IMPACT CLUB
Melbourne | Sydney

3 March 2017

Housing Unit Manager
Social Policy Division
The Treasury
Langton Crescent
Parkes ACT 2600
By email: socialimpactinvesting@treasury.gov.au

Dear Sir/Madam,

Social Impact Investing Discussion Paper

Please find attached Impact Club's submission in response to the Australian Government's Social Impact Investing Discussion Paper.

We welcome Treasury's focus on developing the impact investing market and are grateful for the opportunity to contribute.

Impact Club would welcome the opportunity to discuss the matters raised in this submission further. Please do not hesitate to contact the author on (03) 8534 8000 or caroline@smallgiants.com.au.

Yours Sincerely,

Caroline Vu
Executive
Impact Club

IMPACT CLUB
Melbourne | Sydney

About Impact Club

Impact Club is Australia's first impact investing network created specifically for sophisticated investors who are using their investment capital to make investments that create positive social and environmental impact. Impact Club is a membership-based, non-profit organisation, whose mission is to increase the investment capital deployed to create positive social and environmental impact. The vision is $1 billion in assets under management but the wealth represented by members already far exceeds this. The Club's members are principals of private wealth.

Our aim is to bridge the gap between an investor's intentions to make impact through investments, and their actions. As such, we are unashamedly action-oriented. The Club's key pillars are education, community, facilitating deal flow and co-investment between members.

Impact Club's response to the Discussion Paper

Part 2: Overview of social impact investing

We strongly concur with the comments of Small Giants that **impact investing is a lens that can be applied across all asset classes**. It is possible to have an entire portfolio invested for impact, across the entire spectrum of returns from philanthropic capital to commercial rates of return. In fact, the appendix to this response is a report published by our global counterpart, which documents the financial and impact performance of over 50 portfolios which are have applied an impact lens. Toniic's T100 report includes findings that **83% of those surveyed expected market-rate returns** on their investments, and that **83% surveyed met or exceeded those expectations**. This goes to the comment in the Discussion Paper that there is a lack of investment opportunities with market rates of return and suggests that the definition of asset classes and organisations that are included in 'impact investments' in overly narrow.

Accordingly, we conclude that "the market for social outcomes" is the focus of the paper but believe it is crucial to take a holistic approach to the development of the market . To this end, we note the omission of impact businesses (for-profit entities) from the main forms of social impact investing listed in section 2.2. A large proportion of deal flow within the Impact Club is mission-led, or impact, businesses.

There are more companies than ever fusing profit and purpose: over $6.6 trillion is invested globally in socially responsible investments[1]. In Australia in 2015, ethical fund managers managed over $31.6 billion in assets, a doubling in just two years[2].

We refer to the submission of our colleagues at B Lab Australia & New Zealand (**B Lab**) as relates to Consultation Question 2 (future for impact investing, development of new structures). In particular, we strongly endorse its recommendations to amend the *Corporations Act 2001* (Cth) to introduce a benefit company (based on the benefit corporation model developed in the United States).

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[1] As at the end of the 2014 financial year, US Sustainable, Responsible and Impact Investing Trends, The Forum for Sustainable and Responsible Investment Foundation, 2014

[2] http://cuffelinks.com.au/responsible-investing-now-retail-mainstream/

The introduction of the benefit company amendments would encourage the growth and development of the social impact investing market as it would:

a. send a clear signal that the Australian Government wishes to enable and encourage mission-led business to grow and prosper
b. provide a framework of guidance for directors to pursue purpose as well as profit, which in turn would incentivise positive business practices
c. make more businesses attractive for impact investors as it will provide certainty around a company's mission and governance obligations. This in turn will provide investors more confidence to commit funds and ensure the business remains accountable to the mission in the future (itself a guard against the financial risk posed by mission-drift).

Part 3: Role of the Australian Government in social impact investing

We believe that the Australian Government has a leadership role to play in promoting and enabling mission-led businesses to grow and prosper, both in terms of removing regulatory barriers and introducing innovative initiatives that enable the growth of the impact investment market.

We acknowledge the significant work undertaken to develop the concept for Impact Capital Australia, referred to in Impact Investing Australia's submission to the Discussion Paper.

A suggested specific area of activity in relation to Consultation Question 7 could be a whole-of-government approach to **social procurement**.

We see awareness growing over the procurement of social services in the development of social impact bonds. But broader government has enormous leverage (both financially and from an awareness-raising capacity) by adding qualifying features to its approved suppliers. For example, some preference is given to those employing Aboriginal and Torres Strait Islander people - but mainly in tenders by Indigenous Business Australia. Similarly, NDIS tenders may prefer a supplier which employs people with disabilities.

If, for example, employment was a key success feature in rural and regional centres, the Australian Government could incentivise companies to create employment for people in the target areas. Employment could be one such priority area, as could companies with gender-balanced governance structures, positive environmental strategies.

A parallel example might be the Indian "Priority Sector Lending" initiatives, under which a proportion of a bank's portfolio must be in agriculture, rural business and pro-poor financial services.

We also believe Government has a crucial role to play in raising awareness more generally about impact investing. One of the key opportunities identified by the UK Mission Led Business Review was to "raise awareness of the opportunity for companies declaring a purpose beyond profit and considering their wider relationships beyond shareholders"[3].

[3] On a Mission in the UK Economy, Advisory Panel to the Mission-led Business Review 2016 (UK)

Part 5: Reducing regulatory barriers

We restate our support for the B Lab submission as it relates to Consultation Question 28, and note the extensive support that exists among the Australian legal, business and investor community for this work.

As stated above, we see philanthropy as a crucial type of capital deployed for impact. We believe that there is a limit to market-based solutions to problems. For that reason, many Impact Club members have PAFs or other mechanisms to make their charitable contributions.

We strongly support the comments made in Philanthropy Australia's submission, in particular, its recommendations 3 and 4 around guidance for private and public ancillary funds that would make it easier for those entities to make impact investments. We also endorse the commentary by Impact Investing Australia around removing obstacles for philanthropic trusts and foundations, and program related investments.

Appendix: T100 report

LAUNCH report

insights from the frontier of impact investing : 2016

100% portfolios are achievable today for:

- Foundations, family offices, and high net worth individuals;
- Beginners, as well as seasoned investors; and
- Single-, double- and triple-digit million portfolios.

100% impact portfolios can be constructed in any geography, including both developing and developed countries and communities.

100% impact portfolios can be constructed across all asset classes; not only in direct investments or via impact funds.

Both impact and financial return expectations can be targeted and met, whether market-rate or concessionary.

about toniic and the 100% impact network

Founded in 2010, Toniic is the global action community for impact investors. As a non-profit member organization, Toniic serves individuals, family offices, foundations, endowments, funds, and members of the public committed to aligning their investments with their values across all asset classes.

Toniic envisions a global financial ecosystem creating positive social and environmental impact. With that vision at its core, the mission of Toniic is to empower impact investors to contribute to the development of this sustainable global ecosystem.

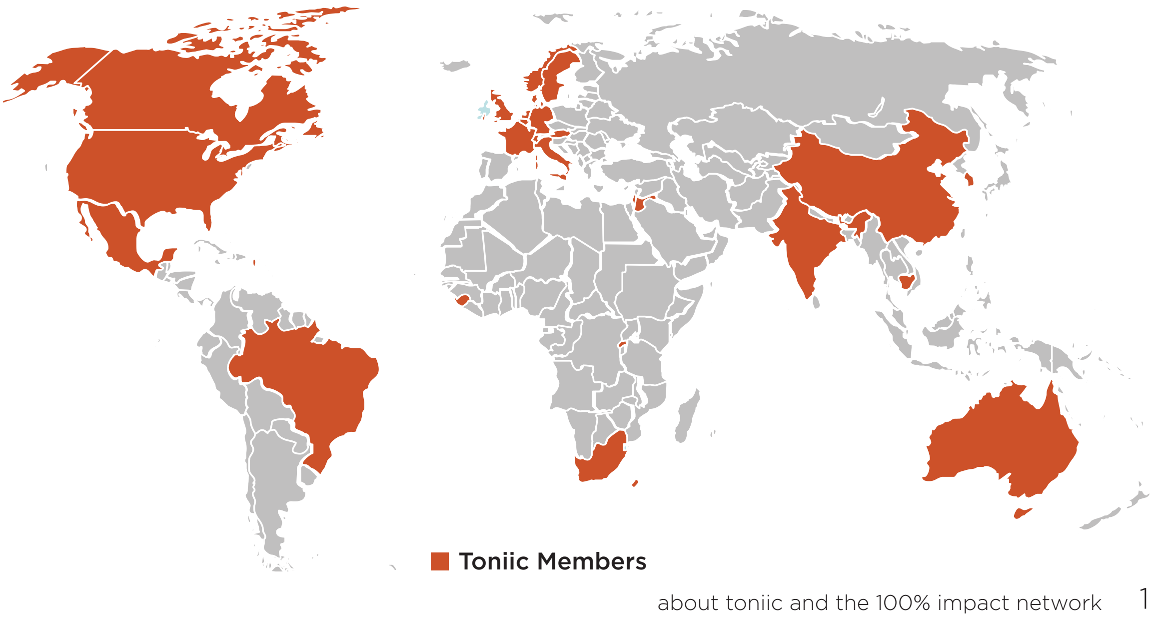
As of this writing, Toniic is comprised of 160 members representing more than 360 investors in 22 countries. The membership reflects a diverse range of asset sizes, targeted impact themes, legal structures, and investment geographies.

For more information about Toniic, visit **www.toniic.com**.

The 100% Impact Network is a subnetwork of Toniic. Its members are principal-level investors who have intentionally committed to moving 100% of an investment portfolio to investments that create positive social and environmental impact. Within a trusted network of peers, "100%ers" have committed to sharing their impact portfolios with each other. The 100% Impact Network provides these investors with a powerful suite of tools as well as a trusted community of shared values where they can share their investment approaches and lessons learned among the membership.

As of this writing, the 100% Impact Network is comprised of 85 members representing 130 "100%" investors globally, actively moving approximately $4 billion into impact investments. Of this, more than $2 billion has already been deployed.

Toniic - a global community



contents

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foreword

Dear Readers,

Almost three years ago, in January of 2014, my partner Lisa and I started the 100% Impact Network in our home in Big Sur. We were 22 principal-level investors at that time, setting out to create a global community of trust, a community of asset owners who have decided to “go all in”, to invest 100% of at least one of our investment entities for positive impact.

We knew there was a need to catalyze collective leadership, to learn from the emerging future. We were convinced that consciousness and wealth need to go hand in hand. Wealth without consciousness can be toxic, whereas wealth with consciousness can contribute positively to the overall sustainability of humanity and the planet.

We co-created an environment where we support and inspire each other on mindful journeys leading to more impactful lives; an environment where we commit to share our strategies for total portfolio activation, our intentions, our challenges and successes. As well, it is an environment where we commit to helping others start, continue, and deepen their impact journeys.

We were taken by surprise by the demand and fast growth of the network. High net worth individuals, family offices, foundation and endowment leaders from all over the world signed up with investors committing from one million to half a billion dollars into impact. We merged the 100% Impact Network into Toniic in order to create a home for all active impact portfolio investors, whether they invest in a single asset class, take an impact portfolio approach, or decide to “go all in” with 100% impact investing.

You may ask yourself how a single network can serve such a variety of asset owners. The answer lies in the intentionality of its members, and specifically the intention to make a positive difference. We don’t see our impact portfolios solely as an intellectual exercise of making money, or as an exercise of proving impact. **We see our portfolios as an expression of who we really are, as well as an expression of the change that we want to see in this world.**

Humanity is on an unsustainable path. And yet, we are at the beginning of an unprecedented global transformation, re-imagining the current unsustainable system and building it into a sustainable system. All major systems must be re-conceptualized and re-built, including the financial system.

During this transformation we must be bilingual, speaking the existing language of Modern Portfolio Theory, while creating a new language of Total Portfolio Theory or Post-Modern Portfolio Theory, with positive holistic impact at its core.

Some members are working on the new system, others within the existing system, and many are working on both sides. One is not better than the other; we strongly believe that both are needed. This is an “AND” proposition: We need to improve the existing system AND we need to create the new system.

This report, written in the language of the existing system, as well as the underlying data supporting the report, is the starting point of a multi-year longitudinal study. This study will follow over 100 portfolios for multiple years analyzing the behavioral biases of impact investors as well as analyzing impact risk as it relates to financial risk and return. We believe the results of these efforts will make an important contribution to developing this new financial system, a system that will have positive impact at its core.

I want to personally thank all our members, partners, and staff for their dedication and commitment to making a difference. I would like to invite you, dear reader, to envision and co-create the future with us.

In gratitude,

Charly Kleissner,
Co-Founder, Toniic and Chief Strategist, 100% Impact Network, Innsbruck, Austria, December 2016

about this report

This report combines analysis of aggregated portfolios, survey data, and personal stories from participants to illuminate the 100% impact investor experience.

We begin by sharing **why** these investors are creating more positively impactful portfolios – identifying their motivations for impact and "going all in." We then introduce them through their personal stories, demonstrating the diversity, resolve and rigor of their approaches.

Next we explore **how** they got started, and **what** processes and procedures they followed to commence their respective journeys. We then share select investment strategies and an analysis of the aggregate portfolios through the lens of entity type and asset size.

Finally, we address **performance,** both impact and financial, before concluding with our key takeaways, and debunking of myths.

Size of Assets Analyzed

The information presented herein represents the aggregated analysis of over $1.65 billion in assets dedicated to impact investment, of which $1.14 billion is currently deployed into impact. This data presents evidence of the global emergence of investors working to validate the viability of impact investing as a portfolio approach across asset classes.

Key References informing this Report

This report adds to a growing body of work focused on total impact portfolio activation. Though not an exhaustive list, the following seminal contributions deserve mention:

- 1997 – The Heron Foundation[1] begins moving its endowment into Mission Related Investments
- 2000 – Jed Emerson publishes *"The Nature of Returns: Social Capital Inquiry into Elements of Investment and the Blended Value Proposition"*[2]
- 2002 – Jed Emerson publishes *"A Capital Idea: Total Foundation Asset Management and The Unified Investment Strategy"*[3]
- 2008 – Rockefeller Philanthropy Advisors publish *"Philanthropy's New Passing Gear"*[4]
- 2009 – Rockefeller Philanthropy Advisors publish *"Solutions for Impact Investors"*[5]
- 2010 – GIIN publishes the first *"Annual Impact Investor Survey"*[6]
- 2013 – Sonen Capital publishes *"Evolution of an Impact Portfolio"*[7], the first publication of impact returns of the KL Felicitas Foundation
- 2015 – Cambridge Associates publishes *"Impact Investing Returns"*[8] and *"Introducing the Impact Investing Benchmark"*[9]
- 2015 – Sonen Capital publishes *"Performance Update: Evolution of an Impact Portfolio"*[10]
- 2015 – ImpactAssets publishes *"Construction of an Impact Portfolio: Total Portfolio Management for Multiple Returns"*[11]
- 2016 – The RS Group publishes the *"RS Group Impact Report"*[12]
- 2016 – Miller Center for Social Entrepreneurship publishes *"Total Portfolio Activation for Impact: A Strategy to Move Beyond Sustainable"*[13]
- 2016 – Omidyar Network publishes *"Across the Returns Continuum"*[14]

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[1]http://heron.org/
[2]http://www.blendedvalue.org/nature-of-returns
[3]http://www.blendedvalue.org/capital
[4]https://www.missioninvestors.org/new-passing-gear
[5]http://www.rockpa.org/SolutionForImpactInvestors
[6]https://thegiin.org/assets/2016 InvestorSurvey
[7]http://www.sonencapital.com/evolution-of-an-impact-portfolio
[8]https://www.cambridgeassociates.com/Impact-investing-returns
[9]https://www.cambridgeassociates.com/our-insights/research/introducing-the-Impact-investing-benchmark/
[10]http://www.sonencapital.com/.../performance-update-evolution-of-an-Impact-portfolio/
[11]http://Impactassets.org/Issuebrief_No.15
[12]http://report.rsgroup.asia
[13]https://static1.squarespace.com/Total Portfolio Activation For Impact
[14]https://ssir.org/articles/entry/across_the_returns_continuum?mc_cid=6660683e31&mc_eid=32cfe7385a

A note on inferences

This report, based on over 50 impact investment portfolios and over 40 surveys, does not purport to be a statistically significant sample size from which one can draw definitive conclusions. Some of the report limitations arise from legal and regulatory limitations, from the essentially private nature of some of these portfolios, from the early-stage nature of some of the privately-held direct impact investments and funds, and some from our evolving understanding of how to improve the precision of our questions and analysis. Most of the data reported by participants has not been audited.

