impact investing institute

The UK impact investing market

Size, scope, and potential

2024 edition

With the support of

Department for Culture, Media & Sport

In partnership with

SOCIAL FINANCE

Executive Summary

As challenges like climate change and social inequality intensify, the role of finance in shaping our collective future has never been more critical. The UK impact investing market represents an important pool of capital that can help address these challenges, but to accelerate and scale the market we need more and better research on its size and key features. It is vital for investors, policymakers, businesses, regulators, and other capital market actors to have access to the evidence they need to leverage and champion the full potential of impact investing to deliver for people and the planet.

Second research report

This is our second research report estimating the size and the features of the UK impact investing market. Our inaugural report published in 2022 was a first ever attempt to measure and describe the size of the UK impact investing market. It complemented Better Society Capital's annual report on the social impact investing market, which does not include investments primarily targeting environmental outcomes, global investing from the UK or impact investing into businesses that don't explicitly self-define as impact-driven.

Collaboration with the Global Impact Investing Network

For the first time this year, we have collaborated with the Global Impact Investing Network (GIIN) on data collection to improve the quality and increase the quantity of the data around impact investing and make it easier for investors to feed into market research efforts.

Methodology and how to read the report

Our report methodology combines top-down and bottom-up quantification to estimate direct impact investing for which most investment management activity occurs from the UK. The report was produced through an extensive market survey and engagement with over 100 key market actors, thought leaders, and policymakers. The key insights from the report are summarised below with the full report providing an opportunity for readers to dive into more specific market trends, policy initiatives and regulation, as well as thematic themes such as place-based impact investing and equity, diversity and inclusion.

What are impact investments?

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Key takeaways

Growth despite difficult market conditions

- The UK impact investing market has grown to £76.8 billion in assets under management (AUM) as of end-2023. This marks a £19.3 billion increase from our inaugural market sizing and represents a 10.1% compound annual growth rate from the beginning of 2021 until the end of 2023.
- This growth has outpaced the broader UK asset management sector, which had an annual growth rate of between -2% and 0% over the same period.
- We estimate that the UK impact investing market now represents just under 1% of the whole of the UK investment management market, and ca. 8% of the global impact investing market.
- A higher concentration of impact assets is being managed by investment managers and development finance institutions in the UK, as opposed to asset owners such as foundations and pension funds managing their own impact investments - totalling 88% of assets in the UK compared to 68% globally.

Supply increases

- The supply of impact funds has continued to increase in the report period, with significant new entrants on the market.
- There is a concentration of impact AUM amongst a small set of large organisations, reflecting similar trends in the global market. Among the 100 organisations for which we have data points, the top 13% of organisations, with direct impact AUM of over £1 billion each, represent 74% of the total AUM figure.

The expansion of impact investing across asset classes

- Private equity attracts the highest proportion of impact capital, at 45% of estimated AUM. Real assets make up 28% and private debt 11%. These three asset classes together account for approximately 85% of the UK impact investing market.
- While public market strategies remain a small sub-set of the market, interviewees noted an increase in their availability.
- Compared to our previous survey, there has been a notable fall in the proportion of respondents highlighting the lack of suitable deals and investing opportunities.

Impact and financial performance

- 88% of respondents indicated they achieved impact performance in line with or outperforming impact targets.
- 68% of respondents reported financial returns in line with or outperforming targets, reflecting wider market trends further explored in this report.

Impact measurement and management

- Almost two-thirds of survey respondents noted "comparing impact results to peers" and "fragmentation across impact measurement framework" as challenges for future market growth.
- However, survey results also highlight progress in the industry's confidence in integrating impact management and financial management decisions and verify impact results.

More capital committed to impact

- Two-thirds of respondents plan to increase or sustain their allocation of capital towards impactful companies, projects and assets in the UK in the next five years.
- The top sectors for impact investing were financial services (including microfinance and community finance), healthcare, housing, energy, and information and communications technology.
- Interviewees noted increased demand for impact investing among institutional investors. In particular, the Local Government Pension Scheme (LGPS) was expected to significantly increase its allocation to local impact.

Calls to action

The expanding UK impact investing market offers diverse opportunities for different actors:

- Asset owners can create value in a time of global challenges and address systemic risks by deploying capital with an intention to benefit people and the planet.
- Asset managers can contribute to sustainable growth and shape the future of investing by developing innovative strategies aligning with client priorities for sustainable growth.
- Investment advisors can translate client demand for investments that drive positive environmental and social outcomes into actionable investment strategies.
- Government has a crucial role in fostering an environment that encourages impact investing and enables large-scale partnerships with private capital to tackle pressing challenges, including through blended finance and outcomes-focused approaches.

See section 6 of the report for detailed calls to action.

About

About this report

This report estimates the size and the features of the UK impact investing market in 2024, based primarily on market data from end-2023.

To produce this report, the Impact Investing Institute has worked with a research partner, Social Finance, and benefitted from funding from the UK Government's Department for Culture, Media and Sport (DCMS).

The present report builds on and updates the inaugural report published in 2022, which sized the impact investing market as of end-2020.[1] Our report methodology combines top-down and bottom-up quantification to estimate direct impact investments for which the majority of investment management activities occurs from the UK. Further details on our methodological approach are provided in Appendix.

For this iteration, we partnered on data collection with the Global Impact Investing Network (the GIIN), with the ambition to increase the quality and quantity of data collection and the comparability of estimates of the UK and global markets.

About the Impact Investing Institute

The Impact Investing Institute ("the Institute") is an independent non-profit organisation working to transform capital markets so they support a fairer, greener, more resilient economy. We see impact investing as an effective tool for deploying capital and we want to accelerate the impact investing market, in the UK and globally. We come up with innovative solutions that help private finance address societal challenges, and we grow the field of impact investing by building expertise across financial markets. We work with investors and their advisors to move more effective capital for the benefit of people and the planet, and we advocate for regulatory and policy environments that support that goal.

About Social Finance

Social Finance is a non-profit organisation that helps its partners design, fund, and scale solutions to complex and enduring social issues in the UK and globally. Social Finance launched the world's first Social Impact Bond in 2010 and since then its pioneering work has delivered lasting and widespread change that improves the lives of people and communities. Social Finance is regulated by the Financial Conduct Authority (FCA) and helps with mobilising finance, strategy, design, data, and building partnerships, in a human-centred way. Social Finance partners with local and national governments, commissioners, service providers, such as charities, as well as socially-motivated investors, funders, international donors, and philanthropic organisations.

Institute foreword

As we navigate an era of unprecedented global challenges, from climate change to social inequality, the role of finance in shaping our collective future has never been more critical. The UK impact investing market stands at the forefront of this transformation, demonstrating remarkable resilience and growth even in the face of difficult economic conditions. Our research shows that UK-managed impact investments reached £76.8 billion in assets under management by the end of 2023: a compelling 10.1% compound annual growth rate since 2020.

This growth not only outpaces the broader UK asset management sector but also signals a fundamental shift in how we perceive the purpose of capital. Investors, from large institutions to private individuals, are increasingly recognising that financial returns and positive environmental and societal outcomes are not mutually exclusive.

The UK's position as a global hub for impact investing is further solidified by the evolving regulatory landscape. The Financial Conduct Authority's new Sustainability Disclosure Requirements (SDR) regime, including the introduction of an impact-focused label for retail investments, demonstrates a commitment to fostering transparency and credibility in the sector. This regulatory support, coupled with growing investor confidence, is paving the way for innovation across various thematic areas, including place-based investments, decarbonisation efforts, biodiversity conservation, and initiatives promoting equity, diversity, and inclusion.

As the impact investing market matures, we are witnessing integration of impact investing approaches into mainstream asset management. This evolution is democratising access to impact investments and enabling a more diverse range of investors to allocate capital for the benefit of people and the planet. The increasing sophistication of impact propositions across asset classes and geographies is not just expanding the market, it is redefining the very nature of value creation in finance.

The growth of the UK impact investing market presents a myriad of opportunities. For asset owners, it offers a framework to deploy capital that creates value in an era of pressing planetary and social needs and addresses systemic risks. Asset managers play a pivotal role in shaping the investment landscape and pioneer innovative investment approaches. They can deliver investment strategies that align with their clients' priorities to create long-term value creation and sustainable economic growth. Investment advisors and consultants play a crucial role in educating clients and translating their desires for investments that benefit society and the environment into actionable strategies.

Perhaps most significantly, the growth of the impact investing market opens new avenues for collaboration between private capital and government. There is immense potential for partnerships that can mobilise resources at scale to address pressing social, environmental, and economic challenges. Through blended finance structures and a focus on measurable outcomes, these collaborations can unlock capital that transforms lives across the UK and beyond.

As we look to the future, the continued growth of impact investing in the UK demonstrates the potential to transform capital markets, so they support a fairer, greener, more resilient future. The challenges we face are formidable, but so too is the opportunity to reshape our economic system to serve both people and planet.

The UK impact investing market's trajectory is clear: it is not just growing; it is evolving, innovating, and embedding itself into the core of our financial system. As this transformation continues, it invites all stakeholders – investors, businesses, policymakers, and citizens – to participate in building a future where financial success and positive impact are inextricably linked. The question is no longer whether impact investing can make a difference, but how quickly and effectively we can harness its potential to create the change our world so urgently needs.

Sarah Teacher
Executive Director

Bella Landymore
Executive Director

Ministerial foreword

Climate change. Crumbling public services. Inequality of wealth and opportunity. The challenges that face us can, at times, feel overwhelming. To meet these challenges and strengthen the social fabric of our communities, we need a Government prepared to find solutions that are built to last and create opportunities for everyone, everywhere.

After fourteen years, the problems we face have become more acute than ever before. This Government recognises the enormous power of investment, philanthropy and the difference that purpose-driven businesses can play. The Labour Party has a long and proud history of forging partnerships between Governments and investors, businesses, and charities, with the aim of doing well by doing good. Together, we pioneered the first social outcomes contract in the world almost two decades ago.

We want a new partnership with investors, businesses, and charities. All the best examples of things that are built to last are when they have been built together. This is why impact investment matters. It has the power to harness the innovation and entrepreneurship that exists in all parts of our country, and direct it towards a common good. We can see the immense value of these kinds of partnerships.

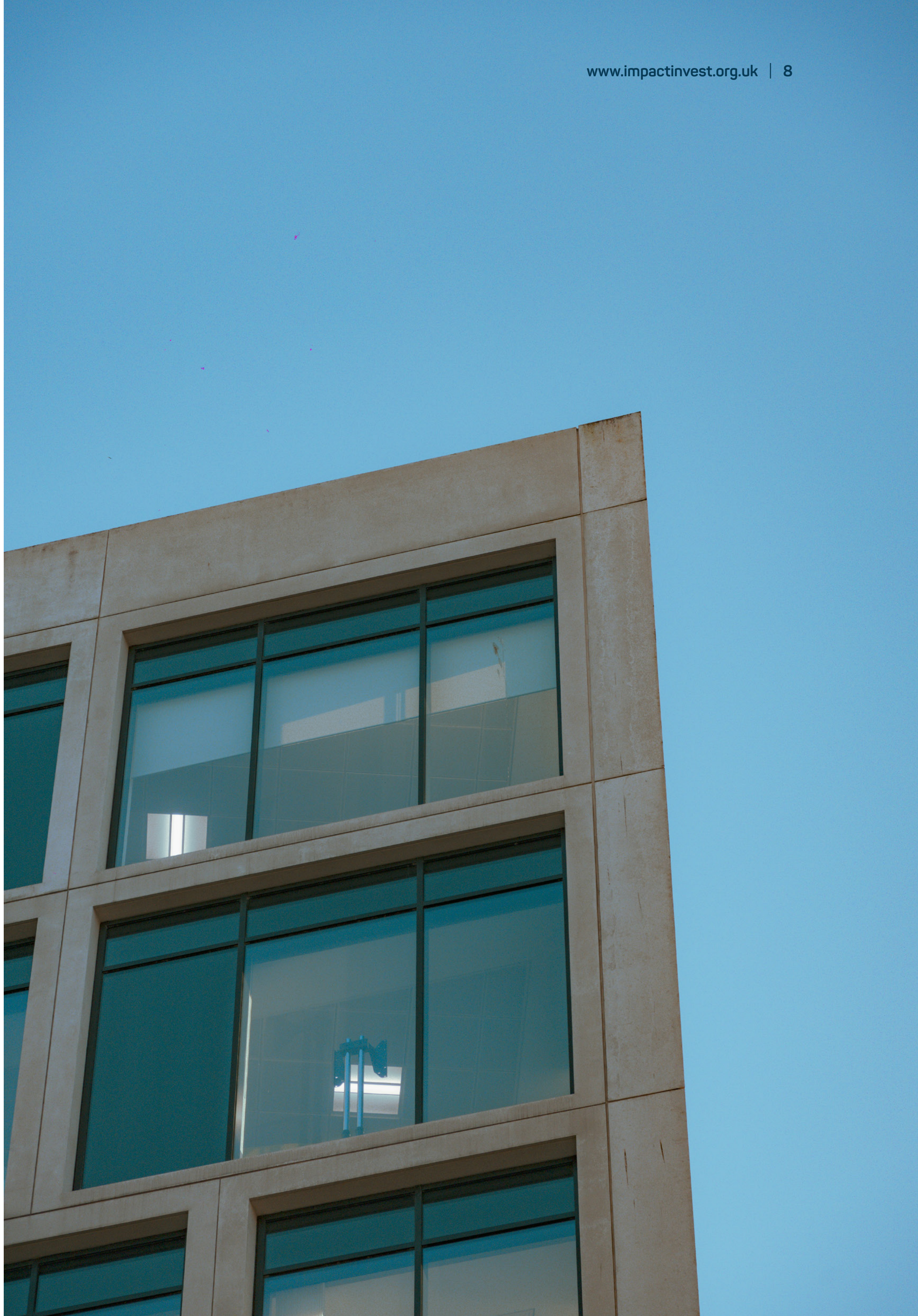
The Impact Investing Institute has a crucial role to play in ensuring the UK leads this revolution. This report highlights the huge opportunities that exist and the potential for impact investment to radically improve our daily lives. More than that, it shows how these investments benefit everyone with skin in the game.

The only way we will achieve a decade of national renewal is by delivering for every corner of this country. This means real economic growth back into our communities, new opportunities in industries like clean energy and jobs in sectors of the future. By combining our shared knowledge, resources and values, impact investments will help us make this a reality in the years to come. I want to thank the Impact Investing Institute for leading the charge.

Lisa Nandy MP
Secretary of State for Culture, Media and Sport

Contents

Case studies



Glossary

Asset manager

An investment team or firm tasked with selecting and managing assets in a portfolio or fund on behalf of investors.

Blended finance

Financing that uses patient, risk-tolerant "catalytic capital", for example from development or philanthropic sources, in order to attract and mobilise additional private capital flows to impact investing opportunities.

Carbon neutrality

Achieving net zero carbon dioxide emissions through a combination of cutting emissions and absorbing or capturing them.

Catalytic capital

Investment capital that accepts higher risk or reduced returns to enable ("catalyse") other third-party investment in a new and unproven opportunity that would otherwise not be possible. Catalytic capital might mitigate risk for other investors by providing a guarantee, taking a higher-risk tranche, or making a "first-loss" investment, and is typically used within blended finance structures.

Environmental, social and governance (ESG)

The key non-financial factors that investors look to assess to determine the sustainability risks and opportunities a company, bond issuer, or other investment presents.

Fiduciary duty

The duties, pre-eminently a duty of loyalty, owed by a fiduciary to the other person in the fiduciary relationship, for example, by a trustee to the beneficiaries of a trust, by an agent to the agent's principal, or by a company director to the company.

Global Impact Investing Network (GIIN)

A global non-profit organisation which convenes impact investors to facilitate knowledge exchange, highlight innovative investment approaches, build the evidence base for the industry, and produce tools and resources.

Greenwashing

A practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.

Impact Management Project (IMP)

A time-bound forum (2016-2021) for building global consensus on how to measure, assess, and report social and environmental impacts generated by investments. The resultant IMP measurement framework looked to assess five dimensions of impact in an investment vehicle or project: What, Who, How Much, Contribution and Risk. The IMP was superseded by initiatives including the Impact Management Platform and Impact Frontiers following its conclusion in 2021.

Impact investment

Investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Institutional investor

An organisation that invests capital on behalf of its members, policyholders or beneficiaries, with an in-house or third-party asset manager overseeing the day-to-day running of the investment portfolio. Institutional investors include pension funds, insurers, charities and foundations, and sovereign wealth funds, and comprise the largest investors in the world.

Just transition

Moving to a net zero carbon global economy in a way that is fair and inclusive to everyone – at every social level and in every region. A just transition should maximise the opportunities created from moving to more sustainable practices by creating decent work opportunities and leaving no-one behind.

Place-based impact investing (PBII)

Investment made with the intention to yield appropriate risk adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity, and sustainable development.

