The Future of Investment: Impact Investing

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Introduction
Simon Howard
Chief Executive, UK Sustainable Investment and Finance Association

When investment 101 consists of comparing risk and return to form an “efficient” portfolio, the idea of people looking for investments that aren’t driven solely by those drivers seems strange. But this is the essence of impact investing, where investors add to risk and return a detailed and measured consideration of the good their investments will produce, and where that good plays a decisive part in compensating for the higher risk or lower return.

This isn’t conventional investment today, but our panellists argue that it might be in ten years’ time. If they are right it may mean significant changes in some institutional portfolios and perhaps whole new types of retail investment emerging.

This report is the fourth in UKSIF’s “Future of Investment” series and brings together impact investing experts to comment on this broad and fast developing sector. Their dialogue demonstrates:

- The different motivations which drive activity: from cost-cutting by Government, to belief driven by personal experience
- Expectations that market-level returns are possible from certain impact investments
  - The wide range of opportunities which are already apparent
  - The extent to which the UK is a global leader in the field
- How investors of all sizes will be offered the chance to impact invest

UKSIF’s “Future of Investment” series highlights the exciting investment approaches that are emerging to create and protect value for both investors and wider society. As the world faces the challenges of environmental limits and social change, these options may play a key role in restoring trust and confidence in investment and finance.

Our reports give insights from those driving these developments in successful long-term investment. As the UK's hub for sustainable and responsible investment, we are privileged to have many of these leading-edge investment practitioners among our members.

We hope that these reports will be of value to significant institutional and private investors and their advisers. While nothing in them should be regarded as investment advice or product recommendations, they should give insight into the growing sophistication of sustainable investment and the breadth and depth of opportunities becoming available.

We welcome your feedback on “The Future of Investment: Impact Investing”, including themes you would like to see covered in future reports. Contact us at info@uksif.org.
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The Panel

Nick O'Donohoe, CEO, Big Society Capital
Nick is Chief Executive Officer of Big Society Capital. Prior to taking this role he was a member of the Executive Committee of JP Morgan Chase where he worked for 15 years including serving as Global Head of Research from 2005. He was also responsible for supervising the firm’s Social Finance Group and led research studies on Microfinance and Impact Investing as an Asset Class. Nick is a board member of the Global Impact Investing Network (GIIN), Vice Chairman of the WEF Social Innovation Council and a member of the investment committee of Women’s World Banking Global Microfinance Fund. Before joining JP Morgan, Nick worked 14 years at Goldman Sachs. He holds a BA from Trinity College Dublin and an MBA from the Wharton School, University of Pennsylvania.

Michele Giddens, Partner and Co-Founder, Bridges Ventures
Michele Giddens has over 20 years of international development and social finance experience. She was an investment officer with International Finance Corporation in Eastern Europe in the early 1990’s, then spent 8 years at SBI (Shorebank International), working on small business lending programmes in Russia, Central and Eastern Europe, advising on microfinance in Bangladesh, the Middle East and Mongolia and doing research in the US community development finance sector. She co-founded Bridges Ventures in 2002. Michele has a BA Honours in PPE from Oxford University and an MBA from Georgetown University, Washington DC.

Rodney Schwartz, CEO, ClearlySo
Rodney’s background in equity research, investment banking and venture capital makes him an unconventional but authoritative champion for the social enterprise sector. Joining Wall Street in 1980, he rose to become the number one ranked financial services analyst at PaineWebber and then held senior management posts at Lehman Brothers and Paribas, before leaving the sector in 1997 to found the venture capital firm Catalyst. In 2008, Rodney launched ClearlySo, which raises investment for social entrepreneurs. Rodney also teaches social finance at the Said Business School (Oxford) and other European universities and is a regular sector commentator. He holds an MBA and BA from the University of Rochester.