As far as we are aware, this report is the first public study of how actual impact portfolios look across multiple dimensions. As such, it raises as many questions as it answers. This study emphasizes the objective reality observed by the participating investors, as well as their self-reported motivations and intentions. Because we are learning for the first time, for example, the disparities between asset class allocations among impact investors and among traditional investors, this initial study does not delve deep into *why* those differences exist. We hope to address these questions in future publications.

In this report, where we make inferences about why particular trends emerge from the data, we do so cautiously and label those inferences as such.

We intend to perform an annual data collection and analysis that will answer these and other questions raised for the first time by the data in this report. We are eager to develop methodologies for more rigorous analysis of the impact performance and financial performance of the underlying investments, aggregated asset classes, and portfolios which are the subject of this ongoing study.

We at Toniic look forward to further participating in this ongoing journey.

acknowledgements

100% Impact Network Members

This report would not have been possible without the willingness of 100% Impact Network members to share their personal wealth and investment journeys and portfolios. The breadth and depth of their support is a testament to the desire these Toniic members have in wanting to transform the global financial system for good, not only with their own assets and for their personal legacy, but also to attract more hesitant capital with their leadership by example. We thank you for sharing your data and personal stories in such a way as to inform and inspire others to explore and deepen their own impact investing journeys.

Contributors

We thank our dedicated team for making this report a reality. In particular, we would like to acknowledge Kristin Siegel, Senior Program Development Coordinator, 100% Impact Network; Dario Parziale, Manager, Financial Research and Analysis; Mark Sayer, Lead Writer; Charly Kleissner, 100% Impact Network Strategist; Lisa Kleissner, Editor-in-Chief; Lysiane Baudu, Interviewer and Story Editor; Patti Mangan, Imagine That Design Studio, Creative Director; and Amando Balbuena III, Sonen Capital, Content & Graphic Designer.

We would also like to recognize the contributions of the following members of the T100 Steering Committee for their invaluable review and input:

- Adam Bendell, CEO, Toniic
- Brent Kessel, CEO, Abacus Wealth Partners
- Elise Lufkin
- Eric Jacobsen, Gratitude Railroad
- Fran Seegull, Executive Director, U.S. Impact Investing Alliance
- Graham MacMillan, Ford Foundation
- Jed Emerson, Blended Value Group
- Liesel Pritzker Simmons, Blue Haven Initiative
- Richard Muller, COO, Toniic
- Tania Carnegie, KPMG in Canada
- Toni Johnson, Heron Foundation

Sponsors

The report was made possible by the generous financial support from:

- AlphaMundi Foundation
- Ford Foundation
- Sonen Capital
- Tides Foundation
- Toniic 100% Impact Network Members

Sponsor profiles are located inside the back cover of this report.

executive summary

100% alignment of one's investment capital and values is possible today.

These are the findings of the inaugural report in a multi-year study of more than 50 portfolios of Toniic 100% Impact Network members representing $1.65 billion committed to impact investments, with $1.14 billion already deployed. Those motivated to find values alignment can do so today.

For many impact investors, the roots of their motivation to invest with impact lies in their family values. For some there was a defining catalyst, such as the financial crisis of 2008. For others, it was their family and friends showing the way, or merely disenchantment with the status quo. Irrespective of the motivation, all respondents concur that it is possible to align investment decisions and values, as they are actually accomplishing it themselves.

Alignment is for everyone.

Investing one's capital for impact alongside financial returns is not just the domain of wealthy millennials. In fact, baby boomers (those born between 1946 and 1964) make up the majority of participants in the study. Further, the fastest growing group within the 100% Impact Network over the last two years has been individuals with single-digit million dollar portfolios (from $1 million to $10 million), not multiple-digit millionaire families with generational wealth. Geography is no barrier, nor are particular causes or themes. While impact measurement is still nascent, overall, according to our respondents, progress is tangible and rewarding.

Investors have found investments they consider impactful across all asset classes.

Reporting portfolios are, on average, 64% deployed into impact. One-third of these portfolios are already deployed with more than 90% committed to impact investments. The movement from traditional to impact investing is accelerating, with some investors able to achieve broad values alignment in less than two years. The available range of impact investments is wider than previously understood, although certain impact themes are more readily expressed in specific asset classes. We expect over time, as more investors become committed to impact investing, that deeper impact will become available across more asset classes.

Measurable impact can be generated by a wide range of portfolio asset size, liquidity objectives, and investor types while also achieving market-based financial returns.

This report makes public for the first time the aggregated portfolios of more than 50 investors, ranging in size from less than $2 million to more than $100 million, successfully targeting and achieving both impact and financial returns across the same asset classes available to traditional investors.

executive summary – continued

It shows that 100% impact portfolios can be constructed by different types of investors with different impact themes to meet a wide range of liquidity preferences as determined by the investor. We observed portfolios with exposure to market-rate risk-return profiles of different asset classes as well as portfolios targeting returns on a spectrum depending on the investment type and intention. *Intentionality* is the key ingredient. Impact intentionality can be applied across all asset classes, and a variety of impact asset classes and themes can be pursued by anyone with the intentionality of committing to an impact vision.

The results of this study also demonstrate that though the surveyed impact investors' primary motivation is to invest with measurable impact, their financial motivation is generally the same as traditional investors: to preserve capital and generate a financial return for the asset owner. This is validated by the report respondents – the majority of whom seek and achieve market-based returns. This finding goes a long way in dispelling the myth that impact investors aren't as concerned about financial returns.

For the impact investor, clear and concise measurable impact is an aspiration. And for most, it is also a "work in progress." However, with over 70% of the survey respondents having established impact objectives for their portfolio and 87% having either met or exceeded their impact category objectives, they demonstrate significant progress.

introduction to T100

Why T100

The lack of compelling quantitative and qualitative data points, case studies, and meaningful impact stories have been cited as the primary reasons impact investors and traditional investors stay on the sidelines. In addition, many financial advisory firms and product providers don't yet see a business case for the development of impact-related products and services, nor has enough of the investment research community become meaningfully engaged.

This initial study of select Toniic 100% Impact Network members represents $1.65 billion committed to impact investments, with $1.14 billion already deployed. By publishing this analysis Toniic seeks to:

- Inspire and enable others to explore and accelerate their impact investing journeys;
- Demonstrate to financial advisory firms and product providers that there is a significant and growing market for impact products and services; and
- Empower the research community with access to data to start exploring systemic issues such as sustainable risk factors, the availability and accessibility of specific impact themes within each asset class, and how best to incorporate externality pricing into security valuation and analysis.

The T100 Process

In early 2016, the Toniic 100% Impact Network, a group of asset owners committed to moving 100% of an investment portfolio into impact, were asked to participate in the T100, by:

- Sharing their underlying investment portfolio data, providing quantitative details of every investment across all asset classes (**51 portfolios analyzed** as of December 31, 2015);
- Undertaking a qualitative investment survey (**41 survey respondents** out of 51 portfolios analyzed); and
- Participating in in-depth interviews to document their stories and/or motivations behind their impact portfolios.

Data-sets with the following characteristics were analyzed:

- **Type of investor:** High Net Worth Individual (HNWI), Family Office, Foundation
- **Asset size:** -Single-digit million ($) portfolios ($1-<$10M), Double-digit million ($$) portfolios ($10-<$100M), Triple-digit million ($$$) portfolios ($100M+)
- **Gender of investors:** Male or Female
- **Age of investors:** Millennial (born between 1981 and 2000), Generation X (born between 1965 and 1980), and Baby Boomers (born between 1946 and 1964)
- **Domicile of investors:** Asia & Oceania, Middle East, US & Canada, Western Europe
- **Working with advisors or other investment professionals:** Yes or No
- **Impact categories:** Thematic, Sustainable, Responsible (see definitions on page 26)

Characteristics of Portfolios Considered in T100

Member Portfolio data

Investor Type Asset Size	HNWI	Family Office	Foundation	Grand Total	Average committed Capital
$	19		3	**22**	$5.4M
$$	10	4	8	**22**	$28M
$$$		4	3	**7**	$136M
Grand Total	**29**	**8**	**14**	**51**	$33M

Member Survey data

Investor Type Asset Size	HNWI	Family Office	Foundation	Grand Total
$	13		3	**16**
$$	9	4	7	**20**
$$$		3	2	**5**
Grand Total	**22**	**7**	**12**	**41**

$: Single-digit million portfolios ($1-<$10M)
$$: Double-digit million portfolios ($10-<$100M)
$$$: Triple-digit million portfolios ($100M+)
HNWI: High Net Worth Individual

Overview of T100 Tools and Resources

T100 is a multi-year project. The following series of publications, videos, podcasts and webinars have been developed thus far by the project team:

Evidence & Thought Leadership

- T100: LAUNCH – Insights from the Frontier of Impact Investing (this report)
- T100 – Insights from Impact Advisors 2017 (to be released in 2017)
- T100 – Insights on Impact Management 2017 (to be released in 2017)

Tools

- Toniic Diirectory (Online access date Q4 2016) Refer to page 39
- Toniic Portfolio Tool - Version I (Online access date Q4 2016). Refer to page 39

The Personal Journey

- T100 – 100% Member Videos – will be made available via the Toniic website during Q2 2017
- T100 – 100% Personal Journeys – will be made available via the Toniic website during Q2 2017
- T100 – Impact Advisor Podcasts – will be made available via the Toniic website during Q2 2017

why 100%

What is motivating 100%ers to go all in?

The source, catalyst, and rationale to commit to go *all in* varies and is unique to each investor, as our survey and interviews reveal. Yet, there are some common themes:

- The desire to align personal values with one's assets
- To make a positive contribution to humanity and the planet
- The drive to be a pioneering role model by "walking the talk"

For many impact investors, the roots of motivation lie in their family values.

Bob Pattillo, Founder of Gray Matters Capital, an impact investment foundation, was inspired by generations of action-oriented family values. His grandfather was a sharecropper. Pattillo's father went to college thanks to a local businessman who had seen his potential. When he was hired for his first job, he went back to his benefactor, ready to return the money his benefactor had offered to him. Patillo recounts what happened next: *"The businessman said, 'Don't pay me. Send someone else to college.' My father then proceeded to send more than 2,000 people to college!"* After his own business success, Bob Pattillo reinvented himself as an impact pioneer in micro-finance.

"We must align our actions with our values."

"I'd like to help transition from the old economy to a new, non-extractive, regenerative one."

"Once you see this is possible (aligning capital and values) and this is the path, how can you continue to close your eyes and invest in any other way?"

"The desire to address social injustice and the belief that impact investing can be a financially rewarding investment strategy" was the catalyst for **Brent Kessel,** CEO of Abacus Wealth Partners. As a seven-year-old boy, he was inspired by his mother's work in defying the law to provide access to critical medical products for the poor in the townships in South Africa.

For some impact investors, it was the financial crisis of 2008. In 2008, **François de Borchgrave,** Managing Partner at Kois Invest, experienced a forced rethink of his career in investing. Coupled with a personal epiphany while watching Al Gore's seminal Oscar-winning documentary, *An Inconvenient Truth*, Borchgrave transformed his investment company into an impact investment company.

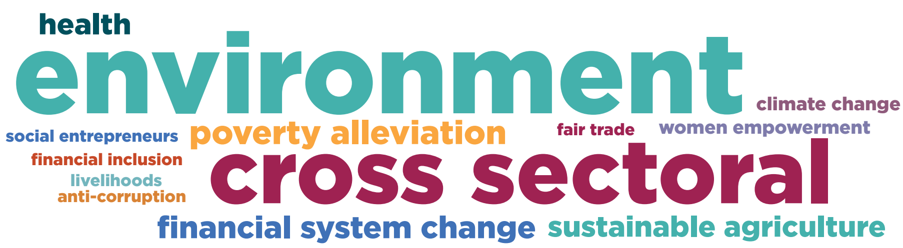
Frustrations resulting from experiencing the capital gap for impact enterprises led some to solve this problem by literally changing the system.

Personal experience and the lack of access to capital to grow his social business led **James Perry,** CEO of Panaphur, a family foundation, to question the whole financial system, challenge the foundation's endowment investment thesis, successfully overcome and change regulatory hurdles, and ultimately allocate the foundation's total portfolio into impact.

For others, such as **Ditte Lysgaard Vind,** CEO of The Circular Way, it was fundamentally the alignment of professional and personal beliefs. *"I have always been drawn to sustainability and had an activist role in the environment when I was a student. And now, as a professional, I see a dire need to bridge business and sustainability,"* she confided. Today her impact journey is consistent with those themes.

For millennials, the stakes are high. **Joshua Arnow,** director of the Arnow Family Fund, remembers an evening in 2010 when the family was watching *Gasland*, a documentary on hydraulic fracturing, revealing the damage it is causing to human health and the environment, including endangering safe drinking water for millions of people. *"My youngest daughter asked me if I had invested in such companies,"* Arnow recalls. Sure enough, after some research he discovered an investment in a gas royalties partnership made in 1998 that had adopted the practice of fracking to boost returns. Worse, it was an illiquid one! He fought hard to divest from it and eventually succeeded. "It was a real kick in the butt. Our children are really holding us accountable for walking our talk!" Arnow exclaimed.

While some motivations may be targeted with a clear theory of change (such as removing assets with any toxic chemical exposure), others are more widespread (such as supporting local leaders doing good, and improving lives in low income communities). The predominant impact themes expressed in the respondents' portfolios include:



Why – in context

Respondents agree with traditional investors that generally one motivation of investing is to preserve capital and generate a financial return for the asset owner. **Some impact investors with philanthropic capital might view a modest loss of capital as preferable to the 100% "loss" of making a philanthropic grant. However, this is seldom the case among our respondents.** The predominant motivation of the respondents, as demonstrated in the 51 portfolios analyzed, is to achieve both an impact and financial return aligned with their values.

Is this feasible with a portfolio approach? Let's find out.

who is going *all in*

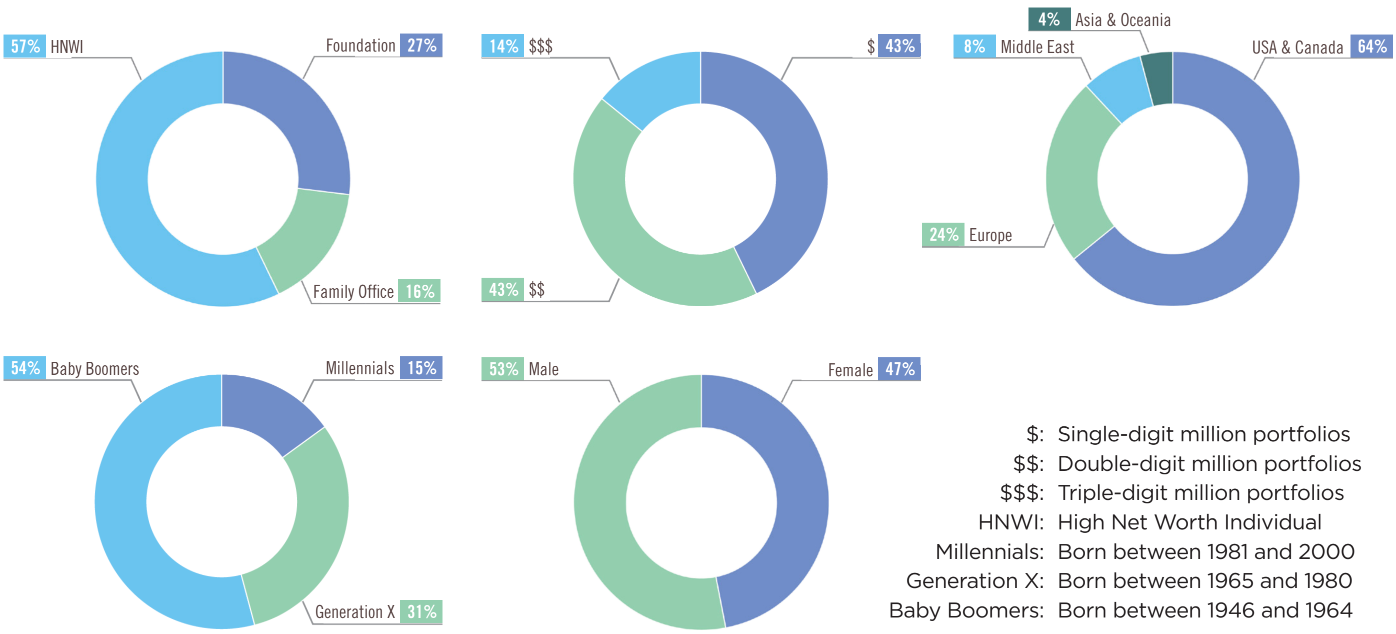
The 100% Impact Network members are doctors, lawyers, architects, engineers, entrepreneurs, philanthropists, business and financial professionals, and more. These men and women are self-made millionaires, inheritors, and trustees. They span many generations including Millennials, Generation X, and Baby Boomers.

