J.P.Morgan

Global Social Finance
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Eyes on the Horizon

The Impact Investor Survey

Social Finance

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GIIN
GLOBAL IMPACT INVESTING NETWORK

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Methodological and analytical notes

This survey captures data and market perspectives from 146 impact investors. As in previous years, we focused on investing organizations from foundations to financial institutions and did not include individual investors. To ensure that survey participants have meaningful experience in making and managing impact investments, we set a criterion for participation such that only respondents that either manage USD 10mm or more in impact assets and/or have committed capital to at least five different impact transactions are included.[1] The Global Impact Investing Network (GIIN) collected and collated the data, making the data set anonymous before sending to J.P. Morgan for analysis.

Sample overlap relative to previous surveys

When comparing results from this survey to results from previous surveys, we remind readers that each survey sample contains a discrete set of respondents. Although the total sample size increased this year, only 82 of the 125 respondents from the last survey participated in this survey. As such, we reference the data from this survey as representative of a leading group of impact investors rather than representative of the market as a whole, and the trends over time as indicative of change but not evidence of it.

Projection accuracy

To assess how accurate respondents' projections tend to be, we analyzed the subset of 82 respondents who submitted data this year and last, and we present these results at different points in the report.

Scoring methodology for ranked questions

Throughout the survey, there are several questions where respondents ranked their top answers. In presenting the results, we show the ranks and the score for the answer choices, in order to show how close the rankings are. Scores are calculated as follows: (number of respondents that ranked it first × 3) + (number of respondents that ranked it second × 2) + (number of respondents that ranked it third × 1). NB: If the scores are tied, the rank will be the same for two choices. When respondents had to choose between various option choices such as “Many”, “Some”, “Few” and “None”, or between “Very Helpful”, “Somewhat helpful” and “Not helpful”, we calculated an index by assigning scores to the various option choices (e.g. “Many” = 4, “Some” = 3, “Few” = 2, “None” = 1) and taking the average across respondents that replied for a given category.

“Cutting” the data to extract notable findings

In addition to the aggregate output we construct on the basis of the full respondent group data, we identify interesting disparities between sub-groups of respondents for relevant questions. The sub-groups we analyzed are shown in Table 1. Throughout the report there are references to the notable findings that appeared when we sliced the data by sub-group.

Region codes

There are several regions referenced throughout the report. For brevity, we have created codes for each since the names can be very long. These codes are shown in Table 2.

[1] The USD 10mm criterion refers to either the respondents' self-reported impact investment assets under management or the self-reported capital committed for impact investment.

Table 1: Respondent sub-groups referenced in the report[2]

Name of sub-group	Description of the category construction	Number of respondents (all respondents = 146)
DM-HQ Investors	Headquartered in developed markets	115
EM-HQ Investors	Headquartered in emerging markets	28
Fund Managers	Identified themselves as fund managers	79
Non-fund Managers	Identified themselves as anything other than fund managers	67
DM-focused Investors	Have more than 50% of their current impact investment AUM invested in developed markets	62
EM-focused Investors	Have more than 50% of their current impact investment AUM invested in emerging markets	82
Debt Investors	Have more than 50% of their current impact investment AUM as debt	60
Equity Investors	Have more than 50% of their current impact investment AUM as equity	63
Early-stage Investors	Have more than 50% of their current impact investment AUM invested in the seed/start-up or venture stages	39
Later-stage Investors	Have more than 50% of their current impact investment AUM invested in the growth or mature (public or private) stages	100
Competitive-return Investors	Principally targeting competitive, market rate returns	81
Closer-to-market Investors	Principally targeting below market, closer to market returns	39
Capital-preservation Investors	Principally targeting below market, closer to capital preservation returns[3]	26
Impact Outperformers	Indicated an impact outperformance of their portfolio relative to their expectations	38
Financial Outperformers	Indicated a financial outperformance of their portfolio relative to their expectations	19

Source: GIIN, J.P. Morgan. AUM = assets under management

Table 2: Region codes

Code	Name of region
DM	**Developed markets**
Northern America	US & Canada
WNS Europe	Western, Northern & Southern Europe
Oceania	Oceania
EM	**Emerging markets**
SSA	Sub-Saharan Africa
LAC	Latin America & Caribbean (including Mexico)
South Asia	South Asia
ESE Asia	East & Southeast Asia
MENA	Middle East & North Africa
EEC	Eastern Europe, Russia & Central Asia

Source: GIIN, J.P. Morgan.

[2] In some (rare) cases, when making our cuts, some respondents have an exactly even split between one category and the other, in which cases we have excluded the respondent from that specific analysis.

[3] By capital preservation we reference at least the return of capital.

Executive Summary

This report presents the findings of the fifth annual impact investor survey conducted by The Global Impact Investing Network (GIIN) and J.P. Morgan. We have maintained core questions on investor activity and perspectives, and also included additional specific topics such as loss protection, technical assistance, impact management and measurement, and exits. Throughout the report, we complement the survey questions with some of our own desk research presented in “Zooming In” sections. Below, we present a summary of the survey’s key findings.

Sample characteristics

- The sample size this year is 146, a 17% increase from last year.
- Seventy-eight percent of respondents have their headquarters (HQs) in Northern America and WNS Europe. However, 48% of current assets under management are in emerging markets, even though 90% of capital is managed by DM-HQ investors.
- The sample is about half fund managers (57%). The rest of the sample is asset owners, with foundations making up 18%, diversified financial institutions/banks 7%, and development finance institutions (DFIs) 5%.
- Just over half of the sample (55%) principally targets “competitive, market rate returns”, with the remainder of the sample split between “below market rate returns: closer to market rate” (27%) and “below market rate returns: closer to capital preservation” (18%).

Investment activity and allocations

- As Table 3 shows, the group reports having committed USD 10.6bn in 2014 and intends to invest 16% more – USD 12.2bn – in 2015.

Table 3: Number and size of investments made and targeted

	In 2014		2015 target	
	Number (n=146)	USD, mm (n=146)	Number (n=145)	USD, mm (n=144)
Mean	37	72	44	85
Median	7	10	8	14
Sum	5,404	10,553	6,332	12,241

Source: GIIN, J.P. Morgan.

- The 82 organizations that responded both last year and this year reported a 7% growth in capital committed between 2013 and 2014 and a 13% growth in number of deals.
- Collectively, our respondents are managing a total of USD 60bn in impact investments today, 35% of which is proprietary capital and 65% managed on behalf of clients.[4]
- Fund managers manage 63% of this total AUM while DFIs – who make up just 5% of our sample – manage 18% of total assets (Figure 1).

[4] Total impact investment assets under management represents 145 respondents and not the total 146 due to one respondent not providing this data.

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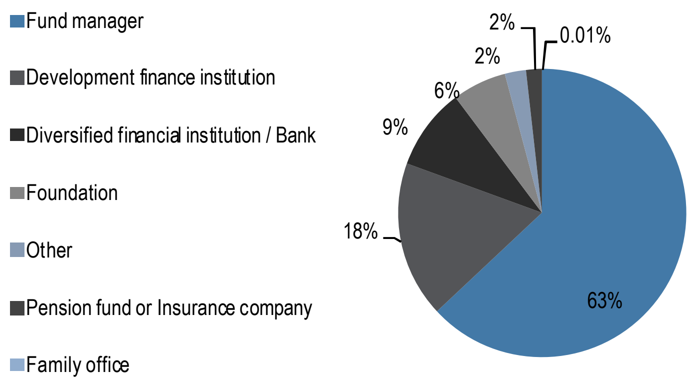
Figure 1: Total AUM by organization type

n = 145; AUM-weighted average; Total AUM = USD 60bn

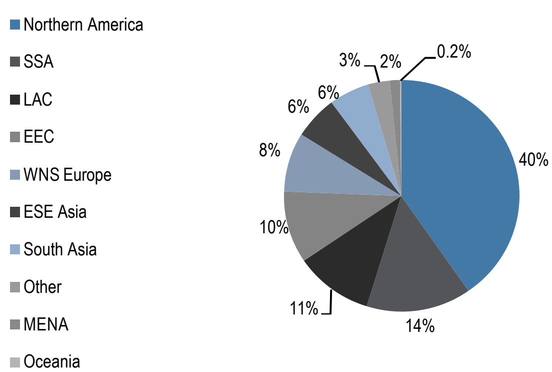


Source: GIIN, J.P. Morgan.

- Investments directly into companies represent a much larger proportion of assets under management (74%) than do indirect investments (20%).[5]
- Capital is diversified across regions, with about half invested in emerging markets and half in developed markets (Figure 2).
- Housing accounts for 27% of respondents' assets under management, as do Microfinance and Financial Services (excluding microfinance) combined. A further 10% is allocated to Energy, while Healthcare and Food & Agriculture account for 5% each (Figure 3).

Figure 2: Total AUM by geography

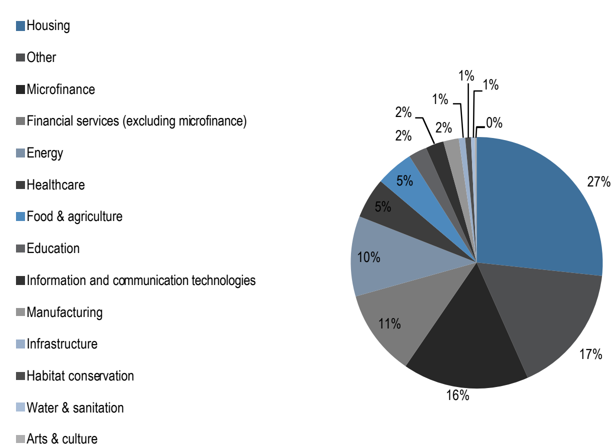
n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan. See Table 2 for region codes used in the text.

Figure 3: Total AUM by sector

n = 145; AUM-weighted average; Total AUM = USD 60bn

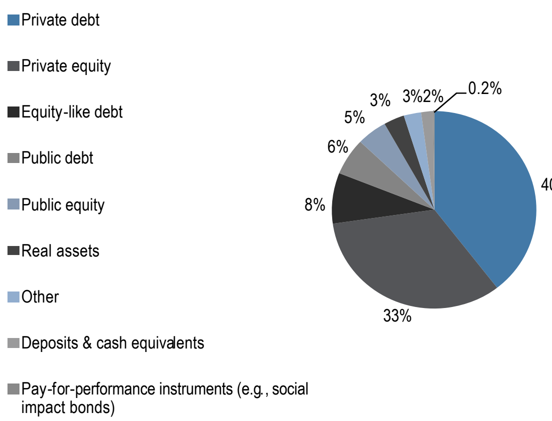


Source: GIIN, J.P. Morgan. NB: Some of the "other" categories reported include forestry, land conservation, sustainable agriculture, arts & culture, and manufacturing

[5] A small group of respondents chose "other" to denote investments in structures that are neither companies nor funds (these respondents specified, for example, real assets and NGOs).

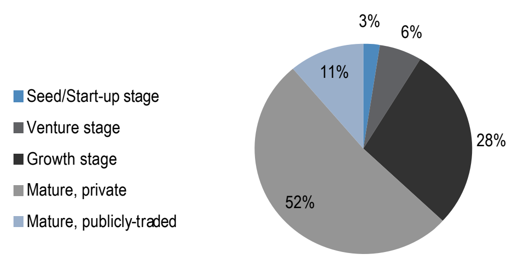
- Private Debt and Private Equity are the most prominent instruments, accounting for 40% and 33% of assets under management, respectively. Eight percent is allocated to Equity-like Debt while less than 1% is allocated to Pay-for-performance instruments (Figure 4).
- Most capital managed today – 91% – is invested in companies post-venture stage, with 28% allocated towards companies at the Growth Stage, 52% in Mature, Private and 11% in Mature, Publicly-traded companies. Nine percent is committed to Seed/Start-up companies or Venture Stage businesses (Figure 5).

Figure 4: Total AUM by instrument
n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan.

Figure 5: Total AUM by stage of business
n = 145; AUM-weighted average; Total AUM = USD 60bn

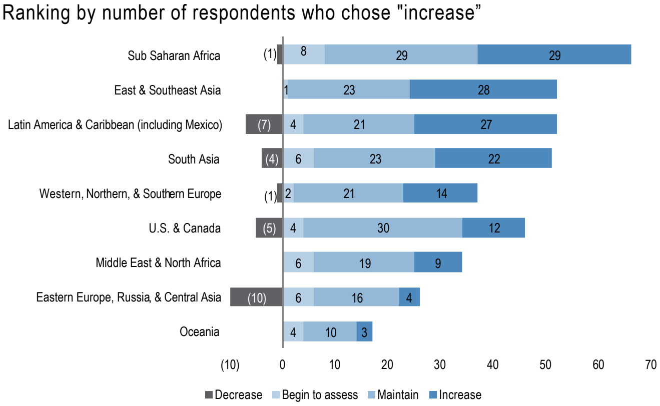


Source: GIIN, J.P. Morgan.

Planned asset allocations going forward

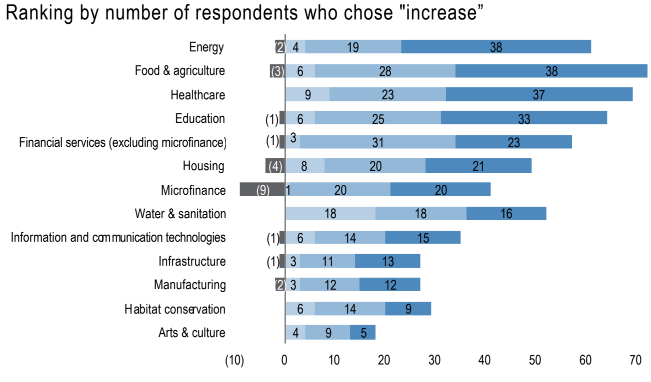
- The region to which the highest number of respondents plan to increase their allocations is SSA (29 respondents), followed by ESE Asia (28 respondents) and LAC (27 respondents). A relatively low number of respondents plan to increase allocations to MENA, WNS Europe, EEC and Oceania (Figure 6).
- The sectors to which the highest number of respondents plan to increase their exposure are Energy and Food & Agriculture (38 respondents each), followed by Healthcare (37 respondents) and Education (33, Figure 7).

Figure 6: Change of allocation planned for 2015, by geography
Ranking by number of respondents who chose "increase"



Source: GIIN, J.P. Morgan.

Figure 7: Change of allocation planned for 2015, by sector
Ranking by number of respondents who chose "increase"



Source: GIIN, J.P. Morgan.

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Market development and pipeline

- Respondents indicated progress across the board on several key indicators of market growth, including: collaboration among investors, availability of investment opportunities, usage of impact measurement standards, and number of intermediaries with significant track record. Compared to 2013, respondents seemed to see more progress in 2014 on the availability of investment opportunities at the company level.
- However, certain challenges remained consistent in investors' views. "Lack of appropriate capital across the risk/return spectrum" ranked first among a set of challenges this year, and "shortage of high quality investment opportunities with track record" ranked second (Table 4).

Table 4: Challenges to the growth of the impact investing industry today

n = 146; Respondents ranked top three

Rank	Score	Available answer choices
1	193	Lack of appropriate capital across the risk/return spectrum
2	174	Shortage of high quality investment opportunities with track record
3	115	Difficulty exiting investments
4	97	Lack of common way to talk about impact investing
5	87	Lack of innovative deal/fund structures to accommodate investors' or portfolio companies' needs
6	76	Lack of research and data on products and performance
7	67	Inadequate impact measurement practice
8	57	Lack of investment professionals with relevant skill sets

Source: GIIN, J.P. Morgan. See scoring methodology in the Methodological and Analytical Notes section on page 3.

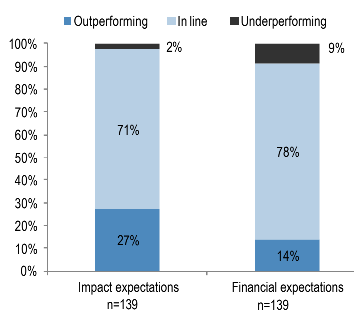
- When evaluating potential government policies, respondents indicated that the most useful policies would be those that improve the risk/return profiles of investments, either through credit enhancement or tax credits or subsidies.
- About two-thirds of respondents perceived the market for impact investments to be at least somewhat competitive, with most citing a limited number of investable ventures or scalable business models as the chief source of competition.
- At the same time, nearly 9 out of 10 respondents indicated that co-investors are either important or critical to their investment decisions.
- Indeed, referrals from co-investors or portfolio companies were identified as the most effective sources of identifying potential deals.

Performance and exits

- Survey participants reported that their portfolios are performing mostly in line with both their impact expectations and financial return expectations (Figure 8).
- Twenty-seven percent of respondents reported outperformance against their impact expectations and 14% reported outperformance against their financial return expectations. Conversely, only 2% reported underperformance on impact, while 9% reported financial underperformance relative to expectations.

Figure 8: Performance relative to expectations

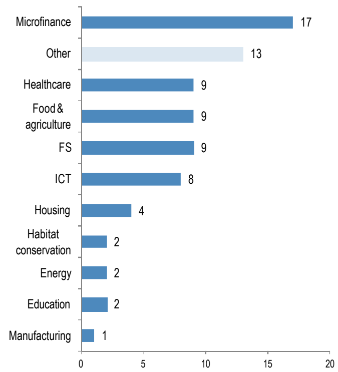
Number of respondents is shown under each category; some respondents chose "not sure" and their responses are not considered here.



Source: GIIN, J.P. Morgan.

Figure 9: Sample private equity exits by sector

n = 76 exits



FS= Financial services excluding microfinance
ICT= Information and communication technologies

Source: GIIN, J.P. Morgan.

- Private equity impact investors reported on their most recent exits, totaling 77 exits in our sample, 61 of which happened since 2012. Seventeen exits were in Microfinance, and nine each in Financial services (excluding microfinance), Healthcare and Food & Agriculture (Figure 9).
- Twenty-one of these exits were in South Asia, while 11 each were in SSA and WNS Europe.
- The majority of these exits took place by selling either to a strategic or financial buyer, and most exits took place more than five years after investment.
- In order to mitigate exit risk, over 50% of private equity investors include "tag along" and "drag along" clauses in their investment terms.

Risk and loss protection

- "Business model execution & management risk" once again emerged as the largest contributor of risk to respondent portfolios, as shown in Table 5.

Table 5: Contributors of risk to impact investment portfolios

n=146

Rank	Score	
1	288	Business model execution & management risk
2	132	Liquidity & exit risk
3	115	Country & currency risk
4	106	Market demand & competition risk
5	98	Financing risk
6	91	Macroeconomic risk
7	34	Perception & reputational risk

Source: GIIN, J.P. Morgan.

- In order to manage downside risk, 34% of respondents participated in a transaction with a loss protection feature, such as a first-loss reserve or a guarantee, over the last year.
- However, the majority of respondents see loss protection as something that's either a "nice to have" or necessary only in certain cases, but not critical to making impact investments.
- The risk of mission drift at exit is important to impact investors, with 61% taking measures to mitigate this risk, either by selecting an investee in whose mission impact is embedded and/or by selecting an acquirer that will protect the mission.

Impact performance management

- Ninety-nine percent of respondents measure the social/environmental performance of their investments, through a range of standardized and proprietary metrics and frameworks, with the majority aligning with IRIS.
- Most respondents seek to achieve impact by investing in organizations that either sell products or services that benefit a target population or provide employment to target populations.
- Respondents generally put high importance on measuring outputs and outcomes, while they are less focused on putting a dollar figure on impact.
- While the vast majority of respondents track impact performance because it is part of their mission, nearly two-thirds also believe the business value of such information to be of high importance.

- Only 20% of respondents have a standalone team for impact measurement; two-thirds rely on their investment teams for this.
- About one-third of respondents explicitly target gender equality as an impact theme, while just over half target environmental conservation as an impact theme.

