impact investing institute

Estimating and describing the UK impact investing market

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Contents

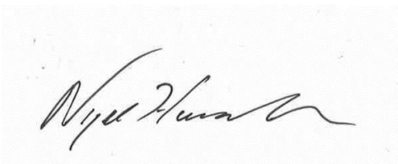
1. Foreword

The market for impact investments - those which deliver measurable social and environmental impact alongside financial return - has experienced impressive growth in scale, momentum and support since its inception. However, it is only when taking stock a decade on from its early days that we can truly appreciate the pace that has gathered for this transformative market. What was once a pioneering innovation is becoming an established and better-understood field.

The UK government has played a catalytic role in setting up, supporting and growing the social impact investment market since the early 2000s. From initiating community development finance institutions and pioneering social impact bonds, to creating Big Society Capital and supporting the set-up of the Impact Investing Institute, the commitment to this important agenda has been visible and consistent. For two decades, the government, private sector and civil society have worked together to tackle some of the greatest challenges we collectively face to support the people and places that need us the most. The prominence of financial services in this coalition has emphasised the potential social value this sector can bring to UK communities. Today, these partnerships are more important than ever, as the government continues to deliver its ambitious vision to create a thriving impact investment market, with accessibility at its heart.

This report proposes an initial framework for estimating the size of the impact investment market in the UK, which can be built upon in the future. This research provides a timely look at the evolution of this market and starts to build a portrait of a flourishing sector which is poised for further growth.

The challenges our society faces are substantial, but so are the opportunities to overcome them. Impact investing provides us with one of those opportunities, offering a path to combine profit and impact, which will enable us to achieve the ambitions of a 'Just Transition' to a green economy which protects jobs, helps to level up communities across the UK and ensures a sustainable recovery from Covid-19. I would like to thank the Impact Investing Institute for their considerable work on this report. My department and I look forward to continuing to work together to achieve our shared vision of a thriving impact investment market.



Nigel Huddleston MP

Minister for Sport, Tourism, Heritage and Civil Society

Department for Digital, Culture, Media & Sport

EY and the Impact Investing Institute would like to thank all the individuals who participated in and contributed to this study. We are particularly grateful to the following individuals.

For their participation, we thank:

Interviewees

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Matt Smith, Key Fund

Nick Temple, Social Investment Business

Simone Utermarck, International Capital Market Association

Hilary Wiek, Pitchbook

Allianz Global Investors

All our other interviewees who preferred to remain anonymous

Survey Respondents

8 Dimension Ventures

abrdn

Bank Workers Charity

Barrow Cadbury Trust

Bethnal Green Ventures

Big Issue Invest

Boundary Capital

Bristol & Bath Regional Capital CIC

Comic Relief

Community Finance Ireland

Connected Asset Management

Co-operatives UK

Dolma Fund Management

Fair4All Finance

Gresham House

Hermes Fund Management

Igloo Investment Management

Key Fund Investments

Morgan Stanley

NatWest Social and Community Capital

Social Investment Business

The Golden Bottle Trust

Wales Council for Voluntary Action

All our other survey respondents who preferred to remain anonymous

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2. Executive summary

The impact investing sector has grown dramatically over the past ten years due to increasing demand from the public for investments that deliver positive outcomes for people and the planet. Some of this vibrancy and growth has been captured by well-evidenced market sizing studies - including the Global Impact Investing Network (GIIN), which estimated the global size of the impact investing sector to be $715bn in 2019[1], and the International Finance Corporation's (IFC) global estimate of $2.281tn in 2020[2] - however, the scale and scope of UK impact investing has been less clear. While Big Society Capital (BSC)[3] details annually the market data on social impact investing in the UK, it does not include investments primarily targeting environmental outcomes, global investing from the UK or impact investing into non-impact driven businesses. Together with EY, and funded by Department for Digital, Cultural, Media and Sport (DCMS) and with the additional support of BSC, the Impact Investing Institute felt it was important to remedy this data deficit by putting in place a first "stake in the ground" as we try to anchor the rapid growth of the sector in verifiable data.

The **impact investing definition** we used to size the market was the GIIN's: *"Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."*

We followed the Investment Association's **definition of UK capital**: *"Assets where the day-to-day management is undertaken by individuals based in the UK. This includes assets managed by the firm in the UK whether for UK or overseas clients contracted with the firm. It also includes assets delegated to the firm's UK-based asset managers by either third-party asset managers or overseas offices of the company or group. With respect to fund of funds and manager of manager products, the figure only includes the size of the underlying funds managed by the firm's UK-based managers."* This includes all assets managed in the UK, irrespective of the destination of capital (domestic or international).

The report also assessed investments that we describe as **impact-aligned**. This category captures (non-exhaustively) investments that are generating positive social or environmental benefit but that are not made intentionally and are not measured. We included this category to provide information for the important ongoing discussion about definitions of impact, and to identify sectors that could, should they start to deploy intentionality and measurability, come into impact investing's addressable universe. It is important to note that our sum of impact-aligned capital is not included in our overall number of the UK market size.

The methodology and approach combined top-down and bottom-up quantification. A model was built in three parts: multiplying the total assets managed in the UK, by the percentage that is impact investment, by the impact investment that is invested directly. To obtain the data to power the model, we developed a modular approach consisting of four steps, each covering a different method of data capture and incorporating primary and secondary data sources. This modular approach ensured that we were systematically identifying and incorporating data and insights from as many primary and secondary sources as possible to validate and cross-reference all assumptions and calculations.

Primary data sources included a survey of more than 40 market participants including investment managers (11) and social investors (11), as well as 20 interviews with representatives of relevant industry bodies and subject-matter specialists in impact investing. Secondary data sources included the Investment Association in particular, which in turn draws on the self-reporting of UK asset managers. This approach has resulted in a credible estimate, albeit one that could be described as a supply-side picture of the impact investing market.

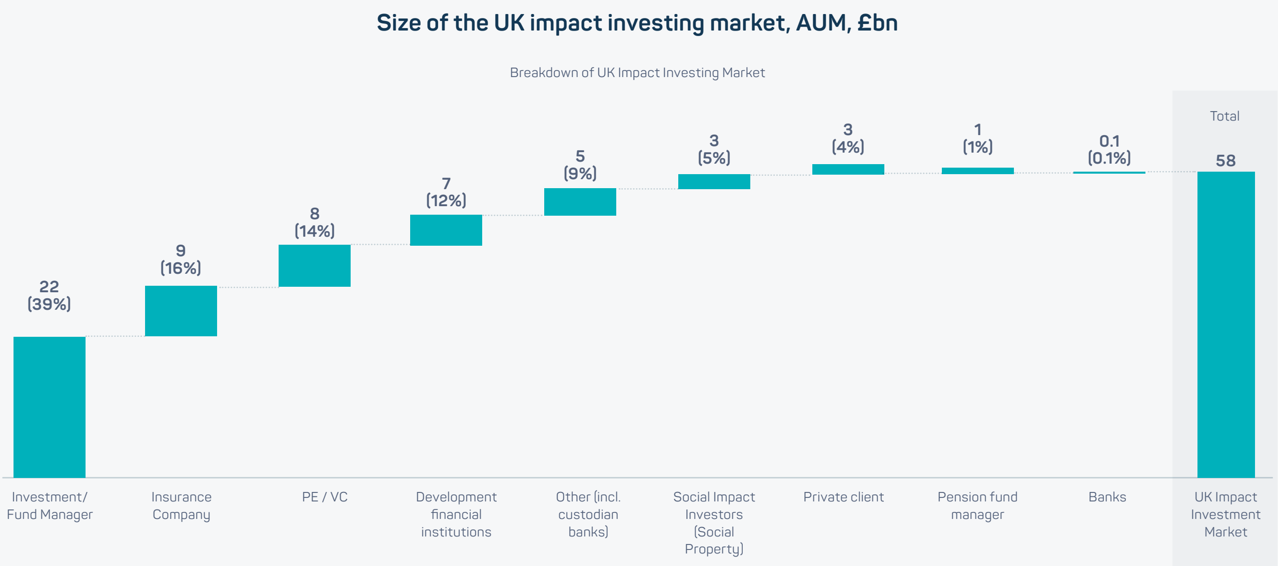
1 GIIN, 2020 Annual Impact Investor Survey, https://thegiin.org/research/publication/impinv-survey-2020
2 IFC, Investing for Impact: The Global Impact Investing Market 2020, https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/impact-investing-market-2020
3 Big Society Capital, Size of the UK social impact investment market, 2020, https://bigsocietycapital.com/our-approach/market-data/

The reliance on secondary sources and self-reported data is a key limitation of the report and is one of the primary areas for improvement going forward to increase the robustness and accuracy of future market sizing initiatives. Data gathering is also challenged by a lack of globally agreed definitions for impact. Some of these challenges will be addressed in part through initiatives such as the International Sustainability Standards Board (ISSB),[4] and the Financial Conduct Authority (FCA) consultation considering Sustainability Disclosure Requirements (SDR) and investment labels,[5] among others. But part of our rationale for doing this market sizing exercise was precisely to raise the questions which need to be answered in future for impact investment to be properly transparent, accountable – and, most importantly, impactful.

Based on our methodology, **the estimated size of the impact market** is significant both in the scale of capital that is being deployed and in the impacts that it is delivering on the ground. Our first conservative estimate is of a minimum of £58bn of impact investment in the UK, with an additional £53bn of investments that are categorised as impact-aligned (not exhaustive). This figure reflects the UK's leading position in impact investing, representing an estimated 3.3%-8% of the total global impact investing market (contingent on using the IFC or GIIN's estimate). We recognise that there is a large and growing green, sustainable, sustainability-linked and social bonds market in the UK. As of 2020, this was c.£7.9bn of capital raised. A proportion of this bond market sits within the core impact investing market we have sized. However, due to the lack of clarity available on which of these investments are made with intentionality and measurability, we are unable to distinguish the proportion that is specifically attributed to impact investment.

Figure 1 illustrates the breakdown of this amount by different segments of capital managers, with investment/ fund managers, insurance companies and private equity/ venture capital firms managing c.75% of the UK's impact capital.

Figure 1. UK impact investing market breakdown by organisation type, 2020



Source: EY-Parthenon analysis, BSC, Investment Association

4 https://www.ifrs.org/groups/international-sustainability-standards-board
5 FCA, Discussion paper 21-4 (2020): https://www.fca.org.uk/publication/discussion/dp21-4.pdf

Key findings from our survey include:

- 97% of respondents held the view that over the past two years asset allocation to impact had been increasing.
- Approximately 90% of survey respondents reported that 2020 financial returns from impact investing were either in line with or exceeded their investment targets. All of the 11 investment managers (who can be assumed to target a market rate of return) delivered financial returns either in line or exceeding their targets.
- Healthcare, affordable and clean energy, and sustainable cities and communities were reported as the top three focus areas.
- In the survey social investors, private equity and venture capital firms and foundations were cited as the UK's leading impact investors currently. However, institutional investors, e.g., asset managers, insurance firms, pension funds, banks, and family offices, were identified as the primary drivers of future growth.
- 90% of respondents indicated that they plan to increase their asset allocation to impact investments within the next five years, with roughly 75% planning to increase their allocation by more than 10%.
- 64% of respondents predicted 10% growth in funds flowing to impact investments with 36% forecasting above 20% per annum. Applying a weighted average to the estimated future market growth rates from our survey suggests a 15% market growth which, in practise, could double the funds allocated to impact to over £100bn in five years.

While the market is now sizeable, relative to mainstream investing, it is still growing from a comparatively small base. There is significant headroom for growth as the capital flowing to impact is currently estimated to be less than 1% of total UK AUM. This report identifies several key drivers to realise that growth and improve market integrity. These include: policy initiatives like the FCA's consultation on disclosure and labelling of investments;[6] the role that blended finance could play in catalysing more institutional investment into the market; the power of encouraging impact-aligned sectors to shift into more intentional and accountable investment approaches; the continuing importance of dispelling the myth that impact investing requires sacrificing financial returns; and the need for more impact investment vehicles that can take on institutional investment.

The report also outlines two themes likely to shape the market in the coming few years, including the need for social and environmental factors to be integrated into investment decisions – or a 'just transition' approach to impact investing; and the growing interest in investing in nature-based solutions.

The report concludes with observations about how future market estimates could be strengthened, with particular attention paid to improving data flows between mainstream financial services and the impact investing community enabling improved accuracy.

6 FCA, Discussion paper 21-4 (2020): https://www.fca.org.uk/publication/discussion/dp21-4.pdf

3. Introduction

Ten years ago, impact investing was in its infancy. It has grown dramatically since then, building on rising demand from the public for investments that deliver positive outcomes for people and the planet. Asset and capital owners, whether individuals or institutions, and capital managers are increasingly delivering on this demand, investing in, or innovating new products and services that seek to deliver intentional positive impact and return. Policy makers too are reflecting on the changing market, introducing major new regulations that are formalising and shaping market development. Both the recent establishment of the International Sustainability Standards Board (ISSB)[7] and the UK's Financial Conduct Authority (FCA) consultation considering Sustainability Disclosure Requirements (SDR) and investment labels, attest to the interest in codifying and better recognising the category of impact investment.[8]

Some of this vibrancy and growth is captured by well-evidenced studies on market size. Looking globally, the regular investor surveys and market updates by the Global Impact Investing Institute (GIIN) over the last ten years have tracked global impact investment allocations to $715bn in 2019.[9] The International Finance Corporation (IFC) too has sized the global market and – using a broader definition than GIIN – arrived at a global market of $2.281tn in 2020.[10]

The scale of the UK market is, however, less clear. Big Society Capital (BSC)[11] has been releasing social investment market data annually since 2011, providing a robust bottom-up picture of the capital investing in social purpose organisations in the UK, particularly social property, social lending, impact venture and social outcomes contracts, recently sizing the 2020 UK market at £6.4bn.[12] But that picture does not include allocations to environmental impact investments, for example, or UK impact investing into developing and emerging markets. In short, it details with integrity a part of the impact investing market but not its totality.

At the Impact Investing Institute, we felt it was important both for market participants, and policymakers, to estimate a baseline for the UK impact investing market, to describe its major characteristics and actors, provide a sense of the future, and stimulate debate as to the current state of impact investment.

We should say at the outset that this is not a fully comprehensive exercise, but an initial step. The impact investing sector in the UK to date has been largely undocumented and unreported. This is a first stake in the ground as we try to anchor the rapid growth of the sector in verifiable data. The primary and secondary research data points we have used act as a credible first route into estimating the market, but they are imperfect tools. Defining impact investment is difficult. In addition, there are significant gaps in data, and what to include in reporting is open to debate. The use of secondary sources has created a dominance of data input from the supply side (capital sources) of impact investing, a view highly informed by what mainstream finance self-reports as impact. Over time, as information flows become more robust and regular, and as policy makers mandate disclosure and audit the labelling of impact products, the evidence base will become more consistent, and the accuracy of the sizing of the market will improve.

7 IFRS, "An Update on the ISSB at COP26", https://www.ifrs.org/news-and-events/news/2021/11/An-update-on-the-ISSB-at-COP26
8 FCA, Discussion paper 21-4 (2020): https://www.fca.org.uk/publication/discussion/dp21-4.pdf
9 GIIN, 2020 Annual Impact Investor Survey, https://thegiin.org/research/publication/impinv-survey-2020
10 IFC, Investing for Impact: The Global Impact Investing Market 2020, https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/impact-investing-market-2020
11 Big Society Capital, Size of the UK social impact investment market, 2020, https://bigsocietycapital.com/our-approach/market-data
12 Big Society Capital, Size of the UK social impact investment market, 2020, https://bigsocietycapital.com/our-approach/market-data

This piece of work cuts right to the heart of some of the key debates in impact investing. We have used the GIIN definition to estimate and describe the market – but this definition does not require impact investment to be genuinely additional capital i.e. achieving an outcome that would not have happened unless the impact investment occurred. Should impact investment include the important notion of additionality? There has been a significant growth of the green, social and sustainability-linked bonds in the past two years: are they impact investments or tools of sustainable finance? For some, the £58bn impact investment market may feel too big, for others this figure may feel too small given it represents only 3.3%-8% of the global market size (contingent on using the IFC or GIIN market size as a benchmark). We hope you enjoy this first effort to describe the richness of the UK impact investing market, and that it will encourage you to join the debates that its key findings inevitably prompt.

4. Impact investing definition

4.1 Definition of impact investing adopted in this report

Different investors interpret and define impact investing differently, as confirmed by interviews with market specialists. While there is no standard definition of impact investing, the industry has coalesced around the GIIN definition[13] in which investments can be across asset classes, in both emerging and developed markets, and target a range of returns from below-market to market-rate, depending on the investors' strategic goals. We have adopted the GIIN definition for the purpose of this report.

There are three underlying attributes of this definition:

1. **Intentionality** refers to impact investors' intention to create specific social and/ or environmental outcomes from their investment.
2. **Measurability** requires a clear process and framework in place to measure the impact performance of the investment.
3. **Financial returns** distinguish impact investment from philanthropy as investors seek commercial returns from their investment.

Outside of these attributes, we recognise that the field also prizes a fourth attribute, 'additionality', as described below. Given we have fully aligned the definition as described by GIIN, 'additionality' is not included in our definition:

4. **Additionality**, which the Impact Management Project (IMP)[14] defines as "the extent to which desirable outcomes would not have occurred without intervention". In other words, it describes how a specific outcome or benefit would not have been produced without the investment.

13 GIIN, https://thegiin.org/impact-investing
14 Impact Management Project, https://impactmanagementproject.com/glossary/#a

Definition of impact investment

Impact investment – GIIN Definition: "Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

4.2 Spectrum of Capital

Responsible investment, sustainable investment and impact investment are often conflated. The differences between these investment strategies are explored through a framework created by Bridges Fund Management in 2017, the Spectrum of Capital (Figure 2), which categorises investment approaches ranging from traditional investment through to philanthropy.

These investment strategies differ from one another in terms of both their financial and impact goals. When investors are typically looking to "avoid harm" or "generate benefits to stakeholders", they are generally employing responsible or sustainable investing strategies. Specifically, impact investment is marked by an intention to create measurable social or environmental benefit alongside a financial return.