Geoff Burnand, Chief Executive, Investing for Good
Geoff had over twenty years’ experience in private and institutional investment management before co-founding Investing for Good in 2004. His experience includes designing donor advisory services at The Institute for Philanthropy and Charities Aid Foundation, and as Chief Investment Officer at Charity Bank and as Director of Fund Development at the Social Investment Business. He is a regular speaker at conferences and in the media on social investing and has in-depth knowledge and extensive contacts across the sector both UK and internationally, including philanthropic consultants, social financiers, investment managers, regulators and Government. He chairs the UKSIF Impact Investing Reference Group’.
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David Hutchison, Chief Executive, Social Finance
David joined Social Finance in May 2009 as Chief Executive. He leads a team of over 30 professionals drawn from social and financial backgrounds. This follows a 25 year career at Dresdner Kleinwort where he was most recently Head of UK Investment Banking and a member of the Global Banking Operating Committee, coordinating the bank’s activities in the UK across the full range of investment banking products, M&A, debt and equity raising and derivatives marketing. Prior to this David was Co-Head of Global Mergers & Acquisitions and Head of Corporate Broking. David has a BA in History and Economics from Brasenose College, Oxford.

James Vaccaro, Head - Market & Corporate Development, Triodos Bank
James is Head of Market & Corporate Development for Triodos Bank NV, an international role covering all of the business units within the Triodos Group, leading on their external engagement with customers, stakeholders, partners and the public. Since joining Triodos Bank NV in its early days in the UK, in 2005, he started Triodos Bank NV’s investment activity in the UK and was Managing Director of Investment Management (incorporating Corporate Finance and Fund Management). James was also the Managing Director of Triodos Renewables plc from 2005-2012 and was a director of the world’s largest operational offshore wind farm.

Gavin Francis, Founder and Director, Worthstone
Gavin Francis is the founder and driving force behind Worthstone - an independent hub of specialist expertise on social investment designed to serve those financial advisers, wealth managers and policy makers, as well as the product providers themselves, who share Gavin’s vision and passion for the advancement of this emerging sector. His 25 years’ experience in the wealth management sector covers a wide range of financial services institutions. Gavin has worked collaboratively with a number of agencies, including HM Treasury, NESTA, Big Society Capital and The City of London, in his quest to see social investment reach maturity as an asset class: as a result Worthstone has become recognised as having a leading part to play in bringing about what is widely regarded to be a positive cultural change which will bring great benefits to society.
1. How do you define an impact investment and what asset classes/forms do they take?

**Geoff Burnand:** Impact investments are made with the intention to generate measurable social and environmental impact alongside a financial return. Impact investing mirrors traditional finance and the asset classes and underlying investments also cover the traditional risk/return spectrum. Debt financing dominates, however, and equity-based investments only represent a small proportion of investments made to date.

One distinct characteristic of impact investments is their intention to address social and/or environmental challenges. They can be made in both developed and emerging markets and seek either sub-market or market financial returns. The criteria to evaluate the positive social and/or environmental outcomes of investments are an integrated component of the investment process. In contrast, practitioners of socially responsible investing also include negative or avoidance criteria as part of their investment decisions.

At Investing for Good, we focus on arranging bonds for social purpose organisations, including charities, and placing these with socially motivated investors. The bonds are listed, designed to be readily understandable to a wide range of investors and to fit into existing investment portfolios.

**David Hutchison:** In the UK, there has been a growing awareness of the need to broaden the funding available to social purpose organisations and build a social investment market. The social investment market offers a choice of risk, reward and impact from each investment across the spectrum. Some investments seek to achieve market-rate risk-adjusted financial returns whilst others offer below-market risk-adjusted financial returns in return for the impact created – so-called ‘blended value’ investments. Each opportunity needs to be considered on its own merits and in particular the specific impact the enterprise seeks to achieve. This is still a developing field so there are scattered opportunities on offer rather than the full spectrum one would expect from a mature market. However, the launch of Big Society Capital (the Social Investment Bank), the revised Charity Commission investment guidance, Lord Hodgson’s review of the Charities Act, and the Cabinet Office’s Social Outcome Fund represent a concerted effort by Government and others to facilitate social investment by and into charities and social enterprises and allows them to develop revenue models which reflect more directly the social value they create.