Real assets
Refers to investable assets that are tangible – principally property and infrastructure – rather than tradable securities such as equities and bonds.

Responsible investing
Involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship).

Risk adjusted market return
A way to measure how much return an investment generates relative to the amount of risk it takes. Risk adjusted market returns are those accepted by consumers as commensurate for risk taken and would not create an undue opportunity cost and therefore are not concessionary.

Spectrum of capital
Describes the gradations of financial return and impact that capital may look to achieve. Ranges from traditional investing, which solely looks to deliver financial return, to impact investing, which looks to achieve both financial return and impact – and, finally, philanthropy, which looks to achieve impact with no expectation of financial return.

Sustainable investing
Selecting companies that have the potential to outperform the market because they are managing environmental, social and governance (ESG) risks and opportunities in a more sustainable way than their peers and are therefore more likely to flourish in a changing landscape.

Traditional investing
Investment that focuses on delivering financial return, without any responsible, sustainable, or impact investing considerations.

United Nations Sustainable Development Goals (SDGs)
A collection of seventeen interlinked objectives adopted by the United Nations designed to serve as a shared blueprint for peace and prosperity for people and the planet. Many impact investments will take the SDGs into account in their design.

1. Introduction

There is an urgent need to deploy more capital to achieve environmental and social impact; this needs to be done at speed and at scale.

United Nations data for the 17 Sustainable Development Goals (SDGs) suggests we are on track to meet only 15% of the assessable targets in the SDGs by 2030.[2] In the UK, the funding gap to reach net zero commitments by 2050 is forecast to grow to around £50 billion annually.[3] Impact investing has a major role to play in providing capital at scale to meet ambitious environmental and social goals.

Since the early 2000s, the UK impact investing market has grown in scale, momentum and support. This market sizing report aims to track the growth and to provide insights on the levers and drivers that could support further market growth, and the trends likely to influence it in the future. Our first report, published in March 2022, estimated the UK impact investing market at end-2020 at £57.5 billion in assets under management (AUM). The present iteration of the report reflects our ambition to update our market sizing figure every two or three years.

The story since 2020 has largely been one of positive and rapid market development, despite the disruption and uncertainties for the global economy linked to the Covid-19 pandemic, geopolitical disruption, higher rates of inflation and, in financial markets, the gradual end of a low-interest rate environment.

According to our research, the impact investing market managed from the UK reached £76.8 billion worth of AUM at end-2023, translating into a 10.1% compound annual growth rate (CAGR) in the size of the market between end-2020 and end-2023. This compares favourably to CAGR over the same period for the whole of UK-managed assets, which we estimate to be between -2% and 0%.[4]

Beyond headline market growth, our research shows that impact investing approaches are increasingly embedded in mainstream asset management. This is due to demand, supply, as well as policy tailwinds making impact investing more attractive, and which are further explored in this report.

The rest of this section explains the report's scope and methodology. Section 2 provides an introduction to impact investing and key related concepts. Section 3 provides high-level findings from our research, and section 4 explores identified market trends in depth. Section 5 provides a forward outlook for the market. Calls to action are in section 6. Full methodological detail is in Appendix.

Report scope

Our market sizing includes **impact investing AUM**, **managed from the UK**, and **invested directly** as at end-2023.

What is included in our market sizing

Impact investing AUM	Impact investments are those that meet the GIIN definition, i.e. "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return".
Managed from the UK	Assets managed from the UK are those for which the majority of day-to-day management is undertaken by teams and/or individuals based in the UK, irrespective of the destination of the managed capital or the source of client funds (either of which may be in the UK or abroad).
Invested directly	The market sizing includes only assets that have been invested directly into companies, projects, and real assets, and remove the proportion that has been invested indirectly via other funds, funds of funds or other intermediaries. The purpose of this is to avoid double counting.

Methodology

This report is based on an augmented version of the methodology used for our inaugural market sizing report in 2022. Evolutions in the methodology were guided by the aim to decrease reliance on third party data through more extensive primary data collection. Specific steps, further detailed in Appendix, were taken to retain comparability between the findings presented in this report and our inaugural market sizing.

Primary data collection centred around a market participant survey conducted in partnership with the GIIN. This data collection partnership marks a significant advance in increasing the alignment of various impact investing market sizing efforts, and the comparatibility of market sizing figures across different markets.

The survey, conducted in the first half of 2024, captured insights from 72 market participants doing impact investing from the UK. Respondents included organisations that are primarily based in the UK and those whose headquarters are elsewhere but who manage a portion of impact investments from the UK.

Responses from the full sample were used primarily to calculate the quantitative estimate of the market size. A sub-sample of 40 organisations that manage more than 50% of their impact assets from the UK was used for most of the other analysis in this report, to ensure results reflect a UK-based view.[5]

The primary research was augmented with further data points on market participants taken from external sources, including a member survey conducted by the Investment Association (IA). Quantitative insights were complemented with qualitative insights gathered through 35 semi-structured interviews with a variety of market participants and experts in the UK and globally.

Additional detail on the methodology, survey respondent breakdown, data sources (including primary, IA and other external data), comparisons to other market sizing exercises (including the Institute's inaugural market sizing report), and limitations of the methodology are in Appendix.

2. Defining impact investing

This section introduces key definitions and concepts linked to impact investing, as well as recent evolutions in relevant UK and global policy.

Market definition

We have adopted the GIIN definition for the purpose of this report, as it is the one most often used by investors to identify and report on their impact practices. There are three underlying attributes of this definition:

1. **Intentionality**, which refers to the investor's intention to create specific social and/or environmental outcomes from their investment.
2. **Measurability**, which requires a clear process and framework in place to measure the impact performance of the investment.
3. **Financial return**, which differentiates impact investing from fully concessional uses of capital such as philanthropy. Investors have diverse financial return expectations, although the majority of capital in the sector is targeting market-competitive, risk adjusted returns.

Under the GIIN definition, investments can be made across asset classes, in all types of markets (including developed and emerging markets), in listed and private companies and projects, and can target a range of returns from below-market (commonly referred to as "impact first") to market-rate ("finance first"), depending on the investor's strategic goals.

Additionality

Whilst the GIIN definition does not require it, some investors and standard setters add "additionality" as a feature of impact investing.

The Impact Management Project (IMP, now Impact Frontiers) defines additionality as "the extent to which desirable outcomes would not have occurred without intervention." In the context of impact investing, it is the requirement of contribution from both the investee and the investor (both in terms of financial and non-financial support) to ensure impact is achieved.

The Financial Conduct Authority (FCA) does not require additionality for the Sustainability Impact label (see below). Products qualifying for this label must have a sustainability objective to achieve a pre-defined positive, measurable, impact in relation to an environmental and/or social outcome. A key feature of this category is that firms need to measure and report on how their investment activities contribute to achieving the impact (i.e. their investor contribution), as well as how the assets are achieving the impact.

As we have adopted the GIIN's definition of impact investing, demonstrating additionality was not a requirement for inclusion in this market sizing. Nevertheless, several respondents highlighted the importance of defining their contribution to investees as a key component of their impact investing approach, showing the evolution of understanding and practice around additionality.

"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

- The GIIN

The spectrum of capital

The spectrum of capital is a useful framework to describe the different approaches to investment and the factors that help to determine the boundaries between them.[6]

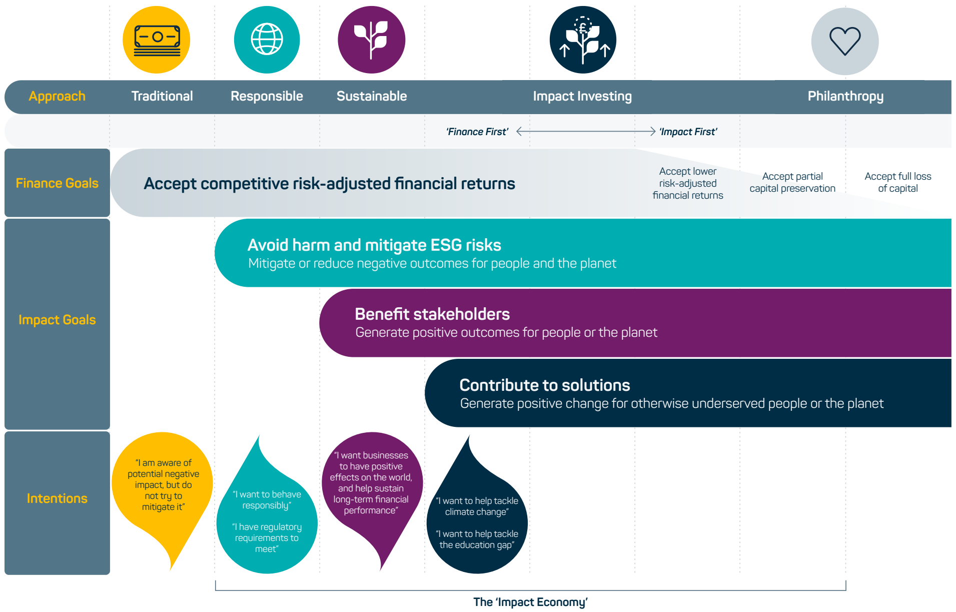
Traditional investment emphasises maximising financial returns, generally with limited stewardship and no ESG (environmental, social and governance) standards.

When investors are looking to "avoid harm" or "generate benefits to stakeholders" through better risk assessments, they are generally employing **responsible** or **sustainable investing** strategies, respectively.

Impact investing seeks to "contribute to solutions" and requires a specific intention to create and measure impact but does not imply a sacrifice of financial returns. Some impact investors may be willing to accept reduced returns to achieve impact targets – these are described as **impact first.**

Philanthropy has the greatest freedom to expend resources for impact goals and generally does not expect repayment of capital or financial returns. For this reason, philanthropic grants are not included in our definition of impact investing.

Figure 1: The spectrum of capital



Source: Bridges Fund Management and Impact Management Project.

Impact investing and ESG

Impact investing is related to, but separate from, ESG strategies. ESG strategies refer to the integration of these factors in investment decisions, primarily as a risk mitigation strategy, while impact investing seeks to achieve positive environmental and social outcomes.

The increasing consideration of ESG factors in investment decisions has attracted significant political and industry attention. While controversy has led to well-documented withdrawals from ESG-focused strategies in some countries, including the United States, this has not been observable at the same scale in the UK – a distinction noted by several of our interviewees. The controversy around ESG should also be counterbalanced with the growing industry understanding that mitigating ESG risks is likely to lead to better long term financial performance.[7]

Trends in regulation

Impact investing industry participants share a common goal of increasing confidence in the market to drive greater capital flows. It was clear from our engagement that this includes a general appetite for enhanced and improved regulation of the space.

The ways in which impact is described, monitored, and measured is evolving. This is driven by a desire to generate greater capital allocations to impact and avoid an erosion of trust that could be provoked by accusations of "greenwashing". Regulators are pushing for greater consistency and transparency in claims made around impact and to clarify expectations of investor contribution, including stewardship.[8] This has been matched by improved rigour and consistency of enterprise level reporting (see section 4).

UK policy and regulation

After extensive industry consultation, the FCA published its Sustainability Disclosure Requirements PS 23/16 (known as SDR) in November 2023, including a new labelling regime, which came into effect for some retail funds on 31 July 2024.

SDR aims to improve trust and transparency and ensure financial products can back up their sustainability and impact claims. In addition to the anti-greenwashing rule (which requires that sustainability claims must be clear, fair and not misleading), SDR introduced four new sustainability investment labels: Sustainability Focus, Sustainability Improvers, Sustainability Impact, and Sustainability Mixed Goals (the latter for funds that combine the three other strategies).

Section 5 of this report provides insights from our survey and interviews UK impact investing market actors' views on the new FCA regulations. There is positive sentiment towards the regulations and the role that the UK market can play as an international hub for impact investing with a strong regulatory basis. Immediate uptake of the Sustainability Impact label is likely to remain limited, as SDR primarily covers investment products advertised to UK retail clients, a relatively small sub-set of the current impact investing market. However, the FCA's approach is likely to influence broader industry practice, as there was some expectation among respondents that the applicability of SDR may be extended, including to funds targeting UK institutional investors and/or those that are managed by any FCA-regulated firms in the future.

The FCA describes "greenwashing" as the act of making exaggerated, misleading, or unsubstantiated claims about the sustainability characteristics and benefits of financial products or services. This practice undermines consumer trust and confidence in sustainable investment products.[9]

Requirements for the Sustainability Impact label

"[To make a product eligible for the sustainability impact label] firms must:

- *specify a theory of change setting out how they expect their investment activities and the product's assets to contribute to positive impact*
- *specify a robust method for measuring and demonstrating the positive impact of both their investment activities and the product's assets.*

While the Sustainability Focus and Improvers labels have an aim consistent with investing in assets that can indirectly improve or pursue positive outcomes, the Impact category aims to directly achieve a positive impact. A key feature of this category is that firms will need to measure and report on how their investment activities contribute to achieving the impact (i.e. their investor contribution) as well as how the assets are achieving the impact." [10]

Global policy and regulations

UK impact fund managers have a global outlook, with a large global client base. Evolutions in global policy and regulation on sustainable and impact investing were therefore clear areas of interest for our respondents.

In the EU, the Sustainable Finance Disclosure Regulation (SFDR) sets out how financial market participants in the EU must disclose sustainability information to investors. Despite the current use of "Article 6", "Article 8", or "Article 9" to categorise funds according to their degree of integration of sustainability, SFDR was primarily intended as a disclosure rather than a labelling regime, designed to allow investors to properly assess how sustainability risks are integrated into investment decisions.[11] Evolutions in SFDR, including the introduction of new product category labels with overlaps with SDR, are currently being considered by EU regulators.[12]

Other investment regulators across the world are at varying stages of introducing standards of sustainability, ESG, impact taxonomies and fund manager disclosures, which is also likely to affect the practice of UK-based investors.[13] While there has been evidence of positive collaboration between regulators in different jurisdictions, the risk of fragmentation was highlighted by respondents.

3. Key findings on the UK impact investing market

We estimate the total size of the UK impact investing market to have reached £76.8 billion in AUM at end-2023. Further details on this figure, as well as other key findings from our research, are provided in this section.

Our market estimate, which uses conservative methological assumptions, shows an increase of £19.3 billion compared to the market's size at end-2020 and represents a compound annual growth rate (CAGR) of 10.1%. We estimate that CAGR over the same time frame (end-2020 to end-2023) for the whole of UK-managed assets was between -2% and 0%.

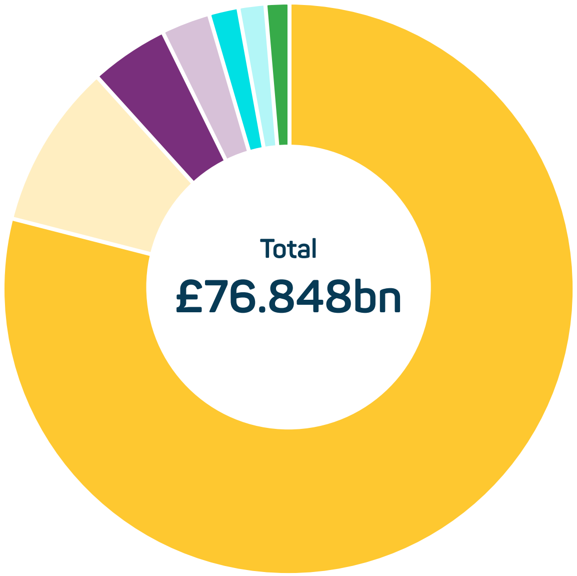
We estimate that impact investing represents ca. 0.8% of the wider UK investing market, which the IA estimates to have reached £9.1 trillion at end-2023.[14]

These figures indicate strong growth in the impact investing market despite difficult wider market conditions. They also illustrate that the impact investing market, while small, is an increasingly important sub-set of the wider UK investing market.

Figure 2: Growth of the UK impact investing market, 2020-2023

Key market actors and growth drivers

Figure 3: Breakdown of the UK impact investing market by investor type, AUM[15]



- **£60.701bn - Investment managers (incl. asset managers and social investors)**
- **£7.168bn - Development finance institutions**
- **£3.42bn - Institutional asset owners (incl. pension funds, foundations, endowments and insurance companies)**
- **£2.132bn - Other investor types**
- **£1.294bn - Banks**
- **£1.172bn - Private clients (incl. family offices and high-net-worth individuals)**
- **£0.961bn - Non-profits**

As a market report, our analysis pays particular attention to the main actors involved in the direct management of assets, regardless of the source of the managed assets. The market sizing includes only investments made directly into companies, projects, and real assets, but not those made indirectly via other funds, funds of funds or other intermediaries. (The purpose of this is to avoid double counting.)

As shown in figure 3, similarly to our 2020 analysis, the vast majority (79%) of direct impact investments are managed by investment managers.[16] Development finance institutions (DFIs) and insurance companies follow in terms of the total assets they directly manage.