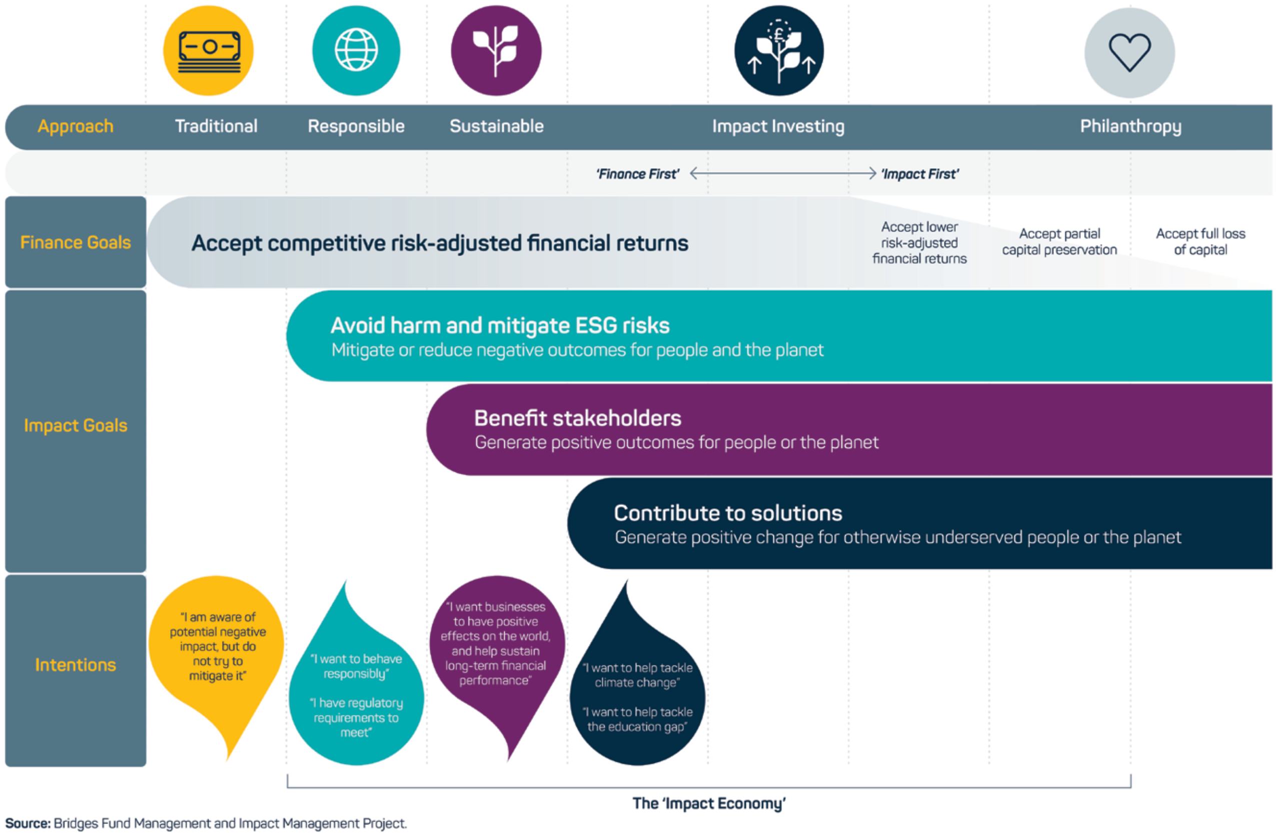


Figure 2. The Spectrum of Capital[15]

4.3 Impact-aligned Investing

Across this spectrum of capital, we recognise that there are many investments that are generating positive social or environmental benefit but that are not made intentionally and are not measured. In this report we classify such investments as 'impact-aligned' and have excluded them from the impact investing market as we have defined it. However, in Section 7.3 we do comment on some impact-aligned sectors worthy of note, including (for example) housing association debt.

15 Source: Bridges Fund Management

5. Key actors in impact investing

5.1 Key Actors

There are multiple actors playing a key role in impact investing. In this section, we describe these actors (Figure 3) and the segmentation that we have used to quantify the size of the assets being allocated to impact investments by each of these actors. This market segmentation has been aligned with the Investment Association categories to better enable the use of their data.

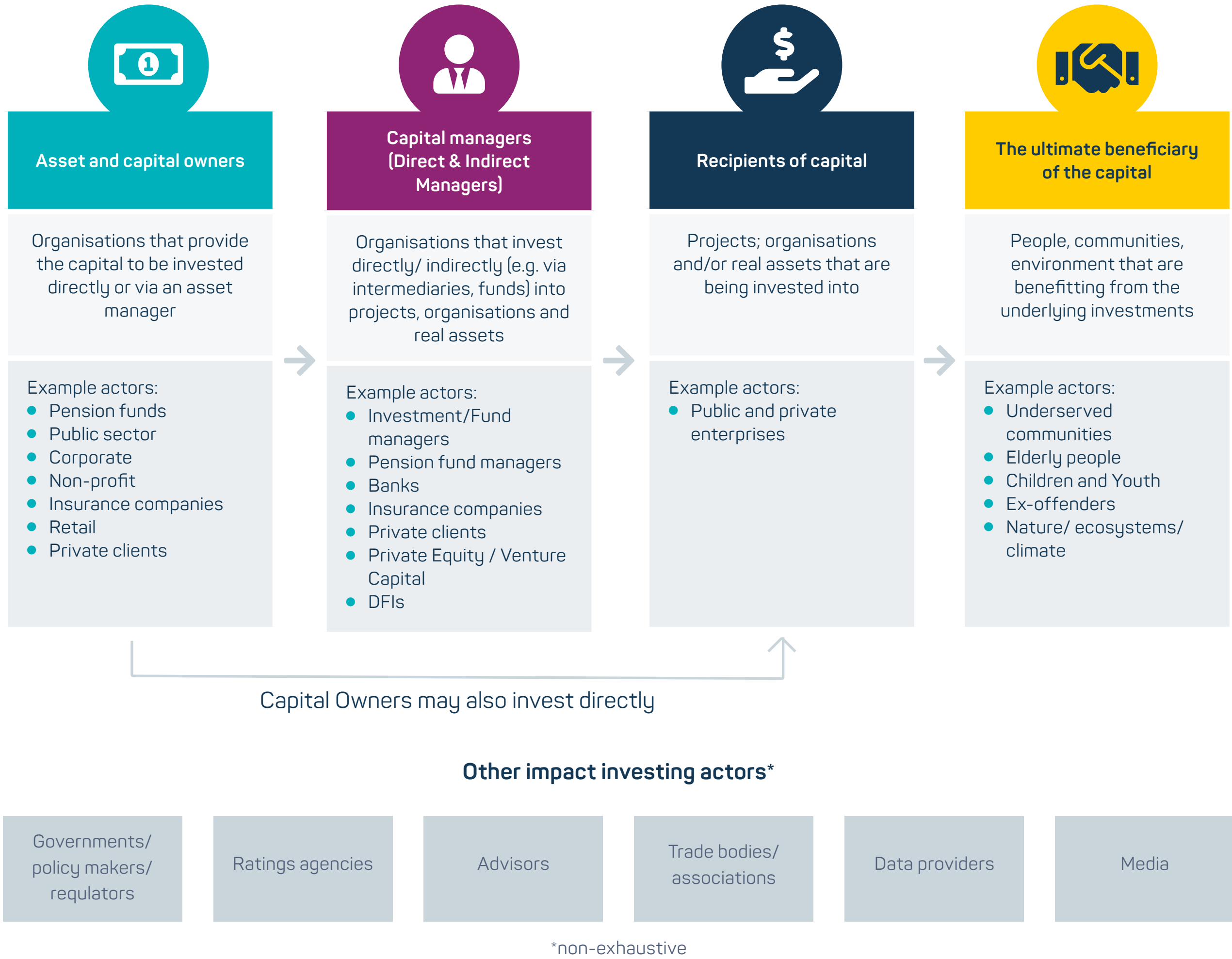


Figure 3. Impact investment key actors

> Impact investing plays a significant role where it allows new, perhaps untested and innovative new projects and assets to be funded as well as drive investor returns.
> **Rebecca Craddock-Taylor, Sustainable Investment Director, Gresham House**

5.1.1 Asset and capital owners

Key players in this group include pension funds, the public sector, non-profits, endowments, corporates[16], insurance companies, retail investors, and private clients.[17] Capital is allocated based on agreed investment policies that set risk and return targets and dictate exposure to certain asset classes, geographies, investment theses and risk weightings.

5.1.2 Capital managers

These are the capital managers who source capital and invest this capital either directly or indirectly in underlying assets. This group includes actors such as investment/ fund managers, pension fund managers, insurance companies, banks, private equity and venture capital managers. We have also included UK commercial property managers in our market size: this data point in the study relies on the work conducted by BSC which focuses on the social impact investment property funds.

There are segments of capital managers which are specifically dedicated to the impact sector, e.g., Development Finance Institutions (such as CDC in the UK[18]). The remit of such organisations is typically to provide investment and credit facilities to accelerate the development of emerging countries and underserved communities.

Capital managers such as investment/ fund managers and private equity/ venture capital players typically invest the raised capital directly into organisations (private and/ or publicly listed companies) and/ or projects (e.g. infrastructure, development, research). There is also increasing evidence of the largest global private equity and venture capital players raising dedicated impact funds such as The Rise Fund founded by TPG[19].

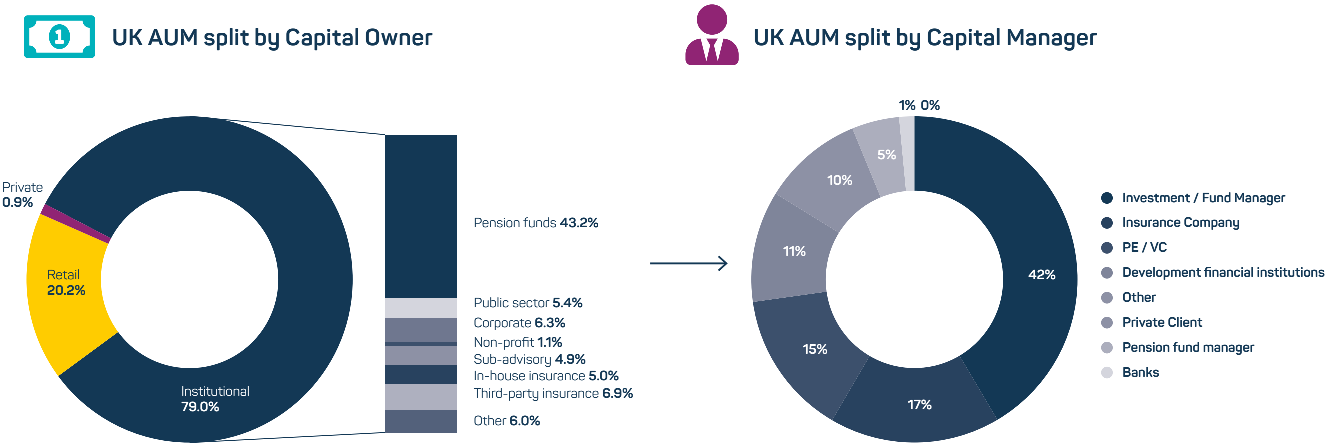


Figure 4. Flow of capital between Capital Owners and Managers[20]

16 Definition: Institutions such as banks, financial corporations, corporate treasuries, financial intermediaries and other private sector clients. Source: The Investment Association

17 Definition: Comprise assets managed on behalf of high-net-worth and ultra-high-net-worth individuals as well as family offices. Source: The Investment Association

18 CDC Group: https://www.cdcgroup.com/en/

19 The Rise Fund: https://therisefund.com

20 The Investment Association, Investment Management in the UK 2020-2021, 2021, https://www.theia.org/sites/default/files/2021-11/IA%20-%20Investment%20Management%20Survey%202020-2021.pdf

Other segments of capital managers include investment/ pension fund managers (such as Vanguard, Fidelity, BlackRock, Legal & General Investment Management, abrdn, and Aviva Investors) and family offices which manage assets on behalf of high-net-worth individuals. Given the scale and scope of these capital managers, our study recognises that in many cases they will have funds that invest both directly as well as into pooled vehicles managed by other capital managers (e.g., private equity players, other investment/ fund managers). For the purpose of this report, we have focused on direct investments to avoid double counting. Please refer to Chapter 6 for more details on our methodology.

5.1.3 Recipients of capital

Recipients of capital are those underlying organisations and/ or projects that seek funds to deliver impact and financial returns. This segment includes a highly diverse set of public and private enterprises operating across sectors such as food and agriculture, energy, healthcare, education, and housing. The deployment of capital into these sectors is driven by relative financial returns, risk appetite and investment philosophy.

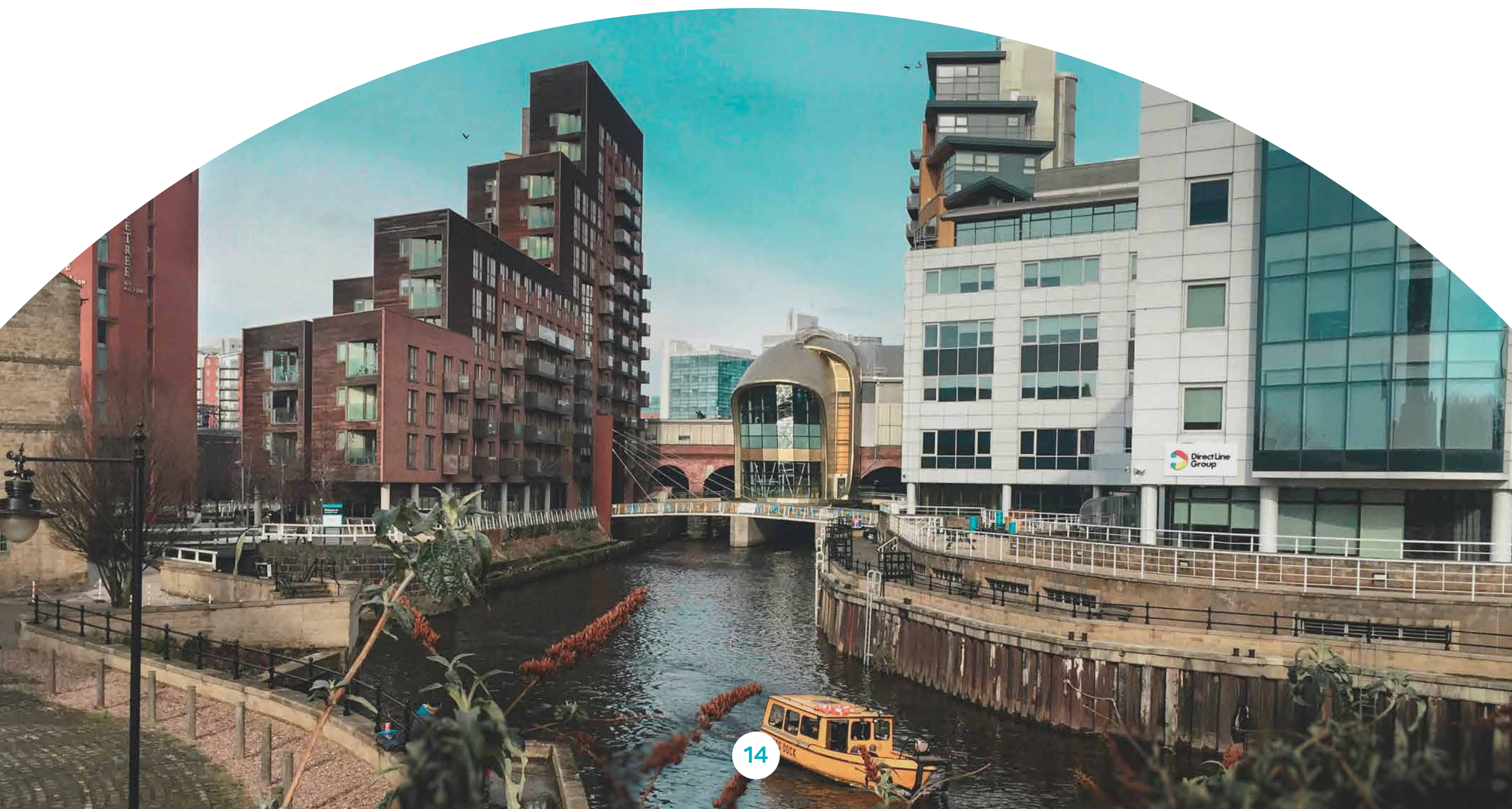
5.1.4 Beneficiaries of capital

This group refers to the underlying individuals, communities and regions that are benefitting from impact made by the recipients of capital actors that were identified above. The initiatives undertaken by the recipients of capital positively impact the underlying beneficiaries such as people in poverty, minority communities, children and youth as well as nature, the climate, and other ecological outcomes.

5.1.5 Other impact investing actors

As seen in Figure 3, there are other actors that are involved in impact investing. They play a material role in providing infrastructure, influencing capital allocation, and promoting the professionalisation of the sector via standards, data provision, consumer protection, and education. In Chapter 8 we explore how some of these actors, such as government entities, can influence the growth of impact investing.

There are many overlaps across capital sourcing, management, and deployment, with the majority of actors involved in several or all these activities through different parts of their enterprises.



5.2 Case studies – How key actors are playing a role in impact investing through direct and indirect investments

Asset and capital owners investing directly into impact-driven enterprises

In 2021, M&G Plc, a savings and investment business headquartered in the UK, allocated £5 billion to invest in privately-owned enterprises with the mission of creating a more sustainable world.[21] The Catalyst strategy is focused on opportunities across the globe where technology and innovation is being applied to solve the world's biggest problems. The team has three core focuses – climate, healthcare and inclusion, and has made investments in biotechnology, carbon capture and storage, plastic recycling and carbon positive housing.

Asset and capital owners deploying impact capital indirectly through investment managers

Friends Provident Foundation is an example of how asset owners can make available impact investment via investment managers. The Foundation is an independent charity that contributes to the development of a fair and sustainable economic system through its endowment investments.

One of its investments[22] is an impact investment fund managed by Snowball LLP. The fund applies a social and environmental impact lens to its investment process and invests in micro-finance in the developing world, housing for the homeless in the UK, and UK renewable energy projects that are co-operatively owned by local communities, reflecting the goals of the Foundation's endowment.

Capital managers investing directly in impact-driven enterprises

Palatine is a Manchester-based private equity firm. In 2018 it invested through its impact fund into Estio Training[23], a provider of technology and digital apprenticeships via its online delivery model. Estio's mission is to address a national growing technology skills gap and to match candidates with funded industry training places. The fund helped Estio Training to scale the business to help it improve accessibility to education. During the investment period, Estio Training delivered positive impact outcomes, including an increase in both the number of female enrolments by 40% and an increase in number of 16-23 years olds on programme by 60%. The proportion of learners living in areas of deprivation also increased to 35%.

21 M&G, M&G to invest £5 billion in sustainable private assets through innovative new fund, 2021, https://www.mandgplc.com/news-and-media/press-releases/mandg-plc/2021/04-02-2021
22 Friends Provident Foundation, Social Impact Investing, https://www.friendsprovidentfoundation.org/investment-shareholder-engagement-endowment/social-impact-investing/
23 Private equity wire, Palatine makes first exit from Impact Fund with Estio Training sale, 2021, https://www.privateequitywire.co.uk/2021/11/02/308623/palatine-makes-first-exit-impact-fund-estio-training-sale

6. Methodology and approach

This study is the first of its kind conducted in the UK and is intended to provide a baseline of the current state of the UK's impact investing sector. There are five primary objectives of the sizing approach and methodology:

1. To estimate the UK's impact investing market; this estimate serves as a baseline for tracking future growth
2. To develop a methodology that can be further developed and leveraged for future exercises
3. To identify the key actors that are contributing to the UK's impact investing market
4. To understand the drivers and levers of growth in impact investing
5. To raise awareness about the role that UK financial services is playing in impact investing, domestically as well as globally, reflecting its position as a leading financial centre

Our approach has been driven by the principle of using an accepted industry definition and existing, referenceable data sources. We have used the Investment Association and GIIN as our anchor data points from which the rest of the model is refined and validated using additional primary and secondary research.

6.1 Building the model

The methodology used for the market sizing exercise is driven by three steps as outlined in Figure 5 and each of these steps is described in more detail below:

Step 1
Total Assets (AUM) managed in the UK

- Assets where the day-to-day management is undertaken by individuals based in the UK
- Including assets managed by the firm in the UK whether for UK or overseas clients contracted with the firm
- Includes assets delegated to the firm's UK-based asset managers by either third party asset managers or overseas offices of the company or group
- With respect to fund of funds and manager of manager products, the figure only includes the size of the underlying funds managed by the firm's UK based managers

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Step 2
% of AUM that is impact investment

- Proportion of these assets that are allocated to impact investing
- Impact investing defined as "investments made with the intention to generate positive, measurable social and environmental impact alonaside a financial return."

×

Step 3
% of impact investment that is Invested directly

- The core purpose of the split is to avoid double counting
- Direct investments are those that are made directly into an organisation, project and or a real asset
- Indirect investments are those that are made either via intermediaries and/ or via funds
- This definition is aligned with the GIN definition

Figure 5. Market sizing methodology

6.1.1 Step 1: Total Assets (AUM) managed in the UK

The market is first broken down by AUM that is managed in the UK, in order to define the total universe of assets. This includes all assets where the day-to-day management is undertaken by individuals based in the UK, whether for UK or overseas clients and irrespective of the destination of capital (domestic or international). We have aligned the total universe of assets to that of the Investment Association which provides the following definition:

"Assets where the day-to-day management is undertaken by individuals based in the UK. This includes assets managed by the firm in the UK whether for UK or overseas clients contracted with the firm. It also includes assets delegated to the firm's UK-based asset managers by either third-party asset managers or overseas offices of the company or group. With respect to fund of funds and manager of manager products, the figure only includes the size of the underlying funds managed by the firm's UK-based managers." [24]

We recognise that there may be certain assets that this methodology does not include which would technically constitute part of UK's impact investing market:

- The capital owner is based in the UK, the capital manager is based outside of the UK and the capital is deployed for impact investing outside of the UK, or
- The capital owner is based outside of the UK, the capital is managed outside of the UK but the underlying asset for impact investing is in the UK, or
- The capital owner is based in the UK, the capital manager is based outside of the UK and the capital is deployed for impact investing inside of the UK.

