

IMPACT INVESTING AUSTRALIA 2016 INVESTOR REPORT



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IMPACT INVESTING AUSTRALIA 2016 INVESTOR REPORT

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EXECUTIVE SUMMARY

There is an undeniable and growing interest in impact investing – ***an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured.*** Attitudes and perspectives around investment and wealth are shifting; major social and environmental challenges of our time need solutions; and governments are grappling with short and long-term budget constraints against a backdrop of lower economic growth and ageing populations. Sitting at the intersection of this confluence of factors is impact investing.

We are proud to present the results of our inaugural impact investing survey of **123 Australian investors**, who account for more than **A\$333 billion** of Australia's A\$2 trillion funds under management.¹ This survey – conducted in September and October 2015 – provides us with the opportunity to move to a data-driven approach focused on the Australian context. It includes perspectives from investors already active in the field as well as those yet to consider impact in their investment decisions.

This report features insights into Australian investors' awareness, interest and activity in impact investing; how demand for impact investments is taking shape in Australia; and the future prospects and challenges facing this emerging field as perceived by Australian investors.

Key findings

1. Interest and activity in impact investing spans a broad spectrum of investor types in Australia, however, institutions dominate the dollar value available for investment.
2. More than two thirds of all investors expect impact investing to become a more significant part of the investment landscape in the coming years. Those not yet active in the field strongly expect to consider impact as a metric in decision making in the future. Active investors would ideally triple the size of their impact portfolios over the next five years.
3. Among active investors, mission alignment is the primary motivating factor for allocating funds to impact investments. Other factors include client demand, financial returns, diversification benefits and corporate social responsibility.
4. The geographic location of the social or environmental impact is more important for investors not yet active in impact investing than for active impact investors.
5. Active impact investors invest mostly in the impact areas relating to children and/or issues affecting young people and clean energy. They are also interested in deals that address housing and homelessness. Investors not yet active in impact investing are interested in children and/or issues affecting young people, Indigenous peoples and communities, education and health.
6. Active impact investors prefer real assets, pay for performance instruments and private equity or venture capital, while investors not yet active in impact investing have no consistent preference for investment types.
7. Most investors expect competitive market rates of return from their impact investments. Some trusts and foundations and not-for-profit organisations are open to considering below market rates of return.

¹ While this figure represents the aggregate value provided by respondents, we recognise that it includes both super-annuation funds and asset managers, who may be managing assets on behalf of those super funds.

8. Active impact investors expect well-documented evidence of social impact; many also indicated they seek third-party verification of impact and/or reporting that aligns with global standards.
9. Active impact investors require more investable deals, proven financial track record and evidence of social impact to increase their allocations to impact investment.
10. Those not yet active in impact investing require more reliable research, information and benchmarks, more deals and a well recognised investment framework to enter the market.

Conclusions

Five key themes emerge from the findings of this survey:

1. There is growing momentum and interest in impact investing from Australian investors. To maintain that momentum, supply of 'investable' deals must increase to meet rising demand.
2. Institutions dominate assets under management in Australia. If the impact investment market is to achieve scale in Australia, institutions will need to be active participants. For institutions to participate, they will need more deals of sufficient scale. Health and housing appear to be two areas of unmet demand that offer scale and are impact areas of preference for institutions.
3. There appears to be an unmet need from investors for financial services and advice that incorporate social and environmental impact. Lack of reliable research, information and benchmarks and no recognised investment framework are cited as key deterrents to investors entering the market.
4. Impact investing crosses multiple sectors and disciplines. There is a need to provide forums that bring people and organisations together to share those diverse experiences and perspectives, and create a common language to enable meaningful dialogue and convergence. There is a growing body of research, insights and evidence around social impact, however, this resides in pockets within sectors and is not yet readily available or visible across sectors to broader market participants who may find it useful in their own decision making.
5. A systems-approach is a critical factor to further develop the market in Australia. For instance, more evidence of social impact is key for active investors to consider increasing their allocations to impact investments. However, demonstrating social outcomes within the timeframe of a typical transaction may not be realistic. Systems-level research linking longer-term social outcomes with lead indicators and specific output measures may provide a more practical base from which the market can develop. This may also direct less of the administrative burden of measurement to service providers, who can least afford it, or investors, who largely expect competitive market-based returns on their impact investments. This would also provide an opportunity for a common language and framework to emerge more quickly than if the market develops on a bespoke deal-by-deal basis.

PART 1: A JOINT INITIATIVE

Impact Investing Australia was established in 2014 to grow the market for impact investing for the benefit of all Australians and in response to an industry-identified need for dedicated leadership, facilitation and capacity building. We provide a focal point for market development, collaborating with and bringing together leaders in the field to build the infrastructure needed for impact investing to thrive.

Our focus is on enabling more people and organisations to participate in the market for impact investing, from social enterprises and not-for-profit organisations in need of capital, to investors looking to make a social or environmental impact alongside a financial return.

We lead Australia's participation in the Global Social Impact Investment Steering Group. We established the Australian Advisory Board on Impact Investing to stand alongside similar National Advisory Boards in each of the countries participating in the global process, initially through the Social Impact Investment Taskforce and now through the Steering Group. All are focused on how to drive impact investing to take off, locally and as part of the global market.

As part of that process, the Australian Advisory Board developed an ambitious strategy to grow the impact investing market in and from Australia, *Delivering on Impact*, in 2014. A significant part of our work is driving the implementation of this bold strategy.

The **Asia Pacific Social Impact Centre (APSIC)** is the hub for education, research and action in the field of social impact and innovation at the Melbourne Business School and the University of Melbourne.

APSIC was established in 2008 through a partnership between Melbourne Business School and the Helen Macpherson Smith Trust. In launching APSIC, we sought to demonstrate how business schools can serve as positive change agents in the community. In 2014, we joined with the Faculty of Business and Economics' Social Investment Research Group to lead the University of Melbourne's research, teaching and community outreach efforts in the area of social impact. Our belief is that no single sector can solve entrenched problems or deliver sustainable innovations – by bringing together leaders in business, philanthropy, government, research and the not-for-profit sectors, multi-party collaborations enable us to creatively design solutions to some of society's most pressing issues.

Our activities are focussed on five strategic areas: Indigenous economic development; Capacity building in the third sector; Creating shared value; Pathways to work; and Impact investment. Our success has been demonstrated by partnerships with leading organisations and individual philanthropists, Australian Research Council funding and recognition through awards and rankings.

PART 2: THE RESPONDENTS

At a glance

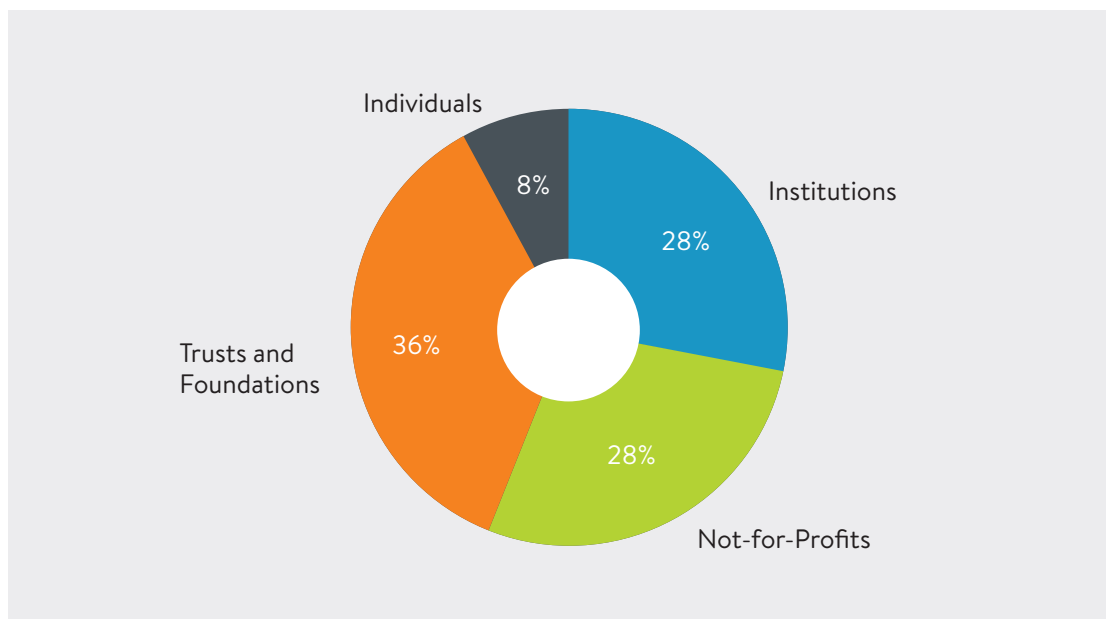
- 123 investors responded to the survey, including Trusts and Foundations (36%), Institutions (28%), Not-for-Profits (28%) and Individuals (8%).
- 93 of the 123 respondents disclosed the value of their investment portfolio. Collectively, these investors represent more than A\$333 billion of investment assets, of which Institutions contribute A\$331 billion.

2.1 Investors and their location

We asked respondents to provide us with a range of information about themselves or their organisations to enable us to conduct a detailed analysis and better understand the results.

Our survey asked respondents to classify themselves as one of eight possible investor types, which we subsequently consolidated into four groups (see **Figure 1**).

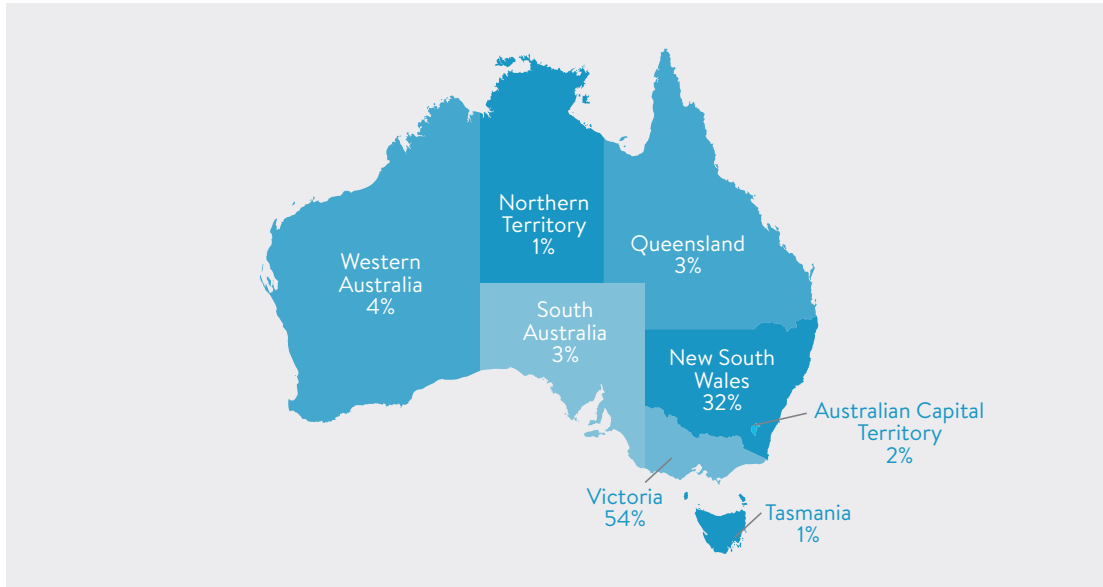
Figure 1: Respondents by investor type (n=123)



- Respondents who identified as 'Individuals' (10) or 'Not-for-Profit' (34) were classified as such.
- The 'Institutions' category comprises Superannuation Funds (7), Asset Managers (15), Banks/Diversified Financial Institutions (5), Development Finance Institutions (including Social Enterprise Development and Investment Funds - SEDIFs) (4), Insurance Companies (1), and respondents who identified as 'Other' (2).
- The 'Trusts and Foundations' category comprises Trusts and Foundations (26) and public or private Ancillary Funds (19).