We at Social Finance have been building new investment models such as Social Impact Bonds, Development Impact Bonds, a Venture Capital Trust and a Fund of Funds to create new pools of capital for social investment. We are looking at broadening the investor market and engaging with the full range of investors from institutional to retail in this new form of finance.
Gavin Francis: Our research shows that it is of fundamental importance that the definition is understood. However, this form of investment does not easily fit within the existing understanding of a traditional asset class. It is like asking: is a circle a square or a triangle? We are thinking about an altogether different way of investing, as the motivations for this strategy are different.

In my opinion social impact investment is a form of wealth deployment where an investor has a different sort of connection with their investment. In all other forms of investment the primary connection is with the financial outcome. Social Investment challenges people to think differently. The emphasis moves from the investor having an exclusive connection with the financial return to there being a strategic connection with the social outcome the commercial model is aspiring to achieve. But this is not pure philanthropy, as the connection with the financial return has not disappeared altogether, in that an investor would typically expect at least a return of capital.

Michele Giddens: We believe that the last decade has seen the beginnings of a sea-change in perspectives on how business, finance and investment relate to wider social and environmental issues. While more and more investors are acting responsibly and engaging directly with ESG risks, impact investing goes one step further and positively targets social and environmental change through investment in businesses offering solutions to the pressing issues of today.

At Bridges, we have identified two types of impact investors: “thematic investors” and “impact-first investors”. Thematic investors focus on businesses that are actively offering solutions to a pressing social or environmental issue. Thematic investors focus either on one or a cluster of issue areas with the intention to make a positive social or environmental impact while generating market-rate returns. Impact-first investors differ in their willingness to back sustainable, often profitable business models that cannot generate market-rate returns due to the nature of the impact being created. In addition to selecting for impact, both investor types seek to track and manage their impact alongside their financial return.

While we are seeing an increasing number of impact investing opportunities cutting across a wide variety of asset classes, from cash to debt to equity to real estate, we also note that many investors are treating impact investing as an asset class in its own right and allocating specific funds exclusively for the purposes of impact investing.

2. Which sectors do you see as the principal growth areas for impact investment?

Nick O’Donohoe: There are a number of sectors we think have high growth potential for impact investment:

1) Payment By Results (PbR) dominated sectors
Drivers for these sectors include the UK government’s increasing use of PbR contracts and a new urgency to ensure social sector organisations can take part in bidding for those contracts. The demand for working capital is also likely to increase.

2) **Health and Social Care**
   There is a clear policy push towards services in the community and innovative ways of providing care. Structural changes in the commissioning landscape are leading to new revenue streams for social sector organisations (SSOs). SSOs already play a key role in many of these markets and many good providers are under capitalised.

3) **Community Assets**
   Policy drivers are enabling communities to take over assets and a range of community organisations will need capital to develop, own and manage their own assets.

In each of these sectors, a proposal will be attractive to an impact investor if it broadly meets two criteria: the potential for achieving and evidencing social impact and a robust business model.

**James Vaccaro:** We are seeing growth in:

- Renewable energy (loans and equity)
- Sustainable agriculture (loans in Europe, equity for Emerging markets)
- Long-term Private Equity for sustainable trading companies (e.g. organic, fair-trade, natural products) – we are raising a new fund in this area
- Sustainable financial services in Emerging Markets (loans and equity)
- Social housing (loans and bonds)
- Health & Social care (mostly loans)
- Social impact bonds (mostly equity)
- Arts, cultural, sport/fitness and education projects (loans and bonds)


Key considerations for Triodos are:

- The scalability of the idea (not necessarily of the investee) in being able to create a template for transformation
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- Our proximity and understanding of the market sector and its stakeholders
- Its relevance to our overall mission (we primarily focus on impact investment themes since this fits our mission is to:
  - Help create a society that protects and promotes the quality of life of all its members and that has human dignity at its core
  - Enable individuals, organisations and businesses to use their money in ways that benefit people and the environment, and promote sustainable development
  - Provide our customers with innovative financial products and high quality service

Gavin Francis: The areas of principal growth will be dictated by the connection private investors have with the underlying social needs the investment is aiming to address. So for example if an investor has a family member who has experienced particular difficulties or challenges in life and a product aimed at meeting the needs of individuals in similar circumstances is launched they are more likely to engage.