These areas are excluded due to the lack of available data. We plan to address these elements in subsequent studies.

The total AUM is broken down by different segments of capital managers.

Note that we have excluded several segments due to their not meeting the GIIN definition of impact investing, lack of data availability and lack of clarity on whether investments meet the definition of impact investing. These are detailed in appendix - A1.

6.1.2 Step 2: % of AUM that is allocated to impact investment

For each of the capital manager segments, we have estimated the proportion of UK assets under management that are attributed to impact investing. As described in Chapter 4, investments must meet the GIIN's definition of impact investing; *"Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return"*. As stated above, the anchor source for our data is the Investment Association, however we have supplemented this with survey results as well as secondary bottom-up research.

6.1.3 Step 3: % of impact investing that is invested directly

We define direct investments as those that are made directly into an organisation, project and/ or a real asset, whereas indirect investments are those that are made either via intermediaries and or via funds/ funds of funds etc. This definition is aligned to the GIIN definition of direct and indirect investments. To ensure that we do not double-count assets, we have estimated the proportion of impact investments that are directly invested by each segment of capital manager.

24 The Investment Association, Investment Management in the UK 2020-2021, 2021, https://www.theia.org/sites/default/files/2021-11/IA%20-%20Investment%20Management%20Survey%202020-2021.pdf

6.2 Approach (Modular)

To obtain the data for our methodology above, we have developed a modular approach consisting of four steps, each covering a different method of data capture and incorporating multiple data sources. The rationale for this modular approach is to ensure that we are systematically identifying and incorporating data and insights from as many primary and secondary sources as possible to validate and cross-reference all assumptions and calculations. This approach delivers the greatest validity, transparency, and traceability of outputs that is possible at this juncture, and is essential to ensure confidence in estimating a market that has never been sized before. Over time it is expected that the accuracy of this modular approach will improve, as information flows and data gathering on impact investing develops. In this first attempt, however, reasonable estimates, informed by multiple data sources, give us the best picture possible of the market's size.

	MODULE 1: Top-down secondary	MODULE 2: Bottom-up Secondary	MODULE 3: Bottom-up Primary (Survey)	MODULE 4: Cross-Reference, Validate
Purpose / objectives	Identify publicly available data sources	Perform secondary, company by company, bottom-up analysis to fill the gaps of module 1	Bottom-up primary research to fill data gaps and validate assumptions derived from modules 1 & 2	Final validation of the figures; triangulated with other publicly available reports and validated with key stakeholders
Activities	• Collated data on assets managed by different segments of UK based capital managers • Identified, where possible, impact investing numbers for these idenitified segments • Maintained a top-down databook	• Conducted bottom-up research to validate assumptions and outputs from module 1 • Incorporated market sizing data from Big Society Capital (BSC) survey	• Conducted 20+ interviews with organisations & trade bodies • Captured and analysed survey results from 41 eligible responses • Incorporated survey and interview feedback into the overall figures	• Conducted 4 working session with industry bodies • Cross-referenced outputs with existing impact investing reports
Example sources used	Example publications / research: • GIIN • The Investment Association • Pitchbook • Campden Wealth • ONS	Example publications / research: • Big Society Capital • BVCA/ Beauhurst • Publicly available company data	• Primary Survey (41 participants) • 20+ market interviews with organisations & trade bodies (quantitative and qualitative)	• GIIN • DCMS • Big Society Capital • IFC • The Investment Association • European Venture Philanthropy Association
	Market sizing output relies on data available through public sources	Botttom-up data used to substantiate the data gathered through secondary research		Revisions to the final numbers based on triangulation / working sessions

Figure 6. Market sizing approach

Module 1 (top-down industry, segment level; secondary data sources): We reviewed an extensive set of publicly available information and incorporated data from multiple secondary sources. We also reviewed studies of the impact investing sector in other countries, for methodology, structure, and outputs. For the purpose of our study, the Investment Association has been used as the anchor data source due to its comprehensive breakdown of UK AUM. Many of the assumptions of the level of impact investing undertaken by each investor type are also derived from The Investment Association: this then drives what could be described as a supply-side picture of the impact investing sector. It gives insight into what mainstream financial services self-reports it is delivering in terms of impact investing. Data gaps were inevitable and best efforts were made to address them in modules 2 and 3.

Use of the Investment Association data

The top-down estimates used in the report are anchored in the Investment Association data, in particular the Investment Management in the UK 2020-21 report.[25] This report surveys 74 Investment Association member firms which, between them, manage £9.4tn: these 74 respondents self-assess and self-report their investment approach. The main numbers we use from the survey include the size of the UK market as a whole and the self-reported view of the members as to whether they invest with impact or not. The definition the Investment Association uses for impact investing is the same as the GIIN definition. The Investment Association data is reported in aggregate, so we have not been able to interrogate/ audit the integrity of the self-reported numbers, which is a clear limitation of our work. The Investment Association uses the survey data to assert that 0.5% of UK asset management is delivering impact investing. That data point has been a starting point in our own exercise.

Module 2 (bottom-up company level; secondary data sources): We researched dozens of companies in the UK impact investing universe on an entity-by-entity basis, using their publicly disclosed information on investment policies, capital/ asset allocation decisions, and impact investing dedicated AUM. We screened all information according to the definitions of impact investing discussed in Chapter 4. This research was used primarily as a proxy to validate assumptions in steps 1 and 2 of the calculation.

Module 3 (bottom-up company level; primary quantitative research): As this is the first time that a study of this nature has been conducted in the UK, we needed to conduct primary research to collect data at the level of required granularity. We distributed an online survey, reaching out to a total of 214 organisations representing all categories of impact investing actors. Our survey population was compiled leveraging the network of the Impact Investing Institute, BSC, the UK Social Investment Forum (SIF) secretariat[26], and EY. In total, we received 51 responses[27] across different organisation types. Of these responses, 41 were eligible for use in the study, with the rest of the responses screened out by specific survey questions (for more details on the survey and its screening, please refer to appendix - A2). Figure 7 shows the profile of the eligible respondents. The largest categories of respondents were investment managers (11) and social investors (11).

In most cases, we have used survey responses to supplement and complement our understanding of the industry and draw out emerging themes. You will find these themes in Chapters 7 & 8.

25 The Investment Association, Investment Management in the UK 2020-2021, 2021, https://www.theia.org/sites/default/files/2021-11/IA%20-%20Investment%20Management%20Survey%202020-2021.pdf
26 UK Social Investment Forum (SIF) has 41 members, including both active members and associate members.
27 Three additional telephone interviews were conducted with respondents who were unable to complete the survey. In these instances, data was reconciled and manually incorporated into our analysis.

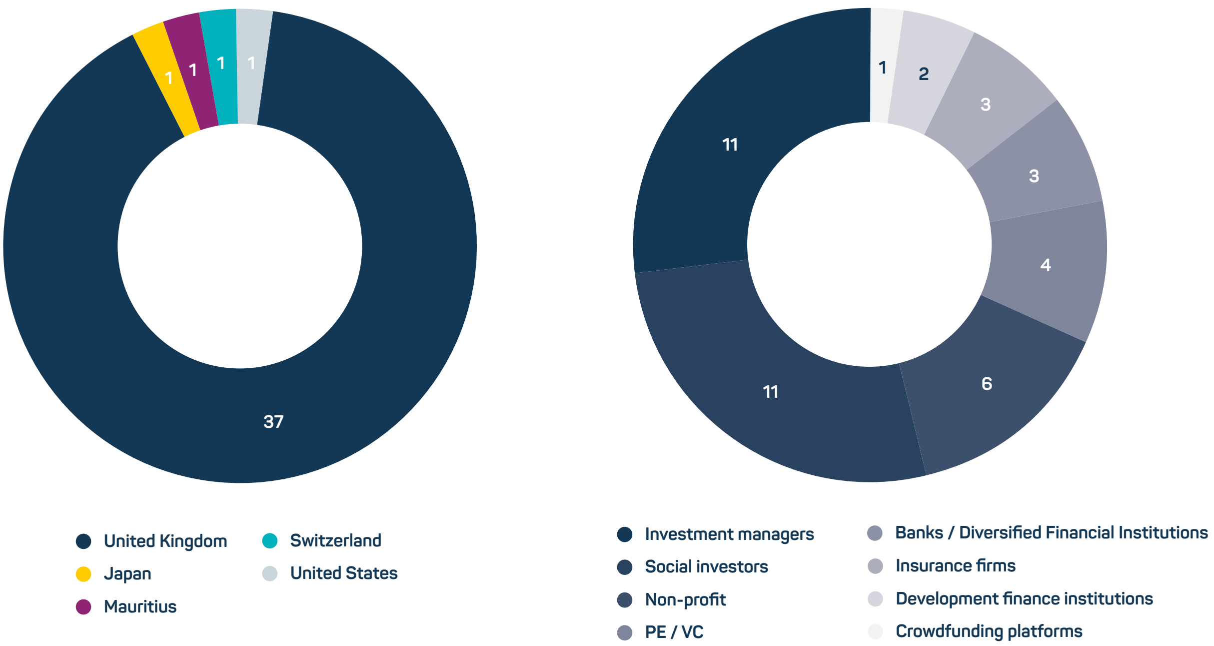


Figure 7. Respondents' domicile and investor profile

Module 4 (cross-reference and validation): We conducted an additional 20 interviews with prominent industry bodies and impact investment subject-matter experts in the UK to provide perspectives on our market sizing assumptions at a segment and sub-segment level. Additionally, we facilitated group working sessions and fielded five more interviews with key industry bodies and government departments to further validate our methodology and assumptions, to sense-check outputs, including against existing publications and the UK government's data and research.

Throughout our engagement with modules 2-4 we interrogated our starting point of the Investment Association's 0.5% allocation to impact investing. Using all of the sources detailed above, where there was compelling evidence to shift that percentage, we altered it.

7. Estimated UK impact investing market

7.1 Estimating the impact investing universe

Based on our methodology, the UK impact investing market had an estimated £58bn in AUM at year-end 2020. Figure 8 illustrates the breakdown of this amount by different segments of capital managers, with investment/ fund managers, insurance companies and private equity/ venture capital firms managing c.75% of the UK's impact investing. We are not surprised by the dominant contributions of these players, given the scale of capital under their control, propensity for direct investment, rigour around investment policy setting, governance, and reporting, and clear views on trade-offs between pure financial returns and broader stakeholder returns. Each of these segments is well-placed to continue to drive capital to the impact investment market and to increase its effectiveness by working closely with enterprises to provide strategic direction, operational support, and clear guidelines on transparency and reporting.

As discussed in Section 6.1, we have focused on UK AUM split by capital manager. Public sector and non-government organisations (NGOs) (including charities, endowments, and foundations) are typically regarded as the most high-profile impact investing actors given their role in delivering either public sector outcomes or as mission-driven organisations. Their capital is typically managed by a range of capital managers such as investment/ fund managers, private equity/venture capital players and Development Finance Institutions (Figure 4). As per the Investment Association, UK-based managers manage at least c.£0.6tn of capital coming from public sector and NGOs. Based on publicly available data, market interviews and impact investing surveys, it is estimated that the public sector and NGOs are funding at least c.£10bn of the UK's impact investments.

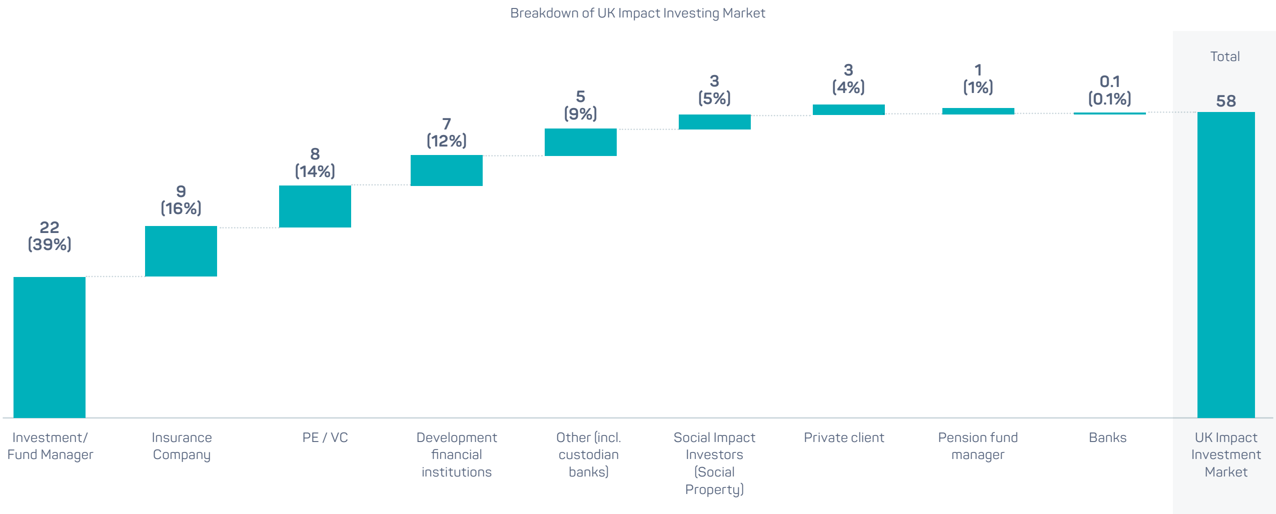
Our survey results have captured bottom-up data on individual organisations' allocation to impact investment. This data is based purely on the self-identified AUM that is directly invested into impact investment by organisations within the survey sample. Details of this are referenced in section A2.2 in the appendix.

Pension schemes, with £4tn of assets under their control are the UK's largest source of capital and account for 44% of the UK's total.[28] One challenge to the growth of impact investing is the common misperception by pension trustees that their fiduciary duties are incompatible with impact investing, with an exclusive focus instead on optimising financial return at the lowest possible cost. Five major city law firms (Bates Wells, Herbert Smith Freehills, Norton Rose Fulbright, Sackers and Travers Smith) have argued against that misperception detailing how impact investing and fiduciary duties are compatible.[29] Progress on this issue – whether by government guidance, regulation or legislative change - could potentially unlock a quantum leap of institutional investment into impact.

28 The Investment Association, Investment Management in the UK 2020-2021, 2021, https://www.theia.org/sites/default/files/2021-11/IA%20-%20Investment%20Management%20Survey%202020-2021.pdf

29 Impact Investing Institute, Impact investing by pension funds: Fiduciary duty – the legal context, 2020, https://www.impactinvest.org.uk/wp-content/uploads/2020/11/Impact-investing-by-pension-funds-Fiduciary-duty-%E2%80%93-the-legal-context.pdf

Size of the UK impact investing market, AUM, £bn



Source: EY-Parthenon analysis, BSC, Investment Association

Figure 8. UK impact investing market breakdown by organisation type, 2020

7.2 UK social impact investment market 2020 (Big Society Capital)

Differences between BSC market data and this report's addressable universe

	This study	BSC
Where invested?	Globally	UK
Where managed?	UK	UK
What impact intent?	People and Planet	People
What organisational type?	Any	Impact driven

BSC estimates the UK social impact investing market at £6.4bn in 2020. BSC defines social impact investment[30] as that which provides repayable finance to enterprises with a social purpose, such as charities and social enterprises. BSC's market data collection approach focuses on the capital managers and destination of capital to ensure there is both investor and investee social intent. This includes organisations, specific funds, or investments that make direct investments into charities, social enterprises, and social purpose organisations. These investments typically fulfil all the impact investment criteria outlined in the report. We recognise that a proportion of the BSC market size aligns with the definition we have used for this study and can be included as part of the total core impact investment market. As our market sizing study focuses on 'asset under management', bank lending, a loan book asset, is excluded from the study. This will understate the market sizing figure as we recognise banks, such as Triodos Bank, play an integral part in the impact investment market, with at least £2bn of social investment in the UK coming from bank lending.

30 Big Society Capital, FAQs, https://bigsocietycapital.com/faqs/

Green, Social, Sustainable and Sustainability-Linked Bonds

A growing and important option for impact investors is green, social, sustainable and sustainability-linked (GSSS) bonds. In 2020, according to figures from the Environmental Finance Bond Database, total GSSS issuance globally passed $600bn, nearly double the $326bn issued in 2019. Figure 9 estimates the UK GSSS bond market to be c.£7.9bn in 2020. There is a proportion of this bond market that sits within the core impact investing market we have sized, however, due to the lack of clarity available on which of these investments are made with intentionality and measurability, we are unable to distinguish the proportion that is specifically attributed to impact investment.

Indicative size of the UK Green, Social and Sustainability Bond market, AUM, £bn

Not-exhaustive

Examples of Green, Social and Sustainability Bonds

Green bonds[1]	Sustainability & sustainability-linked bonds[2]	Social bonds[3]
£4.9b	£1.4b	£1.6b
Debt securities issues explicitly for environmental or climate-related projects	Funds raised through sustainability-linked bonds are not earmarked for specific ESG purposes but for general corporate purposes	Social bonds can be used to finance both public & private demand to create positive social outcomes in communities

Source:
1.Includes total amount raised in 2020 for UK domiciled companies, in all currencies (GBP, EUR, HKD. JPY. NOK. SEK, USD)
2.Includes total amount raised in 2020 for UK domiciled companies, in all currencies
3.Includes total amount raised in 2020 for UK domiciled companies, in all currencies

Figure 9. Indicative size of UK GSSS market

7.3 Impact aligned investments

As mentioned in Section 4.3, there are investments being made across the market that are generating positive social or environmental benefit but, as they cannot be clearly defined as intentionally seeking positive impact and / or are not actively measuring the impact created, are excluded from the 'impact investing' market as we have defined it. In Figure 10, we show a couple of examples of such investments including housing association borrowing and green infrastructure investment. Many of these investments are likely made with sustainability in mind. Nevertheless, given the lack of publicly available information on these variables, we are not able to distinguish which investments fall within the impact investment universe. If capital such as this was to become aligned with the GIIN definition of impact investing – i.e., adopting intentionality and measurement - this would increase the total size of the UK's impact investing market.

Examples of impact aligned investments, AUM, £bn

Not-exhaustive

Examples of impact aligned investments

Housing association borrowing[1]	Green infrastructure investment[2]
£41bn	£12bn
Borrowing by rated Housing Associations FY 2020	Investments into a range of sectors including renewable energy, low-carbon public transportation, water management and sanitation etc.

Source:
1 Data from Moody's 'Housing Associations – UK: 2021 Outlook'
2 Finance provided by UK Green Investment Bank between inceptions (2012) to 2017 to UK green infrastructure projects (Green Investment Group)

Figure 10. Impact aligned investments

> Many of the companies that contributed most to financial returns in our impact fund during 2020-21 were helping to solve pandemic-related challenges.
> **Rosie Rankin, Director, Baillie Gifford & Co**

7.4 Financial returns of impact investment

Based on the survey conducted, Figure 11 illustrates the 2020 impact investment returns reported by survey respondents and their expectations for 2021. Approximately 90% reported that 2020 returns were either in line with or exceeded their financial return targets. One important element to note is that social investors who might be targeting concessionary returns were survey respondents alongside asset managers seeking a market rate of return. Within that mixed group performance expectations for 2021 were optimistic:

1. Of respondents who experienced above-target financial returns in 2020, 69% expected returns to remain above target in 2021. However, only 17% of respondents whose returns significantly exceeded target in 2020 anticipated similar levels of out-performance in 2021.
2. Of those that reported in-line target returns in 2020, 21% expected to outperform in 2021.
3. Of those that stated their 2020 returns were below target, 75% expected their returns in 2021 to either exceed or be in line with target.
4. All 11 eligible survey respondents who are investment manager stated their impact investments delivered market rate returns at or above their targets.