Most respondents are from Victoria (54%) and New South Wales (32%), with all States and Territories represented in the sample.

Figure 2: Respondents by State and Territory (n=123)



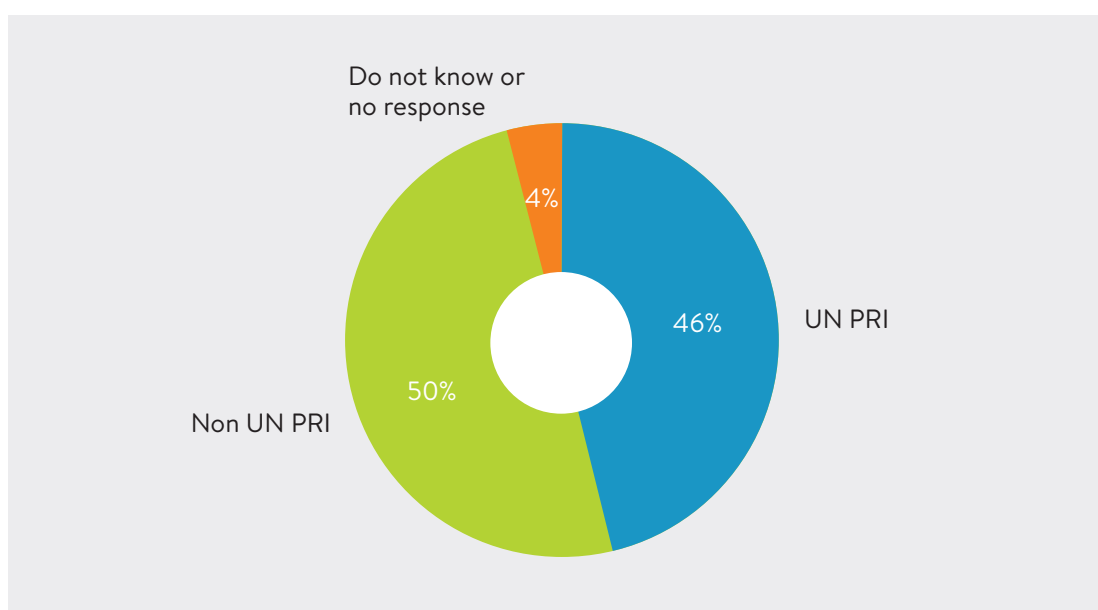
2.2 Signatories to UN Principles for Responsible Investment

We asked institutional investors (specifically Superannuation Funds, Asset Managers, Banks/Diversified Financial Institutions, Insurance Companies) whether they are signatories to the United Nations Principles of Responsible Investment (UN PRI).

The UN PRI Initiative is an international network of investors working together to implement the 'Six Principles for Responsible Investment'. These investors have committed to act in the best long-term interests of their beneficiaries. The UN PRI is based on the belief that environmental, social and governance issues can affect investment portfolio performance.² **Figure 3** shows that 46% of the respondents are signatories.

² Assets under management by PRI signatories total more than US\$59 trillion, up from US\$4 trillion at the PRI's launch in 2006 (unpri.org).

Figure 3: Institutional respondents classified as UN PRI signatories and non-signatories (n=28)



2.3 Funds invested

We asked Institutions to disclose the amount of funds they manage and the other respondent categories (Not-for-Profits, Trusts and Foundations, and Individuals) to specify the size of their investment portfolios. We asked for this information to understand the amount of funds available for investment to each group as well as the whole sample.

Some types of organisations generally do not publish this information. To encourage survey participation, we provided the option 'prefer not to disclose'. Of the 123 respondents, 93 provided the value of their portfolio or their funds under management. **Table 1** shows the investable funds across the groups and the number of respondents who disclosed them.

The total investable assets captured by the survey is A\$333 billion. Institutional respondents dominate this figure, representing A\$331 billion. There is a wide disparity between the portfolio sizes of different investors.

Table 1: Capital managed by investor groups (n=123)

	Min (A\$million)	Max (A\$million)	Mean (A\$million)	Total (A\$million)	Total number of respondents	Number of respondents disclosing portfolio size/ funds managed
Institutions	3.0	89,000	11,034	331,026	34	30
Not-for-Profits	0.4	400	42.7	1,026	34	24
Trusts and Foundations	1.0	230	41.0	1,272	45	31
Individuals	0.1	10	4.3	34.1	10	8
Total sample	0.1	89,000	2,781	333,358	123	93

PART 3: AWARENESS, INTEREST AND ACTIVITY

At a glance

- 41% of the respondents indicate they are already active impact investors.
- Among the 59% that are not active, 76% indicate some level of awareness of impact investing, and a clear majority (82%) shows curiosity or interest in the topic.
- Most respondents who are active in impact investing have less than 10% of their total assets under management allocated to impact investments, and invest in one to five deals.
- Mission alignment is the primary motivating factor for allocating funds to impact investments among active impact investors. Client demand, financial returns, diversification benefits and corporate social responsibility are further important factors.

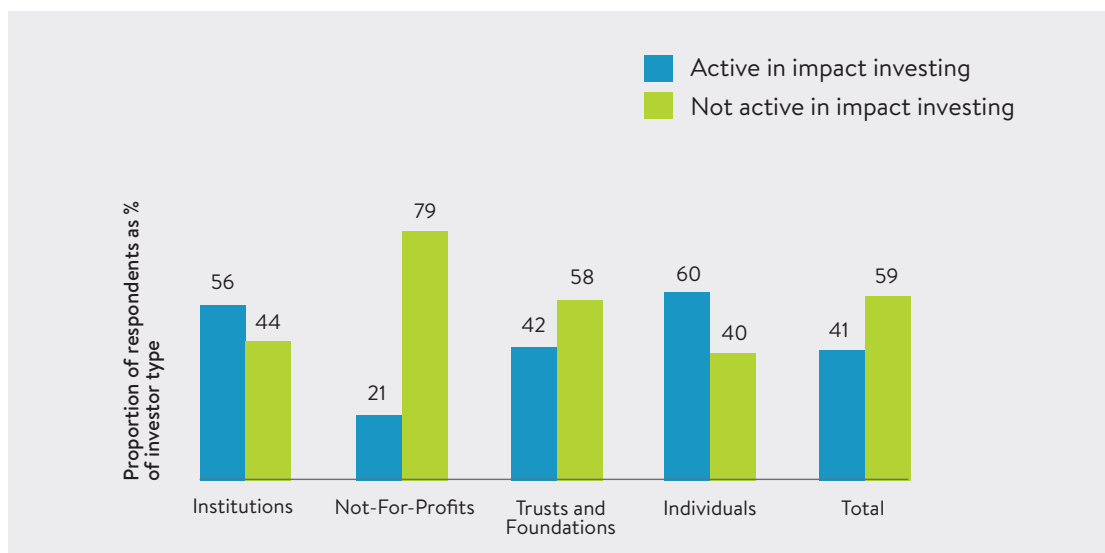
3.1 Analysis and interpretation of results

Activity levels among respondents

We asked respondents to indicate whether they are active in impact investing.

As shown in **Figure 4**, 41% of the respondents state they are already active in impact investing.

Figure 4: Investment activity by investor type (n=123)



Most **Not-for-Profits** (79%) and 58% of **Trusts and Foundations** indicate they are not active in this field. This suggests these value-driven organisations have an opportunity to align more investment activities with their mission in the future, subject to suitable impact investments being available.

Just over half (56%) of the responding **Institutions** indicate they are active in impact investing, 44% when limited to Superannuation Funds, Asset Managers, Banks/ Diversified Financial Institutions, and Insurance Companies. We expect some sample bias to influence the outcome due to the distribution channels of the survey (see “**About this Survey**”) and a higher likelihood of active impact investors to participate. High levels of active representation within this sample may therefore not reflect the level of activity among the institutional investor community more broadly.

We found that 61.5% of UN PRI signatories are active in impact investing, compared to 44% for the overall sample.

Awareness and interest among investors not active in impact investing

We asked the 59% of respondents who indicated they are not active impact investors about their level of **awareness** of impact investing as well as their **interest** in the topic. The results are presented in **Figures 5 and 6**.

Figure 5: Awareness of impact investing – investors not active in impact investing (n=72)

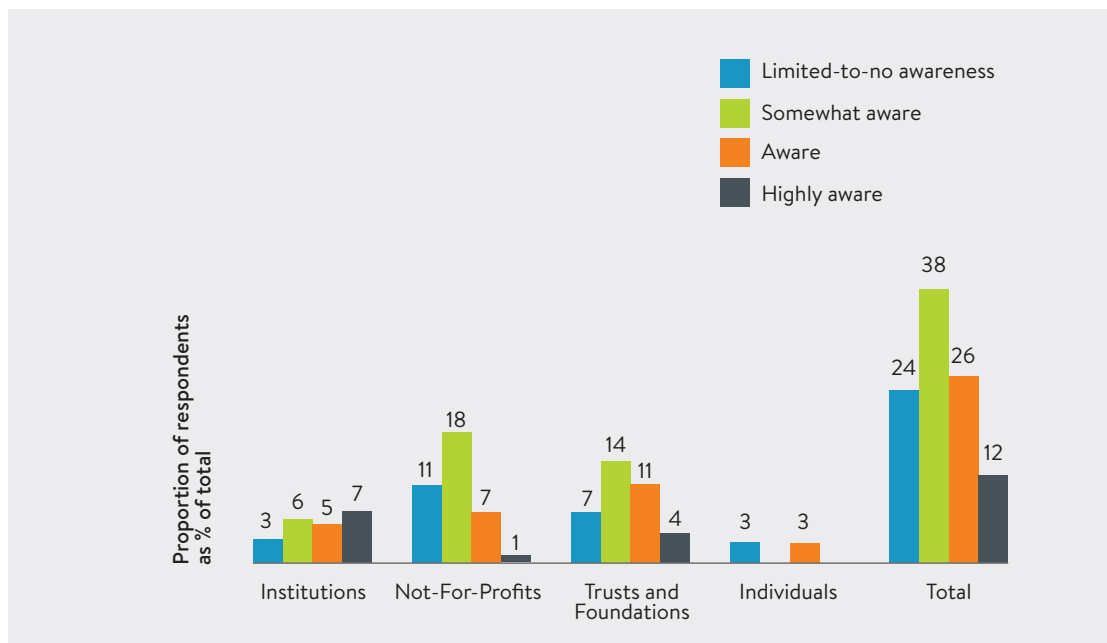
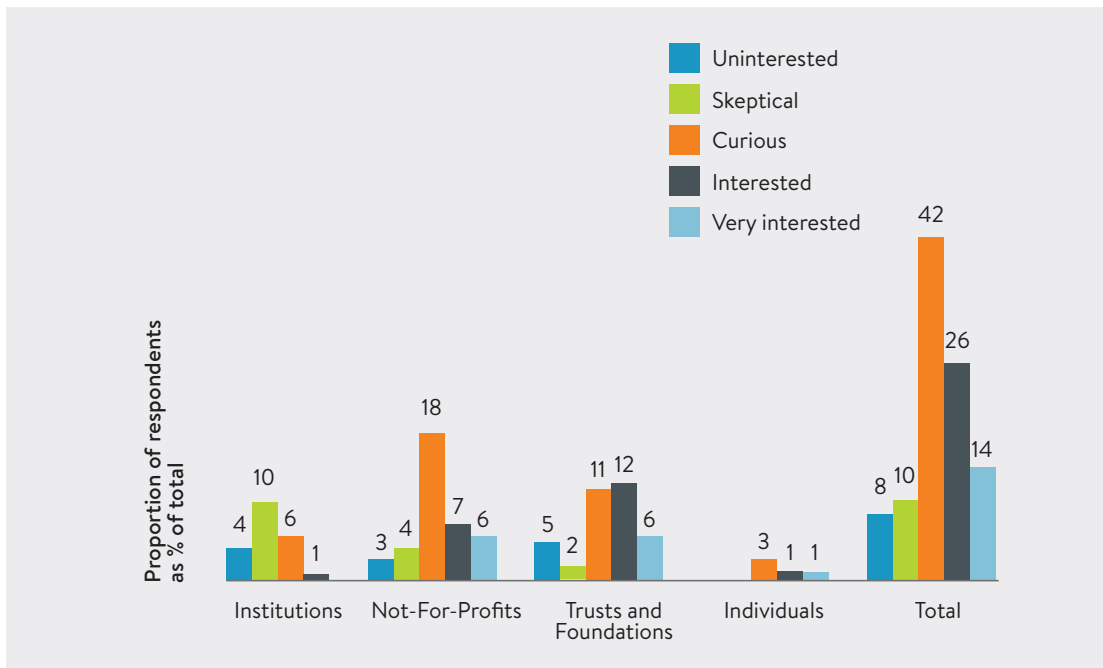