Our research has highlighted a continued diversification within investment managers, as many different types of such organisations are now making impact investments. The report period has seen large generalist asset managers launch and expand impact investing strategies, both throughout their overall business and in focused offerings. Examples include Schroders' acquisition of BlueOrchard, a leading impact investor, and Morgan Stanley's launch of the impact 1GT Fund. We have also seen growth in size and sophistication of smaller impact investors, such as Resonance and Big Issue Invest, who have grown their impact investing practice through building deal track records and diversifying their impact investing product offers.

The growth in the impact investing market in the UK is driven by both existing investors increasing their AUM, as captured by a 8.8% CAGR reported by our repeat survey respondents, as well as new players launching impact offerings. Comparing the market at the time of our initial market sizing, at the end of 2020, and the data for end-2023, we estimate the new funds launched since 2020 explain the majority of the recorded AUM growth. An example of such a fund is the USD1.5 billion Industrial Climate Solutions fund by Just Climate, a dedicated fund manager launched by Generation Investment Management.

Case study: Industrial Climate Solutions, Just Climate

Total fund value: USD1.5 billion

Classification: SFDR, Article 9. Significant target for EU Taxonomy-aligned investments

Investors: Just Climate's inaugural fund, Industrial Climate Solutions, raised USD1.5 billion in capital from a diverse set of institutional investors in 2023, including California State Teachers' Retirement System (CalSTRS), PSP Investments, AP4, Colonial First State Investments, Builders Asset Management, and AP2, as well as other pensions, sovereign wealth funds, insurers, financial institutions, endowments, foundations, and family offices from North America, Europe, and the Asia Pacific region.

Investment portfolio: Industrial Climate Solutions invests in the industries that are highest-emitting and on a path that is least consistent with 1.5°C warming, such as cement, shipping, industrials, and aviation. Just Climate aims to limit global temperature rise to 1.5°C by catalysing and scaling capital towards solutions with the highest climate impact and attractive risk-adjusted returns. Just Climate has made investments into five companies from its inaugural fund, namely ABB E-mobility, H2 Green Steel, Meva Energy, Infinitum Electric, and Ascend Elements. Just Climate recognises the importance of a just transition approach. Throughout its portfolio, it seeks to integrate climate action with stakeholder voice, ensuring workers and communities affected by the transition to a net zero economy are considered.

Return goals and impact-adjusted performance fees: Just Climate has an impact-adjusted performance fee. The performance fee starts with financial performance similar to a traditional carry structure but is then adjusted by an Impact Factor, with a multiplication range of 0–100%. The Impact Factor is a ratio where the numerator is the weighted GHG emissions abatement achieved by the portfolio measured over a 10-year period and the denominator is an ambitious fund-level GHG emissions abatement target. Just Climate defines expected GHG emissions abatement as the forecasted GHG emissions a specific investment is expected to abate over 10 years, compared to a baseline scenario, based on a realistic business model, including any GHG emissions removed from the atmosphere, measured in tonnes of CO_2 equivalent.

"Just Climate's integrated approach to impact management is embodied in our long-term incentive structure. Under a fund's integrated performance fee, the financial returns we deliver for our clients drive the amount of performance fee accruable to us. How much of the performance fee is ultimately available to us is 100% linked to us also delivering against ambitious greenhouse gas abatement goals."

- Clara Barby, Senior Partner, Just Climate

Impact and financial returns performance

There is a consensus amongst our interviewees and survey respondents that impact investing can achieve market-competitive returns without sacrificing impact goals, and vice-versa. Accordingly, the vast majority of impact strategies target market-rate financial returns alongside impact objectives. 73% of survey respondents highlighted that they have never targeted concessionary returns. Despite this positive track record, interviewees noted that a major marketing challenge remained to convince those who haven't engaged in impact investing before that it was not necessary to concede returns to generate impact.

Several interviewees attributed the pervasiveness of this misconception to the comparatively longer time horizon that many impact investors adopt when seeking to achieve impact and financial return objectives. It takes time to achieve and measure a positive real-world outcome, compared to a financial outcome that might be measured daily. The need for a long-term horizon for impact investing performance was also linked by some respondents to the prevalence of private markets investments in the impact space. Investments in private markets tend to be illiquid and require finding appropriate exit opportunities before realising financial targets.

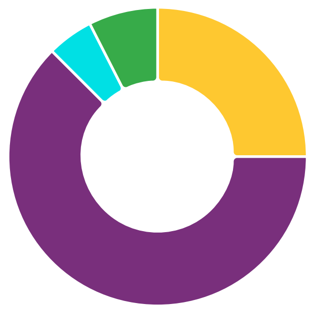
Recent research supports the trends identified in our survey and interviews. Pensions for Purpose research shows that, when looking over a long enough time frame, impact investing and mainstream investing returns are aligned.[17] PitchBook research also highlights that, while there is a misconception that impact investing is synonymous with concessionary returns, they found no evidence that this holds generally true when looking at 2023 performance data.[18]

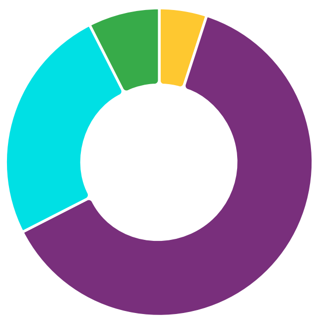
Impact and financial performance against targets

Q: How would you assess your portfolio's performance, overall since inception, against your financial and impact expectations?

n=40, sub-sample with majority UK management

Figure 4: For survey sub-sample, impact and financial performance against targets, since inception



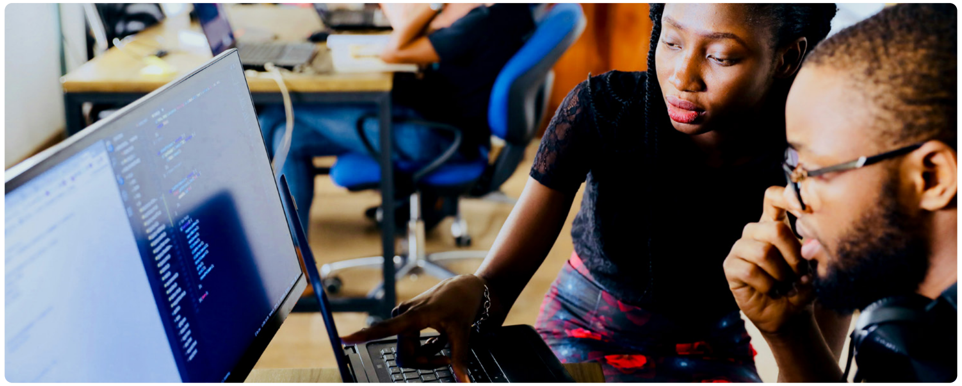


Overall, impact performance has been positive, with 88% of respondents indicating impact performance in line with or outperforming targets.

Survey respondents reported that financial returns are broadly in line with targets over the life of their impact investments. But there are more investors reporting financial returns below target, compared to impact returns, and only 5% of respondents reported outperformance in financials. 68% of respondents reported financial returns in line with or outperforming targets for 2023, compared with 90% for 2020.

These results show that the financial performance of impact investments has behaved similarly to mainstream investments in recent years. Most investments have performed poorly during a period of sharply rising interest rates in 2022 and uneven recovery from the global pandemic, and are therefore likely to have underperformed prior expectations. For example, the MSCI All Country World Index (ACWI), a commonly used proxy for the performance of global financial markets, recorded a CAGR of 6.23% in the period 2021-2023, compared to 10.64% CAGR in the period 2018-2020.[19]

There are also specific factors that may have played against the financial performance of impact investments in this period. Many impact investments are in infrastructure capital assets, which normally provide predictable long-term returns, often with government backing, such as in the case of windfarms.[20] With financial characteristics similar to government bonds, these have fallen in price over the last two years with rising market yields. Like government bonds, prices of these infrastructure capital assets have not recovered in line with general equities.[21]



Comparisons with global market

In the most recent estimate available at the time of publication, the global impact investing market was USD1.164 trillion as at December 2021.[22] We estimate that the UK impact investing market therefore represents ca. 8% of the global impact investing market.

Comparing our UK results with these global estimates, we find a higher concentration of impact assets being managed by investment managers and development finance institutions in the UK than globally (totalling 88% of assets in the UK compared to 68% globally). The global market sizing shows a larger representation from foundations, endowments, and private clients such as family offices (1.6% in the UK vs 15% globally).[23] This suggests that such actors are more likely to make direct impact investments compared to their counterparts in the UK, who tend to make impact investments through investment managers.

Our market sizing highlights a concentration of impact AUM amongst a small set of large organisations, reflecting similar trends in the global market. Among the 100 organisations for which we have data points, the top 13% of organisations, with direct impact AUM of over £1 billion each, represent 74% of the total AUM figure.[24] The bottom 52% of organisations cover only 1% of AUM. This relationship is also highlighted through the ratio of the average portfolio size to the median portfolio size. In our sub-sample the average is £534 million (USD421 million) and the median is £58 million (USD73 million). Figures in the GIIN's global market sizing are similar, with an average of USD485 million and a median of USD62.5 million. This trend of concentration in a small group of large players mirrors the wider investment market, which has seen a continued trend towards consolidation.[25]

4. Market trends

This section outlines key trends in demand for and supply of impact investments over the last three years.

Trends in demand

Institutional investor growth

Our interviews highlighted increased demand for impact investing, domestically and internationally, particularly from institutional investors.

The UK Government's 2022 Levelling Up White Paper proposed that the Local Government Pension Scheme (LGPS) should aim to invest 5% of its assets in projects which support local areas.[26] Some LGPS funds have responded swiftly. For example, Greater Manchester Pension Fund (GMPF) now has over £800 million in its Local Investment Impact Fund.[27] Such impact allocations are typically seeking market-competitive returns. GMPF estimated that as of end-2022, approximately 85% of its impact investments were in small and medium enterprises (SMEs), commercial real estate, and housing, with a further 14% linked to renewables, natural capital, and social investment.

Another example, in this case by an LGPS pool, is the Brunel Pension Partnership's mandate with Neuberger Berman to commit over £600 million in capital to a fund with a 40% impact investing weighting.[28]

Despite these positive signs, our interviews highlighted that UK-based pension funds are still seen as slow to increase allocations to impact investing, and as lagging behind other institutional investors and their international counterparts. Barriers mentioned by interviewees include the lack of suitable investment opportunities, insufficient transparency on the sustainability and impact of investment propositions, concerns over compatibility with fiduciary duty, and financial and impact performance.

To address these barriers, the Institute – as well as other organisations such as Pensions for Purpose – has issued research and guidance that highlight that impact investing can be fully aligned with fiduciary duty and yield market-rate returns.[29] Overseas pension funds, particularly in Australia, have shown good progress in investing in impact (including investments in large UK-based impact funds) that the UK could look to for inspiration.[30]

Insurers are increasingly considering their impact, although they remain a somewhat untapped market from an allocation perspective. Among other positive signals, Aviva relaunched a campaign for the UK to become the most climate-ready large economy by 2030.[31] Similarly, Legal and General (L&G) has expanded its Climate Impact Pledge, which now covers over 5,000 companies across 20 climate-critical sectors, including forestry. L&G stated that this expansion would allow exerting greater influence on companies to improve their environmental practices. L&G also apply voting and investment sanctions to companies that fail to meet climate expectations.[32]

Endowed foundations are also increasing allocations to impact.[33] Some organisations, such as the Dunhill Medical Trust, have recently embarked on this journey, highlighting the complementarity of impact investing with their more traditional pathways to achieving impact.

Case study: Dunhill Medical Trust's strategic investment approach

The Dunhill Medical Trust (DMT) has embarked on a transformative journey over the past five years, looking to evolve from a traditional UK-endowment investment strategy to an "impact-conscious" approach. With an endowment of approximately £165 million, DMT aims to strategically invest with fund managers who generate financial returns while also pursuing positive impacts, including supporting the Trust's mission of advancing healthy ageing.

Strategy and ambition: DMT's strategy is driven by its ambition to fund remarkable science and radical social change necessary for healthier older age. In 2019, DMT transitioned from solely public market investments to incorporating private market opportunities. In 2023 the Trust developed an impact-conscious strategy, seeking to understand how all its assets can contribute to its charitable mission – building out that approach over the next few years.

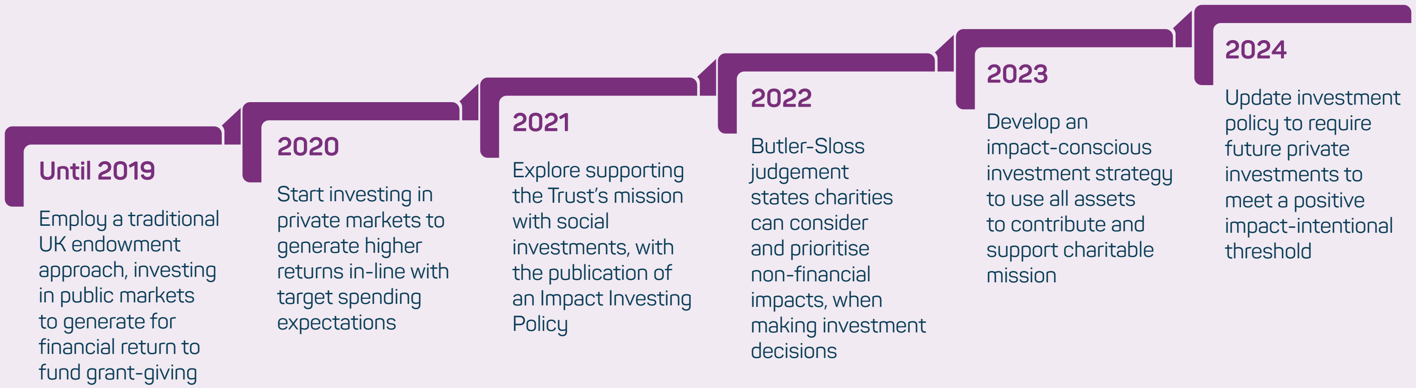
Motivation: The motivation behind this shift is rooted in the Trust's commitment to improving health and social care for older people, maintaining its core activity of funding scientific and academic research, but seeking to leverage the power of its sizeable endowment to further contribute to it, rather than keeping the investment activity separate from the organisational strategy.

Asset allocation: DMT uses the spectrum of capital to help define its investment approach, with around 85% of the current portfolio allocated to public markets, 10% to private markets, and about 3% to social investments. The Trust primarily invests in pooled funds, seeking to identify managers that are intentional about the impacts created through their investment strategies. For public investments, the Trust seeks to invest with managers who support portfolio companies with responsible and sustainable business practices. With private investments the Trust goes further, prioritising managers who look to address societal challenges whilst generating competitive financial returns.

With social investments, the Trust looks for solutions that highly contribute or strongly align to its mission to advance health and wellbeing in later life.

An example from DMT's portfolio is its investment in BelleVie, a direct equity investment made from the Trust's social investment allocation. BelleVie is an innovative home care provider, delivering tailored person-centred care packages to enable people to live independent lives in their homes for longer.

Figure 5: Evolution of DMT's investment strategy



Source: Dunhill Medical Trust

Family offices – vehicles set up to manage family wealth – are becoming actively involved in impact investing, as more families are looking to align their investments with their values. Family offices are generally unconstrained by obligations that can inhibit other institutional investors and can act at pace on the social and environmental issues they care about. As further explored in section 5, family offices' allocations to impact are expected to increase in the context of the inter-generational wealth transfer ongoing in the UK and globally.[34]

European demand for climate investments

Complementing demand from UK actors, a key trend highlighted by our respondents is the strong demand from European institutional investors for high-quality climate-focused investments from firms with robust track records. At least 25% of the investment managers we spoke to during our interviews specifically noted increased growth in demand from European institutional investors in impact products, particularly from the Nordics and Benelux, and in environment-focused products. This suggests both a regional preference that benefits UK investment managers and increasingly sophisticated expectations regarding sustainability and impact from some institutional investors.

Trends in supply

Our research and interviews highlighted an expanding variety of impact products being available on the market. Impact investing is considered to have originated in private markets but, as the impact investing market has grown, the set of asset classes where impact approaches are being applied has broadened. In addition, sectors that are expanding in the UK impact investing market include forestry, biodiversity, and place-based community assets.

