



The Financial Performance of Impact Investing through Private Debt

June 2018



Global Impact Investing Network



IRIS & IMM

- IRIS: A taxonomy of 450+ social / environmental performance metrics
- Tools and resources for measuring and managing impact



Membership

- Investors' Council: 54 impact investing leaders
- Network Members: ~210 members



Training

- Training for new fund managers
- Topics include: fundraising, fund economics, impact measurement



Research

- Practitioner-oriented research to fill market gaps
- Focus on market studies, performance, and practice

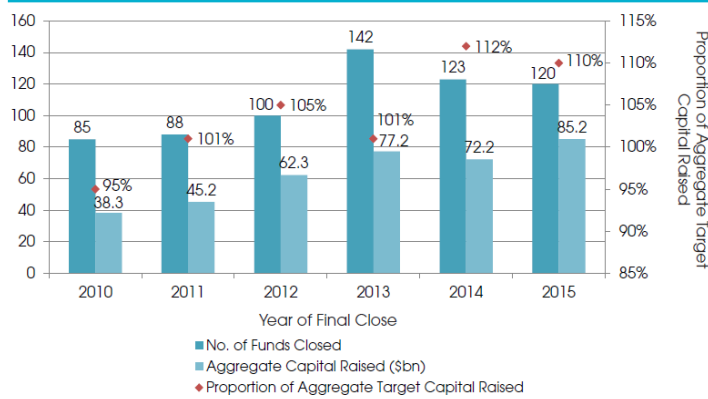
Expanding the suite of GIIN financial performance benchmarks



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Strong growth in overall private debt market

Fig. 4.1: Annual Private Debt Fundraising, 2010 - 2015

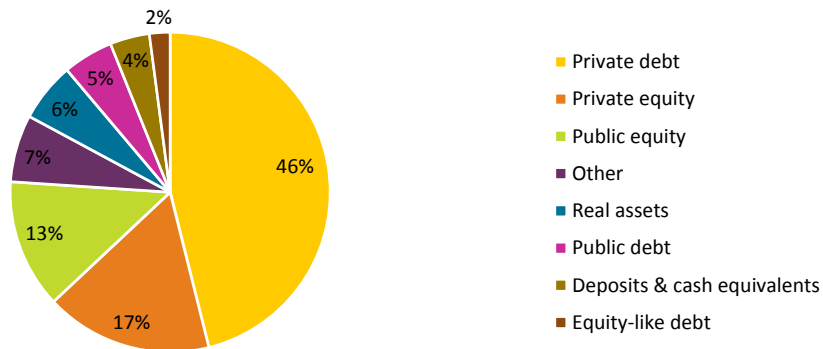


Source: Preqin Global Private Debt Report

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The largest asset class in impact investing

AUM by asset class
 n = 226
 AUM = USD 228.1 bn



Source: 2018 GIIN Annual Impact Investor Survey



One study, two samples

Private debt impact funds (PDIFs)

n = 50

- **Sectors:** Most commonly financial services
- **Geographies:** Primarily emerging-market focused
- **Impact themes:** Financial inclusion, employment, and entrepreneurship
- **Target returns:** 80% market-rate; 20% below-market
- **Size:** Median impact AUM of USD 100 million

Community development loan funds (CDLFs)

n = 102

- **Sectors:** Most commonly housing
- **Geographies:** U.S.
- **Impact themes:** Employment, affordable housing, food security
- **Target returns:** Nearly all below-market
- **Size:** Median impact AUM of USD 25 million



Inclusion criteria

- ✓ Intention to generate social and/or environmental impact alongside a financial return
- ✓ Independent investment vehicle
- ✓ Open to multiple investors
- ✓ At least 85% of portfolio in fixed income on average (per year)
- ✓ For CDLFs, primarily engaged in lending activities (at least 50% of noncash assets dedicated to lending)

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Sources of data

- Annual financial statements for the past 1-5 years
- Survey to gather supplemental information on financial and legal structure, sectors, impact themes and metrics, and geographic reach
- Interviews for impact measurement profiles
- Partnership with Opportunity Finance Network to gather data on community development loan funds

