy Finance Corporation is the cornerstone investor
PRODUCTS Artesian Clean Energy Seed Fund
PRIMARY IMPACT Environmental and Social
MEASURES Cumulative number of clean energy investments made, stage and sector focus of clean energy investments made

Australian Chamber Orchestra



MANDATE Chamber Orchestra
STRATEGY Long-term capital gains by investing in specialty high-quality stringed instruments to be loaned to and used by ACO players to create cultural value
PRODUCTS Instrument Fund
PRIMARY IMPACT Arts, Culture
MEASURES To be refined – number of kilometres travelled (i.e. to visit schools, played by students, hours played by artists)

Australian Impact Investments



MANDATE Public Ancillary Fund
STRATEGY Diversified trust that invests across all asset classes, with a focus on impact investments and a strict ESG screen over the portfolio. Sub-fund holders direct donations to eligible organisations they want to support, whilst Australian Impact Investments provides administration and governance.
PRODUCTS Community Impact Foundation
PRIMARY IMPACT Environmental and social
MEASURES Relationship between impact, risk and financial return, as well as relevant bespoke metrics on individual investments e.g. tonnes of CO2 abated for a renewable energy project, lives influenced through shelter, jobs and education for a social impact bond

The Benevolent Society



MANDATE Australia's oldest charity
STRATEGY Partnership with Commonwealth Bank and Westpac. Payment by outcome product where individual and institutional investors invest in bonds to fund the Resilient Families program to keep children with their families and away from out-of-home care where it is safe to do so; social outcomes funded by the NSW Government
PRODUCTS Benevolent Society Social Benefit Bond
PRIMARY IMPACT Children and Families
MEASURES Entry into out-of-home care, Safety and Risk Assessments, child safety helpline reports, and child and family resilience

Chris O'Brien Lifehouse



MANDATE Corporate advisory
STRATEGY Bonds to build an integrated cancer centre
PRODUCTS Chris O'Brien Lifehouse Charitable Bonds
PRIMARY IMPACT Physical Health, Mental Health
MEASURES Not reported

Churches of Christ in Queensland



MANDATE Church, Care and Community Services
STRATEGY Payment by outcome product to support 300 young people 15 to 25 years old who are exiting or have exited statutory care and are homeless or are at risk of homelessness in QLD
PRODUCTS Youth CONNECT Social Impact Bond
PRIMARY IMPACT Young people at risk of or experiencing homelessness
MEASURES Housing stability over time, education stability over time, employment stability over time, personal development activities (such as parenting courses, mental health support etc) participation if appropriate

Commonwealth Bank



MANDATE Commercial bank
STRATEGY Proceeds from the issuance will fund 12 eligible Australian projects, including renewable energy generation through solar, wind and hydro power, energy efficient buildings and low-carbon transport projects
PRODUCTS Green Bond
PRIMARY IMPACT Environment
MEASURES Not reported

Ethical Property Australia



MANDATE Create spaces where organisations can come together to make a difference – make the best use of property in the interest of society and the environment
STRATEGY Purchasing, refurbishing, developing and managing property that predominantly hosts non-profits and social businesses for the benefits of co-locating, sharing resources and working together
PRODUCTS Ethical Property Australia Fund
PRIMARY IMPACT Social business support and flow-on effects;
MEASURES Tenancy ethical screens

Flexigroup



MANDATE Leasing company
STRATEGY Refinance residential solar PV systems
PRODUCTS Flexigroup Asset Backed Solar Climate Bond
 Flexigroup Solar Climate Bond
PRIMARY IMPACT Environment
MEASURES Not reported

Foresters Community Finance



MANDATE Community development
STRATEGY Loans to individuals, non-profits and social enterprises
PRODUCTS Social Enterprise Finance Fund (SE business development loans); Community Finance Fund (enterprise growth); Early Stage Social Enterprise Fund (early stage); Community Finance Fund Non-Profit (non-profit property lending)
PRIMARY IMPACT Community development, urban and rural job creation, social business support and flow-on effects
MEASURES Various bespoke, e.g. number of students supported, number of refugees trained, number of clients served, programs established

Hepburn Wind



MANDATE Community owned wind farm
STRATEGY Purchase, develop, manage wind farm and sell energy to retailer
PRODUCTS SHARE (Sustainable Hepburn Association Renewing the Earth)
PRIMARY IMPACT Environment, Community
MEASURES Renewable energy capacity, community engagement, regional and local jobs

Impact Investment Group



MANDATE Our mission is to shift capital towards investments that blend financial returns with deep social and environmental impact, and to lead by example in using all of our resources to create the world we want to live in
STRATEGY We provide investment opportunities in commercial real estate, renewable energy infrastructure and venture capital. The opportunities are available to wholesale clients only, and target market-rate financial returns in combination with significant environmental and social benefits
PRODUCTS Numerous unit trusts (property, renewable energy infrastructure) A Venture Capital Fund (early stage businesses with positive impact embedded in their operating model)
PRIMARY IMPACT Environment
MEASURES CO2-e abated, water savings, energy savings, NABERS ratings, GBCA GreenStar Ratings, avoided deaths and illnesses from pollution-related diseases

Indigenous Business Australia



MANDATE Self-sufficiency and economic independence of First Australians
STRATEGY Co-invest alongside indigenous groups to support their investment processes
PRODUCTS Indigenous REIT
 Indigenous Prosperity Fund (future fund concept)
PRIMARY IMPACT Indigenous income, job creation, economic self-sufficiency
MEASURES Jobs created, wages, people trained, distributions

Investa



MANDATE Financial-first office building owner and manager
STRATEGY Proceeds to be used to retire existing debt facilities and will be fully allocated against a portfolio of low carbon buildings in ICPF's portfolio
PRODUCTS Investa Commercial Property Fund (Green Bond)
 Investa Green Bond Office Fund (Green Bond)
PRIMARY IMPACT Environment
MEASURES Not reported

LeapFrog Investments



MANDATE LeapFrog Investments is a private equity firm (\$1billion in AUM) that backs growing financial services and healthcare businesses providing services to emerging consumers in Africa and Asia
STRATEGY LeapFrog invests in high-growth businesses that improve access and quality of financial (health, life, property and crop insurance, savings, credit and pensions) and healthcare services for 'emerging consumers' in Asia and Africa. The fund supports the growth of companies that provide innovative financial and healthcare products and services to low-income populations in emerging markets with capital as well as strategic and technical assistance
PRODUCTS Private Equity; LeapFrog Emerging Consumer Fund III (currently in market with Fund III, which is a \$600 million raise)
PRIMARY IMPACT Financial Inclusion & Healthcare
MEASURES FIIRM is LeapFrog's Profit with Purpose proprietary measurement framework built for financial services and health, measuring outputs and outcomes. LeapFrog companies now reach 130 million people, 110 million of whom are low-income emerging consumers; they also support 120,000 jobs and livelihoods

Melbourne Montessori School



MANDATE Education
STRATEGY Raise community funds from retail investors to acquire and develop Montessori property
PRODUCTS Melbourne Montessori School Community Finance Fund (bonds)
PRIMARY IMPACT Education (facilities)
MEASURES Facilities built/improved and increased student numbers

Monash University



MANDATE Tertiary Education
STRATEGY Finance more sustainable university campus infrastructure projects, such as solar installation, energy efficient lighting, 5 star green star rated green teaching and learning buildings
PRODUCTS Monash University Green Bond
PRIMARY IMPACT Environment, Education (facilities, infrastructure)
MEASURES Not reported

NAB



MANDATE Commercial bank
STRATEGY Investing in renewable energy assets with senior unsecured debt; fund projects related to green buildings, and research and development programs with social impact
PRODUCTS NAB AUD Climate Bond
 NAB EUR Climate Bond
 NAB/ACU Sustainability Bond
PRIMARY IMPACT Environment
MEASURES Installed renewable energy capacity, greenhouse gas emissions

Patamar Capital



MANDATE Venture capital in South and Southeast Asia
STRATEGY Backs entrepreneurs solving real problems for low-income communities at scale
PRODUCTS Patamar I, Patamar II
PRIMARY IMPACT Financial inclusion, Healthcare, Education, Agriculture, Access to essential goods and services
MEASURES IRIS social metrics: number of lives improved; economic benefit e.g. increase in income, increase in savings; contribution to SDGs; other company-specific metrics (varies depending on sector) Contribution to SDGs

The Nature Conservancy



MANDATE Environmental conservation organisation (fund managed by Kilter Rural)
STRATEGY Buy and sell water rights, in surplus years returning some flows back to the natural environment
PRODUCTS Murray-Darling Basin Balanced Water Fund
PRIMARY IMPACT Environment
MEASURES Water returned to natural environment, measures of wetland and ecosystem health, engagement with Traditional Owners of the land

QBE



MANDATE Insurance Group
STRATEGY Financing/refinancing QBE's green bond portfolio
PRODUCTS QBE Green Bond
PRIMARY IMPACT Environment
MEASURES kWh of power generated from renewable energy, greenhouse gas emissions savings/tonnes of CO2 equivalent avoided, energy savings, other sector measures

Queensland Treasury Corporation



MANDATE Queensland Government's central financing authority
STRATEGY Use of proceeds to finance renewable energy and low carbon transport
PRODUCTS QTC Green Bond
PRIMARY IMPACT Environment
MEASURES Not reported

SEFA



MANDATE Mobilise Capital to maximise Impact
STRATEGY (1) customised loans and capital structures for mission-driven organisations with a focus on crisis accommodation, affordability housing, disability, community businesses and education and (2) investment readiness services for organisations and due diligence services for investors
PRODUCTS SEFA Loan Fund, direct co-investment opportunities and fee for service
PRIMARY IMPACT Unlocking capital to enable social/environmental impact and creating pathways for impact investors to access opportunities
MEASURES Various bespoke, e.g. number of beds available for transitional accommodation, number of students supported, number of low-income families supported into home ownership

Social Outcomes



MANDATE Maximising positive impact creation

STRATEGY Social innovation and evidence-based design, impact investment intermediary for values aligned investments, impact measurement framework design, creation of shared value partnerships

PRODUCTS High-quality impactful design work, social impact bonds, impact investments, shared value projects, investment readiness, gender lens investing