The other determining factor that is a significant driver is local community connection. If a particular product is focused on meeting specific needs in the community local to the investor it is more likely the investor will connect. People like to support local causes.

I became involved in this sector because I believe that we can make a difference to individuals, communities and society by using our wealth productively. I look forward to witnessing investors gaining satisfaction from investing in a new and innovative way and to seeing their advisers meeting the growing needs of their clients in this area. I also look forward to seeing the outcomes and benefits of this investment within society, both from the perspective of the adviser, who has been able to make a difference by offering advice which enables clients to get involved, and from that of clients, who will know they have made a difference with their wealth.

3. Looking at impact investing in the UK and around the world, what examples of positive social and environmental change can you point to?

Rodney Schwartz: The examples are abundant.

The environmental sphere was the first area to enter the mainstream due to the perceptions of very high returns. (Note: At ClearlySo, high returns do not disqualify an investment from being social.) The surge of investment into wind, solar, tidal, fuel cell, and other energy-producing as well as energy-saving technologies has had a massive environmental benefit.

The next sector to enter the mainstream was micro-finance (MF), a sector that began with small loans from individuals, then became an important beneficiary of multi-national grants and now is a
recipient of billions of private sector funding. Millions of people from the developing world have been lifted out of poverty to be given a chance of decent lives thanks to MF.

Social housing has taken off in the USA, thanks in part to community investment programmes and related legislation. This enabled poor people, often from ethnic minorities, to have access to housing that would otherwise not have been available.

Now we see, in the UK and elsewhere, social impact across all economic sectors—almost without limit, as social businesses and enterprises emerge in nearly every sphere of economic activity; from prison reform, to jewellery and from employment to transport.

**David Hutchison**: The growing numbers of social investors, intermediaries and social funds have led to new approaches to tackling social problems. Many people will point to the success of new projects being funded by those equally committed to the social impact as to the financial returns. My impression is that the real change comes from the partnerships forged by social investment models, the rigour that the social investors bring to performance manage the social interventions and the flexibility and long term nature of the funding.

By giving organisations sight of long-term funding for their interventions, social investors can bear the risk involved in new innovations and allow the social organisations to concentrate on delivery and the development of their models with an eye to sustained and evidenced impact.

Social Impact Bonds, pioneered by Social Finance, have an added benefit in directing new money to preventative programmes with no risk to government. This has allowed us to adapt well know models of social change to entrenched social problems such as children on the edge of care, vulnerable youth, homelessness and reoffending. Early interim figures show that these models are having a significant social impact. Whether they deliver returns to social investors is yet to be determined.

**Geoff Burnand**: Through our affiliate, The Good Analyst and using its proprietary methodology, we can comprehensively assess, analyse and report on the social impact achieved of each of our investments.

On example amongst many is Acumen (formerly Acumen Fund), the non-profit global venture fund, which has pioneered the use of patient capital to invest into social businesses, in the process supporting 86 million beneficiaries. Acumen focuses on innovation and entrepreneurialism to tackle problems at the base of the pyramid and rigorously screens businesses to find sustainable models. Through an investment in WaterHealth International, Acumen helped provide safe drinking water to rural India. Eventually 350,000 were reached – that is scale. Thanks to the model, the investee doesn’t have to keep reapplying for development funding and can access new funds on the strength of its financial results.
The first results are starting to emerge from social impact (also known as pay for success) bonds trialled in the UK. If successful, then they will provide a major fillip to the space, as prevention and early intervention services are not adequately addressed by the public sector.

Michele Giddens: Across the globe we are seeing evidence of the positive social and environmental change being achieved from impact investments. Within our own portfolio at Bridges Ventures, we have been able to evidence the outcomes from our investments in meaningful ways. In our Sustainable Growth Fund, our investment in Whelan Refining, the first and only waste oil refining plant in the UK, helped to successfully divert over 100,000 tonnes of waste oil from use as a low grade fuel while producing net savings of over 300,000 tonnes of greenhouse gas emissions while bringing substantial regeneration to the local Stoke-on-Trent area. Our Sustainable Property Fund has built some of the most sustainable care homes in the UK while enabling best-practice delivery of care. In our Social Sector Funds our investment in Essex County Council’s first Social Impact Bond is enabling the delivery of multi-systemic therapy to 380 troubled families in order to substantially reduce the number of children being taken into care.