Technical assistance

- Seventy-three percent of respondents provide technical assistance to investees, either in-house and/or through third parties.
- The most common use of technical assistance is general management support, followed by assistance with accounting and financial systems, industry-specific skills enhancement and impact measurement.
- While most respondents who provide technical assistance do so during the investment period, a notable proportion does so pre-investment as well.

The intermediary market

- The fund managers that participated in our survey reported having raised USD 4.7bn in 2014 and target raising USD 7.1bn in 2015 (Table 6).
- Fund managers reported current impact investment assets under management of USD 38bn, 32% of which comes from Diversified financial institutions/Banks, 19% from Pension funds or Insurance companies and 18% from Development finance institutions.

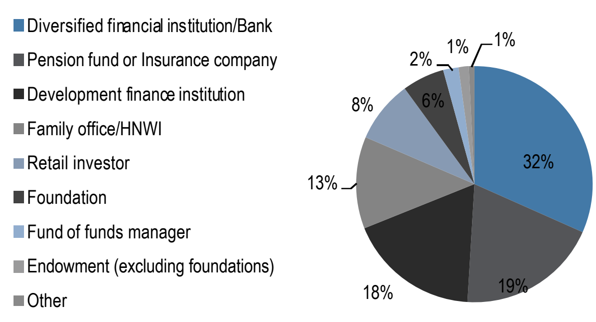
Table 6: Capital raised for 2014 and targeted for 2015

	Raised in 2014 (n=52)	Target raise for 2015 (n=65)
Mean	90	109
Median	22	50
Sum	4,702	7,082

Source: GIIN, J.P. Morgan. Note: excluding funds that did not answer or reported "0" for the calculation of mean and median

Figure 10: Primary investors in terms of percentage of total capital

n = 80; AUM-weighted average; Total AUM = USD 38bn



Source: GIIN, J.P. Morgan.

Eyes on the Horizon: The Impact Investor Survey

Impact investments:

The GIIN's definition

Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.

This report presents the results of the annual impact investor survey conducted by J.P. Morgan and the Global Impact Investing Network (GIIN). The content is structured by theme based on the survey questions, and interspersed throughout are highlights of trends and market dynamics in "Zooming in" boxes. These sections contain information collated by desk research, rather than through the survey, and are highlighted in a different color to distinguish this source for the reader.[6] In this section, we present the sample of survey respondents captured this year as characterized by, for example, the region of their headquarters, their institution type, their motivations and recent investment activity.

Sample characteristics

Sample mostly DM-HQ organizations

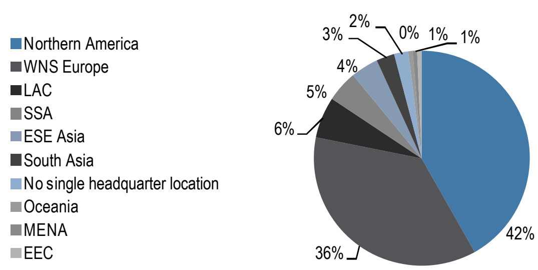
In order to best understand the background of the respondents in our survey, we asked them to provide the location of the organization's headquarters and the type of organization that best describes their institution. The results are shown in Figure 11 and Figure 12. The sample is dominated by Northern America and WNS Europe with these regions housing 78% of the respondents' headquarters (HQs), but there is more even distribution between these two regions than in previous years.[7]

Most EM-HQ respondents (82%) are fund managers.

More than half the sample are fund managers; Foundations make up a fifth

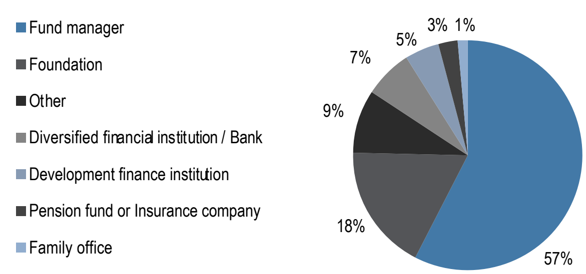
Our sample is more than half fund managers, and the overall break-up of organization type is generally consistent with last year's.[8] Cross-referencing region with organization type, we notice that of the 115 DM-HQ respondents, 51% are fund managers, 21% are foundations, and 8% are diversified financial institutions. By contrast, 82% of the EM-HQ respondents are fund managers (n=28).

Figure 11: Location of headquarters
n = 146



Source: GIIN, J.P. Morgan. See Table 2 for region codes used in the text.

Figure 12: Organization type
n = 146; Category that BEST describes the organization



Source: GIIN, J.P. Morgan.

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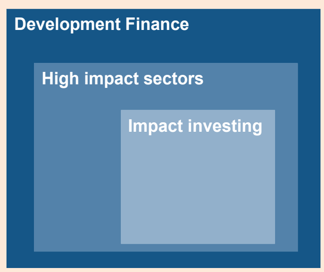
[6] Given the timing of publication, we have also captured any significant industry news since the turn of the year for completeness.
[7] In the survey published two years ago, Northern America made up 56% of the sample, and WNS Europe made up 27%. Last year, Northern America made up 46% of the sample, and WNS Europe made up 34%
[8] The distribution last year was: Fund manager, 49%; Foundation: 22%, Other, 11%; Diversified financial institution/Bank, 7%; Development finance institution, 6%; Pension fund or Insurance company, 3%; and Family office, 2%. Those that chose 'other' typically include hybrid organizations, i.e. those with multiple activities not easily classified into one.

➢ Zooming in: Impact investments within a development-focused portfolio

Development finance institutions (DFIs) have been investing in development-oriented projects for a long time, and it can be challenging for them to differentiate between these investments and impact investments, including within their existing portfolios. In response to this, both the Overseas Private Investment Corporation (OPIC) and the Inter-American Development Bank (IDB) have developed frameworks to identify impact investments within their broader portfolios, and it's instructive to take a closer look at these.

Overseas Private Investment Corporation

OPIC undertook a detailed segmentation of their portfolio, and tagged their investments as either 'development finance', 'high impact sectors' or 'impact investing'. They publicly shared their categorization approach to help inform the ongoing debate around how best to define impact investing, as well as to support other agencies as they think through their own impact portfolios.



Source: OPIC

Development finance:
All of OPIC's financial commitments aim to have a positive development impact. By definition, the projects supported are expected to demonstrate positive development, social, and financial returns while safeguarding against damage to the environment and promoting high-quality job creation.

High impact sectors:
Investments in sectors generally associated with impact investing fall into this category. These sectors face the most difficult challenges in attracting capital: agriculture, education, access to finance, housing for the poor, small and medium enterprise finance, healthcare, renewable energy, water, and sanitation. Given that other sectors present far easier investment options, these are sectors investors would only engage in out of a deep commitment to impact.

Impact investing:
These investments have an explicit and inherent intent at startup to address environmental or social issues, as well as a business model with a structure dedicated to achieving both impact and financial returns. To select these transactions, projects in impact sectors were first identified, and then project teams were asked to identify impact intent at origination, reviewing the project sponsor's intent to generate impact.

Inter-American Development Bank

The IDB sees two dimensions to the definition of impact investments: Business sectors and vulnerable populations. Under this definition, for an investment to qualify as impact investment, it has to fit two criteria:

1. Address either basic needs (e.g., agriculture, water, housing) or basic services (e.g., education, health, green energy and financial services); [9] and
2. At least half of its beneficiaries must be vulnerable populations, defined as people with incomes below the threshold of USD10 purchasing power parity (PPP) per day.

The IDB is in the process of developing a tagging methodology to classify investments as impact investments, based on four key filters:

1. Financial viability: A project must involve a financial instrument (private debt, guarantees or equity investment) and be expected to return at least nominal principal.
2. Development impact filter: An investment should generate social and environmental externalities, contribute to economic growth and/or private sector development, and comply with ESG criteria.
3. Social impact filter: The investment should generate direct/visible social impact.
4. Impact intention filter: The investment should follow a specific impact investing approach with a deliberate, measurable goal of generating social/environmental impact in addition to a financial return.

We illustrate the IDB tagging methodology in the chart on next page.[10]

[9] The sectors mentioned are indicative but not exclusive.
[10] The reader should note that the IDB methodology is still a work in progress process.

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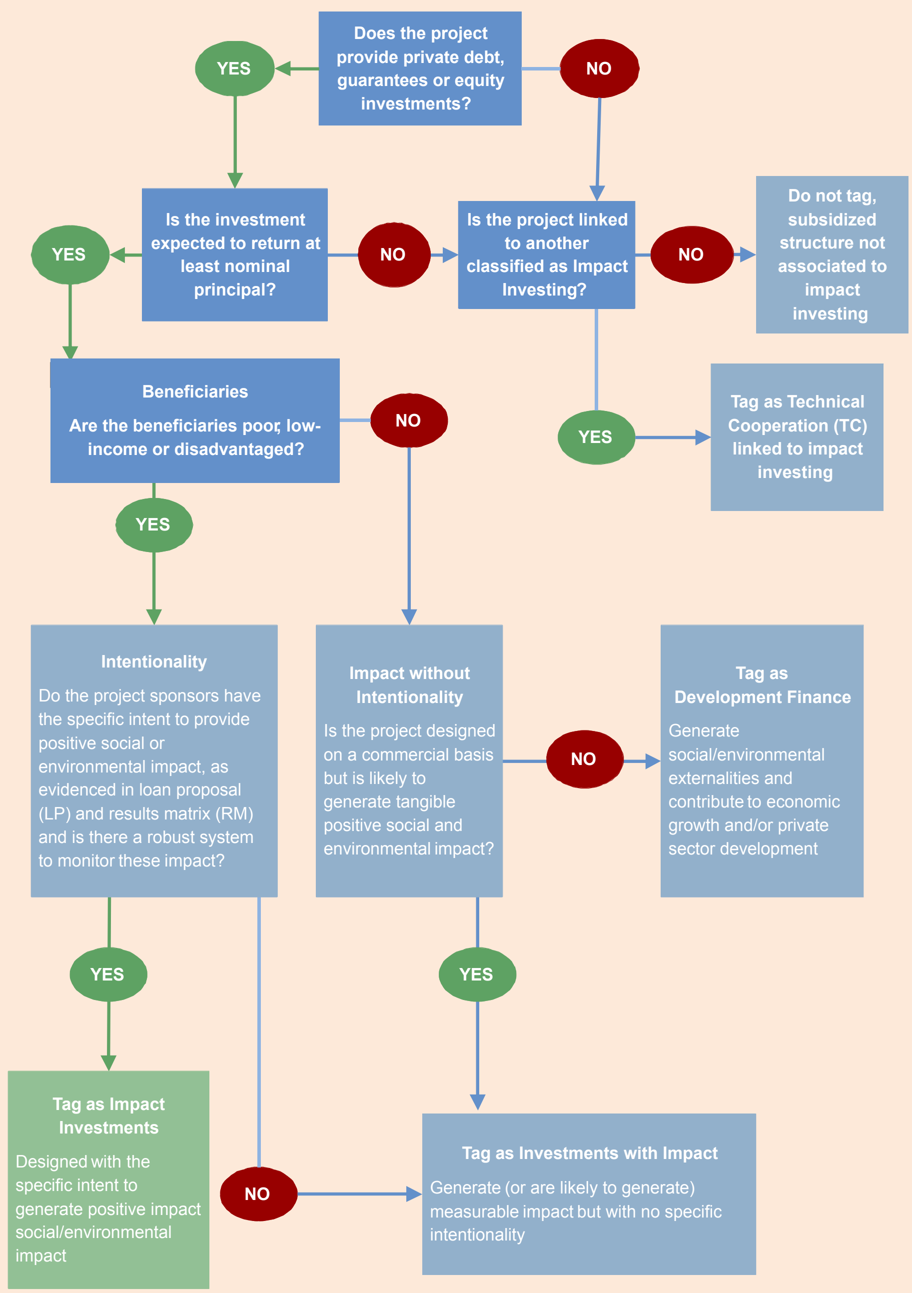
IDB Impact investment tagging process



Source: IDB

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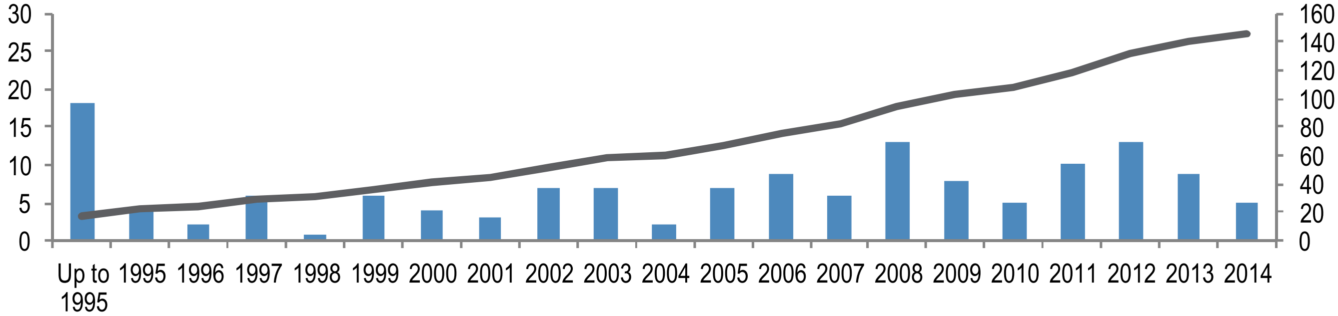
About half of our respondents have been making impact investments for ten years or more

Of the 146 total respondents, 60 have been making impact investments for 10 years or more (Figure 13).

Figure 13: Year of first impact investment

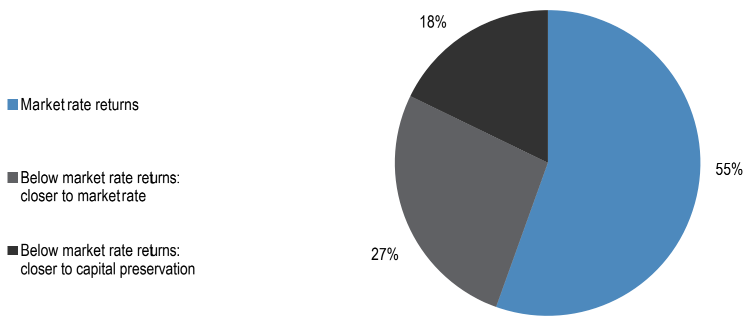
Left axis bar chart: Number of organizations that started investing that year; Right axis line graph: Cumulative



Source: GIIN, J.P. Morgan.

Figure 14: Target financial returns principally sought

n=146



Source: GIIN, J.P. Morgan.

Over half of the sample seeks competitive returns

In order to best contextualize the views in the survey, we asked respondents about their approach to returns. Figure 14 shows that 55% of the sample principally targets "competitive, market rate returns", with the remainder of the sample split between "below market rate returns: closer to market rate" (27%) and "below market rate returns: closer to capital preservation" (18%).

Throughout the report, we will refer to sub-groups defined by answers to this question, as outlined in Table 1.

USD 10.6bn invested in 2014, with plans for 16% more in 2015

The group reports having committed USD 10.6bn in 2014 and intends to invest 16% more – USD 12.2bn – in 2015.

As Table 7 shows, the respondent group reports having committed USD 10.6bn in aggregate in 2014 and intends to invest 16% more – USD 12.2bn – in 2015.[11] More specifically, 98 respondents indicated plans to commit more in 2015 than in 2014, out of which 55 plan to increase by more than 50%. Meanwhile, 34 plan to decrease. Finally, as mentioned earlier, it's important to note that this year's respondent sample is different to last year's and direct comparisons with previous year's figures may not be valid.

Table 7: Number and size of investments made and targeted

	In 2014		2015 target	
	Number (n=146)	USD, mm (n=146)	Number (n=145)	USD, mm (n=144)
Mean	37	72	44	85
Median	7	10	8	14
Sum	5,404	10,553	6,332	12,241

Source: GIIN, J.P. Morgan.

[11] USD 3.8bn of the USD 10.6bn was committed by just three respondents. For target allocation, USD 4bn of the USD 12.2bn is from the same three respondents.

Number of deals planned to increase

On the aggregate, respondents plan to increase total number of deals in 2015 by 17%, with 6,332 planned compared to the 5,404 executed in 2014. The median investor invested USD 10mm across seven investments in 2014, and intends to invest USD 14mm through eight transactions in 2015.[12]

In 2014, respondents grew capital committed by 7%

For the sub-sample of 82 respondents that completed the survey both last year and this year, we compared the number of deals and amount of capital they committed in 2014 compared with what they had committed in 2013. We found that, in aggregate, these respondents grew their number of investments in 2014 by 13% (n=81) and their capital committed by 7% (n=82).[13] Impact assets under management for this group increased by 20%.[14]

Responsibility, efficiency to deliver impact, and client demand top motivations

As in previous years, we asked investors that allocate capital to both traditional and impact investments to indicate their top motivations for allocating capital to an impact portfolio. The responses, as determined by respondents ranking their top three motivations, are shown in Table 8. They highlight both financial and non-financial drivers, with the top three choices reflecting a commitment to responsible investing, a desire to meet impact goals and response to client demand. The responses receiving the fewest votes referenced diversification and regulatory requirements. These rankings are consistent with our findings last year.

Trend analysis: Looking at last 3 years

"They are a part of our commitment as a responsible investor" and "They are an efficient way to meet our impact goals" have been the top two motivations in the past three surveys.

Table 8: Motivations for traditional investors to allocate capital to impact investments

n = 49; Respondents ranked top three

Rank	Score	Available answer choices
1	80	They are a part of our commitment as a responsible investor
2	69	They are an efficient way to meet our impact goals
3	54	We are responding to client demand
4	38	They provide an opportunity to gain exposure to growing sectors and geographies
5	24	They are financially attractive relative to other investment opportunities
6	6	We do so to meet regulatory requirements
7	6	They offer diversification to our broader portfolio

Source: GIIN, J.P. Morgan. See scoring methodology in the Methodological and Analytical Notes on page 3.

[12] Readers will note that there may be some overlap in respondents' financial commitments as some will invest indirectly through fund managers that have also responded to our survey. We note though, that 74% of the capital represented by our respondents is invested directly into companies, and any potential overlap will only relate to the percentage of capital that is invested indirectly.

[13] We excluded one respondent from this group because they had reported their number of deals incorrectly in 2013.

[14] We also compared actual in 2014 versus what had been planned for 2014, and found that, in aggregate, these respondents fell short of their targeted number of investments for 2014 by 8% (4,222 planned versus 3,792 actual) and fell short of their capital commitment targets by 4% (USD 7.4bn planned versus USD 7.1bn actual).

Progress in pipeline and market support

In order to capture investors' views on the market today, we asked respondents to report on indicators of growth, competition for deals, deal sourcing, co-investing, and challenges to broader market development. In this section, we highlight the key trends that respondents feel characterize the current state of the market.