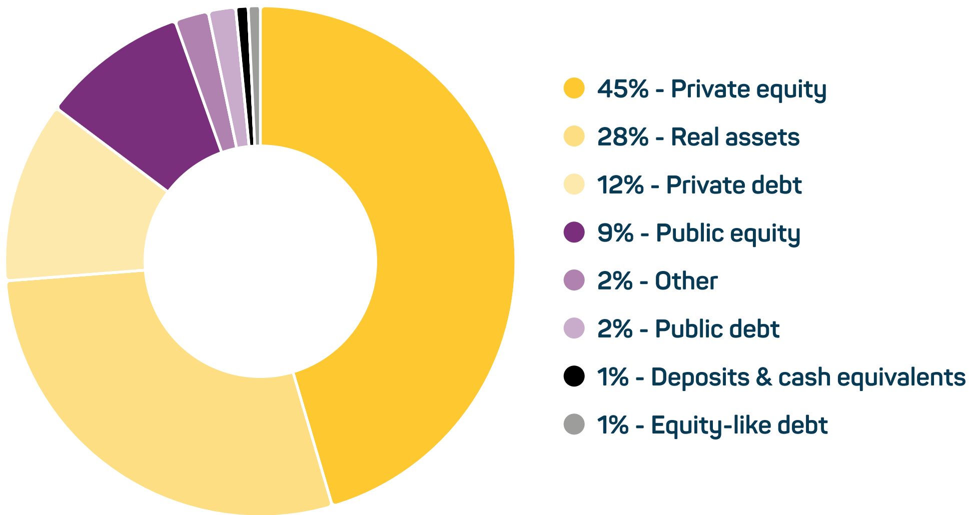
Preferred asset classes

Q: How is your current portfolio allocated across instruments in terms of percentage of total impact capital?

n=40, sub-sample with majority UK management

Private equity attracts the highest proportion of impact capital, at 45%. Real assets follow with 28%, and private debt at 11%. These three asset classes together account for approximately 85% of impact investments directly managed in the UK. When compared with the previous survey results, allocations to real assets and private equity are much higher.[35] Private equity and private debt, as well as real assets, were identified by respondents as of particular interest to them over the next five years, suggesting continued growth in these segments.

Figure 6: For survey sub-sample, impact AUM by asset type



Future allocation of asset types

Q: How do you expect to change your (impact) allocation to the following asset classes over the next five years?

n=40, sub-sample with majority UK management

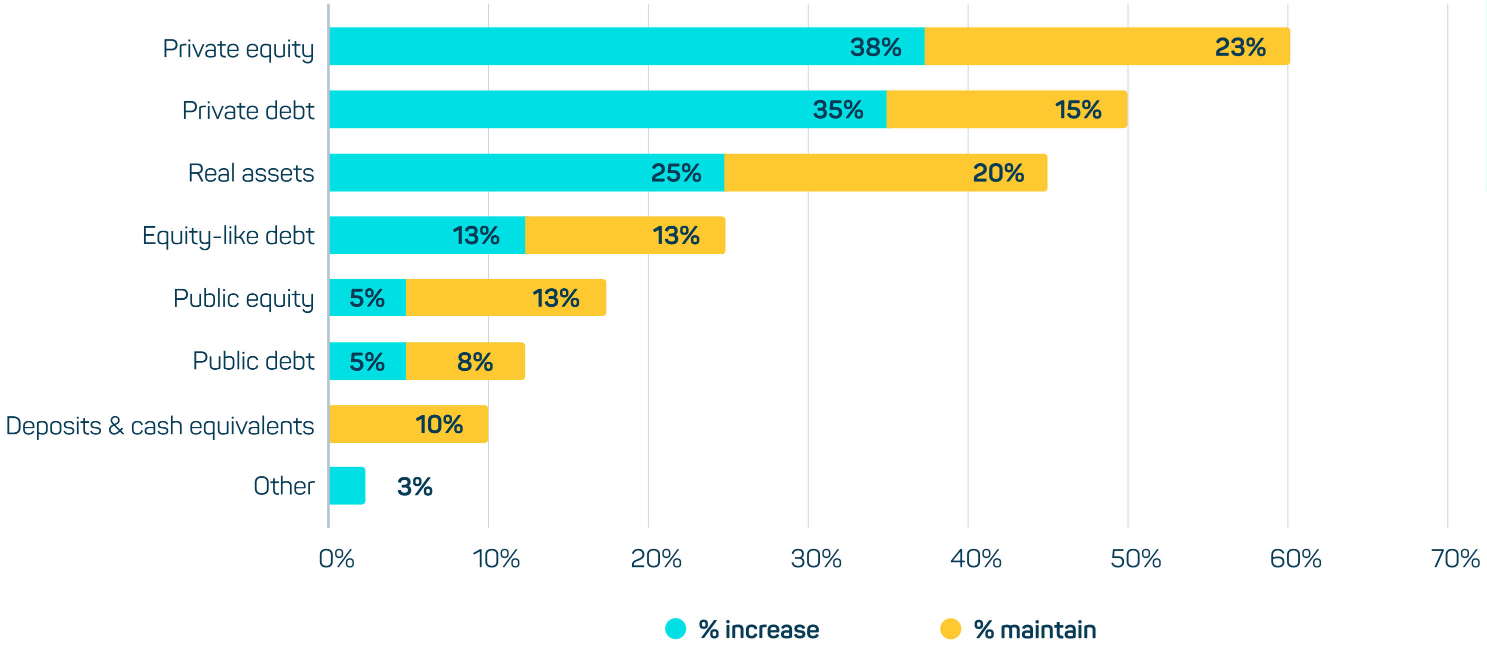
Despite this primary focus on private markets, our research revealed notable expansion in the variety of impact products available, highlighting the opportunity from incorporating diverse impact asset types into investor portfolios. This variety brings diversification benefits and enables impact investing to be further integrated across different financial strategies.

While public market strategies remain a small sub-set of the impact investing market, interviewees highlighted an increase in their availability. This change reflects a broader adoption of impact investing across portfolios. Supporting this observation, research by Phenix Capital indicates that, as of December 2023, impact fund managers raised approximately EUR226 billion globally in public equity strategies.[36] As fund managers improve and refine their stewardship and ability to influence investees in the pursuit of impact in public markets, they are becoming more confident in holding public assets in impactful portfolios and strategies.

"Investment strategies often include both private and public assets, with ESG considerations extending across both. Traditionally, private assets were the focus for innovative or impactful investments, but this is changing. These factors are now influencing decisions in listed, liquid markets too, showing a wider adoption of sustainability practices in investment portfolios."

- Erin Leonard, Head of Sustainability, HSBC Asset Management

Figure 7: For survey sub-sample, proportion planning to increase or maintain allocations to each asset type

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Case study: Impact driven range, Schroders

Schroders' impact driven range, launched in 2022, provides an example of an asset manager aiming to offer a series of investment propositions combining impact with scale in different asset classes. The range comprises a total of 20 strategies targeting positive societal and environmental impact, alongside competitive financial returns, across public and private markets.

Figure 8: The Schroders Impact Driven range

Asset class	Private markets	Public markets
Global and developed markets equity	Circular economy semi-liquid strategy	Global impact strategy US small cap impact strategy European impact strategy
Emerging markets equity	Climate insurance strategy	Emerging market equity impact strategy Asia equity impact strategy
Global and developed markets fixed income		Social impact bond strategy
Emerging markets fixed income	Financial inclusion strategy Financial inclusion and climate strategy Diversity and inclusion strategy	Impact bond strategy Climate bond strategy
Global and developed markets real assets	UK real estate impact strategy Semi-liquid global energy transition (for UK DC) Semi-liquid global energy transition (for wealth)	
Emerging markets real assets	Infrastructure strategy	
Multi-asset solutions and fund of funds	Climate solutions strategy Climate and nature strategy UK social impact strategy	

Source: Schroders

Impact approach and framework

Schroders' impact investing approach focuses on four attributes applied at both the level of each fund and for each underlying asset:

- **Intentionality**, including an impact-led theory of change (ToC) for each fund and a clear impact thesis tied to the ToC for each underlying investment, demonstrated through the latter's business activities and growth drivers.
- **Contribution**, both financial – e.g. through providing capital more quickly than other investors, with greater flexibility, or taking on greater risk – and non-financial – through implementing impact targets into investment agreements or engaging with investees to improve impact and sustainability outcomes. Investee contribution comes through its products and services, and the degree to which these are differentiated from alternatives available in the market and serving an unmet need.
- **Measurement**, through monitoring and reporting on impact key performance indicators (KPIs) for companies and assets within the portfolio, as well as aggregate portfolio level impact KPIs. Impact KPIs quantify the impact that an investee delivers through forward looking impact expectations or targets and quantifiable measures to track progress towards them.
- **Financial returns**: Schroders impact funds target competitive financial returns in line with their respective asset classes and benchmarks, with a dual financial and impact objective. Schroders' impact and investment teams work in tandem to establish conviction in both the impact and financial prospects of a company or asset before investing.

The Schroders Impact Framework, which has been rolled out across all strategies in the range, is based on a proprietary tool developed by BlueOrchard, a specialised impact manager acquired by Schroders. The framework seeks to integrate best practice and industry standards like GIIN's IRIS+, the Operating Principles for Impact Management, and Impact Frontiers (ex-IMP)'s framework. This aims to ensure a consistent and rigorous process for managing, measuring, and governing impact across all portfolios. The framework includes impact governance with oversight by a dedicated Impact Assessment Group (IAG), which reviews and approves every transaction.

Investment examples

Cavco: Cavco is one of the largest producers of manufactured housing in the United States and is a holding in Schroders' Global and US Smaller Companies equity impact strategies. Cavco's factory-built homes leverage economies of scale to produce affordable, low-utility-cost homes with significantly less manufacturing waste than on-site home building. The houses are intended to be entry-level homes and are tailored to households with an annual income under USD40,000. Schroders has developed a strong relationship with the company's management teams. This relationship has enabled productive, outcome-focused engagements related to corporate governance, strategy and execution.

Shriram Transport Finance: Shriram's social bond contributes to improving access to financial services for individuals and micro, small and medium enterprises which typically do not qualify for traditional banking loans. This includes small road transport operators and first-time buyers from underserved communities helping to promote socioeconomic advancement and reducing inequalities. 100% of the use of proceeds of the bond is aligned with impact. It is held in Schroders' and BlueOrchard's listed debt impact strategies. Schroders is a large holder and has engaged to encourage the company to issue social bonds with clear impact-aligned use of proceeds.

"The impact market has grown and deepened, making impact investing across different asset classes possible. In the past, investors might have viewed impact as a pocket or sleeve, allocating only a small percentage of their portfolio to it. Now they can incorporate impact across different asset classes with varying risk-return profiles, allowing impact to become a lens through which the entire portfolio is viewed. This shift means impact investing no longer has to be a minor allocation but can be part of a core strategy, enabling capital to scale more quickly."

- Catherine Macaulay, Co-Head of Impact Management, Schroders

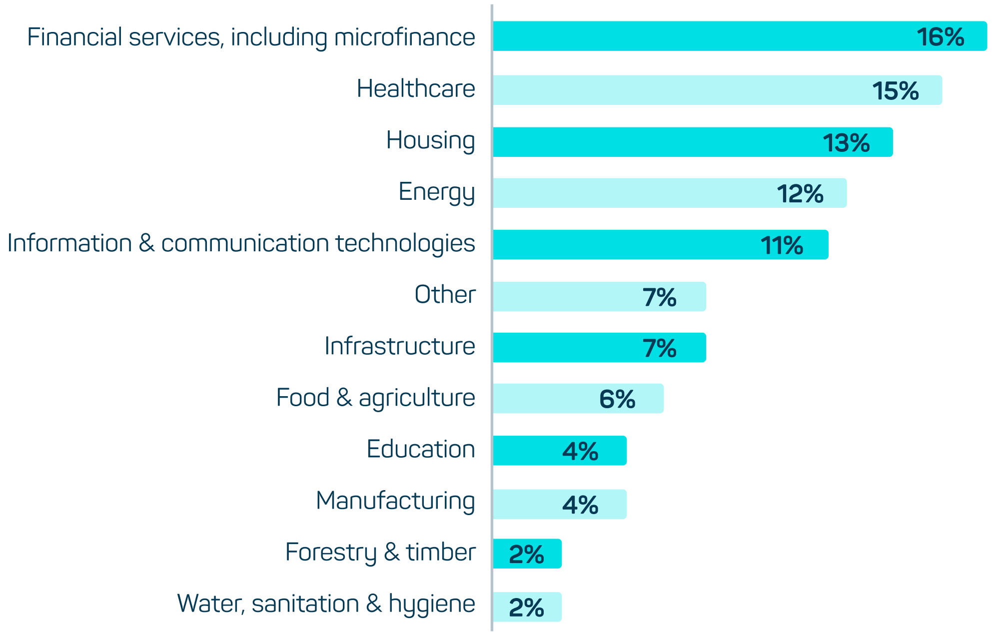
Sector allocations

Q: How is your current portfolio allocated across sectors in terms of percentage of total impact capital?

n=40, sub-sample with majority UK management

The survey results show the broad range of sectors targeted by impact investing. The largest of these are financial services (including microfinance and social lending), healthcare, and housing. In our sample a large portion of the financial services and microfinance impact investments are held by DFIs in emerging markets. Smaller sectors include forestry and timber, water, sanitation and hygiene, and education. "Other" was a common answer to this question – our respondents indicated this includes technologies such as battery recycling and smart mobility, some real assets including commercial property, aquaculture, and the arts.

Figure 9: For survey sub-sample, proportion of impact portfolio allocated to each sector



Our interviewees identified four key areas where they are seeing an increased supply of funds:

Biodiversity

Although overall holdings are small, new funds and strategic initiatives are emerging in this sector. Interviewees highlighted the growing interest in the biodiversity market from pension funds. Asset managers who have responded to this interest include Federated Hermes, which launched a biodiversity equity fund in 2022, and Gresham House, which has recently invested in Fischer Farms to help fund the largest vertical farming facility in the world in Norfolk.[37]

Place-based impact investments (PBII)

PBII funds are dedicated to revitalising local places and communities, with involvement from investors across a spectrum of sizes and investment approaches.[38] Recent examples of PBII come from Schroders, Octopus Investments, Barking and Dagenham Giving, and a number of LGPS funds investing with a local focus. Housing already ranks as the third-highest portfolio allocation by fund managers, and it is expected that this trend will continue and expand into more diverse housing and property assets, such as high-street revitalisation (see section 5).

Forestry

Although it constitutes a small part of existing portfolio allocations, at 2%, forestry was highlighted as an emerging area. Nest, the pensions master trust, recently announced it would expand forestry investments as part of its work on climate change mitigation and adaptation.[39] Leicestershire County Council Pension Fund committed £55 million to global sustainably managed timberland with Stafford Capital. The capital will be invested in planting new forests, reforestation, and improved forest management. This will provide a source of sustainable low-carbon timberland materials and generate verified carbon offsets.[40]

Improver type assets

Most of our interviewees highlighted the important role investors need to play to support emitters to reduce greenhouse gas emissions. Many interviewees outlined that they include improver-type assets in their impact strategies, because it is crucial to support organisations to "clean up their own mess", as well as to invest in companies that clean up the mess of others. Improver-type strategies aim to invest to improve investee sustainability where they are on a credible path to net zero. Several pioneering ESG investors have over the past decade invested in high emitting businesses, such as fossil fuel producers, to support them adopting decarbonisation strategies. These early strategies had mixed success in persuading emitters to decarbonise and some investors withdrew their investment. However, improver strategies have now gained recognition as impactful categories and climate transition funds have been launched. The FCA's "Sustainability Improvers" label codifies what is an improver investment and creates a clearer framework against which to assess the impact of these strategies. An example is Mirova who, in 2023, launched its sixth strategy focused on energy transition infrastructure, aiming to raise up to EUR2 billion, with UK managers expected to follow suit. This initiative will continue to support decarbonisation efforts, primarily in Europe.[41]