Figure 6: Interest in impact investing – investors not active in impact investing (n=72)



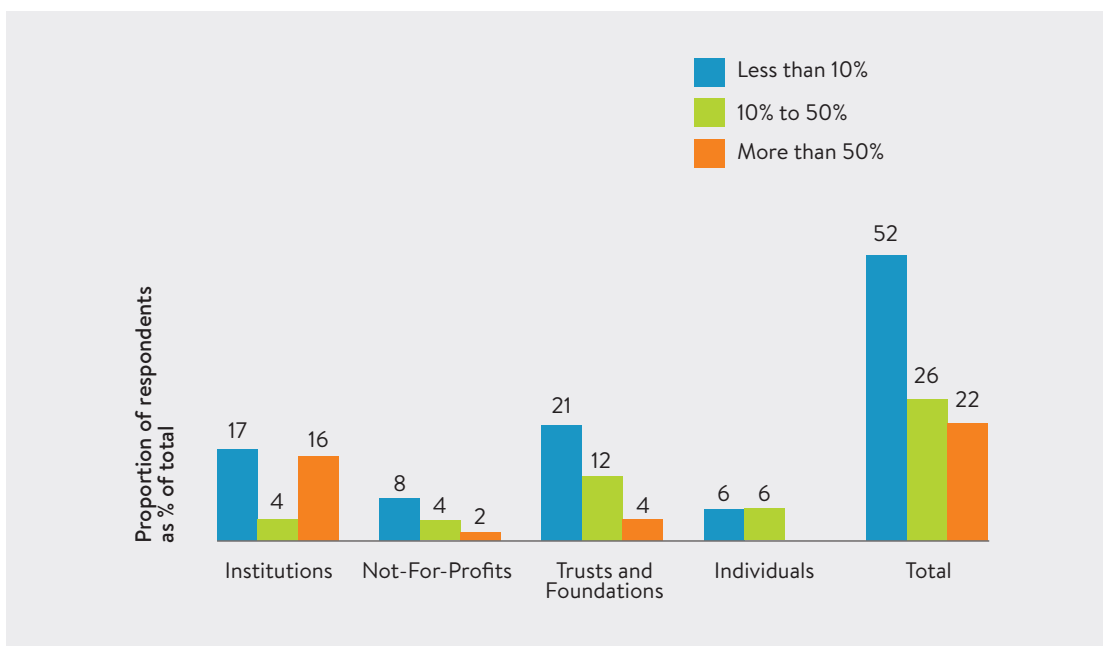
As **Figure 5** shows, two thirds of respondents not active in impact investing show some level of awareness for the field while 38% indicate they are aware or highly aware.

Interest is even higher, with 42% indicating they are curious, and a further 40% indicating they are either interested (26%) or very interested (14%) (**Figure 6**).

Activity among active impact investors

Figure 7 shows the proportion of investments (by percentage of total investment portfolio) allocated to impact investments by active impact investors.

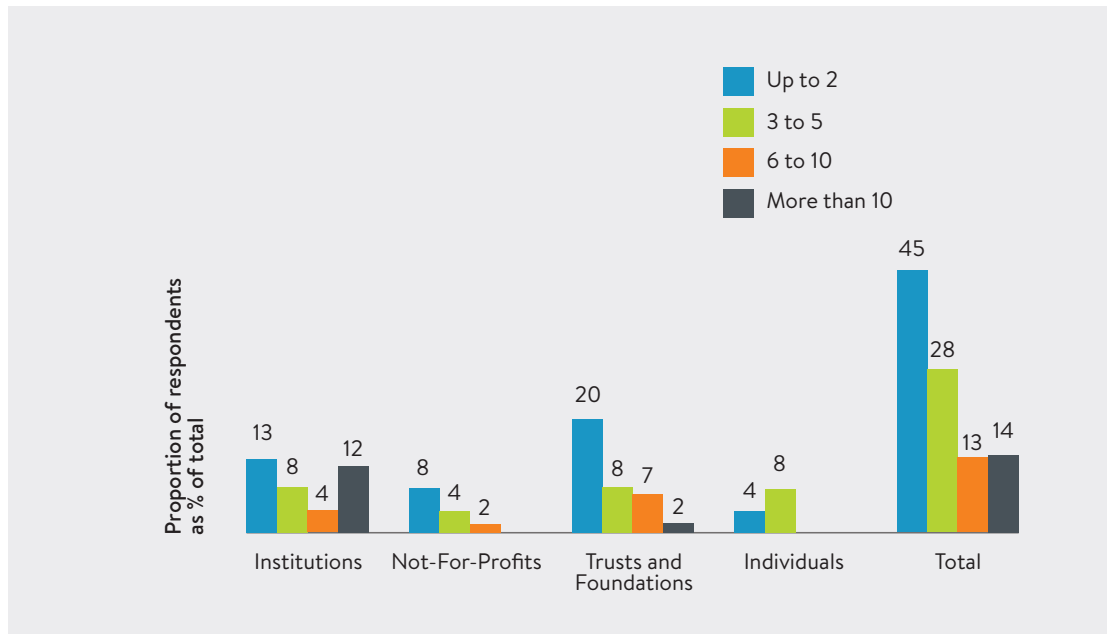
Figure 7: Percentage of total investments allocated to impact investments (n=51)



An allocation of less than 10% of the total portfolio is most common across the sample (52% of all active investor respondents). Most respondents in this category who have impact investment allocations of more than 50% represent Institutions.

Respondents reported that their impact investment allocations are concentrated in a relatively small number of deals, with 45% of the sample indicating two or less impact investments and a further 27% of respondents indicating three to five impact investments in their portfolios. **Figure 8** shows a breakdown by number of deals.

Figure 8: Number of impact investment deals in the portfolio (n=51)



Motivations for investing among active impact investors

Based on the activity levels, we can observe that most active investors are in the early stages of orientating portfolios towards impact. As this group represents the early adopters of an emerging investment approach, we were interested in gaining a better understanding of their key motivations. **Table 2** shows the three most important motivators for each investor group.

Table 2: Main motivators driving allocation in impact investments (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Mission Alignment	Mission Alignment	Mission Alignment	Mission Alignment	Mission Alignment	Mission Alignment 35.4%
Client/Member/Trustee Demand	Client/Member/Trustee Demand	Diversification Benefits	Diversification Benefits	Corporate Social Responsibility	Client/Member/Trustee Demand 13.6%
Financial returns	Financial returns	Client/Member/Trustee Demand Differentiate From Competitors	Financial returns	Other	Financial returns 11.8%

Note: The following eight options were provided: Client/member/trustee demand, Corporate social responsibility, Diversification benefits, Financial returns, Mission alignment, PRI/Responsible investing commitments, To differentiate from competitors, Other(s) – please specify.

Mission alignment is the overwhelming response and strongest key motivator across all investor groups. Other important motivating factors identified are client demand, financial returns, diversification benefits and social responsibility. Their importance varies across the investor groups.

3.2 Topics for further investigation

Our findings suggest a potential relationship between UN PRI signatory status and impact investing activity. It might be useful to explore any relationship further to determine causality and whether this status influences the stated missions of these organisations over time, particularly given the importance of mission alignment as the primary motivator for impact investment demand. Understanding these relationships may provide further insights into future demand from these organisations.

PART 4: THE SHAPE OF INVESTOR DEMAND

At a glance

- *Geography:* Only 20% of active impact investors prefer impact to occur in a specific Australian State and only 24% have no interest in deals that have an impact overseas. This compares to investors not active in impact investing, of which 56% have a State-specific preference and 43% have no interest in deals with overseas impact.
- *Impact area:* Active impact investors have investments oriented towards children and/or issues affecting young people and clean energy. They state they are most interested in investing in clean energy, housing and homelessness, and children and/or issues affecting young people. The impact areas preferred by investors not yet active in the field are children and/or issues affecting young people, Indigenous peoples and communities, education and health (including medical research and mental health).
- *Type of investment:* Across all groups, active impact investors show clear preferences for investing in real assets, pay for performance instruments and private equity or venture capital. There is far less consistency across the respondents who are not yet active in impact investing regarding preferred types of investments, with public equity and pay for performance attracting the strongest interest.
- *Managed vs. Direct:* There is a strong preference for a mix of both direct and managed investments.

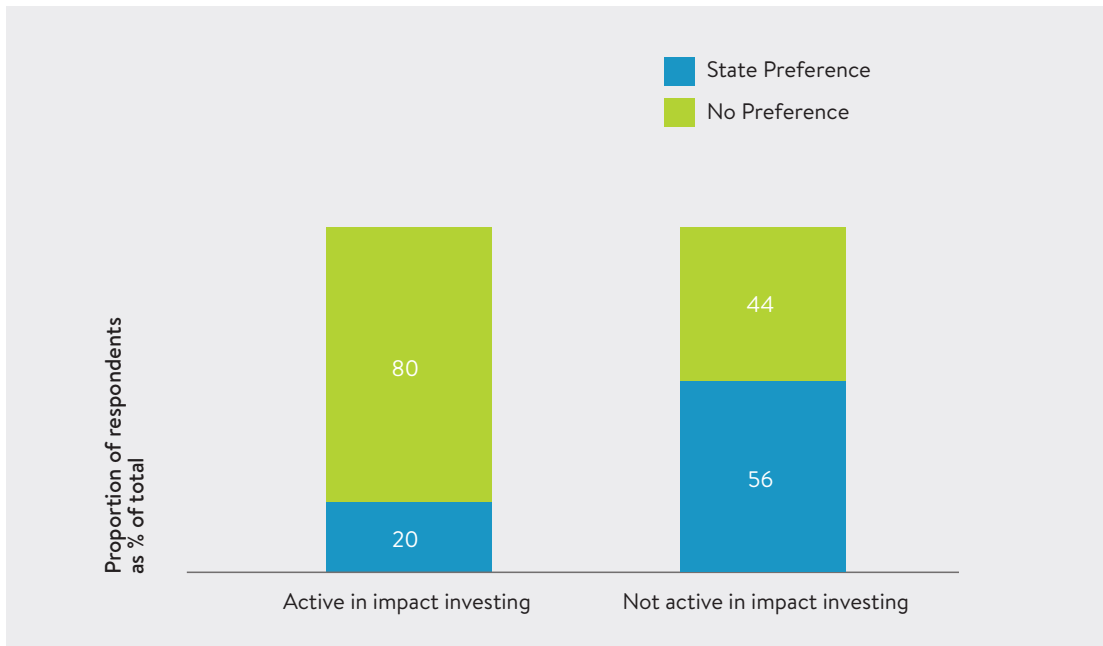
4.1 Analysis and interpretation of results

Preference for geographic location

Interest in investments with social or environmental impact within Australia.

