Impact Funds by Reason and Region

Unpacking impact focus areas and where capital is flowing in the space

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Contents

The accompanying Excel file contains all underlying data for this report. **Download the XLS summary here.**

Key takeaways

- There are many unanswered questions related to impact investing. Beyond simply what it is, many are curious as to how big the space is, who is participating in it, and how those hoping to engage can find each other. We seek to address these questions with newly assembled data on funds with the double-bottom line objective of earning financial returns and having a measurable impact on social or environmental metrics.

- There are differences in the impact fund landscape versus the general private fund landscape. For example, real assets represents a higher proportion of capital raised for impact funds than for private market funds overall, and Africa represents a higher proportion of impact fund count than private market fund count.

- Using the IRIS+ impact category framework, we have found that energy is a staple of impact investment capital, while some categories such as biodiversity & ecosystems garner much less attention. Also, due to cultural differences, some impact categories appear to be more attractive in different geographies. For example, climate is funded largely by North America-based funds, while focus on education investment is more often found in funds outside of North America and Europe.

Introduction

In The Double Bottom Line, we discussed sustainable investment strategies,[1] particularly focusing on the impact investing landscape. The title of that report refers to the dual objectives of achieving both financial returns and a measurable impact on social or environmental metrics. In this report, we

1: We describe more of these strategies in our note entitled ESG and the Private Markets, published in April 2021.

A side note about UN SDGs

Many investors have adopted the SDG framework. While adoption is crucial in aligning investors, governments, and non-profits to solve serious global issues, Goal 16 (peace, justice, and strong institutions) and Goal 17 (partnerships for the goals) are only possible through "country-level activities, international cooperation, and/or public policy."[6] IRIS+, on the other hand, is a solution designed solely for investors, with measurement as an important component. How would a profit-seeking investment measure any impact on the SDG of justice? This goal is best accomplished at national levels and is superfluous to an investment framework.

It can take some acrobatics to identify an investment that will help achieve an SDG. Borrowing from an example in the GIIN's IRIS+ and the SDGs*, we can start with the first goal to "end poverty in all its forms everywhere."[7] While it is a laudable goal for the world, it will require cooperation from governments, non-governmental organizations (NGOs), and businesses to achieve. The underlying targets for the SDG include several that are aimed at public policy, but Target 1.4 reads: "By 2030, ensure that all [people], in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance."[8] IRIS+ has identified four impact categories that could aid in this target: education, health, water, and financial services. As an investor, it is much more useful to start with these categories than ponder the world of investments that might potentially serve the SDG.*

examine the impact space at another level of granularity, breaking fund data down by the many categories of impact.

While there is a plethora of taxonomies used to define the sustainable investing ecosystem, the Impact Reporting and Investing Standards (IRIS+) framework, curated by the Global Impact Investing Network (GIIN), offers an industry-leading methodology to aid investors in defining the investable categories underlying the impact space. While the UN Sustainable Development Goals (SDGs) may be better known, not all of the goals are intuitively investable, as they were designed for the world as a whole to come together to solve some of the most pressing issues facing humanity.[2] The IRIS+ categories, on the other hand, were designed with investors in mind. While the IRIS+ categories do all map to SDGs, the relationship is one where investors deploy capital into the categories to both earn returns and move the world closer toward the goals.

One interesting attitude among GPs is that some would prefer not to be categorized as impact investors, even though they are clearly investing with that objective, because potential LPs may misconstrue the label as an indicator that financial returns are a secondary focus. After speaking to many fund managers working in the space, we believe financial returns are clearly a primary intention of most, so we will ignore the stigma for now and call funds what they are. Eventually LPs should come around when they recognize that fund managers still want to maximize their incentives checks and that there are plenty of highly profitable businesses enabling a better world.

IRIS+

In our 2020 Sustainable Investment Survey, we showed that institutional investors are highly interested in impact investing. Allocations to the space remain small, however, given the challenge of finding investable ideas that cater to investors' particular impact interests. To help address this challenge and enable LPs to screen for their preferred investment areas, PitchBook has adopted the IRIS+ taxonomy to tag impact funds to their applicable categories.