PRIMARY IMPACT A wide variety of issues depending on projects, including homelessness, out-of-home care, improved livelihoods of small family farmers, water and sanitation, physical & mental health, social isolation, aged care, Indigenous enterprise development, waste management & recycling, addiction and reoffending

MEASURES Impact measurement frameworks are designed for each project

Treasury Corporation of Victoria



MANDATE Central financing authority for the state of Victoria

STRATEGY Finance renewable energy, low-carbon buildings, transport, water and pollution control, nature-based assets

PRODUCTS TCV Green Bond

PRIMARY IMPACT Environment

MEASURES Not reported

Westpac



MANDATE Commercial bank

STRATEGY Finance renewable energy and green buildings

PRODUCTS Westpac Climate Bond

PRIMARY IMPACT Environment

MEASURES Not reported

Social Ventures Australia



MANDATE Focus on keys to overcoming disadvantage in Australia, including education, sustainable jobs, stable housing and appropriate health, disability and community services

STRATEGY Venture philanthropy, impact investing, consulting

PRODUCTS SEDIF (Social Impact Fund); Goodstart Social Impact Notes (repaid); SVA Diversified Impact Fund; Social Impact Investment Trust; Aspire SIB; Resolve SIB; Newpin NSW SBB; Newpin Qld SBB

PRIMARY IMPACT Indigenous inclusion, community inclusion, employment & skills training, health & disability, environment

MEASURES Various bespoke metrics, e.g. jobs created for people with disabilities, for Indigenous Australians, e-waste recycled, children at risk

7 A small number of organisations provided data for the 2016 study only. They are included in the 2018 dataset with modeling using their original data along with public data to inform the activity and performance sections.

8 Most private market respondents elected to remain confidential.



INVESTMENT ACTIVITY

The market for Australian impact investments has grown significantly from \$1.2 billion at 30 June 2015 to \$5.8 billion at 31 December 2017.

OVERALL INVESTMENT ACTIVITY

This year's data set includes \$5.8 billion in investor commitments across 51 wholesale and retail products in the Australian impact investment market (Figure 3).⁹

This represents a 105% annual growth rate in investor commitments from 2010 to 2017 and 143% growth over the past year alone.¹⁰

It includes \$4.9 billion of green bonds¹¹ (or 84% of products by dollar weighting). Without the 14 green bonds, the aggregate product value for the remaining 37 products is \$948 million, up from \$288 million at 30 June 2015 (Figure 4).

These 51 products have made 128 investments between 2010 and 2017, including 27 repayments or exits (including two defaults) in this period. As of 31 December 2017, there were 101 investments or assets (n=101 assets).¹² This equates to \$5.8 billion in invested or deployed capital as at 31 December 2017.¹³

FIGURE 3 THE NUMBER OF IMPACT INVESTMENT PRODUCTS AND INVESTOR COMMITMENTS IN AUSTRALIA HAS GROWN SIGNIFICANTLY BETWEEN 2010 AND 2017¹⁴

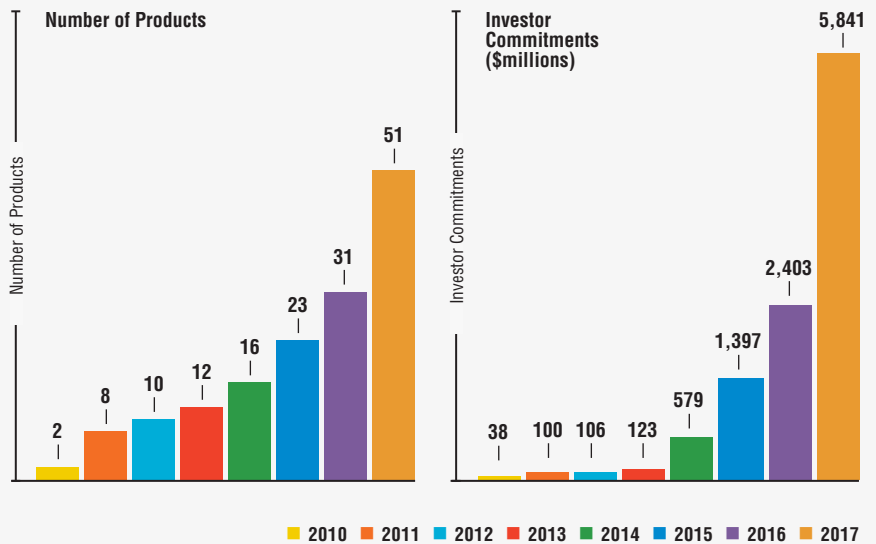
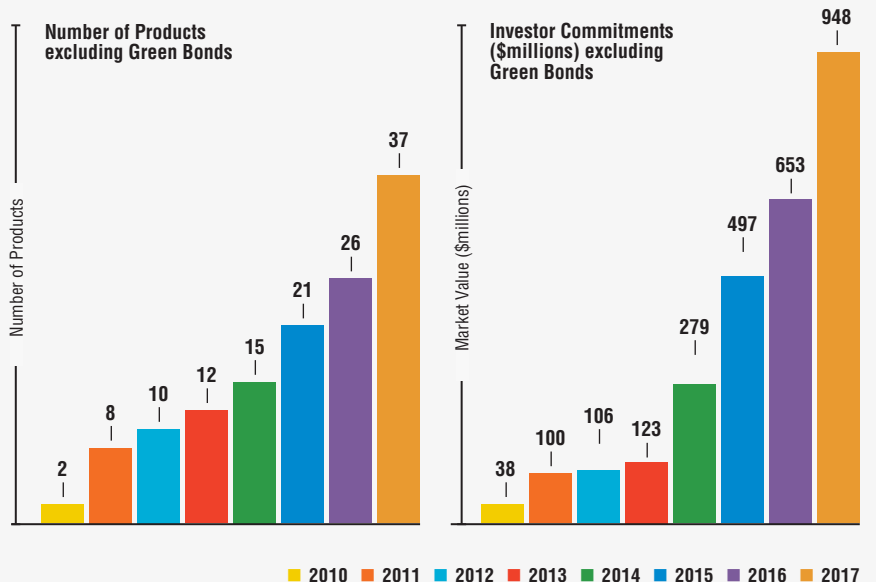


FIGURE 4 GROWTH OF THE AUSTRALIAN IMPACT INVESTMENT MARKET, EXCLUDING GREEN BONDS, YEAR ON YEAR



INVESTMENT ACTIVITY BY ASSET CLASS

By dollar weighting, fixed income investments dominate the data set, driven by the rapid growth of green bonds. Excluding green bonds, the highest concentration of investments by dollar weighting is in real assets, including property and infrastructure. By number of investments, most Australian impact investments are comprised of private debt, much of which is made up of loans to social enterprises.

The tremendous growth in green bonds coming to market as well as their size and scale relative to many other impact investments, such as social impact bonds, means that, similar to the *Benchmarking Impact 2016* study, fixed income investments dominate the dollar weighting of investment activity in this year's data set (Figure 5).

The largest number of investments at 31 December 2017¹⁵ are private debt investments, representing 55% or 56 of 101 investments in the data set (Figure 6). Most of these are loans to social enterprises. For private debt investments, the average investment size was \$1.5 million with ranges from \$9,000 to \$28.6 million.

By comparison, the previous period of study (at 30 June 2015) was characterised by approximately 80% private debt by the number of investments made. In the last two and a half years, there has been significant growth in real asset investments (18% of assets at 31 December 2017 by the number of investments), driven by the growing investments in green buildings and renewable energy. There's also been substantial growth in fixed income investments (18% of assets at 31 December 2017 by number of investments), driven by the growth in green bonds.

FIGURE 5 INVESTMENT BY ASSET CLASS* (BY DOLLAR-WEIGHTING) as at 31 December 2017

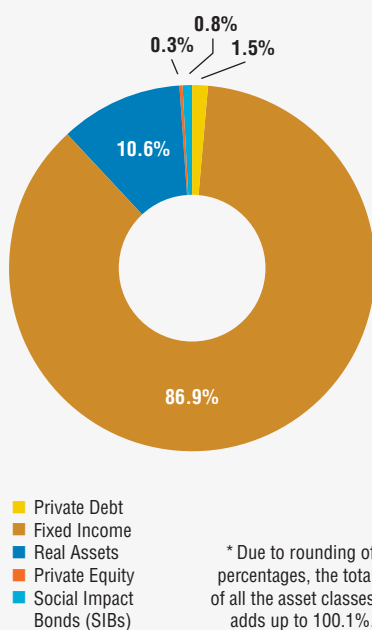
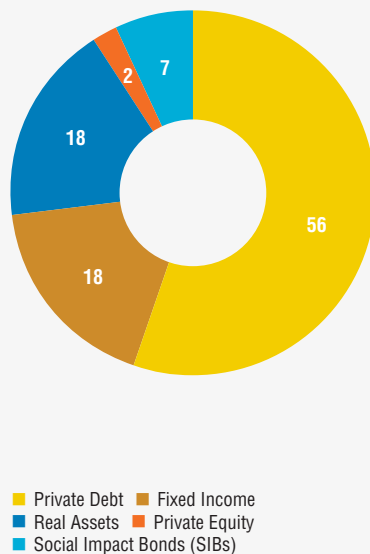


FIGURE 6 INVESTMENTS BY ASSET CLASS* (BY NUMBER OF INVESTMENTS) as at 31 December 2017



CASE STUDY SOCIAL VENTURES AUSTRALIA SOCIAL IMPACT INVESTMENT TRUST



In 2015, impact investment fund manager Social Ventures Australia (SVA) partnered with industry superannuation fund HESTA to establish one of Australia's largest impact investing funds.

With an initial commitment from HESTA of \$30 million, the fund has made loans and social impact bond investments across a range of social enterprises, businesses and projects that have a specific focus on delivering both strong financial returns and demonstrable social impact in sectors such as health, housing and community services, including investing in Australia's first dementia village located in Tasmania and a Queensland-based community housing provider.

In June 2018, HESTA announced a further \$40 million allocation to the trust, highlighting the importance of the industry fund in having a positive impact on the world its members retire into, alongside achieving strong financial returns.

IMPACT INVESTING IN PUBLIC MARKETS

Over recent years, a number of public equities funds have become available to Australian impact investors. These funds typically invest in public companies that deliver positive social and/or environmental impacts via their products and services, and in some cases, their operations too. Examples include the Pengana WHEB Sustainable Impact Fund and boutique fund manager 8IP's Australian Equity Impact Fund.