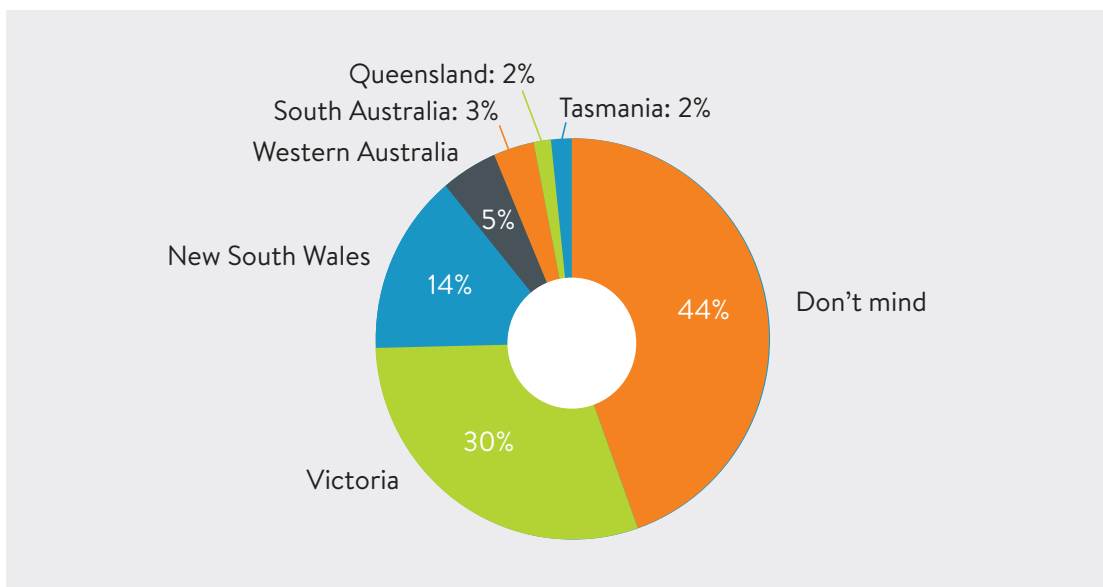
About two thirds (61%) of respondents do not have any specific preference for investing in deals where the social or environmental impact occurs in a specific State within Australia. Investors not yet active in impact investing exhibit a stronger preference (80%) for the State in which the impact occurs relative to active impact investors (44%).

Figure 9: Level of preference for investments with State-specific impact (n=114)



Among investors not active in impact investing, 56% of respondents show a preference for investments with State-specific impact. A third (30%) selected Victoria and 14% New South Wales as the preferred State for impact. This preference is highly correlated (.94) with the States or Territories where the respondents' organisations are based, demonstrating that they prefer to see the impact in their home State.

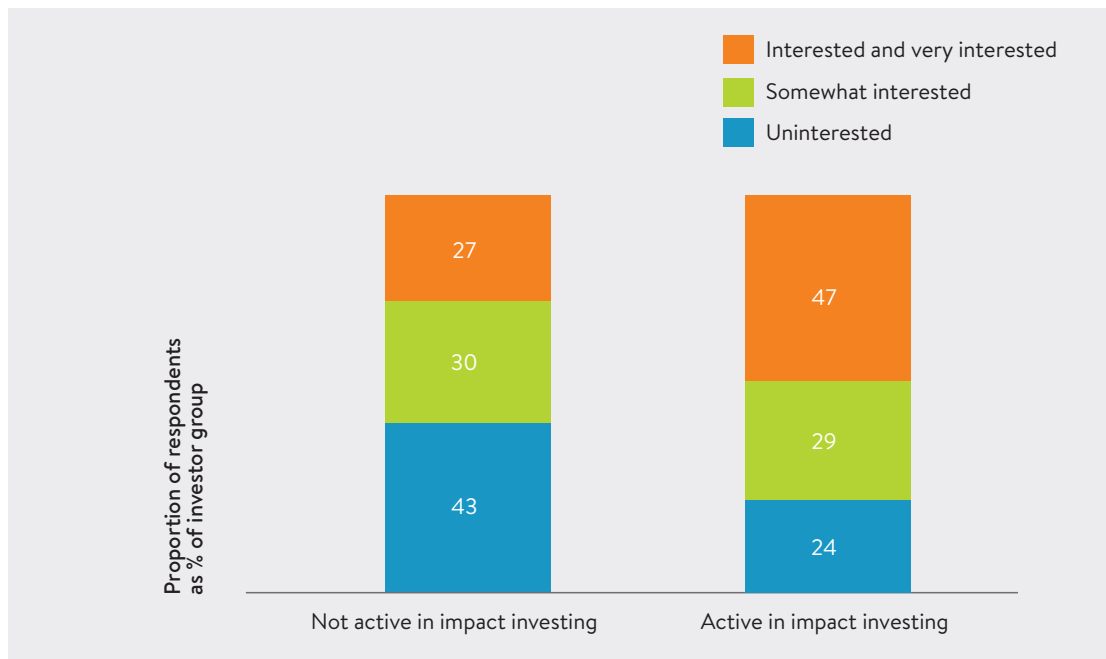
Figure 10: Desired State-specific impact (n=63)



Interest in investments with social or environmental impact outside Australia

Almost half (43%) of the respondents not active in impact investing show no interest in investments with social or environmental impact outside Australia. For active impact investors, the country or region in which the impact occurs does not appear to be the primary driver of their investment decisions.

Figure 11: Level of interest in investments with social impact outside Australia (n=114)

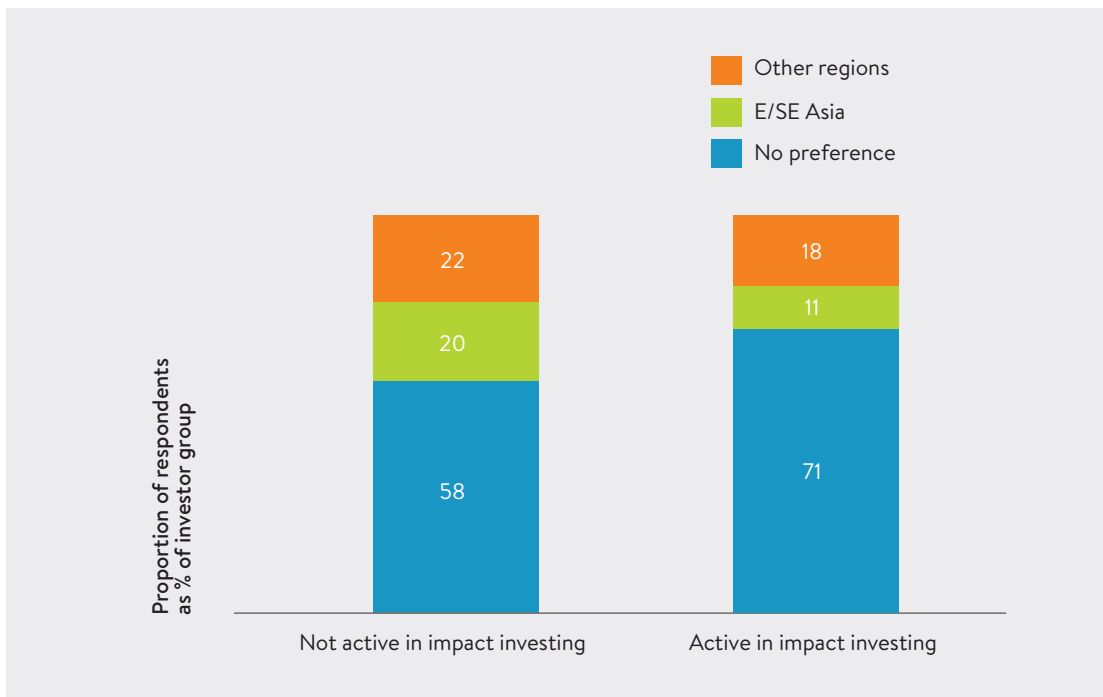


Among respondents that are not yet active impact investors, the Not-for-Profits group shows the strongest preference for investments with impact in Australia and in the investor’s own State (65% versus 50% for every other group). Each Not-For-Profit organisation has a social mission and many missions may have geographic boundaries. The driver behind the strength of the geographic preference among the Not-for-Profit group is worth further investigation.

Among the respondents that indicate some level of interest in investments with impact overseas, most had no preference for a specific region of impact (both from active and not active, 71% and 58% respectively). Among the remaining group, East and South-East Asia is selected more often than any other region.³

³ For more information about the geographic focus of impact investing activity, see ImpactBase 2015; WEF 2013; ANDE et al. 2014; GIIN & J.P. Morgan 2015.

Figure 12: Desired region-specific impact (n=74)



Preference for areas of impact

Preferred impact areas of investors not active in impact investing

We asked those not active in impact investing (but who had indicated they are interested) to select three impact areas that their organisations would consider for future investments. We identified the three main areas attracting the greatest interest by frequency of answers.

Table 3: Impact areas of future interest to investors not active in impact investing (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Proportion as % of total nominations (110)	Housing and homelessness	Children and/or Issues Affecting Young People	Education	Children and/or Issues Affecting Young People	Children and/or Issues Affecting Young People 13.3%
	Ageing and Aged Care	Gender Equality or Economic Opportunities for Women	Children and/or Issues Affecting Young People	Indigenous Peoples and Communities	Indigenous Peoples and Communities 10.7%
	Health (incl. Medical Research and Mental Health)	Health (incl. Medical Research and Mental Health)	Health (incl. Medical Research and Mental Health)	Clean energy	Education 9.8% Health (incl. Medical Research and Mental Health) 9.8%

Note: The following 16 options were provided: Ageing and aged care, Children and/or issues affecting young people, Clean energy, Culture and arts, Disability, Education, Employment and vocational training, Environment and conservation, Financial inclusion, Global poverty and income inequality, Health (including medical research), Housing and homelessness, In-country entrenched disadvantage and income inequality, Indigenous peoples, Minorities and social inclusion, Other – please specify.

Preferred impact areas for active impact investors

We also asked active impact investors to select three impact areas that their organisations would be interested in for future investments.

Table 4: Impact areas of future interest to active impact investors (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Proportion as % of total nominations (110)	Clean Energy	Children and/or Issues Affecting Young People	Clean Energy	Clean Energy	Clean Energy 16.3%
	Health (incl. Medical Research and Mental Health)	All others	Children and/or Issues Affecting Young People	International Development	Housing and Homelessness 11.0%
	Housing and Homelessness		Housing and Homelessness	Environment and Conservation	Children and/or Issues Affecting Young People 8.5%

Note: The options provided were the same as in Table 3 - Impact areas of future interest to investors not active in impact investing (Top three).

A comparison between impact investors and those not active in impact investing indicates important similarities and differences in the areas of interest. The area of interest emerging across several groups of investors for both types is the one related to children and/or issues affecting young people.⁴ While we cannot draw a definite conclusion on the reason for such a preference, we suggest further investigations on the topic.

We can observe no other definitive similarities when comparing the aggregated preferences of the two types. Investors not active in impact investing show substantial interest in addressing issues related to Indigenous peoples and communities and the impact area of education. Active impact investors are more interested in clean energy and housing and homelessness.