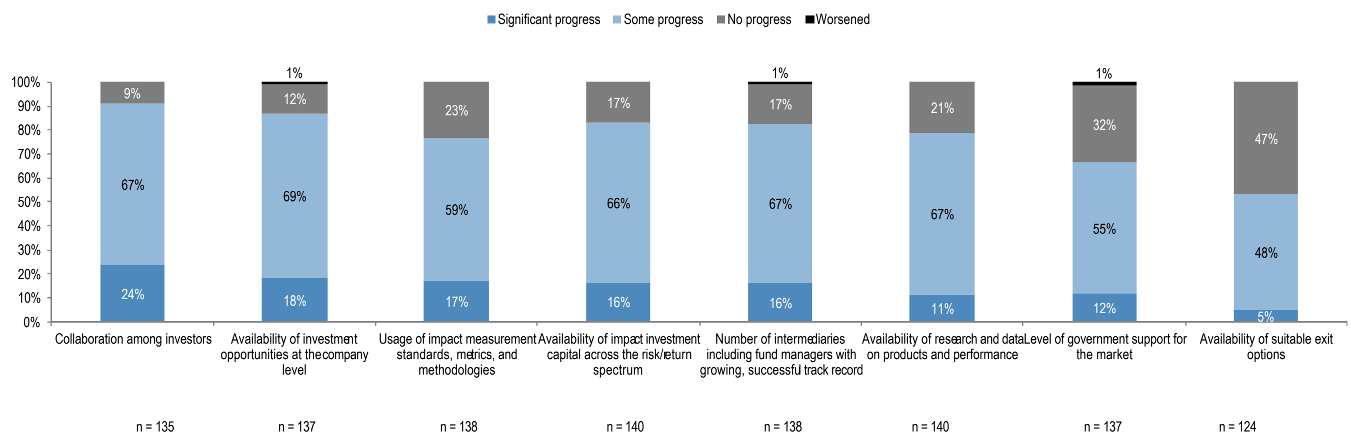
Indicators of market growth

Respondents testify on broad progress across indicators of market growth

Respondents indicated progress was made in 2014 across several indicators of market growth, including investor collaboration, impact measurement practices, and pipeline quality. Relative to last year, a larger proportion of respondents indicated significant progress in collaboration, availability of investment opportunities, and availability of capital across the risk/return spectrum. A larger proportion indicated no progress in usage of standards for impact measurement, and for two categories we introduced this year, government support and suitable exit options, respectively 32% and 47% of respondents indicated no progress (Figure 15).

Figure 15: Perspectives on progress across indicators of market growth

Number of respondents is shown under each indicator; some respondents chose "not sure" and their responses are not considered here



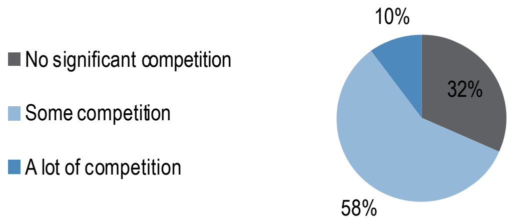
Source: GIIN, J.P. Morgan.

Competition and co-investment

Most respondents see at least some competition for deals

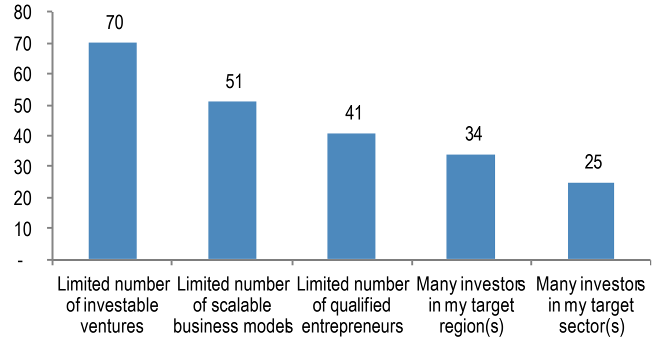
A majority of respondents reported facing "some competition" for transactions (58%), and an additional 10% reported facing "a lot of competition" (Figure 16). The perceived causes of competition are clearly concentrated on the investee side rather than an overabundance of investors (Figure 17). However, elaborating on the causes of competition in qualitative comments, some investors also noted a concentration of investors within certain geographies (for example noting a more "crowded" market in East Africa than West or Central Africa). Another respondent commented that there are an increasing number of investors targeting the same growth stage.

Figure 16: Perception of competition in the market
n = 146



Source: GIIN, J.P. Morgan.

Figure 17: Causes of competition
Number of respondents shown above each bar; Respondents chose all that apply

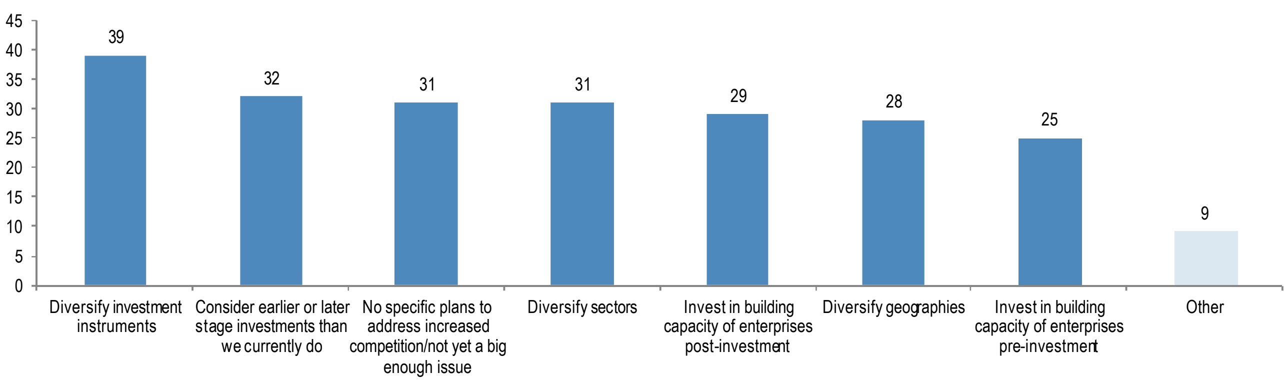


Source: GIIN, J.P. Morgan.

Investors plan to address competition through diversified strategies

Among those who reported seeing "some" or "a lot" of competition, popular planned approaches to addressing this competition include diversifying into new instruments, growth stages, and sectors (Figure 18). Many also report having no specific plans to address competition, perhaps indicating that the large proportion reporting "some competition" see it as an emerging rather than immediately urgent issue in their work.

Figure 18: Respondents' plans for addressing competition for transactions in impact investing
Number of respondents shown above each bar; Respondents chose all that apply

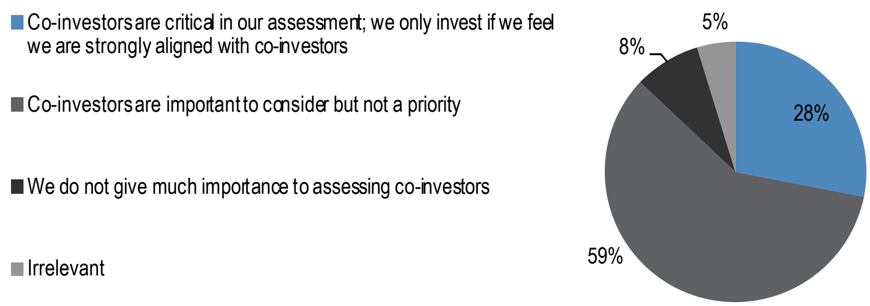


Source: GIIN, J.P. Morgan.

Most investors place importance on considering co-investors

While a majority of respondents indicated facing competition for transactions, 87% also reported that co-investors are important or critical when assessing investments (Figure 19).

Figure 19: Importance of co-investors in assessing potential deals
n= 146

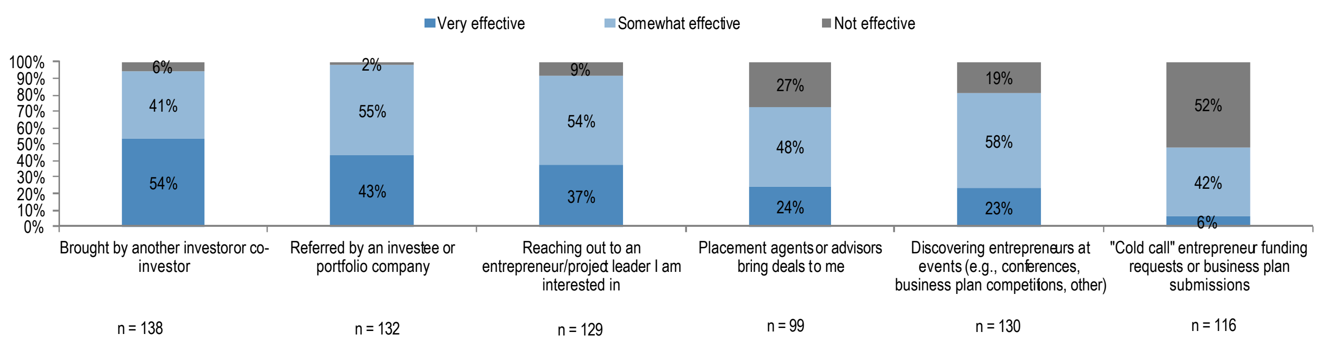


Source: GIIN, J.P. Morgan.

Deal sourcing

Referrals and direct outreach reported as most effective deal-sourcing methods
Over 50% of respondents indicated that referrals from other investors are a highly effective means of sourcing deals. Roughly 40% also indicated that referrals from portfolio companies (43%) and directly reaching out to entrepreneurs they are interested in (37%) are "very effective" methods. On the other hand, less than half of the sample finds cold calls from entrepreneurs to be an effective means of finding deals.

Figure 20: Effectiveness of different deal sourcing methods
Number of respondents is shown under each method; some respondents chose "I do not use this method" and their responses are not considered here



Source: GIIN, J.P. Morgan.

Challenges to market development

Shortage of quality deals and lack of appropriate capital remain top challenges
Investors remain focused on two key constraints as the most significant challenges to the growth of the impact investing industry. Last year and this year, respondents identified the "lack of appropriate capital across the risk/return spectrum" and "shortage of high quality investment opportunities with track record" as the most limiting characteristics of the market.

Similar to our previous survey, respondents are also focused on the difficulty of exiting investments. One respondent commented that "more proof points (exits) are needed to attract tier one commercial risk capital". We are hopeful that investors will become more comfortable with exit prospects over time as examples of successful exits materialize (we present this year a first set of private equity exits data, see page

33). Table 9 shows the ranking and score of each answer choice – respondents ranked the top three challenges in their view. Additional challenges noted by respondents that were not among the answer choices included the lack of incentives for investment advisors to recommend impact investments, lack of a well-articulated regulatory framework and overcoming the mindset that impact investing necessitates below-market returns.

Trend analysis: Looking at last 3 years

"Lack of appropriate capital across the risk/return spectrum" and "Shortage of high quality investment opportunities with track record" have been the top two challenges in the past three surveys.

Table 9: Challenges to the growth of the impact investing industry today

n = 146; Respondents ranked top three

Rank	Score	Available answer choices
1	193	Lack of appropriate capital across the risk/return spectrum
2	174	Shortage of high quality investment opportunities with track record
3	115	Difficulty exiting investments
4	97	Lack of common way to talk about impact investing
5	87	Lack of innovative deal/fund structures to accommodate investors' or portfolio companies' needs
6	76	Lack of research and data on products and performance
7	67	Inadequate impact measurement practice
8	57	Lack of investment professionals with relevant skill sets

Source: GIIN, J.P. Morgan. See scoring methodology in the Methodological and Analytical Notes on page 3.

Government support for the market

Emphasis on government providing risk/return enhancement

Over the past few years, governments have played an increasing role in supporting the development of the impact investment market (see "Zooming in" on next page). Table 10 shows which government interventions investors feel would most help them make impact investments. As was the case last year, the dominant theme is improving the risk/return profiles of investments, either through credit enhancement, tax credits or subsidies. Compared to last year, technical assistance to investees has moved up in the ranking, while clearly defined regulation has dropped slightly. There seems to be less emphasis among our respondent group on co-investment by government agencies and government procurement from investees.

Table 10: Perceived helpfulness of various government policies

n = 138; Respondents ranked top three

Rank	Score	Available answer choices
1	205	Provision of credit enhancement, e.g. guarantees, first-loss, etc.
2	184	Tax credits or subsidies for investors
3	126	Technical assistance for investees
4	124	Streamlined, clearly defined regulation for investment offerings
5	111	Co-investment by government agency on similar terms
6	52	Procurement from investees

Source: GIIN, J.P. Morgan. See scoring methodology in the Methodological and Analytical Notes on page 3.

At the national level, clarity and consistency of regulations helpful
We asked investors to comment on their experiences with country-level government policies that they find either helpful or unhelpful. Some respondents (particularly in Western Europe) noted that clearer definitions of "social impact" and the relevant regulations would help institutional investors to move into the sector more quickly. Others noted that in a variety of emerging markets, restrictions that reduce flexibility in investment structuring are unhelpful, as are exchange controls and interest rate caps. They also noted challenges arising from the variability and vagueness of regulations.

One respondent highlighted helpful reforms to the Organization for the Harmonization of Business Law in Africa (OHADA) corporate law in 2014. These reforms facilitate investment structuring in 17 OHADA member countries in Western and Central Africa.[15] Another respondent commented that several agencies of the Government of Bangladesh are working together to make capital market rules more welcoming to private equity.

➢ Zooming in: Growing governmental initiatives

High-level international government collaboration to drive market growth
2014 saw several significant outputs from the Social Impact Investment Taskforce, established by the UK Presidency of the G8 the previous year. The Taskforce brings together leaders from government, finance, business, and philanthropy to foster the growth of the social impact investing market. In 2014, the Taskforce published a series of reports from various working groups on different aspects of social impact investing:

- The overall report, "Impact Investing: The Invisible Heart of Markets – Harnessing the power of entrepreneurship, innovation and capital for public good", highlights the potential of impact investment to resolve global problems and provides recommendations for governments and the private sector to increase activity in this market.
- Each participating country's National Advisory Board published a report on what is required to catalyze impact investing in its country.
- Four working groups published subject papers on impact measurement, asset allocation, mission alignment, and international development. In addition, the Taskforce published an explanatory note on "Policy Levers and Objectives" for governments.
- Triodos Bank also produced a report for the Taskforce titled "Impact Investing for Everyone" providing a blueprint for retail impact investing.

To view these reports, visit www.socialimpactinvestment.org.

[15] "Ohada reforms improve PE flexibility, certainty." *The International Financial Law Review,* 24 March 2014. http://www.iflr.com/Article/3317205/Ohada-reforms-improve-PE-flexibility-certainty.html

➢ Zooming in: Increased activity from corporate investors

Although we have not included corporate investors as respondents to our annual impact investor surveys to date, we have observed that corporates are playing an increasingly significant role in the market. We hope to capture this constituency in future surveys.

Large corporates increase their involvement in the market

Recent years have seen increasing pressure on businesses from both internal and external stakeholders to integrate social responsibility more directly into their core business. In parallel, large corporations have been holding record amounts of cash on their balance sheets in the wake of the financial crisis. In combination, these two factors create incentives for corporate entities to get involved in impact investing through their own balance sheets and in-house investment funds.

In the past few years, a variety of corporations have begun using a corporate venture investing approach to make impact investments. Some examples are highlighted below:

- Schneider Electric, a European multinational energy corporation, established the Schneider Electric Energy Access Fund in 2009 to foster low-cost housing and job creation in the energy efficiency sector in Europe. The fund later expanded its investments to include support for small and medium-sized enterprises increasing access to electricity in emerging markets. In 2014, Schneider Electric invested in SunFunder, a solar finance company operating in emerging markets.[16] Schneider joined Khosla Impact and Better Ventures in a USD2.5mm Series A round.[17]

- Pearson, a leading global educational company, launched the Pearson Affordable Learning Fund in 2012 with USD15mm of initial capital. The fund makes minority equity investments in companies providing low-cost education services in developing countries. An example of a recent investment is APEC, a chain of low-cost secondary schools in the Philippines. In 2014, Pearson established a joint venture with leading Philippine conglomerate Ayala Corporation to scale up APEC, which already had one pilot school operating in the Manila area.[18] In 2015, Pearson announced that it would invest an additional USD 50mm to support education entrepreneurs across Africa, Asia and Latin America.[19]

- Patagonia's $20 Million and Change fund was established to invest in start-up companies that are expected to positively benefit the environment. In 2014, the fund invested in Bureo, Inc., which collects and recycles fishing nets along the coast of Chile, and CO2Nexus Inc., which has developed an energy-efficient and virtually waste-free method of processing textiles.[20]

In addition to direct investment, corporate players are collaborating on other initiatives to foster sustainability and economic development. One example of such collaboration is the World Business Council for Sustainable Development (WBCSD).[21] For instance, the Rural Livelihoods Initiative, consisting of Nestlé, Novartis, Syngenta, Vodafone and Accenture, was launched under the WBCSD. The group is working to bring together a set of interventions in Kenya, partnering with international and local partners to provide a foundation for strengthening the local business ecosystem and capture learnings to enable replication in other geographies.[22]

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[16] Schneider Electric Website (link here)
[17] Guay, Justin. "Schneider Electric Invests in SunFunder, a Crowdsourcing Startup for Off-Grid Solar", *greentechsolar*, November 21, 2014. (link here)
[18] *Investing in Breakthrough*: *Corporate Venture Capital*. 2014. Volans, The MacArthur Foundation, The Social Investment Business, and Global Corporate Venturing.
[19] Pearson website (link here)
[20] Transworld Business (link here) and Patagonia press release (link here)
[21] See www.wbcsd.org. The WBCSD is a CEO-led organization bringing together some 200 of the world's leading corporations spanning a wide range of sectors and geographies.
[22] See link here for more details on this initiative

Asset allocations and performance

We now present the breakdown of our respondents' assets under management (AUM) by region, sector, instrument and stage of business. In this section, we show these breakdowns for the current allocations and respondents' intended future allocations as well, and indicate any significant variation compared to the previous year.

Overview and breakdown of current allocations

Our respondents currently manage USD 60bn of impact investments

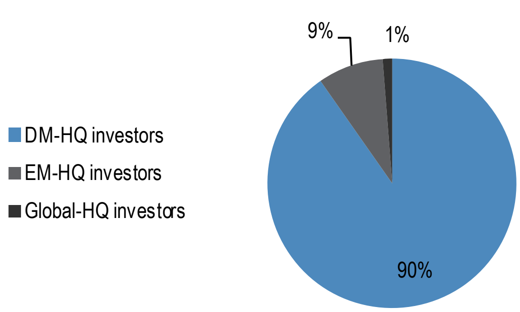
Collectively, our respondents manage a total of USD 60bn in impact investments today.[23] Unsurprisingly, the bulk of the assets under management (90%) represented by our sample are managed by DM-HQ Investors (n=115), reflecting the higher number of investors headquartered in these regions and the relatively larger size of their capital allocation (Figure 21). By investor type, Fund managers manage 63% of total assets, consistent with the fact that they make-up 57% of our sample this year. Development finance institutions, while making up only 5% of our respondent sample, manage 18% of total assets (Figure 22). Throughout this section, the percentages referenced are percentages of the total impact AUM of USD 60bn.[24]

Figure 21: Total AUM by investor location

DM-HQ Investors n = 115; Total AUM = USD 54bn

EM-HQ Investors n = 27; Total AUM = USD 5bn

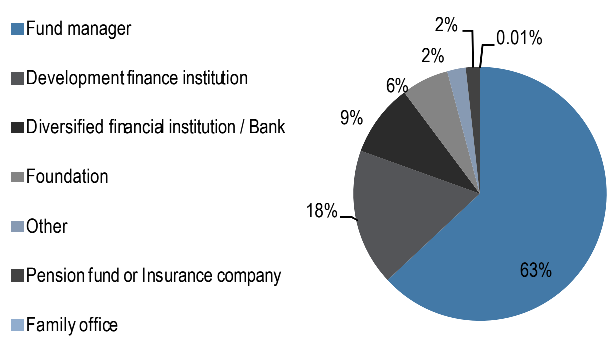
Global-HQ investors n=3; Total AUM = USD 0.7bn



Source: GIIN, J.P. Morgan. See Table 2 for region codes used in the text.

Figure 22: Total AUM by investor type

n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan.

Shift towards a larger allocation to Northern America

In terms of regional distribution, this year's sample is less diversified than the previous year's with Northern America accounting for 40% of total current AUM, followed by SSA (14%) and LAC (11%, Figure 24).[25] Some regions like MENA (2%) as well as Oceania (0.2%) remain low in our sample, consistent with previous years. It is worth noting that, overall, 51% of current assets under management are in EMs, even though 90% of capital is managed by DM-HQ investors (in last year's

[23] Total impact investment assets under management represents 145 respondents due to one respondent not providing this data. It is worth noting that 2 respondents make up USD 22bn of the USD 60bn.