With such funds emerging, and a noteworthy number of impact investors allocating capital globally to public equities¹⁶, there has been

debate around what proportion of a company should be focused on generating positive impact for it to constitute an impact investment and the degree to which positive impacts can be achieved and attributed to an investor unless they own a sizeable enough share to influence company management.

While public equities 'impact' funds typically have the intention to achieve impact, a more challenging task lies around the measurement of social and/or environmental impacts. With this challenge in mind, public equities funds have

not been included in this year's Benchmarking Impact study.¹⁷ However, strides are being made in this regard – with funds such as WHEB's Impact Fund boosting its measurement and reporting of company impact and the impact that can be attributed to their specific holdings in the company – and it is likely that some public equities funds will feature in future Benchmarking Impact studies.

On a dollar-weighted basis, fixed income investments represent 87% of the market value as at 31 December 2017, driven mostly by the growth of green bonds (Figure 7). This area of the market has seen tremendous growth since the 2016 study, growing from 2 to 14 green bond products, and from \$900 million to \$4.9 billion, representing an annual growth rate of 97% by dollar value.

When green bonds are excluded, the remaining market value equates to \$822 million, of which real assets (including property and infrastructure)¹⁸ represent the largest share of investment activity on a dollar-weighted basis with 74% of this remaining market value or \$605 million. The average investment size of all investments across all asset classes in the data set (excluding green bonds) was \$9.4 million.¹⁹ See Figure 1 for further breakdowns by asset class.

CASE STUDY SEFA LOAN FUND

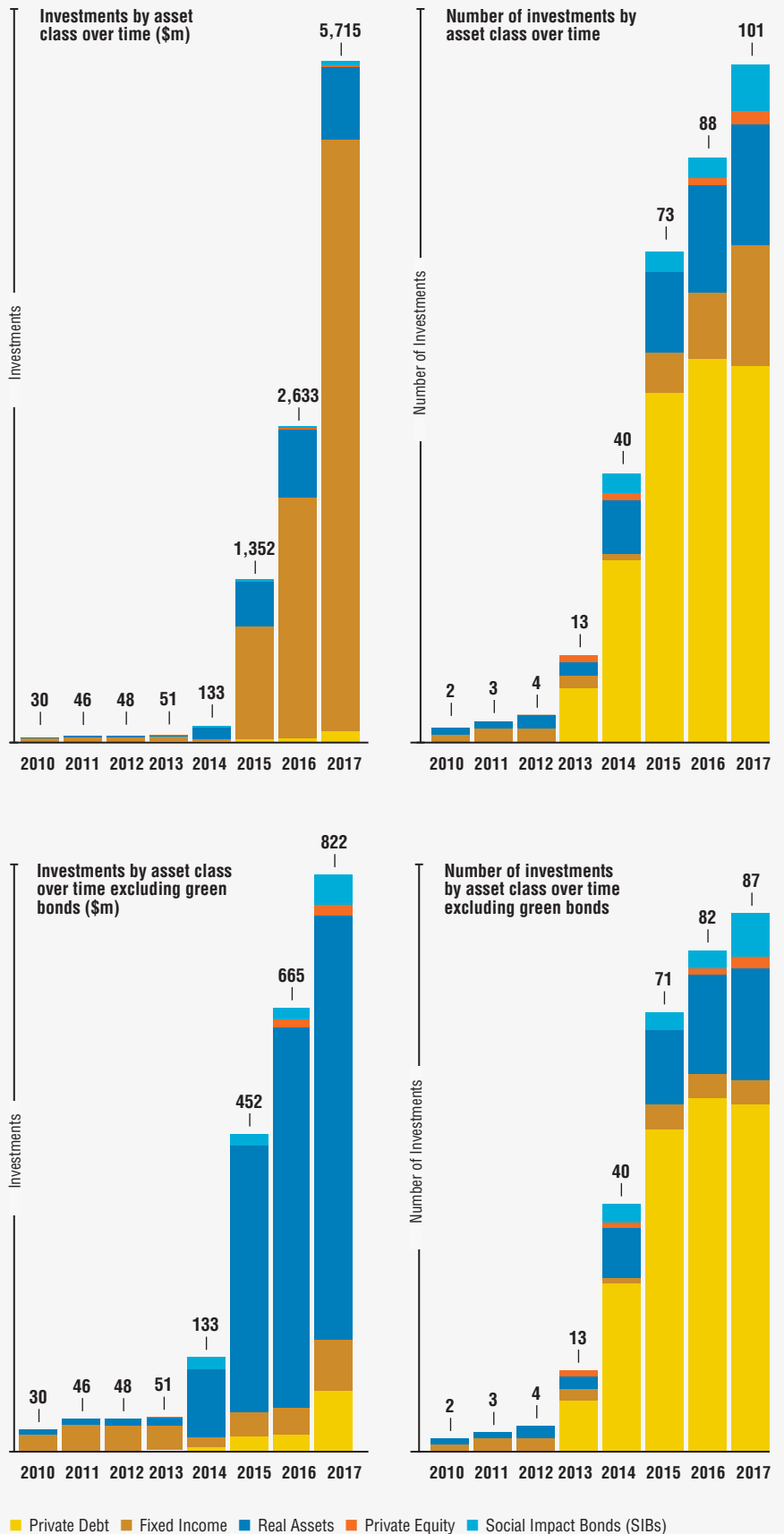


SEFA was established in August 2011 with a \$10 million grant from the Commonwealth Social Enterprise Development Investment Fund (SEDIF) matched with \$10 million raised from private investors. The SEFA Loan Fund provides customised loans from \$50,000 to \$2 million to mission-driven organisations that have a social, cultural or environmental outcome for their beneficiaries or communities.

The Loan Fund has made impact investments to a diverse range of organisations including the Upper Murray Community Bakery, a community business in regional Victoria; Providential Homes, a progressive service provider in NSW dedicated to providing crisis accommodation with wraparound support services; and MiHaven in Queensland, a construction and property company that creates training and employment opportunities for marginalised Indigenous people.

Over the years, SEFA has broadened its mandate from direct loans to mobilising capital for maximum impact, creating co-investment opportunities for philanthropy such as Tender Funerals in NSW and impact investors in the form of syndicates such as Nightingale Housing in Victoria. SEFA has recently launched a fee-for-service offering, focused on investment readiness and due diligence skills.

FIGURE 7 INVESTMENT ACTIVITY IS DOMINATED BY PRIVATE DEBT (PARTICULARLY LOANS TO SOCIAL ENTERPRISES) WHEN CONSIDERED BY THE NUMBER OF ASSETS. ON A DOLLAR-WEIGHTED BASIS, ACTIVITY IS DOMINATED BY FIXED INCOME INVESTMENTS (DUE TO GREEN BONDS)²⁰



INVESTMENT ACTIVITY BY INVESTMENT STAGE

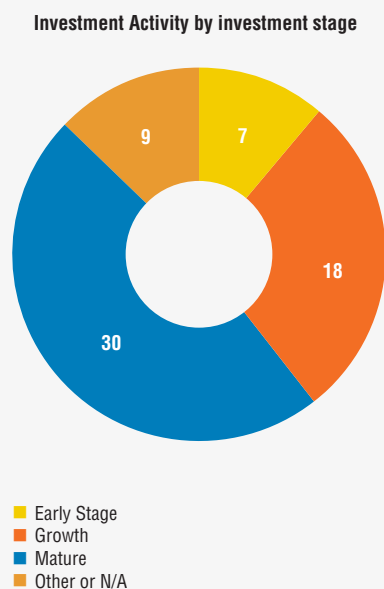
Most impact investment products target mature-stage investments.

Consistent with the 2016 data set, the bulk of products in the 2018 data set target mature-stage investments (**Figure 8**). Most products (30 out of 51 or 59%) invest in mature assets where there is a predictable earnings stream such as a fully let property or an operating wind farm.

Seven products (14%) consider early-stage investments, including the stage when ideas or products are being developed and/or tested, however, only one product noted investing in start-up or seed-stage investments, highlighting the financing gap many of start-up organisations face when commencing business.

Eighteen products (35%) consider growth-stage investments where there is a lower predictability of an earnings stream than a mature stage, e.g. a property being refurbished, operating business expanding products/services/market share.

FIGURE 8 INVESTMENT ACTIVITY BY STAGE OF INVESTMENT (N=51 PRODUCTS)²¹



CASE STUDY QUEENSLAND TREASURY CORPORATION GREEN BOND



In March 2017, Queensland Treasury Corporation issued its inaugural Green Bond. The \$750 million 7-year bond, with a coupon of 3%, was the largest green bond transaction carried out in Australia at the time of issuance.

The bond was issued to finance projects that support Queensland's transition to a climate resilient and environmentally sustainable economy, including renewable energy infrastructure and low-carbon transport. The Climate Bonds Initiative (CBI) certified the bond and DNV GL provided verification that it meets the CBI sector criteria that is consistent with the 2 degrees warming limit in the Paris Agreement.

There was strong investor interest in the bond from both 'light' and 'dark' green investors, with a number of European institutions investing in the bond.

TABLE 2 INVESTMENT ACTIVITY BY ASSET CLASS AND OUTCOME AREA as at 31 December 2017

	Private Debt \$m	Private Debt deals	Private Equity \$m	Private Equity deals	Real Assets \$m	Real Assets deals	Fixed Income \$m	Fixed Income deals	Social Impact Bonds \$m	Social Impact Bonds deals	Market value as at 31 Dec 2017	Number of investments
Outcome Areas												
1 Early childhood and learning	\$0.1	2	-	-	-	-	\$1.8	1	-	-	\$1.8	3
2 Mental health and well-being	\$0.5	2	-	-	-	-	-	-	\$11.0	2	\$11.5	4
3 Physical health and disability	\$2.1	9	-	-	-	-	\$7.0	1	-	-	\$9.1	10
4 Families, community and inclusion	\$0.4	3	-	-	-	-	-	-	\$23.0	4	\$23.4	7
5 Housing and local amenity	\$13.1	12	-	-	-	-	-	-	\$9.0	1	\$22.1	13
6 Employment, training and participation	\$3.0	9	-	-	-	-	-	-	-	-	\$3.0	9
7 Arts, culture and sport	\$0.6	7	-	-	\$6.0	3	-	-	-	-	\$6.6	10
8 Income and financial inclusion	\$0.4	4	-	-	\$99.7	1	\$64.1	2	-	-	\$164.2	7
9 Conservation, environment and agriculture	\$63.7	5	\$15.4	2	\$499.6	14	\$4,893.0	14	-	-	\$5,471.7	35
10 Other or Uncategorised	\$1.3	3	-	-	-	-	-	-	-	-	\$1.3	3
TOTAL	\$85.1	56	\$15.4	2	\$605.2	18	\$4,965.9	18	\$43.0	7	\$5,714.6	101

INVESTMENT ACTIVITY BY IMPACT FOCUS

Environmentally focused investments (96%) far outweigh socially focused investments (4%) on a dollar-weighted basis. Even when excluding green bonds, most investments on a dollar-weighted basis are targeting environmental impact (64%) due to sizable investments in green buildings and renewable energy. However, socially focused investments comprise most of the data set by number of assets (62%), with the largest allocation by number of social investments being in housing and local amenity.