How successful was your impact invested capital overall in achieving its targeted financial returns in 2020?
How optimistic are you that overall your impact invested capital will meet its targeted financial returns in 2021?
N=39

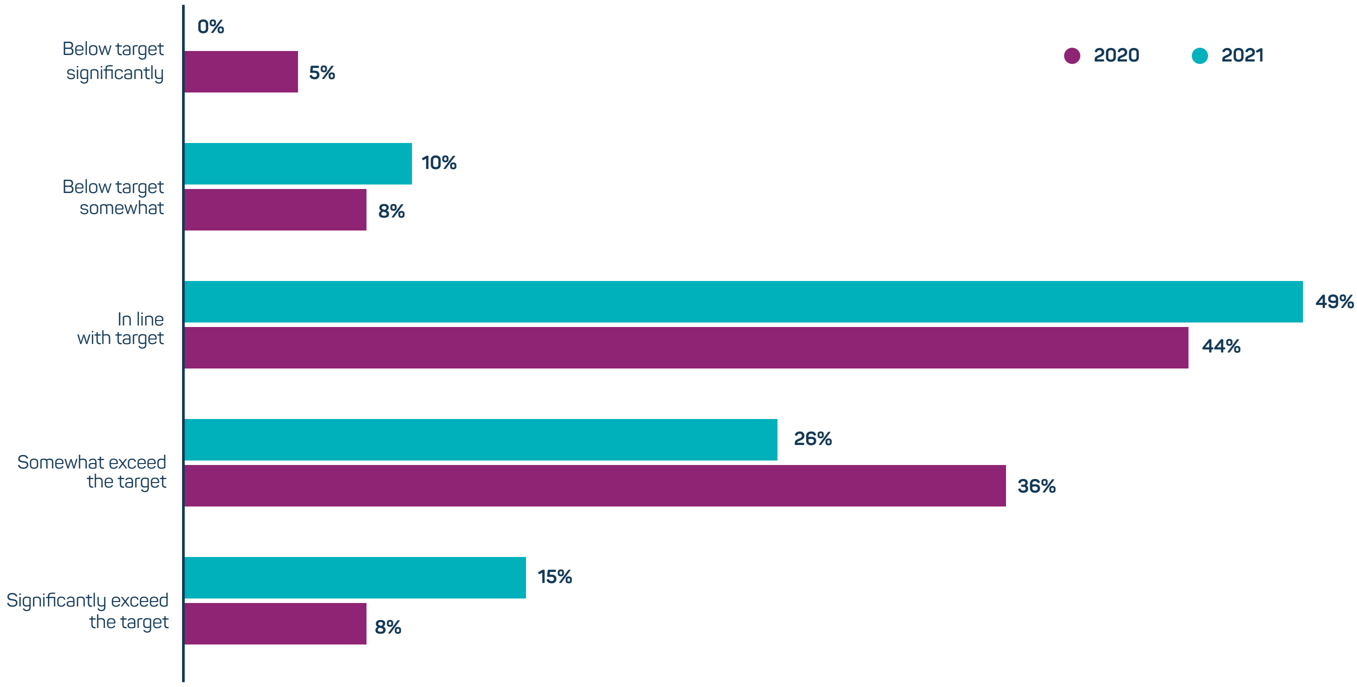


Figure 11. Reported impact investment returns in 2020 and expectations for 2021

CASE STUDY

Financial return of impact investment - Access Foundation Endowment[31]

Access, The Foundation for Social Investment, was set up with the mission to support charities and social enterprises in the UK. When Access was established in 2015, the Cabinet Office funded its endowment with £60m to help with its capacity building and investment readiness programme. Since then, the endowment has adopted a "total impact" approach aligned to its mission (i.e., to improve access to capital for charities and social enterprises so that they can be more resilient and thus have greater impact).

Accordingly, the endowment invests in social and ethical fixed income investments, such as charity bonds or other ethical bonds. In its impact report dated December 2020, more than 55% of its portfolio was comprised of investment grade bonds and hence offered good credit quality. Looking at a three-year horizon, the portfolio outperformed UK Sterling Non-Gilts 1-5 Years Total Return Index, as shown in Figure 12.

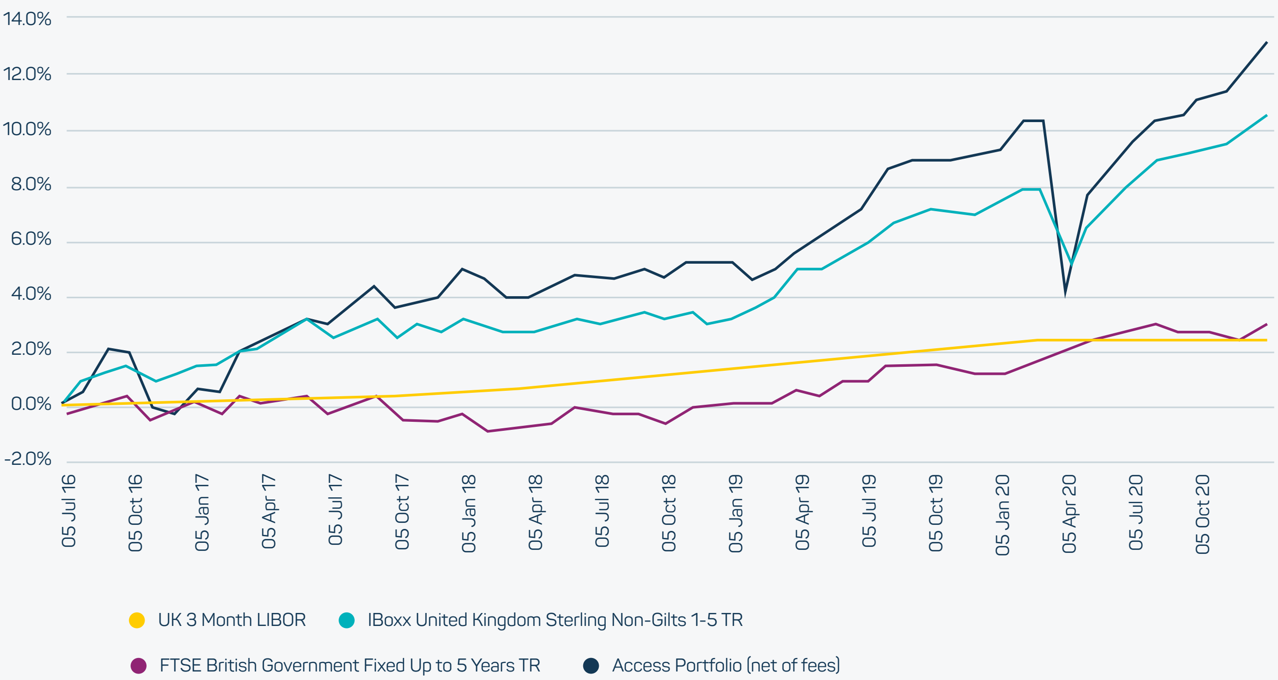


Figure 12. Access Endowment Portfolio Performance

31 Access – the Foundation for Social Investment, Impact Report, 2019, https://access-socialinvestment.org.uk/wp-content/uploads/2020/01/Access-annual-impact-report-MAIN-Jun-19-FINAL.pdf

CASE STUDY

Financial return on impact investing product - Greencoat Capital[32]

Greencoat Capital is an investment manager focusing on the renewable energy infrastructure sector. It operates several funds investing in wind, solar and bioenergy.

One of its funds, Greencoat UK Wind PLC, provides retail investors with an opportunity to participate directly in the ownership of UK wind farms. The fund's investment objective is to provide investors with an annual dividend that increases in line with the retail price index (RPI) whilst preserving the capital value of its investment portfolio. Since its inception in 2013, when it IPOed at £260m, the fund has undergone multiple equity raises growing in equity value to £3.3bn, whilst the total return of the fund, since inception, has been over 125%.

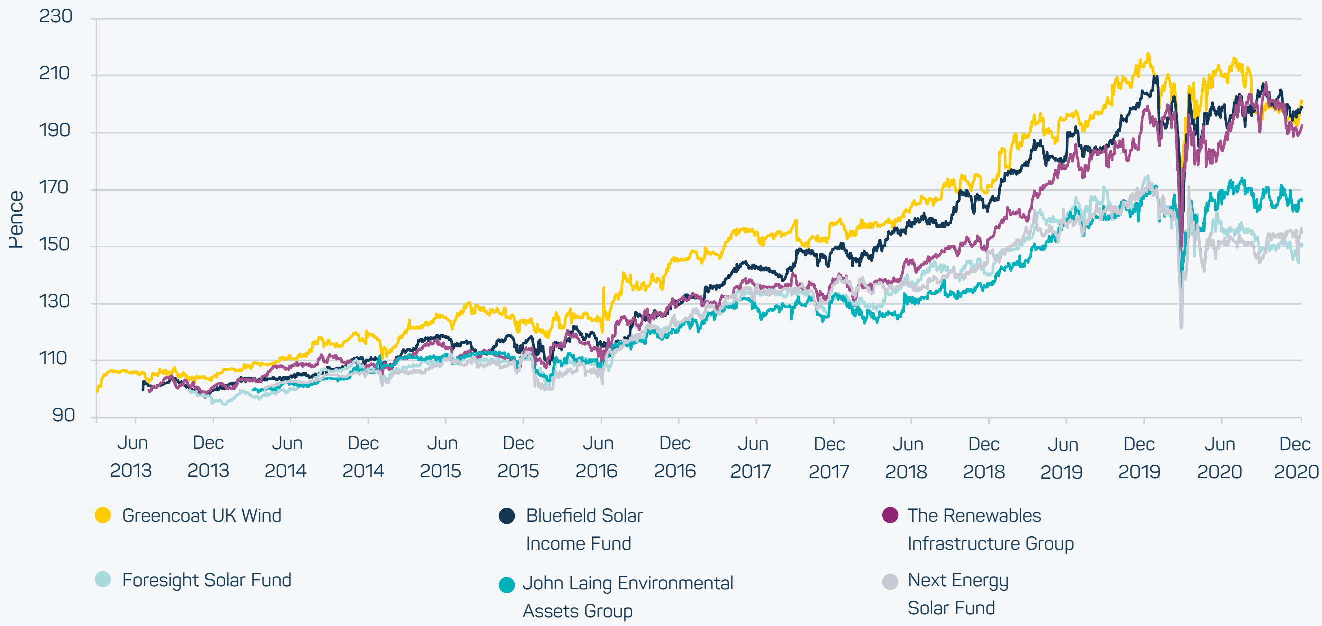
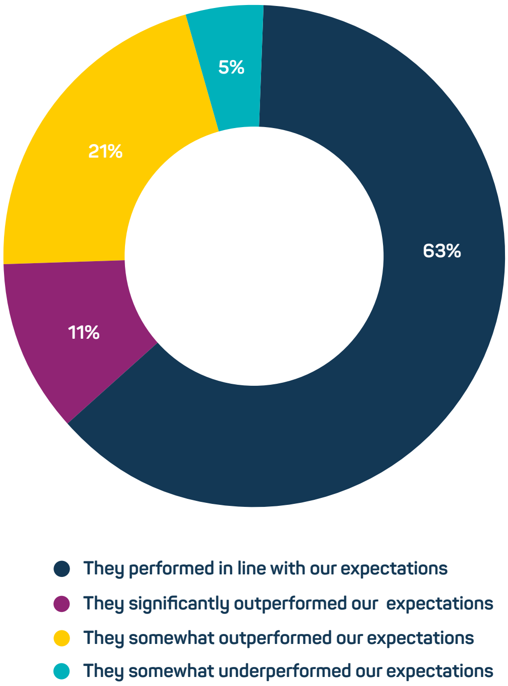


Figure 13. Greencoat UK Wind Plc – NAV performance

32 Greencoat Capital, UK Wind, https://www.greencoat-capital.com/funds/uk-wind

It was also noted that whilst target financial returns are being realised by impact investment, Figure 14 shows 90% of respondents felt these investments were also successful in delivering their intended impact goals.

Q41. How did your investments on average perform in terms of the realised impact in 2020?
N=38



Q. 33 How successful were your impact invested capital overall in achieving its targeted financial returns in 2020?
N=39

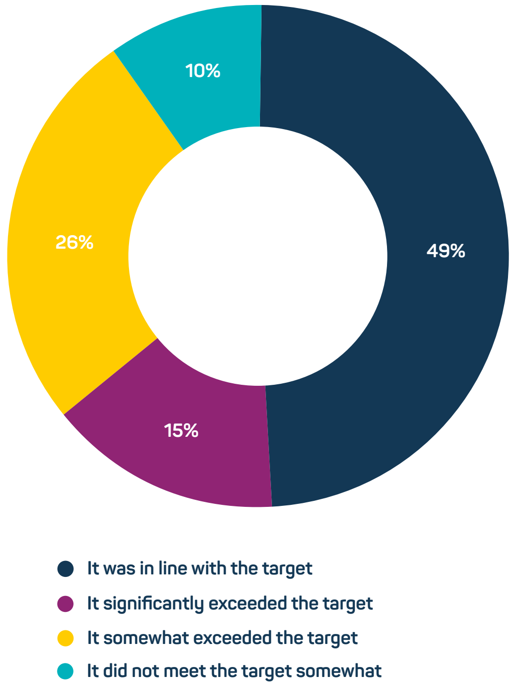


Figure 14. Realised investment impacts and financial returns relative to target in 2020

7.5 Preferred asset classes

Our survey results indicate that private debt attracts the highest proportion of impact capital (35%), with private equity (20%) and public equity (19%) also taking podium positions at second and third. Together, these three asset classes account for ~75% of impact investments. Caution is advised in extrapolating these figures to the entire UK impact universe considering the small sample size of 41. However, these figures make intuitive sense given the sources of capital and the research we have conducted on asset allocation policies.

Q30_1. How much of your impact investment capital do you invest in the following asset categories (the total sum to equal 100%):
N=39

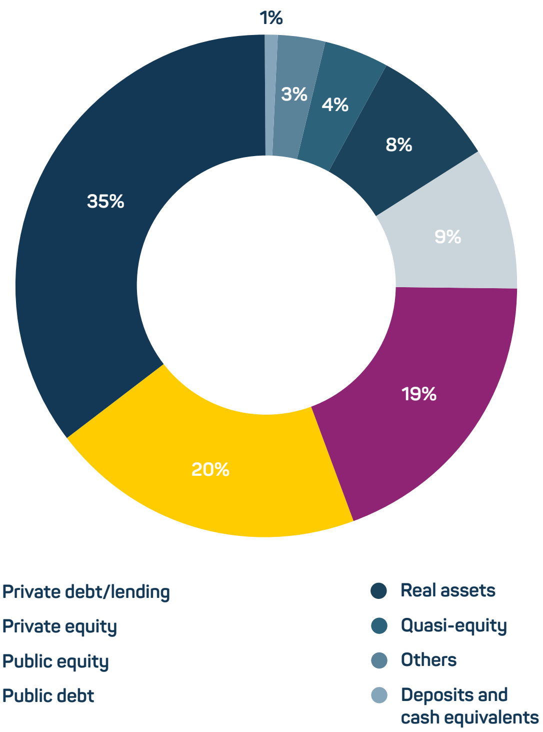


Figure 15. Breakdown of impact investment capital invested by asset class

CASE STUDY

Schroder BSC Social Impact Trust

Schroders partnered with BSC in 2020 to launch an investment trust, Schroder BSC Social Impact Trust.[33] The fund provides three high-impact investment solutions: 1. High impact housing, 2. Debt for social enterprises, and 3. Social outcomes contracts. The Social Impact Trust's investments aim to benefit more vulnerable and disadvantaged groups in areas of high need such as housing, education, health, and social care.

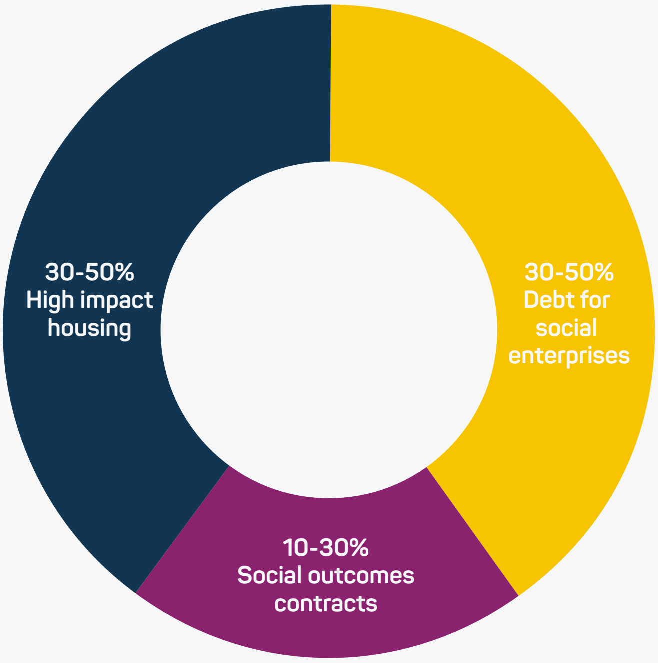


Figure 16. Schroder BSC Social Impact Trust portfolio asset allocation

In the fund, BSC is responsible for day-to-day investment origination, investment selection and portfolio management. Schroders plays a risk management oversight role for the portfolio.

33 Schroders and Big Society Capital, Marketing Material Schroder BSC Social Impact Trust plc Investing to improve lives in the UK, https://www.schroders.com/en/sysglobalassets/investment-trusts---private-investors/schroder-bsc-social-impact-trust/schroder-bsc-social-impact-trust-plc---flyer-final.pdf

7.6 Impact investment themes

When respondents were asked which of the 17 UN Sustainable Development Goals were their primary focus areas, they reported the top three as healthcare, affordable and clean energy and sustainable cities and communities. The findings also highlight the breadth of impact investment's focus within the UK.