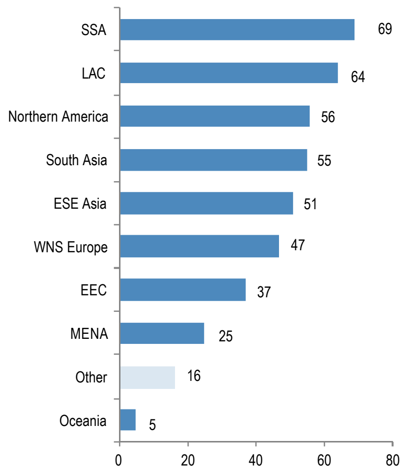
[24] This is equivalently calculated as the weighted average response.

[25] The largest respondent by AUM has allocations largely concentrated in the U.S. and is new to the sample this year, which explains the shift toward Northern America this year.

survey, 70% of assets under management were in EMs, even though 95% of capital was managed by DM-HQ investors).

We also counted the number of respondents that have any part of their portfolio allocated to each region. More respondents have some allocation to SSA (69) than to any other geography (see Figure 23).

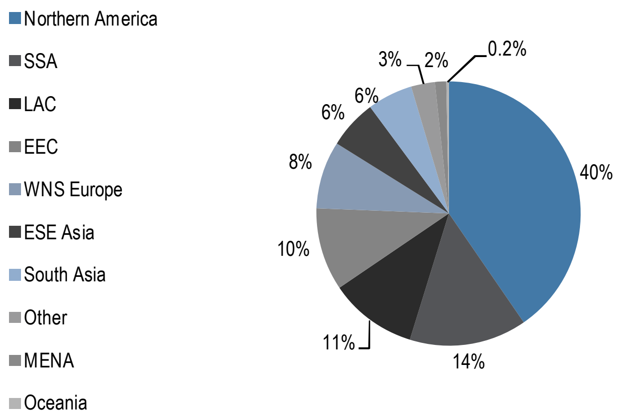
Figure 23: Number of respondents that have an allocation to the region



Source: GIIN, J.P. Morgan.

Figure 24: Total AUM by geography

n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan. See Table 2 for region codes used in the text.

Housing, Microfinance, and Financial Services account for 49% of sample AUM

In terms of sector distribution, Housing accounts for 27% of total sample AUM, followed by Microfinance (16%), Financial Services (excluding microfinance, 11%), and Energy (10%).[26] Meanwhile, Healthcare (5%), Food & agriculture (5%), and Education (2%) account for much smaller parts of total sample AUM (Figure 26).[27]

Interestingly, although Healthcare and Food & Agriculture each account for just 5% of total current AUM, they are the first and second most popular sectors in terms of number of investors with an allocation (see Figure 25). By contrast, while Housing represents more than a quarter of the total AUM, only 53 respondents have allocations in this sector.

We analyzed the sector allocations of the 82 repeat respondents from both last year and this year. Although sector allocations among this group largely remained stable, it is interesting to note that total allocations to Microfinance and Financial services (excluding microfinance) dropped by 6.4 percentage points (from 27.5% to 21.1%) and 4.2 percentage points (from 19.3% to 15.1%) respectively.

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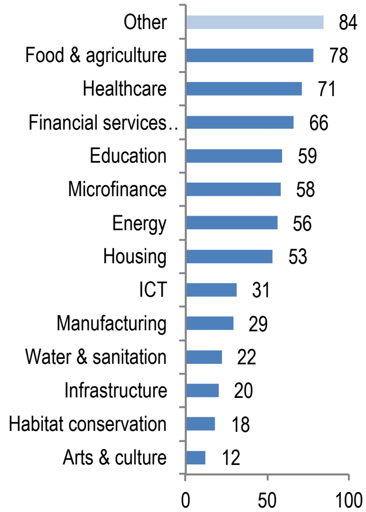
[26] Last year Housing accounted for just 8% of total AUM. This year, the respondent with the largest AUM has a portfolio concentrated in housing, which explains why there is a shift toward the housing sector in this year's AUM-weighted sector allocations.

[27] Allocations to "other" sectors are 17% weighted by AUM. This includes five respondents reporting job creation or livelihoods; four respondents reporting real estate or real assets (agricultural/forest/ranch land); and two reporting social enterprises.

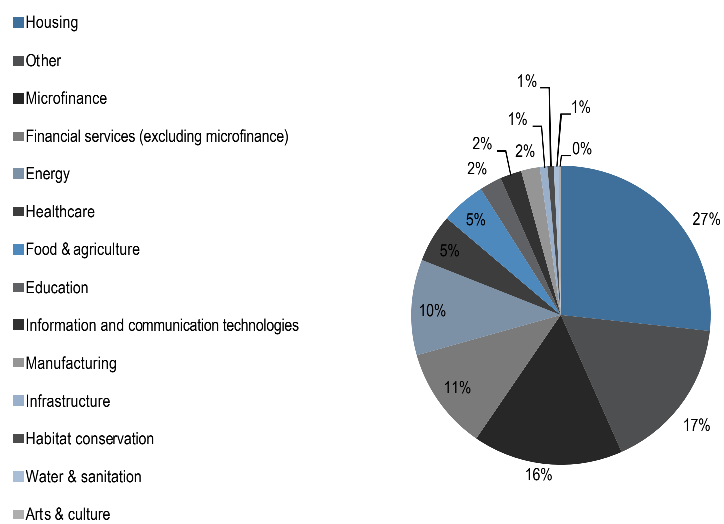
Figure 25: Number of respondents that have an allocation to the sector



Source: GIIN, J.P. Morgan.

Figure 26: Total AUM by sector

n = 145; AUM-weighted average; Total AUM = USD 60bn



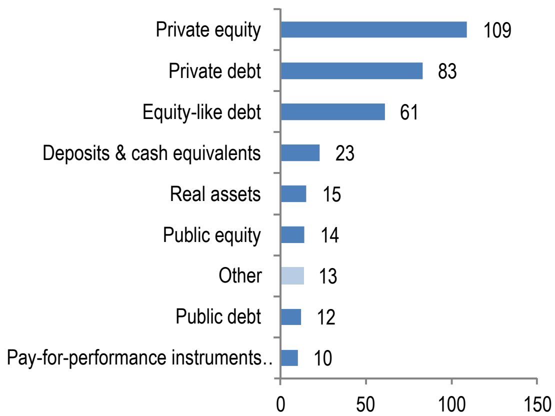
Source: GIIN, J.P. Morgan.

NB: Some of the "other" categories reported include job creation, livelihoods, real estate or real assets including agricultural or forest land, and social enterprises.

40% of total sample AUM is private debt; 33% is private equity

In terms of instruments, 54% of the total capital managed is invested through debt instruments (40% Private Debt, 8% Equity-like Debt and 6% Public Debt) and 33% is invested through Private Equity, even though the latter is the instrument receiving at least some capital from the highest number of respondents (Figure 27 and Figure 28). Public Equity (5%) and Pay-for-performance instruments (e.g., social impact bonds, 0.2%) are still very small parts of the aggregate portfolio. Despite its small allocation by total AUM, Pay-for-performance is included in 10 respondents' portfolios to some degree.

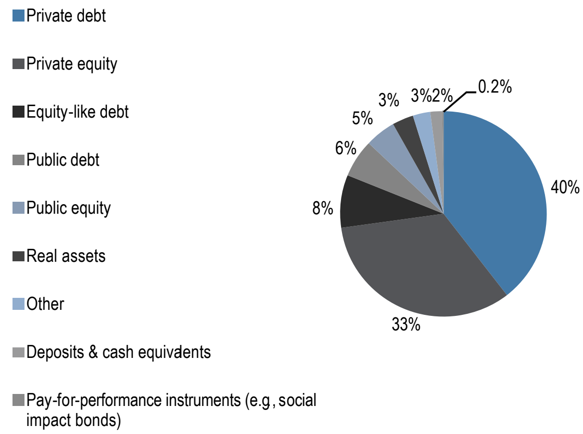
Figure 27: Number of respondents that have an allocation to the instrument



Source: GIIN, J.P. Morgan.

Figure 28: Total AUM by instrument

n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan.

Early-stage Investors favor Private Equity; Later-stage Investors utilize Private Debt

As one would expect, Private Equity is used in a higher proportion by Early-stage Investors (60%, n=39) versus Later-stage Investors (32%, n=100), given the need among early-stage companies for longer-term capital without short-term repayment commitments. Later-stage Investors in our sample favor Private Debt, with this instrument comprising 41% of their portfolios versus only 13% for Early-stage Investors.

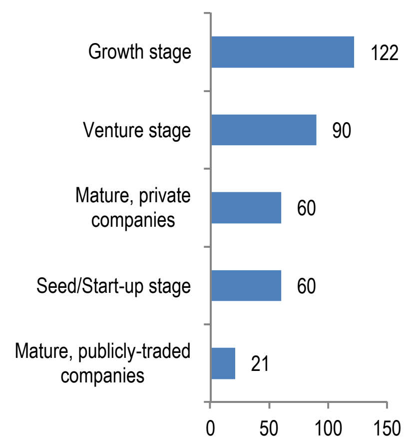
91% of total impact investments under management are committed to companies post Venture Stage.

91% of total sample AUM is invested at either the Growth or Mature stage

Most capital managed today (91%) is invested in companies post Venture stage, with 28% allocated towards companies at the Growth Stage, 52% in Mature, Private companies and 11% in Mature, Publicly-traded companies.[28] Nine percent of total sample AUM is committed to Seed/Start-up companies or Venture Stage businesses (3% and 6% respectively), as illustrated in Figure 30. However, 90 respondents indicated investing at least some capital at the Venture Stage, second only to the number that reported investing at the Growth Stage (Figure 29).

[28] The respondent with the largest AUM has a portfolio concentrated in Mature, Private companies.

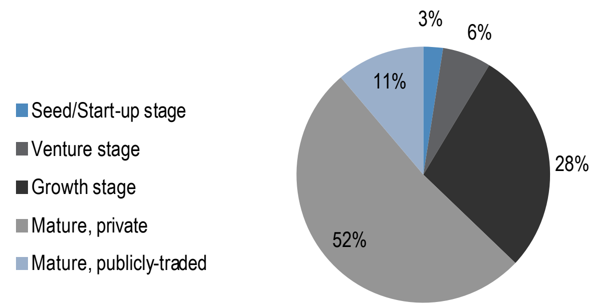
Figure 29: Number of respondents that have an allocation to the business stage



Source: GIIN, J.P. Morgan.

Figure 30: Total AUM by stage of business

n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan.

Sixty-five percent of the capital is on behalf of clients

Sixty-five percent of the assets that respondents manage today are managed on behalf of clients and 35% are proprietary capital as Figure 31 shows (the split is more even on a non-weighted basis, 53% vs. 47%).[29] For Equity Investors, 90% of assets under management are capital managed on behalf of clients, while for Debt Investors 51% of assets under management are proprietary capital.

[29] Last year 42% of total AUM was managed on behalf of clients while 58% was proprietary. The respondent with the largest AUM this year has a portfolio that's almost exclusively client capital.

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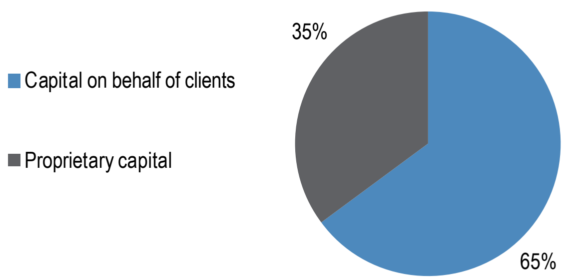
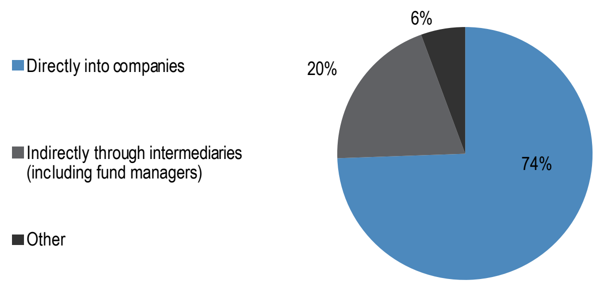
Figure 31: Total AUM by source of capital
n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan.

Figure 32: Total AUM by direct versus indirect investment
n = 145; AUM-weighted average; Total AUM = USD 60bn



Source: GIIN, J.P. Morgan.

Large proportion invested directly into companies

Investments directly into companies represent a much larger proportion of assets under management (74%) than do indirect investments (20%), as seen in Figure 32.[30] As might be expected, for fund managers, 83% of assets under management are invested directly into companies, while for Non-fund Managers 69% is so.

[30] A small group of respondents chose "other" for this question to denote investments in structures that are neither companies nor funds (these respondents specified, for example, real assets and NGOs). Readers will note that there may be some overlap in respondents' financial commitments as some will invest indirectly through fund managers that have also responded to our survey. We note though, that 74% of the capital represented by our respondents is invested directly into companies, and any potential overlap will only relate to the percentage of capital that is invested indirectly. Finally, it is worth noting that the respondent with the largest AUM this year has a portfolio that's almost exclusively invested directly into companies.

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Overview and breakdown of future allocations

In order to get a better sense of future trends, we asked respondents to indicate how they plan to change their allocations in terms of percentage of their total portfolio by geography, sector and instrument over the course of 2015.[31] The responses are presented below.

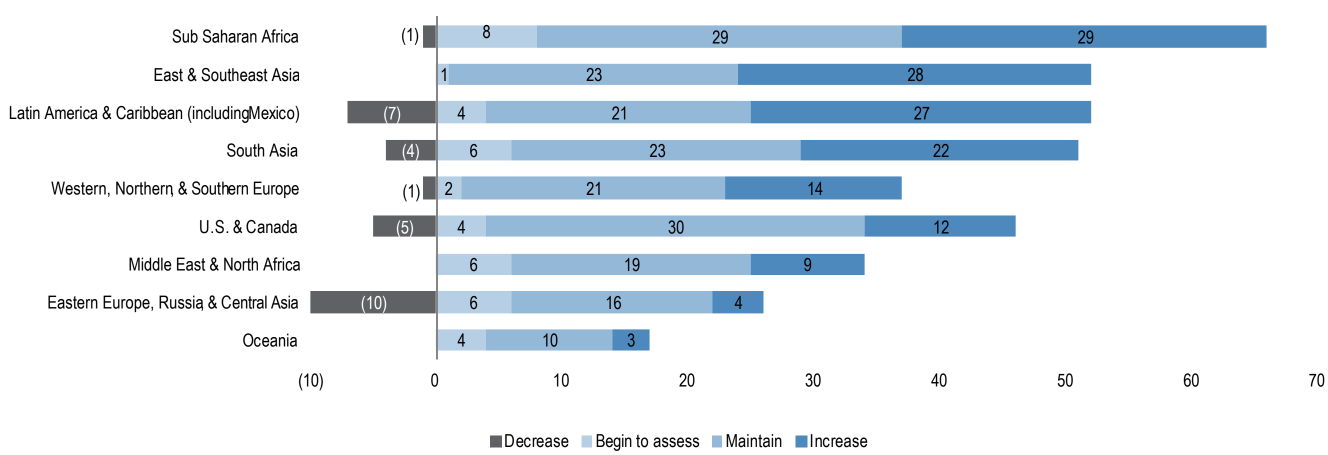
SSA is the region to which the highest number of respondents plans to increase their exposure (29 respondents).

29 respondents plan to increase allocations to SSA

As shown in Figure 33 below, respondents aim to increase or maintain much of their current regional allocations as a percentage of their impact investing portfolios. Specifically, the region to which the highest number of respondents plan to increase their exposure is SSA (29 respondents), followed by ESE Asia and LAC, respectively 28 and 27 respondents.[32] A relatively low number of respondents indicated plans to increase their allocations to MENA, EEC and Oceania, with 10 respondents indicating plans to decrease allocations to EEC.

Figure 33: Change of allocation planned over the next year, by geography

Ranking by number of respondents who chose "increase"



Source: GIIN, J.P. Morgan.

➢ Zooming in: Regional hubs

As the industry matures, a number of regional hubs are emerging, especially in regions where impact investing can provide a promising response to current social and economic challenges. Some of these nascent hubs include Kenya, India and Brazil. We briefly highlight each below:

Kenya

East Africa is one of the centers of global impact investing, and activity has grown strongly throughout the region in recent years. A soon to be published report (see below) notes that USD 1.4bn in impact capital has been deployed across the region by non-DFI impact investors. A further USD 7.9bn has been deployed by DFIs. In total, 155 impact investors currently manage 206 active investment vehicles in the region, and many more are considering the region for future commitments.

[31] We did not place restrictions on answer choices. So, in theory, respondents could indicate that they plan to increase allocations as a percentage of portfolios for all sectors or regions.
[32] These questions were optional in our survey.

Kenya and its capital city Nairobi are the regional hub of East African impact investing. As the economic and financial capital of East Africa, Kenya boasts the largest concentration of impact investors and the most impact capital disbursed in the region. Nairobi is often the first port of call for both impact and conventional investors operating in the region, even if they look for opportunities beyond Kenya. Not only has almost half of the impact capital disbursed in East Africa to date been in Kenya, but at least 48 impact fund managers have staff placed in Nairobi. Kenya also boasts the largest supporting ecosystem in the region. More than 30 different organizations – accelerators, incubators, advisors, intermediaries, etc. – are based in Kenya and support impact investment and social entrepreneurship across the region.

A detailed report on the East African impact investing landscape, co-authored by the GIIN and Open Capital Advisors, will be released by July 2015 and provide a comprehensive analysis of the impact investing industry across 11 countries in East Africa: Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, Sudan, Tanzania, and Uganda.

India

South Asia is another major hub of impact investing activity. The GIIN and Dalberg Global Development Advisors recently published a report analyzing the impact investing industry across six countries in South Asia – Bangladesh, India, Myanmar, Nepal, Pakistan, and Sri Lanka. India accounts for over half the impact capital deployed to date in the region. DFIs have deployed nearly USD 5bn in India, while non-DFI impact investors have deployed USD 437mm.[*]

Overall, the report finds, there are roughly 50 impact investment funds active in India. These funds raise capital from a variety of sources, including DFIs, institutional investors (pension funds and insurance companies), family offices, high-net-worth individuals (HNWIs), commercial banks, and foundations. Impact investments in India have also been made across a wide variety of sectors. Non-DFI impact investors have invested primarily in financial services, but also significantly in energy. In addition to financial services and energy, DFIs have also invested significantly in manufacturing.

[*] Source: The Global Impact Investing Network and Dalberg Global Development Advisors. The Landscape for Impact Investing in South Asia, available here.

Brazil

Brazil, the world's seventh largest economy, is a sizeable country with over 200 mm people. Over the past decade, approximately 40 mm Brazilians have been lifted out of poverty into the emerging middle class. Still, today's low-income households represent 54% of the population or 112 mm people. As such, Brazil suffers from significant inequality due to lack of access to basic services such as transportation, healthcare, education, housing and finance.

While the impact investment industry is still relatively small, there has been a rapid evolution in recent years. Brazil has seen an accelerated expansion in the development of the ecosystem, including funders, social enterprises and accelerators. The increase of capital has been notable with the number of impact investment funds increasing from six in 2009 to 20 by 2013.[*] Most are targeting basic services such as financial inclusion, education, healthcare and housing. Academia is contributing with research and curriculum focused on social enterprise and impact investing. Also, the Brazilian Social Finance Taskforce was launched in 2014 with the goal of mapping the sector, identifying obstacles and prioritizing goals to strengthen the industry.