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Private Debt Impact Funds

PDFs

Sample characteristics

- Total assets in 2016: USD 10.6 billion
- Average size: USD 200 million (median of USD 100 million)
- Average portfolio maturity: 4.5 years
- 77% seeking market-rate returns
- Most funds are concentrated in financial services, with some concentrated in energy and agriculture or pursuing multi-sector strategies

Source: Symbiotics-GIIN (2012-2016)

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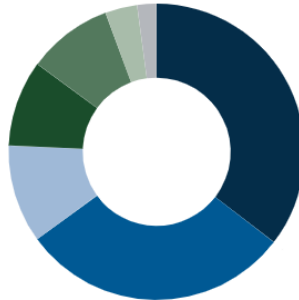
PDIFs



Diverse geographic exposure

Total Assets by Geography, 2016

n = 46; AUM = 10.6bn



■ Eastern Europe & Central Asia ■ Latin America & Caribbean ■ Sub-Saharan Africa ■ East Asia Pacific ■ South Asia ■ Middle east & North Africa ■ North America

Source: Symbiotics-GIIN (2012-2016)

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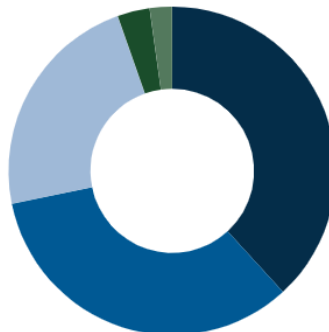
PDIFs



Largely institutional and retail capital

Total Assets by Investor Type, 2016

n = 47; AUM = 10.6bn



■ Institutional Investors ■ Retail Investors ■ Public Funders ■ High-Net-Worth Individuals ■ Other Investors

Source: Symbiotics-GIIN (2012-2016)

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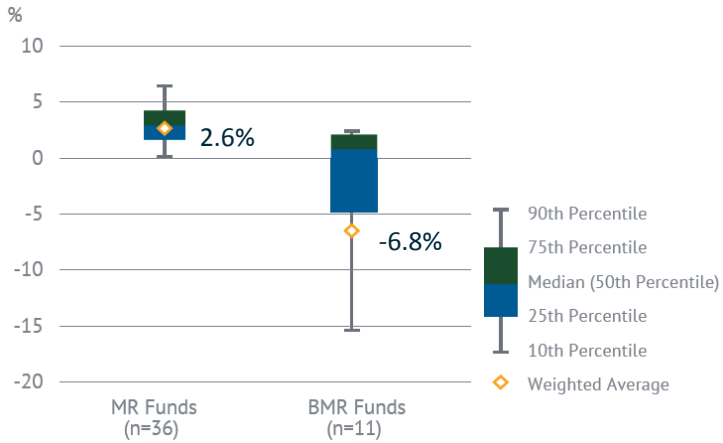
PDIFs



Average net returns by return philosophy

Market-rate seeking funds generated weighted-average returns of **2.6%** pa.

Below-market funds generated weighted-average returns of **-6.8%** pa; excluding one low-performing outlier, returns averaged **-0.2%**.



Source: Symbiotics-GIIN (2012-2016)

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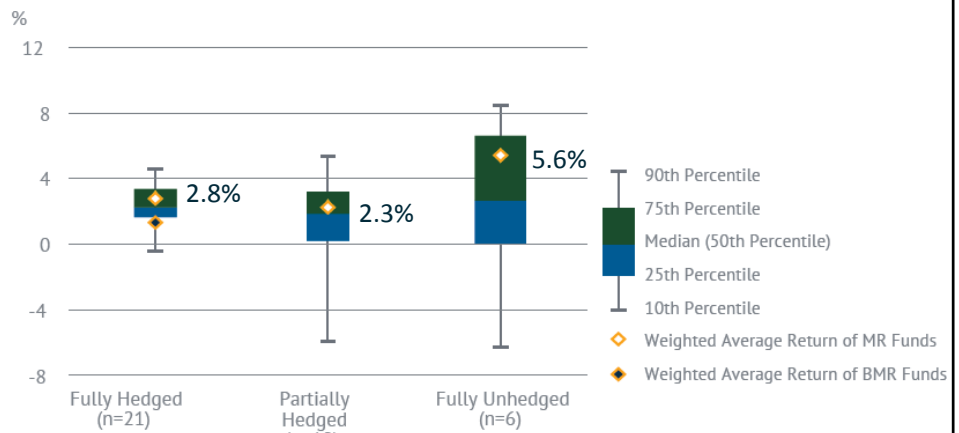
PDIFs



Average net returns by hedging strategy

Fully unhedged funds generated **higher average returns** (5.6%) than fully hedged funds (2.8%)...