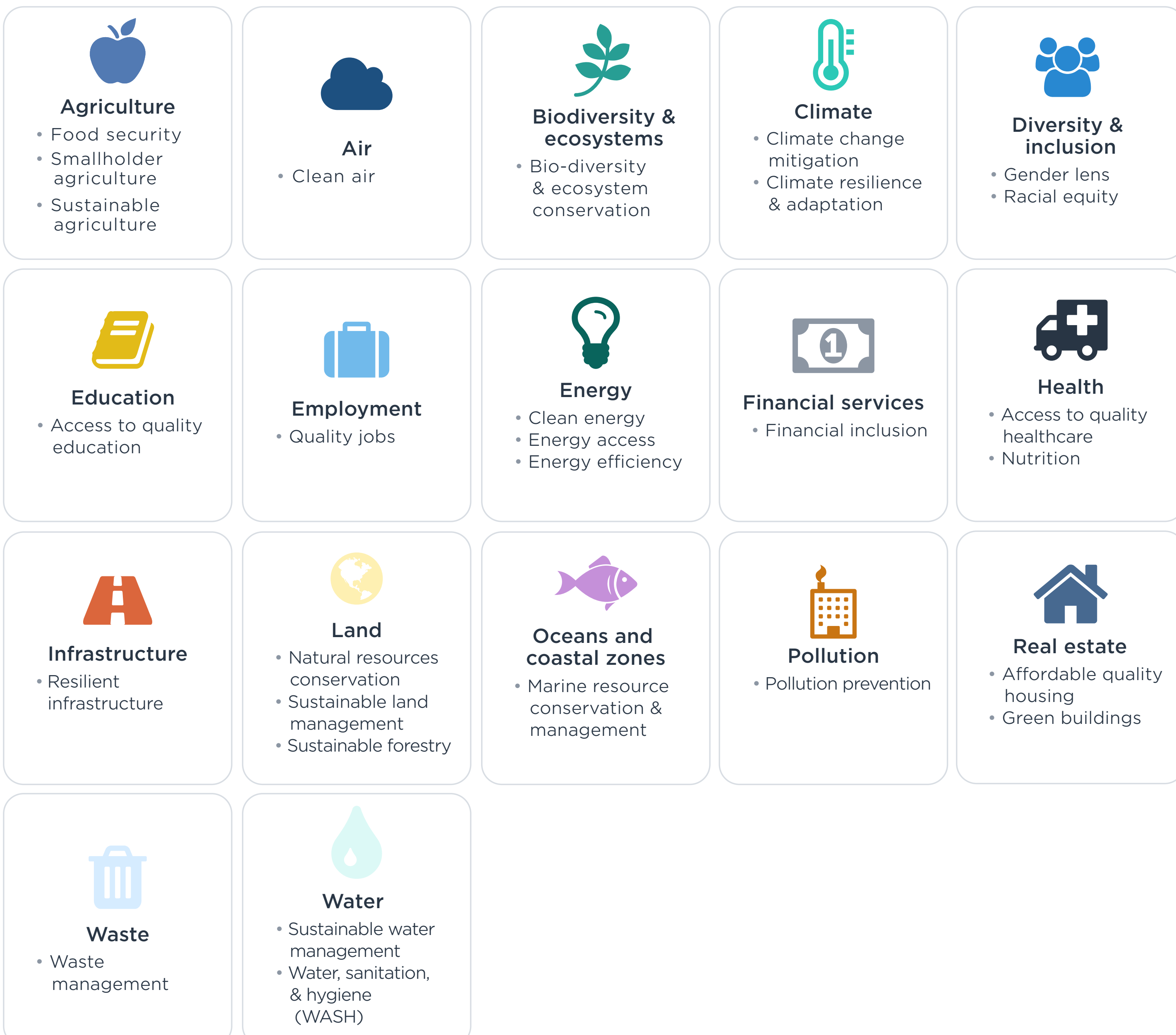
For over a decade, the GIIN worked with global stakeholders from the asset owner, asset manager, and service provider communities to develop a framework for investing in and reporting on impact investments. One result of the work was IRIS+, a thematic impact taxonomy. In the framework's current form, IRIS+ is made up of 16 impact categories such as agriculture, education, and water, with investable themes under each. Under agriculture, for example, the investable themes are food security, smallholder agriculture, and sustainable agriculture.[3]