Globally, there are a significant number of intermediaries, investors and funds in the marketplace finding innovative and creative solutions to addressing pressing social issues. Leapfrog, for example, is pioneering the profit-with-purpose model in emerging markets with its investments in micro-insurance and other essential financial services for the “next billion”. We are also seeing a number of funds successfully attracting institutional investors through layered structured models; both the $25 million African Agricultural Capital (AAC) Fund, which was capitalized with an $8 million commercial loan from J.P. Morgan (50% of which is guaranteed by USAID), and the Gates Global Health Investment Fund (which includes a guarantee by the Gates Foundation) are good examples of how impact-first investors can play catalytic roles in scaling solutions to the world’s problems.

4. One of the potential opportunities for social finance is to support the delivery of public services in an environment where public funding is scarce. Can impact investors and social enterprises compete against the larger pools of capital that private corporate entities can bring to the table?

Nick O’Donohoe: There is a strong policy push in the UK to open up public sector markets for smaller socially driven providers (for example with policies such as the Social Value Act which requires commissioners to consider the social and environmental value when they choose providers). However in order to successfully compete against private entities, social ventures will need to:

- Demonstrate ability to deliver core services
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- Evidence and deliver social impact
- Leverage unique elements of their social venture

The supply of social investment is emerging to support social ventures in doing so. Big Society Capital has committed over £50m pounds to social investment in 2012 and we plan to commit up to £100m in the next year. Additionally we’re actively working to bring in additional investors to provide capital for social ventures such as institutional investors and High Net Worth Individuals.

**David Hutchison:** The government opportunities on offer are primarily based on payment by results principles. As we are in the early stage of a developing market for these types of government contracts and in the very early stages of a social investment marketplace with no track record in terms of completed projects, it is difficult to assess the value and cost of social investment.

But we can see that social investors are prepared to take on much higher levels of risks than commercial competitors which may make social investors better partners for innovative public services involving close working relationships with others supporting communities. On the assumption that commercial providers are profit maximising entities, they would struggle to attach value to the resources derived from and driving social benefits unless they had greater confidence that this would result in faster growth in their activities. Local authorities in particular who are looking to test out models of delivery at no or low risk to the existing budgets are increasingly interested in social investment models.

We believe that the social finance has a vital role to play in the delivery of effective social services. The value that the sector brings is based on local knowledge and expertise and mission-driven staff. The value-for-money arguments should go beyond achieving reductions in short-term spend to encouraging preventative and targeted spend. If incentivised and motivated under fair terms, the VCS sector brings mission-driven organisations and volunteers on a cost-effective basis.

**Rodney Schwartz:** Impact investment is a far more potent competitor to mainstream investment than many observers believe. This is at least for four reasons:

1. It tends to be lower cost than mainstream funding—this stems from the positive value they place on social impact, for which they will trade away returns or take on greater risk (the essence of 3D investing)
2. The time horizons of impact investors are longer, making them more reliable partners, in a purely conventional sense—their focus is not simply on making a fast buck
3. They are more willing to work in partnership with investees
4. For investees who also value social impact, there is greater commonality of purpose with the investors. We are able to evidence this every day in our business and the financial crisis, which widely discredited much of the financial mainstream, has made the case of the impact investor much easier to make.

James Vaccaro: The ability for impact investors and social enterprises to succeed is based upon:

- Enlightened commissioning – e.g. the degree to which public sector commissioning and tender processes are designed in order to encourage diversity of suppliers is critical factor in being able to become successful. If balance-sheet size screening or cumbersome processes are employed, smaller players will be discouraged. A good example of best practice was the DWP Innovation Fund which appeared to embed a lot of the learning from the previous Works Programme, enabling several social enterprises to win contracts and attract impact investment.

- Investment readiness support – e.g. the degree to which social enterprises are ready for both taking on private investment and managing new forms of payment-by-results contracts. Interventions such as the Cabinet Office Investment & Contract Readiness Fund (£10m) appears to be a very effective instrument in building capacity here.