[*] Source: *Mapping The Impact Investing Sector In Brazil,* Aspen Network of Development Entrepreneurs (May 2014, available here)

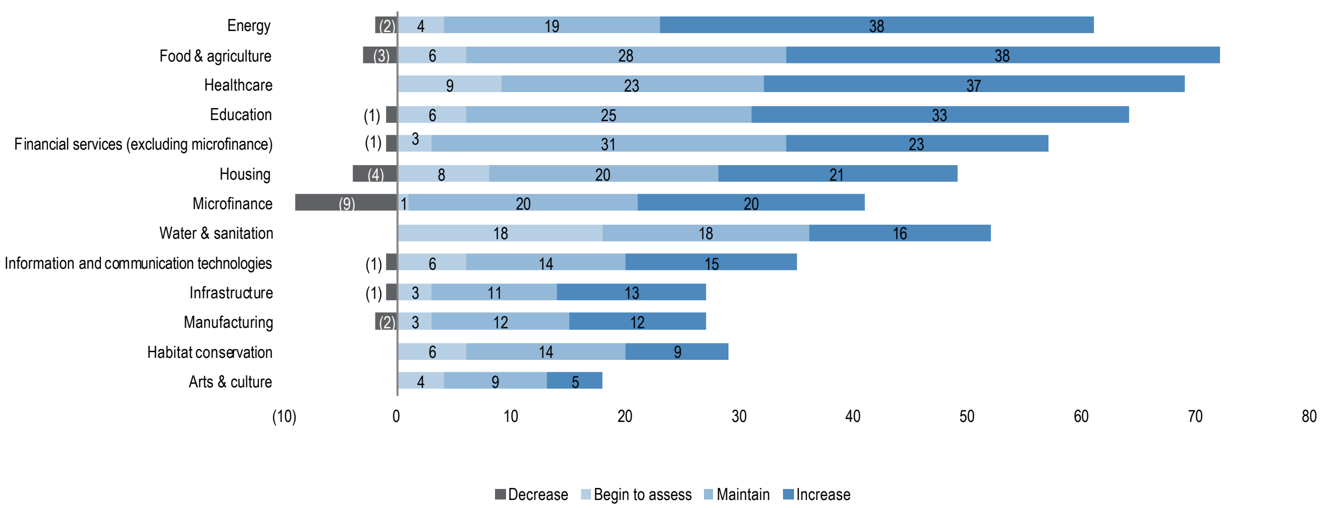
Energy and Food & Agriculture are the sectors to which the highest number of respondents plan to increase their exposure (38 respondents each), with Healthcare and Education also to increase (37 and 33 respondents, respectively).

38 respondents plan to increase allocations to Energy, Food & Agriculture; 9 plan to decrease allocations to Microfinance

Energy and Food & Agriculture are the sectors to which the highest number of respondents plan to increase their exposure (38 respondents), followed by Healthcare (37 respondents) and Education (33 respondents), as Figure 34 shows. Most sectors received a high number of respondents expecting to maintain or increase their allocations, which may reflect a focus on diversification. Meanwhile, 9 respondents indicated plans to decrease their allocation to Microfinance over the next year as a percentage of their total portfolio, which is consistent with last year's findings and again may reflect a diversification strategy given the historical importance of this sector to impact investing portfolios.

Figure 34: Change of allocation planned over the next year, by sector

Ranking by number of respondents who chose "increase"



Source: GIIN, J.P. Morgan.

It's mainly Equity Investors that plan to decrease their allocation to Microfinance

Twenty-six percent of Equity Investors plan to decrease their allocation to Microfinance, whereas just 9% of Debt Investors expect a decrease in their allocation to Microfinance. At the same time, 39% of Equity Investors plan to increase their allocation to Microfinance, a notable contrast to last year when only 5% planned an increase.

Education is a strong future focus for Early-stage Investors; Energy for Late-stage Investors

Sixty-three percent of Early-stage Investors expect an increase in their allocation to Education and none expect a decrease. Meanwhile, 67% of Later-stage Investors expect an increase to their allocation to energy while only 5% expect a decrease.

The instrument to which the highest number of respondents plan to increase their exposure is Private Debt (32 respondents), followed by Private Equity and Equity-like Debt (31 and 21 respondents).

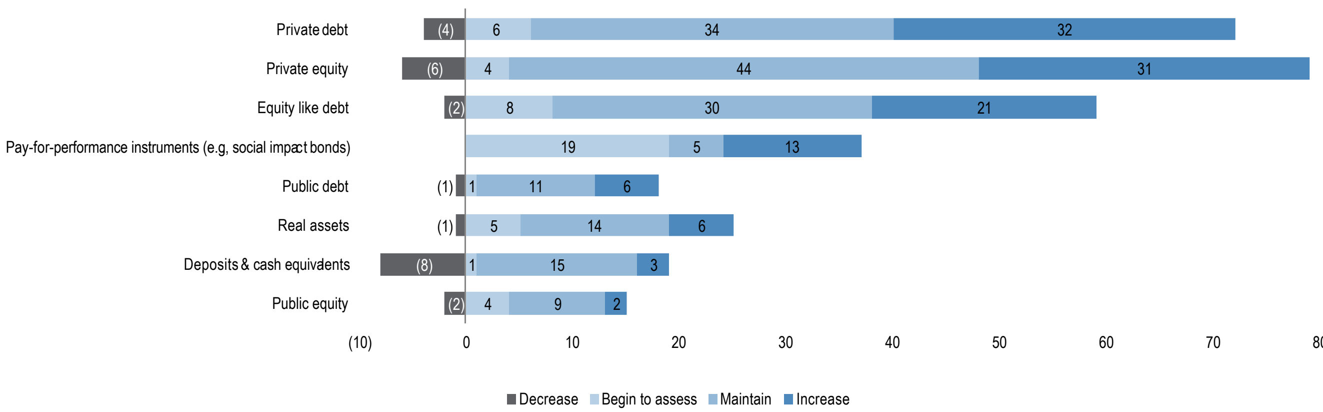
Only 2 respondents indicated plans to increase allocations to Public Equity.

32 respondents plan to increase allocations to Private Debt and 31 to Private Equity; 13 plan to increase allocations to Pay-for-performance instruments

As shown in Figure 35, the instrument to which the highest number of respondents plan to increase their exposure is Private Debt (32 respondents), followed by Private Equity (31 respondents) and Equity-like Debt (21 respondents). It is also worth noting that 13 respondents indicated plans to increase their allocation to Pay-for-performance instruments. The findings are quite notable for Equity-like Debt and Pay-for-performance instruments given their low weight in current portfolios. Notably, 56% of DM-focused Investors plan to increase their allocations to Pay-for-performance instruments (n=18), while just 16% of EM-focused Investors plan to do so (n=19). Only two respondents indicated plans to increase their allocations to Public Equity (consistent with last year when just three did). By contrast, eight respondents indicated plans to decrease allocations to Deposits and Cash Equivalents, while just three plan to increase.

Figure 35: Change of allocation plan over the next year, by instrument

Ranking by number of respondents who chose "increase"



Source: GIIN, J.P. Morgan.

Performance

Portfolio performance largely in line with expectations

Survey participants reported that their portfolios are performing mostly in line with both their impact expectations and their financial return expectations (Figure 36). Significantly, 27% of respondents reported outperformance against their impact expectations (n=139), compared to 20% in last year's survey (n=119), and 14% reported outperformance against their financial return expectations (n=139), compared to 16% in last year's survey (n=122). Conversely, only 2% reported underperformance on impact (n=139), while 9% reported financial underperformance relative to their expectations (n=139). We show the trend analysis in Figure 38.

Splitting out these results by region of investment, we notice that the DM-focused Investors reported better performance than EM-focused Investors against financial expectations, while EM-focused Investors reported better performance against impact expectations (see Figure 37). We also note that 20% of Competitive-return Investors indicated financial outperformance, while 5% of those seeking below-market returns reported the same. The proportions reporting impact outperformance were consistent for those targeting competitive and below-market returns. Finally, while 15% of Equity Investors reported financial outperformance, just 8% of Debt Investors did the same.

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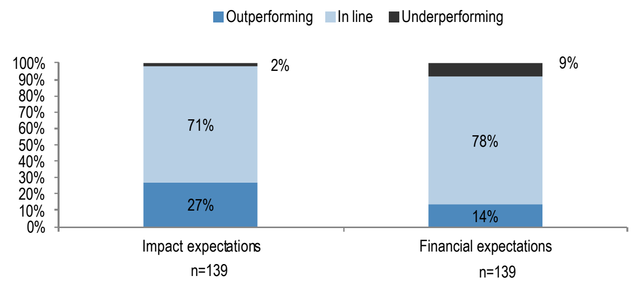
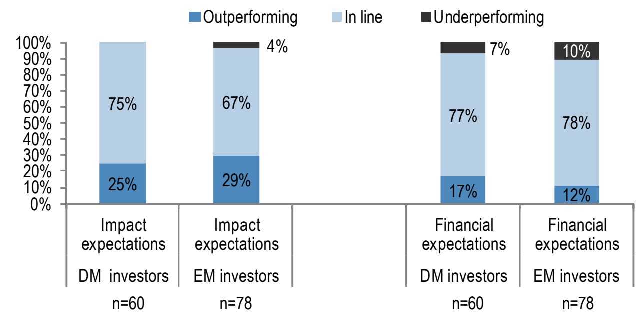
Figure 36: Respondents' portfolio performance relative to their expectations
Number of respondents is shown under each category; some respondents chose "not sure" and their responses are not considered here



Source: GIIN, J.P. Morgan

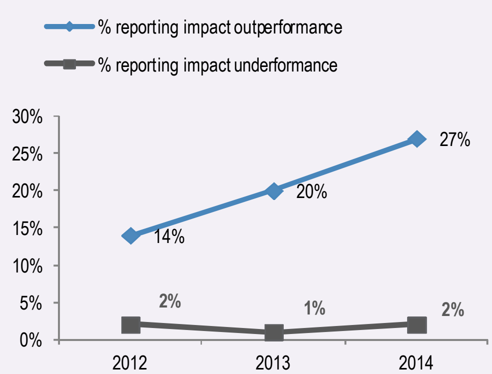
Figure 37: Respondents' portfolio performance relative to their expectations, by region of investment
Number of respondents is shown under each category; some respondents chose "not sure" and their responses are not considered here



Source: GIIN, J.P. Morgan

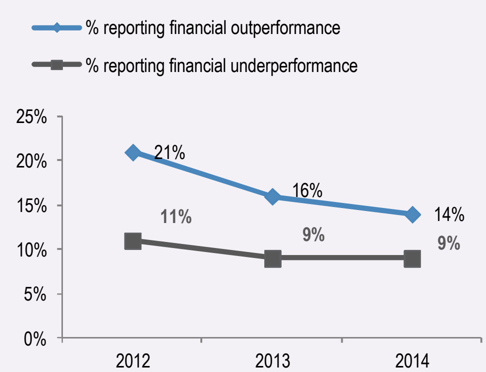
Figure 38: Trend analysis: Looking at reported performance for the last 3 years[33]

Impact performance



2012 n=91; 2013 n=119; 2014 n=139

Financial performance



2012 n=95; 2013 n=122; 2014 n=139

Source: GIIN / J.P. Morgan surveys since 2013.

Exits

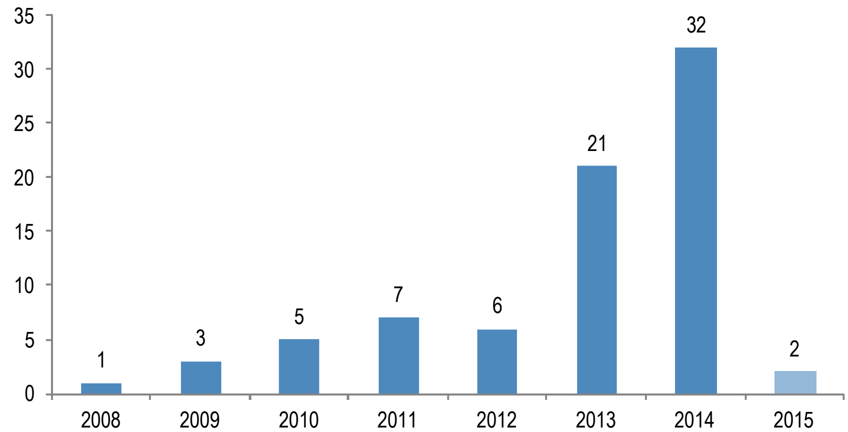
For the third year in a row, "difficulty exiting investments" was highlighted as one of the top 3 challenges in the impact investing sector (see Table 9). While last year we endeavored to provide examples of successful exits in the market (based on public information), this year we included a few exit-related questions in our survey with the intention of starting to build a data set of private equity exits.

We asked our respondents (65% of them make direct private equity investments) to share information about the last five equity investments they have exited. As shown in Figure 39, this covered a total number of 77 exits, 70% of which were realized in 2013 and 2014.

[33] Readers should note that not only are sample sizes different from one year to the next, but samples themselves are different, e.g. not all respondents who answered in 2013 also answered in 2014.

Figure 39: Year of sample private equity exits

n = 77 exits



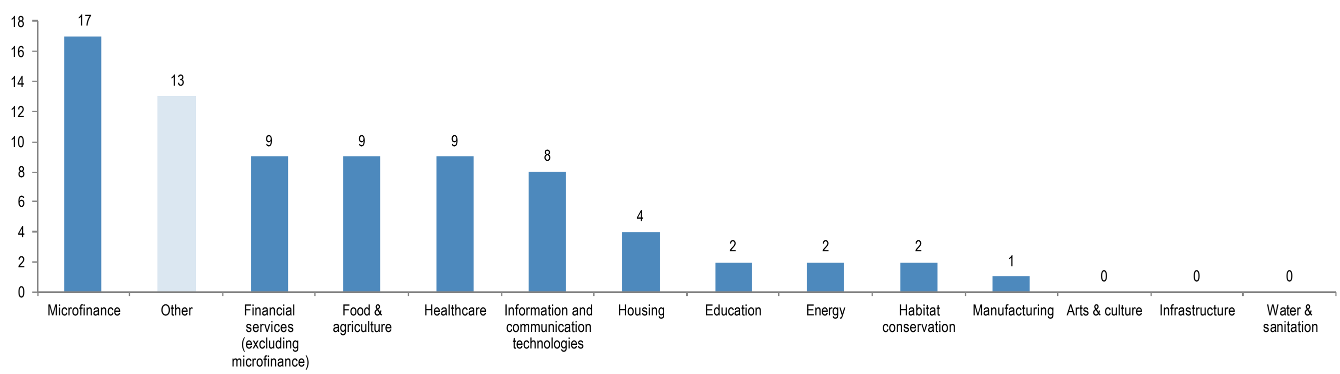
Source: GIIN, J.P. Morgan.

The number of exits diverged significantly among certain groups of investors. Most exits were from Fund managers (59 out of 77) and from Competitive-return Investors (52, with another 22 from Closer-to-market Investors and only 3 from Capital-preservation investors).

Unsurprisingly, Microfinance is the sector with the highest number of exits, making up 22% of total exits. As shown in Figure 40, if we combine Microfinance and Financial services (excluding microfinance), the total number of exits reaches 26, or 34% of all exits in our sample. Food & Agriculture and Healthcare account each for 12% of exits in our sample. Notably, the 17 microfinance exits were all realized by Fund managers (11 by Competitive-return Fund managers and 6 by Closer-to-market Fund managers).

Figure 40: Sample private equity exits by sector[34]

Number of exits is shown above each category, n=76 exits

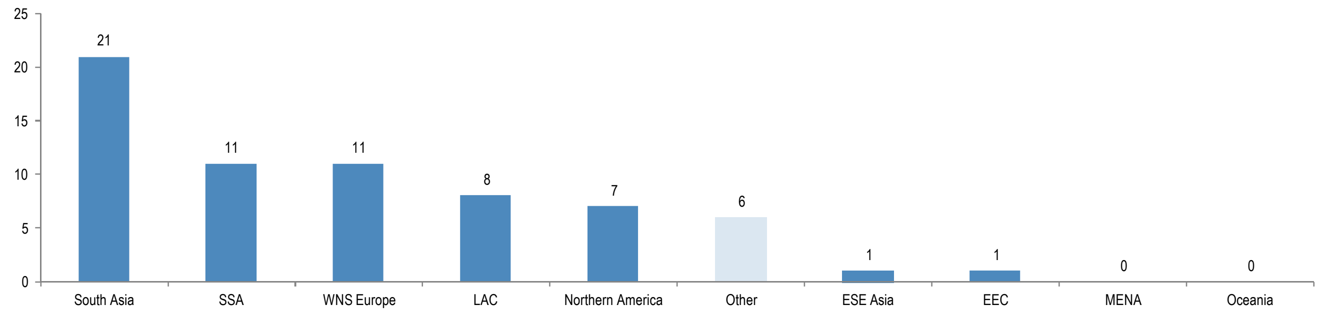


Source: GIIN, J.P. Morgan.

[34] "Other" sectors reported here include Business Services, Tourism and Recycling.

Diving deeper into the geography of these exits, we find that South Asia is home to the highest number of exits (32%), followed by sub-Saharan Africa and WNS Europe (17% each, Figure 41). Interestingly, most exits in WNS Europe (10 out of 11) were realized by Competitive-return Investors while a large portion of exits in Sub-Saharan Africa (7 out of 11) were realized by Closer-to-market Investors.

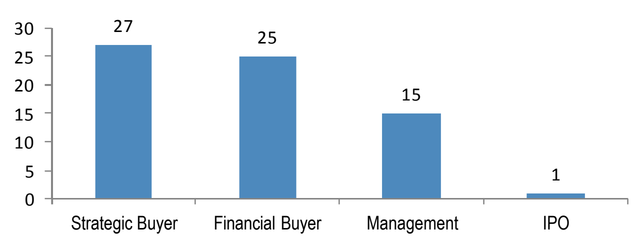
Figure 41: Sample private equity exits by geography
Number of exits is shown above each category, n= 66 exits



Source: GIIN, J.P. Morgan.

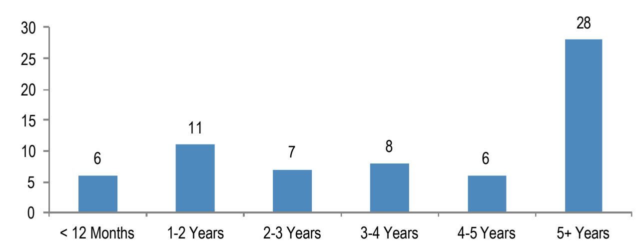
We also asked our respondents to share information about the holding period of their investments prior to exit, and the exit mechanism for these investments. As Figure 42 shows, selling to a strategic buyer is the most frequent exit route, closely followed by selling to a financial buyer (40% and 37% of exits respectively), while there was only one IPO reported (a microfinance investment in South Asia). Interestingly, 42% of reported exits were investments held for longer than five years, and 32% were investments held between two and five years (Figure 43). Looking only at Competitive-return Investors, the percentage of investments exited held for more than five years is lower at 29%, with 46% of exits being investments held for three years or less and 25% between three and five years.