With impact fund tagging in place, potential LPs will not only be able to work with a list of over 1,350 impact funds across 16 vintage years, but also identify the funds that most closely match the investors' goals. If an asset owner were interested in affordable housing, for example, they would be able

2: "The 17 Goals," United Nations, Sustainable Development, n.d.
3: In June 2021, as the data for this note was being extracted, an additional IRIS+ category was added. Thus, the analysis for this note is based on a 16-category framework, as it will take time to identify the funds that should be tagged for the new Infrastructure category.

to search for impact funds tagged to the real estate category.[4] From there, they would need to do some additional diligence to determine if the fund is targeting affordable quality housing or green buildings. That task is made easier, however, by narrowing the funnel to just 156 funds, many of which are not accepting capital commitments any longer, making a much more manageable list.

IRIS+ impact categories and themes[5]



Source: Global Impact Investing Network

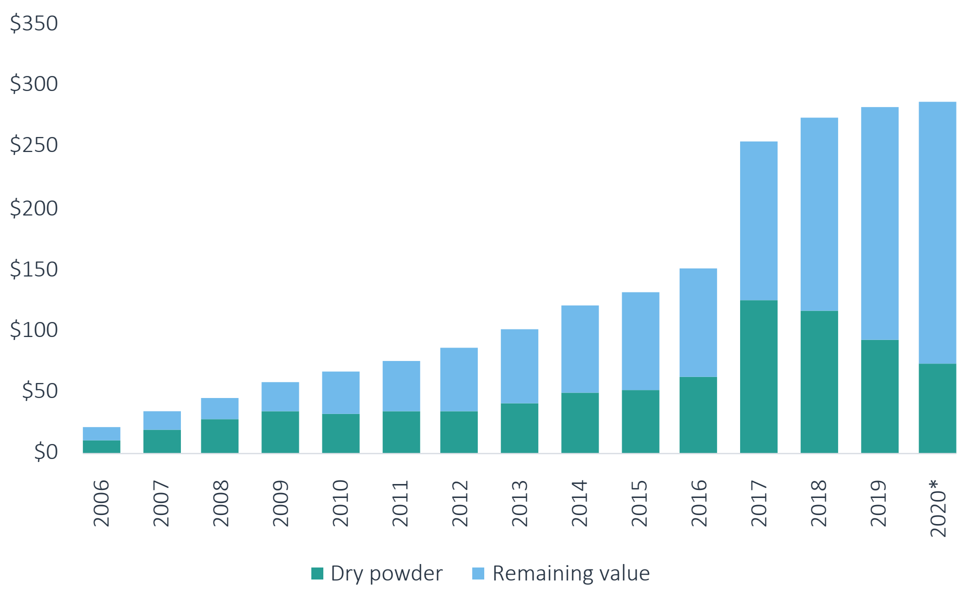
4: While the fund tagging data has been added to the PitchBook database, it will likely be late 2021 before the IRIS+ categories will be visible on the platform. Clients can reach out to their PitchBook representative to request a search in the meantime.
5: For much more detail on the categories and themes, please reference this document from the GIIN.

Impact funds stats

Many investors perceive the impact space as a nascent area. They may be surprised that we track over 1,800 funds dating back to the Revere Fund out of Dallas, Texas, US, which originally closed on $150 million in 1984. Starting in 1992, managers began to launch funds more regularly in a variety of geographies. In the 1990s, impact funds were raised from places as dispersed as Poland, Canada, the Netherlands, Bulgaria, India, the United Kingdom, South Africa, China, and Croatia. Many of these early offerings were funded by governments and NGOs to foster economic development or by corporations looking to invest in the countries in which they were operating.

So how much capital is currently targeting impact investments? 675 funds representing approximately $200 billion in commitments were still actively investing coming into 2021. These vehicles are targeting the full gamut of private market strategies (PE, VC, and so on), global geographies, and impact categories. In terms of total AUM, including funds actively investing as well as those winding down, we estimate that there is about $73 billion in dry powder targeting impact investments with another $212.9 billion already called from impact funds in unrealized investments, totaling $286 billion.