Investments by impact focus (by dollar weighting)

By dollar weighting, the vast majority of investment activity is taking place in environmentally focused investments with 96% of investments or \$5.5 billion held in assets described as having a primary benefit related to conservation, environment and agriculture (outcome area 9).²² As a result, the collective dollar weighting of socially focused investments in the data set amounts to approximately 4% or \$242 million, with a fraction of a percent that is not allocated to any outcome area (Table 2).²³

For investments with a social focus, the highest concentration of investments by dollar weighting is in income and financial inclusion (outcome area 8), with 3% or \$164 million of assets. Given that the Global Impact Investing Network (GIIN) *Annual Impact Investor Survey 2018* reports that 54% of global investors target both social and environmental impact, 40% primarily target social impact, and only 6% primarily target environmental impact, it would be interesting to explore in further detail the strong focus in the Australian context on environmental impact (from a dollar-weighted basis).²⁴

Much like the breakdown of the data set by asset class, the picture of the data set by impact focus is largely characterised by the dominance of green bonds, given their large scale relative to other investment products. Even when excluding green bonds, environmentally focused investments still dominate investment activity on a dollar-weighted basis in the data set with 70% of investments or \$579 million of \$822 million, and also by the number of products with 24% of investments or 21 out of 87 assets. The next highest concentration of investment activity by dollar weighting, excluding green bonds, is in income and financial inclusion (outcome area 8), with 20% of investments.

By comparison, in June 2015, 65% of investments by dollar weighting (excluding green bonds) took place in income and financial inclusion (outcome area 8), whereas the split across outcome areas by number of investments or transaction volume was fairly evenly distributed across many different outcome areas, with about ten deals on average per outcome area.

A significant change in the data set in 2017 relative to 2015 is the notable increase in the financing of green buildings and renewable energy as well as some investments into other environmental strategies, such as ecosystem restoration, via the Murray-Darling Basin Balanced Water Fund.

Investments by impact focus (by number)

By the number of investments, socially focused investments make up 62% or 63 of the 101 assets across the data set. However, when broken down by specific outcome area spanning the nine different themes, environmental investments (outcome area 9) are still the largest concentration by number of investments, with 35% or 35 out of 101 assets. The next highest concentration by number is in housing and local amenity (outcome area 5), with 13% of investments by number, or 13 out of 101 assets.

CASE STUDY IMPACT INVESTMENT GROUP GIANT LEAP FUND



Impact Investment Group's Giant Leap Fund is Australia's first venture capital fund that is 100% dedicated to investing in tech-oriented start-ups that aim to produce superior financial returns while delivering measurable social impact.

Targeting a 20% internal rate of return per annum, Giant Leap's investment mandate is to find revenue-generating business, typically valued between \$2 million and \$20 million, with the fund expecting to invest an initial \$100,000 to \$500,000 in each venture.

Impact Investment Group closed the fund early in 2018 with \$15 million in committed capital from investors, including family office Small Giants and clients of ethical investment advisor Ethinvest. It has already backed seven start-ups including Sendle, a carbon-neutral, low-cost door-to-door parcel delivery platform that lets people send parcels from any pick-up address for a fixed low price and YourGrocer, an online platform providing a one-stop shop that connects customers with local and independent grocers.

Giant Leap is actively seeking new opportunities to deploy its capital and welcomes impact-driven start-up founders to get in touch.

CASE STUDY NEWPIN SOCIAL IMPACT BOND



The Newpin 'social benefit bond' was launched in 2013 and was Australia's first social impact bond. The bond, a partnership between the New South Wales Government, Uniting Care Burnside and Social Ventures Australia, has funded the maintenance and expansion of Newpin, a successful program working to restore children in out-of-home care to their families, or prevent children from entering care in the first place.

In addition to achieving strong social outcomes, the bond was designed to deliver considerable financial savings to government, as well as a competitive return to investors, which include high net worth individuals, Christian Super, NGS Super and the Benevolent Society.

At the end of its fourth year of operation (year ending 30 June 2017), 203 children had been successfully restored to the care of their families, and the program had also supported an additional 55 families in preventing their children entering into care. The social impact bond has continued to perform well for investors delivering a 13.16% per annum financial return overall.

CASE STUDY AUSTRALIAN CATHOLIC UNIVERSITY SUSTAINABILITY BOND



NAB arranged and placed Australia's first Sustainability Bond for Australian Catholic University (ACU) in July 2017. The \$200 million bond was raised to finance a combination of green buildings and research and development programs with social impact aligned to the ACU mission, the International Capital Markets Association's sustainability bond guidelines and the UN's SDGs.

Bond funds are helping to reduce the university's environmental footprint through investments in campus buildings that are Green Building Council of Australia 5- and 6-star Green Star rated, as well as supporting ACU's teaching and research activities in the areas of healthcare, education, social justice or gender equality.

The investor demand for the Sustainability Bond was extremely high with strong engagement from Australian institutional investors.

- 9 Does not include products no longer active (i.e. repaid) at 31 December 2017. All dollar figures are in Australian dollars.
- 10 Refers to the change between 2016 and 2017 calendar years.
- 11 Green bonds are fixed income investments that raise funds to invest in specific projects with environmental (green bonds) or both social and environmental (sustainability bonds) benefits. For more information on green and sustainability bonds, see <https://www.icmagroup.org/green-social-and-sustainability-bonds/>. In some instances, this study has chosen to report the data set both with and without green bonds because the scale and strategy of these investments and impact strategies tend to be substantially different to the rest of the data set.
- 12 One product did not report deal-level or asset-level data and as such was reported or counted as one investment or asset. Additionally, green bonds are reported as one asset only, as the investors are not exposed to the risks or returns of the underlying assets. One asset manager did not include new data from the *Benchmarking Impact 2016* data, and so historical data was modelled assuming regular repayments of debt assets.
- 13 The figure for deployed capital \$5.76 billion is less than the investor commitments \$5.84 billion because asset managers have not fully invested committed capital. However, with rounding, both figures are reported as \$5.8 billion.
- 14 Some of the figures reported by respondents in this year's 2018 data set did not match the number of products and investor commitments reported by respondents in the *Benchmarking Impact 2016* report. This is, in part, due to new respondents including historical data on investment activity before 2015 as well as one product in the 2016 data set being removed as it became evident it did not meet the criteria for inclusion on impact measurement.
- 15 The fixed income products, including green bonds, are counted as one investment only. Despite the fact that green bonds finance or refinance multiple assets, investors' risk exposure is to the issuer, and as such the underlying investments are not reported as individual assets in this report.
- 16 See Mudaliar et al. 2018, https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf.
- 17 These funds have been classified by RIAA as themed/sustainability-themed funds and are included in RIAA's *Responsible Investment Benchmark Report 2018*, launched in August 2018.
- 18 Property and Infrastructure is grouped with other real assets such as musical instruments and water rights to remain consistent in this section with the financial and impact performance sections presented later in this report. In order to retain anonymity across assets with a small asset class number, these investment categories are reported in aggregated performance figures. Where number of assets is less than three in any given asset class, financial performance figures will not disclose performance data so as to retain anonymity of respondents' investment responses. As such, while private equity assets are reported in this section to depict where flows of capital are being allocated across asset classes and outcome areas, they will not be reported on in later sections on financial performance.
- 19 In some cases where respondents reported their fund level performance in aggregate as opposed to deal-level data, the fund was counted as one asset. This skew increases the quantum of average investment size.
- 20 Analysis on investment activity comprised of asset-level or deal-level data is derived from self-reported data on 128 assets (n=128). This describes the amount of capital deployed or invested across the data set, which is a lesser amount to investor commitments as not all investor commitments were allocated or invested as at 31 December 2017. Where the amount of investor commitments at 31 December 2017 equates to \$5.84 billion for the data set, the amount of investment capital deployed on self-reported asset-level data equates to \$5.76 billion and the market value as at 31 December 2017 is \$5.72 billion. The market value is lower than the amount of invested capital deployed as the exits and repayments exceed the capital appreciation of other assets.
- 21 Respondents were able to select more than one investment stage per product. Some products do not target a particular stage of investment, such as several of the social impact bonds, which finance social programs uncorrelated to the typical 'lifecycle state' of investments.
- 22 The impact focus of the data set spans nine outcome areas. As outlined in the methodology, these outcome areas were first published in *Benchmarking Impact 2016* and derived through analysis and synthesis of various taxonomies, impact and outcome areas applied by various international bodies.
- 23 The two assets that were categorised under outcome area 10, 'Other', were reported in financial figures but not described by impact focus by respondents.
- 24 See Mudaliar et al. 2018, https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf.



INVESTMENT PERFORMANCE

Financial performance is largely meeting investor expectations across most asset classes.

Impact performance remains relatively bespoke, with dramatic gains in environmental performance since 2016 levels.

FINANCIAL PERFORMANCE

Financial performance data is reported on all 51 products in the 2018 data set; 128 assets (n=128).²⁵

The financial returns in the 2018 data set are broadly reflective of the returns in the 2016 data set and are generally tracking in line with investor expectations (**Table 3**).