The 100% journey is being taken by high net worth individuals, family foundations, and family offices.

They range in age from 24 to 69, with Baby Boomers making up the majority of participants in this study. They live in 13 countries, with more than half living in the US and Canada. The fastest growing group within the 100% Impact Network over the last two years is individuals with single-digit million dollar portfolios.

While a few are at the beginning of their impact journey, most have been on this path for over 5 years.

Regardless of who they are, what unites them is that they are *all* committed to going *all in*.



$: Single-digit million portfolios
$$: Double-digit million portfolios
$$$: Triple-digit million portfolios
HNWI: High Net Worth Individual
Millennials: Born between 1981 and 2000
Generation X: Born between 1965 and 1980
Baby Boomers: Born between 1946 and 1964

Characteristics of Portfolios in Report (51 portfolios)[15]

[15]https://www.unpri.org/

Setting out on an impact investing journey
When **Ditte Lysgaard Vind's** grandmother passed away in 2013, she shared in an inheritance with her mother and two brothers. This sudden wealth was both a responsibility and an opportunity. As a student, Lysgaard Vind studied business in Copenhagen, and then sustainability leadership at Cambridge (UK). Armed with a desire to make a difference with her newfound wealth, she recently decided to create a separate investment entity and invest according to this principle. In particular, she chose to focus on the **circular economy**[16] and climate change with the goal of making business and sustainability the norm rather than the exception. Just a year in, her portfolio is already 35% invested in impact.

***The Circular Economy** is one that is restorative and regenerative by design and which aims to keep products, components and materials at their highest utility and value at all times, distinguishing between technical and biological cycles.*
(Source: The Ellen Macarthur Foundation)

Forever a businesswoman, she has also developed a consultancy on the side, advising businesses on the circular economy. *"We now have five people in the consulting firm and there is a growing demand for circular economy activities."* The investment entity and her business are actually cross-fertilizing. She transfers knowledge from one to the other and back again. In short, a circular economy.

Impact investing's spiritual value
Growing up at a time when segregation was still the norm in the South, 55-year old **Bob Pattillo** remembers how his grandfather, who managed to attend evening school to learn carpentry and start a construction business, had black and white employees working side by side. *"It was very, very rare in those days,"* Pattillo muses.

He is quick to draw a parallel with impact investing. *"When people talk of a tradeoff between social goals and financial returns, in fact, there is no tradeoff. You can do the right thing, care for people and still have financial gains,"* he points out. In fact, these goals converge, but Pattillo's most important lesson has been this: *"Human capital is much more important than financial capital."*

His highly successful microfinance portfolio is testimony to this premise, as it has provided benefits to over ten million beneficiaries in a for-profit microfinance portfolio setting.

[16]Ellen MacArthur Foundation (2016). Circular Economy. https://www.ellenmacarthurfoundation.org/circular-economy

Building a new Impact Brand

In the 1990's when **Kim Jordan** co-founded the New Belgium brewery in Fort Collins, Colorado, she entered a world that was totally unknown to her – the beer-brewing industry. The venture started in a basement after she had met a young man who, while biking through Europe, had gotten acquainted with craft beer-making. He would focus on production. She would manage the business. Jordan spent the next 22 years building New Belgium's brand and *"trying to make sure the business we owned was aligned with our values,"* she says.

Born in Rhode Island to a liberal family, it seemed only natural for Jordan to focus on protecting the environment and advocate at the local and national level on issues such as the minimum wage. *"We wanted to use the strength of our business and our brand,"* she simply states. The brand enjoyed national recognition with New Belgium's beer bottles featuring the company's carbon footprint reduction strategy using wind power and energy-saving technology.

When the company was sold to the employees, part of the proceeds was used to launch a $15 million family foundation. Jordan and her family set about ensuring that their investment thesis was aligned with their values. This led them to explore transitioning the foundation corpus to 100% impact.

A new path post-2008

François de Borchgrave went to dig wells in Mauritania (West Africa) when he was 18 years old. This experience taught him that while volunteering was fine, it was not the solution.

In 2008, prompted by the financial crisis, he took what could be called a sabbatical: to reflect and regenerate. While he was "off", he had time to read more, see movies – Al Gore's *An Inconvenient Truth* made a big impression on him – and ultimately he saw a way to combine his private equity work with his desire to address social and environmental issues.

Building on the foundation of his original private equity company, Kois Invest was "birthed." The firm specializes in private equity impact investing – setting up funds and investing in companies in healthcare, education, and the environment. Apart from generating returns and impact, *"these businesses also need to serve people in need,"* Borchgrave indicates.

His first impact investment was made in 2009, in the renewable energy sector. "Then in 2010, I stumbled upon Toniic," he says, with a mischievous grin. Though he found a community of like-minded investors, "there were not that many deals around in Europe. It was pretty disconcerting," he recalls. But this was it: Borchgrave decided to invest all his time, energy – and despair, as he puts it – into impact investing.

As an impact pioneer at the time in Europe, his encounters with conventional investors didn't go very well. He recalls one investor who exclaimed, *"You are telling us you are going to help the poor and give us our money back, you must be joking!"* This did not deter Borchgrave. He persevered and now in addition to setting up impact funds, the firm's other activity is structuring innovative investment products.

real people seeking to catalyze real change

"There are incredible individuals with fantastic minds and tremendous passion working toward creating a just and sustainable world."
A 100%er reflecting on her journey into impact.

how they got started

Few have blazed the impact trail alone. Most have taken their journey with others.

A key finding in the survey is that most impact investors received inspiration, guidance, and encouragement from the following sources, thereby enabling them to commence and continue their journey into impact:

- Professional advisors
- Fellow impact investors, friends and family
- Personal engagement in the impact ecosystem

Professional advisors

85% of respondents work with one or more of the following: a Wealth Advisor, Investment Advisor, Financial Advisor, Accountant, Lawyer and/or Trustee. Not surprisingly, all of the family offices and larger portfolio investors surveyed use advisors. Of the respondents without advisors, some are investment professionals, while others are "do-it-yourselfers" who are learning as they go.

In creating **RS Group, Annie Chen** sought the assistance of like-minded advisors, especially since the first investment managers and private bankers she approached drew a blank when she mentioned the UN's Principles for Responsible Investment (PRI)[17]. *"The best they could do was to offer a water fund here, a renewable energy fund there," she explained, "but that was not what I had in mind."* With the support of Bonny Landers, then head of the family office supporting Chen's extended family, Zurich-based investment advisor Ivo Knoepfel, *"Blended Value"* creator Jed Emerson, and Hong Kong-based investment director Katy Yung, Chen set out to transition her legacy investments into a portfolio that fulfilled her sustainability criteria.

Today, RS Group is invested in a diverse range of asset classes, including listed equity, fixed income, private equity, and direct investments. All of its fund managers and partners were selected based on a thorough process of due diligence and engagement by the RS Group team, in order to ensure they are aligned with RS Group on matters of sustainability and management philosophy. They include names such as Generation Investment Management, First State Bank, SJF Ventures, and responsAbility.

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[17]https://www.unpri.org/

When **Ditte Lysgaard Vind** wanted to learn more about catalytic philanthropy and impact investing, she packed her suitcase and headed to the US as she wanted to hear first-hand from impact and philanthropic professionals in order to figure out how to create the most leverage with the money she had inherited. Before she found the right portfolio manager, Lysgaard Vind found herself doing a lot of evangelizing. *"Some really pushed back,"* against the idea of impact investing, she recalls. At best, the firms the family first consulted advised them to put capital to philanthropic use. Further, *"when asked about impact investing, one of our original fund managers admitted he had to 'Google' the definition of impact investing!"* she remembers. *"And then it didn't get any better, as he went on to simply tell us we could rest assured we didn't hold stocks from tobacco companies!"* she laughs. (Perhaps not surprisingly given her impact focus, this person no longer works for her family.)

Fellow Impact Investors, Friends and Family

Collaboration with fellow impact investors, friends and family is seen as key in the process of building a 100% impact portfolio. Over two-thirds of the respondents engage in **sharing best practices** and **due diligence** as well as **co-investment activities** while over half utilized their networks to **originate deals together** and **actively discuss impact measurement models**. Overall, 70% of study respondents indicated that close friends are their most important source of support on the path to 100% impact.

Finding peace of mind

For **Lital Slavin,** it was a chance meeting that set her on a 100% impact investing journey. Or was it? One day, in 2013, the 39-year-old Israeli citizen met Australia-based **Berry Liberman** and her husband **Danny Almagor**. *"They also have an apartment in Tel Aviv, and had their children in the same kindergarten as mine,"* she explains.

As they got acquainted, the Libermans asked her what she was doing. Slavin explained that she had just quit her job in wealth management in a large family office. She also shared her quest. *"I am looking for meaning."* The Liberman's answer? *"We are a family of wealth, investing only with meaning."* This was the moment when Slavin discovered the concept of impact investing.

"This was it, this was the epiphany," she marvels.

Shortly thereafter, the whole Slavin family packed up and traveled to Australia. *"I had to understand, to be on the investment committee to get to know the family, and to see their investments,"* Slavin explains. *"We walked together on this path."* Soon after returning to Israel, she established Beyond, her own impact family office.

Working on what gives you joy ...

"In 1998, at a Wealth with Responsibility conference, I met Steven Rockefeller – shooting pool, in fact," **Bob Pattillo** recalls. He asked his new banker friend what he was working on that gave him joy. *"He put his cue down and said 'micro-finance.'"* Pattillo, inspired to learn more, set out on a micro-finance journey that took him to countries such as Jordan, Egypt, Bangladesh, and India. Pattillo was hooked. *"We helped start a network called Sanabel, which means 'sheave of wheat' in Arabic,"* he says. *"At that time, there were nine micro-finance banks with a total of 175,000 clients in the Arab world, and six years later, there were 54 microfinance banks and 3 million clients, mostly women. It was quite amazing."*

Pattillo started to explore microfinance as an investment. *"It is my calling. It is a spiritual experience, and it has helped me to be a better father,"* Pattillo confides. When his children were young, he would take them to places like Mexico and Morocco to see the power of the human spirit in a desperate environment. And you know what? Today his children have become social entrepreneurs.

Personal engagement in the ecosystem

Respondents are convening, publishing, engaging and building across the capital ecosystem, including in these areas:

- Venture Philanthropy, Donor Networks, and Mission Investing
- Impact Investing (Early-Stage to Institutional)
- Social Enterprise Incubators and Accelerators
- Sector Thought Leadership and Personal Development

Toniic[19], Nexus[20], Investors' Circle[21], PYMWYMIC[22], GIIN[23], the Global Social Benefit Institute[24], ClearlySoAngels[25], Unreasonable Institute[26], Confluence Philanthropy[27], The Impact[28], ANDE[29] and AVPN[30] are but a few of the over 40 organizations 100%ers engage with. On average, the 100%ers surveyed engage in more than two member networks, and some in as many as seven networks. More than two-thirds are engaged as advisors of or are on the boards of nonprofits and for-profits. Respondents are intentionally cross-integrating their philanthropy and for-profit market activities with member networks and ideas for their personal portfolio and for the impact ecosystem.

[18]https://www.toniic.com/
[19]https://www.nexusglobal.org/
[20]http://www.investorscircle.net/
[21]http://www.pymwymic.com/
[22]https://thegiin.org/
[23]http://www.scu-social-entrepreneurship.org/gsbi/
[24]https://www.clearlyso.com/
[25]https://unreasonableinstitute.org/
[26]http://www.confluencephilanthropy.org/
[27] http://theimpact.org/
[28]https://www.aspeninstitute.org/programs/aspen-network-development-entrepreneurs/
[29]https://avpn.asia/

Divest Invest Campaign

"I remember going to an Environmental Funder meeting and thinking how could foundations with philanthropic assets that were fighting climate change also be investing in the very companies that were part of the problem," observes **Lisa Renstrom**. *"I was the president of Rachel's Network at the time, and in conversations with members the topic of investing with values led to the fossil fuel question."* It was a pivotal meeting with Ellen Dorsey, executive director of the Wallace Foundation, powerhouse funder of the Divest Invest Campaign[31], and also a respondent for this report, as well as a partnership with Chuck Collins, that provided Renstrom with a path forward.

While the inspiration for the Divest Invest Campaign began on college campuses, through efforts like 350.org[32] and the California Student Coalition challenging colleges and universities to divest, the movement took global flight beyond universities with the launch of the Divest Invest Campaign. *"Once the first 17 signatories in philanthropy 'put the wind behind the sails' of the movement, we were able to engage over 600 key influencers, as well as the Rockefeller Brothers Fund,"* Renstrom says. That was in January 2014. Today there are tens of thousands of signatories globally.

Challenges to getting started

Overcoming myths about impact investing's financial performance is seen as the biggest industry challenge. This is followed by the **shortage of quality investments** and **complicated impact measurement methods**. Other challenges cited include a shortage of impact professionals, data and analysis, the high cost of due diligence, and regulatory hurdles that can choke the flow of capital. The good news is that there is a concerted effort by the impact investors, through evidence sharing, to address these challenges.

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[30] http://divestinvest.org/
[31] http://350.org/

Solutions are here now … and will strengthen into the future

There is increasing evidence regarding strong financial and impact performance across asset classes, with this report providing crowd-sourced support for such evidence.

Through portfolio analysis, we have seen in the last five years an uptick in the availability of product across asset class including public fixed income and equity, private debt and equity, real assets, and cash and equivalents options. The movement from traditional to impact investing is accelerating, with some investors able to achieve broad values alignment in less than two years.

The challenge of measuring impact is not yet solved, but the desire for a solution was seen in the responses. Respondents shared that they are using both "off the shelf" as well as bespoke impact measurement taxonomies and methods. Some are looking at how they might integrate the UN Sustainable Development Goals[32] into their metric practice. Despite a shared concern regarding the complexity of measuring, 38% are measuring now and over 90% will be measuring impact within the next three years.

Accomplishments

While for many investors, 100% portfolio investing is still a work in progress, respondents have much to celebrate. Here is a sampling of their comments:

> *"…successfully achieved near 100% impact (90-95%) over a couple of years, once I made personal decision to do so. I came last to the realization that my cash needed to be in impact as well."*
>
> *"…taking my portfolio from 47% to 95% impact at no tax cost over a 6-month period…"*
>
> *"…engaging other family members in the impact journey."*
>
> *"…creating an impact strategy for the next 5 years: deciding on our guiding values and writing a work plan."*
>
> *"…completing a new Sustainable/Impact oriented Investment Policy Statement for our family foundation that includes a divest from fossil fuels component. We accomplished this through a process of deep and extensive dialogue with 6 family members (3 of us in our late 50s and late 60s, 1 in his early 40s and 2 in their mid 20s)."*
>
> *"Impact investing brings you closer to the person you aspire to be. I'm a better father because of the work that I do."*

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[33] https://sustainabledevelopment.un.org

what a 100% impact portfolio looks like

The T100 survey has revealed that the portfolios of the 51 respondents, ranging from less than $2 million to more than $100 million in assets, are successfully targeting both impact and financial returns across the same asset classes available to traditional investors. (More information about impact and financial returns can be found in the Returns section starting on Page 41.)