Impact fund AUM ($B)

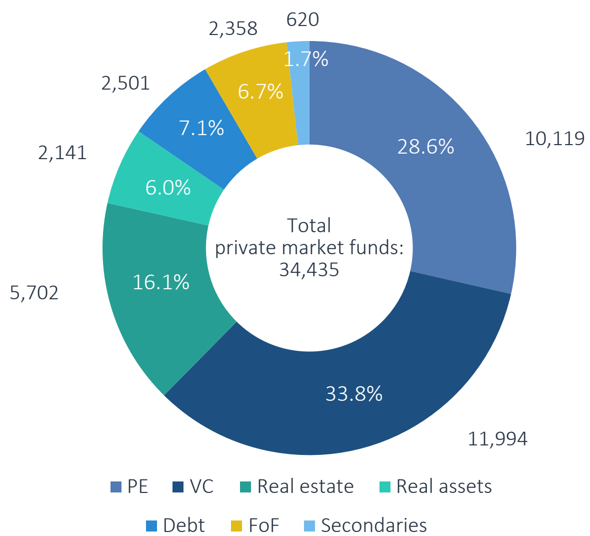


Source: PitchBook | **Geography:** Global
*As of December 31, 2020

6: IRIS+ and the SDGs, Global Impact Investing Network, n.d.
7: Ibid.

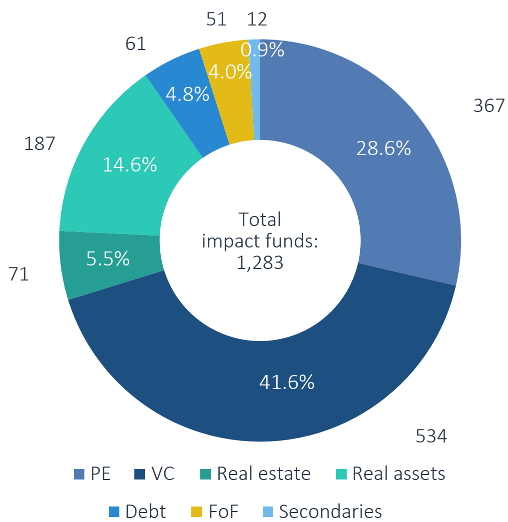
While we hear from quite a number of VC funds providing, or hoping to provide, measurable impact alongside financial returns, we were curious as to where there might be concentrations of impact investment within particular private market strategies. PE represented 29.0% of all private market vehicles closed between 2006 and March 2021, and it accounted for a similar proportion of all impact funds closed over the same period at 28.7%. In comparison, VC represented 32.5% of all private market vehicles but 41.6% of impact funds, indicating a higher concentration. This could be counterintuitive to some and completely intuitive to others, depending on one's thinking. Some feel that VC is not the place to ponder anything outside of achieving profitability. Others, however, feel that VC is exactly the place to start companies on the path to making better products for the world, better companies with a stakeholder focus, and business activities that have a sustainable focus, rather than trying to retrofit a company after it has already embraced "bad habits."

Number of private market funds closed between 2006 and March 2021 by strategy*



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Number of impact funds closed between 2006 and March 2021 by strategy*

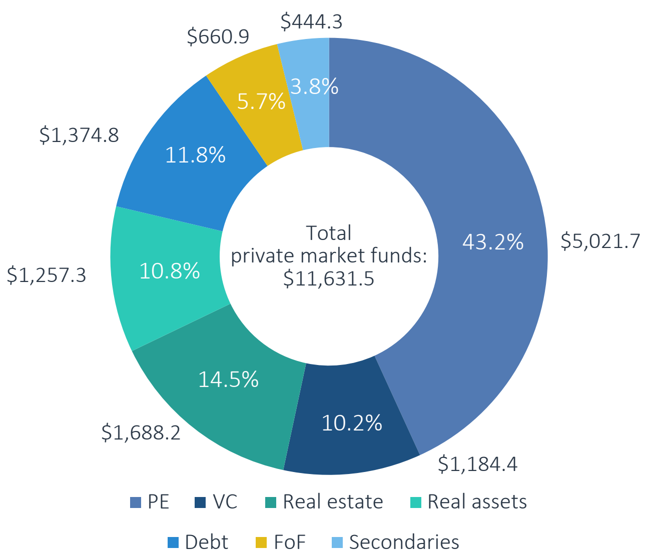


Source: PitchBook | **Geography:** Global
*As of June 21, 2021

8: IRIS+ and the SDGs, Global Impact Investing Network, n.d.