Q46. What are the current focus areas of your impact investments (as per the UN Sustainable Development Goals below)? Please select all that apply:

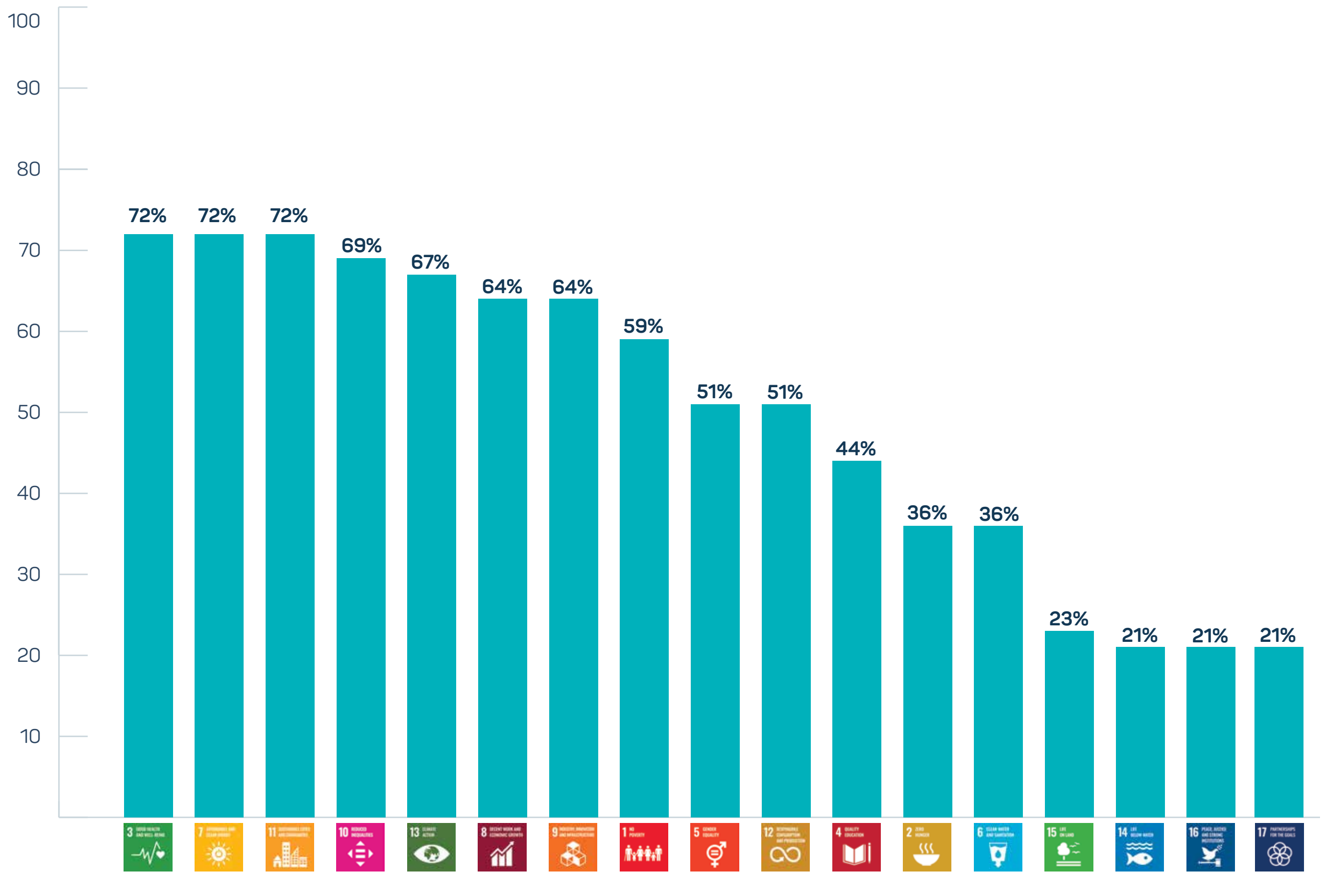


Figure 17. Focus areas of your impact investments (per the UN Sustainable Development Goals)

CASE STUDY

Guy's & St. Thomas' Foundation's investments in healthcare through Baillie Gifford Worldwide Healthcare Innovation Fund[34]

Guy's & St. Thomas' Foundation is an independent foundation focusing on healthier societies. It invests in people and ideas to drive more equitable health. As an asset owner, the foundation has invested £3m in Baillie Gifford Worldwide Healthcare Innovation Fund, which in turn invests in a global equity portfolio comprising of companies in the healthcare industry that take an innovative approach to diagnostics, treatment and prevention of diseases and that promote better healthcare outcomes. The fund follows Baillie Gifford's Health Innovation Strategy, and the fund's investment strategy focuses on providing strong returns over the long term.[35] The fund invests in companies involved in the healthcare industry that are identified as innovative, are developing technologies that meaningfully improve the health outcome of larger segments of populations, and care about the patients and also evidence this care. According to Guy's & St. Thomas' Foundation, the fund's portfolio has the potential to "bring substantial improvements to human health and healthcare systems and deliver attractive investment returns over the long term."

34 Guy's & St. Thomas' Foundation, Impact investment portfolio, https://gsttfoundation.org.uk/our-work/investment/investment-portfolio-impact-investments/

35 Baillie Gifford Worldwide Funds PLC, Prospectus, 2021, https://www.bailliegifford.com/en/uk/about-us/literature-library/funds/dublin-funds/fund-literature/baillie-gifford-worldwide-funds-prospectus/

CASE STUDY

South Yorkshire Pensions Authority and UN SDGs[36]

South Yorkshire Pensions Authority is a £9.9bn AUM pension fund (as of March 2021), representing over 500 employers and 160,000 members. Councillors on the Pensions Authority wanted to see a more local and impactful focus in their portfolio. Since 2015, they started directing a portion of their real assets portfolio to investments with real world outcomes such as reuse of redundant buildings. Currently 1% of their AUM is allocated to these types of impact investments, with an aspiration to increase this allocation to 5% over the long term.

The Authority sees the UN Sustainable Development Goals (SDGs) as a lens through which investments can be assessed based on their contribution towards the delivery of the 'shared blueprint' for sustainable development and have mapped their investments to the UN SDGs as part of their portfolio management. Their particular focus has been on: SDG 7: Affordable and Clean Energy, and SDG 13: Climate Action.

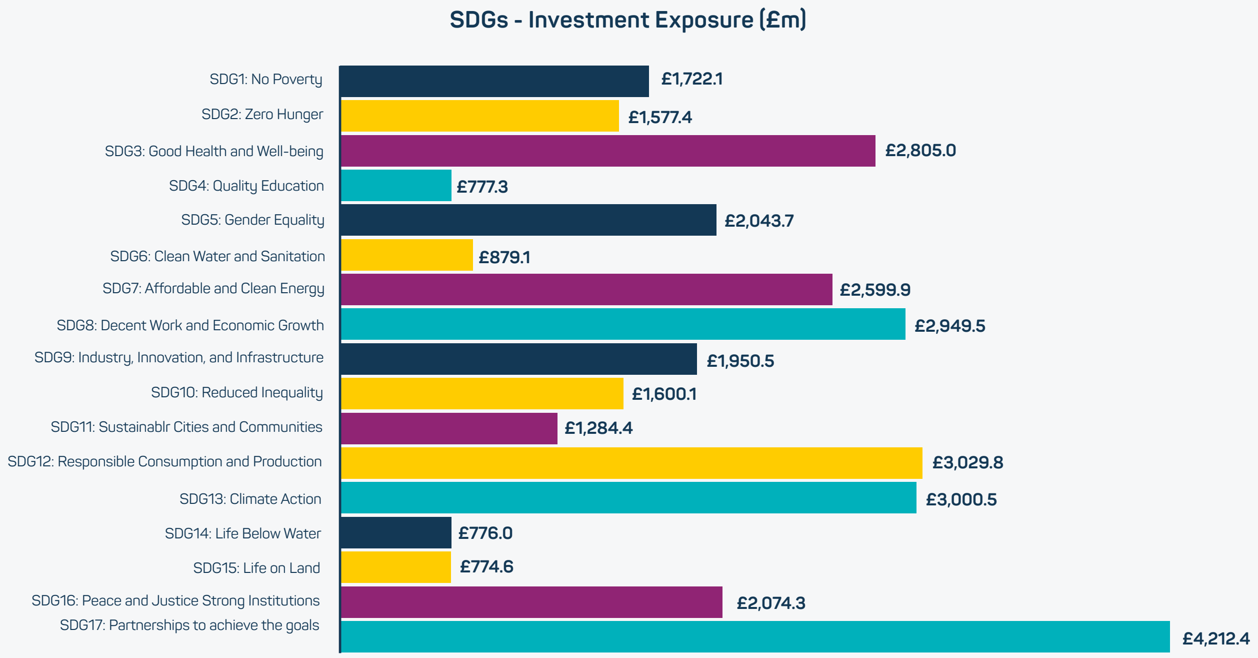


Figure 18. Investment Exposure of South Yorkshire Pensions Authority's listed assets as per the SDGs[37]

36 Impact Investing Institute, Case Study South Yorkshire Pensions Authority, https://www.impactinvest.org.uk/wp-content/uploads/2021/10/South-Yorkshire-Pensions-Authority.pdf

37 South Yorkshire Pension Authority, Annual Report 2020-2021, https://www.sypensions.org.uk/annualReport2021.pdf

In addition to the key focus areas for impact investing, survey respondents highlighted that people in poverty, people with disabilities and women are the top three beneficiaries.

Q45. What are the target groups benefitting from your impact investments? Please select all that apply:

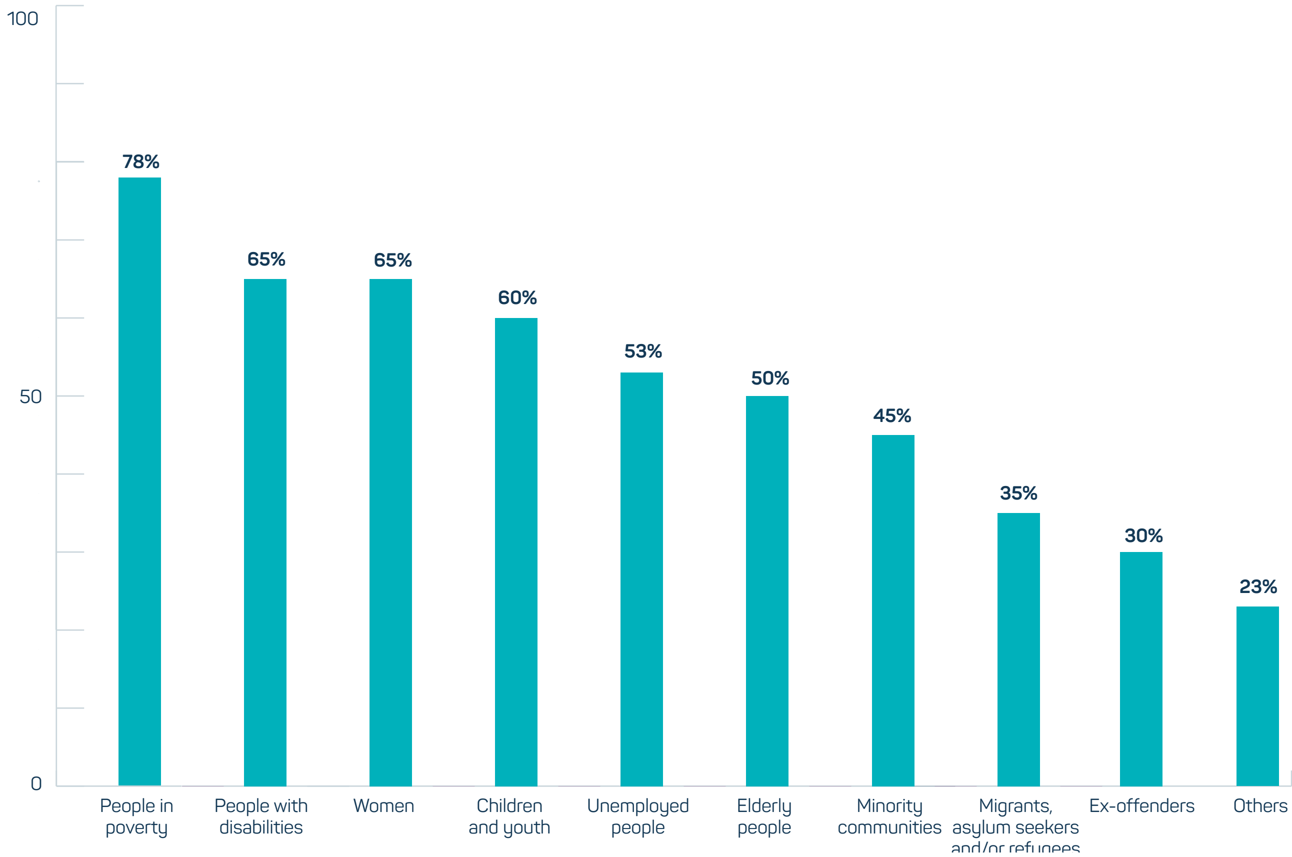


Figure 19. Target beneficiaries

CASE STUDY

Social Investment Business – Diversity dashboard[38]

To understand how they are performing in serving the needs of minority communities, Social Investment Business (SIB) and its partners, Access and Power to Change, and the Youth Endowment Fund, conducted a review to understand various diversity elements across seven funds and programmes over the last two years. SIB found that, of the 1,404 applicants who had received funding, the number of successful non-BAME-led (Black, Asian and Minority Ethnic) applicants is nearly three times higher than BAME-led ones, highlighting the barriers faced by minorities to raise finance.

Desicion-status (based on Number)

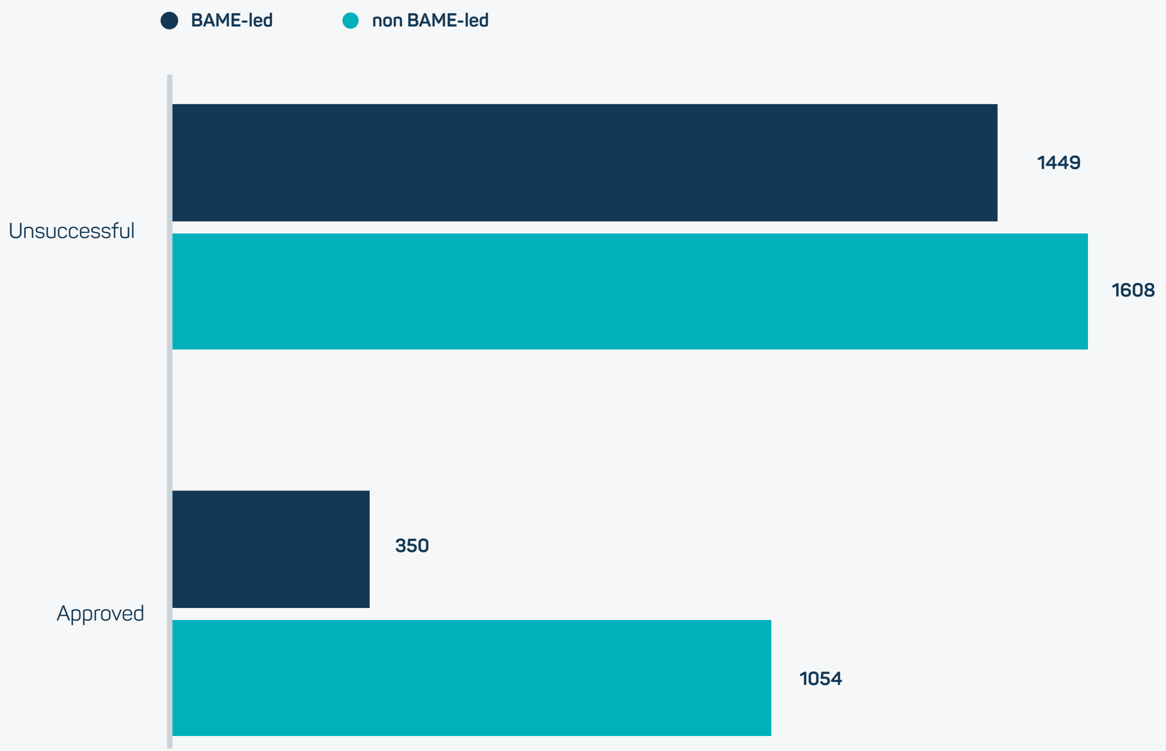


Figure 20. Decision status (based on number)

CASE STUDY

Venture Capital - Impact X[39]

Impact X is a London-based venture capital firm founded in 2018, when less than 4% of venture capital funding went to teams led by women and less than 1% went to founders of colour. In 2019 it announced its plan to invest £100m in startups led by diverse entrepreneurs. The double-bottom line organisation funds companies within tech, digital, health, education, lifestyle, media and entertainment for financial returns and job creation. Impact X was an early investor in Marshmallow, an insurtech company which, in 2021, became Britain's second Black led unicorn.

38 Social Investment Business, Minoritised Ethnic Community and Social Enterprises, https://www.sibgroup.org.uk/resources/minoritised-ethnic-community-and-social-enterprises
39 Impact X, Homepage, https://www.impactxcapital.com

7.7 Leading players in the market by organisation type

As shown in Figure 21, our survey results suggest that respondents perceived social investors, private equity and venture capital firms and foundations to be the UK's leading impact investors currently. However, they cited institutional investors, e.g., asset managers, insurance firms, pension funds, banks, and family offices as the primary drivers of future growth, given the scale of capital under their control. There is evidence that these actors are already allocating increasing percentages of their assets to impact. We know for example that pension funds are making commitments to deliver impact investing – becoming signatories of the Impact Investing Adopter Forum Principles[40] – and are increasingly investigating impact investments in emerging markets.[41]

Q51. Who do you see as the leading impact investors in the market as of now? Please select all that apply:
Q51 - N=39

Q52. Do you see any of the following players actively entering impact investing market or increasing their share / number of impact investments? Please select all that apply:
Q52 - N=36

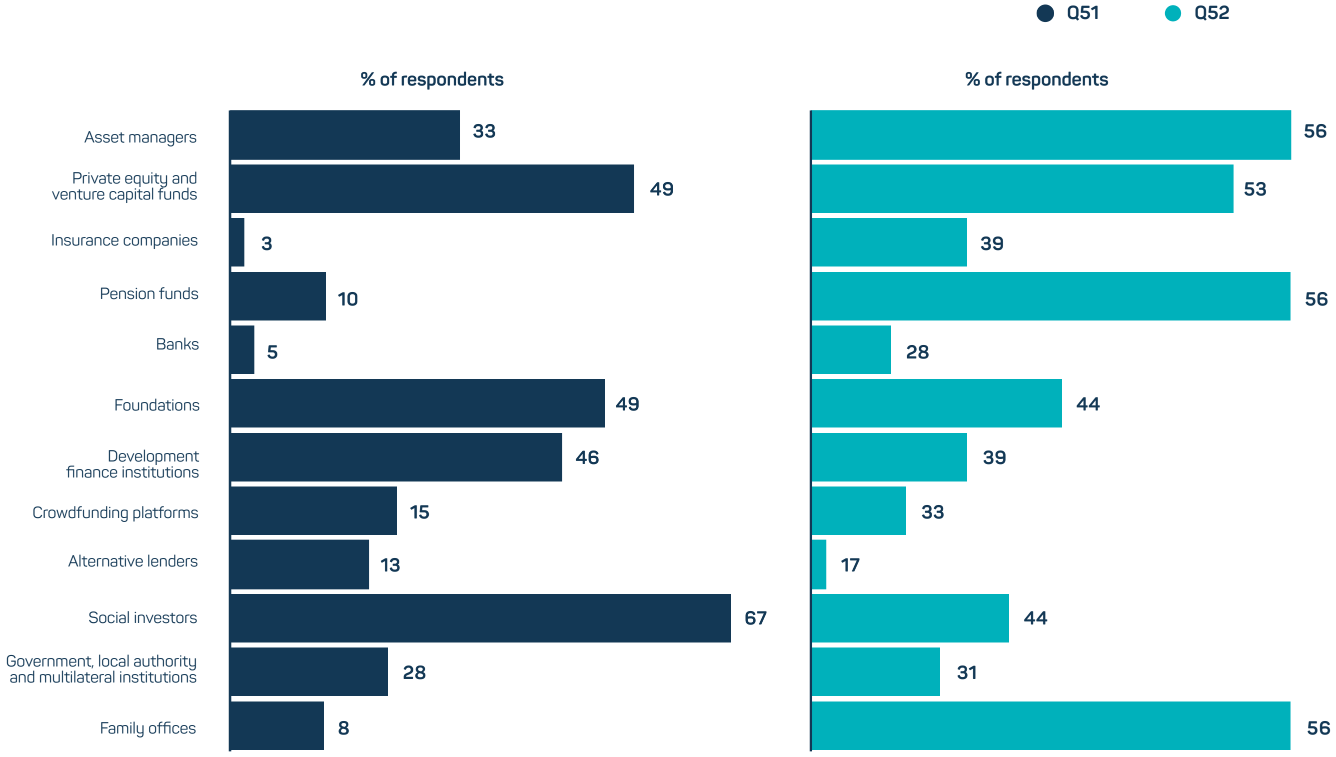


Figure 21. Leading impact investors currently in the market and those entering the impact investing market

40 Pensions for Purpose, Impact Investing Adopters Forum, https://www.pensionsforpurpose.com/Member-Forums/Impact-Investing-Adopters-Forum.html
41 Impact Investing Institute, Emerging markets case studies, https://www.impactinvest.org.uk/our-case-studies/emerging-markets/

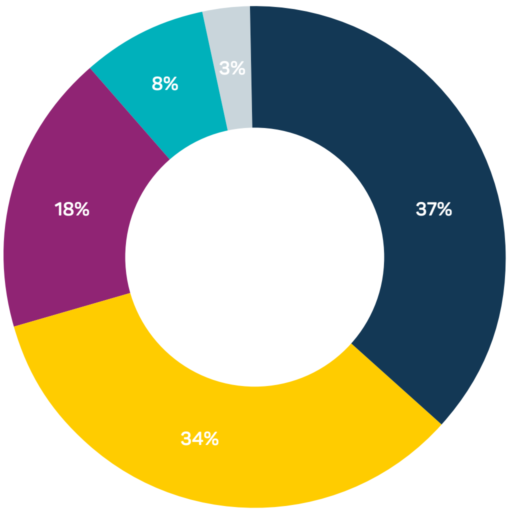
8. Market evolution and drivers of future growth

8.1 Historic and future growth of the UK impact investment market

Survey respondents almost unanimously agreed that the market has been growing over the last two years. In the absence of historic data, this sentiment is corroborated by the UK Investment Association's reported findings which show that the percentage of impact designated assets under management increased from 0.3% in 2019 to 0.5% of total assets in 2020, with increases across all types of organisations.[42]

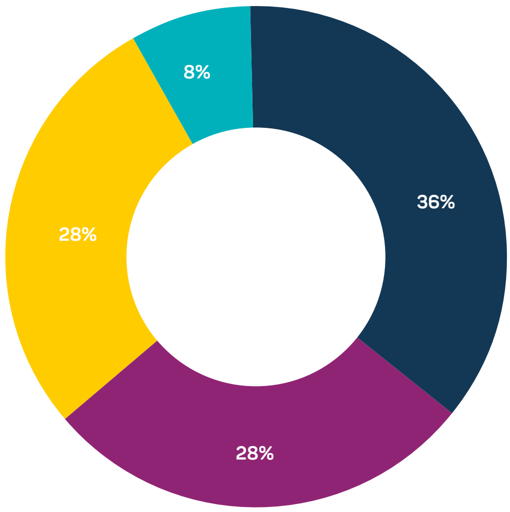
Well over one-third of respondents anticipated growth rates in excess of 20% year-on-year over the next five years, a bullish prognosis tempered by a two-thirds majority who said they were taking a more conservative view. Applying a weighted average to the estimated future market growth rates from our survey suggests a 15% market growth which, in practise, could double the funds allocated to impact to over £100bn in five years.