Figure 42: Last five exits of our respondent sample by exit mechanism
Number of exits is shown above each category, n= 68 exits



Source: GIIN, J.P. Morgan

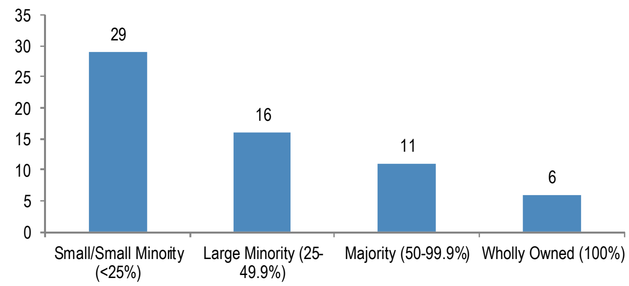
Figure 43: Sample private equity exits by holding period
Number of exits is shown above each category, n= 66 exits



Source: GIIN, J.P. Morgan

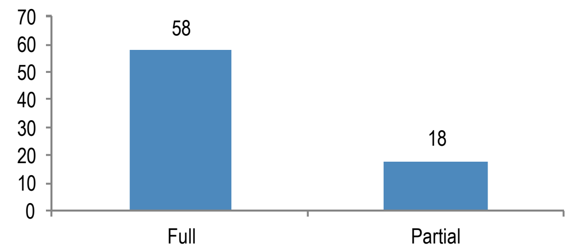
Among our exits sample, nearly half (47% or 29 deals) were small minority stakes, about 26% (16 deals) were large minority stakes and 10% were wholly owned (6 exits, Figure 44). When exiting, in the majority of cases (58 exits, 76%) investors managed to sell their entire stake; only 24% of exits were partial, as shown in Figure 45.

Figure 44: Sample private equity exits by stake sold
Number of exits is shown above each category, n= 62 exits



Source: GIIN, J.P. Morgan

Figure 45: Sample private equity exits by exit type
Number of exits is shown above each category, n= 76 exits



Source: GIIN, J.P. Morgan

Tag-along rights: If a majority shareholder sells his or her stake, then the minority shareholder has the right to join the transaction and sell his or her minority stake in the company. This right protects minority shareholders.

Drag-along rights: If a majority shareholder sells his stake, minority holders are forced to join the deal. This right protects majority shareholders.

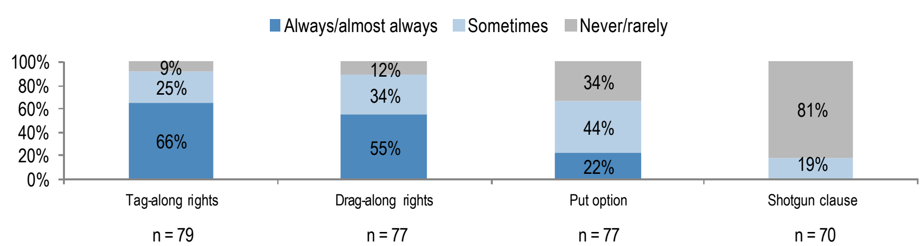
Put option: Agreement through which the investee company will buy back the stake of the investor at a mutually agreed internal rate of return.

Shotgun clause: A shotgun clause allows a shareholder to offer a specific price per share for the other shareholder(s)' shares; the other shareholder(s) must then either accept the offer or buy the offering shareholder's shares at that price per share.

Mission drift: Risk that an organization's priorities or activities shift away from its original purpose or mission.

We also asked respondents about approaches they use to mitigate exit/liquidity risk, and found that respondents usually adopt more than one method. Sixty-six percent always or almost always include tag-along rights and 55% always or almost always include drag-along rights, as shown in Figure 46.

Figure 46: Clauses used to mitigate exit/liquidity risk
Number of respondents is shown under each category

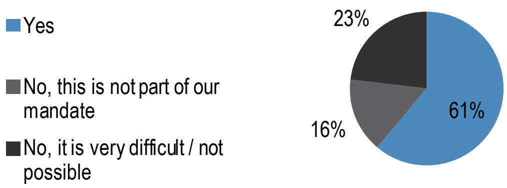


Source: GIIN, J.P. Morgan.

The risk of mission drift is one that is particular to impact investing, and we asked private equity investors about this topic. When exiting, 61% of respondents attempt to mitigate the risk of mission drift (Figure 47, n=95), and this proportion is consistent for both Later-stage and Early-stage Investors. The rest either find it too difficult to do so (23%) or do not consider mitigating the risk of mission drift to be part of their mandate (16%).

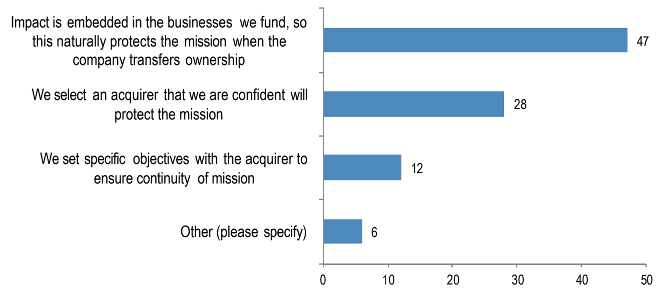
Of those who do attempt to mitigate the risk of mission drift, most respondents (47) indicated that impact is embedded in the businesses they fund, hence providing a natural protection for the impact mission. Twenty-eight respondents said they seek to sell to an investor that they are confident will protect the mission of the business, while only 12 respondents set specific objectives with the acquirer to ensure continuity of the mission (Figure 48).

Figure 47: Whether private equity investors try to mitigate the risk of mission drift at exit
n = 95



Source: GIIN, J.P. Morgan

Figure 48: Means of mitigating mission drift risk at the exit stage
Number of respondents shown next to each bar; Respondents chose all that apply



Source: GIIN, J.P. Morgan

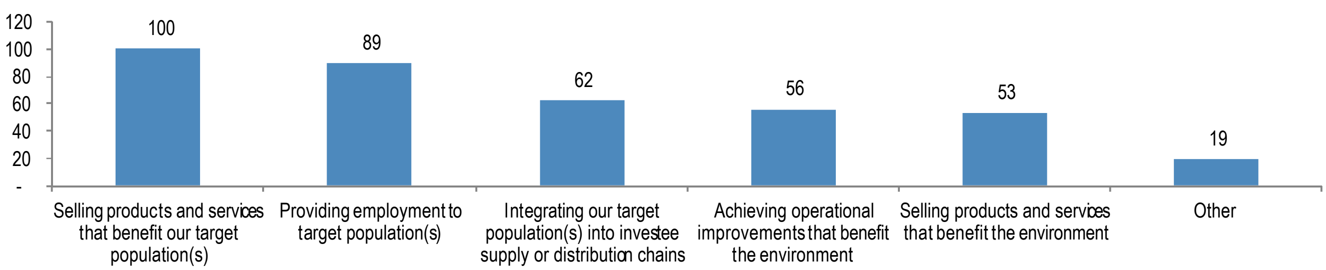
Impact performance management

Setting impact objectives and managing performance toward those objectives is a core element of impact investing practice. Overall, more than half of our respondents (56%) reported primarily targeting social impact, while 5% target primarily environmental impact, and 39% include both social and environmental objectives. This year we asked respondents a more detailed set of questions relating to how they seek to achieve impact, and how that impact is managed and measured.

Common impact strategies include investing in products and services that benefit target populations and generate employment

Investors in the sample seek to generate social and environmental impact in a variety of ways. As shown in Figure 49, the largest number of respondents seeks impact through investments in businesses that sell products or services to benefit a target population (100 respondents, or 68%). This is followed by providing employment to target populations (89 respondents, or 61%). In addition, a good proportion of respondents seeks to achieve impact by integrating target populations into supply or distribution chains (42%), targeting operational improvements that benefit the environment (38%), and selling products or services that benefit the environment (36%). The lower ranking of the latter two options is consistent with the sample's skew toward investors with a social impact focus.

Figure 49: Respondents' strategies for achieving social and/or environmental impact
Number of respondents that responded for each option is shown above each bar



Source: GIIN, J.P. Morgan.

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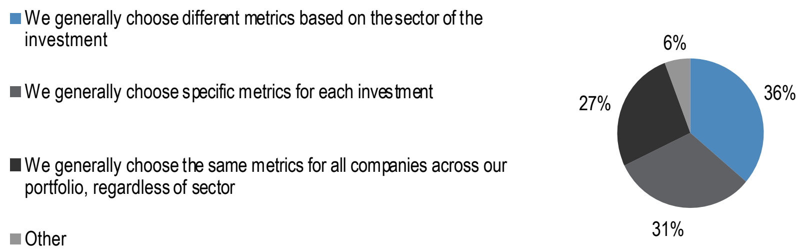
Variation seen in investor methods for selecting metrics

We also asked our sample how exactly they go about choosing metrics that they track. Respondents were split fairly evenly between choosing metrics by sector (36%, Figure 50), by specific investment (31%), and using the same metrics across their entire portfolio (27%). Sixty percent of respondents use metrics that are aligned with IRIS, while 58% use proprietary metrics (some use both).[35] Forty-one percent of respondents use qualitative anecdotes, while only two respondents (1%) do not measure social/environmental impact (Figure 51). Many respondents also report using standard frameworks, such as GIIRS, which are built on IRIS metrics.[36]

Figure 50: Respondents' methods for choosing metrics

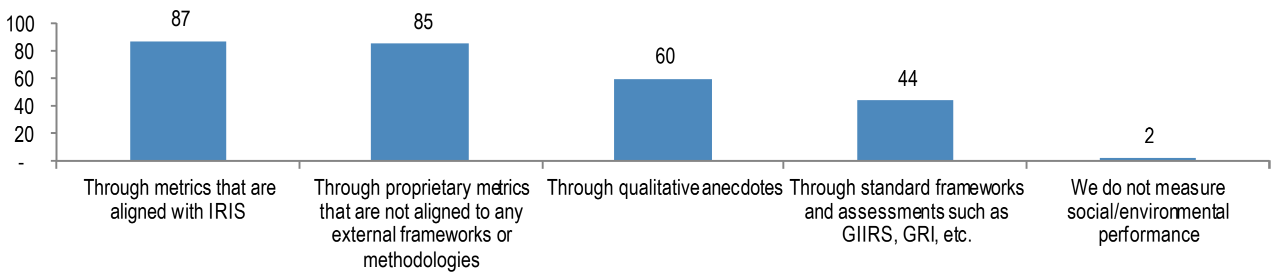
n=143



Source: GIIN, J.P. Morgan.

Figure 51: How social/environmental performance of investees is measured

Number of respondents that responded for each option is shown above each bar



Source: GIIN, J.P. Morgan.

35 IRIS is the catalogue of generally accepted performance metrics that leading impact investors use to measure social, environmental, and financial success. IRIS is managed by the Global Impact Investing Network. See more at www.iris.thegiin.org.

36 GIIRS (Global Impact Investment Ratings System) is a framework that measures a company's or fund's social and environmental impact. The GIIRS tool uses IRIS metrics in conjunction with additional criteria to come up with an overall company- or fund-level rating, as well as targeted sub-ratings in the categories of governance, workers, community, environment, and socially- and environmentally-focused business models. See more at http://b-analytics.net/giirs-ratings.

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Outputs: Direct products of an organization's activities (e.g., clients provided services, goods produced, trainings delivered).

Outcomes: Changes occurring as a result of the activities and outputs (e.g., client savings, higher student graduation rates).

Benchmark: Comparison against external performance data in a particular sector.

Attribution: An understanding of what proportion of the impact that occurred was caused due to your investment and not other factors (e.g., market growth or participation of other parties).

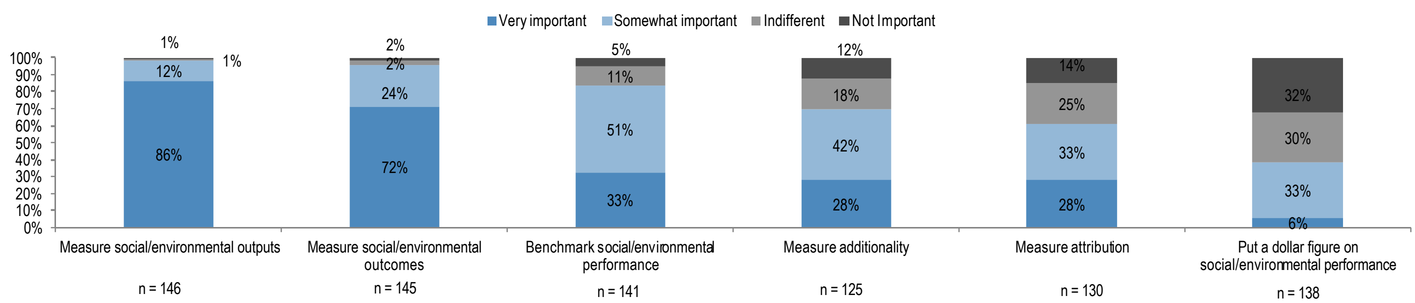
Additionality: Proof that impact would not have occurred had your organization not made this investment.

Measurement focuses on outputs and outcomes

When asked how important various impact measurement practices are, respondents placed the greatest importance on measuring outputs and outcomes (Figure 52). Most respondents also find it at least somewhat important to benchmark social/environmental performance against external data. By contrast, less than 40% of respondents reported that putting a dollar figure on social/environmental performance is at least somewhat important (with only 6% reporting it as "very important"). Measuring additionality and attribution are somewhat or very important to 70% and 60% of respondents respectively. Several respondents also noted qualitatively that it is prohibitively difficult or costly to measure additionality and attribution accurately.

Figure 52: Importance of various types of impact measurement

Number of respondents that responded for each option is shown under each category



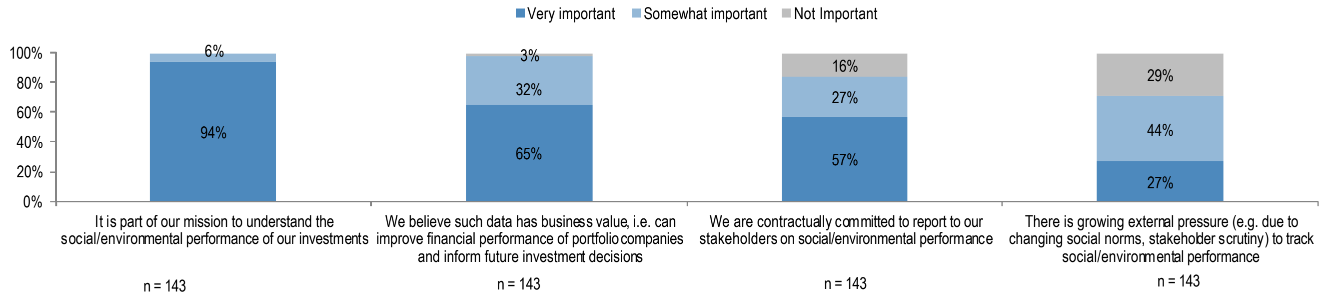
Source: GIIN, J.P. Morgan.

Mission drives investors to track social/environmental performance

We asked investors about their top motivations for measuring social and environmental performance. Intrinsic motivations for tracking performance (such as mission and business value) were found to be more important than extrinsic motivations (such as contractual commitments or external pressure). As shown in Figure 53, nearly all respondents (94%) selected "it is part of our mission to understand the social/environmental performance of our investments" as "very important", while the remaining 6% selected "somewhat important." The business value of this information for improving the financial performance of portfolio companies and informing future investments is "very important" to 65% of respondents and "somewhat important" to 32%. A contractual commitment is "very important" to more than half of respondents, while external pressure from social norms and stakeholder scrutiny is "very important" to just 27% and "not important" to 29%.

Figure 53: Reasons for tracking social and/or environmental performance

Number of respondents that responded for each option is shown under each category



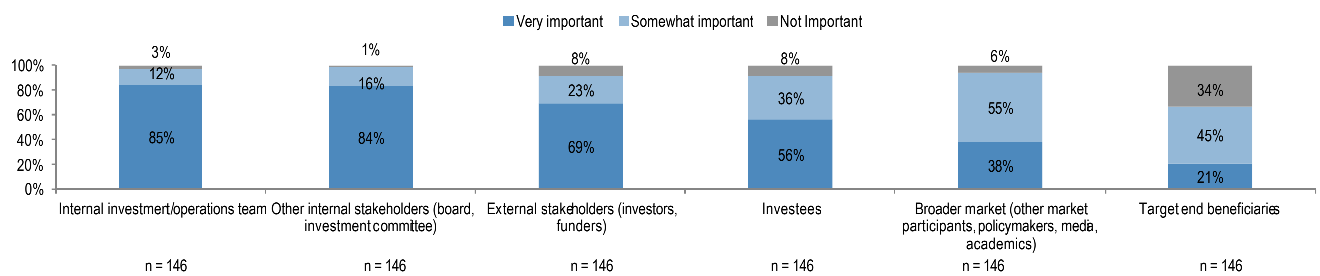
Source: GIIN, J.P. Morgan.

Social/environmental performance data primarily for internal use

We asked respondents about the importance of sharing learning on social and/or environmental performance with a variety of different types of stakeholders. A large majority of respondents said it was "very important" to share data on social/environmental performance with various internal stakeholders, e.g. staff, boards, and investment committees (Figure 54). Sharing this information with external stakeholders (such as funders or investors) as well as investees is also "very important" to a majority of respondents, while a smaller proportion felt it was "very important" to share this data with broader market participants. Meanwhile, 34% felt it was "not important" to share this information with target beneficiaries.

Figure 54: Importance of sharing learning on social/environmental performance with stakeholders

Number of respondents that responded for each option is shown under each category

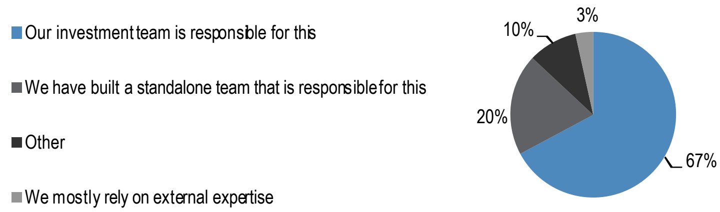


Source: GIIN, J.P. Morgan.

Most respondents manage social/environmental performance via their investment teams

Two-thirds of respondents indicated that investment teams are principally in charge of managing social and/or environmental performance (Figure 55). Twenty percent have a standalone team or dedicated staff member for this purpose. Only 3% of respondents rely mostly on external expertise to manage social and/or environmental performance of their investments. Of the 10% of respondents that reported "other", several noted that they use a combination of internal staff and external expertise.

Figure 55: Responsibility for social/environment performance management
n=146

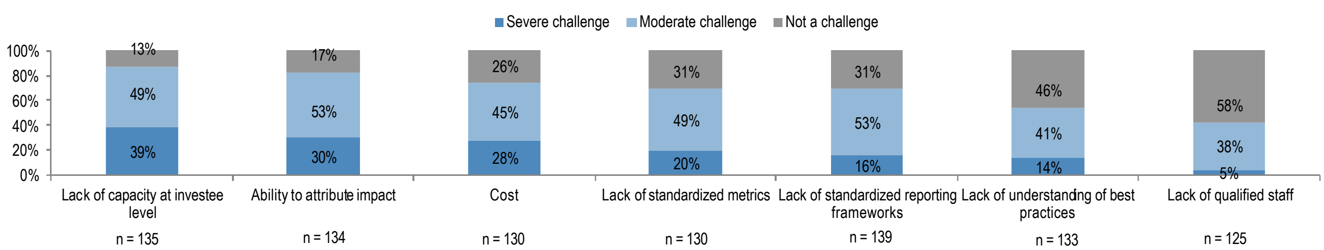


Source: GIIN, J.P. Morgan.

The main performance management challenges include lack of capacity at investee level and ability to attribute impact

As shown in Figure 56, 88% of respondents reported that lack of capacity at the investee level is at least a "moderate challenge" to managing social and/or environmental performance, though only 39% said it was a "severe challenge". A majority also noted that ability to attribute impact, cost of measurement, and lack of standardized metrics or reporting frameworks pose challenges to some degree. Almost half said that lack of understanding of best practices was not a challenge, while 58% felt that lack of qualified staff was not a challenge either.

Figure 56: Challenges faced in management social/environmental performance
Number of respondents that responded for each option is shown under each category



Source: GIIN, J.P. Morgan.