- Developing the pool of investment capital – this is a future challenge. At present, there is easily sufficient supply of funding (impact investment) compared with this type of activity. If the public sector was to start putting out larger tenders however, it is not clear which new investors would come in to complement the existing set.

5. What regulatory barriers constrain impact investing in the UK?

James Vaccaro: Firstly, there are tax disadvantages related to the fact that the investments tend to be long-term and illiquid. Taking into account the tax regime in the UK (applied to say pension contributions, ISAs etc) all of the benefits are directed towards liquid investments on capital markets. Even in more flexible vehicles (such as SIPPs) unlisted investments are hard to make and can come with prohibitively expensive fees. Other support mechanisms, such as EIS and VCT regimes may apply in some circumstances for equity investments but the fit between EIS/VCT rules and impact investments is quite patchy with some areas heavily covered (such as solar VCTs up until 2011) and others sparsely covered. Community Interest Tax Relief can be used in certain circumstances (e.g. Bristol Together CIC http://www.triodos.co.uk/en/business/raising-capital/653125/track-record-bt/) but is fairly inflexible as a scheme.
Financial promotion rules, although necessary for consumer protection, have not evolved as quickly as the landscape of impact investments. Various crowd funding platforms are developing to support early stage funding from communities of interest, however raising capital at a larger scale from retail investors requires a prospectus (above €5m). Placements up to this amount are possible through a regulated authorised person although many of these offers cannot be advised on by IFAs, who act as the gatekeeper to retail investors. There is a growing risk that unauthorised financial promotions from unregulated businesses purporting to be sustainable investments may pollute investor perceptions of impact investments if not acted upon by the FCA.

Michele Giddens: The UK government has done a lot to support growth of the sector, including the establishment of Big Society Capital, but there is always work that can be done to create a more enabling environment. In particular, we should learn from the success of tax reliefs enjoyed by venture capital trusts (VCT) and enterprise investment schemes (EIS), which have played a catalytic role in the wider investment market and brought billions to the market. Applying similar tax incentives for social enterprises and investors wishing to invest in them would undoubtedly have a positive effect in growing the market.

Rodney Schwartz: As a sector we complain greatly about the lack of a level playing field. In fact, social enterprises and social investment has it better in the UK than probably anywhere else on the planet in terms of subsidy, liberal organisational structures, etc. Although certain fiscal inducements available in the mainstream are not available to social investors, we do not believe this is a significant constraint. As wealthy individuals tend to benefit disproportionately from these incentives we have avoided pleading for them.

There is a perversity which exists in the regulatory framework which does not protect a retail investor from making charitable donations (where 100% loss is certain) but insists on protecting him or her when they make a social investment, just because they may get some, or all back—and even get a return. This is plainly bizarre, especially when the investment is mainly for social impact rather than financial return.

David Hutchison: There are fewer regulatory barriers for impact investing than people think. There are no restrictions on retail investors and the Government is actively encouraging their participation in the market by designing a specific tax relief for social investment. The recent revised Charity Commission makes it clear that there are no restrictions on trusts and foundations making social investments. However as this market is at such an early stage, many feel that there needs to be legal precedents to protect the trustees from their fiduciary duties.

Fiduciary duty is a significant barrier to institutional investment entering the impact investment market. Social Finance and microfinance firm, Finethic, conducted a survey of 47 pension funds in the UK last year about their attitudes to impact investment. They did not feel that they could forfeit maximum gains on behalf of pension fund holders. However, there is a debate over what
pension fund holders actually want. Interestingly, when setting up the UK government-backed pension scheme, NEST, the Government undertook a public consultation with written responses and a series of roundtables. It was clear from the consultation that “[…] respondents thought given environmental, social and governance considerations may improve investment returns, responsible ownership properly falls within the fiduciary duty of trustees.”

6. What lessons can the UK take from abroad?

Michele Giddens: We are encouraged to see more and more governments place impact investing on the agenda. For example, we are following developments in South Africa closely, where policymakers have sought to address the challenges of using institutional capital to improve society in the Revised Regulation 28 of the Pension Fund Act. We hope that will lead to increased capital investment from pension funds into responsible and impact investments.