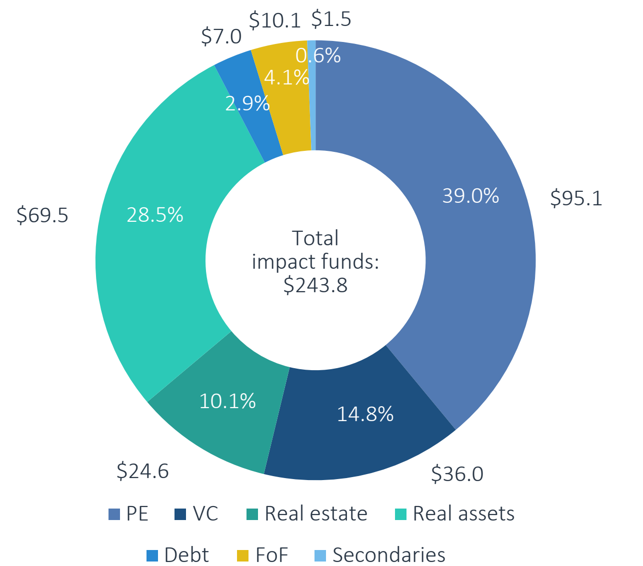
When looking at capital raised for impact funds by private market strategy, we see that PE represents the highest share at 39.0%. Real assets accounts for the second-largest concentration of impact capital. These vehicles raised 28.5% of capital allocated to impact funds but only 10.8% of capital raised for private market funds overall. Real assets impact funds tend to invest in building hospitals, schools, rural waste systems, energy projects, and broadband expansion. Because these projects can be massive, the funds supporting them tend to be larger than other impact funds.

Capital raised ($B) for private market funds between 2006 and March 2021 by strategy*



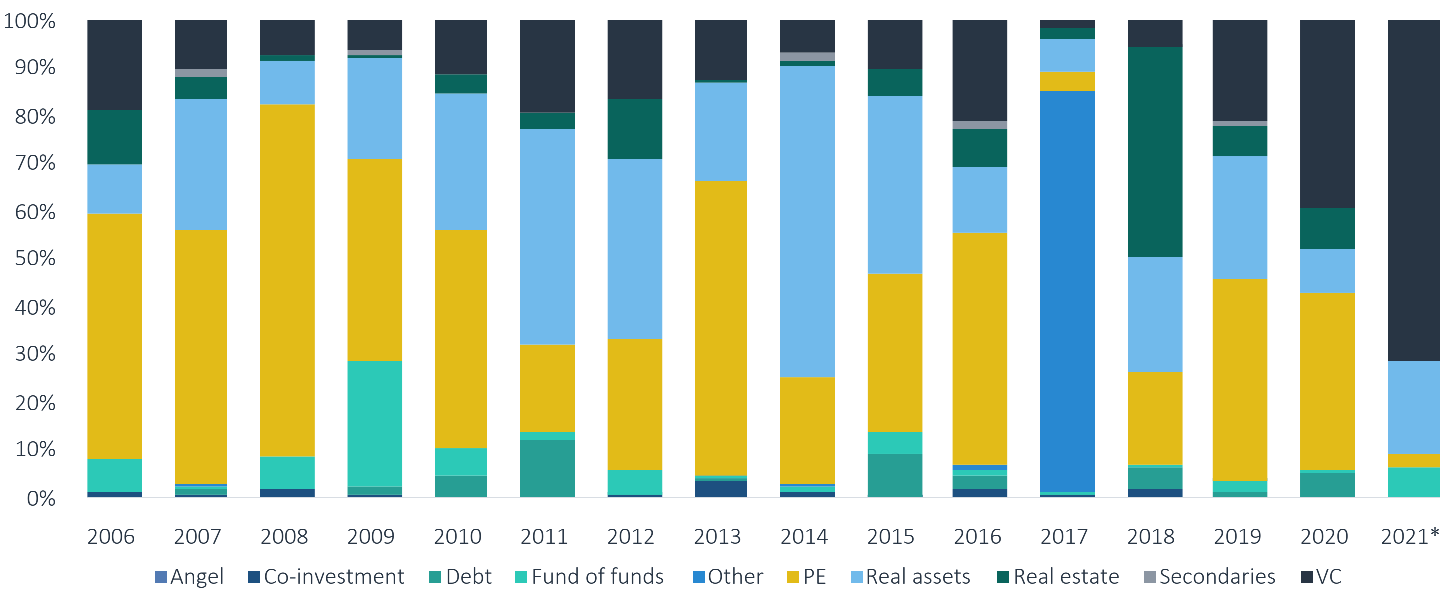
Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Capital raised ($B) for impact funds between 2006 and March 2021 by strategy*