Q54. How quickly have you seen UK impact investing market grow over the last couple of years:
N=38



- The market has been declining in size
- The market has been growing by 0-10% per annum
- The market has been growing by 10-20% per annum
- The market has been growing by 20-30% per annum
- The market has been growing by over 30% per annum

Q55. How quickly do you think the UK impact investing market is set to grow over the next few years:
N=39



- The market will grow by 0-10% per annum
- The market will grow by 10-20% per annum
- The market will grow by 20-30% per annum
- The market will grow by over 30% per annum

Figure 22. Past and future growth of UK impact investing market

42 Investment Association, Investment Management in the UK, 2019-2020 and 2020-2021, https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf and https://www.theia.org/sites/default/files/2021-09/IMS%20report%202021.pdf

It is clear from our survey that the foundations for growth are being laid, as 90% of respondents indicated that they plan to increase their asset allocation to impact investments within the next five years, with roughly 75% planning to increase their allocation by more than 10% (Figure 23).

Q22. Are you planning to increase the amount of capital you dedicate to impact investing in the next five years?
N=40

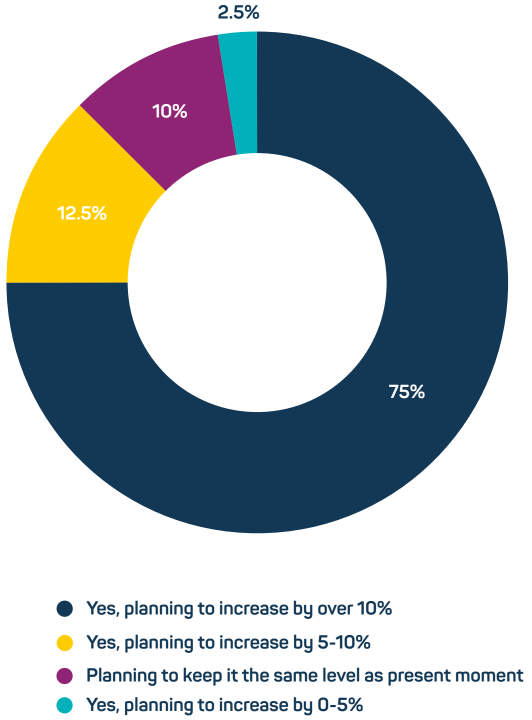


Figure 23: Allocation of assets to impact investments

8.2 Key challenges impacting the scale and pace of capital being directed into impact

Respondents were asked to identify the challenges they experience as impact investors. More than 75% noted "sophistication of measurement processes", "appropriate returns across the risk / capital spectrum", and "data on impact investing" as moderate or significant challenges. Whilst "research on market activity and trends" and "suitable exit options" were regarded as the least problematic, only a small proportion of respondents (16% and 11% respectively) saw "no challenge" in these areas.

Where do you think the biggest challenges for UK impact investing market are:
N=38

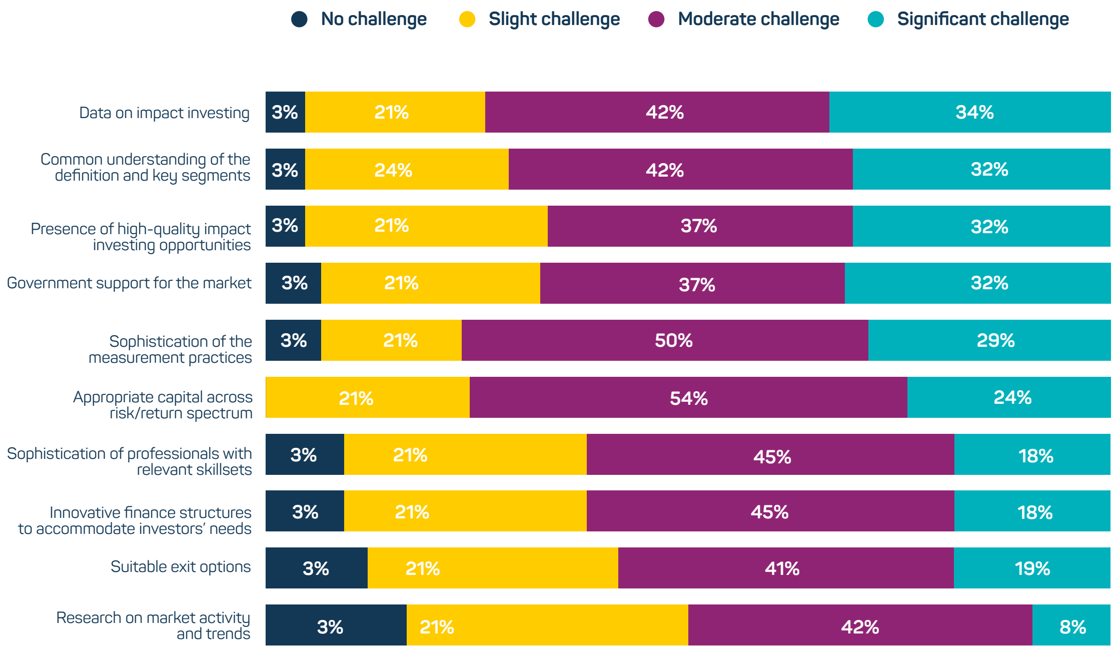


Figure 24. Key challenges for the UK impact investing market identified by the respondents

8.3 Growth drivers for impact investing

Findings from the market sizing and our interviews with investment impact specialists have highlighted eight primary drivers that are critical for accelerating the scale of capital flows into impact investments.

This section explores these drivers in more detail.

"

There are so many different ways to tackle problems, but in many cases, there is no defined 'best practice' approach.

Rennie Hoare, Partner & Head of Philanthropy, The Golden Bottle Trust

Increasing the scale of capital flows to impact: Drivers and levers that can be pushed to acclerate the pace, scale, and scope of these drivers

Driver	1. Market awareness	2. Government policy & regulations	3. Data, impact measurement, and reporting frameworks	4. # impact investors & scale of capital under their control
Levers	• Events that increase consciousness of social, environmental causes—e.g. COP26, Grenfell • Media coverage • Public statements by corporates, NGOs, activist groups	• The introduction of enhanced regulations and standard setting • Attractive taxation policies • Participation in blended finance models	• Adoption of consistent definition of impact investing • Measurement frameworks allow for greater effectiveness in impact outcomes • Also promotes accountability and transparency in reporting of impact investments	• # Impact-only investors; AUM; capital sourcing capabilities • # institutional investors w/ impact investing appetite, capabilities (e.g. pension fund managers, PE/VC) • Trustee, GP/LP demand
Driver	**5. % capital allocation to impact**	**6. Amount of viable impact investment opportunities**	**7. Returns (financials & impact)**	**8. Liquidity and exits**
Levers	• Investment policies and frameworks (risk, return, time horizon) • Commitment to stakeholder capitalism—e.g. shareholders, communities, consumers, society • Demonstrable corporate purpose, ESG strategies	• Targets with clear impact reporting and measurements in place • Availability of financial structures—e.g. equities, bonds, structured loans • Access to broad range of private sector funding opportunities (seed → VC)	• Standard and accepted benchmarks against which to measure both impact and financial performance • Track record: risk adjusted returns • Accepted reporting standards (auditable)	• Clear investment time horizons • A well defined process for value/impact extraction and re-investment

Figure 25. Key growth drivers and levers

Driver 1: Market awareness

An increasing percentage of investors are looking for investments that are dedicated to addressing the social and environmental challenges leading the news agenda, ranging from those in the UK such as the Grenfell disaster and the school meals campaign to those with global relevance, including the Black Lives Matter movement and destructive weather events due to climate change.

A clear example of such investor appetite is the oversubscription of many green bond, social bond and sustainability-linked bond issuances. For example, the inaugural £10bn and £5bn issuances of the UK's green gilts with reported social co-benefits were ten times and twelve times oversubscribed respectively in 2021.[43]

43 Pensions expert, 'Greenium' widens following £6bn green gilt issuance, 2021, https://www.pensions-expert.com/Investment/Greenium-widens-following-6bn-green-gilt-issuance?ct=true

> While many firms were already taking this step, the new rules will ensure that the UK sets the pace internationally.
>
> **Catherine McGuinness, policy chair at the City of London Corporation**

Driver 2: Government policy & regulations

Many interviewees cited regulation as having a positive role in galvanising the market in terms of its growth and development.

Refining existing regulations or introducing new regulations were cited as potential avenues for unlocking assets to support impact investment and strengthening the integrity of the market. On the former, a key obstacle to impact investing by pension funds is its perceived incompatibility with fiduciary duty. Overturning this misperception could be supported by a variety of interventions by government, and in so doing unlock major capital flows into impact by institutional investors. This could include, for example, the Department of Work and Pensions issuing guidance on the compatibility of fiduciary duties and impact investing; or go further to introduce additional regulation or legislation to spur change. Additionally, should the UK's Financial Conduct Authority (FCA) consultation considering Sustainability Disclosure Requirements (SDR) and investment labels, result in labelling of impact investments, that would make a significant contribution to improving the integrity of the market and countering asset managers over-claiming.[44]

This FCA initiative speaks to the increasing expectation amongst a broad cross-section of stakeholders for investors to be transparent in how successful they are in meeting their responsibilities, particularly on the environment.

At this year's COP26 summit, for example, the UK government proposed new rules requiring large corporate and financial institutions in the UK to disclose how they plan to transition to the low-carbon economy to meet the UK's 2050 net zero target.[45]

Interviewees also cited the crucial role government could play in terms of encouraging growth in the market via taxation or other related financial incentives. The French solidarity-based fund 90/10 model provides a good example of the effectiveness of government policy in directing capital flows to impact investments. The model was introduced in the early 2000s and obligated companies with more than 50 employees to offer staff the option of investing in savings funds with a 10% impact allocation. AUM in these funds grew eight-fold to €9.3bn between 2009-2018, with 10% of that invested in eligible social enterprises.[46]

44 FCA, Discussion paper 21-4 (2020): https://www.fca.org.uk/publication/discussion/dp21-4.pdf
45 BBC News, COP26: UK firms forced to show how they will hit net zero, 2021, https://www.bbc.co.uk/news/business-59136214
46 Finansol, 2019 Study on '90/10' funds, 2019, https://www.finance-fair.org/_dwl/Study-On-2090-10-20Funds-20Finansol.pdf
47 E&T, UK will be 'first net-zero aligned' financial centre, says Sunak, 2021, https://eandt.theiet.org/content/articles/2021/11/uk-will-be-first-net-zero-aligned-financial-centre-says-sunak/

> There will be new requirements for UK financial institutions and listed companies to publish net-zero transition plans that detail how they will adapt and decarbonise as the UK moves towards a net-zero economy by 2050.[47]
>
> **Chancellor of the Exchequer, Rishi Sunak**

Legislation behind the Community Reinvestment Act (CRA) in the United States is another successful example of how regulation can effectively scale up capital flowing into impact investments via blended finance models. The CRA accelerated private sector capital flow by encouraging banks to invest in Community Development Financial Institutions (CDFIs) that support low-to-moderate income communities.

The Impact Taskforce, backed by the UK presidency of the G7 in 2021, highlighted specific instruments and policies that can be deployed to scale impact investment, with a focus on achieving a Just Transition in emerging markets.[48] Based on engagement with over 170 finance, policy and thought leaders representing 120 institutions in close to 40 countries, the Impact Taskforce put forward recommendations that would enable private capital and government funders to collaborate more effectively to finance social and environmental outcomes. The Impact Taskforce recommended:

- Private sector asset owners and managers were urged to step out of their comfort zones to engage with the range of impact opportunities available on the market, including numerous solutions that deploy innovative approaches to addressing investors' traditional barriers to impact investing including providing attractive risk/return profiles.
- Public and quasi-public investors such as development finance institutions (DFIs) and multilateral development banks (MDBs) were called upon to do more to mobilise private capital at scale, including by supporting tried-and-proven solutions and instruments (such as blended finance structures) that can improve the risk/return profile of given investments.
- The report also called for changes to the mandates and incentive structures of DFIs and MDBs, where necessary, to enable them to play this vital role of mobilising private sector investment, alongside more traditional incentives around investing their balance sheets.

Overall, the Impact Taskforce called for public sector and private sector actors to move together and at once to mobilise capital at scale and ensure it is deployed to where it is most needed. Whilst the Impact Taskforce's mandate was specifically on emerging market investments, many of its findings and recommendations detailed are highly relevant to the UK context. Geographies and opportunities that are underinvested in, in the UK – such as affordable real estate, infrastructure or SME Finance - would benefit from both greater appetite by investors to better analyse the risk / return of a given investment, and government funds acting in a different way, with a mandate to crowd in private capital and alter the risk / return profile in order to do so.

48 Impact Investing Institute, Mobilising institutional capital towards the SDGs and a Just Transition, https://www.impactinvest.org.uk/publications/mobilising-institutional-capital-towards-the-sdgs-and-a-just-transition/

Blended finance

- Blended finance refers to the use of catalytic capital, such as grants and concessional capital, from either public or philanthropic sources to drive positive impact to people and planet by allowing organisations with different objectives to invest alongside each other whilst achieving their own objectives (whether financial return, social impact, or a blend of both).
- Globally, blended finance has mobilized approximately $140bn to-date.[49]
- In the UK, Access Foundation is one of the organisations that use blended finance to bridge the origination gap.
- Blended finance is more commonly used in developing markets, such as in Africa where there are different blended finance funds.[50]
- The CRA in the US has been successfully bringing in capital flow that enabled blended finance models.

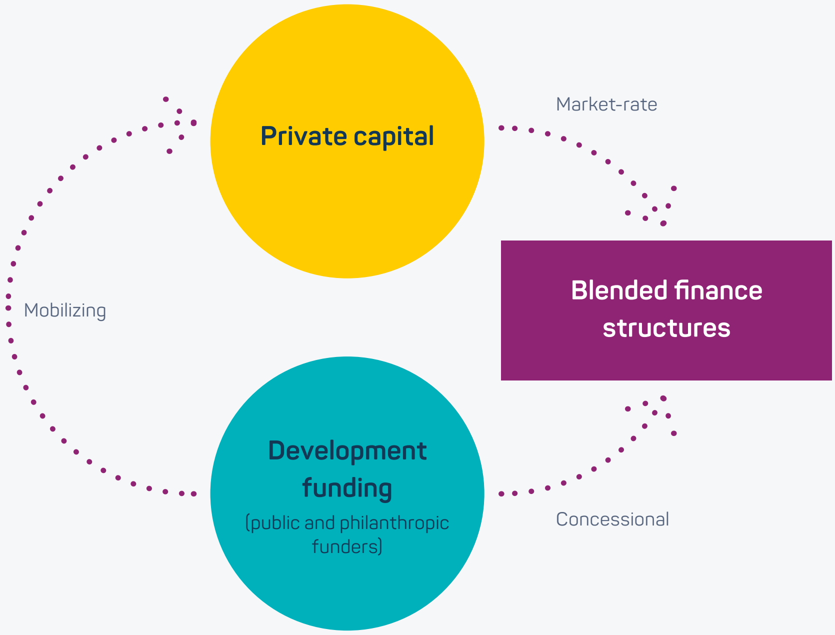


Figure 26. Blended finance

49 Convergence - The Global Network for Blended Finance, Homepage, https://www.convergence.finance/
50 Blending4Ag Innovating Agricultural Finance, Examples of blended finance facilities, https://blending4ag.org/en/media/examples-of-blended-finance.html

Driver 3: Data, impact measurement, and reporting frameworks

Interviewees highlighted the importance of establishing common standards for impact measurement and reporting frameworks to promote greater transparency, comparability of financial/impact returns, and accountability for evidencing impact outcomes. As one respondent asserted, the focus should not just be about growing impact investment capital for its own sake but making more investment capital – both impact and non-impact related - more accountable as a whole. The most common frameworks they cited were the UN Sustainable Development Goals (SDGs) and the Impact Management Project. Others mentioned included Snowball's Bullseye, Tribe's Impact Levels and in-house frameworks mapped to the UN SDGs and IMP.

As shown in Figure 27 below, 60% of our survey respondents were using measurement frameworks they had developed in-house, while only 35% were using commonly accepted industry frameworks to measure impact. 5% stated they were not measuring impact at all which means that they do not meet the technical definition of an impact investor. This highlights some of the complexities and contradictions in the field: an organisation might self-identify as an impact investor but not adhere to the GIIN definition.