...but also demonstrated **higher volatility**.



Source: Symbiotics-GIIN (2012-2016)

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PDIFs

Risk and volatility

PDIFs have an annualized volatility of **0.9%**, leading to a Sharpe ratio of **0.77**.

This indicates **favorable performance relative to risk** in comparison to other asset classes.

	Private Debt Impact Funds (MR Funds only)	Microfinance Private Debt	Developed Markets Bonds	Emerging Markets Bonds	Cash	World Stocks	US Stocks	Alternatives
Compound Annual Net Return (5 years)	2.6%	2.7%	3.4%	5.4%	0.4%	8.2%	12.2%	1.6%
Annualized Volatility (5 years)	0.9%	0.5%	3.1%	7.2%	0.1%	11.2%	10.4%	3.6%
Correlation Table								
Private Debt Impact Funds (MR Funds only)	1.00	0.91	0.81	0.45	-0.43	-0.01	0.07	0.10
Microfinance Private Debt		1.00	0.09	-0.00	-0.30	-0.08	-0.11	-0.19
Developed Markets Bonds			1.00	0.37	-0.12	-0.17	-0.18	-0.13
Emerging Markets Bonds				1.00	0.05	0.57	0.44	0.42
Cash					1.00	-0.03	-0.03	0.04
World Stocks						1.00	0.95	0.85
US Stocks							1.00	0.83
Alternatives								1.00
Sharpe ratio	0.77	1.77	0.48	0.49	-25.45	0.56	1.00	-0.08

Source: Symbiotics-GIIN (2012-2016)



Community Development Loan Funds

CDLFs



Sample characteristics

- Total assets in 2016: USD 5.6 billion
- Average size: USD 55.2 million (median = USD 24.9 million)
- Average portfolio maturity: 8.5 years (varies by sector)
- Half of total AUM in CDLFs focused on housing, with others focused on business lending, community facilities, and microenterprises

Source: Symbiotics-GIIN (2012-2016)

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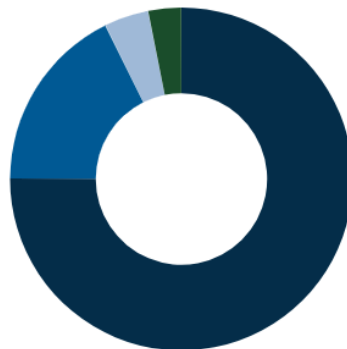
CDLFs



Three-quarters institutional capital

Total Assets by Investor Type, 2016

n = 102; AUM = 5.6bn



■ Institutional Investors ■ Public Funders ■ Other Investors ■ Retail Investors

Source: Symbiotics-GIIN (2012-2015)

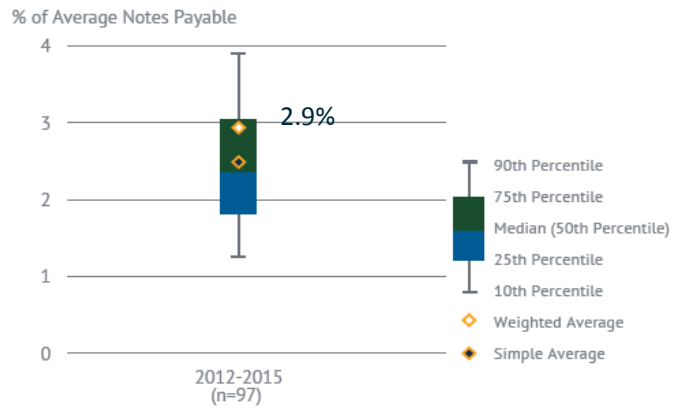
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CDLFs



Average interest rates on notes

CDLFs generated weighted-average interest rates of **2.9%** on notes.