Most notable is the consistency across the institutional groups of both active impact investors and those not yet active. Both types show a strong common interest in health (including medical research and mental health) and housing and homelessness.

Impact area allocations of active impact investors

We asked the active impact investors to indicate the impact areas in which their portfolio is allocated as a percentage of their total impact investment allocation. Table 5 outlines the areas that have attracted the largest percentage of current investments (not the greatest amount of money) among respondents.

Table 5: Impact areas of active impact investors (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Proportion as % of total nominations (110)	Other	Children and/or Issues Affecting Young People	Children and/or Issues Affecting Young People	Other	Children and/or Issues Affecting Young People 15.8%
	Clean Energy	Culture and Arts	Clean Energy	Education	Clean Energy 14.6%
	Food/Agriculture	Environment and Conservation	Housing and Homelessness	Clean Energy	Other 13.1%

Note: The options provided were the same as in Table 3 - Impact areas of future interest to investors not active in impact investing (Top three).

4 For more information about the impact focus of specific funds and investments internationally, see Addis et al. 2013; WEF 2013; SVA 2014; GIIN & J.P. Morgan 2015; ImpactBase 2015.

We can see from the allocations that ‘children and/or issues affecting young people’ is the dominant impact area for respondents. This is not surprising considering the first two social impact bonds on issue in Australia are both targeting this impact area.

When comparing allocations of active impact investors with their preferences for future investments we can observe that clean energy and children and/or issues affecting young people are both well represented in portfolios and areas of future interest. Whether for familiarity, a positive experience or some other reason, there appears to be further demand in these areas. Interestingly, housing and homelessness is a clear area of future interest yet it is not well represented in portfolios, suggesting currently unmet demand.

One issue that emerged strongly throughout the survey was the lack of commonly accepted approaches to classifying and ordering impact investments. One example of this was the high incidence of ‘Other’ being selected as the impact area for active impact investors as shown in Table 5. We found that many of these responses did not necessarily occur due to a lack of options given. Instead, investments were classified using a different lens, e.g. by investment type, asset class or even by fund manager.

Preference for types of investment

We asked respondents who are not active in impact investing to identify the type of investments their organisations are most likely to be interested in for future investments. The respondents could indicate any number of investment types. **Table 6** shows the three types with the highest number of nominations for each investor group.

A substantial diversity emerges in interests among the different groups of respondents, with Public Equity and Pay for Performance being the most frequent choices.⁵

Table 6: Interest in types of investment – investors not active in impact investing (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Proportion as % of total nominations (100)	Real Assets	Pay for Performance	Public Equity	Private Equity or Venture Capital	Public Equity 18.5%
	Private Equity or Venture Capital	Private Debt	Pay for Performance	Public Equity	Pay for Performance 17.9%
	Public Equity	Public Equity Deposits and Cash Equivalents Real Assets	Private Equity or Venture Capital	Public Debt	Private Equity or Venture Capital 16.0%

Note: The following eight options were provided, partly with explanations and descriptions: Deposits & cash equivalents, Pay for performance instruments, Private debt, Private equity or venture capital, Public debt, Public equity, Real assets, Other(s) – specify.

Similarly, we asked respondents who hold impact investments to indicate the types of investments their organisations are interested in. The result reveals a high level of agreement among the different groups of investors, with Real Assets, Pay for Performance, and Private Equity or Venture Capital being almost universally preferred forms of investment.

⁵ For more information about impact investments by asset class globally, see GIIN and J.P. Morgan 2015; ImpactBase 2015.

Table 7: Interest in types of investment – active impact investors (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Proportion as % of total nominations (110)	Real Assets	Real Assets	Private Equity or Venture Capital	Real Assets	Real Assets 18.8%
	Pay for Performance	Pay for Performance	Pay for Performance	Pay for Performance	Pay for Performance 17.8%
	Private Debt	Private Equity or Venture Capital	Real Assets	Private Equity or Venture Capital	Private Equity or Venture Capital 17.8%

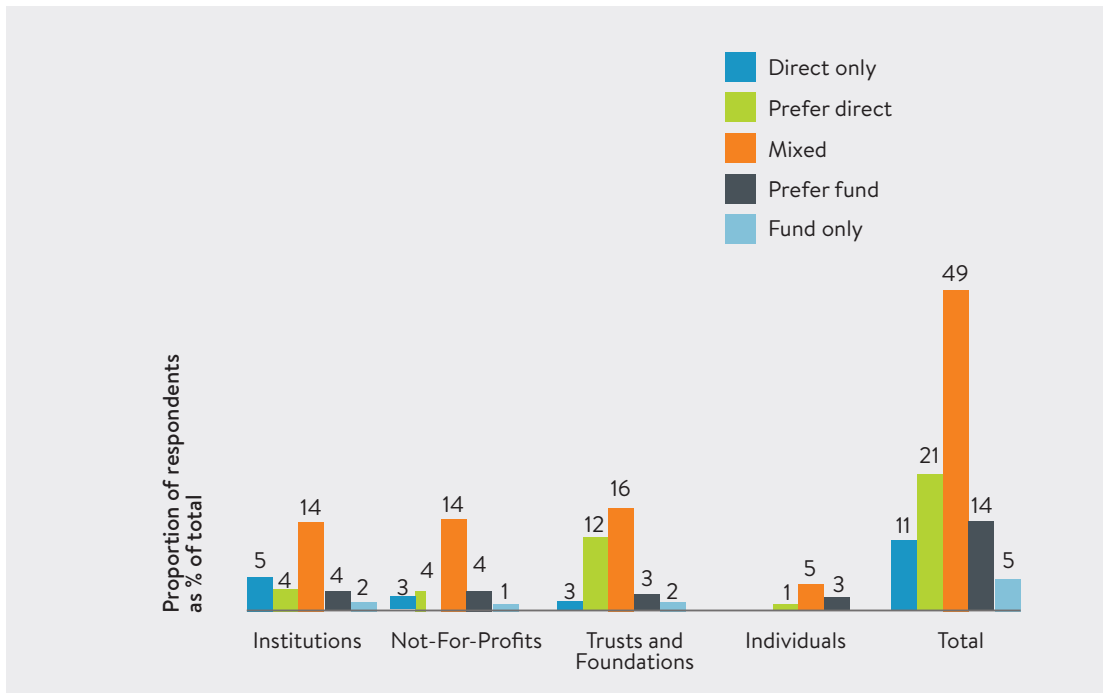
Note: The options provided were the same as in Table 6 – Interest in types of investment – investors not active in impact investing (Top three).

We observe a much higher level of agreement in terms of interest in specific types of investments among active impact investors in comparison to the responses provided by investors who are not active in impact investing. Pay for Performance and Private Equity or Venture Capital are the most frequent choices of both types. On the other hand, Deposits and Cash Equivalents and Public Debt emerge as the least preferred forms of investment.

Preference for direct and managed investments

Both impact investors and investors not active in impact investing indicate strong preference for a mixed mode of investing, i.e. a combination of both direct investment and investment through a fund manager (48% and 51% respectively). This preference is consistent across the different groups of investors both active and not active in impact investing. Figure 13 shows the overall results for investor groups. Moreover, there is a slight tendency to prefer direct investment to managed funds, with the exception of Individuals.

Figure 13: Preference for direct and managed funds (n=114)



4.2 Topics for further investigation

The data indicates that the location where impact occurs matters more to those not yet active in impact investing when compared to current impact investors. Determining why this is the case would help us to understand how demand for impact investments may evolve as more investors enter the field. For instance, have current investors subordinated their preferences out of necessity given scarcity of deals, or is it genuinely a secondary consideration? Will investors not yet active maintain their geographic-based preferences after they become active investors?

Not-for-Profit organisations show the strongest preference for impact in a specific State (typically their home State). Is this preference deliberate – for instance to align with geographic boundaries of their programs and missions?

We note from the survey results a high degree of overlap in both preferred areas of impact and investment types with the two social impact bonds successfully launched in Australia to date. How much have these transactions shaped investors' perceptions around their future preferences? To the extent the influence has been high, we might expect the shape of demand to be more fluid than might otherwise be the case.

PART 5: FINANCIAL AND IMPACT RETURNS – EXPERIENCES AND EXPECTATIONS

At a glance

- There is a clear expectation for competitive market rates of return (58%) across both active impact investors and investors not active in impact investing.
- Non-institutional respondents are more likely to accept concessionary returns, with many responding that return expectations are dependent on factors such as the social impact.
- An overwhelming majority (90%) of active investors expect well-documented evidence of social impact as a minimum. A significant percentage of respondents (40%) expect either third-party verified evidence of impact or alignment with a global standard.

5.1 Analysis and interpretation of results

Expectation of financial returns

We asked the respondents who are not active in impact investing to indicate the type of financial return their organisations are likely to expect from future impact investments (**Figure 14**). We also asked active impact investors what return they typically expect from their impact investments (**Figure 15**).

Most respondents, both investors not active in impact investing and active impact investors, expect competitive market rates of return from impact investments (60% and 56% respectively). The percentage is even higher among institutional investors, both active (68%) and not active (93%). The prospect of a positive financial return is a key element of impact investing and therefore, as expected, almost no respondents are prepared to receive no returns.

Figure 14: Financial return expectations – investors not active in impact investing (n=63)