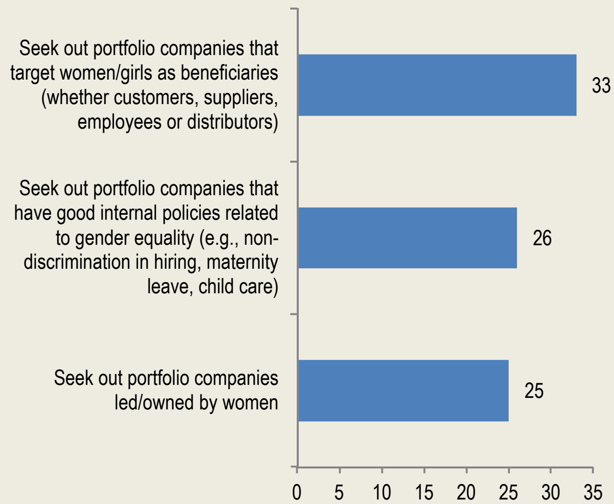
This year we wanted to learn specifically about two impact themes: gender equality and environmental conservation. We asked respondents two questions about each: whether they target these impact objectives, and if so, through which mechanisms.

Gender

About a third of respondents (50) explicitly target gender equality or women's empowerment. Interestingly, there are some variations by investor type. While 47% of Debt Investors target this theme, just 29% of Equity Investors do so. Further, while 41% of Later-stage Investors target this theme, just 18% of Early-stage Investors do so. However, a similar proportion of DM-focused Investors as EM-focused investors focus on this theme. Among these overall 50 respondents, the most common way of achieving gender goals is by seeking out portfolio companies that target women and/or girls as beneficiaries (Figure 57).

Figure 57: Achieving gender equality/women's empowerment

Number of respondents that chose each option is show next to bar



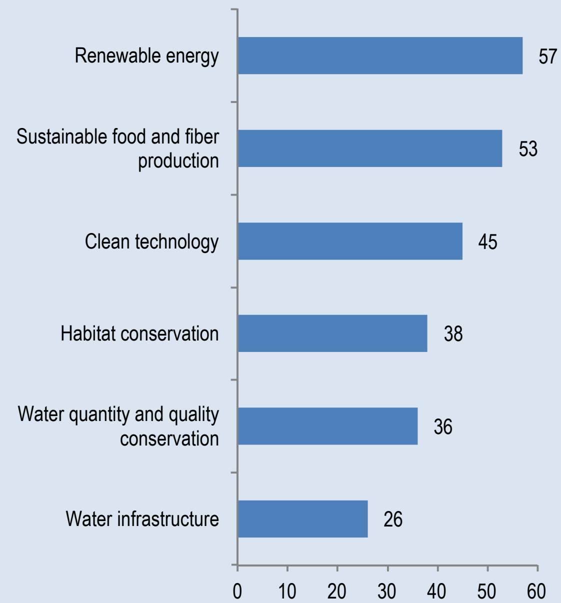
Source: GIIN, J.P. Morgan.

Environment

Fifty-three percent of respondents target environmental conservation within their impact investing activities. Among these respondents, the most common sectors are renewable energy and sustainable food and fiber production, followed by clean technology (Figure 58).

Figure 58: Conservation investors' sectors

Number of respondents that chose each option is show next to bar



Source: GIIN, J.P. Morgan.

➢ Zooming in: Conservation finance

In 2014, JPMorgan Chase served as the founding sponsor of NatureVest, a new initiative of The Nature Conservancy focused on conservation finance. In November 2014, NatureVest released its first research report: "Investing in conservation: a landscape assessment of an emerging market".[37]

The report, which was co-authored by EKO Asset Management Partners, surveyed 56 investors who are active in the conservation finance landscape and were responsible for 1,300 transactions from 2004 to 2013.[38] It found evidence of rapid growth and increasing interest in the market. Through an investor survey, the report documented USD 23.4bn in global conservation impact investments from 2009 through 2013.

- Investments by development finance institutions (DFIs) such as the International Finance Corporation totaled USD 21.5bn.
- Private investments accounted for USD 1.9bn. While private investment accounted for a small share of the total market, it grew at an average rate of 26% annually from 2009 through 2013. Further, from 2014 through 2018, private investors expect to deploy USD 1.5bn of already-raised capital and raise and invest an additional USD 4.1bn.
- Sustainable food and fiber production projects, including forestry and agriculture, accounted for two-thirds of all private conservation investment.
- Investors also reported challenges consistent with an immature market, such as a shortage of investment prospects with appropriate risk-return profiles and experienced management teams, and a lack of standardized impact metrics.

[37] The NatureVest report was co-authored by EKO Asset Management Partners and The Nature Conservancy's NatureVest division. It was overseen by a steering committee that also included the David and Lucile Packard Foundation, The Gordon and Betty Moore Foundation, and JPMorgan Chase & Co. It is available here.

[38] Conservation impact investments were defined as investments intended to return principal or generate profit while also driving a positive impact on natural resources and ecosystems – specifically, decreased pressure on a critical ecological resource and/or the preservation or enhancement of critical habitat.

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Risk and loss protection

As in previous years, we asked our respondents to share their views about the key risks they face in the impact investing market. We also asked them about the extent to which they use loss protection tools and mechanisms to manage part of these risks.

Risk

Eighty-nine percent of respondents reported no significant risk events in 2014

As shown in Table 11, 16 of our 146 respondents reported covenant breaches or significant adverse changes in their portfolios over the course of 2014. One made reference to a currency slide, while another cited changes in the political framework for the education sector, affecting the performance of education funds. Overall, 18% of Debt Investors reported covenant breaches or material adverse changes, whereas just 8% of Equity Investors did so. Last year's survey, while a different sample, reported a similar percentage of respondents that have not experienced significant risk events (92%, n=125).

Table 11: Significant risk events

n=146

	#	%
Yes	16	11%
No	130	89%

Source: GIIN, J.P. Morgan.

Business model execution & management risk remains the clear priority concern

Our survey in each of the last two years revealed that "business model execution & management risk" was the top contributor of risk to respondents' portfolios, and this emerged again this year as the biggest concern facing investors (see Table 12). "Liquidity and exit risk" ranked second, followed by "country and currency risk". In general, the rankings are consistent with those in last year's survey. Some respondents highlighted political and environmental risks, which were not explicitly captured in the options shown in the table. "Liquidity and exit risk" ranked fourth for Debt Investors, while "financial risk" ranked third for Equity Investors. Not surprisingly perhaps, whereas "liquidity and exit risk" ranked second for Competitive-return Investors, it ranked fourth for those pursuing below-market returns.

Trend analysis: Looking at last 3 years

"Business model execution & management risk" was singled-out as the most important contributor of risk in the past three surveys.

Table 12: Contributors of risk to impact investment portfolios

n=146

Rank	Score	
1	288	Business model execution & management risk
2	132	Liquidity & exit risk
3	115	Country & currency risk
4	106	Market demand & competition risk
5	98	Financing risk
6	91	Macroeconomic risk
7	34	Perception & reputational risk

Source: GIIN, J.P. Morgan.

Loss protection

In last year's report, investors reported on the provision of credit enhancement or "catalytic capital" in the impact investing industry. This year, we asked about the use of mechanisms to limit investor exposure in the event of a loss from a slightly different angle, focusing on the use of loss protection over the past year.

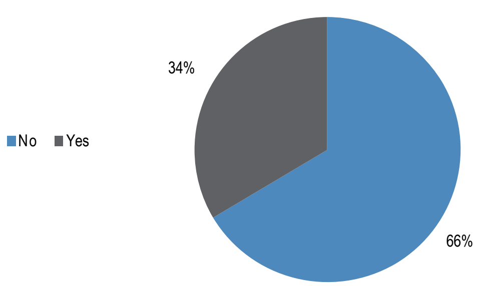
Loss protection:

Loss protection refers to a mechanism that fully or partially limits the exposure of an investor in the event of a loss from an investment. Examples include guarantees and first-loss pools.

First-loss reserve and guarantee most common forms of loss protection

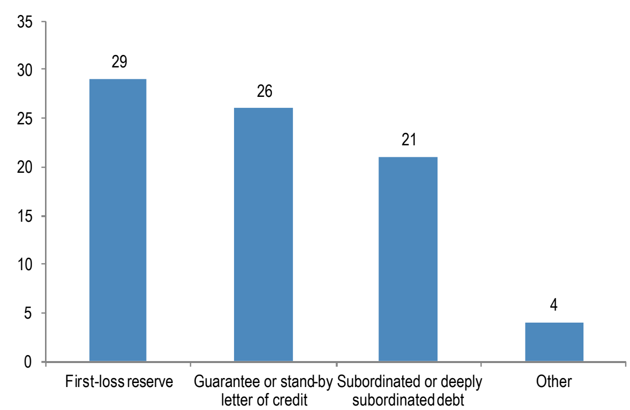
As shown in Figure 59, 34% of our respondents participated in an investment with a loss protection feature in 2014. Not surprisingly, 45% of Debt Investors participated in such an investment, while just 19% of Equity Investors did so. Of the 49 respondents that participated in a transaction with loss protection in 2014, 17 are fund managers, 10 are foundations, five are diversified financial institutions, five are development finance institutions, and three are pension funds or insurance companies. As illustrated in Figure 60, first-loss reserve is the most commonly used type of loss protection feature, followed by guarantees or stand-by letters of credit.

Figure 59: Impact investors taking part in investments with a loss protection feature in 2014
n = 146



Source: GIIN, J.P. Morgan.

Figure 60: Financial instruments used for loss protection
Number of respondents shown above each bar; Respondents chose all that apply

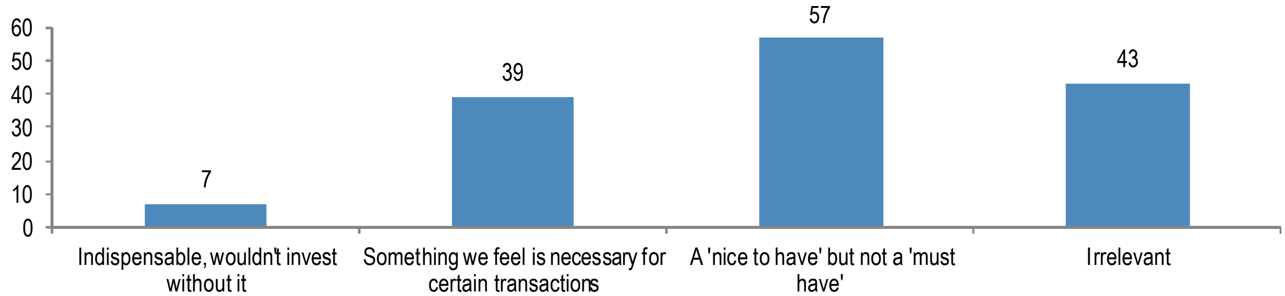


Source: GIIN, J.P. Morgan.

Loss protection not seen as essential to impact investments

Interestingly, when asked about the importance of loss protection features in their impact investments, only seven respondents (5%) chose "indispensable, wouldn't invest without it" while 27% said it is necessary for certain transactions (Figure 61). A further 39% see it more has a "nice to have but not a must-have", while 29% consider it irrelevant. Overall, 25% of Debt Investors indicated that they believe loss protection will become more important for them in future, while just 11% of Equity Investors did so.

Figure 61: Importance of loss protection to respondents
Number of respondents is shown above each bar



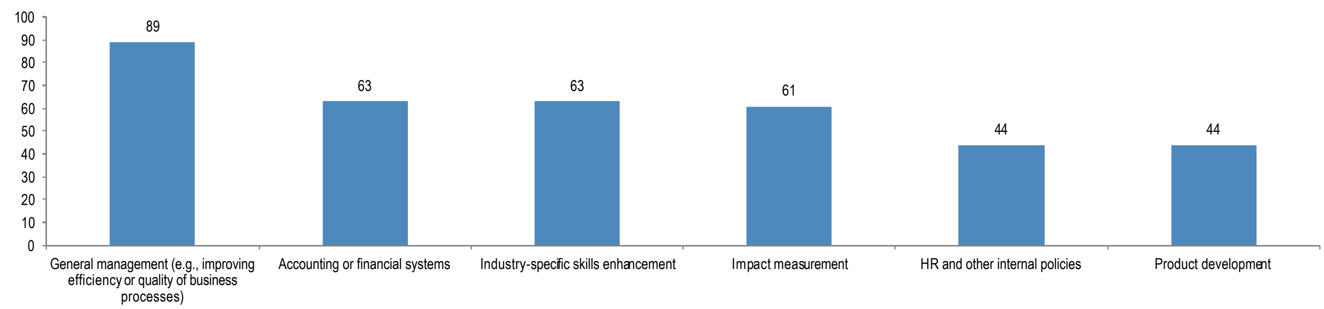
Source: GIIN, J.P. Morgan.

Technical assistance

Technical assistance can mean a variety of things, but generally includes support from third-party specialists who provide training or consulting services to companies. In the context of impact investing, technical assistance is often provided to investee companies to help them improve one or more business management or impact measurement areas. This year we took a closer look at technical assistance to understand who provides it, what it is used for, and how it is funded and structured.

Seventy-three percent of respondents provide technical assistance to investees, either in-house and/or through third parties. The most common use of technical assistance is general management support, followed by assistance with accounting and financial systems and industry-specific skills enhancement. Impact measurement is also a common focus area for technical assistance (Figure 62).

Figure 62: Use of technical assistance provided
Number of respondents that responded for each option is shown above each bar, (n=107)

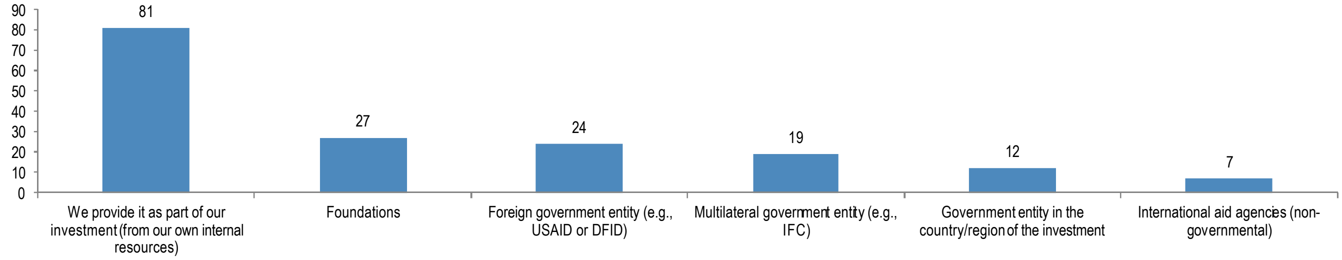


Source: GIIN, J.P. Morgan.

Funding for technical assistance comes from a variety of sources. As shown in Figure 63, the majority of investors who provide technical assistance reported that the financing comes from their own internal resources as part of their investment (76%) rather than from third parties such as foundations, governments, or aid agencies. Fifty-six percent of those who provide technical assistance receive at least some external source of funding (whether or not they also provide it via their internal financial resources).

Figure 63: Funding for technical assistance provided

Number of respondents that responded for each option is shown above each bar, (n=107)

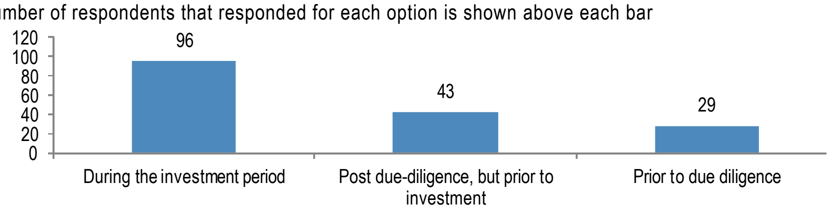


Source: GIIN, J.P. Morgan.

Interestingly, technical assistance is not just provided post-investment. While most respondents who provide technical assistance do so during the investment period (90%, Figure 64), a notable proportion do so after due diligence but before investment (40%) and over a quarter do so even prior to due diligence (27%).

Figure 64: Stage of technical assistance use

Number of respondents that responded for each option is shown above each bar



Source: GIIN, J.P. Morgan.

In focus: The intermediary market

Fund managers

Fund managers raised USD 4.7bn in 2014, target raising USD 7.1bn in 2015

Since they make up more than half of our sample, we asked fund managers specifically about their particular experience in the market over 2014. As a group, the fund managers that participated in our survey reported having raised USD 4.7bn in 2014 and target raising USD 7.1bn in 2015, as shown in Table 13. Per manager, the average raised last year was USD 90mm and the median USD 22mm; the targets for 2014 are USD 109mm and USD 50mm at the average and median, respectively.[39] Seven fund managers reported raising USD 200mm or more in 2014 and 11 reported plans to raise USD 200mm or more in 2015.

Table 13: Reported capital raised for 2014 and targeted for 2015

	Raised in 2014 (n=52)	Target raise for 2015 (n=65)
Mean	90	109
Median	22	50
Sum	4,702	7,082

Source: GIIN, J.P. Morgan.

Note: excluding funds that did not answer or reported "0" for the calculation of mean and median

This year, we also asked our fund managers respondents how long it took them to fundraise, and on average they indicated it took them about a year to reach a first close and another 15 to 16 months to reach a final close (Table 14).[40]

Table 14: Reported fundraising period for fund managers

	First close (months, n=66)	Second close (months, n=47)
Mean	11	16
Median	12	15

Source: GIIN, J.P. Morgan.

Thirty-nine fund managers responded to the survey both last year and this year. Overall, this repeating group raised 23% more capital in 2014 than in 2013, though this amount was 13% less than they had targeted for 2014 (Table 15). Twenty-four of the 39 fell short of their target, seven met it, and eight exceeded it. They target raising 11% more in 2015 than they raised in 2014 (from nearly USD 3bn to USD 3.3bn).

Table 15: Reported capital raised by fund managers who responded this year and last year

n = 39

	Raised in 2013	2014 Target	2014 Actual	2015 target	Increase 2014 vs. 2013	Difference vs. target (2014)
Sum	2,415	3,414	2,968	3,304	23%	-13%

Source: GIIN, J.P. Morgan. Note: excluding funds that reported "0" for the calculation of mean and median

More funds raised by managers headquartered in developed markets

About seventy percent of fund manager respondents are headquartered in developed markets. These funds raised USD 4.0bn in 2014 with a median of USD 19mm (Table 16). Funds headquartered in emerging markets meanwhile, raised a much smaller USD 446mm overall, but much more at the median (USD 30mm). Looking ahead, however, at the median DM-HQ funds plan to raise USD 50mm, while EM-HQ funds plan to raise USD 45mm at the median.

Table 16: Reported capital raised for 2014 and targeted for 2015, by location of headquarters

	Raised in 2014		Target raise for 2015	
	DM-HQ (n=38)	EM-HQ (n=12)	DM-HQ (n=49)	EM-HQ (n=15)
Mean	106	37	118	85
Median	19	30	50	45
Sum	4,022	446	5,786	1,275

Source: GIIN, J.P. Morgan. Note: excluding funds that did not answer or reported "0" for the calculation of mean and median

[39] In calculating mean and median figures we exclude "0" responses.

[40] We formulated the question asking respondents how many months it took them to raise their last fund (from release of their PPM)

EM-focused funds and DM-focused funds raise close amounts on average

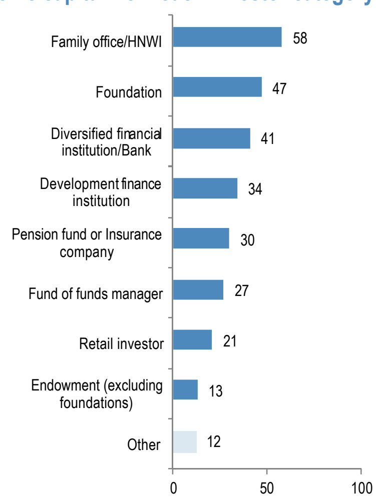
If we split the sample by regional focus, we see other trends as illustrated in Table 17. For example, funds focused on EM raised USD 2.7bn in 2014 (USD 77mm on average), while those focusing on DM raised USD 2.0bn (USD 119mm on average). The gap is slightly larger when looking at fundraising targets for 2015 with USD 4.1bn for funds focused on EM compared to USD 3.0bn for funds focused on DM. The main reason for this is the higher number of funds with a focus on EMs, given that, on average, the target raise is higher for DM-focused funds vs. EM-focused funds (USD 126mm versus USD 99mm).