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Share of impact capital raised from 2006 to March 2021 by strategy and close year*

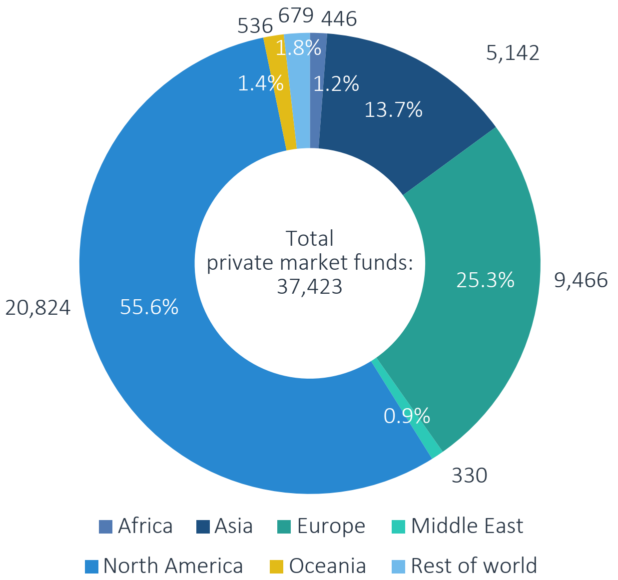


Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Over time, PE has generally been a large recipient of impact fund commitments, but VC has taken more share for several years in a row. 2017 was anomalous, when a fund categorized as “Other,” (EU) 2020 Horizons, swamped all other commitments that year with €80 billion committed by the European Commission to forward a number of focused goals. Because impact fundraising is still a fairly small investment area, data can be lumpy. Another example was in 2018, when a Dutch pension group raised the $13.09 billion (€11.5 billion) PGGM Private Real Estate Fund, accounting for almost 40% of all capital raised for impact funds in the year.

Switching to geographical breakouts, we saw some cases in which the concentration of capital raised and vehicles closed for impact investment differed markedly from private market investment overall. Europe represented a larger proportion of the impact fund count than overall private market fund count, which aligns with the perception that European investors have shifted a large portion of their investment capital to focus on sustainable investing. North America, on the other hand, raised 55.6% of private market funds closed since 2006, but only 48.6% of the impact funds closed during the same time. Though Africa’s fund counts are relatively small, the region represents a higher share of impact funds closed since 2006 at 7.5% than it does private market funds overall at 1.2%. Given the perceived need for impact in parts of Africa, impact funds represent nearly 25% of all the region’s private market funds closed since 2006, whereas impact funds constitute 3.5% of all private market funds globally.