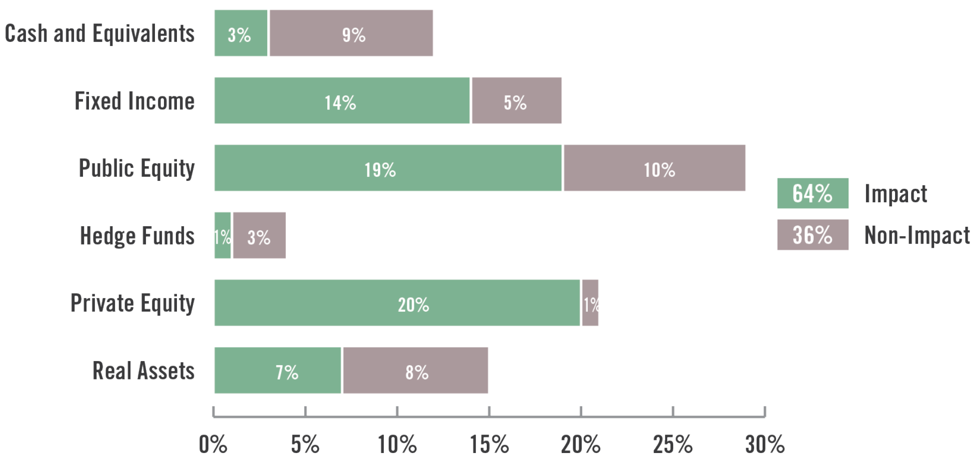
Reporting portfolios are, on average, 64% deployed into impact. One-third of the portfolios studied are already deployed to more than 90% impact. Further, investors have been able to move more quickly from traditional to impact investing, with some investors able to achieve broad values alignment in less than two years.

This study illustrates the growing range of investments that investors consider impactful across all asset classes. It shows that 100% impact portfolios can be constructed by multiple types of investors across a variety of impact themes to meet a wide range of liquidity preferences along with exposure to the risk/return profiles of different asset classes. The available range of impact investments is much wider than previously understood, although certain impact themes are more readily expressed in specific asset classes.

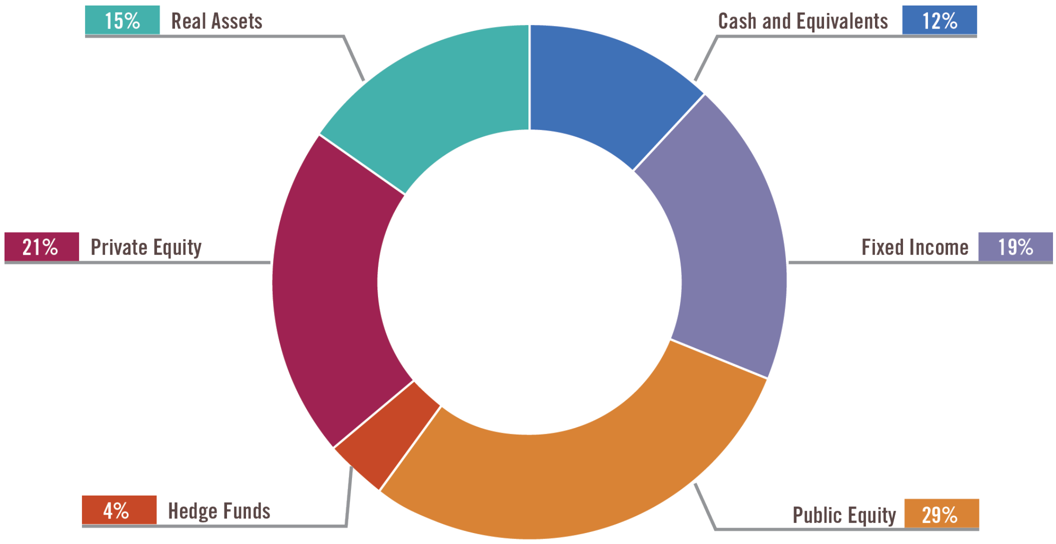
Furthermore, the T100 underscores the important role impact professional advisors play in accelerating the transition into impact.

This section looks at the asset classes, impact categories, impact themes, liquidity constraints, domicile of respondents, and geography of impact of respondent's aggregated portfolios. At the conclusion of this section, we explore the influence on impact categories and asset classes in portfolios with and without a professional advisor.

1. Asset Classes



Aggregated Asset Class Allocation (51 portfolios)



Aggregated Asset Class Allocation (51 portfolios)

An analysis of the aggregated portfolio asset class allocation from the respondents reveals that public equity represents the largest percentage of overall investments across all asset classes. Private equity, the second largest allocation represented, is almost 100% deployed to impact. While on average 12% of the reporting portfolios are in cash and equivalents, only one-quarter of the cash and equivalents is invested in impact. Also notable is that hedge funds have the lowest allocation (4%) with one-quarter in impact and three-quarters in non-impact.

Public Equity represents on average 29% of overall investments across all portfolios.

Brent Kessel, CEO of Abacus Wealth Partners, shares his public equity impact strategy:

> *"My strategy includes a combination of divestment of companies that don't align with my values, a tilt towards companies that strongly align with my values, and engagement with a few companies where we have a good chance of changing their behavior. I get the most customization through a separate account manager, so they make up the bulk of my equities exposure, but I do have two mutual funds to provide some additional diversification.*
>
> *I believe that the climate change challenge is not solved only by going fossil fuel free (divesting owners and extractors – the supply side). Rather, I follow a strategy Abacus calls Fossil Fuel Smart, in which I own a disproportionate share of the most energy efficient companies in each industry, and own much less (or in some cases none) of the least energy efficient companies. This way, we're investing on both the demand and supply sides of the problem."*

Private Equity represents on average 21% of the reporting portfolios.

François de Borchgrave, CEO, Kois Investment shares his direct private equity strategy:

> *"At this stage, our strategy is very much defined by geography and sectors: Western Europe and India, and People Development/Education, Healthcare Service, and finally Sustainable Communities (social or sustainable housing, renewable energies and sustainable agriculture). This is where we have expertise and relationships, so it is easier for us to do due diligence and add value.*
>
> *We also prefer to invest in deals where there is no technology risk or product adoption risk: the risk we feel comfortable with is execution commercialization risk. So we tend not to invest too early-stage, or if we do it is because it is more of a service business where there is already evidence elsewhere that such service is in actual demand.*
>
> *We believe it is time to think about how to bring change at scale, rather than how to find new ways to improve the situation –there are many solutions that already work. If we can focus on these solutions and bring them to a larger level, we'd already do a lot of good."*

Fixed Income represents on average 19% of the reporting portfolios.

Toni Johnson, VP at Heron Foundation, shares Heron's Fixed Income strategy:

> *"Roughly 30 percent of our portfolio is debt. This ranges from market-rate corporate and municipal bonds to program-related investments. Our bond managers – CCM, RBC, and Breckinridge – have a really good understanding of the kinds of bond issuances that might appeal to us based on our impact objectives. We are currently working on a blog series to help illustrate the impact of some of the bonds in our portfolio that have matured."*

Real Assets represent on average 15% of the reporting portfolios.
Of these, half are invested in impact and half are not.

Cash and Equivalents represent 12% of the reporting portfolios. Only 25% of this number (e.g., 3% of the overall investments) is invested with impact. Feedback from respondents underscores their frustration with a lack of impactful cash and private banking options.

Paul Blyth, Investment Director of Panahpur Foundation shares his organization's cash and equivalents strategy:

> *"In the first instance, our strategy has been to move our cash deposits from organizations that are 'part of the problem' to ones that are part of the solution. We keep deposits with ethical banks up to the level of federal insurance. This keeps credit due diligence to a minimum while supporting ethical banking.*
>
> *In terms of yield – yields have been and continue to be very low everywhere, so there is no premium to holding longer term deposits, so we are fairly liquid– e.g., 90 day CDs.*

We are diversified in terms of currency – presently USD and GBP, but also considering Euros. On the cash side, we have deposits up to the federal limit with Triodos Bank, Ecological Building Society, and the Charities Aid Foundation (in the UK), and (surprisingly for the UK) with Southern Bancorp in Arkansas. We are considering other European, UK, and US ethical banks. We also have investments with Rathbones Ethical Bond Fund+ (a bond fund that seeks to invest in UK charities), Oikocredit, and Finethic microfinance debt fund. These are not cash, nor are they federally insured, but they are fairly liquid and low volatility if we need to get our hands on cash."

Hedge Funds are under-represented in impact portfolios as compared to non-impact portfolios. On average, impact portfolios are 4% invested in hedge funds. Even with impact investment firms like Sonen Capital recently launching a multi-manager strategy aimed at providing impact investors with a diversified exposure to hedge funds and other alternative investments, the asset class lacks sufficient supply and opportunities for impact investors globally. While it appears that there is work to be done to develop impact hedge funds, a recent report by Deloitte[34] provides five considerations for hedge fund creators as they consider the impact space. We encourage the reader to explore the hedge funds listed by respondents in the Toniic Diirectory.

2. Impact Categories

Defining Impact Categories

In our study, we define impact categories consistent with the Group of 8 (G8)[35], World Economic Forum (WEF)[36] and Global Impact Investing Network (GIIN)[37] definitions:

Non-Impact: These investments follow the traditional investment approach with an emphasis on profit maximization without any explicit or intentional regard for social and/or sustainable factors or externalities.

Responsible/SRI Investments (Responsible): "*Responsible*" involves the negative screening of investments due to conflicts or inconsistencies with personal or organizational values, non-conformity to global environmental standards, adherence to certain codes of practice, or other such impact performance criteria. The term "Responsible" is further used to capture investment activity that may proactively contain a social or environmental component in its strategy.

Sustainable/ESG Investments (Sustainable): *"Sustainable"* investments move beyond a defensive screening posture and are actively positioned to benefit from market conditions by integrating environmental, social and governance (ESG) factors into core investment decision-making processes.

This category can include corporate engagement, innovations and new markets that are recognized as a path to growth, with positive social and environmental benefits.

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[34] Deloitte (2016). Impact Investing: A sustainable strategy for hedge funds.
Available at https://www2.deloitte.com/us/en//impact-investments-hedge-funds-Sustainable-business

[35] http://www.socialimpactinvestment.org/

[36] https://www.weforum.org/projects/mainstreaming-sustainable-and-impact-investing/

[37] https://thegiin.org/impact-investing/need-to-know/#s1

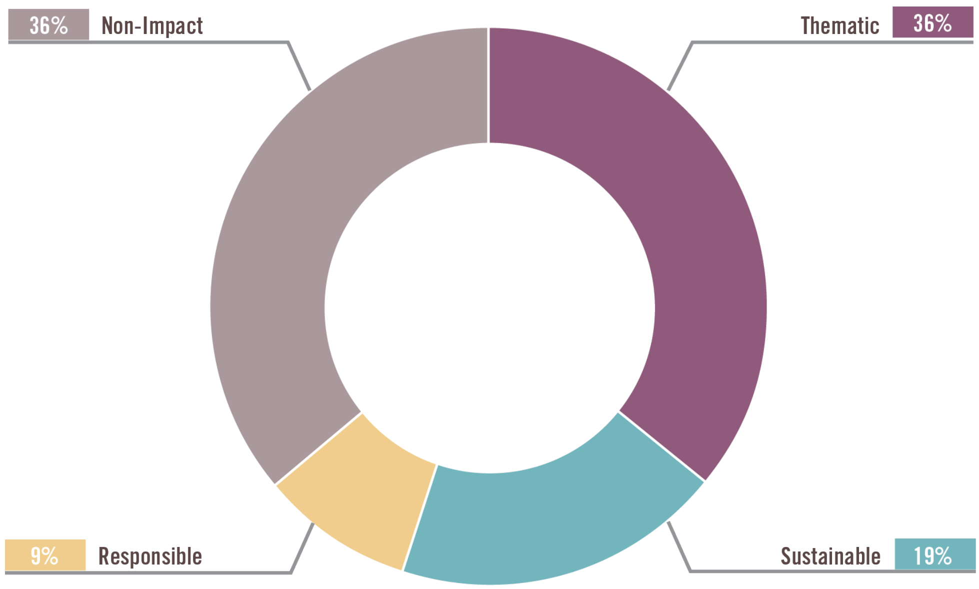
Thematic Investments (Thematic): "Thematic" (also known as Mission) investments have a particular focus on one or more impact themes, such as clean energy or access to clean water. These are highly targeted investment opportunities in which the social and/or environmental benefits are fully blended into the value proposition of a commercially positioned investment.

This category also includes, but is not limited to, investments that seek to optimize a desired social or environmental outcome, without regard to competitive return. These investments may trade off financial return for greater impact where a more commercially oriented return is not yet available. When practiced by US private foundations, there is the option to consider this a Program-Related Investment (PRI), as defined by US tax law.

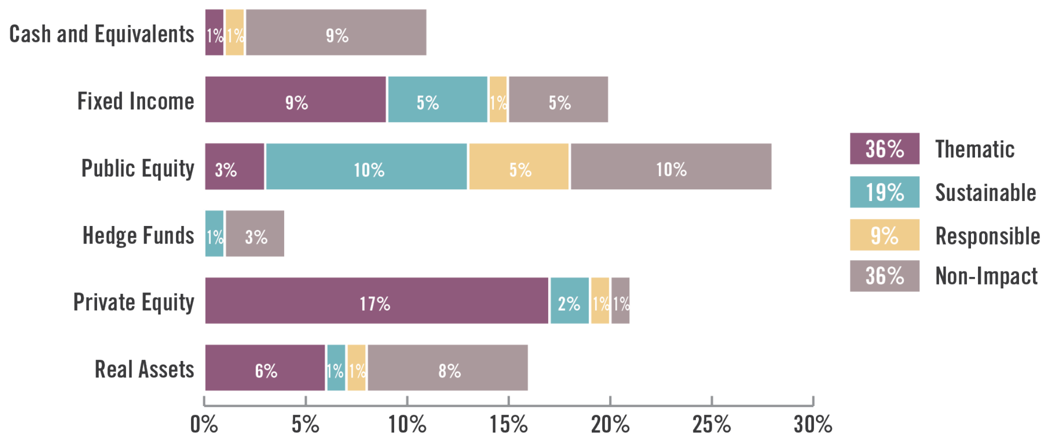
Defining Impact for this Report:

When asked to define the term "impact" as it relates to their investments, respondents use a variety of definitions. Half use the definitions above, while the other half use a variety of personally defined categories. For the purpose of this report, respondents have adopted the above categories when reporting their asset allocations.

It is also important to note that about 2% of investments reported by respondents were defined by more than one impact category. For instance, while one impact investor may categorize an investment as Sustainable, a different investor might categorize the same investment as Thematic or Responsible. The deciding factor for each investor is the intention behind the investment.



Aggregated Impact Categories by Asset Classes (51 portfolios)



Aggregated Impact Categories by Asset Classes (51 portfolios)

On average, the portfolios are 64% invested for impact, with respondents planning to allocate up to 82% within the next three years. 55% of all investments are currently invested in Thematic and Sustainable, and 9% in Responsible.