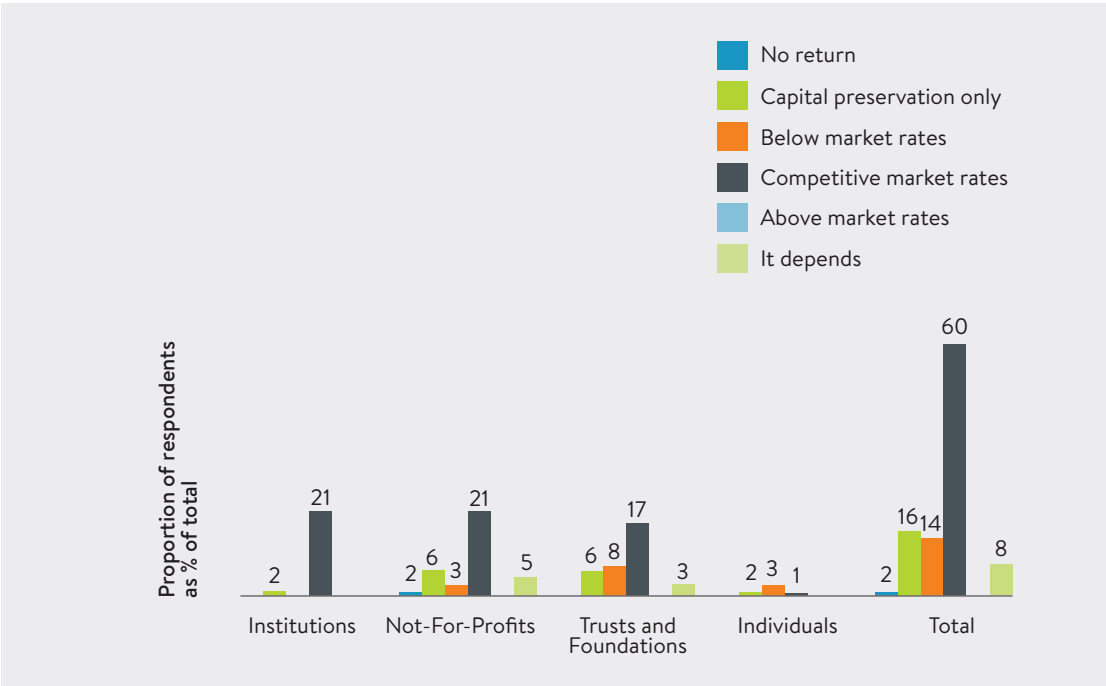
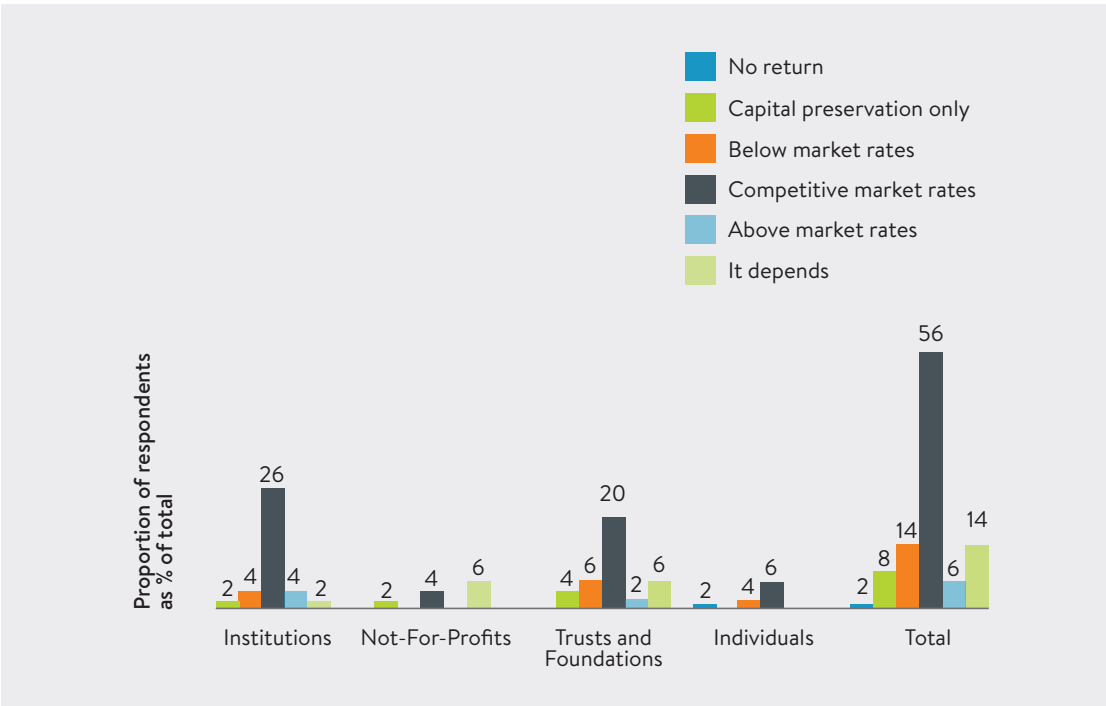


Figure 15: Financial return expectations – active impact investors (n=50)



Interestingly, among those not active in impact investing, no respondents expect above market rates of return, compared to 6% of active impact investors expecting above market rates of return.

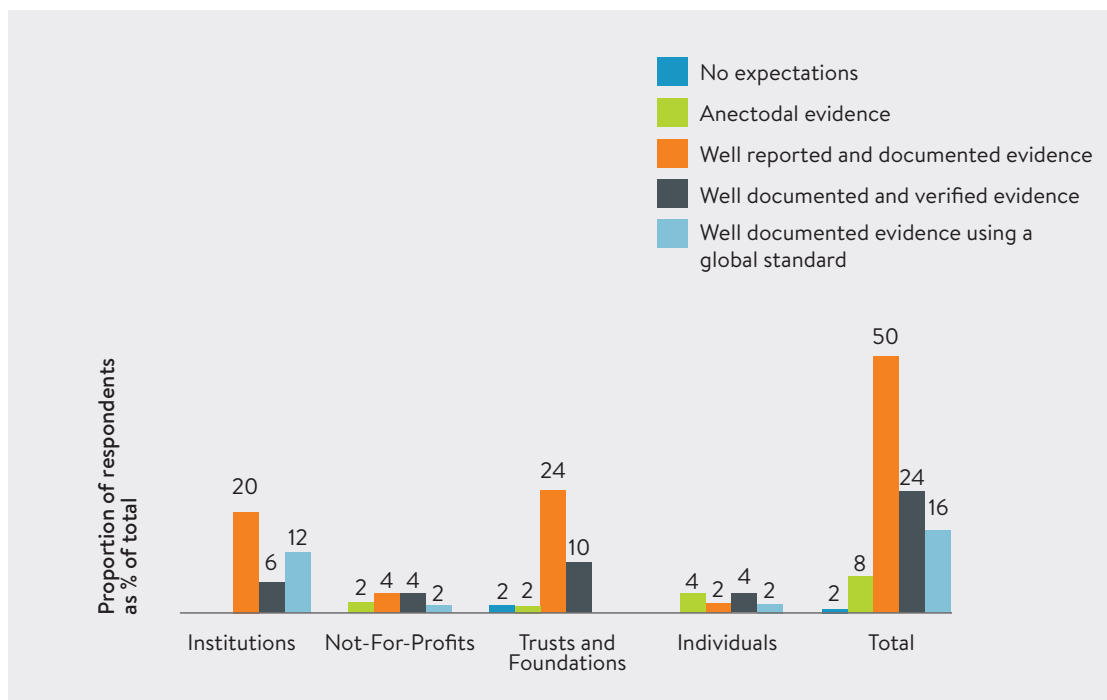
Individuals, Not-for-Profits and Trusts and Foundations are more ready to accept returns that are below competitive market rates. However, this group still holds a predominant expectation of competitive market rates of return. We expect this may have some implications on future deal structuring and tiering. Globally, there are well-documented deals that have employed different ‘layered structures’⁶ – in some cases providing one class of investors in the deal with ‘market’ rates of return and others with ‘sub-market’ returns. While data in this survey indicates there is a degree of openness to accepting sub-market returns based on impact, it is definitely not the predominant expectation.

Expectations depend on a number of factors for 14% of all respondents, including the level of social impact created, risk, amount of deals, and the specific role of the investor.

Expectations of impact measurement

The measurement of social impact is an important topic for most active impact investors across all groups as reported in **Figure 16**.

Figure 16: Expectations for social impact measurement – active impact investors (n=50)



A significant percentage (50%) of impact investors in the survey expect well-documented and reported information regarding social impact. A further 40% of respondents also consider third-party verification or alignment with a global standard important. Interestingly, measurement and reporting is less important for Individuals.

6 See Bridges Ventures & The Parthenon Group 2014.

Experiences vs. expectations

The majority of investments have delivered both social impact (68%) and financial (54%) performance in line with investor expectations. Notably, 20% of impact investors say they are unaware of the social impact created by their investments.

Figure 17: Expected and real social impact performance of current investments - active impact investors (n=50)

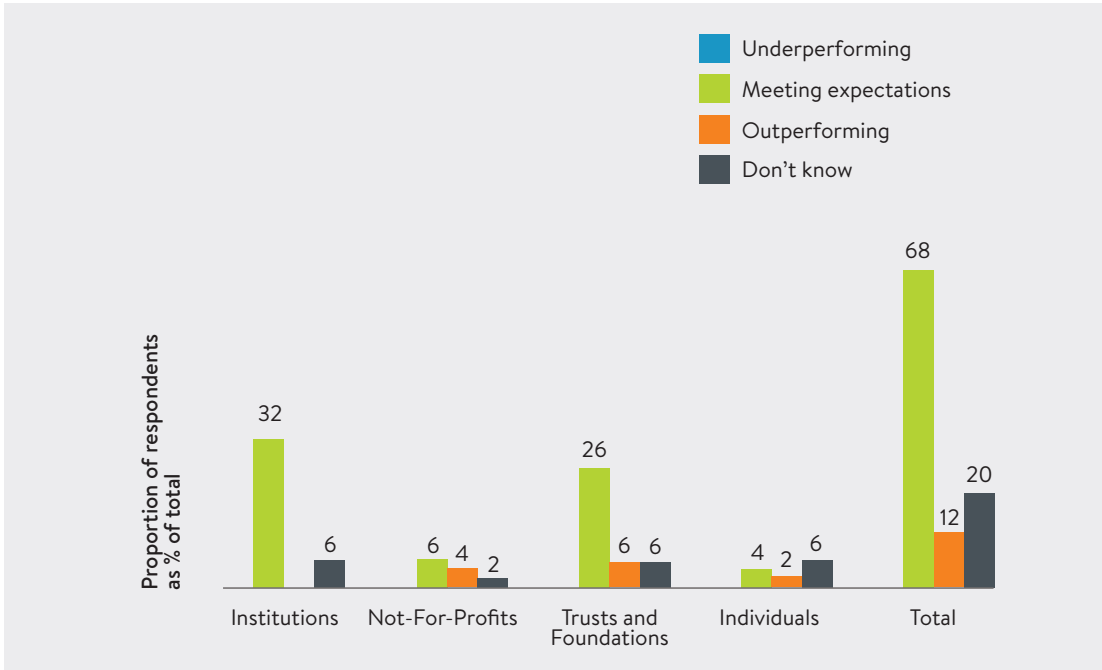
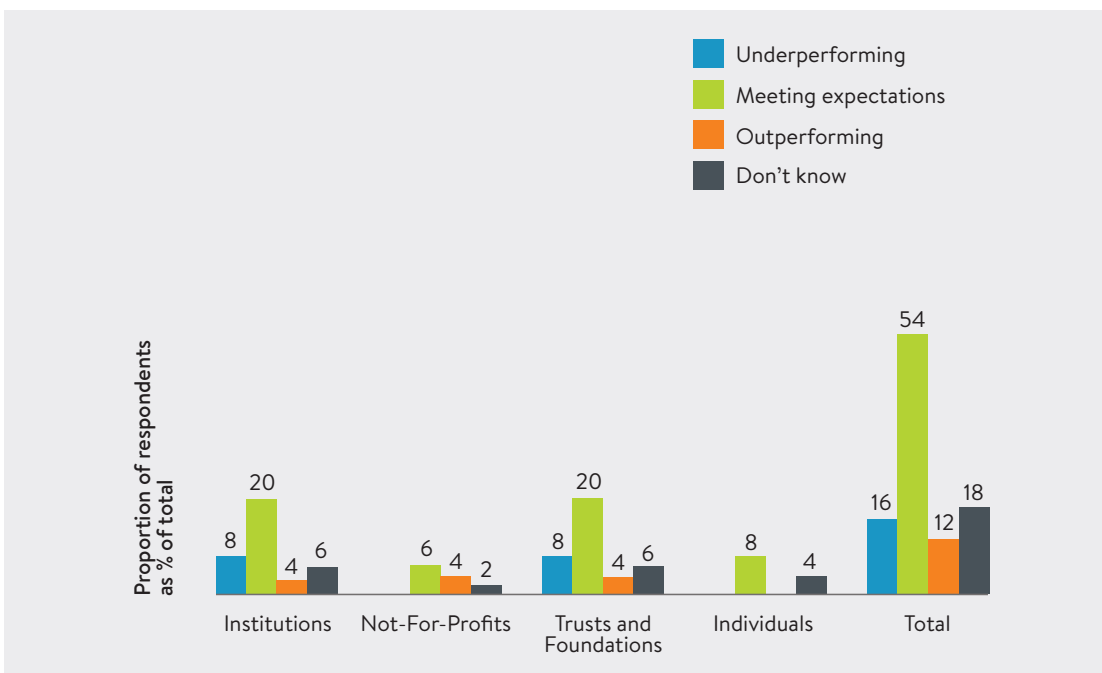


Figure 18: Expected and real financial performance of current investments - active impact investors (n=50)



5.2 Topics for further investigation

We found a divergence in return expectations between active investors and those not yet active in impact investing. In particular, a small proportion of active impact investors expect above market returns on their impact investments. Of those not yet active in impact investing, none expects above market rates of return. Did these investors enter the market with the expectation of excess returns, or have their experiences altered their perceptions of risk and/or costs shaped their future return expectations? If the latter, what can be learned from those experiences so that they may be mitigated in the future?

