The Financial Performance of Impact Investing through Private Debt

June 2018

Global Impact Investing Network

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

- **Membership**
  - Investors’ Council: 54 impact investing leaders
  - Network Members: ~210 members

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

- **Research**
  - Practitioner-oriented research to fill market gaps
  - Focus on market studies, performance, and practice
Expanding the suite of GIIN financial performance benchmarks

Strong growth in overall private debt market

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

- No. of Funds Closed
- Aggregate Capital Raised (Gbn)
- Proportion of Aggregate Target Capital Raised

Source: Preqin Global Private Debt Report
The largest asset class in impact investing

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

- Private debt
- Private equity
- Public equity
- Other
- Real assets
- Public debt
- Deposits & cash equivalents
- Equity-like debt

Source: 2018 GIIN Annual Impact Investor Survey

One study, two samples

Private debt impact funds (PDIFs)
n = 50
- Sectors: Most commonly financial services
- Geographies: Primarily emerging-market focused
- Impact themes: Financial inclusion, employment, and entrepreneurship
- Target returns: 80% market-rate; 20% below-market
- Size: Median impact AUM of USD 100 million

Community development loan funds (CDLFs)
n = 102
- Sectors: Most commonly housing
- Geographies: U.S.
- Impact themes: Employment, affordable housing, food security
- Target returns: Nearly all below-market
- Size: Median impact AUM of USD 25 million
Inclusion criteria

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

Sources of data

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

Sample characteristics

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

Source: Symbiotics-GIIN (2012-2016)
Diverse geographic exposure

Total Assets by Geography, 2016
n = 46; AUM = 10.6bn

Source: Symbiotics-GIIN (2012-2016)

Largely institutional and retail capital

Total Assets by Investor Type, 2016
n = 47; AUM = 10.6bn

Source: Symbiotics-GIIN (2012-2016)
Average net returns by return philosophy

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

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

Source: Symbiotics-GIIN (2012-2016)

Average net returns by hedging strategy

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

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

Source: Symbiotics-GIIN (2012-2016)
Risk and volatility

PDIFs have an annualized volatility of 0.9%, leading to a Sharpe ratio of 0.77. This indicates favorable performance relative to risk in comparison to other asset classes.

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<td>2.0%</td>
<td>2.7%</td>
<td>3.4%</td>
<td>5.4%</td>
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<td>0.4%</td>
<td>8.2%</td>
<td>12.2%</td>
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<td>Annualized Volatility (5 years)</td>
<td>0.9%</td>
<td>0.5%</td>
<td>3.1%</td>
<td>7.2%</td>
<td>0.1%</td>
<td>11.2%</td>
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Correlation Table

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Sharpe ratio

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<td>0.56</td>
<td>1.00</td>
<td>-0.08</td>
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Source: Symbiotics-GIIN (2012-2016)
Sample characteristics

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

Source: Symbiotics-GIIN (2012-2016)

Three-quarters institutional capital

Total Assets by Investor Type, 2016
n = 102; AUM = 5.6bn

Source: Symbiotics-GIIN (2012-2015)
CDLFs generated weighted-average interest rates of 2.9% on notes.

Source: Symbiotics-GIIN (2012-2015)

Interest rates stable over time

Source: Symbiotics-GIIN (2016)
Yields highest in microenterprise-focused funds

Source: Symbiotics-GIIN (2016)

Costs also highest in microenterprise-focused funds


Source: Symbiotics-GIIN (2016)
Portfolio risk

Loss provisions outstanding
% of Portfolio Outstanding

<table>
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<tr>
<th>Portfolio Size</th>
<th>All CDLFs (n=101)</th>
<th>Small (n=73)</th>
<th>Medium (n=25)</th>
<th>Large (n=5)</th>
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<td>%</td>
<td>4.9%</td>
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<td>7.2%</td>
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Write-offs
% of Portfolio Outstanding

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<th>Medium (n=24)</th>
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<td>2.7%</td>
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Source: Symbiotics-GIIN (2016)

Key takeaways

Private debt impact investing funds:

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