Approximately, what % of your impact investments use the following impact measurement and management approaches:
N=39

Out of the industry-accepted frameworks for measuring impact, which ones do you normally use? Please select all that apply:
N=21

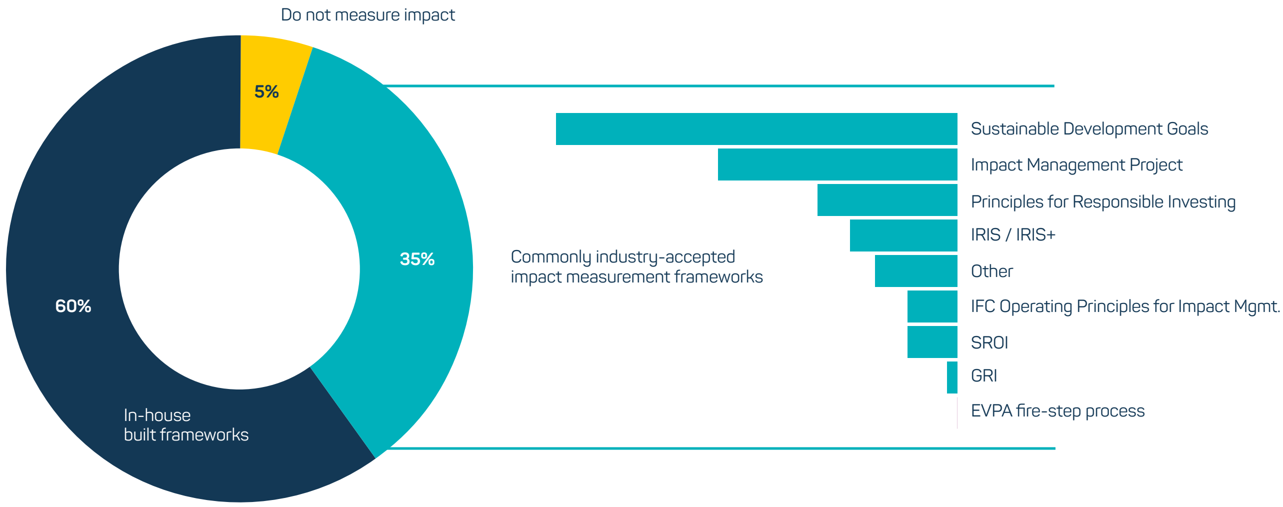


Figure 27. Use of impact investment measurement and management approaches

51 IFRS, IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements, 2021,
https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/

"

Sustainability, and particularly climate change, is the defining issue of our time. To properly assess related opportunities and risks, investors require high-quality, transparent and globally comparable sustainability disclosures that are compatible with the financial statements.
Erkki Liikanen, Chair of the IFRS Foundation Trustees[51]

The apparent lack of a commonly agreed impact measurement and reporting framework highlights the challenges and additional effort required by investors to evaluate and compare impact across different investments within their portfolios. More fundamentally, the fact that 65% of respondents cited using internally defined frameworks or none at all also raises the central issue of the lack of a commonly agreed definition for impact.

The other key data driver is a clearer picture of the market itself. As shared in the introduction, this work is a first effort to size the broader impact investing market. Over time as data collection improves on impact investing, so too will the accuracy of this study. We hope that when the market is next sized in the coming 2- 3 years, that the current best-efforts estimates necessarily deployed for this version of the report, can be updated with real world information.

CASE STUDY

How an asset manager applies impact measurement and reporting framework – Threadneedle UK Social Bond Fund[52]

Launched in 2014 as the first mainstream, fixed income impact investment offering in the UK, the Threadneedle UK Social Bond Fund is a partnership between global asset manager Columbia Threadneedle Investments and Big Issue Invest, the social investment arm of The Big Issue.

The fund aims to achieve both an investment return and contribute to positive social and environmental outcomes by investing in bonds of organisations that support social and economic development, primarily in the UK. Its proprietary impact assessment methodology, the Social Intensity Scoring System, ensures that social impact considerations are integrated into the decision-making process, both prior to and throughout the investment life cycle.

Analysts map out each potential investment project across the fund's eight social outcome areas aligned with the UN Sustainable Development Goals. They then evaluate the outcomes based on their 'social intensity'. Some debt securities will have more direct and tangible social benefits that others, however all those selected for investment are considered to have net positive impacts. Impact Management Project categories are also used as a common language of impact reporting. This means the investment projects' impact reporting, transparency and relevant impact evidence are also scored. Bonds with the greatest impact outcomes, as well as the most robust reporting, will receive a higher social intensity score and therefore attract the highest proportion of asset allocation.

Throughout the investment cycle, there is ongoing monitoring of the bonds' financial and social performance, as well as their social intensity score. Big Issue Invest publishes an annual impact report as part of the disclosure to investors.

Impact measurement and reporting helps investors to demonstrate the positive outcomes achieved by impact investing to their stakeholders and the wider public. The recent establishment of the International Sustainability Standards Board's Impact Management Platform,[53] facilitated by IMP, is one example of how the industry is codifying how such measurement is achieved.

52 The Big Issue Invest, Threadneedle UK Social Bond Fund Annual Impact Report 2021, https://www.columbiathreadneedle.co.uk/uploads/2021/12/29994084c680c5ada9c0b197f55226a1/threadneedle_uk_social_bond_fund_2021_impact_report.pdf
53 Impact Management Platform, Manage sustainability impacts, https://impactmanagementplatform.org/

Driver 4: Number of impact investors and scale of capital under their control

Key to the growth of the market is bringing more capital into its purview: this is both about championing new allocations to take place, but also to encourage the likely-impactful investments found in the impact-aligned category detailed in Section 7.3, to develop standards, become intentional and to deliver measurement approaches. The developments in the housing association sector are instructive here. The sector has developed a Sustainability Reporting Standard[54] that both housing associations and investors have coalesced around for debt; and is developing norms and codes of practice for equity investing in housing.[55] Numerous major players concurrently are voluntarily moving towards accountability e.g. The Housing Finance Corporation reissuing £1bn of debt as social bonds on a new framework[56] and L&Q issuing the first sustainability-linked bond for a £300m issuance.[57] These kinds of systemic shifts will bring a significant piece of the real economy into the impact investing addressable universe. Other sectors that are ripe for this kind of integration include environmental investments and health investments.

Driver 5: % Capital allocation

To deliver more capital to impact investing opportunities will necessitate asset owners to instruct their capital managers to allocate more to impact. One accelerator here is the Investment Policy Statement (IPS). As an example, for the charitable foundation sector: whilst there maybe will at the Investment Committee level to deliver impact investing, the legal documents guiding allocation do not enable the approach. This is a key point of leverage for impact investing's development. If the IPS became enabling of the approach and not restricting it could drive a big increase in impact investing's AUM.

Driver 6: Amount of viable impact investing opportunities

Whilst the impact investing market has a wide range of opportunities for impact investors of all types, more opportunities would be welcome, particularly those that can take on institutional investment: scale, risk-adjusted market rate return opportunities. The asset owner appetite is there if presented with the right product to unlock it. As was remarked on Driver 2, government can play a role here. Some of the best impact opportunities in the UK could be made more compelling to institutional investors with investment by government that changes the risk / return profile. A precise, targeted government intervention in a few UK vehicles could catalyse a new wave of viable impact investing opportunities and unlock institutional investment keen to play a role in this market.

Driver 7: Returns (financial & impact)

A major obstacle to impact investing is the perception that risk adjusted market rate return and the creation of positive impacts are incompatible. The findings of this report, alongside many others (including the Impact Investing Institute's own evidence base of reports and case studies) indicate further evidence to disprove this myth. As was highlighted in Section 7.4, survey participants were consistently delivering returns at or above their targets. When excluding social investors from

54 The ESG Social Housing Working Group, https://esgsocialhousing.co.uk/
55 The Good Economy and Big Society Capital, Affordable Housing Equity Investment Models: Optimising Risk, Return and Impact Insight Brief, 2021, https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/Affordable_Housing_Equity_Investment_Models-Insight_Brief_July_2021.pdf
56 Inside Housing, Aggregator converts £1bn of issuance to social bonds under new framework, 2021, https://www.insidehousing.co.uk/news/news/aggregator-converts-1bn-of-issuance-to-social-bonds-under-new-framework-70619
57 L&Q, L&Q completes landmark £300 million Sustainability-Linked Bond issuance, 2022, https://www.lqgroup.org.uk/media-centre/news/lq-completes-landmark-300-million-sustainability-linked-bond-issuance

the survey (many of whom might be targeting concessionary returns) that confidence in market return sustains. All eligible survey respondents who are investment manager stated their impact investments delivered market rate returns at or above their targets. As the evidence base builds for the compatibility of financial return and impact, so too will confidence in the market, catalysing larger allocations by larger scale institutional investors.

Driver 8: Liquidity and exits

In the same way the impact investing market can only benefit from broader market awareness, a common taxonomy and standard measurement frameworks, the same is true of alignment of expectations on time horizons from both an investor and impact beneficiary perspective. A natural question common to both parties is how long will it take to produce positive, measurable financial and impact outcomes? And how long is an investor prepared to wait for these outcomes?

The average duration of hold periods for publicly listed securities has shrunk from seven years to a period of months over the past 20 years. Many Private Equity (PE) houses typically have three to four-year time horizons for portfolio companies to deliver value, specifically in terms of generating profit and distributing returns to limited partners that invested in the supporting fund.

However, many investors take a longer-term view, a perspective that is increasingly relevant when it comes to infrastructure, the development of new, exploratory green technologies, or societal investments (e.g. health, education) the benefits of which could take a generation to manifest their impacts.

Whilst some impact investments will require longer-term investment timelines, this does not preclude the importance of on-going reporting, transparency of progress against targets, and strong governance and accountability to increase investor confidence and encourage (re)investment.

8.4 The way forward

Given the relative nascence of impact investing in the UK, the majority of those we interviewed were keen to share their views about how they see the sector evolving.

We highlight some of the themes.

8.4.1 Just Transition to net zero

Several interviewees commented that whilst lots of investment discussions are guided by addressing social impact and environmental impact respectively, very rarely do they integrate. Many believe there is a need to connect subsequent environmental and social solutions rather than treating them separately.

The Paris Agreement (2015) acknowledged[58] "the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities".

As governments and business grapple with how to meet the net zero target, it is crucial to ensure that the subsequent transition is a just one which ensures that the substantial benefits of such an outcome also support those who will suffer the severest consequences of climate change and the subsequent negative impact on their livelihoods.

In the recent G7 Impact Taskforce, co-led by the Global Steering Group for Impact Investment and the Impact Investing Institute, one of the key recommendations of Workstream B was focused on this social and environmental integration. The report argues that investments that drive a just transition should embody and integrate climate action; socio-economic equity and distribution; and community voice.[59]

8.4.2 Nature-based solutions

Biodiversity is lagging decarbonisation and climate change on the environmental agenda. A recent assessment[60] by ShareAction of 75 of the world's largest asset managers highlighted that 86 per cent made no reference to ecosystem protection, natural capital or biodiversity in their policies.

However, this situation is beginning to change, as evidenced by increased press on the criticality of biodiversity and the amount of coverage that it is receiving by the press, in annual reports, and in articles published by leading academics and special interest groups. Much clearer links are being drawn between severe weather events, net zero transition, rain forest destruction, and mass extinction and the need to tackle these issues concurrently rather than sequentially.

58 European Bank for Reconstruction and Development, What is a just transition?, https://www.ebrd.com/what-we-do/just-transition
59 Impact Investing Institute, Mobilising institutional capital towards the SDGs and a Just Transition, https://www.impactinvest.org.uk/publications/mobilising-institutional-capital-towards-the-sdgs-and-a-just-transition/
60 ShareAction | Asset managers are blind to biodiversity loss crisis, https://shareaction.org/news/asset-managers-are-blind-to-biodiversity-loss-crisis

> It is important to address the social as well as environmental transition which needs to be made.
>
> **Bruce Davis, Joint Managing Director, Abundance Investment**

A number of interviewees expressed their interest in nature-based investment. This category of investment reflects those involving conservation, restoration, or better ecosystem management to remove carbon dioxide (CO_2) from the atmosphere. Specific examples include the conservation of wetlands and mangroves, the creation of forests, and the promotion of restorative agricultural practices.

8.4.3 Innovative forms of financing

The financial services industry has a long track record of resilience and innovation to respond to market forces and address the evolving needs of institutions, governments, and consumers. There are already emerging multiple examples of creativity in financial instruments. The case study below marks the first time in the UK in 2020 where perpetual bonds - long-term capital instruments - have been used in the affordable credit sector.

We need to increase the urgency with which this creativity and innovative mindset is deployed to the impact sector.

CASE STUDY

Perpetual Bond investment by Esmée Fairbairn Foundation[61]

Fair For You, an affordable credit provider to households, had been prevented from attracting equity investments by its legal structure. Esmée Fairbairn Foundation, an independent funder in the UK whose mission includes securing a fairer future, invested in Fair For You through a Perpetual Bond.

Fair For You pays interest to the bondholders quarterly, and the interest amount is linked to impact targets (starting at base rate plus 3%). The relatively low interest rate means Fair For You has more financial stability with which to run their affordable lending scheme. The capital element of the investment is repayable at the discretion of Fair For You making this a 'compound' financial instrument and resulting in a significant portion of the investment's sum being accounted for as equity on Fair For You's Balance Sheet.

61 Esmée Fairbairn Foundation, How our impact-first approach led us to our first Perpetual Bond, https://esmeefairbairn.org.uk/latest-news/how-our-impact-first-approach-led-us-our-first-perpetual-bond/

Perpetual bond

Perpetual bond is a fixed income security with no maturity date. Hence it is seen as a permanent funding source.

8.4.4 The future of this study

As was outlined in the introduction this study is the first stake in the ground for putting boundaries around the UK's addressable impact investment market. In undertaking this work we are aware of its limitations. Key areas that would strengthen the methodology for any future exercise include:

- The top-down aspects of this report were heavily influenced by trade associations' surveys of their members on impact investment e.g. the Investment Association. The impact investing sector should create stronger data relationships with mainstream finance's key bodies so that we can improve the data flows between the two sectors and support increased rigor in describing the market.
- Questionnaires and survey data can be strengthened in two ways:
  - Shorter: Our survey was too long, no doubt putting off some potential respondents.
  - Obtaining broader coverage of the market: better partnerships with mainstream finance could see improved reach of the survey. We solicited responses from leading impact investors, and some less typical players, but lacked uptake from some investor groups including (for example) pension funds.
- Timing: For any future estimates and descriptions of the UK impact investing market we suggest:
  - July-December: Building data relationships, testing and finalising survey.
  - Jan-March: Survey release / data collection on previous year's investments.
  - April-May: Synthesis and launch.

There are ongoing impact investment market sizing efforts in both Europe through the European Venture Philanthropy Association (EVPA) and GIIN. Any UK future market sizing study should also consider how best to harmonise and coordinate with these efforts, in order to create a comparability of data and minimise survey fatigue among the investment community.

9. Conclusions

9.1 Conclusion

The size and rate of growth of the UK impact investment market highlights the potential opportunity for investors ahead.

The market is one that is constantly evolving and innovating, with new opportunities to invest in issues as diverse as health, nature-based solutions, social inequality, anti-racism and regional community regeneration.

And the finding that 90% of all impact investors surveyed are realising returns at or above target rates strongly indicates that not only is impact investing making good things happen in our communities but delivering investors' financial return objectives.

The hypothesis coming into this report was that the UK impact investing market is reaching maturity, is meeting investor return expectations, and is on the cusp of major growth: all three areas have been borne out in our study. Additionally, and given the acuity of the issues faced, that emerging maturity and scale is welcome: when one considers the number and urgency of the social and environmental issues faced today, the anticipated growth of intentional, accountable capital with an interest in contributing to solutions to these issues must be expedited.

9.2 What is needed to advance impact investing?

Whilst market growth is being fuelled by an increasing appetite for investment with a purpose, the number of actors involved has yet to achieve a critical mass. We need to continue raising greater awareness of impact investment amongst investors. This aspiration requires investors, investment consultants and other market actors to understand what impact investment is and what it can contribute and deliver to both recipients and investors.

Secondly, continuous impact measurement and reporting drives a higher level of transparency to investors. It highlights the positive outcomes of impact investments and how they contribute to solving some of the world's most challenging problems. It also flags the negative impacts of investments enabling change in corporate behaviour and a broader reallocation of capital. By encouraging more investors to proactively measure and report on the impact of their investments, it will also make investment both more accountable and pinpoint where it is having a real effect and, of course, where it is not.

Lastly, there remains a gap between the availability of asset and capital owners' funding and demand from the enterprises and organisations which require funding to deliver impact. To further reduce this origination gap, government can continue to play a leadership role by driving different types of impact investments in the market, particularly with its ability to alter risk profiles through the provision of concessionary finance into blended finance vehicles. In the private sector, mainstream capital managers should consider launching impact-focused fund products to redirect the capital and capture the market opportunity.

Taken together, all these steps by different actors will continue to help address the obstacles that are currently preventing the impact investment market from realising its full potential.

Our collective challenges are many, and they are urgent. Accelerating the scaling of impact investment will contribute to the creation of more solutions to these issues whilst additionally making capital markets fairer and work better for people and planet.

9.3 Closing words

As the impact investing market continues to evolve, the Institute will use this baseline market sizing to conduct similar exercises periodically to track the growth of this market. We will use these studies to continue to identify and address gaps and challenges, the removal of which will support the market's forward momentum.

We hope this report has whetted your appetite to learn more about impact investing in the UK and, if you have yet to get involved, encouraged you to consider impact in your own investment decisions and those of the organisations for whom you work and serve.

Appendix

A1- Methodology deep dive

Calculation breakdown

Figure 28, shown below, gives the breakdown of the input values used for each capital manager across each step of the calculation process.

UK Impact investment market size (2020)[1]

	Step 1		Step 2		Step 3		
	Total UK AUM 2020 (£bn)[2]	×	Proportion of AUM that are impact investments (%)[3]	×	Proportion of impact investments that are direct investments (%)[4]	=	Impact investment UK AUM 2020 (£bn)
Investment/Fund Managers	3,956		0.6%		89%		22
Insurance companies	2,355		0.51%		76%		9
PE / VC	420		1.9%		100%		8
DFIs	9		100%		76%		7
Other	1,413		0.5%		76%		5
Private Client / Family Offices	665		0.5%		76%		3
Pension fund manager	283		0.5%		50%		1
Banks	1,413		0.03%		19%		0.1
UK property managers							3
Total							**58**

1 Only includes AUM managed in the UK. Excludes captial managers ETF Operators and Hedge Funds, as excludes bank lending capital
2 Source: Investment Association FY Parthenon Analysis
3 Source: Investment Association. EY Parthenon primary research via interviews and surveys. EY Parthenon secondary research
4 Source· GIIN EY Parthenon primary research via interviews and surveys FY Parthenon secondary research
5 Totals have been rounded

Included as a bottom up number based on the exercise conducted by BSC

Figure 28. Market sizing calculation

Limitations

This sizing of the impact investment market is the first of its kind in the UK and, as such, we are starting with a relatively blank sheet of paper. Whilst we have confidence in the rigour and robustness of this methodology, in the process of creating this report we have been able to identify the following limitations:

Data availability and exclusions

Data for our market sizing has come from several sources, including publicly available information, surveys, and market expert interviews. As a result of conducting this exercise, we recognised the limited availability of data in the public domain with regards to impact investments made by institutions.

Where information was available, we have incorporated the relevant data points into our market sizing methodology; however, given the rapid evolution of the impact sector, asset allocation to impact investments is potentially evolving more rapidly than guidelines and structures in place to report it. Due to low data availability, we have excluded the below cohorts from this sizing. We recognise that within each cohort there is the possibility that impact investments do exist and therefore acknowledge that we will understate the market size as a result of this. It is our hope that in future exercises these gaps can be filled in to refine the accuracy of the market sizing:

- Exchange Traded Funds (ETFs): as tracker funds are index-linked, ETFs do not meet the GIIN definition of intentionality or impact measurability
- Hedge funds: due to low data availability, intentionality and impact returns are challenging to evidence. We recognise that international examples (such as Engine No.1) exist and as such will look to build out this cohort in the next report

Additionally, due to the usage of an 'asset under management' form of sizing, several other limitations are created. For this reason, bank lending, given it is a loan book asset, is excluded from the sizing exercise. This will understate the market sizing as banks such as Triodos Bank have increased their impact lending in the past few years.

From a domicile perspective, we recognise that there may be certain assets that this methodology does not include which would technically constitute part of UK's impact investing market:

- The capital owner is based in the UK, the capital manager is based outside of the UK and the capital is deployed for impact investing outside of the UK, or
- The capital owner is based outside of the UK, the capital is managed outside of the UK but the underlying asset for impact investing is in the UK, or
- The capital owner is based in the UK, the capital manager is based outside of the UK and the capital is deployed for impact investing inside of the UK.