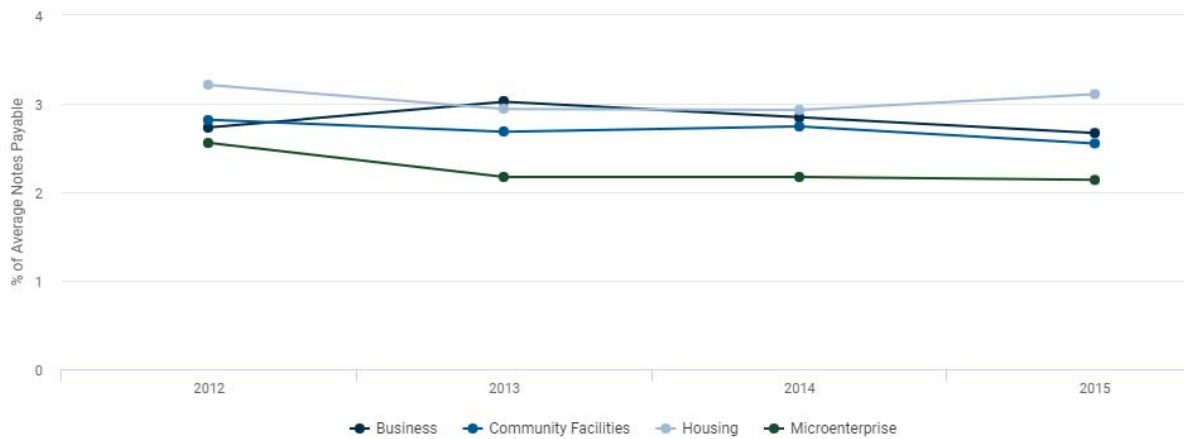
Source: Symbiotics-GIIN (2012-2015)