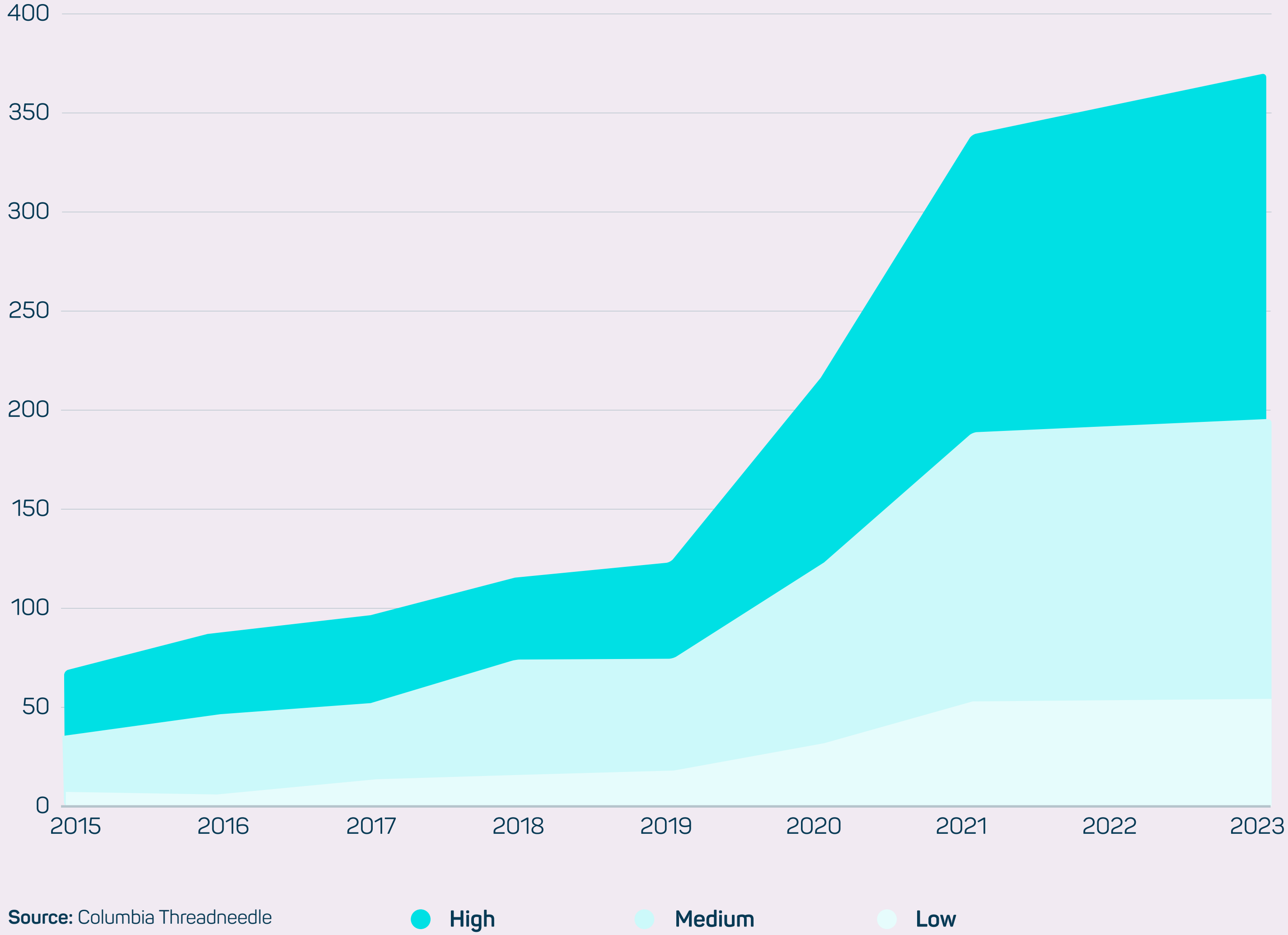
Case study: UK Social Bond Fund, Columbia Threadneedle

Total Fund Value: £396 million

Launched in December 2013, the Columbia Threadneedle UK Social Bond Fund has integrated social impact with fixed income investments by directing capital into bonds that fund vital social services and infrastructure. The fund's impact objective is to support more inclusive and sustainable development with a focus on the UK.

Significance: The fund is invested in 185 bonds from 127 issuers, focusing on sectors that bring social and environmental benefits. The investments are diversified across various categories, such as utilities and environment, transport and communications, affordable housing and property, and health and social care, demonstrating the fund's comprehensive impact strategy.

Figure 10: Portfolio Growth and social performance assessment over time



Source: Columbia Threadneedle

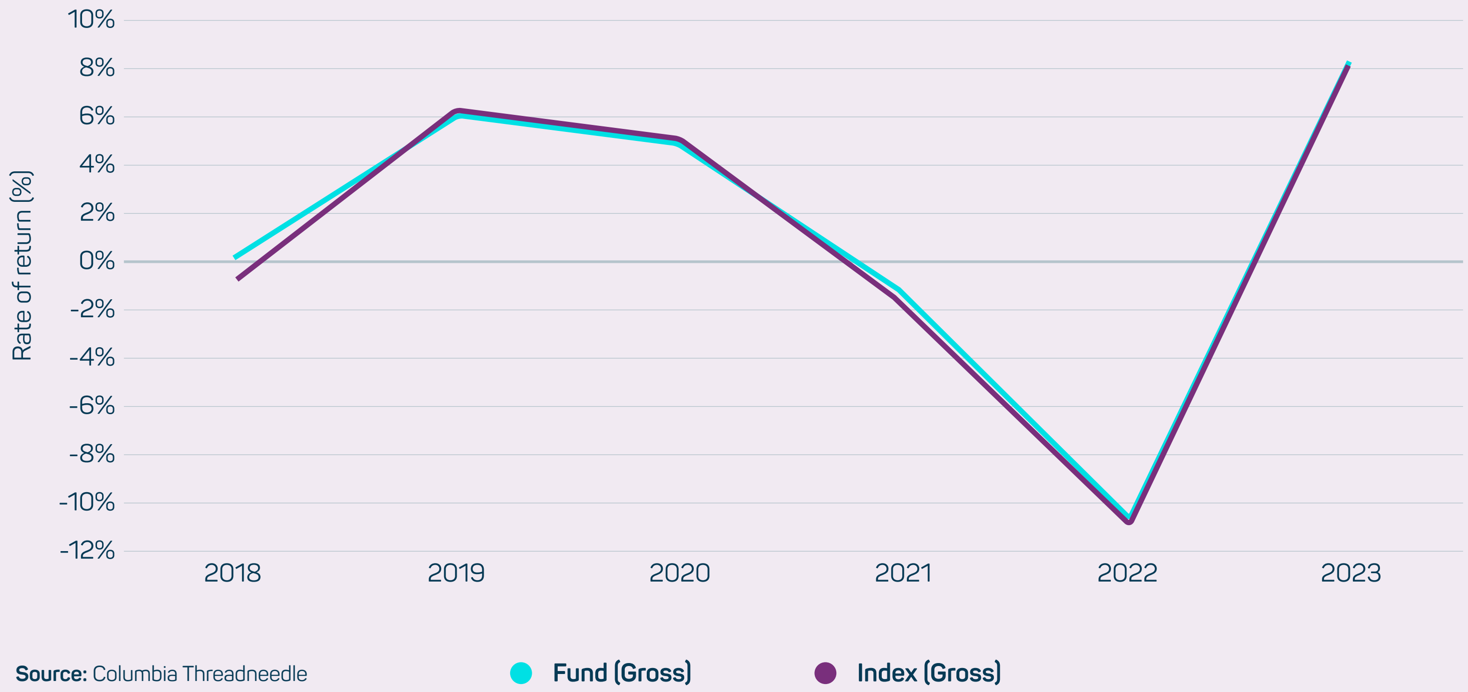
Key statistics and performance: Since its inception, the fund has increased the proportion of its investments categorised as "high" impact. Investments rated "high" now constitute the dominant proportion of investments at 44.5%. The "high" social impact assessment is based on a proprietary approach that considers several factors, including:

1. Primary social outcome areas funded (the fund considers eight outcome areas),
2. Regional need within the UK, as it deems capital directed to more deprived regions as more impactful,
3. Population need, based on the targeting of specific communities or population sub-set, and
4. The potential to support investment via the primary market for investment additionality.

The fund also reports achieving market-competitive returns alongside impact objectives.

UN SDG Alignment: The Fund is focusing most closely on SDG 11 – Sustainable Cities and Communities. There are also substantial contributions made to Good Health and Wellbeing (SDG 3), Affordable and Clean Energy (SDG 7), Decent Work and Economic Growth (SDG 8).[42]

Figure 11: Calendar year performance of Columbia Threadneedle UK Social Bond Fund against index[43]



Source: Columbia Threadneedle

Geographic allocations

Q: How is your current portfolio allocated across geographic regions in terms of percentage of total impact capital?

n=40, sub-sample with majority UK management

Our survey shows that a majority of impact investing portfolios are allocated to Western, Northern, and Southern Europe, including the UK. US & Canada and Sub-Saharan Africa represent the next two highest allocations. Most of the allocation to Sub-Saharan Africa in our sample is driven by DFIs.

Domestic and international allocations

Q: How is your current portfolio allocated in terms of percentage of total impact capital, either domestically (in the countries in which you are headquartered) vs internationally?

n=40, sub-sample with majority UK management

Only 34% of the impact portfolios in our sub-sample is allocated domestically to countries where respondents are headquartered. This increases to 44% when excluding DFIs, as they are allocating nearly all of their impact capital internationally. The quantum of impact capital allocated to Western, Northern, and Southern Europe from our sample aligns closely with the domestic allocation for UK headquartered asset managers, indicating that a large portion of their Western Europe allocation is in the UK.

Figure 12: For survey sub-sample, proportion of impact portfolio allocated to each region

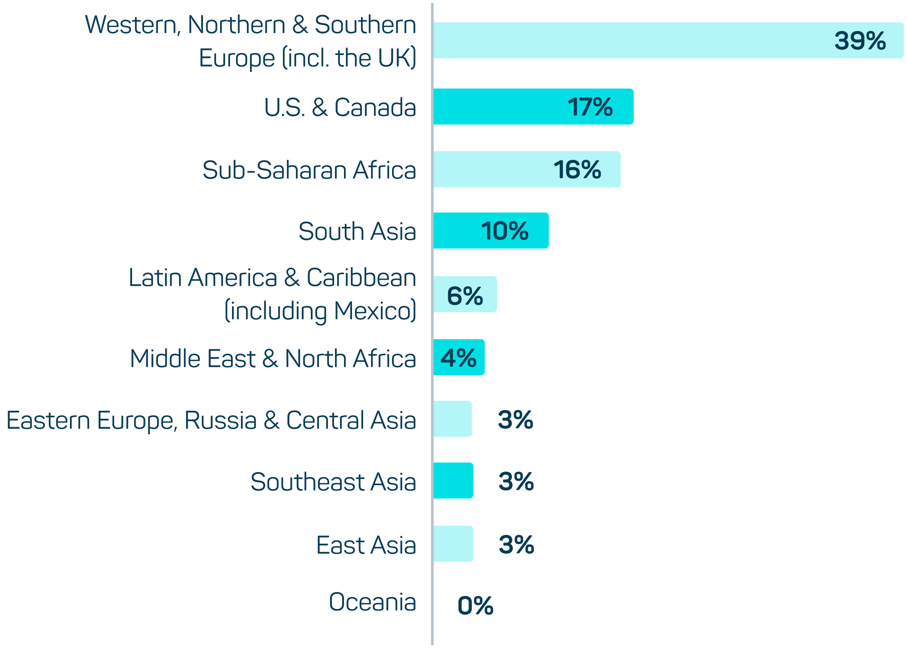
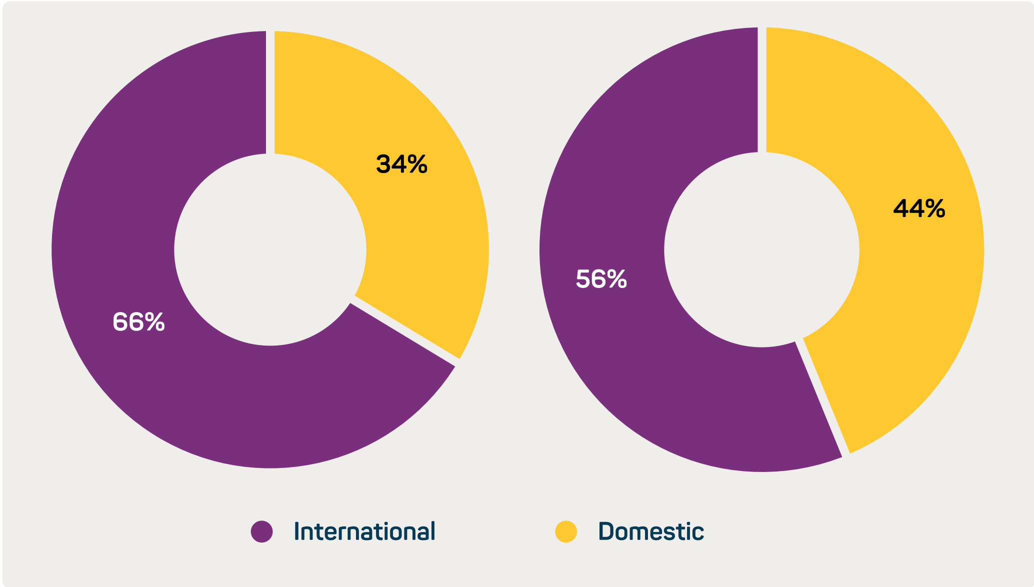
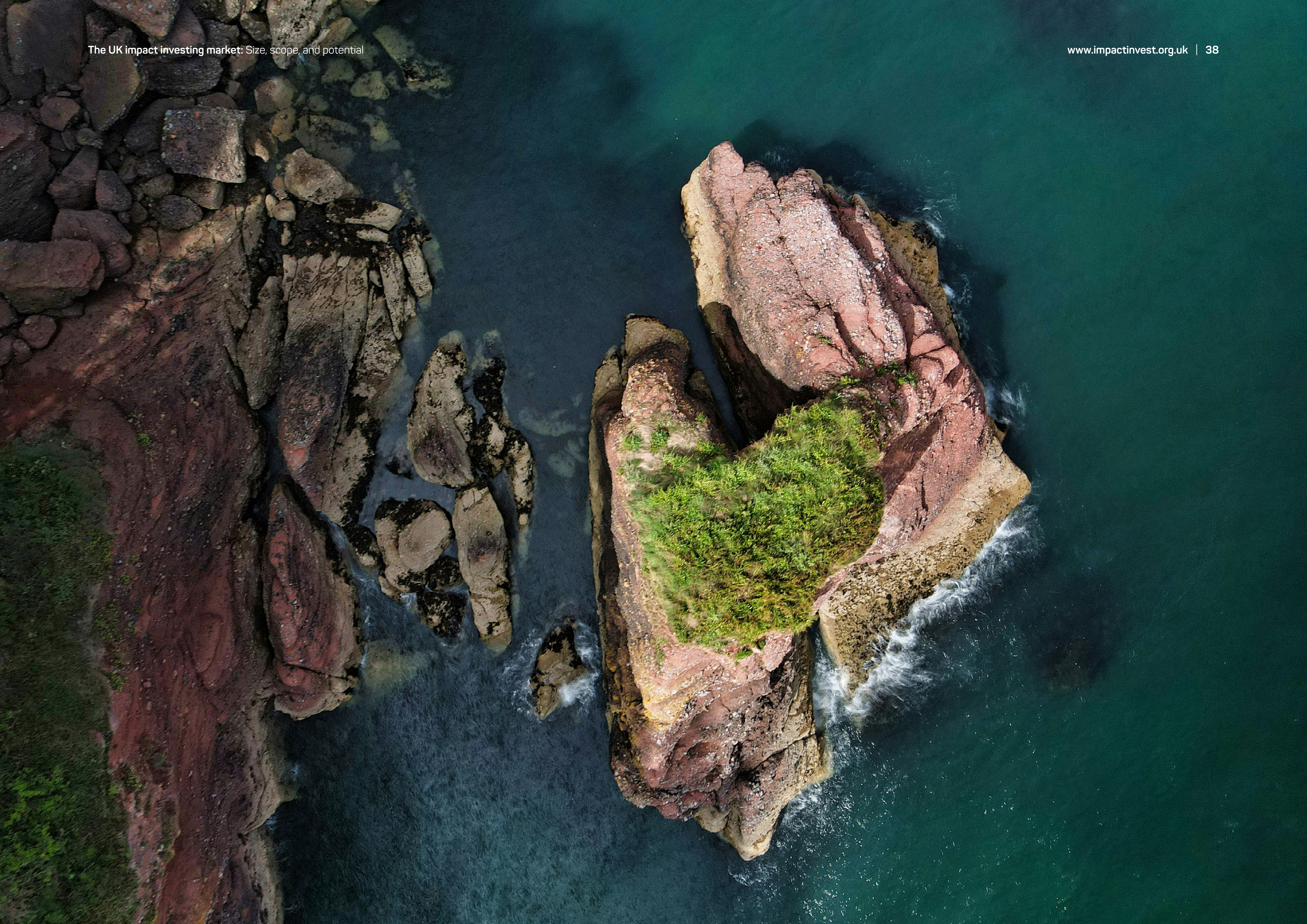