Table 17: Reported capital raised for 2014 and targeted for 2015, by regional investment focus

	Raised in 2014		Target raise for 2015	
	DM-focused (n=17)	EM-focused (n=35)	DM-focused (n=24)	EM-focused (n=41)
Mean	119	77	126	99
Median	18	22	38	50
Sum	2,023	2,680	3,033	4,050

Source: GIIN, J.P. Morgan. Note: excluding funds that did not answer or reported "0" for the calculation of mean and median

Figure 65: Number of respondents that have some capital from each investor category



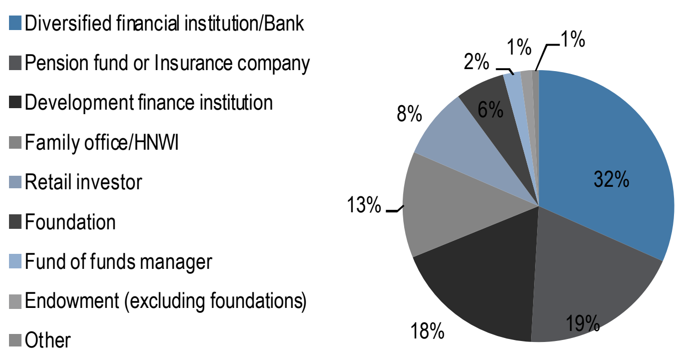
Source: GIIN, J.P. Morgan.

Funds have a diverse array of capital sources, with Diversified Financial Institutions in the lead

Fund managers reported current impact investment assets under management of USD 38bn, 32% of which come from diversified financial institutions/banks, as shown in Figure 66. The next largest investor groups are all fairly even in the amounts they contribute with Pension funds or Insurance companies (19%), Development finance institutions (18%) and Family offices/high net worth individuals (HNWIs, 13%) providing the majority of the residual capital. This data is calculated as an average weighted by assets under management. Figure 65 presents a couple of interesting contrasts with the amounts of capital illustrated in Figure 66. Family offices/HNWIs contribute to 58 managers' portfolios—more than any other investor segment even though they represent only 13% of fund manager AUM. Foundations are the second highest in the count, though they contribute just 6% of fund manager AUM.

Figure 66: Primary investors in funds in terms of percentage of total capital

n = 80; AUM-weighted average; Total AUM = USD 38bn



Source: GIIN, J.P. Morgan.

Examining this data in more detail in Table 18, we find that splitting the sample by location of headquarters gives a dominant contribution from DFIs into fund managers based in emerging markets (they provide 74% of the capital our 22 EM-HQ fund manager respondents manage versus 11% for the 56 DM-HQ funds). Similarly, Diversified institutions/banks provide 35% of the capital for DM-HQ funds compared to 10% for EM-HQ funds. We also note a decreased contribution from Pension funds or Insurance companies (only 4% of the capital for EM-HQ funds versus 21% for DM-HQ funds) as well as from Retail investors (almost no contribution in the capital of EM-HQ funds versus 10% for DM-HQ funds).

Table 18: Primary investors in terms of percentage of total capital by location of headquarters

Sector	All funds (n=80), %	DM-HQ fund manager (n=56), %	EM-HQ fund manager (n=22), %
Diversified financial institution/Bank	32%	35%	10%
Pension fund or Insurance company	19	21	4
Development finance institution	18	11	74
Family office/HNWI	13	13	9
Retail investor	8	10	0
Foundation	6	6	2
Fund of funds manager	2	2	0
Endowment (excluding foundations)	1	2	0
Other	1	1	0
Total	100	100	100

Source: GIIN, J.P. Morgan.

Indirect investors

Out of our 146 respondents, 54 (37%) indicated that they invest through intermediaries/General Partners (regardless of whether they also invest directly into companies).[41] Many view the intermediary market as a critical factor in delivering capital at scale and facilitating the participation of large institutional investors, so we asked respondents that invest through intermediaries for their views on the most attractive structures and structural features.

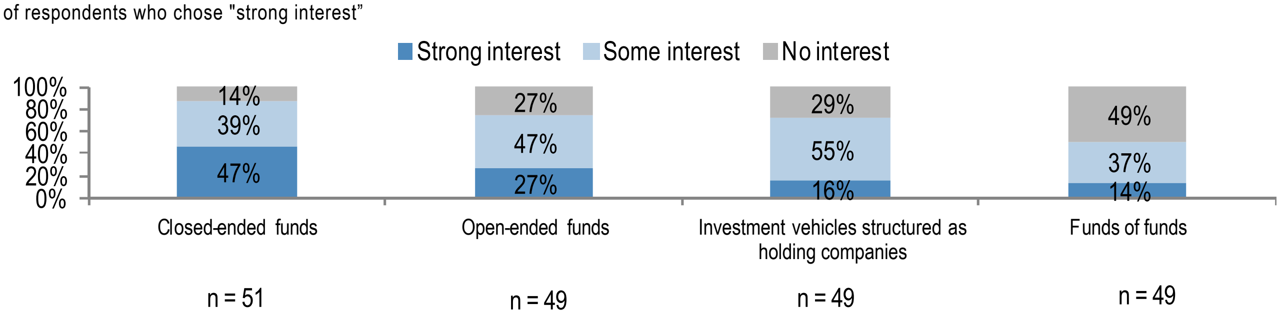
Closed-ended funds most attractive; funds of funds less attractive

Almost half of indirect investors indicated a strong interest in closed-ended funds (47%, n=51).

First, we asked respondents to indicate their levels of interest in using different investment structures. As shown in Figure 67, we found that 86% of respondents indicated interest in closed-ended funds (47% indicated strong interest, n=51), compared to lower levels of interest for open-ended funds (27% indicated strong interest, n=49) and holding companies (16%, n=49), while 49% indicated no interest in funds of funds structures (n=49).

Figure 67: Respondents' interest in structures

Number of respondents is shown under each structure; some respondents chose "not sure" and their responses are not considered here. Ranking by number of respondents who chose "strong interest"



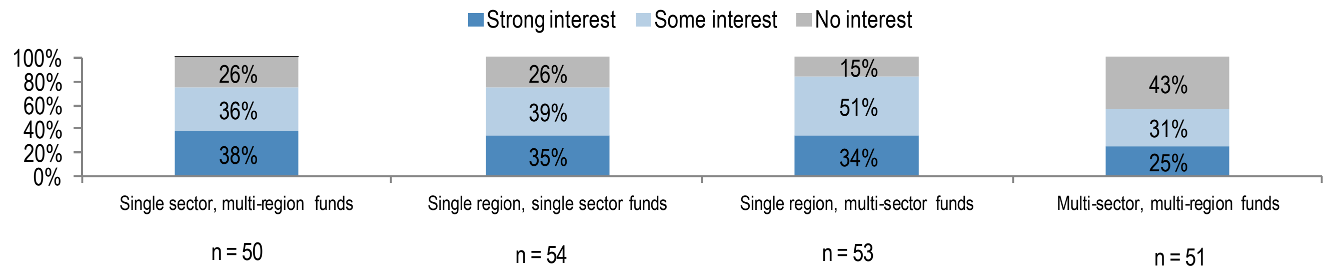
Source: GIIN, J.P. Morgan.

41 However, as mentioned earlier (see Figure 32), indirect investments account for only 20% of our total impact investments under management.

Respondents also showed significant interest in funds with a focus on either a single region or a single sector, as shown in Figure 68. Multi-region, multi-sector funds seem to be less attractive, with 43% of respondents indicating no interest in such strategies.

Figure 68: Respondents' interest in investment strategies

Number of respondents is shown under each strategy; some respondents chose "not sure" and their responses are not considered here. Ranking by number of respondents who chose "strong interest"



Source: GIIN, J.P. Morgan.

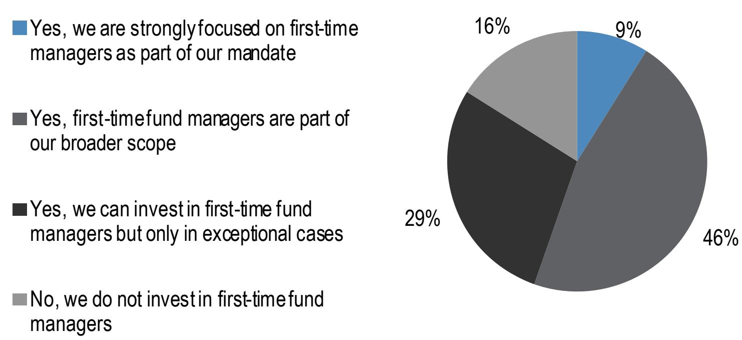
Only 16% of respondents do not invest in first-time fund managers (n=56).

Fifty-five percent of respondents actively invest in first-time fund managers

Many managers in this market are managing impact investment funds for the first time. As a result, investors are often faced with evaluating first-time managers when developing their investment pipeline. We asked about survey participants' appetite for investing with first-time managers and find that 46% of respondents include first-time fund managers in their scope with an additional 9% strongly focused on first-time managers as part of their mandate. Only 16% of respondents do not invest in first-time fund managers, as shown in Figure 69. Twenty-one percent of Competitive-return Investors said they do not invest in first-time fund managers, while just 7% of Capital-preservation Investors said they don't.

Figure 69: Investors' inclusion of first-time fund managers in their investment scope

n = 56



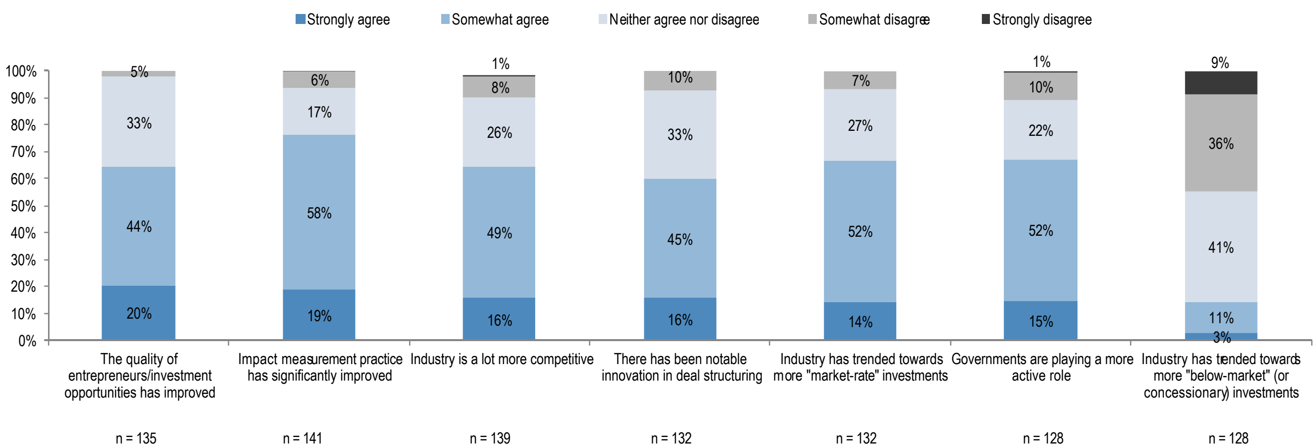
Source: GIIN, J.P. Morgan

Reflections and projections

2014 marks the fifth year of our JPM-GIIN joint report. We took the occasion to ask respondents how they think the impact investing industry has evolved over the last five years. Generally speaking, investors express a cautiously optimistic view on the market, as show in Figure 70.

Figure 70: Respondents' views on the evolution of the impact investing industry in the past five years

Number of respondents is shown under each indicator; some respondents chose "not sure" and their responses are not considered here. Ranking by number of respondents who chose "strongly agree"



Source: GIIN, J.P. Morgan.

Respondents' quotes:

"While a lot of the interest, excitement, and talk suggest the trend toward market-rate, there is still a relative dearth of returns data to conclude whether this is actually the case."

"Increased competition is visible both at market rate and 'below market' (at times distortionary) investments."

"The development of a robust and sophisticated framework that segments the impact investing "big tent"…would in turn help inform and influence investor appetite and capital allocation into the space, and better manage expectations across the board. Similarly, [we need] a dramatic uptick in investible impact-oriented deals that are well-positioned to receive said capital."

Specifically, over 60% of respondents "strongly agree" or "somewhat agree" with the following statements: "Impact measurement practice has significantly improved" (77%, n=141); "Governments are playing a more active role" (67%, n=128); "Industry has trended towards more "market-rate" investments" (66%, n=132); ""Industry is a lot more competitive" (65%, n=139); "The quality of entrepreneurs/investment opportunities has improved" (64%, n=135); and "There has been notable innovation in deal structuring" (61%, n=132). Interestingly, 45% of respondents "strongly disagree" or "somewhat disagree" that the industry has trended toward more "below-market" (or concessionary) investments.

We also asked respondents to comment on what they would like to see happen in the impact investing industry in the next five years. Some themes emerged, such as a desire to see more documented exits and greater liquidity in the market. Several respondents highlighted the wide variety of opportunities in impact investing that cut across the risk-return spectrum, and noted that greater transparency about this diversity would be beneficial to the market as a whole. In particular, some investors would like to correct the misperception that impact investing necessitates concessionary or below-market returns. Other changes respondents hope for in the next five years are greater participation by both institutional and retail investors (perhaps facilitated by the sensitization of investment advisors), the further development of a common language, and standardization of impact metrics and methods.

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Appendix I: Acknowledgements

The authors are grateful to the many organizations listed below that took the time to participate in the survey, making this level of depth and analysis possible. We believe their contributions are critical to the development of the field, and we salute their dedication to sharing their experiences with the broader market.

We also thank the broader GIIN team – in particular Ellen Carey, Kimberly Moynihan, and Brett Stevenson – and the J.P. Morgan Social Finance team for their invaluable contributions. In addition, we extend our gratitude to Chloe Zhu in the research department at J.P. Morgan for her precious help and hard work in analyzing the survey results this year. We could not have produced this research without the help of these individuals. However, the authors maintain full responsibility for any errors herewithin.

The GIIN and J.P. Morgan would like to thank those who beta tested the 2014 Impact Investor Survey. We appreciate the time and thoughtful feedback provided by: Elizabeth Adams, Lyme Timber Company; Amy Bell, J.P. Morgan; Cindu Hu, Prudential Financial; Christine Looney, Ford Foundation; Tammy Newmark, EcoEnterprises Fund; and Julie Shea, Root Capital. We appreciate the feedback on the survey instrument from the following members of the GIIN team: Laura Gustafson, Giselle Leung, Sarah Richards, and Andrew Siwo.

Table 19: Survey participants

Names of organization respondents
Aavishkaar Venture Management Services
Accion International
ACTIAM Impact Investing
Acumen
Adobe Capital
Agora Partnerships
Alter Equity
Alterfin
Ameris Capital
Annie E. Casey Foundation
Anonymous 1
Anonymous 2
Anonymous 3
Anonymous 4
Armstrong Asset Management
ASN Novib Microcredit Fund
AXA IM
Bamboo Finance
BAML Capital Access Funds Management, LLC
Beartooth Capital
Big Issue Invest
Big Society Capital
BlueOrchard Finance S.A.
BNP Paribas
Bridges Ventures
BuildForward Capital, LLC
Business Partners International
CAF Venturesome
Calvert Foundation
Capricorn Investment Group
CDC Group
CEI Investment Notes, Inc.
CEI Ventures, Inc.
Christian Super
Citizen Capital Partenaires
City Bridge Trust
Community Capital Management, Inc.
Coopest
Cordaid
Core Innovation Capital
CoreCo Private Equity
Creas
Creation Investments
Credit Suisse
Deutsche Bank
Dev Equity

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Names of organization respondents
EcoEnterprises Fund
Ecofi Investissements
Ecotrust Forest Management
EFTA Ltd.
EKO Green Carbon Fund, LP
Elevar Equity
Enclude
Encourage Capital
Endeavor Catalyst
Enterprise Community Partners
ERM Low Carbon Enterprise Fund
FB Heron Foundation
Finance in Motion GmbH
Fledge
FMO
Fondazione Opes
Ford Foundation
Forsyth Street
Futuregrowth Asset Management
GAWA Capital
GDF SUEZ Rassembleurs d'Energies
Generation Investment Management
Global Partnerships
Gordon and Betty Moore Foundation
Grameen Credit Agricole Foundation
Grassroots Capital Management/Caspian Impact Investment Adviser
GroFin
Habitat for Humanity International
HRSV
Huntington Capital
ICCO Investments
IGNIA
Incofin Investment Management
Insitor Management
Investir&+
Investisseurs et Partenaires
Iroquois Valley Farms, LLC
JPMorgan Chase & Co.
Lafise Investment Management
LeapFrog Investments
Lion's Head Global Partners Asset Management
Living Cities
Lok Capital
Lombard Odier
Lundin Foundation
Lyme Timber Company
MainStreet Partners
Media Development Investment Fund
Michael & Susan Dell Foundation
National Community Investment Fund
Nesta Investment Management, LLP
NewWorld Capital Group, LLC
Nikko Asset Management
Noaber Foundation
Nonprofit Finance Fund
Oikocredit
Omidyar Network
Overseas Private Investment Corporation (OPIC)
Pacific Community Ventures
Panahpur
Pearson Affordable Learning Fund
Phatisa Fund Managers
PhiTrust Partenaires
Progression Capital Africa, Ltd
Prudential Financial
Quadia
Rabobank Foundation
responsAbility
Robert Wood Johnson Foundation
Rockefeller Foundation
Root Capital
RS Group
Sarona Asset Management
Silicon Badia
SITAWI
SJF Ventures
SLM Partners
Social Investment Business
Sonen Capital
SOVEC
Stichting DOEN
Storebrand

Names of organization respondents
The California Endowment
The David and Lucile Packard Foundation
The Osiris Group
The Triple EEE Foundation
TIAA-CREF
TriLinc Global LLC
Trillium Asset Management
Triodos Investment Management
Turner Impact Capital
Unitus Impact
Unitus Seed Fund
Venture Investment Partners Bangladesh Limited
VilCap Investments
Vital Capital Fund
Vox Capital
Voxtra
W.K. Kellogg Foundation
Working Capital for Community Needs (WCCN)

Appendix II: Impact Investment Research

J.P. Morgan Social Finance

Impact Assessment in Practice: Experience from leading impact investors
J.P. Morgan, May 2015

Spotlight on the market: The Impact Investor Survey
J.P. Morgan and the GIIN, Apr 2014

Perspectives on Progress: The Impact Investor Survey
J.P. Morgan and the GIIN, Jan 2013

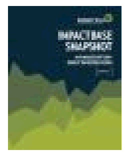
A Portfolio Approach to Impact Investment A Practical Guide to Building, Analyzing and Managing a Portfolio of Impact Investments
J.P. Morgan, Oct 2012

Insight into the Impact Investment Market: An in-depth analysis of investor perspectives and over 2,200 transactions
J.P. Morgan and the GIIN, Dec 2011

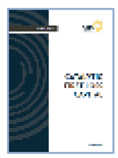
The GIIN

The Landscape for Impact Investing in South Asia

GIIN, Apr 2015

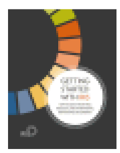


ImpactBase Snapshot: Analysis of 300+ Impact Investing Funds
GIIN, Mar 2015



Catalytic First-Loss Capital

GIIN, Oct 2013



Getting Started with IRIS
GIIN, Sep 2013

Diverse Perspectives, Shared Objective: Collaborating to Form the African Agricultural Capital Fund
GIIN, Jun 2012

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