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CDLFs

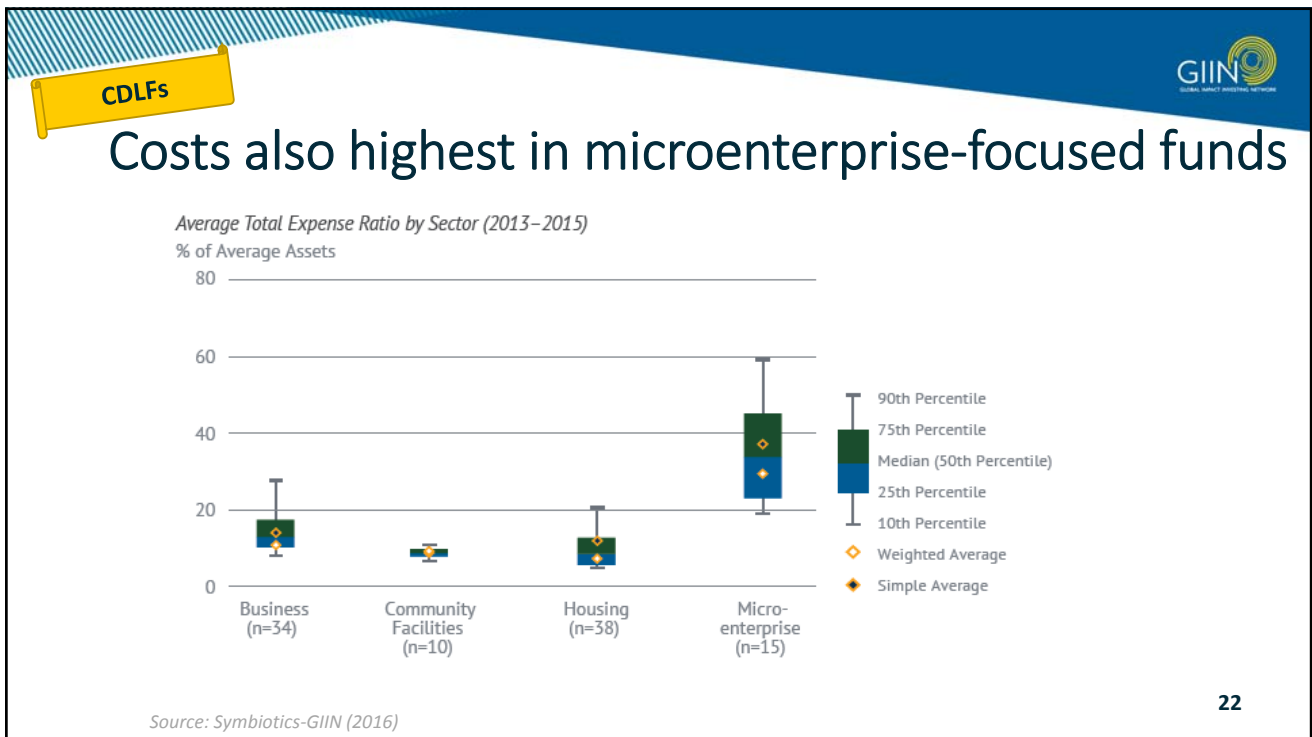
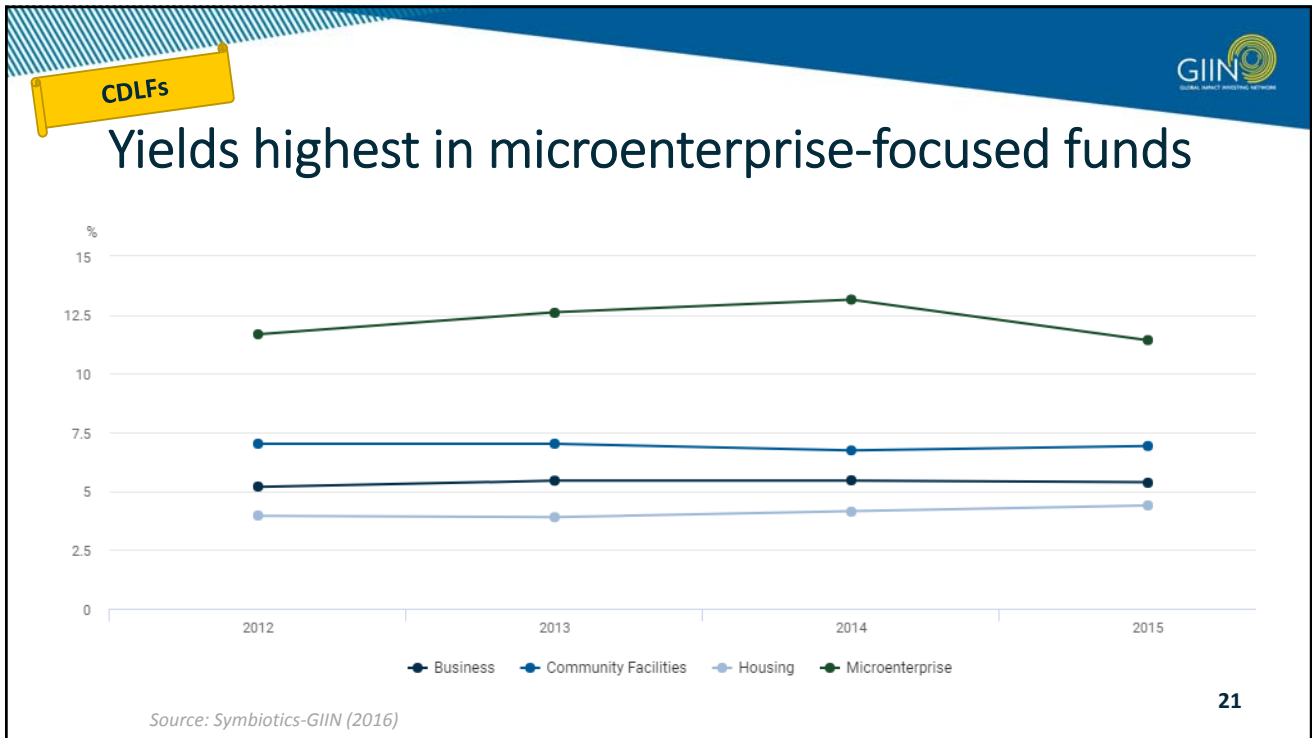


Interest rates stable over time



Source: Symbiotics-GIIN (2016)

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Key takeaways

Private debt impact investing funds:

1. Offer **stable** returns
2. Offer investors **different risk-return strategies**
3. Seek impact through a **range of sectors**

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Questions?