For private debt investments, a 2017 GIIN study reports that investor return expectations in a developed market context range from 2.7% (for investors seeking below market rates of return) to 7.0% (for investors seeking at or above market rates of return).²⁶ The since-inception return of 8.0% for private debt in this data set reflects the higher end of investor expectations and the historic differential between 10-year bond rates in Australia and the United States.²⁷ The GIIN study also confirms that the private debt and real asset aggregated financial performance figures as documented and reported in the *Benchmarking Impact 2016* data set were demonstrating market rates of return.²⁸

The real assets return is a little below investor expectations for unlisted property and infrastructure assets (risk/return profiles

between fixed income and equities)²⁹ and recent performance (8%–10% p.a.).³⁰ It encompasses a range of underlying asset returns, including not all assets being revalued each year. In line with other global studies³¹, the performance data for real assets illustrates a wide range of returns, as the composition of investments is diverse. This includes investments in different types of properties, renewable energy infrastructure, water rights and musical instruments. In future years as the size of the data set grows, it should be possible to disaggregate these various types of investments to conduct more meaningful analysis. However, for now, to protect the anonymity of individual investments, the performance of these investments is reported in aggregate.

NOTE: Tracking investment performance in such a diverse set of impact investment products, asset classes and underlying assets presents several challenges. This section attempts to aggregate performance in a manner that gives some insight as to how these impact investments are performing against their most relevant benchmarks. However, in many cases there are no directly relevant benchmarks (e.g. a musical instrument fund), or the assets and investments in each asset class assessed are diverse with different performance profiles (e.g. real assets including renewables, property and water assets) and different investor expectations of performance outcomes (e.g. small-scale investments into a social impact bond versus large institutional investment into green bonds). It is within this context that the following section should be read.

CASE STUDIES IN REAL ASSETS MURRAY-DARLING BASIN BALANCED WATER FUND AND THE AUSTRALIAN CHAMBER ORCHESTRA – TWO DIFFERENT REAL ASSETS INVESTMENT APPROACHES



Examining some of the asset managers that invest in real assets illustrates the diversity of investment strategies leading to mixed return profiles and social/environmental impact outcomes in one asset class alone.

The Nature Conservancy partnered with Kilter Rural in 2015 to launch the Murray-Darling Basin Balanced Water Fund to invest in Water Entitlements in the southern Murray-Darling Basin while also delivering positive environmental impact through the provisioning of environmental water to support riparian ecosystems. This investment strategy is able to target commercial rates of financial returns commensurate with other water rights funds. What sets this fund apart from commercial water rights funds is its commitment to deliver water back to the environment. In doing so, the Nature Conservancy is monitoring and observing the return of a diversity of riparian and aquatic flora and aquatic and avian fauna

and is working with Indigenous Australians to both establish and conduct appropriate measurement approaches.

Also in the category of real assets is the Australian Chamber Orchestra's Instrument Fund. This fund invests in rare and fine musical instruments that have the potential for long-term capital appreciation while providing artistic and cultural value to its patrons and many students across Australia who are able to hear the music produced by these instruments. To date, the fund has invested in a Stradivari violin, a Guarneri violin and an Amati cello.

Even this sample of two asset managers that invest in one asset class shows some of the diversity in both financial investment and impact strategies contained in the data set. Over time, as more products enter the market, it would be more meaningful to separate and analyse like investments.

The social impact bond return is lower than investor expectations over the term of a social impact bond.³² However, this can be explained because only one of the seven social impact bonds included in the data set has commenced making payments, and that social impact bond is performing ahead of investor expectations.

With a growing longitudinal data set, we are starting to be able to see how some asset classes are performing over time. Figure 9 provides the annual performance for three asset classes since 2014. As more assets are included over time, the volatility should decrease.

Fixed income products were some of the first impact investments in the Australian market. The step change in aggregate returns of fixed income products in the data set is driven by a change in the composition of the type of fixed income products from 2010 to 2017. Beginning in 2015, the entrance of lower risk green bonds into the data set changes the aggregate return figures, resulting in financial returns of 3%–5% p.a., driven largely by the coupons of the green bonds currently in the data set. These coupons are comparable to the broader bond market.³⁵

Financial return data for Australian private debt investment products emerged in 2013. Within the \$101 million invested in 80 private debt assets, two assets have defaulted on approximately \$0.8 million (0.8%) in 2H15. This compares to a default probability for small and medium-sized enterprises of over 2%.³⁶ This has been partly offset by the inclusion of some mezzanine debt in recent years. The interest charged for private debt reflects the secured or unsecured nature of the assets, resulting in a wide range of returns at the underlying asset level.

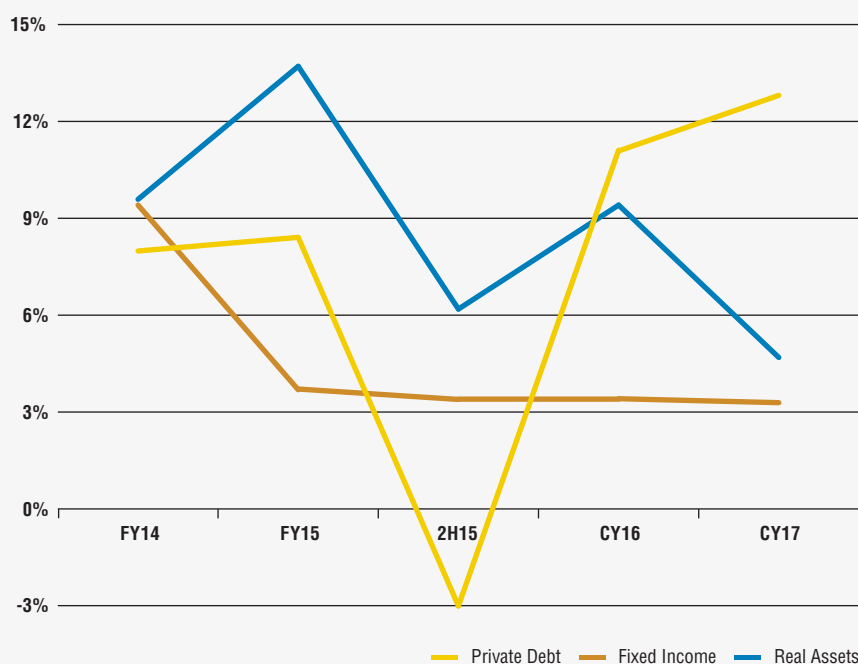
While real assets have been held since 2010, the returns for the first two years were 0%. Excluding these first two years from the since-inception return increases it to 8.0% p.a. from 2013 to 2017, which is more in line with long-term high single digit investor expectations for unlisted assets (excluding private equity). Of all the asset classes, it is showing the greatest variability of annual returns. While some assets have experienced significant capital appreciation, others have predominantly provided a rental yield.

While the aggregate financial performance data is indicative of trends across asset classes over time, there is nuanced data that sits behind these aggregated figures that is comprised of a wide diversity of investment types and strategies.

TABLE 3 THE FINANCIAL PERFORMANCE OF IMPACT INVESTMENTS IN THE DATA SET ARE BROADLY TRACKING IN LINE WITH PAST PERFORMANCE AND INVESTOR EXPECTATIONS³³

As at 31 December 2017 (n=128 assets)	Private Debt	Private Equity	Fixed Income	Social Impact Bonds (SIBs)	Real Assets
Number of assets	56	2	18	7	18
Number of exits	24	1	1	0	1
Amount invested (\$m)	101	–	5,024	43	577
Market value (\$m)	85	–	4,966	43	605
Since inception return 2016 (%pa)	7.9%	–	8.6%	4.2%	5.3%
Since inception return 2018 (%pa)	8%	–	6.8%	4.6%	5.8%

FIGURE 9 AGGREGATED FINANCIAL PERFORMANCE OF ASSET CLASSES OVER TIME³⁴



CASE STUDY ETHICAL PROPERTY COMMERCIAL FUND



Ethical Property Australia (EP) supports the social change sector by providing co-located work spaces for socially and ethically driven enterprises. EP helps tenants to find ways in which they can share services and facilities to save money and create value from being in a community of like-minded people and organisations.

In 2015, EP led the creation of the Ethical Property Commercial Fund, which owns Donkey Wheel House in Melbourne and Endeavour House in Canberra, and has recently

purchased a new property in South Melbourne. EP’s social impact tenant community includes Kinfolk Cafe, The Big Issue, The Australia Institute, Centre for Australian Progress and the Climate Council.

Supported by a grant from the Impact Investment Readiness Growth Grant, the fund has raised over \$33 million from Donkey Wheel Trust, the Graeme Wood Foundation and NAB, and will soon be looking to raise more capital to create more spaces that make a difference.

IMPACT PERFORMANCE

This year’s aggregated impact data shows notably greater environmental outcomes than two and a half years ago, largely due to the growth in environmentally focused investments in the data set. It also reveals a broad range of impact metrics, activities being financed and outcomes being achieved, from the provision of affordable housing and water savings to fewer children entering out-of-home care.

Impact performance data is reported on n=70 assets or 69% of the 2018 data set³⁷, with respondents asked to provide performance metrics, beneficiary details, outcome areas and which UN Sustainable Development Goals (SDGs) their investments are making a positive contribution towards (Table 4).

Much like the 2016 data set, the types of social and environmental benefits are captured by various indicators. Where it made sense to add indicators together, Table 4 represents the aggregate impact performance figures that were reported.

Because the field of impact investment is so diverse and the nature of impact often bespoke, it is difficult to report on aggregate impact. However, the data set reveals a broad range of impact metrics, activities being financed and outcomes being achieved.

The list of aggregated impact performance is provided to map across the nine outcome areas and also gives reference to whether this year’s indicators match with the top most measured ‘apex’ metrics derived in the *Benchmarking Impact 2016* study. The so-called apex metrics were derived from analysing 877 global impact measurement indicators to determine whether there were trends in what was being measured across outcome areas.

This year’s data set shows that while there is more consistency in the 2018 data set to 2016 apex metrics than not, there are particular outcome areas that do not match neatly to what was being measured two and a half years ago. One explanation is that impact management and measurement is bespoke to the individual investments and impact strategies associated with each investment, which would explain a change in what is being measured over time as the composition of the data set changes.