Data cleansing and accuracy

We ensured that credible and accurate data points were used in our study. Where publicly available data is available, we have ensured that the data is representative of the impact investment criteria described in earlier sections of this report. To ensure that the data points meet the impact investing criteria, we have made sure that any data source that quotes "impact" meets the same definition as our definition and have checked impact reports for measurability. We also sought to extract information from well-known, credible data sources (e.g., trade bodies, trade associations or data aggregators), on a best-effort basis, to ensure we used only high-quality data.

A2- Survey

We reached out to a total of 214 organisations across all organisation types within the 'capital managers' category of our impacting investing actors. The survey included 74 questions. The survey was comprised of both:

- Quantitative questions examining the current state of impact investments in 2020, relative financial performance to targets, planned future investments, and expectations for 2021 and the next five years.
- Qualitative questions exploring topics such as impact measurement, key industry challenges, biggest players in the industry, and focus areas for investment.

51 responses were received. Of these 51, 10 were screened out as the respondent either did not carry out impact investing or were not relevant for the UK market (i.e., neither the capital source, management, or destination is in the UK). Therefore, we collected 41 eligible responses.

As well as survey responses, we carried out 20 interviews to supplement quantitative insights.

While the number of respondents is not statistically significant and their answers were informed by their own impact investment and not constitutive of the entire market, respondents included many of the UK's leading market players across multiples investor types. Their responses provide further detail and insight regarding the market, including perspectives on its historic and future growth, characteristics, beneficiaries, financial returns and emerging trends.

We are confident that we will be able to address the limitations we have found with the survey in subsequent reports as the number of respondents to our primary research requests expands and data accuracy increases.
Below are some additional insights derived from the survey results that provide extra colour to the market landscape:

A2.1 Destination of impact investment

Overall, our survey respondents focused their investments predominantly within the UK, as seen in Figure 29. On average across our respondents, two-thirds of their impact investments are invested in the UK. This contrasts with emerging markets where only 7% of impact investment capital was being directed. We believe this is likely to be a significant under-statement of the true figure for the whole market given the UK's critical role in managing domestic and international assets.

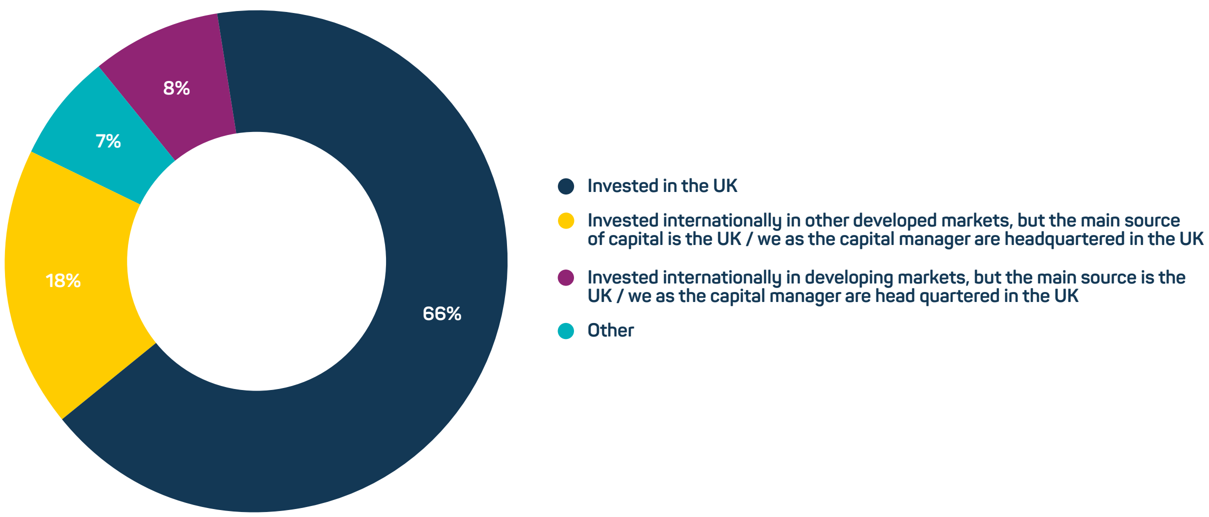


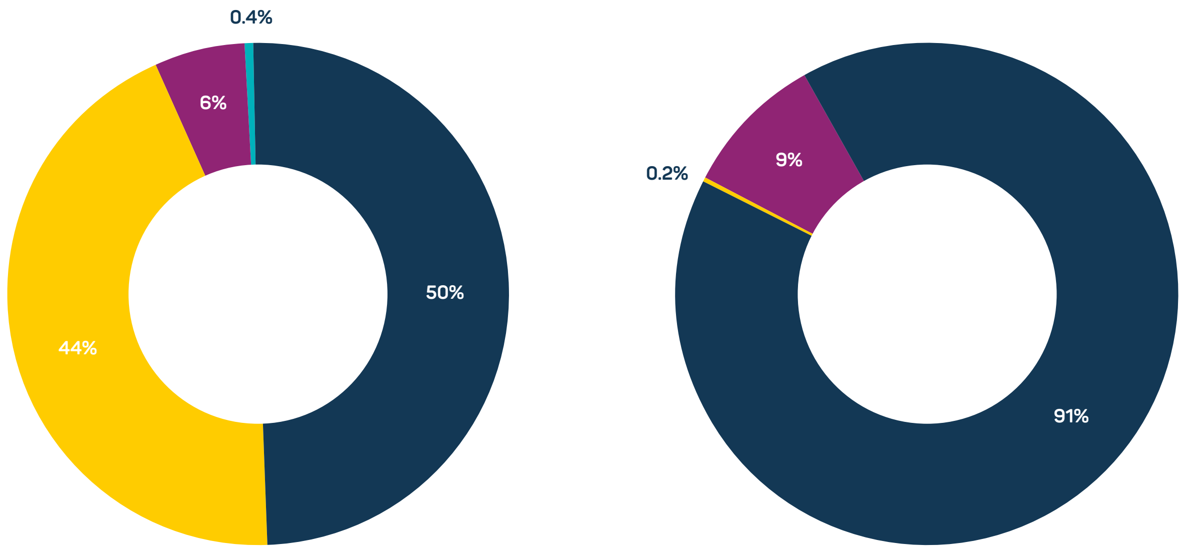
Figure 29. Destination of the impact investment (in the UK vs internationally)

The UK skew of these numbers is due to the amount of total survey respondents that are social investors. As shown below, 91% of social investor's investment is within the UK. In contrast, only half of investment / fund managers total impact investment capital is within the UK. In both instances, developing markets remain under-invested.

Q19. What % of your total managed impact investment capital is (the total sum to equal 100%):
N=39

Investment/Fund Managers:
N=11

Social Investors:
N=11



- Invested in the UK
- Invested internationally in other developed markets, but the main source of capital is the UK / we as the manager are head quartered in the UK
- Invested internationally in developing markets, but the main source of capital is the UK / we as the capital manager are head quartered in the UK
- Other

Figure 30. Destination of the impact investment – Investment / Fund managers vs Social Investors

For those respondents invested in the UK, 44% were unaware of where in the UK their capital was being deployed in 2020. This finding might be correlated with one of the cited challenges of impact investment relating to measurement described earlier in the report.

For those respondents who were aware of which regions their investment was being made, these appear to be in areas with long histories of under-investment. There is some alignment for example, with the English Index of Multiple Deprivation 2019 (Figure 32) where areas such as London, the South and Northwest are highlighted as being key areas of deprivation.

Q20. For your impact investment capital invested in the UK, what % of that capital is invested in the following regions (the total sum to equal 100%):

N=32

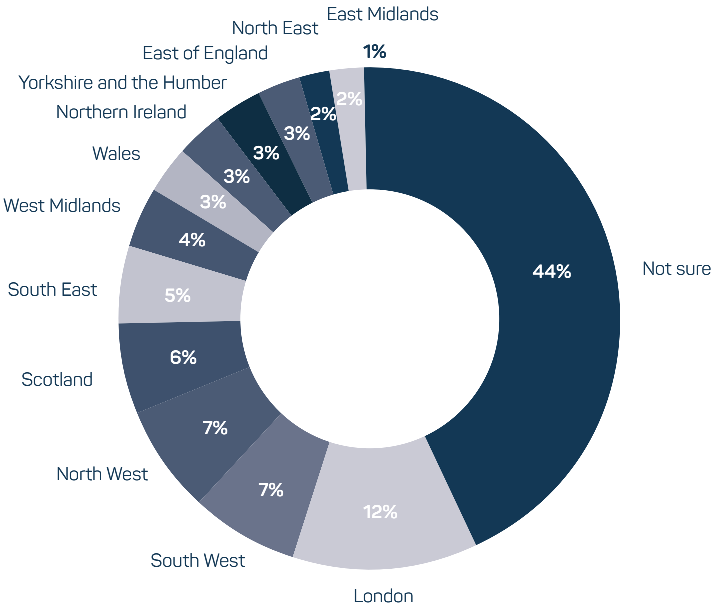


Figure 31. Regional breakdown of impact investments in the UK

Place-based impact investment[62]

- Concern about inequality between different regions of the UK is not new. Such place-based inequalities are more extreme in the UK than most OECD countries.
- Place-based impact investing (PBII) looks at key areas of social and public investment driven by the inclusive and sustainable development needs of "left-behind communities". Examples include affordable housing, SME finance, clean energy, infrastructure, and urban regeneration.
- Investment opportunities already exist within these areas; scaling up PBII would help address the inequality across regions in the UK.

62 For more information, please refer to the Institute's PBII project page: https://www.impactinvest.org.uk/project/place-based-impact-investing/

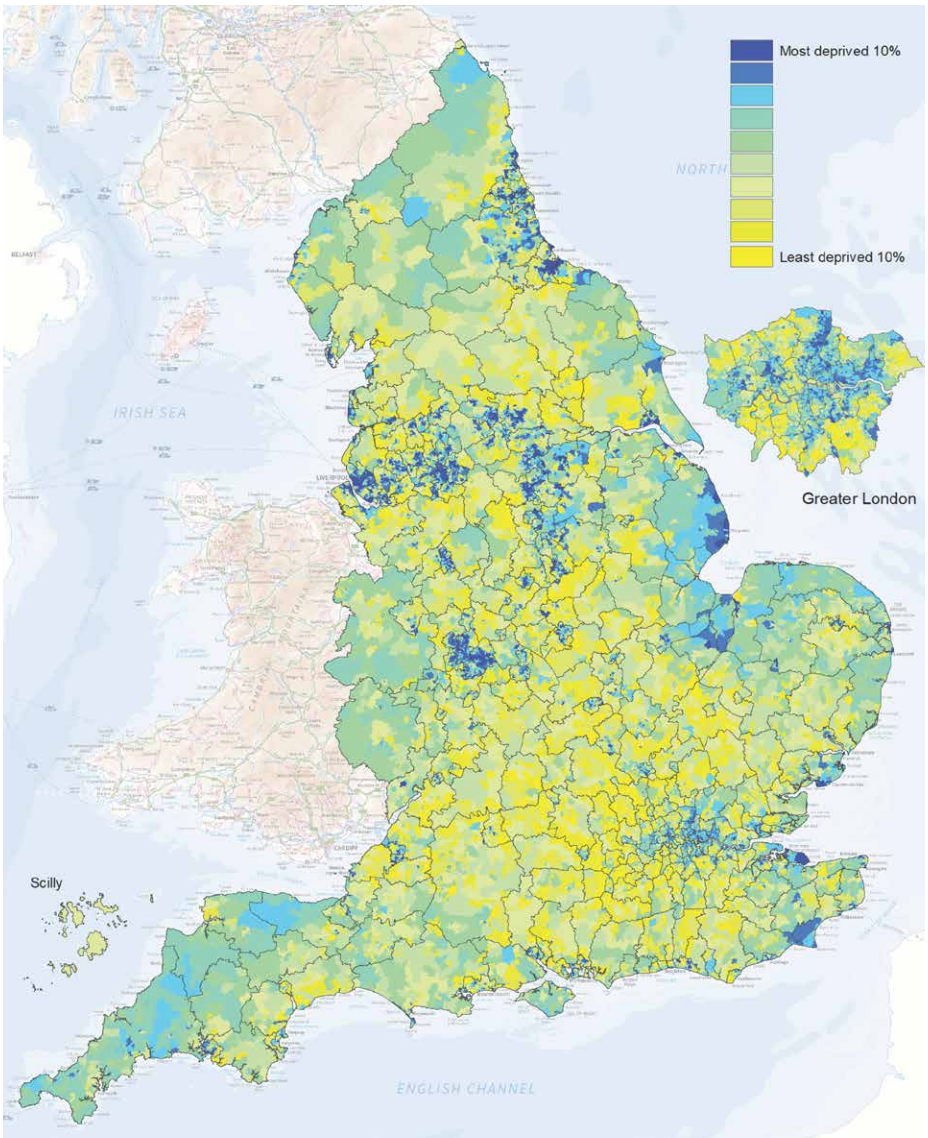


Figure 32. The English Index of Multiple Deprivation 2019 investments[63]

63 Ministry of Housing, Communities and Local Government, English Indices of Deprivation 2019: research report, 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/833947/IoD2019_Research_Report.pdf

A2.2 Impact assets under management

From our survey results, we have captured data on organisations' allocation to impact investment. The total assets under management from survey respondents is c.£9bn. Respondents included in this number are specifically organisations with UK headquarters, directly investing in impact projects (i.e., companies who stated that their HQ was outside of the UK and / or are indirectly investing would be excluded). However, it must be highlighted that the AUM figure will also include assets managed outside of the UK (which is not in scope of our market sizing) and therefore not directly comparable to the figure in this report.

A2.3 Market trends and progress

On market development, our survey shows there has been some or significant progress across multiple fronts, including research on market activity and trends, measurement practices, number of professionals with relevant skills, and improved availability of data. However, as shown in Figure 33, it also highlights some areas where respondents feel little progress has been made. The main example of this is the availability of suitable exit options, where over half of our respondents felt no progress had been made over the last 2-3 years. It is unclear from the survey results what action impact investors would like to see from the government to support building the market.

Q48. Have you seen progress with any of the following in the UK impact investing market in the last 2-3 years:
N=38

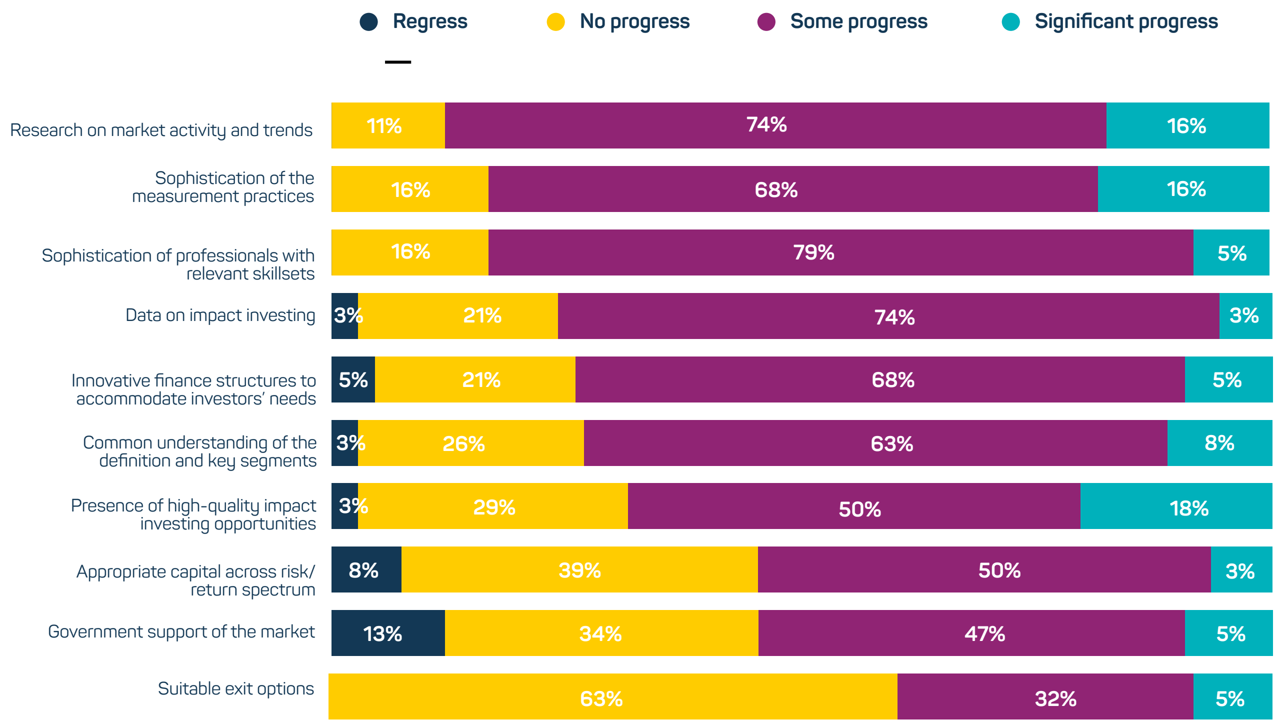
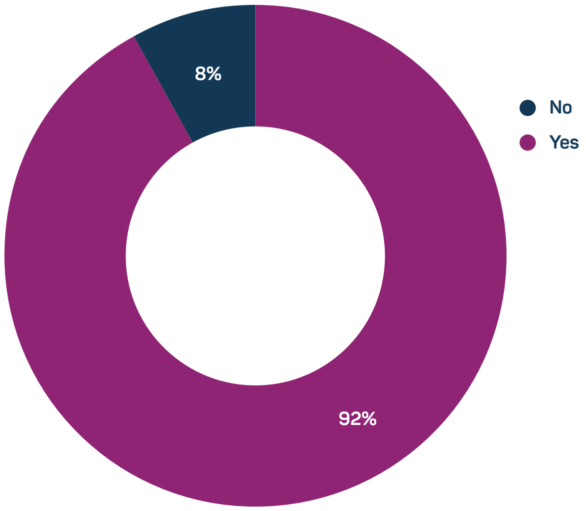


Figure 33. Areas of progress made within the UK impact investing market in the last 2-3 years

A2.4 Diversity, equity and inclusion in the impact investment market

Different market actors are now embedding diversity, equity and inclusion (DEI) criteria into their business strategies and operations as well as their investments. As Figure 34 shows, 92% of respondents now have a DEI policy and 76% of respondents actively track their DEI performance against measurable metrics. These figures highlight the increasing emphasis placed by companies on creating a diverse workforce and positive working environments for staff.

Q66. Does your organisation have a diversity, equity and inclusion policy?
N=38



Q67. In your organisation, do you track diversity equity and inclusion metrics?
N=38

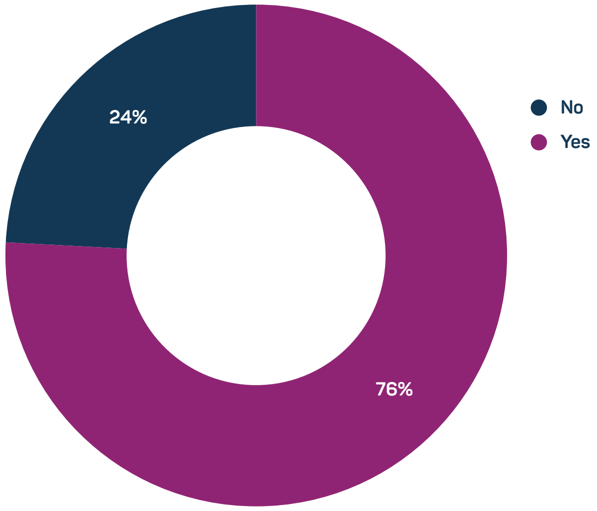


Figure 34. Survey respondents' organizations DEI policy and metrics

About the Impact Investing Institute

The Impact Investing Institute launched in 2019 and has the goal of changing capital markets so that they are fairer and work better for people and the planet. We see impact-led private sector investment as central to achieving that ambition, and thus our mission is to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally.

We want to help create a thriving capital market where impact investment plays an essential role within the financial system, enabling investors to use their capital to address social and environmental challenges whilst achieving a financial return.

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