Looking at the US, we note how acts like the Community Reinvestment Act (CRA) have helped to encourage institutional investors to direct more capital towards social and environmental good. While such an act is not necessarily applicable in a UK context, we clearly need to be thinking creatively about ways we can encourage more institutional investors to commit capital and resources to meeting the needs of underserved populations.

Rodney Schwartz: The UK has positioned itself extremely well in the global social impact arena. It has much to teach, and is embarked upon an ambitious programme for doing so. Its laws are very advanced, Government structures are highly supportive, the framework is well established, there is a burgeoning variety of attractive social businesses and enterprises.

UK financial institutions, in my judgement, lag the best institutions globally. Hopefully the advent of Big Society Capital (BSC) will accelerate the creation of impact investing institutions, but from our vantage point the mainstream investors are woefully behind their internationally best competitors.

In our judgement, investment institutions from the Netherlands, the Nordic markets, Switzerland and even the USA are well ahead. It is a shame how minimally the mainstream UK players have engaged despite the best efforts of the Government, BSC and the City of London Corporation.

James Vaccaro: Having special ring-fenced vehicles, at scale, with tax advantages to support impact investments can be very effective. For example the Dutch Green Funds regime (which was extended to culture and overseas development investments) was very effective at mobilising retail investment into impact investments (the Green Funds brought in over €15bn into green projects).
Similarly, the experience with Cooperatives in Denmark and Kg partnerships in Germany (both fiscally incentivised) have been very successful in mobilising community investment in renewable energy.

The proposed (but defeated) amendment to the Finance Act, which would have forced a small tranche of investment portfolios of charitable foundations to be invested in impact investment was a very good idea. Not least because it would force fund managers and trustees to seriously analyse impact investments. This is something which could in principle be applied to pension funds. At a very small percentage, it could not materially impact the risk-return profile and would leverage more than enough capital for the impact investment industry to absorb in the near term.

**Gavin Francis**: A lesson we can learn from the US is the way in which some financial advice firms have grown their business by offering impact investment as their differentiator. It has been reported that social impact investing can inspire a full-ranging discussion with established clients and create a further relationship building opportunity for wealth advisers.

However, conversely, I believe that the UK itself is actually leading developments in this market and establishing the precedents that other countries will follow. There are two key steps that the UK has taken recently:

- Firstly, the introduction in the Financial Services Bill of the concept that the regulator will consider that the consumer may have goals other than financial goals, e.g. social goals. This emphasizes the importance of the need for financial advisers to establish whether or not a client may have social objectives of primary, equal or partial importance, which need to be taken into consideration when putting in place a financial plan.

- Secondly, the announcement of the proposed introduction of a tax incentive. This will enhance the attraction to investors and advisers more focused on the financial dynamics and engage a wider audience of financial commentators and advisers, due to increased client demand.

I believe that we will see other countries following these developments with interest.

**Nick O'Donohoe**: There are many positive examples from the US impact investing sector. The CRA in the US has stimulated the growth of the CDFI sector. B-corporations in America have provided SSOs with greater flexibility in taking on finance. We also need initial subsidies to encourage private investment as in American venture capital (VC).

### 7. What will UK impact investing look like in 5-10 years’ time?

**Gavin Francis**: I believe social impact investment in 5 – 10 years time will be a part of mainstream financial planning and a well-used strategy for wealth deployment by many private
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Investors. We will have established and consistent metrics for measuring impact and the ability to evaluate and report the value delivered through the use of capital invested in this way.

In 10 years' time capital flows into UK social impact investments will have risen to a figure with nine zeros annually.

**Nick O'Donohoe:** If the market continues to grow, we expect to see a social investment market with:

- A diverse community of investors from foundations, HNWs, institutional, retail
- A range of financial products and intermediaries connecting the available supply of capital to demand from social ventures
- A large number and range of social ventures who are able to evidence the value they bring to their communities.
- An enabling policy environment with tax incentives to encourage social investment and appropriate regulation for social investors and social ventures as well

**Geoff Burnand:** The growth of impact investing has been rapid, in part mirroring the rise of venture capital in the 1980s and in 10 years the operating environment will be unrecognisable.