Relative to 2016 levels, impact performance in the 2018 data set shows, as would be expected, an increase in cumulative impact. However, in some cases, the growth in impact performance over the past two and a half years has been dramatic. For example, in 2016, the data set reported only 3.9 tonnes of carbon dioxide equivalent emissions avoided. In this year’s data set, this number has grown dramatically by many orders of magnitude to over 2,110,000 tonnes of CO2-e avoided or abated. This

is likely due, in part, to the growth in environmental assets in the data set, as well as more time for the assets in the 2016 data set to accumulate these environmental benefits, which can now be reported. There are also more environmental performance metrics being reported this year than two and a half years ago, which can be explained both by time allowing assets to generate measurable and reportable benefits, but more significantly by new assets coming into the data set.

It is more difficult to assess the ‘performance’ of assets that generate social benefits. This is because many of the social metrics reported list inputs or outputs, such as the activities funded (i.e. mental health sessions) or number of beneficiaries supported (i.e. students or artists supported). While the raw numbers reported have increased in many categories over the 2016 figures, it is unclear how these counts relate to meaningful change in the lives of beneficiaries and the communities in which they live.

The field of impact measurement is still relatively young and emerging, and there continues to be a healthy debate about the protocols, best practice and reasons for measuring impact. As such, this year, respondents were asked to respond to a series of questions about impact measurement practices to understand whether and how some aspects of impact measurement are developing in Australia.

TABLE 4 AGGREGATED IMPACT DATA DEMONSTRATES THAT REPORTED DATA IS LARGELY CAPTURING OUTPUTS ACROSS THE NINE OUTCOME AREAS WITH MORE ENVIRONMENTAL METRICS THAN SOCIAL METRICS. CUMULATIVE IMPACT PERFORMANCE HAS INCREASED RELATIVE TO 2016 LEVELS. (n=70 assets at 31 December 2017)

Outcome Area	Metrics Category	Aggregated Output and Outcome Performance Data 2010-2017	Apex Metric 2016	SDGs
1 Early childhood and learning	1.1 Students	22,688 students supported	1.1	4
	1.2 Teachers	900 teachers supported	1.3	4
2 Mental health and well-being	2.1 Clients	396 clients with mental health issues	–	3
	2.2 Counselling sessions	2007 counselling sessions	–	3
3 Physical health and disability	3.1 Health Beneficiaries	1069 clients receiving health and well-being services	3.1	3
	3.2 Patient Care	170,000 episodes of patient care	–	3
4 Families, community and inclusion	4.1 Families and Children supported	32% fewer children entering out of home care (compared to control group); 700 families assisted; 400 children restored to parents	–	3
	4.2 Premises/scale	Premises expanded for more client services	–	–
	4.3 Government savings	\$115 million government savings	8.5	17
	4.4 Community organisation members benefitting	592 Community organisation members benefitting from a community organisation	4.3	3

Outcome Area	Metrics Category	Aggregated Output and Outcome Performance Data 2010-2017	Apex Metric 2016	SDGs
5 Housing and local amenity	5.1 Homes/affordable homes	64 home/affordable homes provided	5.1	11
	5.2 Temporary Beds	15 beds provided for temporary or transitional accomodation	5.3	3
	5.3 People supported into home ownership	61 vunlerable individuals and/or families supported into affordable home ownership	5.5	10
	5.4 Affordable properties	1300 properties managed under the National Rental Affordability Scheme	–	11
6 Employment, training and participation	6.1 Emloyment pathways	369 employment pathways or jobs created; 20% traineeships converted to longer-term employment	6.1	8
	6.2 Customers served	172,264 customers served	–	–
	6.3 Training provided	346 trainees supported	6.2	8
	6.4 Program established	Work integration program and intern program established	6.4	8
7 Arts, culture and sport	7.1 Artists supported	369 Artists supported	–	11
8 Income and financial inclusion	8.1 Communities supported	19 communities supported	–	11
	8.2 Contractors supported	22 contractors supported	–	–
	8.3 Digital inclusion	Access to affordable mobile phone communication for 1250 low income/disadvantaged Australians	–	10
	8.4 Growth in revenue/turnover		–	–
9 Conservation, environment and agriculture	9.1 Emissions Reductions	2,110,335 tCO2e abated/avoided	9.1	13
	9.2 Renewable Energy	17,047 GWh renewable energy produced	9.3	13
	9.3 Disease reduction	338 cases of pollution-related diseases avoided	–	3
	9.4 Environmental water	950 Megalitres of environmental water delivered to wetlands, creeks and ecosystems	9.5	14, 15
	9.5 Flora and Fauna	Measured and quantified improvement in both flora and fauna species diversity, individual count, and health (i.e. 46% improved tree canopy health in surveyed area; aquatic flora diversity improvement from 3-28 species; water bird species observed up from 11 to 23	9.5	14, 15
	9.6 Self-determination	Engagement with traditional owners to manage ecological outcomes	–	10, 11
	9.7 Water savings	257,000 litres of water savings	9.2	11
	9.8 Green building efficiencies	Improved NABERS energy and water ratings	9.2	11
	9.9 Carbon neutral transport	683 million kilometres of carbon neutral parcel delivery	9.2	11

Measurement of unintended consequences, particularly negative impacts (n=42 assets)

When asked about unintended consequences, respondents provided answers that two assets do track unintended consequences and 40 assets either do not track unintended consequences or respondents are not sure. Of the two that do track unintended consequences³⁸, one is a social impact bond and reports that it employs the Outcomes Star³⁹ as well as case management to track changes, both positive and negative. The other asset is a wind farm that has tracked negative consequences to avifauna or birds. Because response rates were at 33% overall for this question (n=42 assets out of 128), it may be that other assets in the data set are also tracking unintended consequences, but it has not been reported. However, from interviews with respondents, it seems that while many asset managers are thinking about unintended consequences, both positive and negative, not many are yet sure how to best go about measurement that includes a more holistic picture of impacts.

Tracking impacts through supply chains (n=40 assets)

Two assets were reported to track impacts through their supply chain, whereas for the remaining 38 assets, respondents were either unsure or responded that they do not track impacts through the supply chain.

Consultation of beneficiaries to inform impact measurement (n=41, 42 assets)

Respondents were asked two questions that aimed to understand how much the beneficiaries of impact investments are a part of the impact measurement process. The first question asked whether beneficiaries were consulted prior to developing the impact metrics, that is, whether beneficiaries are involved in determining what is appropriate to measure or what might constitute success. Five out of 41 assets were reported to engage beneficiaries in establishing impact metrics, whereas respondents for 36 assets stated that either they were unsure or that beneficiaries were not involved in establishing impact metrics.

The second question asked whether beneficiaries are consulted during the data collection or measurement process. To this question, six assets were reported to engage with their beneficiaries during impact measurement data collection,

whereas 36 assets were reported as unsure or did not engage beneficiaries in the measurement process.

Interview data suggests that the theme of beneficiaries having power or agency is an important consideration that many asset managers are thinking about. One of the respondents that engages beneficiaries in both developing impact metrics and in the process of measurement is Indigenous Business Australia, whose mission is to 'partner with and invest with Aboriginal and Torres Strait Islander people who want to own their own future'.⁴⁰ In this regard, self-determination is a core organisational value, and as such, impact measurement reflects that the people the organisation is striving to support are involved in determining what success looks like and what those results mean.

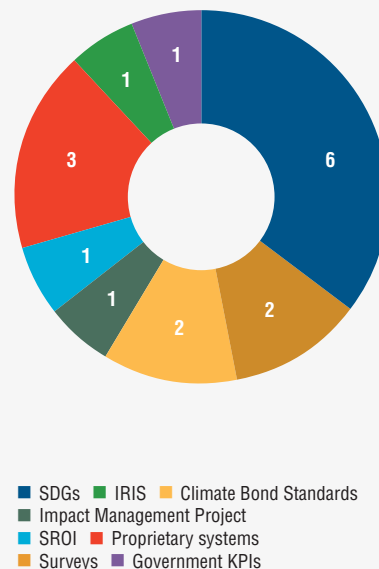
Sustainable Development Goals – the most commonly adopted impact measurement framework

With regards to impact measurement tools and frameworks, 35% or six of the 17 respondents have engaged with the SDGs⁴¹ as a measurement and/or reporting framework (Figure 10). In addition to the SDGs, two respondents are using IRIS metrics⁴², and two respondents have adopted the Climate Bond Standards.⁴³ One respondent has engaged with the Impact Management Project⁴⁴, and one respondent employs Social Return on Investment⁴⁵ as a measurement technique. Additionally, five of the 17 respondents draw on 'other' measurement frameworks that encompass proprietary measurement systems (three respondents), surveys (one respondent) and government key performance indicators (one respondent).

Respondents were also asked to map their individual assets or investments to which SDG/s each investment was addressing. Respondents indicated which SDGs⁴⁶ were being addressed for 98 assets.

When analysing the volume of investment activity that is taking place against the 17 SDGs, it becomes clear which SDGs are receiving greater investment: Goal 11 Sustainable Cities and Communities; Goal 9 Innovation, Industry and Infrastructure; and Goal 13 Climate Action (Figure 11). Unsurprisingly, these are all goals that can be associated with the types of investment strategies many green bonds adopt, investing in infrastructure such as green buildings and renewable energy.

FIGURE 10 THE SUSTAINABLE DEVELOPMENT GOALS (SDGS) ARE USED MORE THAN ANY OTHER IMPACT MEASUREMENT TOOL OR FRAMEWORK



NON-AUSTRALIAN MARKET ACTIVITY IN AUSTRALIA

There are some interesting wholesale impact investment funds operating in the Australian marketplace, with significant participation of Australian investors. These were excluded from the main study on the basis of not being domiciled in Australia.

For example, both Patamar Capital and Leapfrog Investments have impact investment funds with significant commitments from Australian investors but are domiciled offshore. While Patamar's strategy is to invest in companies that unlock economic value for low-income communities, Leapfrog focuses on healthcare and financial services in underserved and emerging markets. Both funds and others in the market are achieving impressive returns both financially and socially. For example, Leapfrog's companies have achieved a 40% growth in revenue over the past decade and have reached over 126 million underserved people. Patamar also targets market-rate returns and has developed expertise investing in companies in South Asia and Southeast Asia that improve the economic lives of millions of low-income workers and directly further a number of the SDGs.