Figure 13: For survey sub-sample, allocation of impact portfolio

Figure 14: For survey sub-sample excluding DFIs, allocation of impact portfolio





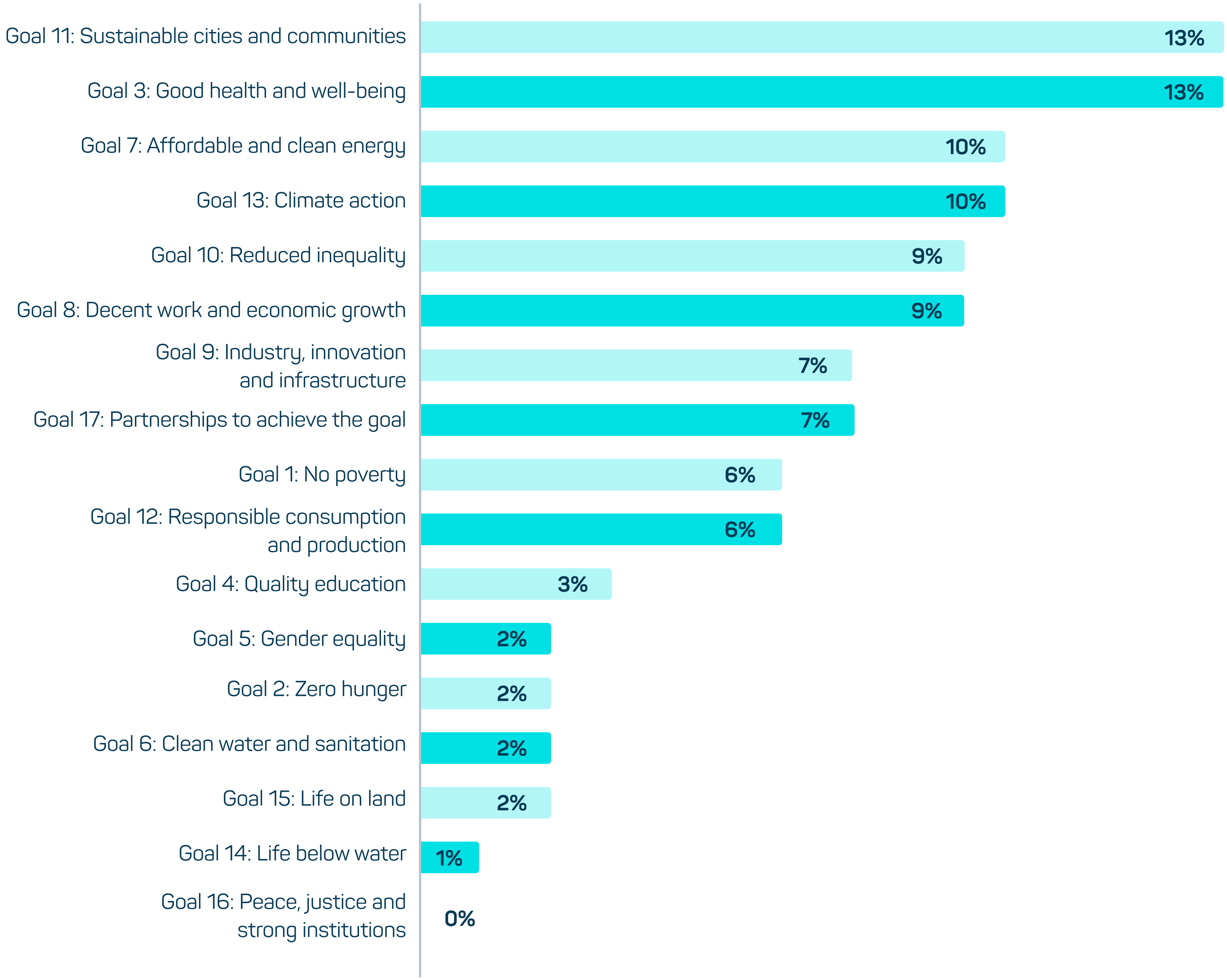
Focus on UN Sustainability Development Goals

Q: How is your current portfolio allocated across Sustainable Development Goals (SDGs) in terms of percentage of total capital?

n=40, sub-sample with majority UK management

We asked survey respondents to allocate their impact portfolio according to the UN Sustainable Development Goals (SDGs). Top target SDGs included Sustainable Cities and Communities (SDG 11), Good Health and Wellbeing (SDG 3), Affordable and Clean Energy (SDG 7), and Climate Action (SDG 13). These investments made up nearly 45% of the total impact portfolios.

Figure 15: For survey sub-sample, proportion of impact portfolio allocated to each SDG



Focus on climate, social, and the just transition

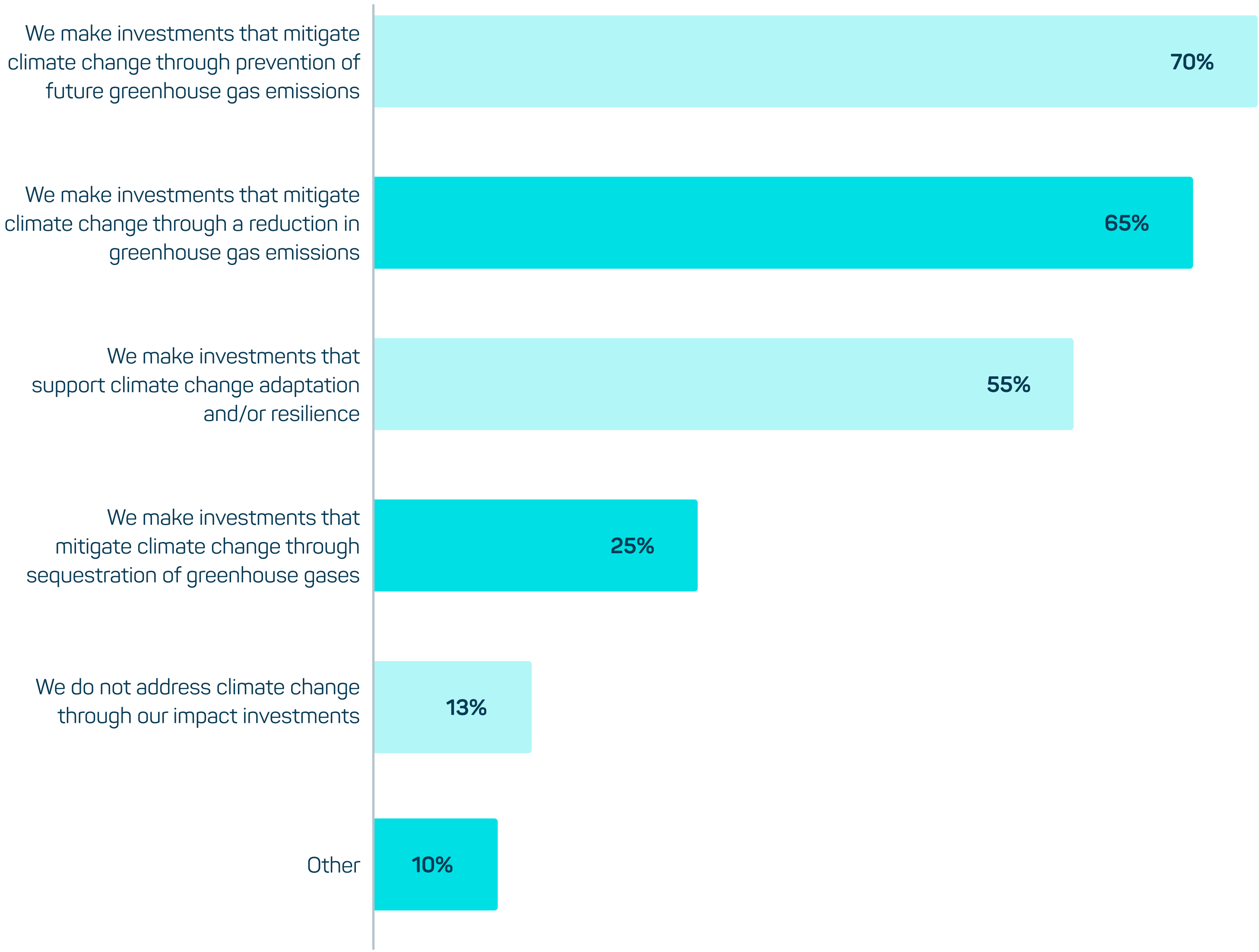
Q: How, if at all, do you address climate change through your impact investments?

n=40, sub-sample with majority UK management

When asked about how they seek to address climate change through their impact portfolios, two-thirds of our respondents stated that their investments mitigate climate change through a reduction in greenhouse gases and through prevention of future greenhouse gas emissions.

Detailed discussions with our interviewees highlighted their commitments to net zero and an increased focus on climate issues. However, there is a growing recognition of social impact themes as well. These include initiatives to address inequalities and promote equitable transitions. Many interviewees touched upon the importance of a just transition, incorporating both environmental and social considerations, as a lens in their investments.

Figure 16: For survey sub-sample, responses to climate change in impact portfolio



Case study: SDG Engagement Equity Strategy, Federated Hermes[44]

The SDGs as a strategy: The Federated Hermes SDG Engagement Equity strategy invests in companies with the potential to contribute positively towards the attainment of the SDGs, with that impact potential realised through the deployment of active shareholder engagement.

Dual objective: Companies considered for investment in the strategy must have both an investment case and an engagement-driven impact case. The philosophy of the strategy is that progress towards, and ultimately the attainment of, the SDGs is not a zero-sum game but instead an opportunity to create shareholder value.

Impact potential: The strategy is biased towards companies and industries that are more resource and/or human capital intensive in recognition of the fact that these are the parts of the economy with greatest needs to support the economic, physical, and mental well-being of lower-paid employees.

The impact potential for each company is appraised through consideration of:

- A company's supply chain, including its relationships with and influence over its supply partners.
- Direct operations, including its resource efficiency and supportive approach towards its workforce.
- Products and services, including the potential to reach under-served markets or to develop product offerings supportive of a more circular economy.

Role of engagement: Through its engagement, the investment team supports positive change to occur. Its role is to engage with corporates with respect to both "what" they do and "how" they do it – catalysing new ideas, sharing best practices. Every company in the investment strategy is engaged with at least annually on matters pertaining to their contribution towards the SDGs.

Outcomes: Since launching in December 2023, the strategy has, on a returns basis, outperformed its reference benchmark five years in six (net of fees).

Investment example: AMN Healthcare

If hospitals are not able to recruit enough staff, they may be forced to turn away patients, or operate with inadequate staffing levels, resulting in poorer quality of care, and further driving up turnover among existing staff. In the United States, low levels of diversity and a significant gender pay gap are exacerbating staffing shortfalls. Nurses from underrepresented minority backgrounds represent less than 20% of registered nurses and male physicians are paid ca. 40% more than their female counterparts.[45]

The investment team at Federated Hermes SDG Engagement Equity has been engaging with the management team and board of AMN Healthcare – one of the largest healthcare staffing companies in North America – to promote equitable recruitment practices in the sector.

AMN Healthcare credited Federated Hermes for encouraging it to lead the industry on this issue. AMN is building momentum on this topic, developing a diversity, equity, and inclusion compass to provide a roadmap for organisations in the healthcare ecosystem.

Figure 17: SDG Engagement Equity Strategy

Source: Federated Hermes

Progress against key market challenges

This section outlines survey results about respondents' perceptions of the impact investing market, including perceived challenges to the development of the industry and progress made in the past five years.

Challenges

Q: In your assessment, how significant are the following challenges to the development of the impact investing industry today?

n=40, sub-sample with majority UK management

Almost two-thirds of survey respondents noted "comparing impact results to peers" and "fragmentation across impact measurement frameworks" as moderate or significant challenges.

When comparing the results to the 2020 survey, there has been a notable fall in the proportion of respondents highlighting the lack of suitable deals and investing opportunities and insufficient data and research. Current results show that a lack of suitable deals is now only seen as significant issue by 10% of respondents (32% in 2020) and insufficient data and research is seen as such by 8% of respondents (34% in 2020).

Figure 18: For survey sub-sample, significance of challenges to the further development of impact investing

However, the challenges of comparison across impact results, impact definitions, and conflicting government and regulatory guidance remain consistent across years. The latter might also be a reflection of the regulatory uncertainties around ESG and impact strategies in some jurisdictions (including the US) to which UK-based market players might be exposed.

Progress against key indicators

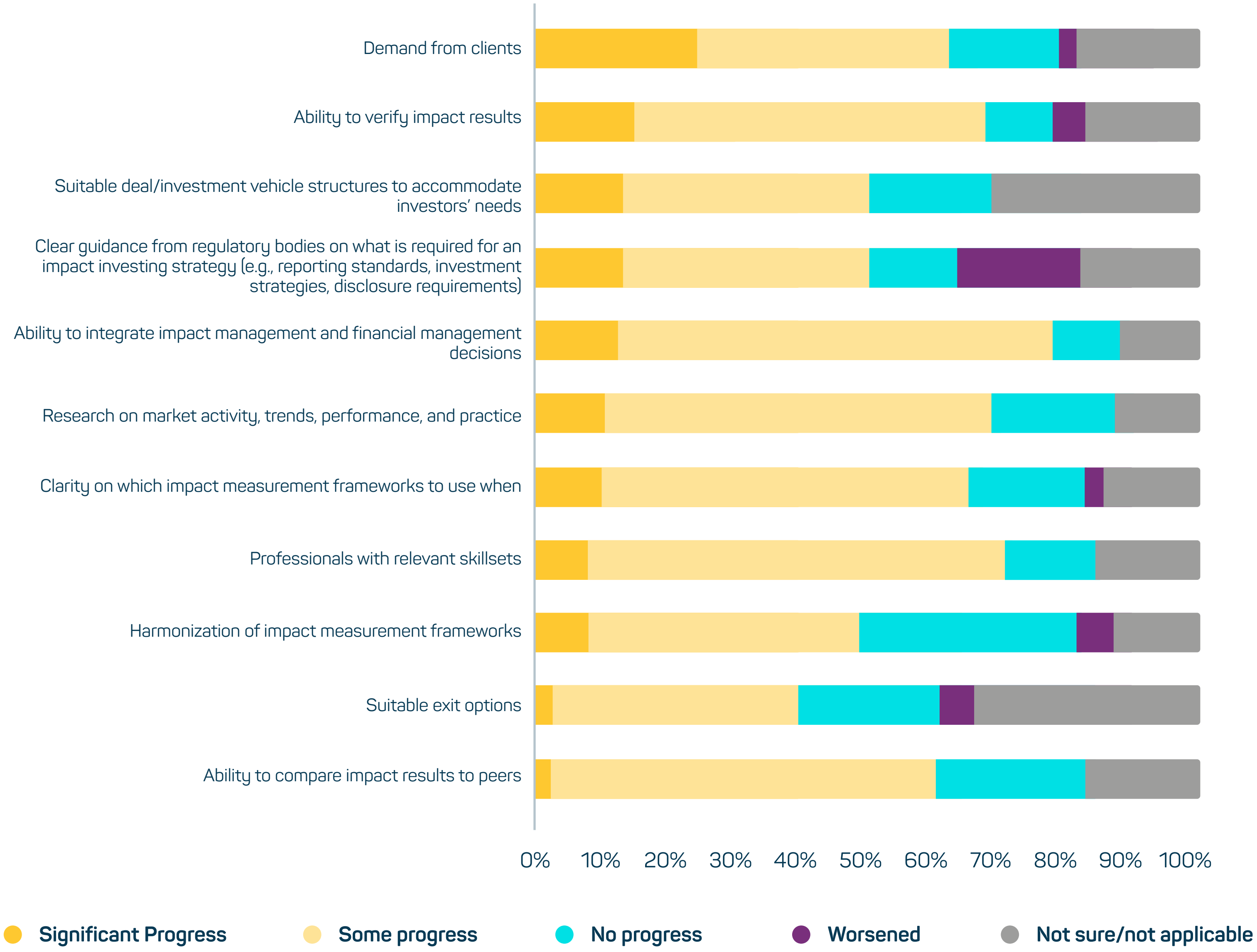
Q: What is your perception of the progress made, if any, in the past five years for the following indicators of general market development?

n=40, sub-sample with majority UK management

Survey results highlight positive progress in demand from clients and ability to verify impact results.

These findings were mirrored by interviewees, who noted an increased focus on quality impact measurement and verification. Some interviewees highlighted they had defined and published their own impact measurement approaches and philosophies in the last few years. Other interviewees noted the growth of specialised third-party experts, which can give them more confidence in their impact measurement and in speaking more assuredly of their impact.

Figure 19: For survey sub-sample, perceived progress in the past five years on key indicators



Impact Frontiers have published a set of reporting norms for impact measurement that many interviewees fed into and are testing as a set of agreed principles for the industry.[46]

Focusing on the challenges related to measurement, some interviewees highlighted the relative difficulty of measuring social impact compared with climate or environmental impact.[47] Several interviewees also flagged the counterproductive impact that increasing reporting expectations can generate, noting that for small investees, work to measure impact can get in the way of impact delivery. Some interviewees suggested that where the investor has a clear understanding of impact intent and ethos, measurement and reporting expectations can be lighter.

Trends in enterprise-level impact reporting

Enterprise-level impact reporting refers to the process by which companies or other corporate entities disclose the social and environmental impacts of their operations. It provides stakeholders with detailed insights into the non-financial performance of enterprises, used for assessing overall sustainability. Key frameworks for this reporting include those developed by the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI), the EU's Corporate Sustainability Reporting Directive (CSRD), and the Taskforce on Nature Related Financial Disclosures (TNFD). The launch of a global Taskforce on Social-related Financial Disclosures has also been announced for the second half of 2024.

The IFRS Foundation, through the ISSB it established in 2021, aims to develop high-quality, globally accepted standards for financial and sustainability disclosures. The UK government has been a supporter of the ISSB since its launch. In its 2023 green finance strategy, the UK government laid plans to establish a framework to assess the suitability of ISSB for endorsement in the UK.[48] If this process concludes with an affirmative endorsement decision (due in 2025), it will result in the creation of UK Sustainability Reporting Standards (SRS), which would be based upon the ISSB's sustainability standards.[49]


GOOD
INTENTIONS
ARE NOT
ENOUGH.