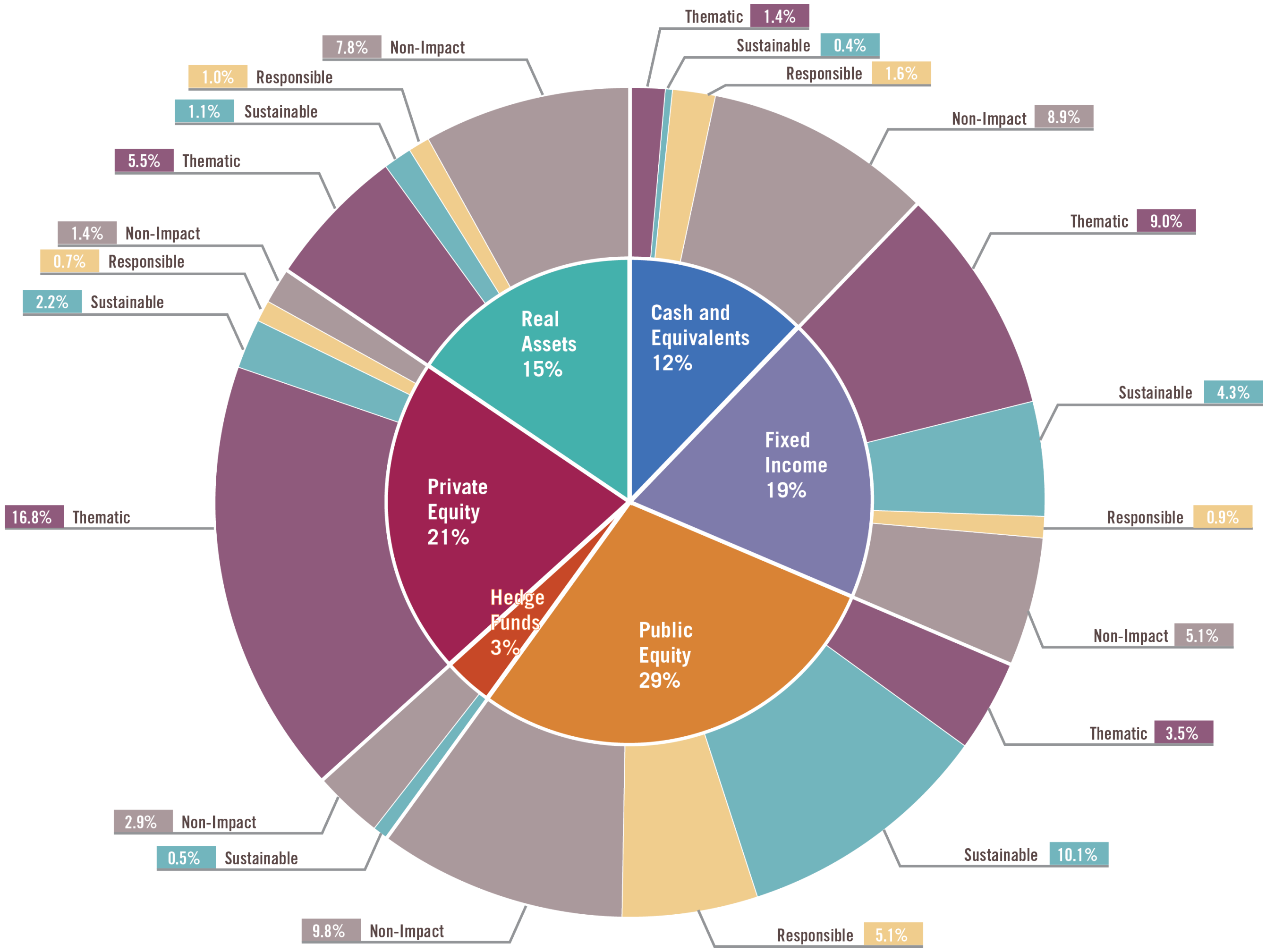
One-third of **Public Equity** investments are in the sustainable category, one-third are evenly split between thematic and responsible, and one-third is reported in the non-impact category.

Private Equity in the reporting portfolios demonstrate a very high thematic allocation: over 75% is invested in a combination of direct private equity and private equity fund investments.

Fixed Income represents 19% of the average portfolio. About half of the overall fixed income allocation is allocated to thematic investments, about 20% in sustainable investments, and the remaining 30% is non-impact investments.

Real Assets constitute about 15% of the average investor's portfolio, with more than one-third of this allocation in thematic investments. Within real assets the largest sub-asset class is real estate. Commodities and resources, works of art, and other sub-asset classes together constitute less than 1% of the investors' portfolios.

Cash and Equivalents represents on average 12% of the investor's portfolios, three-fourths of which is currently non-impact. In cash investments impact is mostly targeted through sustainable banks, short term fixed income funds, and deposits as loan guarantees for social enterprises. This makes cash and equivalents the lowest allocated impact asset class currently, aside from hedge funds.



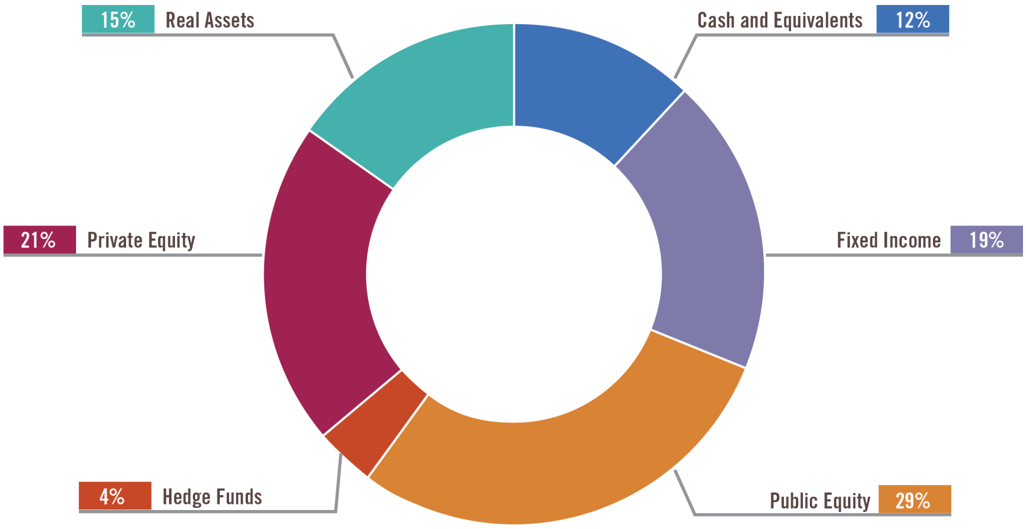
Aggregated Impact Categories by Asset Classes (51 portfolios)

The nested pie chart above combines and compares two sets of respondent data: asset classes in the inner pie chart; and impact categories that are expressed in each of the assets classes in the outer pie chart.

The asset classes in this study with the most impact investments are private equity, public equity, and fixed income. The asset classes with the least impact investments are real estate, cash and equivalents, and hedge funds. In future years, we will explore the reasons for this phenomenon and its evolution over time.

Asset Class Allocation per Investor Type

Our survey reveals asset class allocation and impact category differences between investor types as shown in the following two charts.



Aggregated Asset Class Allocation (51 portfolios)

Aggregated Asset Class Allocation per investor type (51 portfolios)

Foundations are allocating the highest percentage to **Public Equity** (40%). While foundations and individuals mostly invest in sustainable investments, family offices mainly invest thematically in public equity.

Individuals and family offices have, on average, more invested in direct **Private Equity** than foundations (15% and 14%, respectively). This is true for individuals regardless of their portfolio's size. By comparison, foundations have invested on average about 8% each in direct deals and private equity funds.

Within **Fixed Income,** the sub-asset class with the highest thematic allocation is private debt. For public debt and bonds, on the other hand, thematic and sustainable investments each account for about 30% of the allocation.

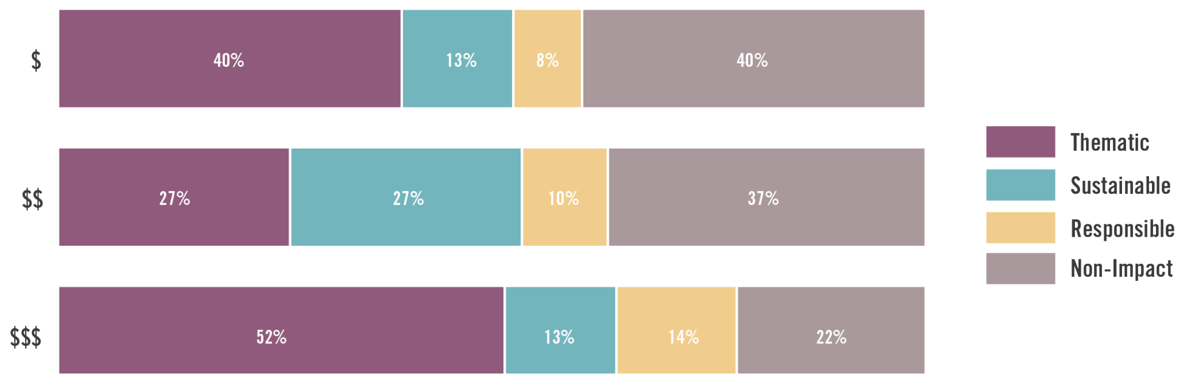
Foundations in our sample have the largest average allocation in fixed income (30%), compared to individuals (16%) and family offices (12%). On average about 12.5% of the foundation portfolios are invested in private debt, compared to less than 5% of individuals and family offices. Because private debt shows high availability of thematic impact relative to other asset classes, this raises the impact for foundations across their portfolios. Foundations in our study have more allocation to private debt than private equity.

Foundations have invested on average 4% of their portfolios in **Real Assets** as opposed to about 20% by individuals and family office portfolios. Real estate tends to be either thematic or non-impact: for individuals, about 30% of their real asset allocation is thematic, and for family offices, about 70% is thematic.

Since individuals in our sample hold more **Cash and Equivalents** than foundations and family offices (16% vs 6% and 10% respectively), the relative absence of impact in cash and equivalents options affects individual impact investors the most in terms of limiting their access to appropriate impact investments.

In summary, **Foundations** have more Thematic Fixed Income than family offices and individuals due to a higher exposure to direct debt, and to Sustainable Public Equity. **Individuals** achieve thematic impact through private equity, and their non-impact allocation sits mostly in real estate and in cash and equivalents. **Family Offices,** when using the measure of asset class, are investing in more Thematic Equity (public and private) than individuals and foundations.

How Asset Size Influences Impact Categories and Asset Classes

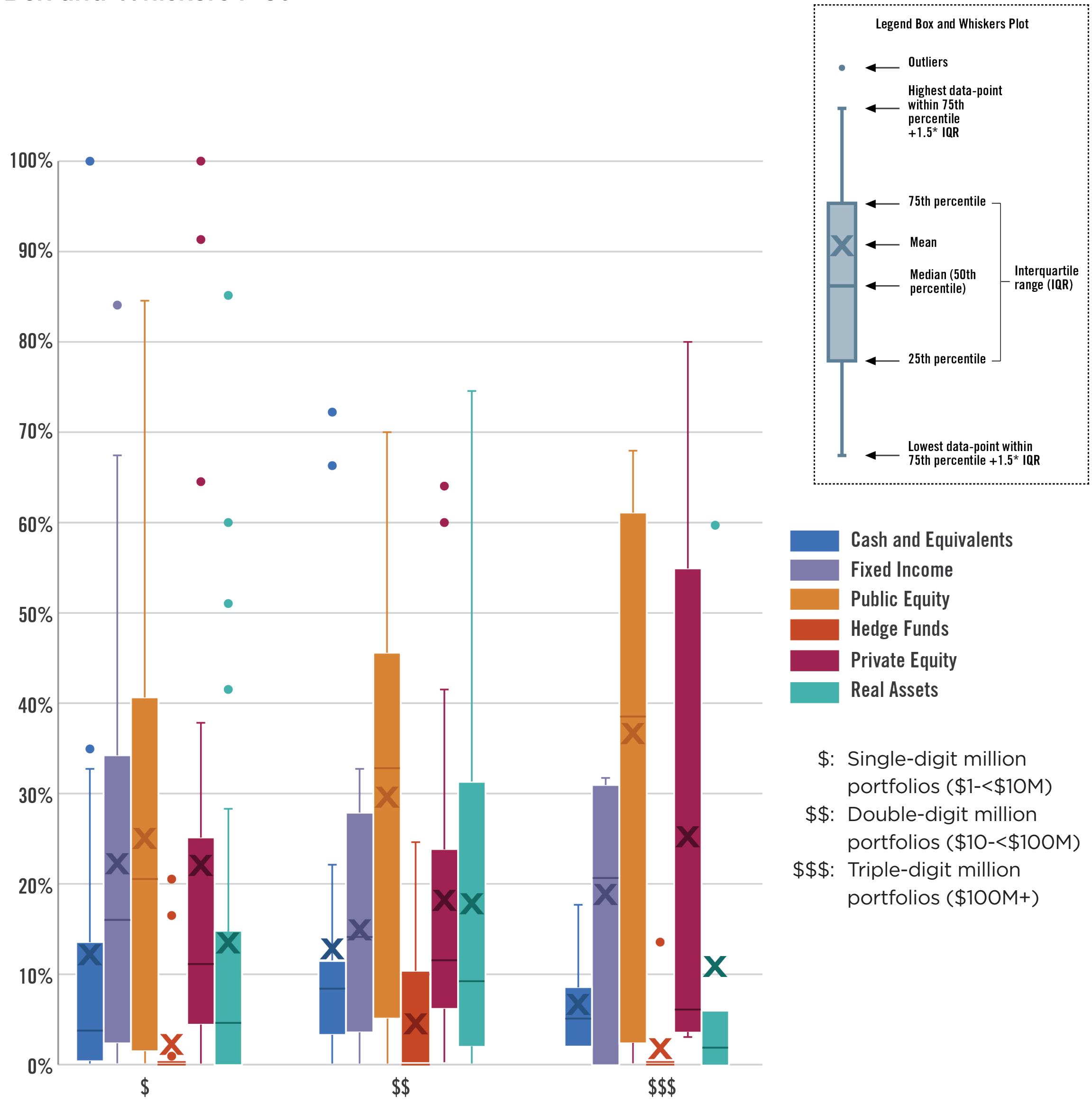


$: Single-digit million portfolios ($1-<$10M)
$$: Double-digit million portfolios ($10-<$100M)
$$$: Triple-digit million portfolios ($100M+)

Aggregated Impact Categories according to asset size (51 portfolios)

Looking at the average impact allocation according to the asset size of the reporting portfolio, triple-digit million portfolios are closer to a 100% impact allocation, with 78% invested in impact overall. They are also significantly more invested in thematic (52%) than double-digit and single-digit million portfolios.

Box and Whiskers Plot



Aggregated Asset Classes by Asset Size (51 Portfolios)

In a Box and Whiskers Plot the top 50% of the respondent answers (i.e., 25 portfolios) are represented by everything above the median (50th percentile) and the bottom 50% of the answers are represented by everything below the median. Those in the top 25% (i.e., 13 portfolios) are shown by the top "whisker" and dots. Those in the bottom 25% are shown by the bottom "whisker" and dots. Dots represent outliers.

With regards to the asset class allocation by portfolio asset sizes, we note that the allocation of single-digit million portfolios has the most outliers (a data point significantly different from others in the same data set). Triple-digit million portfolios are more uniform, and double-digit million portfolios are a little of both. Note that there are single-digit million portfolios which are entirely allocated to private equity or cash and equivalents. Typically, double- and triple-digit million investors tend to work closely with investment advisors or consultants. As such, in the future we will explore in more depth the relationship between investment advisors, asset class, and impact category allocation.

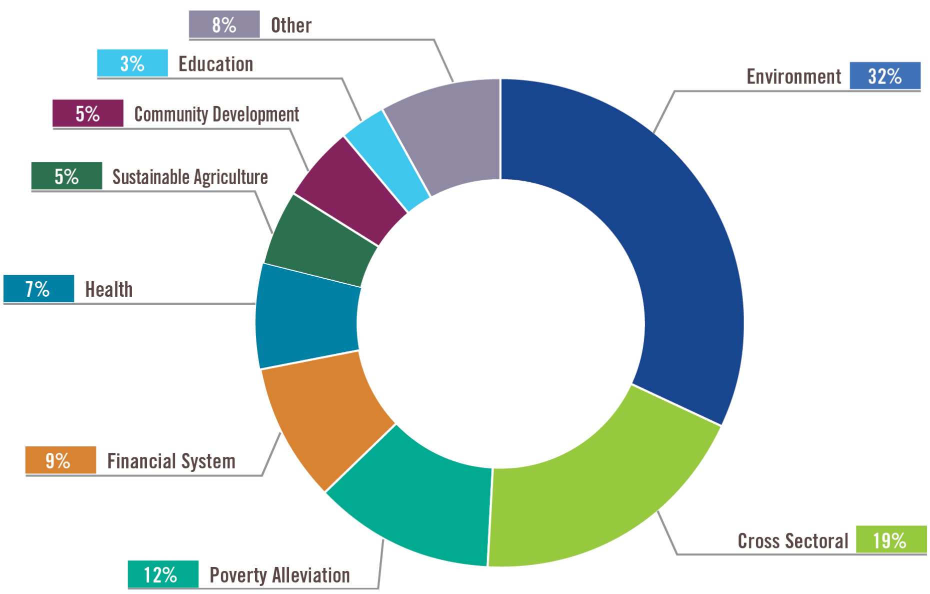
By focusing on the median asset allocation values, which do not consider outliers, we observe that the asset allocation is relatively similar for different portfolio sizes, except in the case of public equities where single-digit million portfolios have a median allocation of 21%, double-digit have 33%, and triple-digit have 39%.