FIGURE 11 HOW AUSTRALIAN IMPACT INVESTMENTS MAP TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)⁴⁷



Number of Assets at 31 Dec 2017 | Amount Invested (\$m) at 31 Dec 2017

It also provides a picture of which SDGs are not receiving investment: Goal 1 No Poverty, Goal 2 Zero Hunger, Goal 5 Gender Equality, Goal 6 Clean Water and Sanitation, and Goal 16 Peace, Justice and Strong Institutions. This is also unsurprising given many of these goals reflect social issues that are likely more prevalent in a developing country context and all investments in the data set are investing in Australia and Australian outcomes.

Further, analysing investment flows against the SDGs reveals which goals may be particularly resource intensive. For example, Goal 8 Decent Work and Economic Growth reflects 19 investments totalling \$1.5 million. This may indicate that a number of small investments, likely loans to social enterprises or small businesses that create employment pathways, are more resource intensive to deliver, including a greater number of transaction costs. Some models of social intervention, such as work-integration social enterprises, have a non-revenue generating social aspect to their business, creating challenges of cost and scale, that may be somewhat reflected in this analysis.

PRIVATE MARKET ACTIVITY

In addition to the retail and wholesale market, the Australian impact investment landscape is also characterised by other impact investment market activity, including direct investment activity or balance sheet investments made by investors into various enterprises, programs and projects. These were excluded from the main study on the basis of not being investable wholesale or retail products open to multiple investors.

In this year's study, 12 respondents from Australian-based public ancillary funds, private ancillary funds and high-net-worth offices provided data on their impact investment activity (n=12 investors). Any commitments into the 51 products in the main part of this study were excluded to try to understand what additional capital may be flowing via direct investments into the impact investment market in Australia.

While this is far from a comprehensive look at what is happening in this segment of the Australian market, it begins to develop a picture of this additional investment activity.

These 12 investors reported total commitments of \$43 million to impact investments, of which \$29 million was directed toward the wholesale and retail products in the main part of this study (some of the 51 products in the data set). The remaining \$14 million included approximately \$2 million toward international development funds and \$12 million toward direct investments in Australia from 2014–2017. These funds were allocated to just over 60% environmentally focused investments and to just under 40% socially focused investments. Examples of impact investments include direct investments in Maths Pathways (an online learning platform to address decline in the maths competencies of school students) and Sydney Renewable Power Company (to finance a solar array on the roofs of the International Convention Centre in Sydney).

Five of these 12 investors specified that they measure the social and/or environmental benefits of these investments, and seven did not provide a response. Three of these investors say that they use this data for internal

purposes to understand the types of outputs and outcomes resulting from their investments. Another one of these five investors also noted that the impact data is used for organisational learning by the investee organisations and for learning and/or reflection by beneficiaries. Of the five respondents that noted they measure impacts, three of these also measure negative or unintended consequences of their investments. Additionally, four investors noted that they had challenges with impact measurement, including a lack of standardised metrics and frameworks, a lack of historical data, and a lack of time and decision-making tools from which to assess impact. One investor noted that they collect only qualitative impact data and did not feel impact measurement was challenging.

One investor noted that they have engaged with the UN Principles for Responsible Investment, and six investors noted that they have not adopted any specific measurement frameworks.

- 25 Although as at 31 December 2017, there are 101 assets in the data set, the financial performance figures have been calculated since inception with 128 assets in the data set since 2010.
- 26 See Mudaliar and Bass, 2017, <https://theqiin.org/assets/2017_GIIN_FinancialPerformanceImpactInvestments_Web.pdf>.
- 27 For the differential between Australian and American 10-year Government Bond Yields see <<https://www.rba.gov.au/chart-pack/interest-rates.html>>.
- 28 The same GIIN study (see Mudaliar and Bass, 2017) also confirmed that the private debt and real asset aggregated financial performance figures as documented and reported in the Benchmarking Impact 2016 data set were demonstrating market rates of return.
- 29 See <<https://portal.australiansuper.com/-/media/Files/Advertiser%20services/Unlisted%20assets%20fact%20sheet.ashx>>.
- 30 See <<https://frontieradvisors.com.au/wp-content/uploads/2016/12/123-The-investment-case-for-real-assets.pdf>>.
- 31 See Mudaliar and Bass, 2017, <https://theqiin.org/assets/2017_GIIN_FinancialPerformanceImpactInvestments_Web.pdf>.
- 32 Three recent social impact bonds managed by Social Ventures Australia have expected returns of 7.5%–8.5% p.a. for the Target performance scenario, 10%–12% p.a. for the Above Target performance scenario and 11%–13% p.a. performance for the Outperformance performance scenario. See <<https://www.socialventures.com.au/assets/SVA-Aspire-IM-web-FINAL.pdf>>, <<https://www.socialventures.com.au/assets/Resolve-SBB-IM-web.pdf>> and <<https://www.socialventures.com.au/assets/Newpin-Qld-SBB-Information-Memorandum-web.pdf>>.
- 33 Financial performance figures are reported in aggregate across asset classes (n=128 assets) and are based on self-reported data from respondents. The minimum number of assets per asset class to disclose financial performance data is three; this is to provide anonymity to individual asset managers and their individual investments. Property and infrastructure investments are aggregated and reported with other real assets because other real asset investors did not have a sufficient number of investments to report separately that would ensure anonymity.
- Private equity investments did not meet the threshold required to protect privacy, and as such are not included in financial performance calculations. While there is no clear benchmark to compare financial performance of the data set, this table includes figures from the 2016 data set to track changes in financial performance over time. Some commentary is provided in the body of the report to illustrate where there were accessible figures to benchmark financial performance to investor expectations. The 2016 data set also benchmarked performance to investor expectations, demonstrating that the financial performance of all asset classes was meeting or exceeding financial performance targets. While there are seven social impact bonds in the 2018 data set, only one social impact bond has commenced making payments, and this social impact bond is performing ahead of investor expectations. However, the aggregate return figure is lower given many social impact bonds require longer periods of time to achieve impact hurdles and trigger payments.
- 34 The returns for 2H15 have been annualised for the chart. The returns for 2H15 were not annualised in the calculation of since-inception performance.
- 35 For Australian Non-financial Corporate Bond Yields see <<https://www.rba.gov.au/chart-pack/interest-rates.html>>.
- 36 See <<https://www.rba.gov.au/speeches/2017/pdf/sp-ag-2017-12-13.pdf>>.
- 37 An additional 16 assets provided impact metrics, giving an indication of what is measured, but did not disclose actual impact performance data.
- 38 The two respondents that noted they have tracked unintended consequences are Social Outcomes and Impact Investment Group.
- 39 The Outcomes Star is a tool that measures changes when working with people. For more on the Outcomes Star, see <<http://www.outcomesstar.org.uk/about-the-star/what-is-the-outcomes-star/>>.
- 40 See Indigenous Business Australia's website, <<http://www.iba.gov.au/>>.
- 41 The Sustainable Development Goals are a set of 17 goals developed by the United Nations to outline the priorities for global development and social/environmental progress. To learn more about the SDGs see <<https://sustainabledevelopment.un.org/sdgs>>.
- 42 IRIS is an initiative of the Global Impact Investment Network and offers a catalogue of impact metrics. For more on IRIS see <<https://iris.theqiin.org/>>.
- 43 The Climate Bond Standard is a labelling scheme applied to bonds, typically green bonds or climate bonds. For more on Climate Bond Standards see <<https://www.climatebonds.net/standards>>.
- 44 The Impact Management Project is a collaborative and open-source model of impact management and measurement professionals contributing to a collective pool of resources on impact management and measurement. For more on the Impact Management Project see <<http://www.impactmanagementproject.com/>>.
- 45 Social Return on Investment (SROI) is a methodology that draws on subjective assessments to quantify the social benefit or return on investment. For more on SROI see <<http://redf.org/learn-category/sroi/>>.
- 46 Respondents were able to select as many SDGs as were relevant to each investment, that is, they could select more than one per asset/investment.
- 47 Amount invested and number of assets is as 31 December 2017. While respondents provided responses mapping 42 assets to one or more SDGs, if respondents also provided impact performance data and outcome area data, the authors then mapped those assets that were clearly addressing one or more SDGs to those goals. However, if data provided was unclear or insufficient to map the investment to one or more SDGs that investment was left blank. The final number of assets that were mapped to SDGs was 98 out of 101 assets (n=98).



DISCUSSION

Since the pilot study *Benchmarking Impact 2016*⁴⁸, there has been tremendous growth in the impact investing field in Australia, notably in impact investments that benefit our environment. The rapid growth of green bond issuances over the past two and a half years has largely driven the growth of investable products in the data set from \$1.2 billion to nearly \$6 billion. In addition to the growth in green bonds, the remaining marketplace has also seen tremendous growth, trebling from nearly \$300 million to close to a billion dollars in investor commitments.

Despite this growth in both the number of products and in-flows of capital, the field is still evolving and working through how best to balance the variety of approaches that can yield both financial returns and social/environmental benefits. There is evidence that many market participants have been learning by doing, and some respondents noted that in particular there have been significant lessons learned over the past couple of years in the category of social impact bonds.

However, in other areas, market activity has somewhat stagnated or slowed, particularly at the early stage end of the investment spectrum, as evidenced by investment activity data and in asset manager interviews. From two and a half years ago, the data shows that there are less intermediaries and less funds available supporting small and early stage ventures and significantly more capital flowing toward larger and more mature investments, such as property and infrastructure projects.

BUILDING THE INVESTMENT PIPELINE

In order to create a thriving market and increase investable opportunities at scale, more early stage support is required. This may include more philanthropic or government support to help develop a more coordinated and mature ecosystem to help grow the market. One example of this type of approach has been led by the Clean Energy Finance Corporation, working with Artesian Venture Partners to anchor an early stage clean energy fund, the Artesian Clean Energy Seed Fund⁴⁹, which helps grow the market and develop scalable opportunities, thus building the investment pipeline over time.

Anecdotal evidence and interviews during this study suggest that, depending on the type of social outcomes sought, there may be a need for lower cost capital and blended finance than is currently available. This is consistent with the GIIN's *Annual Impact Investor Survey 2018* report showing 'lack of appropriate capital across the risk/return spectrum' to be the most commonly cited challenge facing the growth of the impact investing industry.⁵⁰ For example, one social entrepreneur interviewed for this project suggested that for a 'work integration social enterprise' or a small business that creates employment pathways for marginalised groups (such as long-term unemployed people, ex-offenders, people living with disability, or people experiencing homelessness)⁵¹, the maximum cost of debt capital that the organisation can sustain is around 5%. This is in part because the cost of providing the social support services required is a non-revenue generating cost to create a meaningful social outcome. When comparing this figure⁵² of 5% with the aggregate performance figures of 8% for private debt⁵³, this raises questions about whether there is a need for more innovative approaches to bridge the supply and demand sides of the market. These types of issues also raise another important theme coming out of this year's study, that different types of impact may require different types and costs of capital.