5. **Looking ahead**

This section summarises forward expectations and trends for the future of the UK impact investing market.

Our research has identified positive trends for the future of impact investing in the UK. These include increased allocations of impact capital to UK asset managers, policy initiatives on disclosure and labelling of investments, deepening of local impact through place-based strategies, blended finance and the CDFI sector, and some positive progress towards improved equity, diversity, and inclusion in the UK investment market.

Increased allocation to UK assets, stable transaction flow

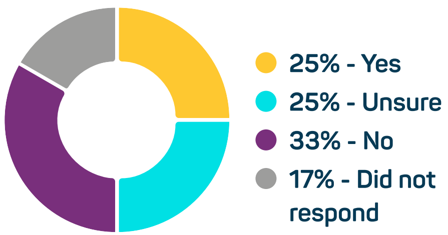
A large majority (67%) of the full set of survey participants (n=72) expressed optimism about expanding or sustaining their allocations towards the UK in their impact investing global portfolio in the next five years.

Despite a widespread narrative emphasising the difficulties encountered by ESG and impact strategies, when asked about expectations for impact allocations in 2024, our sub-sample with majority management from the UK (n=40) reported only a small (2.5%) reduction in the volume of capital that they expected to invest in 2024 compared with 2023 and a small (1.8%) increase in the total number of transactions that they expected to carry out in 2024 compared with 2023. This suggests broad stability in the flow of impact investing from 2023 to 2024.

Influence of younger generations

A substantial shift of wealth between generations, commonly known as the "Great Wealth Transfer," is underway. In the UK alone, around £5.5 trillion will pass between generations in the next 30 years.[50] Demand from younger investors — coupled with the government's focus on net zero and social issues — is likely to fuel the growth of impact investing in new asset classes and themes in the next decade. This trend was also noted in our interviews, with several interviewees expressing optimism regarding the younger generation's impactful management of their wealth.

Figure 20: For full survey, proportion of respondents planning to use the FCA Sustainability Impact label



Policy initiatives on disclosure and labelling

The evolution of regulation is pushing investment managers to substantiate their impact claims more rigorously. Based on our research, market participants welcome this rigour and perceive it as increasing confidence and support to their activities.

The FCA's recent introduction of sustainability labels for retail funds, particularly the Sustainability Impact label, has been, on the whole, positively received by the market. Interviewees particularly supported the inclusion of:

- The requirement for a product-level theory of change to achieve the Sustainability Impact label. Respondents saw theories of change as likely to validate a fund's impact intentions and enhance investor confidence in its impact claims.
- The acknowledgment of the importance of stewardship and engagement in sustainability practices as a form of investor contribution.

Q: Are you planning to launch funds (or align any existing funds) adopting the Sustainability Impact label outlined in the UK Financial Conduct Authority's policy paper for Sustainability Disclosure Requirements (SDR)?

n=72, full sample with any UK impact AUM

Survey results showed that at least 18 respondents from our full sample of 72 are planning to launch or align funds against the Sustainability Impact label.[51] It is noteworthy that the labels are only currently applicable for organisations which manage funds that target retail investors in the UK. All 18 "yes" respondents were investment managers, representing 37% of all investment managers in the sample. Reasons for not seeking the label may include being out of scope of the regulation, waiting to see how other firms fare first, or not feeling that funds currently meet the standards set by the label.

In the view of our interviewees, while the direction of regulatory evolution is positive, there is still progress to be made towards achieving global alignment on labelling. SDR, the EU's SFDR and the US Securities and Exchange Commission (SEC)'s emerging standards were seen as having valuable aspects but as not yet being fully harmonised. Interviewees highlighted that SDR provides more clarity than SFDR, and was seen as likely to enhance the UK's position as an international centre for impact investing with a robust regulatory regime.

Place-based impact investing

Place-based impact investing (PBII) brings together public and private capital, capacity, and capabilities to work together to respond to challenges and opportunities within a locality.

The last years have seen increased focus on PBII as an investment practice, including from pension funds. For example, Cornwall Pension Fund launched a local impact portfolio to channel investment into affordable private rental housing and renewables in the county. Cornwall Pension Fund made an initial commitment of £115m split across three mandates: affordable housing in Cornwall (£65m), renewables in Cornwall (approximately £25m), and renewables in the UK (approximately £25m).[53] 64% of LGPS funds are currently planning to increase their commitment to local investments.[54] In our interviews, LGPS funds emphasised an interest in investing their members' money in their local area.

Several interviewees highlighted the potential of using PBII to support the UK's most deprived areas, as well as to hand power over investment decisions back to local communities. Big Issue Invest have set a place-based target for more 70% of their investment portfolio to be held in the four most deprived deciles in the UK. Barking and Dagenham Giving, use their GROW Fund to give a community steering group decision-making power over local investments. This is the first community-led investment fund in the UK.[55]

"Place-based impact investments are made with the intention to yield appropriate risk adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development"[52]

- White paper on PBII, Impact Investing Institute, Good Economy, and Pensions for Purpose

Case study: West Midlands Co-investment Fund

Total fund value: £25 million

Local impact: Launched in March 2023, the £25 million West Midlands Co-Investment Fund is designed to bolster local economies by providing critical financial support to SMEs in the region.

Contributions from local authorities and pension funds: The West Midlands Combined Authority (WMCA) has invested £12.5 million into the fund, matched by an equal contribution from the West Midlands Pension Fund (WMPF). While the pension fund primarily aims to protect the investments of pensioners, it also supports regional development. These public funds are complemented by private investments on a deal-by-deal basis, managed by Midven, part of Future Planet Capital, effectively creating a total fund value of £50 million.

Focus on regional economic acceleration: The fund focuses on making equity investments of up to £1 million in SMEs, aiming to accelerate the regional economy. This strategic financial support is expected to foster local business growth and economic development, as well as to promote innovation and job creation, in underserved areas

Blended finance

Blended finance can play a critical role in stimulating more private capital to be invested for impact. Blended finance is an approach that uses patient, risk-tolerant "catalytic capital" in order to encourage further investment from more traditional investors. In the UK, government support for the provision of this type of capital includes loan guarantees and tax relief, with some direct catalytic capital provision. The British Business Bank (BBB) and the UK Infrastructure Bank both offer loan guarantees, with the latter having a five-year mandate to provide £10 billion in loan guarantees.[56] Our survey results indicate promising current and planned future use of blended finance tools, but the practice remains relatively confined.

"Job creation in any region can lead to significant social impact. However, the word "impact" can mean different things to different people. In the West Midlands, around 50,000 students graduate from the six universities each year, creating a substantial pool of talent. A lot of our efforts focus on ensuring that this entrepreneurial talent thrives long-term by providing the right support."

- Rupert Lyle, Fund Principal, West Midlands Co-Investment Fund.

Survey results on blended finance

Q: Has your organisation ever participated in a blended financing structure or fund?

n=40, sub-sample with majority UK management

We sought to estimate the volume of impact funds invested in blended finance structures. Although 42% of our survey respondents indicated that their organisation had invested in blended finance strategies over the past five years, the end-2023 value is low, suggesting these strategies do not constitute a major part of portfolios.

Q: Please approximate the proportion of capital your organisation has invested into blended financial strategies, by instrument in the past five years

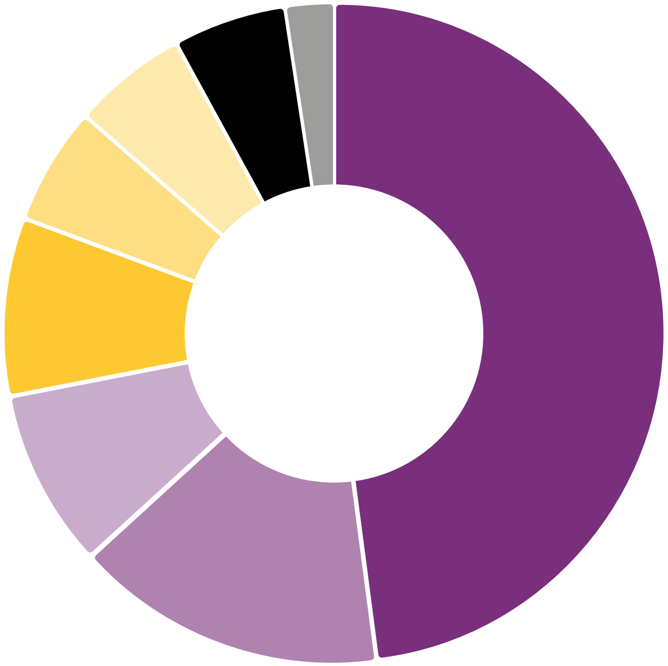
n=40, sub-sample with majority UK management

Among the organisations that have used blended finance structures over the past five years, about half have used flexible-term debt, highlighting it as the most favoured financial approach within this framework. During our interviews, we also found some mainstream investors incorporating government-backed first-loss layers into their funding arrangements. An example of this is the UK Nature Impact Fund, managed by Federated Hermes, which includes a £30 million first-loss layer from DEFRA.[57]

Figure 21: For survey sub-sample, participation in blended finance transactions

- 42% - Yes
- 18% - No, but we plan to in the future
- 40% - No, and we do not plan to in the future

Figure 22: Using survey sub-sample, breakdown of types of assets used for blended finance



- 48% - Debt with flexible terms
- 15% - Seed investment in a capital stack
- 9% - Junior equity
- 9% - Pay-for-performance instruments
- 6% - Market-rate impact investments
- 6% - Grants to be used for first-loss capital
- 5% - Non-returnable/non-convertible grants
- 2% - Guarantees to be used for first-loss capital

Case study: A growing sector: UK Community Development Finance Institutions (CDFIs)

Community impact

There are 35 enterprise-lending Community Development Finance Institutions (CDFIs) of varying sizes spread across the UK. CDFIs are non-profit social enterprises who lend to people, businesses, and social enterprises who can't get finance from mainstream banking.

Research from Responsible Finance has highlighted that nearly £290 million was lent by CDFIs in 2023, a record high.[58] 60% of CDFI lending goes to the 35% most deprived communities across the country and 90% of their clients have been turned down by other lenders. Responsible Finance highlight that the sector has created over 6,500 jobs, created nearly 4,000 new enterprises, and saved these organisations nearly £30 million in interest expenses and fees.

Government support

The UK government uses various tools to support the growth of the sector, reduce risk, and improve returns for private investors looking to fund CDFIs. This growing portfolio of government support includes:

Growth Guarantee Scheme: The BBB runs a guarantees scheme that allows a CDFI to claim back up to 70% of defaulted loans where the borrower has been unable to pay back their loans. Recent announcements from the BBB have indicated the scheme will extend until March 2026.[59]

Community Investment Tax Relief (CITR): This scheme reduces the tax liability of investors who lend to accredited CDFIs. The tax relief equates to 5% per year of the amount outstanding for a period of 5 years.

Mainstream investor support

The Community Investment Enterprise Fund (CIEF2) is a £62 million investment fund launched in March 2024 as a continuation of the successful CIEF1. It will invest in three CDFIs. Lloyds Banking Group is providing £43 million as senior lender, breaking new ground as the first mainstream investor to provide wholesale funding into CDFIs at scale. CIEF includes £19 million in junior investment provided by Better Society Capital and the three participating CDFIs. This will allow the participating CDFIs to increase lending and enhance lending terms.[60]

Trends in Equity, Diversity, and Inclusion in impact investing

Improvements need to be made in the equity, diversity, and inclusion of the UK impact investing sector. The Adebowale Commission on Social Investment, completed in 2022, drew into focus how disadvantaged groups, particularly Black-led organisations, are underserved by the UK social investment system. The commission highlighted the lack of suitable social investment products, such as blended finance structures and more patient capital, to support these types of organisations.[61] Recent research by the BBB highlights that only 2% of all venture capital funding went to businesses with all-female founders, a figure unchanged in the last decade.[62]

Our survey included a section on gender, racial, and ethnic equity in impact investing. Results from our sub-sample provide some encouragement on awareness of investing with a gender lens and data collection about representation in decision-making bodies. However, underinvestment and underrepresentation of women and racial and ethnic minorities remains a key issue in impact investment, reflecting wider industry trends.

Gender lens investing

The GIIN defines gender lens investing as a strategy or approach to investing that takes into consideration gender-based factors across the investment process to advance gender equality and better inform investment decisions.[63] Survey results highlight that at least 45% of respondents in our sub-sample have either integrated a gender lens across their organisation or have allocated capital using a gender lens. 18% of our sub-sample screen for investees that are owned by or led by a woman. Recent examples of this type of investment include NatWest Group, who issued a social bond linked to women led enterprises.[64] The proceeds of the EUR500 million issuance will be used to finance loans to women-led small businesses.

Despite the growing adoption of gender lens investing approaches, across our sub-sample of respondents just under 2% of total impact AUM is allocated towards investees that are majority owned or led by women.

Investing into groups historically marginalised by race or ethnicity

In our sub-sample, under 1% of impact AUM is reportedly allocated towards investees that are majority owned or led by members of a group historically marginalised due to race and/or ethnicity. Some initiatives are working to channel more capital to Black and Minority-led organisations, including for example the Church Commissioners' Asset Committee, the investment arm of the Church of England, which is creating a £100 million fund to invest into members of disadvantaged Black communities over the next 5 years, in recognition of the Church's financial involvement in African Chattel Enslavement.[65]

"One of the goals of our First-time Fund Managers programme is to change the perception that there isn't a pipeline of talented Black and Minority-led teams ready to run their own funds. The 40 good quality applications we had shows that this is a misconception. However, as much as we are working to support them to get ready to raise funds, we also must acknowledge the structural barriers standing in their way. It can be a lonely journey."

- Bonnie Chiu, Co-Founder

Representation on decision making bodies in investment management

The following table outlines survey results in relation to representation of members of a group historically marginalised due to race and/or ethnicity in the decision-making bodies of the organisations that responded to our survey.

Based on the numbers provided by our respondent organisations, there is relatively low representation of members identifying as being part of such groups across the three decision making bodies examined. Collection rates were however quite high, particularly for senior management.

Decision-making body	Average proportion of body members that identify as members of a group historically marginalised due to race and/or ethnicity	Percent of respondents who do not collect race/ ethnicity representation data
Senior management	11%	5%
Board	8%	13%
Investment committee	10%	13%

Case study: Pathway Fund: catalysing opportunities for Black and Ethnically Minoritised communities across the UK

Pathway Fund was launched in 2022, with the purpose of getting Black and Ethnic Minority-led organisations better access to finance, increasing the representation of Black and Ethnically Minoritised communities in investment decision-making, and mainstreaming racial equity in impact investment.[66] Pathway Fund are running two programmes to advance these goals:

- **First-time Fund Managers:** This is an incubator programme targeted at Black and Minority-led fund managers close to raising their first round of impact investing funding. Demand for the programme was high, with over 40 applications received and a cohort of three groups currently receiving support. The cohort is spread across the UK and includes both impact venture capital funds and funds targeting social investment into community organisations. Each received an unrestricted grant of £50,000 and wraparound support for them to reach launch. This support includes networking through Pathway Fund's connections, technical skills including financial modelling, and leadership coaching. Fund managers in the cohort are looking to launch their funds by the end of 2024.
- **Racial Equity Score Card:** The Racial Equity Scorecard was developed by Pathway Fund, The Social Investment Consultancy (TSIC), and the EIRIS Foundation. It is a tool to evaluate the racial equity performance of UK public companies, enabling investors to more accurately screen for and understand the racial equity policy and practices within investee organisations. The tool is available to all investors, thus aiming for a broader industry impact.[67]

6. Calls to action

The UK, and the City of London, are global leaders in financial services and sustainable finance: impact investing represents an opportunity to attract and retain a market that can position the UK and the City at the global forefront of finance and innovation.

This section captures calls for action identified by industry actors and experts engaged in our research. There was a clear consensus from our survey respondents and interviewees that the significant growth and increased sophistication of the UK impact investing market, coupled with a growing recognition that all investments have an impact - positive or negative - presents an exciting opportunity to harness the power of private capital to deliver benefits for people and the planet.

For all actors: Investors, businesses, and policymakers can work in partnership to create a greener, fairer and more resilient future. Those who direct capital allocation (asset owners), those who manage it (asset managers), and those who advise (investment advisors/ consultants) are called upon to embrace the transformative opportunities arising from what has been described as a "megatrend" in investment. Regulation and policies that encourage action and create an enabling environment have the power to unlock impact capital at scale towards the challenges society faces and the innovations that can help solve them.