In other asset classes the ranges of the median allocation among different portfolio sizes are relatively small (median values for cash and equivalents are between 5% and 8%, for fixed income between 15% and 21%, for private equity between 8% and 11%, for real assets between 2% and 9%).

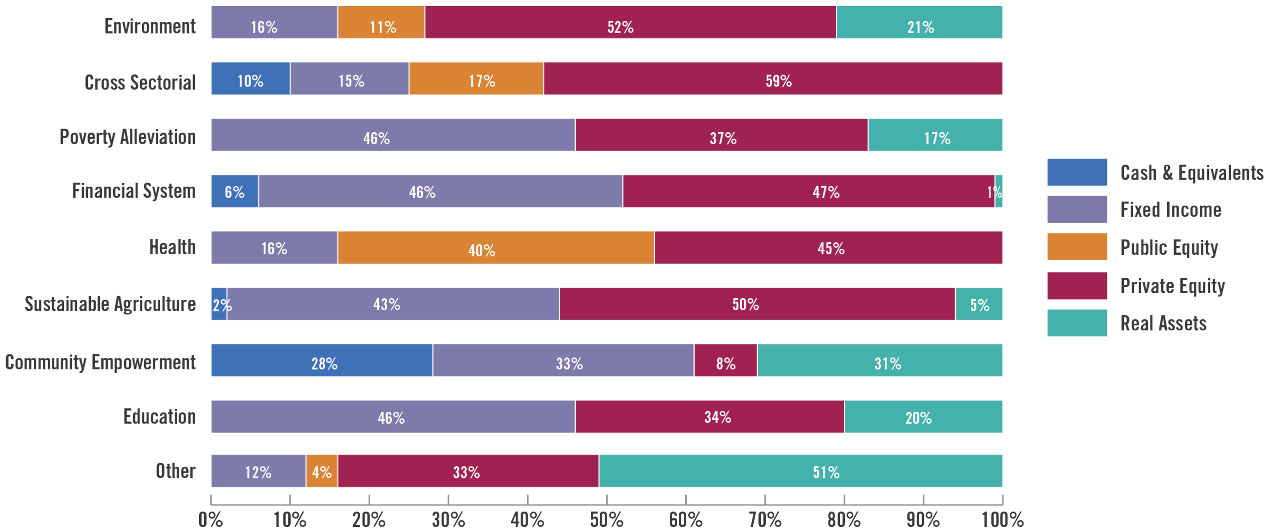
The higher allocation of triple-digit million asset owners to public equity is not sufficient to explain the higher overall impact allocation: the data shows that triple-digit million asset owners have invested in more thematic investments in almost all asset classes, including real assets, private equity, cash and equivalents, and public equity.

3. Impact Themes

The impact themes we are reporting were crowd-sourced from the respondents.
In future reports we will evaluate using other frameworks, for example the UN Sustainable Development Goals.



Aggregated Impact Themes (51 portfolios)



Aggregated Asset Classes Across Impact Themes (51 portfolios)

The most common impact theme, representing almost one-third of all investments, is Environment. The second and third most prevalent impact themes are Cross-Sectoral (multi-theme) and Poverty Alleviation. Financial System, Health, Sustainable Agriculture and Community Empowerment each represents between 5% to 9% of all investments.

In the following matrix we show at least one investment in each impact theme/asset class combination. We encourage the inquisitive reader to explore additional investments and the interdependencies of impact themes and asset classes in the Toniic Diirectory[38].

[38]https://www.toniic.com/t100

	Cash and Equivalents	Fixed Income	Public Equity	Hedge Funds	Private Equity	Real Assets
Environment		Wunder Solar	Green Alpha Next Economy Index	Summit Offshore Water Equity Fund	Fenix International	Lyme Timber Fund
Poverty Alleviation	MicroVest Short Duration Fund	Oikocredit			Impact America Fund	Cheyne Social Property Fund
Financial System	New Resource Bank	ImpactAssets Note Microfinance	Portfolio 21 Global Equity Fund		Elevar Equity	HIP REIT
Sustainable Agriculture	Triodos Sustainable Trade	Root Capital	Sonen Global Equity		InvestEco Sustainable Food Fund	Farmland LP
Community Empowerment	New Resource Bank, Beneficial State Bank, Southern Bancorp, Seattle Metropolitan Credit Union, Washington Employee Credit Union, or RSF Social Investment Fund	Access Capital Community Investment Fund, Calvert Community Investment Notes, Uncommon Cacao			Change.org, Impact Hub, Impact America Fund I LP	Cheyne Social Property Fund, Rose Smart Growth Investment Fund, The Hive
Education		Cherry Creek Colorado School District Refunding (municipal bond)			Learn Capital	investments in works of art and in the preservation of cities cultural heritage
Health		Meds and Foods for Kids	Envision Healthcare Holdings, Alnylam Pharmaceuticals, Invivo Therapeutics.		Salud Facil	
Cross-Sectoral	Calvert Social Investment Note	Sonen Global Fixed Income	Nia Global Solutions		Sanergy	Rose Sustainable Housing Pres Fund IV

Environment is expressed in all asset classes except for cash and equivalents and is the predominant theme in private equity.

Poverty Alleviation is expressed in almost all private asset classes, while it is not common in public listed securities

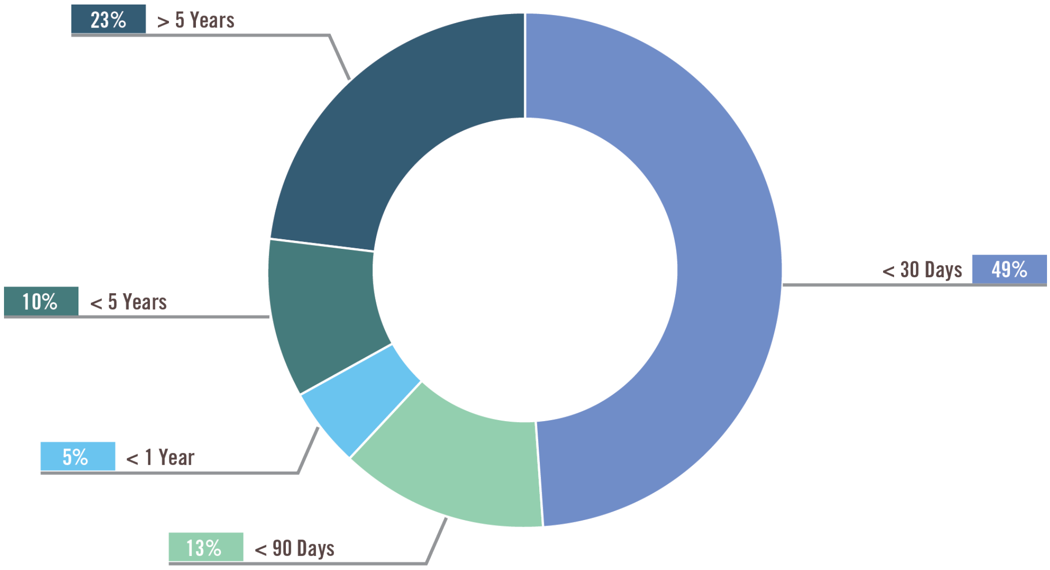
Community Empowerment is expressed in equal percentages in multiple asset classes: including real assets, fixed income, and cash and equivalents.

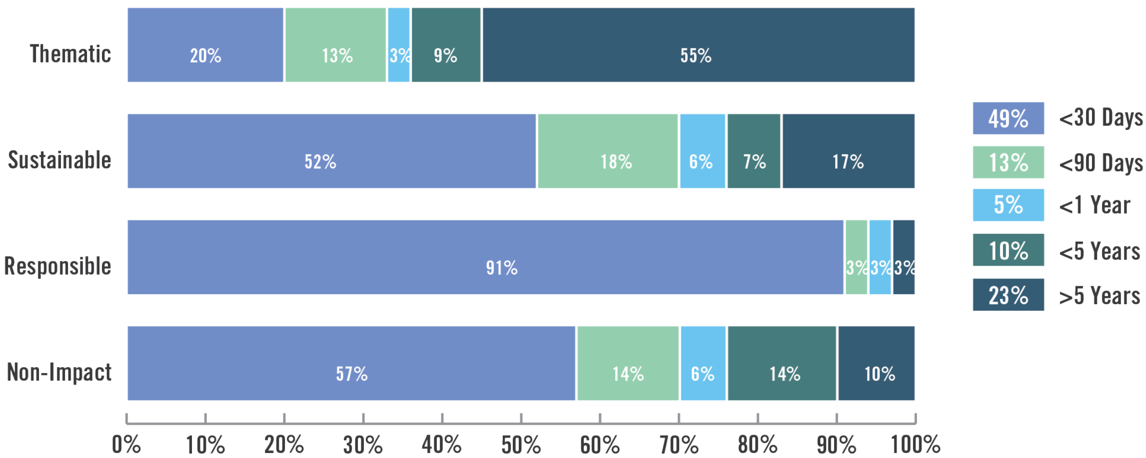
Education is expressed in three asset classes: fixed income, private equity, and real assets.

Health appears in public equities more than any other impact theme. Other relevant asset classes for health are fixed income and private equity.

Cross-Sectoral is expressed in all asset classes, except for hedge funds.

4. Liquidity



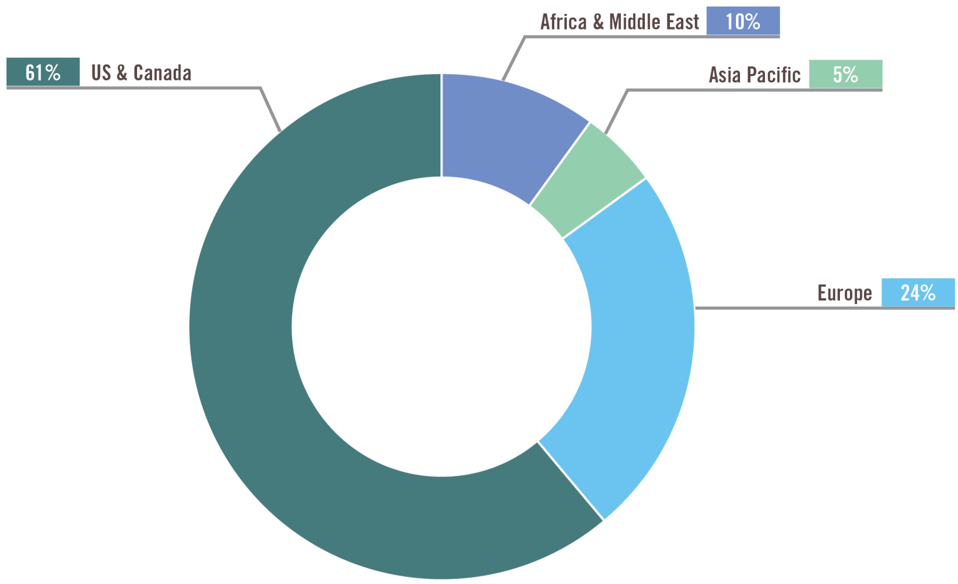


Aggregated Liquidity Profiles by Impact Category (33 portfolios) [39]

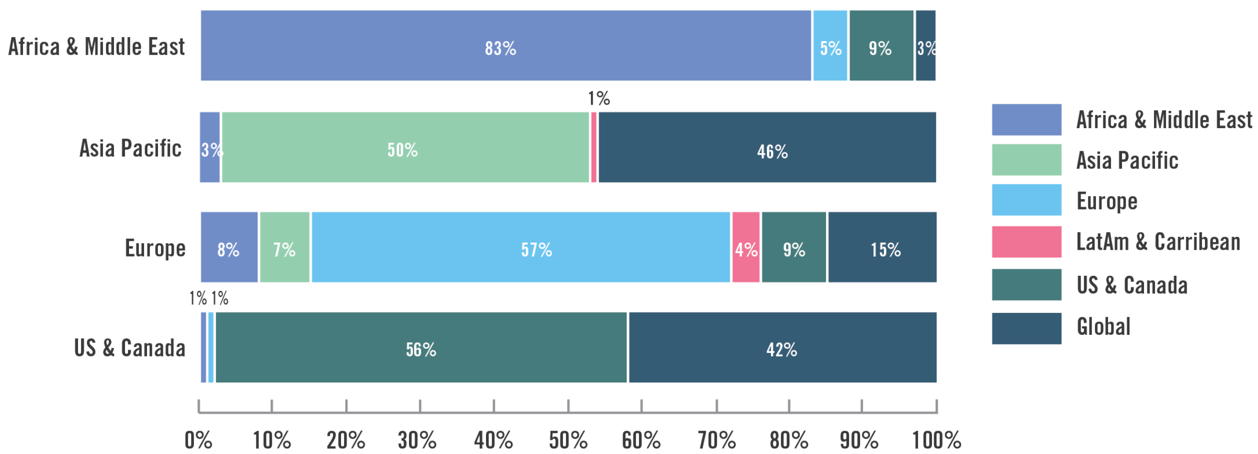
Thematic investments are the most illiquid with 55% of investments locked up for longer than 5 years. Responsible investments, on the other hand, are 91% liquid (lock up less than 30 days). Half of the sustainable investments are liquid (lock up less than 30 days) and 24% of sustainable investments are illiquid (1 year or longer).

[39] This year, 33 of the 51 portfolios are reporting on their portfolio liquidity profiles for this report. We anticipate all portfolios will participate in future reports.

5. Domicile



Aggregated Investors' Domicile (41 portfolios)

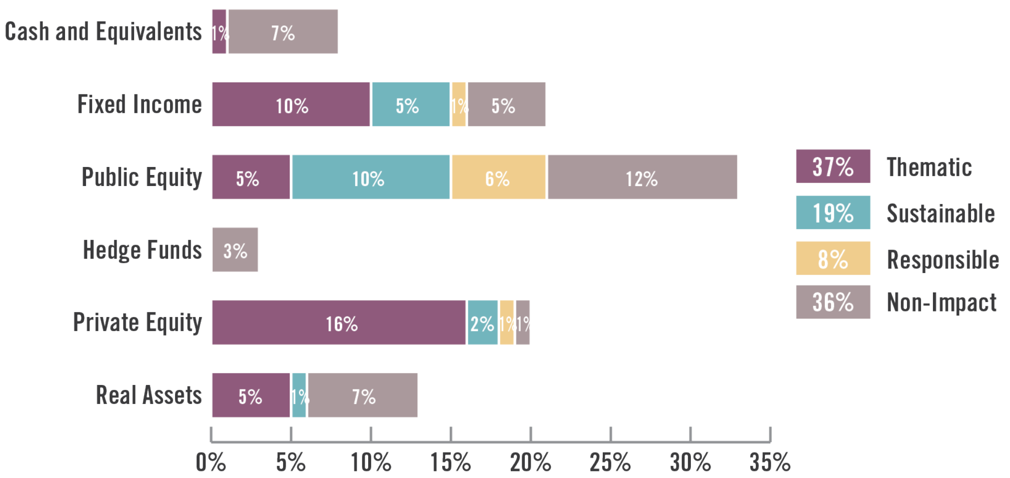


Regional Investments by Investor Domicile (41 portfolios)

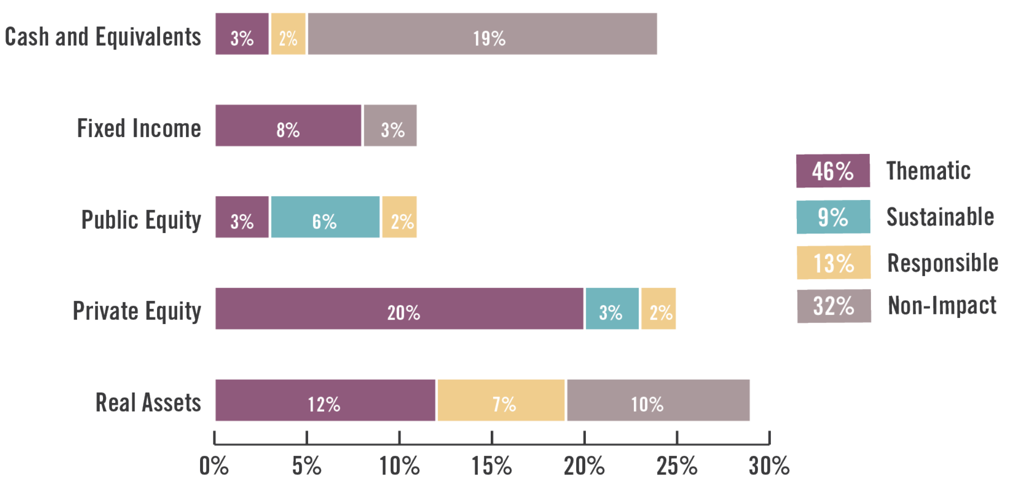
The domicile (home region) of the reporting investors is indicated to the left of the bar chart. The pie chart indicates that the predominate domicile is US and Canada, followed by Europe, then Africa and the Middle East, and lastly, Asia Pacific.