NOT ALL IMPACT IS CREATED EQUAL

This study illustrates the diversity of both investment approaches and impact strategies across the impact investment market.

In some cases, the investment is designed to create deep impact for a smaller number of individuals. For example, in some social investment bonds, the cost per beneficiary can be higher, but the targeted impact deeper than in other impact strategies.

In other cases, such as with green bonds, the impact may be direct but not necessarily what is considered 'additional' to a baseline of impact that would have taken place in absence of the investment. This is because, particularly in the case of refinancing, the green buildings or renewable energy assets have already received a different form of finance that would still yield the same environmental benefits. In these instances, 'additionality' is not present, as the investment is not delivering additional benefit to what would have taken place in absence of the investment.

Sometimes the impact performance is linked to financial performance, as with social investment bonds. This is also true for many infrastructure or property investments that yield environmental benefits that can be monetised, such as water or energy efficiency, renewable energy generation, or productivity gains.

However, in other cases, there may be a cost to creating a social or environmental benefit. For example, some investees in the data set generate financial surpluses and returns but bear the cost of the social work required to support people in often complex and challenging circumstances. In these cases, there may be instances where trade-off is required, and one question raised in this context is who should pay for these types of social interventions that can lead to social outcomes. This question is becoming

more nuanced as more detailed impact evaluation exercises are demonstrating that while enterprises may be bearing the costs of the social work, many gains can include government savings through reduced reliance on welfare payments, medical costs and criminal justice system costs.⁵⁴

This points to another emerging trend in understanding the holistic nature of impact: there is a trend toward accounting for the net value of impact accounting for both deliberate and unintended impacts. While only a few respondents in the data set are currently tracking unintended consequences, it is on the radar of most. And as can be seen in the example above, unintended consequences may be positive (i.e. government savings), negative (i.e. environmental deterioration) or both. What is becoming increasingly clear is that transparency is paramount to informing better decision-making and achieving net positive impact.

As the field develops, there may be a need to begin to distinguish between the types of impact strategies that yield different types of social and environmental benefits. Are they direct or indirect? Do they add to the financial returns or do they require subsidies? Is there additionality? Is the impact deep or shallow? Do the outcomes align with the values of the underlying investors? And, ultimately, when and how much do these assessments matter? Understanding the differences in the types of impact that can and are being generated may help guide investment decision-making and portfolio management and may also lead to improvements in the quantum and quality of impact that can be delivered.

HOW IS DATA BEING USED AND BY WHOM?

Similar to the 2016 study, this year's study illustrates that there is still a need for understanding and developing impact management and measurement approaches. This trend is reflected globally in initiatives such as the OECD's 2016 working group on impact measurement and collaborative initiatives such as the Impact Management Project.

One of the biggest changes over the past two and a half years is the traction gained by the SDGs as an impact measurement framework. While this is the framework that more respondents are engaging with than any other, many are still unsure exactly how to use the SDGs. One way in which the SDGs may be used is to understand how a particular portfolio or data set maps to the broader development goals, such as the approach employed in this study.⁵⁵ This may reveal opportunities for greater impact leverage or possibly provide a different lens from which to understand how an individual portfolio links to a broader societal set of goals. It was also noted in interviews that many institutional investors are also beginning to engage with the SDGs and are wondering whether the SDGs provide a broad framework for monitoring and/or comparing investments.

This year's study asked questions related to the agency or self-determination of beneficiaries both in interview questions as well as in the survey spreadsheet, inquiring whether beneficiaries are being consulted and/or included in both establishing what measures constitute success and reporting back what has been measured. Most respondents note that this is missing from the impact management and measurement process. However, conversations with participants allude to the theme of self-determination becoming an increasingly important one.

In some cases, like with the Murray-Darling Basin Balanced Water Fund⁵⁶, fund managers are deliberately engaging with Traditional Owners of the land to ensure they are a part of determining what constitutes ecosystem and community health outcomes as well as the best ways to approach land and waterway management.

However, in most cases, managers report that impact data is typically collected so that investors can understand what types of impact may have taken place. This speaks to the nascence of the field, and many are learning through trial and error and participating in these field-building studies

to understand how others are approaching impact measurement. A handful of managers note that investees use impact data to make operational improvements and understand how to better serve beneficiaries.

MARKET OBSERVATIONS FROM RESPONDENTS

Participants in this year's study were asked to report on challenges faced by the marketplace around impact measurement and more broadly. They also offered many insights and suggestions for addressing constraints and challenges that could be translated into market opportunities.

Challenges

- Impact measurement is bespoke, hard to quantify and compare, and is overly complex.
- Understanding how to implement specific measurement approaches is unclear, e.g. how to take a holistic view of net impact, how to link with the SDGs.
- There are resource constraints involved in impact measurement.
- Linking data sets and systems (i.e. for government payments and social impact bonds) is complex.
- There is not enough early stage capital to grow investable opportunities at scale.
- There is not enough funding for intermediaries to support the development of investable opportunities to get to scale.
- There is more financial expertise in the sector than social/environmental expertise; this may be leading to misalignment around expectations for what constitutes appropriate impact measurement.
- Australia may not have the same quantum of 'social issues' that emerging markets may have, thus creating a smaller investment opportunity. Additionally, a lot of Australian capital is seeking Australian impact.
- Australia may not have the same volume of philanthropic capital as other more developed markets, creating market constraints in the types of capital available to create blended approaches to finance and support early stage and intermediary development.

Opportunities

- *Australian investors can benefit from thinking collaboratively and globally*
Rather than be limited by Australia's relatively smaller pool of philanthropic capital and investable opportunities, respondents note the importance of thinking about how investors can learn from other markets, investing regionally, and blending or stacking capital to de-risk investments and leverage more capital into delivering better outcomes.
- *'Understand deeply, measure simply.'*⁵⁷
Applying a financial mindset, such as adopting a quantum-driven analytic framework, to impact measurement may be making things overly complex and translating to outcomes that are expensive, difficult to understand and not necessarily meaningful. Some respondents recommended systems of measurement and reporting be streamlined to take all considerations into account and find the most meaningful simple proxies that will be used by organisations, impact beneficiaries and investors alike. Complex measurement systems and data will not be sustained or understood.
- *Agency and self-determination are key*
A number of respondents noted that the impact investing field is at risk of creating power imbalances and not serving those it ultimately intends to serve. By involving impact beneficiaries and those who have impact in and are impacted by an investment, the measurement, and ultimately the delivery of outcomes, will be of most relevance to the end beneficiary.
- *Government can play a greater enabling role*
Government has a key role to play in growing the opportunities for impact investing through different mechanisms, including supportive regulatory frameworks, incentives and funding of initiatives that help address the financing gap for seed and early stage ventures. Respondents also noted the important role government can play as an issuer of and investor in impact investments, including helping to de-risk investments, as well as building the capacity of impact investing intermediaries.
- *Socialise the new investment paradigm whereby all investments consider and report on impact*
For some respondents, maintaining and prosecuting impact investing's unique value proposition is key to developing the market and maintaining its integrity. Many respondents also believe that impact investment shouldn't be exclusive or niche and that in order to address the scale of global challenges, the norms of investment and capital markets can and should shift to reframe investment questions from ones of purely financial risk and return to considering, measuring and reporting against impact – both positive and negative. This presents a great opportunity to leverage a much greater pool of capital to respond to the entrenched environmental and social challenges we face locally and globally.

48 See Castellas, Findlay and Addis 2016.

49 For more on the Artesian Clean Energy Seed Fund see <<https://www.artesianinvest.com/?product-item=clean-energy-seed-fund>>.

50 See Mudaliar, Bass and Dithrich 2018.

51 Work integration social enterprises are enterprises that as part of their core purpose create employment pathways and training opportunities for people who have been marginalised from the mainstream workforce. This may include enterprises that create both social support services, such as addressing housing instability, issues of addiction and support the well-being of beneficiaries as well as create employment training programs and pathways. For more on this, see for e.g. Battilana et al. 2015.

52 Not all investable enterprises or opportunities will have these same cost of capital requirements, but this figure is provided for illustrative purposes and taken from interview data for this project.

53 The aggregate performance figures for private debt are not all comprised of loans to enterprises, and as such, the returns may not accurately reflect the cost of capital for social entrepreneurs currently, as these returns also include mezzanine finance for development projects. However, on aggregate, the return figures are indicative of the cost of capital from which to discuss these challenges, without disclosing specific loan terms.

54 For example, see Vanguard Laundry 2017, <<https://corporate.vanguard.com.au/content/dam/corporate/newsroom/files/Vanguard%20First%20Year%20Impact%20Report.pdf>>.

55 See also Castellas and Ormiston 2018, and GIIN 2016.

56 For more on the Murray-Darling Basin Balanced Water Fund see <<http://kilterrural.com/news-resources/murray-darling-basin-balanced-water-fund-information-memorandum>>.

57 Quotation attributed to Sandy Blackburn-Wright of Social Outcomes.

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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.

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.

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.

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.

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 *Green Bond*)

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.

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 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 Area⁵⁸: 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.

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 organizations, 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.

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

Mezzanine finance: Mezzanine financing is 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).

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

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.

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 and NSW Department of Premier and Cabinet.

DISCLAIMER

The information contained in this report has been prepared based on material gathered via a desktop research of publicly available information and through an information request to funds in the survey sample (see methodology).

The analysis presented in this document is that of the authors and may not reflect the views of participants or partners.

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APPENDICES REPORT

The Appendices Report is available from RIAA's website [here](#) and contains:

- 1 Impact investment primary survey
- 2 Private market survey
- 3 Interview questions

The Appendices Report is also available upon request from RIAA at info@responsibleinvestment.org

⁵⁸ These Outcome Areas, as used in this report and in *Benchmarking Impact 2016* were inspired by Big Society Capital's Outcomes matrix.

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