The data shows that some active impact investors lack awareness of the social impact performance of their investments. Given the strong emphasis on need for evidence of social impact to increase allocations to impact investments in future, it would be beneficial to better understand why this is the case. Is it lack of interest specifically for those investors, insufficient time on those investments to assess performance, inadequate reporting or other factors?

More work is needed to better understand how investors use impact in the investment decision-making process. If – as cited by investors in this survey – a lack of reliable research, information and benchmarks and no recognised investment framework are key deterrents to entering the market, how are those investors already active making informed investment decisions? What can be learned from these insights to encourage prospective impact investors?

PART 6: FUTURE INVESTOR DEMAND AND CHALLENGES

At a glance

- More than 70% of all respondents think impact investing will become a more significant part of the investment landscape over the next five years. Active impact investors tend to have more extreme views – both positive and negative – regarding the future of impact investing relative to those not active in the field.
- On average, active impact investors would like to increase their holdings of impact investments three-fold as compared to today over the next five years.
- Multiplying the ideal allocation to impact investments in 5 years with the investable assets of each respondent who disclosed them translates into an estimated investor demand of A\$18 billion for those respondents.
- A low number of investable deals prevent investors from entering impact investing and increasing their existing allocations. More evidence of social impact and financial performance is needed to encourage active impact investors to increase existing allocations. At the same time, the perceived lack of benchmarks and investment frameworks prevents others from becoming active impact investors.

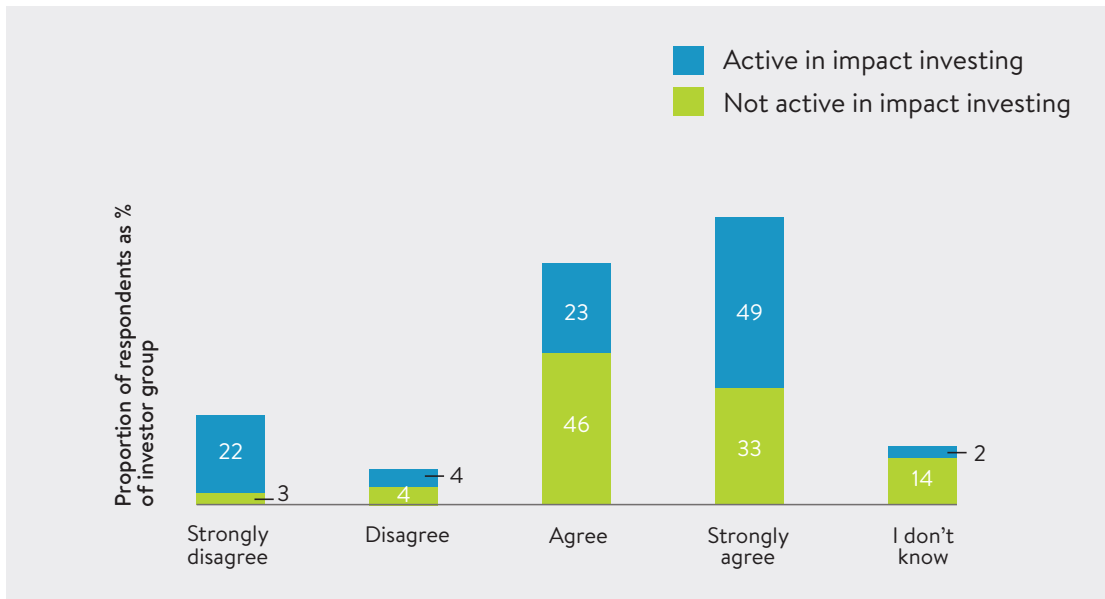
6.1 Analysis and interpretation of results

Importance of impact investing in the future

An overwhelming majority of respondents, both active and not active in impact investing (72.5% and 72.2% respectively), believe that impact investing will become a more significant part of the investment landscape over the next five years.

While there are no distinctive differences among the types of respondents, two interesting trends can be observed when comparing opinions of active investors and those who are not active in impact investing. First, our findings indicate that the number of respondents that are unsure about the future of impact investing was drastically reduced among active impact investors. It is reasonable to expect that investors who gain more first-hand knowledge and experience may become more definitive in their views. Second, active impact investors exhibit a sharp increase in opinions on both extremes about the potential significance of impact investing (strongly disagree and strongly agree).

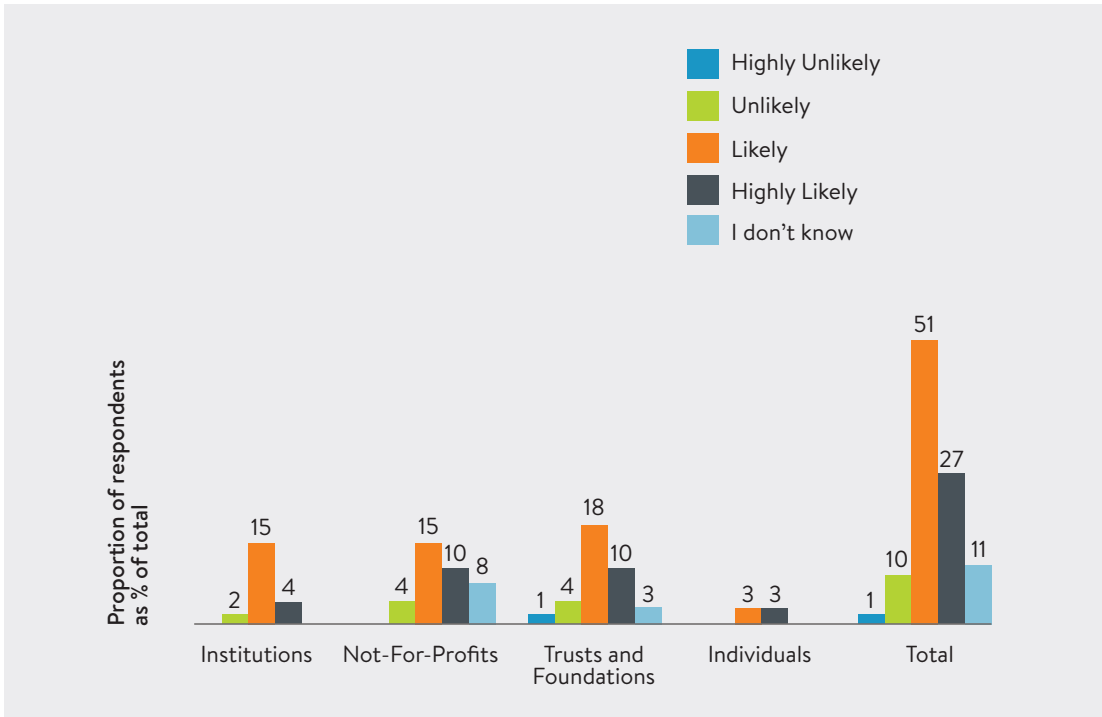
Figure 19: Perceived likelihood that impact investing becomes more important over the next five years (n=123)



Prospects for growing the impact investing market

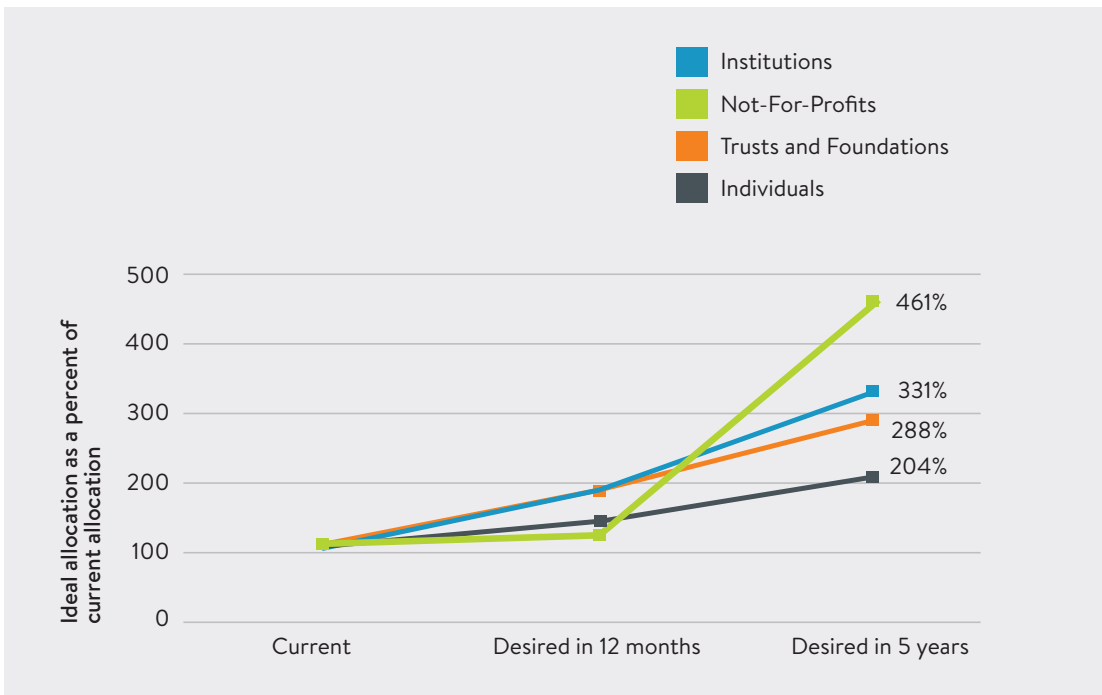
Our findings indicate a very high likelihood of those not active in impact investing beginning to consider impact in future investment decisions. Among the respondents not active in impact investing, 78% indicate that their organisations are likely or highly likely to consider social, environmental and cultural impact as a metric for their investment decisions over the next five years. This percentage is especially high (over 90%) among Institutions, which is significant as this group tends to manage larger investment portfolios.

Figure 20: Likelihood of considering social/environmental/cultural impact as a metric for investment decisions - investors not yet active in impact investing (n=72)



The strong interest in impact investing can be observed even more clearly for respondents active in the field. All groups of active impact investors together state that the ideal allocation of deals towards impact in their portfolios in five years would be three times as high as the current allocation. This planned increase is especially strong among Not-for-Profits, which consider their ideal impact investment allocation to be almost five times as high as current levels.

Figure 21: Ideal allocation of portfolio to impact investments over the next 5 years - active impact investors (n=39)



We isolated active impact investors who disclosed their current assets under management and their preferred percentage allocation to impact investments in five years time to approximate the impact investing demand over that period. This yielded an approximation of A\$18 billion in aggregate demand at five years, which represents less than 1% of total funds under management in Australia. This may understate potential demand, as it does not account for current investors who failed to complete the survey or provide their portfolio value, nor account for demand from prospective impact investors entering the market over the next five years. On the other hand, we recognise this is a preference, not a planned allocation, and is dependent on several factors.

Drivers and challenges for future participation

To investigate the drivers and challenges for future impact investing we asked:

- Investors not active to identify three main reasons why their organisations are not yet active in this field; and
- Active investors to identify the factors that would most likely make their organisations increase their allocation to impact investments.