Asset owners: As ultimate deployers of capital, asset owners are uniquely positioned to put impact at the heart of the financial system. Asset owners are called upon to use impact investing as a framework for deploying capital that creates value in an era of pressing planetary and social needs. This approach acknowledges the systemic risks posed by climate change and social challenges to the financial system, as well as the economic opportunities in solving them. The role of an asset owner carries significant responsibilities and the potential to drive large-scale change, in part by forging a path for others to follow.

Asset managers: As stewards of capital, asset managers play a pivotal role in shaping the investment landscape. They are called upon to seize the opportunities of impact investing, leveraging their position and expertise to pioneer innovative investment approaches. From product creation in new areas, like place-based finance, just transition investing, and natural capital; to the integration of impact metrics, adoption of new technologies, and engagement and stewardship activities – asset managers can deliver investment strategies that align with their clients' priorities to create long-term value creation and sustainable economic growth. By embracing these approaches, asset managers can push at the frontier of investment practices and meet evolving client demands, whilst playing a crucial role in channelling capital towards addressing pressing global challenges.

Investment advisors and consultants: Professional advisors and consultants play the critical role of understanding and translating their clients' desires – which are increasingly for investments that benefit society and the environment. This can be achieved through various activities, including education and awareness initiatives, needs assessments and goal setting, due diligence and product selection, and performance monitoring and reporting. Impact investing offers an opportunity for investment advisors and consultants to stay at the forefront of investment trends; it is important they keep pace.

Regulatory and policy environment: To support capital market actors in advancing impact investing, a regulatory framework and policies that encourage investment approaches benefiting people and the planet are essential. Fiduciary duties need to be enabling of those who choose to seek impact alongside financial return. There is significant opportunity for greater partnership between the UK government and impact capital providers to mobilise the resources required to address the social, environmental, and economic challenges facing society. Such partnerships, executed through blended finance structures and a vigilant focus on outcomes, have the power to unlock capital at scale for societal benefit - changing the lives of people across the UK, and beyond.

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AXA Investment Managers
Baillie Gifford
Barrow Cadbury Trust
Better Society Capital
Big Issue Invest
BlackRock
Blue Haven Initiative
Bridges Fund Management
British International Investment (BII)
Cambridge Associates
Camco
Cheyne Capital / Cheyne Impact Real Estate
Circularity Capital
Civitas Investment Management Limited
Cordiant Capital
Doris Duke Foundation
DPI LLP
Dunhill Medical Trust
Earth Capital
Ecofin
Energy Impact Partners LP
Fair4All Finance
Federated Hermes Limited
Flat World Partners
FORE Partnership
Franklin Real Asset Advisors Europe
Future Planet Capital
Gatsby Africa
Hamilton Lane
HSBC Asset Management
Impact Bridge
Impact Earth
Impact Ventures by J&J Foundation
Key Fund Investments Limited
LeapFrog Investments
Legal & General Capital
Lightrock
MedAccess
Octopus Investments
Octopus Renewables Ltd
Patron Capital Partners LLP
Resonance
Rockefeller Brothers Fund
Schroders plc.
Shell Foundation
Snowball
Soros Economic Development Fund
Sumitomo Mitsui Trust (Hong Kong) Limited
The Church Pension Fund
ThirdWay Partners
TowerBrook Capital Partners
TPG, The Rise Funds
Triodos Investment Management
UBS AG
Van Lanschot Kempen
Van Leer Group Foundation
Wespath Benefits and Investments
WHEB
Zurich Insurance Group
And respondents who preferred to remain anonymous

Interviewees

Allianz Global Partners (anonymous interviewee)

Asset Risk Consultants (anonymous interviewee)

Gemma Cartwright, Association of Charitable Foundations

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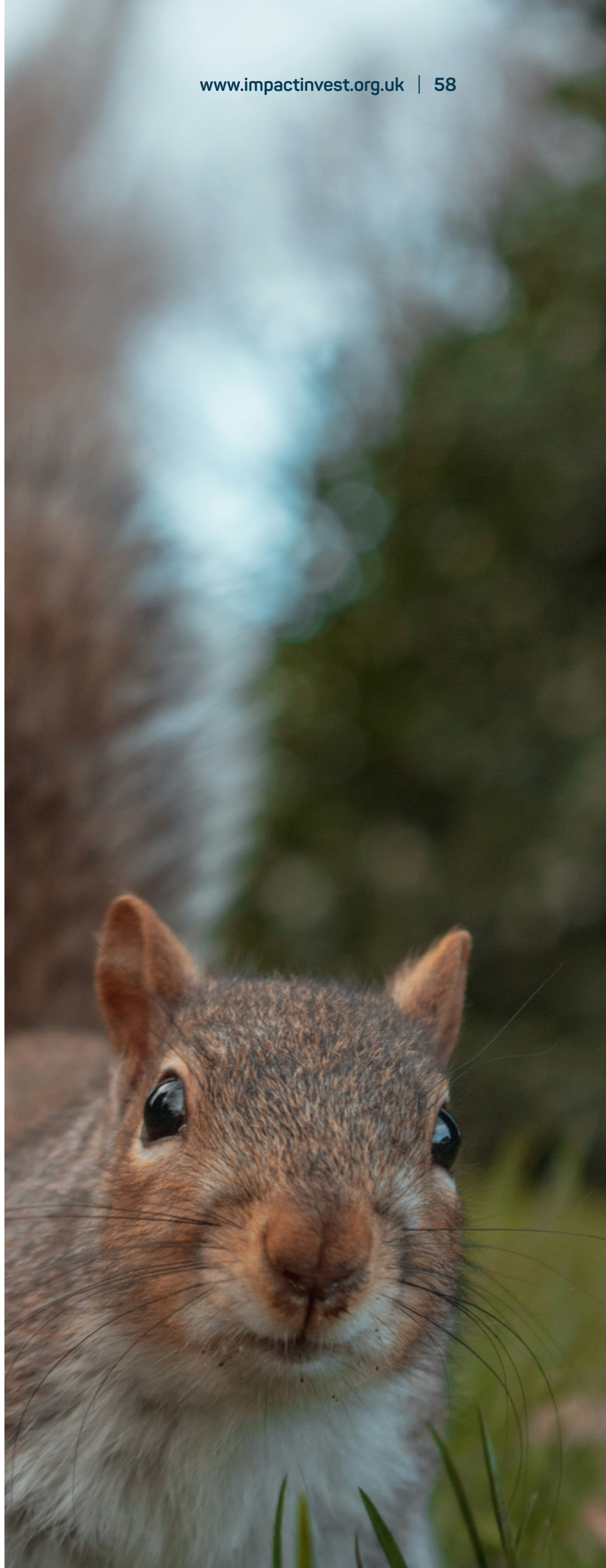


Appendix: Methodology detail

The Appendix provides further detail of the methodology used in the production of this report.

Market sizing methodology

Our methodology comprises four modules.

Module 1: Primary data collection through global survey with the GIIN

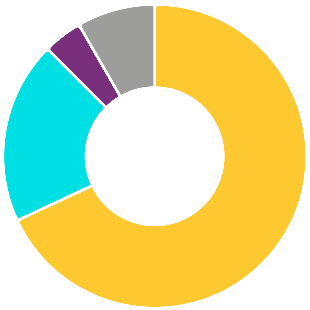
Purpose: To collect self-reported primary data points of direct impact AUM managed from the UK at end-December 2023.

Activities: The global survey returned 72 respondents who indicated that all or a proportion of their impact AUM was managed from the UK. We converted their total direct impact AUM managed from the UK from USD to GBP using an exchange rate from December 2023. Researchers from Social Finance and the GIIN have carried out a series of checks to ensure data integrity in survey responses.[68]

Breakdown of survey respondents by organisation type and location of primary headquarters[69]

n=72, full survey sample

Figure 23: For full sample, breakdown of survey respondents by organisation type



- **68% - Investment managers**
- **20% - Institutional asset owners**
- **4% - Private clients**
- **8% - Other respondents**

Figure 24: For full sample, breakdown of survey respondents by primary organisation headquarters

- **56% - United Kingdom**
- **32% - Rest of world**
- **12% - Western and Northern Europe**

Module 2: Supplementary primary data collection from known organisations

Purpose: To supplement the survey data collection with additional primary data sources.

Activities: Supplementary data was collected from organisations that manage impact assets from the UK but did not fill in the survey. Additionally, data was used from previous survey respondents who did not respond to the 2024 survey. Data from before end-2023 was then brought forward using a growth rate to reflect market movements (see table below). This data was cross-checked and validated with publicly available data.

Across modules 1 and 2, we collected 100 organisations' estimate of direct impact AUM managed from the UK to build our analysis. We then used module 3 as a scaling factor to represent the remainder of the market for which we did not have a primary data point.

Module 3: Scaling the market sizing figure using Investment Association data

Purpose: To estimate the direct impact AUM managed from the UK not found in our primary research in modules 1 and 2.

Activities: Through IA survey results in 2020-2022 and bespoke analysis from the IA, we have obtained an estimate of the impact AUM of IA members at end-2022. We have then brought this forward to 2023 using an average growth rate. There is some overlap in the entities completing the two surveys, but the cohorts are not the same. Therefore, to establish the additional element of the impact investing universe not included in our first two modules, we have taken the IA total impact AUM, removed the AUM from datapoints in module 1 and 2 that we know are from Investment Association members, and added this scaling factor to our total market size.

Module 4: Cross referencing and validating

Purpose: To compare our findings with the methodology from our 2022 report using end-2020 data and to validate our approach with the GIIN.

Activities: To validate the findings using the new methodology, we recreated the previous methodology, updating data sources where possible. This involved:

- Including the results from the more recent 2022 Investment Association survey and growth rates outlined below.
- Updating the secondary research sources where these had been updated.
- Replaced figures from the 2020 survey with the 2023 survey where appropriate.

This analysis yielded a market size estimate within 4.7% of our primary methodology, which was within our acceptable range. We then compared and validated our methodology with the GIIN to ensure compatibility with the GIIN's estimate of the global impact investing market at end-2023.

Estimated growth rates used in modules 2, 3, and 4

	Rate	Sources
Cumulative annual growth rate (CAGR) in impact AUM from 2020-2023	4.0%	IA surveys 2020-2022, Institute survey 2020, GIIN/Institute survey 2023
Annual growth rate in total UK AUM Dec 2022-Dec 2023	3.3%	IA data 2023, EY ITEM Club Outlook for Financial Services 2023, Lipper Alpha 2023 growth in UK net assets of UK mutual funds

Direct investment portion used in module 3

	Rate	Sources
Aggregate direct investment % applied to total impact AUM from IA survey/analysis	85.8%	IA surveys 2020-2022, Institute survey 2020, GIIN/Institute survey 2023

Survey results used in the report

The market sizing quantitative analysis relies on the full sample of all 72 respondents to our survey with the GIIN, alongside our other datapoints. However, for the analysis of the remaining survey questions in the report we have used a sub-sample of 40 organisations that manage more than 50% of their impact assets from the UK to ensure that the results are representative of a UK-based view. The notable exception is the SDR question for which we have used the full sample, as global investors may also fall in scope of the policy if they intend to market financial products to UK retail investors. All charts are labelled with the sample for which they relate.

Comparisons with previous Institute impact investing market report

This report is the second iteration of the Institute's UK impact investing market report. One notable change in this iteration's is the Institute's partnership with the GIIN on data collection, using the 2024 GIIN impact investor survey. This partnership creates a richer data set on impact investing managed from the UK and increases comparability with global impact investing estimates.[70]

Enhanced primary research enabled us to diminish reliance on external research and data source, such as the IA's annual survey of its members, which was a core element in the previous market sizing report.[71] Nevertheless, we used IA data as an additional data source to ensure compatibility over time and with international comparators.

Comparisons with other market sizing efforts

There are several market sizing efforts that cover the UK impact investing market, although they differ in their scope, target geographies and purpose. The section below outlines these parallel efforts and clarifies areas of alignment and divergence.

Better Society Capital (BSC)

BSC, the UK's social impact investing wholesaler, publishes an annual estimate of the UK domestic social impact investment sector, which BSC estimates to have reached £9.4 billion in size as at December 2022, 11 times the 2011 value.[72] Social impact investment as defined by BSC is investment into impact driven organisations such as charities, social enterprises, start-ups, or real assets. The investment enables them to deliver products or services that create measurable, lasting social impact that improves people's lives. Social impact investors are those seeking positive social impact, as well as a financial return, and both investees and investor demonstrate social impact intent.[73] The biggest components of the social investment sector, as captured in the BSC estimate, are social and affordable housing and social lending, alongside impact ventures and social outcomes contracts.[74]

The key differences between the BSC social investment market sizing and the impact investing market sizing in this report are summarised in the table below.

As the table highlights, the difference in numbers between our market estimate and BSC's is explained by several differences, including the inclusion in our market sizing of global investments (as long as they are managed from the UK) and not just those made within the UK, and our inclusion of environmental investments alongside socially-focused ones. Also, to be regarded as social investment, BSC requires a clear intent from the investee organisation (as well as the investor) to be impact driven. In addition, while our report uses an "assets under management" approach that excludes bank lending, a loan book asset, BSC's market sizing includes the value of social lending banks.

	This report	BSC
Where invested?	Globally	UK
What impact intent?	People and the planet	People
What organisation type in scope?	Any	Impact driven

European comparisons

Over a quarter of total assets controlled by UK managers is managed on behalf of European clients, making Europe an important pool of clients for UK asset managers.[75] Impact Europe, a pan-European impact investing network, has put forward a harmonised definition of impact investing for market sizing purposes at a European level. Impact Europe's revised definition seeks to better align with the GIIN's whilst also placing emphasis on demonstrating additionality. The Impact Europe survey, issued to its research partners in Europe and internationally in early 2024, provides a European lens to impact investing market sizing.

Summary of key differences

The table below summarises the key areas of overlap and difference between notable market sizing efforts carried by different organisations that focus on or include the UK report, based on conversations we carried out with the research teams behind these market sizing efforts.

Organisation	Market Estimate	Description
Impact Investing Institute	£76.8 billion	*Includes all direct impact investments managed from UK as of end-2023, using the GIIN definition.*
Global Impact Investing Network	£481 billion	*Includes all impact investments managed from Western Europe as of December 2021, using the GIIN definition.*[76]
Impact Europe	£68 billion	*Estimate includes impact investments managed from all of Europe, as of December 2021. Used own definition of impact investing (now superseded, see "European comparisons"), not the GIIN's, requiring additionality and excluding investments in listed assets.*[77]
Investment Association	£51 billion	*Estimate includes impact investments managed from the UK by IA members, as of December 2022, using the GIIN definition. Not all respondents in our own survey are members of the IA, explaining the discrepancy in numbers. The IA estimate does not distinguish between direct and indirect investments.*[78]
Better Society Capital	£9.4 billion	*Estimate includes the outstanding value of social impact investments (i.e. the balance sheet amount including loan book assets) as of December 2022. The estimate uses BSC's definition of social investment outlined above.*[79] *BSC will release a new estimate of the UK social impact investing market in Autumn 2024.*

Interviews

To complement quantitative data collection, we conducted over 35 interviews with key market participants, thought leaders, and regulators with an interest in the UK impact investing market (see acknowledgements for a full list). Interviews were conducted virtually using a semi-structured format. Interviewees were given the opportunity to speak anonymously should they wish to do so.

Limitations

Self-reported data

As with any survey-based sizing activity, this analysis is reliant on the self-reporting of respondents. The use of a widely accepted definition such as the GIIN's and the cross-checking and validation described above can limit the impact of incorrectly self-reported figures but cannot remove it.

While AUM figures are presented in aggregate throughout the report, there has been an improvement in public disclosure of individual organisational AUM with several respondents accepting to be listed in a new public index released alongside the GIIN's global market sizing report.[80]

Investment Association data including extrapolations

The Investment Association survey collecting 2022 data did not include the same information as in 2020 and the present report is issued too early to rely on the Investment Association survey collecting 2023 data. Therefore, assumptions had to be made about the trends in the impact investing market and the wider UK AUM to extrapolate figures and complete the analysis. We have updated our methodology to reduce our reliance on this data, which increases our confidence in the results. In addition, through triangulating the market growth estimates across multiple sources and taking the conservative approach to each one, we see our estimates as sufficiently robust for their intended purpose.

UK-managed assets definition

Our survey is focused on impact investments managed by teams or individuals based in the UK, irrespective of the domicile of the capital owner or the destination of investments. We recognise that there may be certain investments that this methodology does not capture, which may meet some readers' definition of the UK's impact investing market. These include cases where:

- 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.
- 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.
- 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.

Representativeness of the respondents to total market

As we have only a sub-set of the market completing the survey and driving survey results, we are led by these organisational types and locations. We cannot know if our sub-set is fully representative of the whole UK impact investing market and can only report the figures we receive.

Endnotes

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[5] The notable exception is the SDR question for which we have used the full sample, as global investors may also fall in scope of the policy if they intend to market financial products to UK retail investors. All charts are labelled with the sample for which they relate.

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[23] 50% of respondents to the GIIN survey were from the US and Canada, which has a large and mature philanthropic sector.

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