The investor "local preference," also known as the "home bias", is well-known. The 100%ers surveyed confirm this bias with their portfolios. Respondents living in Asia Pacific, Europe and US and Canada invest roughly half in their region and half outside their region of domicile. Respondents in Africa and Middle East are investing over 80% in their regions. Europeans have the greatest diversity of invested regions expressed in their portfolios.

6. Impact Categories and Asset Classes with or without Advisors



Impact Categories and Asset Classes with Advisors



Impact Categories and Asset Classes without Advisors

The use of a professional advisor appears to impact asset class allocation. Our survey reveals a positive correlation between the engagement of professional advisors and the presence of a significant public equity and fixed income asset allocation with an impact in sustainable investments. Investors without advisors have a heavier focus on cash and equivalents, real assets, and private equity.

Respondents with investment advisors tend to move more quickly into impact compared to “do-it-yourself” investors and peers with other types of advisors, especially in their first years of impact investing. Some portfolios, with the help of investment advisors, were able to move to 100% within the first two years of transition.

7. Toniic Portfolio Management Tools

During the process of collecting data for our report, the Toniic team developed two tools that can help impact investors better manage their portfolios, as well as source and compare their investment activity with their peers.

toniic diirectory

Toniic Diirectory
An online searchable directory launching with over 1,000 impact investments across all asset classes sourced from the portfolios of Toniic members, especially 100% Impact Network participants, and other catalytic organizations in the impact ecosystem.

This tool is licensed to the public subject to the Creative Commons Attribution Non-Commercial No-Derivatives 4.0 International (CC BY-NC-ND 4.0) license.[39]
(Online access Q4 2016)

toniic impact portfolio tool

Toniic Impact Portfolio Tool - Version I
Used to gather data for this report, the Excel-based Toniic Impact Portfolio Tool enables impact investors to document the interrelationships between asset classes and the impact of a portfolio of investments. This easy-to-use tool allows an investor to classify every underlying investment by its intended impact, as well as other variables that investors take into consideration when designing their portfolios — such as liquidity, expected returns, geography, management structures, and more. The outputs of the tool are visual representations of the individual portfolios, as well as investment data which has been included in the Toniic Diirectory and this report.

This tool is licensed to the public subject to the Creative Commons Attribution-NonCommercial ShareAlike license version 4.0 International[40].
(Online access Q4 2016)

[39]https://creativecommons.org/licenses/by-nc-nd/4.0/
[40]https://creativecommons.org/licenses/by-nc-sa/4.0/

returns: impact and financial

Impact Returns

For the impact investor, measurable impact is the holy grail of their quest. For most of the investors surveyed in this report, it is fair to say that it is also a "work in progress."

Impact Objectives

Respondents shared that they are, in aggregate, targeting **over 28 impact themes** in their portfolios. For the purposes of this study, we distilled these down to a list of nine impact themes.

Over 70% of the survey respondents have established impact objectives for their portfolio.

Importantly, **87% have either met or exceeded their impact category objectives**, finding aligned investments in Responsible, Sustainable and Thematic (see Impact Category Definitions, page 26).

Impact Measurement and Reporting

38% of the survey respondents are actively measuring the impact of their portfolios. Note that most investors who are currently measuring impact have been doing so since 2013. Additionally, 54% who are not measuring now want to be measuring within the next three years. Respondents measuring now and indicating that they will measure within the next three years are predominantly family offices and individuals. This means that a **total of 92% will be formally measuring impact by 2019**. Half of the reporting foundations plan to be measuring in three years.

The survey revealed that those measuring impact are using a variety of both standard and bespoke methods to tell their portfolio impact story. Of those currently measuring impact, over 80% use bespoke quantitative metrics, and 70% use non-standardized qualitative metrics and storytelling. "Off the shelf" methods and taxonomies, such as B-Analytics[41], GIIRS Ratings[42], and IRIS[43], are used by over 70% of the survey respondents.

Several respondents are tackling the impact measurement challenge for the benefit of the broader impact community.

> **Skopos Impact Fund**[44] is a global, private, investment fund with the aim to promote human dignity, just societies and sustainability through impact investing. They have just released a report on their approach to impact management, highlighting that the impact measurement process is not linear, it naturally creates a series of feedback loops, outlined diagrammatically on the following page.

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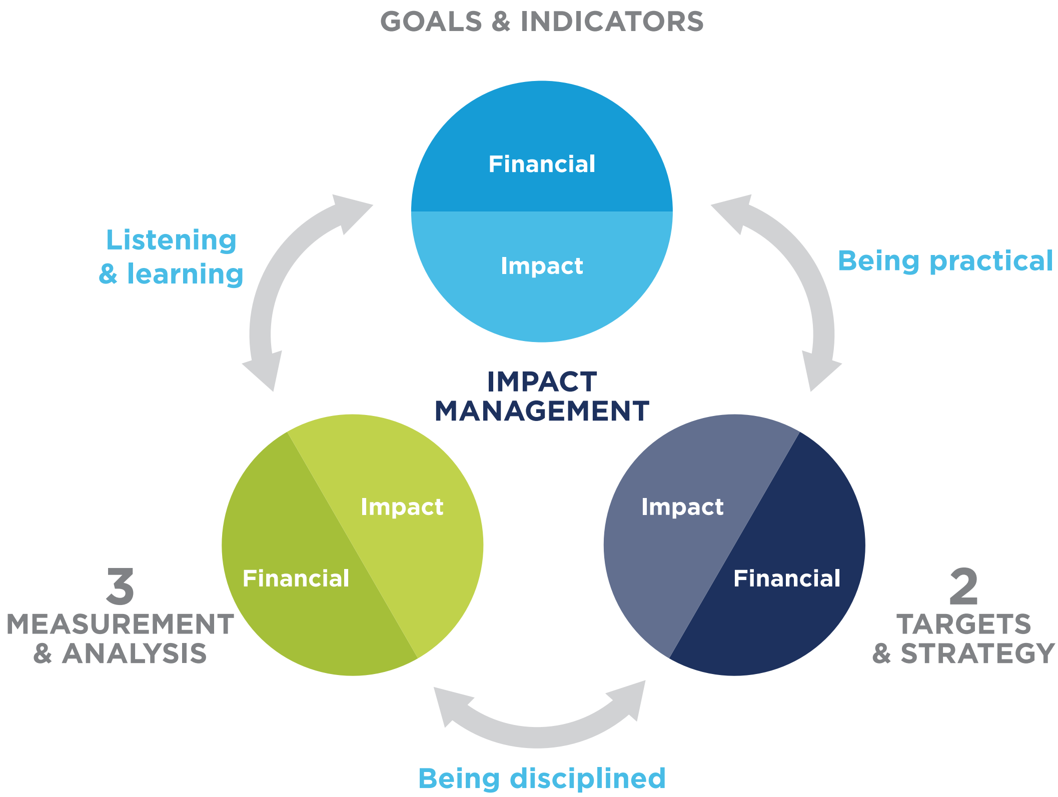
[41] http://b-analytics.net/
[42] http://b-analytics.net/giirs-ratings
[43] https://iris.thegiin.org/
[44] http://bridgesventures.com/measurement-practitioners-journey-impact-management/



One of the report's conclusions is that if one considers both what success would look like (impact return), and the probability of achieving that success (impact risk), one can better understand the relationship between the two, so one can make smarter impact investments.

Tim Radjy, Founder of AlphaMundi shares that *"measuring impact is as much about the science, through quantitative indicators and annual field surveys, as it is about the emotional appeal, through quarterly social media reporting, and video interviews of the main stakeholders. We need to standardize our methods at both levels over the next couple of years, which we plan to do through the newly-launched AlphaMundi Foundation. Some of our portfolio companies are also starting to collect so much data about their clients that they are increasingly able to track and report regularly and accurately the socio-economic progress enjoyed by their beneficiaries."*

François de Borchgrave uses storytelling, quantitative metrics, and qualitative metrics to measure impact. He is both "outputs" and "outcomes" focused. *"We do not have a specific mission," he says. "So for each deal we define an impact criteria and target and they can be different for every deal."* For example, in relation to poverty alleviation and healthcare investments, he measures the number of individuals receiving services from businesses owned. He also requires case studies to understand the depth of impact. His portfolio to date has broadly met his impact expectations.

RS Group's approach to measurement in relation to Private Equity and Debt Funds is expressed thusly:

> *"We have captured the target impact part of our portfolio based on a variety of metric measurement frameworks that are readily available and reported by our investees on an overall portfolio level and by asset class." (RS Group, 2016, p. 50)*[45]

> *"Working directly with the fund managers, and supplemented by B Lab's B Analytics platform, we have selected 7 IRIS indicators that we deem material, and compiled the total impact generated by four of our five Private Equity Funds and two Debt Investments." (RS Group, 2016, p. 52)*

Total Impact Reported by Private Equity and Debt Funds (2010–June 2015)

~79 million
lives impacted overall[29, 30]

$1.46 billion
microfinance loans issued[31]

3.2 million
metric tons of CO_2 offset[32]

~16,000
jobs created overall[33]

~112,000
Full and Part Time jobs at June 2015 (snapshot)[34]

~34,000
workers received job-related training[35]

56%
clients served from low income communities[36] on average

Source: B Analytics[37], Annual Reports and customized data from Fund Managers, Q4 2014

Notes

29 *All companies and development finance institutions reporting, except companies in SJF Ventures III as the fund's focus on technological solutions and platforms can have immense but indirect impact, potentially skewing data (e.g., Validic alone has outreach of 100 million people)*

30 *Data not adjusted for potential double-counting of return customers / users of services / products (i.e., not unique users)*

31 *Two companies and all development finance institutions reporting; Total over 2010 — June 2015*

32 *Five companies reporting; Total over 2010 — June 2015*

33 *All companies reporting; No. of Jobs at June 2015, less jobs at time of investment*

34 *All companies and development finance institutions reporting; No. of Jobs at June 2015*

35 *Five companies reporting; Total over 2010 — June 2015*

36 *Fifteen companies reporting; Unweighted average*

37 *http://b-analytics.net/about-us*

Source: RS Group, Impact Report 2016, p. 53

[45]http://report.rsgroup.asia/#download

100% member Tides Foundation, has been investing for impact since the 1980's. Their practice has evolved over the years from Responsible to include Thematic investments.[46] This is how they express their impact strategy:

> *"In **Public Equities** we assess how many companies in our portfolios are engaged through letters, company dialogues, and shareholder resolutions—our 'reach rate.' We consider engagement to be effective when we observe progress toward one or more of three potential outcomes: **better corporate policies** (e.g., board nominating charters that are amended to include explicit consideration of gender and race), **more sustainable business practices** (e.g., adoption of science-based greenhouse gas emission reduction goals), and **increased transparency** (e.g., implementing comprehensive lobbying disclosure or best practice sustainability reporting). While all engagement activity helps build company awareness about significant Sustainable matters, our measure of 'impact rate' captures only improvement in policies, practices, and transparency. In 2015, Walden, our investment advisor, engaged 127 companies across all investment strategies, accomplishing a reach rate of 38% and an impact rate of 45%.*
>
> *In **Fixed Income,** we measure impact via our 'purpose profile' and 'sub purposes' model. Our proprietary model allows us to categorize primary impact areas in areas of environmental, education, affordable housing, etc. Secondarily, the sub-purposes drill down even further within purpose categories to facilitate impact measurement and monitoring in areas like green bonds, public/community colleges, single & multifamily housing, etc."*

The KL Felicitas Foundation hired New Philanthropy Capital to conduct a third-party review of the impact of their portfolio work in impact. Published in 2015, *Investing for Impact: Practical Tools, Lessons, and Results*[47] chronicles their research into the impact of the KLF portfolio.

> *"The limitations of the data were a big challenge underscoring the need to improve the standards of data provision and evidence. Attribution was an issue, which ultimately led to reporting aggregated numbers rather than breaking down KLF's individual contribution. And aggregation was difficult due to the lack of similar metrics across the portfolio.*
>
> *A tool called "Impact Assurance" was developed by NPC to compare components of each investment's impact practice and apply a Classification from Stage 1 to Stage 4. This evaluation demonstrated that while most of the investments had clear outputs, fewer had data showing additionality. A snapshot of this approach to portfolio analysis is included here."*

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[46]recently released report of the US SIF Foundation reveals further trends and the scope of sustainable, responsible and impact investing in the US. Report available at http:// www.ussif.org/trends
[47]http://www.thinknpc.org/publications/investing-for-impact-practical-tools-lessons-and-results/

Impact Assurance Classification of selected KLF Investees

Investee	Date founded	Components of impact practice: Outputs	Standard metrics / IRIS score	Clarity of mission	Data to show change	Data to show additionality	External rating	Impact Assurance Classification
BioLite	2006						GIIRS company 104	Stage 2
Core Innovation Capital I	2011						GIIRS company 113	Stage 4
EKO Green Carbon Fund	2010						B Corp 102	Stage 2
ImpactAssets	2010							Stage 3
MA'O Organic Farms	2001							Stage 3
Media Development Investment Fund	1996							Stage 4
Root Capital	1999						GIIRS company 133	Stage 4
Triodos Sustainable Trade Fund	2008						B Corp 127	Stage 3

Increasing level of data provision

Source: NPC (2015). Investing for Impact: Practical Tools, lessons, and results.[48]

Impact Measurement Challenges

While survey respondents have declared their intent to measure impact, and indeed, one-third have begun, there is no silver bullet solution. Most respondents highlighted the **lack of a broader use of standard metrics and taxonomy,** along with **inadequate reporting from investees**, as the main measurement challenges.

Survey respondents have expressed their desire for a relatively low-cost, easy, comparative, and meaningful way to measure outputs and outcomes. However, a portfolio that invests across asset classes, and across impact categories, is complex. Respondents using IRIS metrics, GIIRS ratings/B Analytics and/or bespoke taxonomies have difficulty collecting and aggregating impact data into a succinct and useful impact report. For instance, sustainable ratings for the public equity asset class have proven to be insufficient indicators of impact for some impact investors. These challenges must be met if the respondents are going to achieve their measurement objectives in the next three years.

However, to put this into perspective, impact investment measurement is nascent, with limited resources allocated to the effort to date and uncertainty as to what to do to calculate an "IRR" equivalent. The current measures are somewhat complicated and often not maintained. As one respondent noted "Accounting standards were devised 400+ years ago and still require refinement/improvement. "

An old English proverb observes that necessity is the mother of invention. Indeed, Toniic members are putting their impact needs to work to help solve this challenge. We look forward to sharing their stories and progress in future reports.