Table 8: Main factors preventing investors from entering impact investing (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Proportion as % of total nominations (208)	Lack of reliable Research Information and Benchmarks	Lack of reliable Research Information and Benchmarks	Not Enough Deals	Limited access to investment advice	Lack of reliable Research Information and Benchmarks 12.5%
	Not Enough Deals	No recognised Investment Framework	Lack of reliable Research Information and Benchmarks	No recognised Investment Framework	Not Enough Deals 11.5%
	No recognised Investment Framework (+3 Others)	Other	Evidence of Impact	Insufficient Knowledge	No recognised Investment Framework 10.1%

Note: The 15 options provided were (partly abbreviated): Lack of clarity on fiduciary requirements in considering impact, Advice from trustee duties not to consider impact, Deal sizes too small, Difficult to exit, Not enough investable deals, Lack of reliable research, information and benchmarks, Not enough evidence of social impact, No client/member/trustee demand, Limited access to investment advice, No recognised investment framework, No diversification benefits, Do not believe in satisfying financial performance, Insufficient knowledge, Don't know, Others – please specify.

Investors not active in impact investing show a diversity of reasons that prevent their organisations from investing for impact. From such points, we can derive the main factors that will be essential to make these investors enter the field.

1. A lack of reliable research, information and benchmarks are mentioned as one of the top three obstacles by 36.1% of respondents.
2. 33.3% of respondents say there are not enough deals to invest in.
3. A lack of a well recognised investment framework is considered an obstacle by 29.2% of respondents – a particularly salient finding in light of the array of guidelines and frameworks on impact investing that are available.⁷

⁷ For example, see Graham & Anderson 2015; Barclays 2015.

Table 9: Main factors likely to make active impact investors increase their allocation to impact investments (Top three)

	Institutions	Not-for-Profits	Trusts and Foundations	Individuals	Total
Proportion as % of total nominations (146)	More Investable Deals	More Investable Deals	More Investable Deals	More Investable Deals	More Investable Deals 23.2%
	Client/ Member/ Trustee Demand	Evidence of Social Impact	Evidence of Financial Performance or Longer Track Record	Evidence of Social Impact	Evidence of Social Impact 15.8%
	Evidence of Financial Performance or Longer Track Record	Evidence of Financial Performance or Longer Track Record	Evidence of Social Impact	Evidence of Financial Performance or Longer Track Record	Evidence of Financial Performance or Longer Track Record 15.8%

Note: The 13 options provided were (partly abbreviated): Client/member/trustee demand, Portfolio diversification, More investable deals, Larger deal sizes, Evidence of social impact, Evidence of financial performance or longer track record, Reliable research, information and benchmarks, Ease of exit, Access to investment advice, Development of national investment framework, Clarity on fiduciary requirements, Don't know, Others – please specify.

Current investors almost unanimously consider more investable deals, evidence of social impact and evidence of financial performance or longer track record as factors needed to increase their organisations' allocation to impact investments. Comparing the two types, a larger number of investable deals emerges as a universal driver of future growth for impact investment. According to our respondents, providing more investable deals will be necessary to increase the number of investors and the amounts allocated by the active investors.

Reliable information, research and benchmarks and more commonly accepted investment frameworks are required to convince more of those not active to become active impact investors. For active impact investors, evidence of social impact and financial performance is needed to increase their allocations. These results are consistent with the findings of a range of reports completed in recent years that highlight the importance of good, verifiable information in respect of impact investing.⁸

6.2 Topics for further investigation

The data shows that active investors have stronger opinions (both to the positive and the negative) on the future importance of impact investing. It would be interesting to understand the rationale of those current investors who responded strongly to the negative. Is it that they believe impact investing will remain a niche, non-mainstream part of the investable universe, or have their experiences shaped their view? If the latter, what can be learned from those experiences so that they may be mitigated in the future?

We note that lack of liquidity was not listed as one of the primary factors limiting investors from entering the market or active investors from increasing their allocations to impact investments. We found this surprising, as liquidity is often an important consideration in investment decision making. It would be interesting to understand whether investors' expectations regarding liquidity are evolving more broadly, or whether the issues selected by investors are threshold issues that need to be resolved before assessments about liquidity enter their frame of reference.

⁸ For example, see WEF 2013; KPMG 2014; SIIT 2014; SVA 2014; GIIN & J.P. Morgan 2015; Bouri et al. 2015.

PART 7: LOOKING AHEAD

Impact investing is catching the attention of the world's leading economies and is being recognised for its potential to transform how we use capital and to generate social and environmental benefits in developed and developing countries alike. We have a unique opportunity to grow this dynamic market to scale in and from Australia, and connect with rising momentum and activity globally.

We have strong foundations to build upon, including a long history of cooperatives and community enterprises, a significant not-for-profit sector, a growing movement of social enterprises, and some of the largest pools of private capital in the world. As this survey shows, Australian investors are increasingly eager for their investments to deliver social impact in addition to sound financial returns. This survey takes another step in building the data, information and evidence base the market needs to develop, grow and achieve its potential.

Work already underway

The five flagship initiatives of the Australian Advisory Board strategy outlined in *Delivering on Impact*, including this survey, were designed to accelerate the growth of the impact investment market in Australia and align closely with the findings and themes emerging from this survey.

The *Blueprint to Market for Impact Capital Australia (ICA)*, released in October 2015, sets out a blueprint for an independent organisation to serve as a market champion and wholesale funding source for intermediaries. It is designed to encourage and support new and existing intermediaries and make targeted investments in transactions that would not otherwise occur.

Work is also well underway to establish a framework for collecting data on the financial and social performance of Australian impact investments to assist in building a performance benchmark for impact investing.

ABOUT THIS SURVEY

Background and Context

In 2013, the Social Impact Investment Taskforce (SIIT) was established under the UK's Presidency of the G8. The SIIT comprised representatives from member countries plus a representative from Australia and the European Union. Each participant country on the SIIT was charged with setting up a National Advisory Board on social impact investing. The Australian Advisory Board on Impact Investing was established in late 2013 as Australia's contribution to that process. It aims to develop a strategy for accelerating the growth of the impact investment market in Australia and inform global market development through the Global Social Investment Steering Group, which succeeded the SIIT in 2015.

In September 2014, the SIIT released its report *The Invisible Heart of Markets*, which outlined key recommendations to catalyse a global market for impact investment. At the same time, the Australian Advisory Board released its strategy to catalyse the market in and from Australia in its report *Delivering on Impact*. The Australian strategy focused on the three key planks of leadership, action and policy and included five flagship initiatives to accelerate the growth of the market in Australia. In late 2014, Impact Investing Australia established the three working groups Capital Growth, Outcomes and Innovation, and Market Building, with participants from multiple sectors to scope, design and deliver these initiatives.

The Market Building working group⁹ was given responsibility to develop and carry out a benchmark survey to gather data on investor attitudes for Australia. The survey was designed with the following objectives:

- Measure the levels of awareness and interest in impact investing by those not participating or investing in the sector, as well as their intentions to invest;
- Measure current activity, investor motivations, intentions and perceived challenges for investors already active in the sector;
- Set the base-line to measure changing levels of awareness, interest and activity over time; and
- Establish a uniquely Australian data set that can contribute to the evidence base globally and complement existing initiatives outside of Australia.

Insights from this data are expected to be of value to a range of stakeholders interested in impact investing and in realising the potential of this growing market. This report offers:

- **Active and prospective impact investors** insights into the interests, experiences and challenges of other investors in the Australian market;
- **Product manufacturers and deal makers** evidence that may support decision making on product development;
- **Asset consultants and wealth advisors** insights on investor interest and demand that can assist in understanding advice needs;

⁹ The members of the Market Building working group are listed in Appendix 2

- **Governments and other policy makers** data and insights that highlight potential areas for policy development; and
- **Organisations with potential to use capital** information about investor interest and activity that can be used to assess their financing options.

Survey Methodology

Impact investing definition

For the purposes of the survey we adopted the World Economic Forum definition that defines impact investment as “*an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured*”.

Design

The Market Building working group designed the preliminary survey questionnaire draft following a review of relevant global literature and surveys, and used the OECD *Good Practices in Survey Design* as a reference point. The group’s key focus was to make the survey easy to respond to and relatively short to maximise the response rate.

At this stage, we were fortunate to be able to draw on the expertise and independence of JD Power’s¹⁰ survey design team, who reviewed the draft survey design and questionnaire and provided feedback to enhance clarity and reduce potential for bias.

Survey type

The working group decided that an online survey, supported by strong communications (accompanying letter and personal follow-ups where possible) would best meet the survey objectives and desired outcomes. We partnered with WebSurvey¹¹ to run the survey using its online platform and to consolidate the de-identified results.

Partnering with WebSurvey enabled us to:

- Run the survey through an independent and secure third-party, ensuring confidentiality for respondents;
- Automatically stream and tailor questions depending on respondent characteristics or responses to particular questions; and
- Provide a clean, stable, and user-friendly online interface for respondents.

Dissemination

Impact Investing Australia and Responsible Investment Association Australasia administered the survey directly to our respective databases. We made a concerted effort to ensure large asset managers, financial institutions and insurance companies were represented in the Impact Investing Australia direct mail list, including those that are not active impact investors. This direct channel comprised the most significant channel and achieved a sound response rate (57%).

The survey was also distributed indirectly via a number of wealth management and grant making networks.

¹⁰ JD Power is a leading global marketing information services firm founded in 1968 that conducts customer satisfaction, product quality and buyer behaviour surveys across a range of industries.

¹¹ WebSurvey is a Melbourne-based enterprise-grade online survey service that creates all types of online surveys operated by Strategic Data Pty Ltd and backed by its experience in statistics, mathematics and information handling.

The survey opened on 8 September 2015 and closed on 2 October 2015.

Analysis, interpretation and presentation

To analyse, interpret and present the results of the survey we partnered with the University of Melbourne Asia Pacific Social Impact Centre¹² – a highly respected and independent academic partner.

Survey responder roundtables

Survey respondents were invited to participate in exclusive pre-launch roundtables in Melbourne and Sydney, which were held in December 2015. Preliminary findings from the survey were shared with participants, and the forums provided the opportunity for the authors to delve deeper, augment survey findings and challenge and test conclusions, providing additional qualitative insights that are reflected in this report.

Survey limitations

We consider the following factors to be limitations of this survey:

- Small sample size – particularly when analysing results for smaller sub-categories (for instance, Individuals);
- Sample bias – recognising the channels of distribution and the higher likelihood that investors positively pre-disposed towards impact investing are more likely to have responded to the survey;
- Definitional issues – the nascent stage of the market and lack of a common language may have reduced the consistency with which respondents interpreted and answered survey questions. This also reduced the ability to infer with confidence the current and potential size of the market. (We note we provided respondents with a definition of impact investing to enhance consistency in application and care was taken to reduce jargon and spell out meaning within the survey questions.);
- Given our goal to maximise the survey response rate by keeping the survey as short as possible, the survey results leave a number of unanswered questions that are worthy of further investigation.

¹² The Asia Pacific Social Impact Centre is located within the Faculty of Business and Economics.

AUSTRALIAN ADVISORY BOARD ON IMPACT INVESTING

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Sandy Blackburn-Wright	<i>Social Outcomes</i>
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Cathy Truong	<i>Trawalla Foundation</i>
Lisa Wade	<i>Bendigo and Adelaide Bank</i>

The Market Building Working Group was tasked with delivering two separate initiatives and split into two sub-groups to implement them. We would like to acknowledge the efforts of those working specifically on the survey: Fabienne Michaux, Miles Collins, David Knowles, John McLeod, Stuart Middleton, Simon O'Connor, Louise O'Halloran, Cathy Truong and Anna Moynihan (to August 2015).

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Supporting Organisations



If you or your organisation are interested in partnering opportunities to grow impact investing in and from Australia, please contact the Impact Investing Australia team.

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