Impact investing in the UK will undoubtedly become an established part of the financial services landscape and offer greater transaction efficiency, developed clearing mechanisms and – crucially - enhanced deal-flow to meet the increasing demand. There will also be established routes with which to exit investments.

The UK will continue to punch above its weight and will foster collaborative relationships internationally. Major UK financial institutions will all develop social investment arms and off-the-shelf social ISAs and other tax-incentivised social products will help meet a new retail demand. And questions regarding social goals will become a routine component of the client fact-find.

Robust reporting standards will be developed, as will the criteria to compare and contrast the blended return of an impact investment both individually and within an overall portfolio. If decorrelation can be shown with traditional asset classes, significant institutional money will be attracted to the sector.

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About the participating institutions

**Big Society Capital**
Big Society Capital is the world's first social investment bank. BSC was launched in April 2012, with an estimated £600 million of capital, £400 million of which will be from unclaimed assets left dormant in bank accounts for over 15 years, and £200 million from the UK’s largest high street banks. Big Society Capital's mission is to develop the social investment market in the UK by investing in social investment finance providers and by acting as a market champion.

[www.bigsocietycapital.com](http://www.bigsocietycapital.com)

**Bridges Ventures**
Bridges Ventures is a specialist fund manager, dedicated exclusively to using an impact-driven investment approach to create superior returns for both investors and society at-large. Formed in 2002, Bridges Ventures currently has £300m under management across three types of funds: the Sustainable Growth Funds, the Property Funds and the Social Sector Fund – all of which combine financial, social and environmental returns. Bridges’ founders, partners and investors are leaders in private equity, financial services, business and entrepreneurship.

[www.bridgesventures.com](http://www.bridgesventures.com)

**ClearlySo**
ClearlySo is a financial intermediary in the social investment sector, advising social businesses and enterprises on raising capital. They provide corporate finance and financial advisory services to social entrepreneurs with capital raising ambitions of £500,000+ and were approved as one of the first Investment and Contract Readiness Fund (ICRF) Providers in July 2012. In addition, they run the first UK dedicated social business angel investment group called 'Clearly Social Angels' and manage investor relationships with leading institutional investors, including foundations, impact investment funds, banks and corporations.

[www.clearlyso.com](http://www.clearlyso.com)

**Investing for Good**
Investing for Good is a social investment intermediary with the mission to connect mainstream capital with social value. We do this by arranging social bonds for large charities and social enterprises and placing these bonds with social investors. Through our affiliate company, The Good Analyst, we also assess, analyse and report on social impact using our proprietary Methodology for Impact Analysis and Assessment (MIAA). In combination, these two companies work towards fulfilling our vision of an investment marketplace that efficiently links the use of capital to positive social change.

[www.investingforgood.co.uk](http://www.investingforgood.co.uk)
Social Finance
Social Finance was established in October 2007. Social Finance's initial team supported the work of the Commission on Unclaimed Assets, which recommended the establishment of a Social Investment Bank. Social Finance identifies ways of improving the access to capital for those looking to drive social change. We develop robust investment propositions in which risks and both social and financial returns are clear. Many voluntary sector organisations are constrained by the way they are financed, in particular by their heavy reliance on grant finance. Lack of visibility on funding restricts their ability to grow and the social impact they are able to deliver.
www.socialfinance.org.uk

Triodos Bank
Triodos Bank is Europe’s leading sustainable bank with over €8bn funds under management focused on high-impact social and environmental ventures. It has proved to be pioneering force in the social investment market, using innovative finance to support the UK’s leading social and sustainable businesses. Established in 1980, Triodos Bank and its fund management subsidiary are active across Europe (and emerging markets through specialist funds). The Bank provides over £500m loans to UK sustainable businesses and charities. Since 1998, Triodos has also provided Corporate Finance services to social and environmental ventures looking to raise capital in the UK and has raised £45m for 13 ventures over the last 3 years through placements, bond issues and share issues.
www.triodos.co.uk

Worthstone
Worthstone provide an independent resource hub of product analysis focused exclusively on social impact investment for wealth advisers. We provide product reviews in a customised format that supports the advice process.
www.worthstone.co.uk