[48] http://www.thinknpc.org//klf_investing-for-impact

Financial Returns

The portfolio and survey responses show clearly that most 100%ers are not willing to compromise financial returns for impact. Specifically:

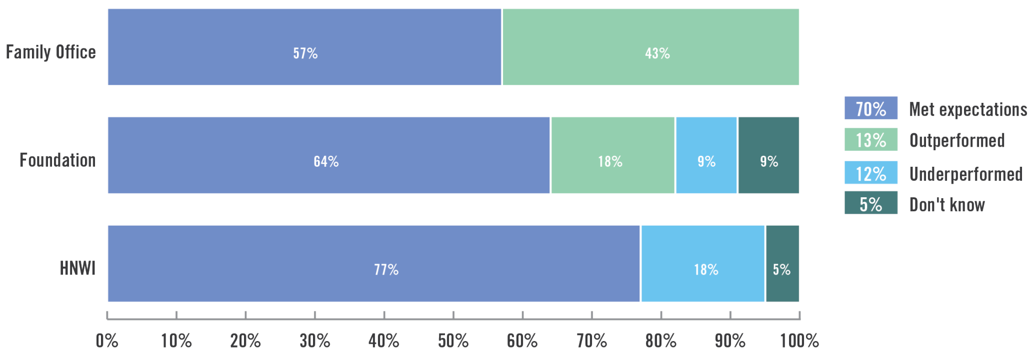
- 100% of family offices and 86% of the HNWI's surveyed expect market rate returns for their whole impact portfolio.
- Foundation portfolios surveyed are more varied. 9% expect sub-market returns, 27% expect capital preservation, and the remaining balance of 64% anticipate market-rate returns. The sub-market and capital preservation returns are, in part, based on Program Related Investment strategies.

An important note regarding this section of our report: The returns stated herein are meant to be illustrative only, and have not been audited. As with all investments, past performance is not necessarily indicative of future returns, and there can be no assurance that any investment will achieve its stated objectives or avoid losses. References in this report to past returns of any investment program are no guarantee of future performance. There can be no assurance that the investments identified in this report will continue to achieve their stated past returns or achieve their targeted objectives.

Financial Objectives

83% of survey respondents expect market-rate returns on their investments. 83% of survey respondents stated that these expectations were either met or exceeded.

Financial Return Expectation by Entity (40 portfolios)



Actual Financial Performance by Entity (40 portfolios)[49]

The above charts look at return expectations and actual performance by entity. 57% of the reporting family offices met their market rate return objectives, and 43% outperformed market expectations.

[49] Two survey respondent did not yet have return information for their impact portfolios as they just started their impact investing journey. These portfolios are currently comprised primarily of private equity investments.

A full 64% of reporting foundations met their portfolio financial return expectations. Another 18% of the reporting foundations exceeded their portfolio financial return objectives, while 9% underperformed. The remaining 9% did not have performance data to report.

HNWIs mostly target market rate returns (86%), but also have a small allocation (9%) to capital preservation and an even smaller allocation (5%) to a sub market rate of return. Close to 80% of the reporting HNWI's met their portfolio financial return expectations, while a little over 20% have not met their portfolio financial return expectations.

Financial Measurement and Reporting

53% of respondents think the discussion about financial returns should be re-framed. Lital Slavin suggests "at first, each investment should follow traditional risk-return profiles, but the "return" should also include the impact return."[50]

For example, respondents had no single answer regarding what constitutes an annualized market rate, as we see below:

- 5-7%
- 5% + inflation
- 6% + inflation
- 15%

While respondents varied in their expectations of annualized market rates, many respondents did agree on the importance of integrating financial and impact return reporting. As one survey respondent observed: "I think it is appropriate to discuss both financial and impact returns. Both aspects are relevant to an impact investor who is living off the returns of her portfolio."

Annualized Financial Returns Stories

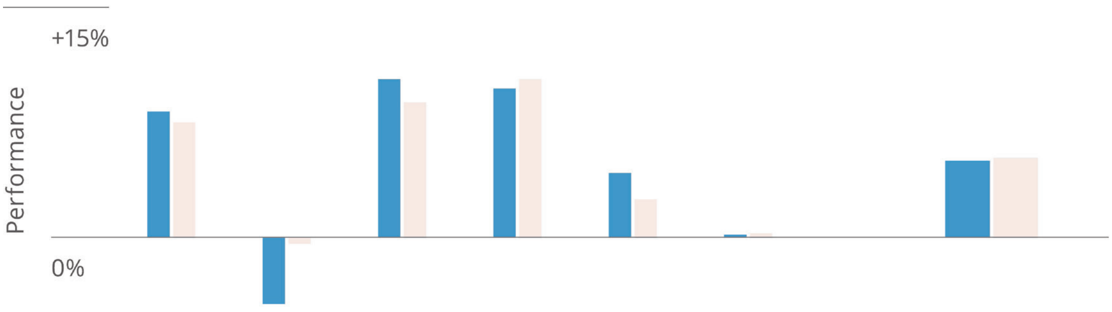
> **Kim Jordan** expects capital preservation and the operating costs to be covered for the foundation. She indicates that in 2015 the portfolio underperformed due to a change in advisor, a slower than expected change in allocation from cash into impact investments and one fund investment that has not performed as expected. Looking forward to next year, after these changes have had time to take effect, she hopes for market-rate returns for the investment portfolio.
>
> **Joshua Arnow** compares his impact fund manager to traditional managers to traditional peer group managers. *"We compare her to other managers in her peer group and she keeps performing equal to or better than her peers!"* he says. *"So the case is proven that if you have the right ESG/Impact manager, with a well screened portfolio, you don't need to give up returns for values alignment."*
>
> **François de Borchgrave** expected and achieved a market-rate of return from his portfolio. *"We are looking for commercial rates of return. So in private equity, for example, we seek 15-20%."*

[50] A discussion of Risk, Return and Impact can be found in: Impact Assets Issue Brief #2 (http://www.impactassets.org//ImpactAssets_IssueBrief2) as well as a recently published article Across the Returns Continuum by the Omidyar Network in the Stanford Social Innovation Review (https://ssir.org/articles/entry/across_the_returns_continuum?mc_cid=6660683e31&mc_eid=90be3b30ed)

RS Group's approach to investment returns is expressed thusly:

> *"Ultimately, we believe financial returns should be considered holistically, along with extra-financial returns generated, to meet individual needs and specific circumstances.*
>
> *For RS Group, the SRI and TI (Targeted Impact) parts of the portfolio are combined to maintain overall portfolio diversification and generate the financial returns needed on an annual basis to support Annie and her family's personal needs, as well as to cover RS Group's activities (annual grant-giving and advocacy) and operating costs."[51] (RS Group, 2016, p. 47)*
>
> *"To date, the financial performance of RS Group's investment portfolio has fully met our targeted returns and expectations. Overall, the 5-year average performance was 5.0% p.a. (net) compared to 5.2% p.a. of the custom benchmark." (See below)*

Financial Performance of Investment Portfolio in USD as Compared to the Custom Benchmark



	2010	2011	2012	2013	2014	30 June 2015[25]	5.5yr average
RS Group Portfolio Return	▶ 8.2%	-4.3%	▶ 10.3%	9.7%	▶ 4.2%	0.2%	5.0%
Custom Benchmark	7.5%	-0.4%	8.8%	10.3%	2.5%	0.3%	5.2%

● RS Group Portfolio Return[22] (net[23], after costs, in USD)

● Custom Benchmark[24]

Source: RS Group, Impact Report 2016, p.48

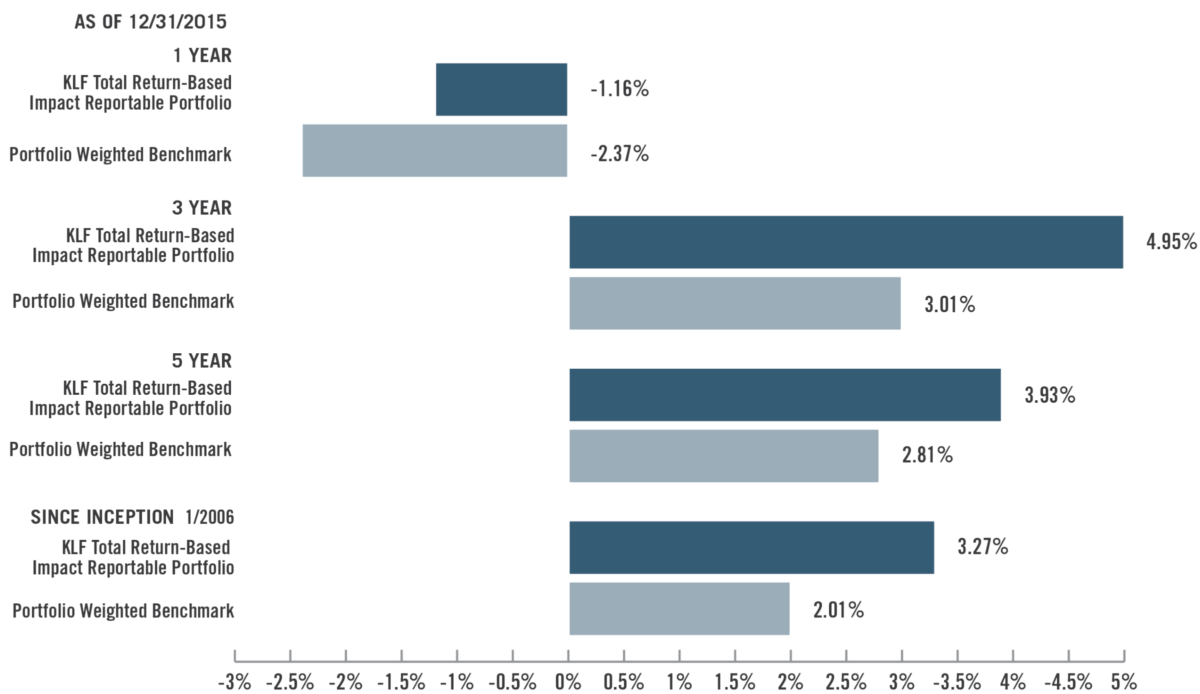
[51] http://report.rsgroup.asia/#download, p.52

KL Felicitas Foundation Performance Returns

Raul Pomares, Founder of Sonen Capital, shares how their firm has analyzed the financial performance of the KLF impact portfolio over the past ten years:

"On a weighted total portfolio basis, the KLF Return-Based Impact investments performed in line, or marginally better, with the asset class exposures they assumed over an investment period of 10 years (12/31/05 to 12/31/15). While accessing a diverse and growing universe of investments and types of impact, KLF's Return-Based Impact Portfolio was able to remain competitive with widely accepted financial benchmarks based on the portfolio's stated asset and risk exposures. The portfolio on a broad basis provided for diversification benefits versus its traditional market exposures.

To validate performance, KLF engaged Cairn Investment Performance Consulting ("Cairn"), a third-party independent firm to perform a calculation of the cash flows and returns of each security into which KLF had invested over the analysis period (2006-2015). Performance has been calculated by Cairn. Information used to calculate the performance and statistics included herein were provided by underlying investment managers and custodian statements. Cairn has neither audited nor verified the information provided."[52]



KL Felicitas Foundation Portfolio Performance from 2006 to 2015. Source: Sonen Capital, 2016

[52] See page 52 for definitions of benchmarks and disclosures.

conclusions

Key takeaways

The key takeaways from this report include:

- **100% impact portfolios are achievable today**.
- **A 100% impact portfolio is achievable for a wide range of investors,** not just foundations and family offices, but also for high net worth individuals, even those just starting out and/or with portfolios smaller than $2 million.
- **100% impact portfolios can be constructed in any geography,** not just in developing countries, but also in developed countries and investors' local communities.
- **100% impact portfolios can be constructed across all asset classes,** not just in direct investments or via impact funds.
- **Both impact and financial return expectations can be met,** without a necessary trade-off, although impact investors sometimes voluntarily accept less than market returns for high impact.

Debunking the myths

- **Myth #1: Impact cannot be undertaken across all asset classes.** *Mostly False:* Varying levels of impact are possible in every asset class, but more options need to be developed to touch every impact theme in every asset class.
- **Myth #2: Impact returns come at the expense of financial returns.** *Mostly False:* Most 100% impact investors expect and earn market-rate or above market-rate financial returns, but some knowingly sacrifice financial return in exchange for out sized social impact.
- **Myth #3: Reliable and consistent data is not available.** *Somewhat True:* Due to self-reporting and the absence of auditing, performance and categorization data are not yet fully reliable, but there has been a high consistency of reported financial and impact results from various independent efforts.
- **Myth #4: Interpretation of impact metrics is subjective.** *Somewhat False:* While it is true that there is not one common measurement tool, there are many robust and quantitative tools being used in the marketplace.

> *"Every investor has to find his or her own way, and be ready to adapt. And when you get to 100 percent, that is when the real journey starts!"*
>
> *Toni Johnson, Heron Foundation*

glossary

About the KL Felicitas Performance Chart on Page 49:

Barclays Global Aggregate Bond Index – A broad-based measure of global Investment Grade fixed-rate debt investments. The index covers the most liquid portion of the global investment grade fixed-rate bond market, including government, credit, and collateralized securities. The liquidity constraint for all securities in the index is $300 million. Securities included will have at least 1 year until final maturity and be denominated in one of 23 eligible currencies.

BofA ML 3 Month US T-Bill Index – The index measures the total return on cash, including price and interest income, based on short-term government Treasury Bills of about 90-Day maturity.

CPI - The Consumer Price Index is an unmanaged index representing the rate of inflation of the US consumer prices as determined by the US Department of Labor Statistics. There can be no guarantee that the CPI or other indexes will reflect the exact level of inflation at any given time.

HFRI Fund of Funds Index – An equal-weighted index that includes over 800 constituent funds, both domestic and offshore. All funds report assets in USD, net of all fees, on a monthly basis and have at least $50 million under management or have been actively trading for at least 12 months.

MSCI ACWI IMI Index - The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 44 country indexes comprising 23 developed and 21 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

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The AlphaMundi Foundation is a 501(c)(3) registered in Washington, DC in 2016. The mission of the Foundation is to catalyze and scale investment in social enterprises that seek to improve the lives of the poor. The Foundation operates across three primary activities. First, the Foundation provides technical assistance to social businesses that are financially viable and have the potential to scale solutions to poverty at a national level or even across borders. Second, the Foundation supports impact measurement efforts, including GIIRS ratings and outcome and impact measurement through longitudinal field surveys of beneficiaries. Finally, the Foundation contributes to the scale up and mainstreaming of the impact investing industry by sharing best practices derived from the AlphaMundiGroup's decade of experience in Latin America and Africa, and by sponsoring industry associations and seminal reports making the case for impact investing through transactional data and practitioner insights. The Foundation is financed both by third-party grants and by AlphaMundi Group's 20-20 policy, which allocates 20% of all carry revenues from its for-profit investment funds to the Foundation.

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The Ford Foundation is an independent, nonprofit grant-making organization. For 80 years, we have worked with courageous people on the frontlines of social change worldwide, guided by our mission to strengthen democratic values, reduce poverty and injustice, promote international cooperation, and advance human achievement. With headquarters in New York, the foundation has offices in Latin America, Africa, the Middle East, and Asia.

We believe in the inherent dignity of all people. Yet around the world, billions of people are excluded from full participation in the political, economic, and cultural systems that shape their lives. This fundamental inequality is the defining challenge of our time. In addressing it, we are guided by a vision of social justice—a world in which all individuals, communities, and peoples work toward the protection and full expression of their human rights; are active participants in the decisions that affect them; share equitably in the knowledge, wealth, and resources of society; and are free to achieve their full potential.

Sonen Capital

Sonen Capital is a specialized investment firm committed exclusively to impact investing. Since our founding we have stayed true to this mission and are proud of our heritage and the fact that providing impact investment services is the only thing we do. We've reflected this mission in our name, which is a modified acronym - Social and Environmental investing. This name not only embodies our values, but also our conviction that investing to generate financial returns and lasting social and environmental impact are compatible and mutually reinforcing objectives. With over five decades of combined sustainable investing learning and experience, Sonen team members are field builders dedicated to helping mobilize financial assets to help meet large-scale global challenges. This deep experience serves not only to inform and improve our knowledge of this evolving area, but it also enhances our ability to deliver clients increasingly more sophisticated and holistic impact investing solutions.

Tides Foundation

Tides is a values-based, social change platform that leverages individual and institutional leadership and investment to positively impact local and global communities. Tides pursues multiple, related strategies to promote this mission. From green nonprofit centers to programmatic consulting, donor advised funds to fiscal sponsorship, grants management to risk management and more, Tides gives members of the nonprofit and philanthropic community freedom to focus on the change it wants to see. For more information on Tides visit **www.tides.org**.

"Every investor has to find his or her own way, and be ready to adapt. And when you get to 100 percent, that is when the real journey starts!"

Toni Johnson, Heron Foundation