Number of private market funds closed between 2006 and March 2021 by region



Source: PitchBook | **Geography:** Global
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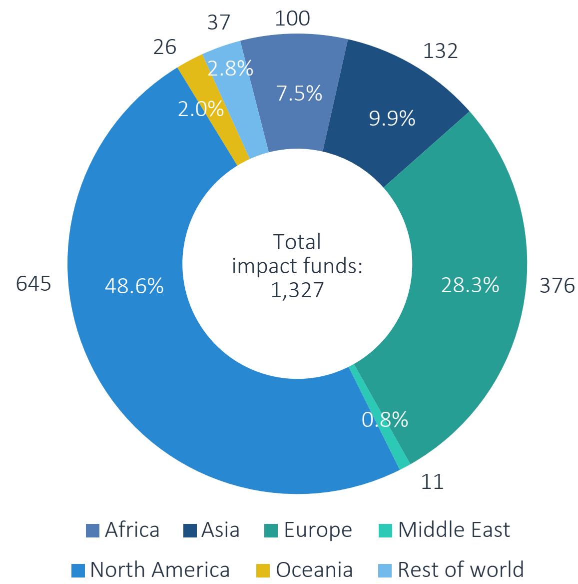
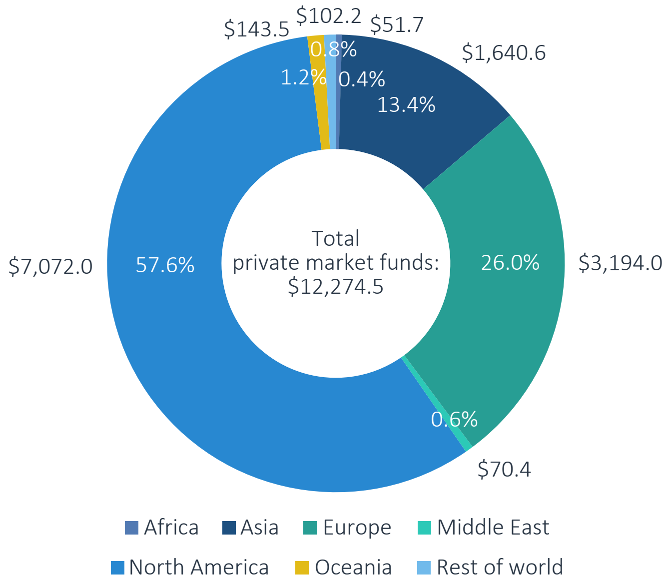
Number of impact funds closed between 2006 and March 2021 by region



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Capital raised ($B) for private market funds closed between 2006 and March 2021 by region*



Source: PitchBook | **Geography:** Global
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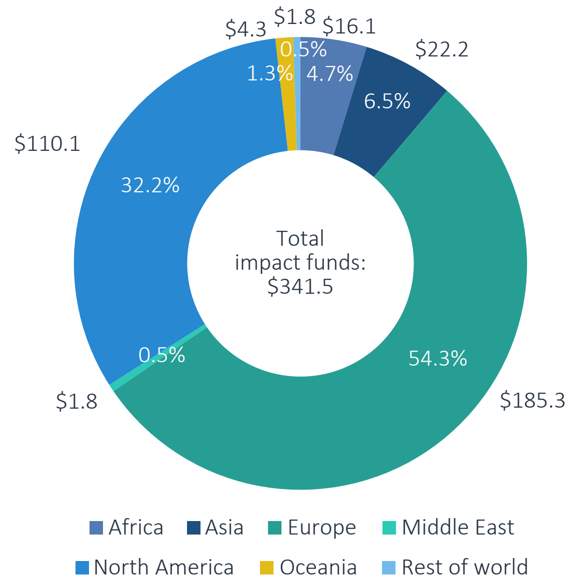
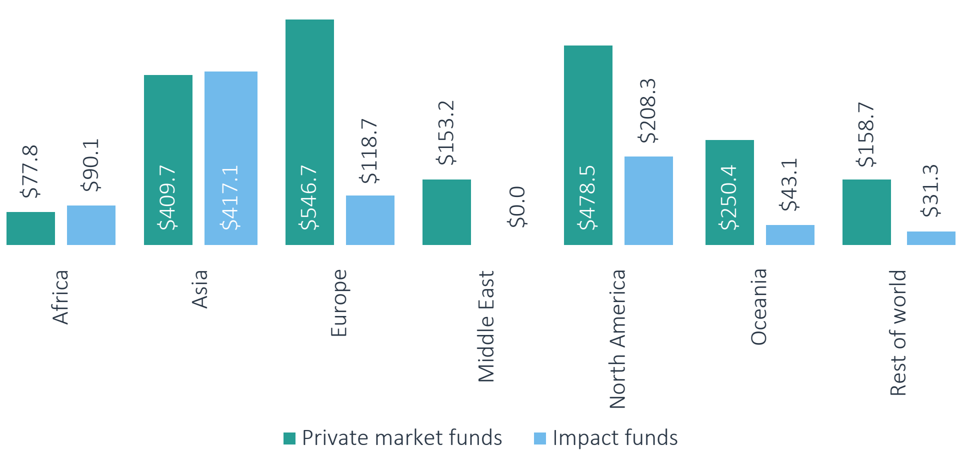
Capital raised ($B) for impact funds closed between 2006 and March 2021 by region*



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

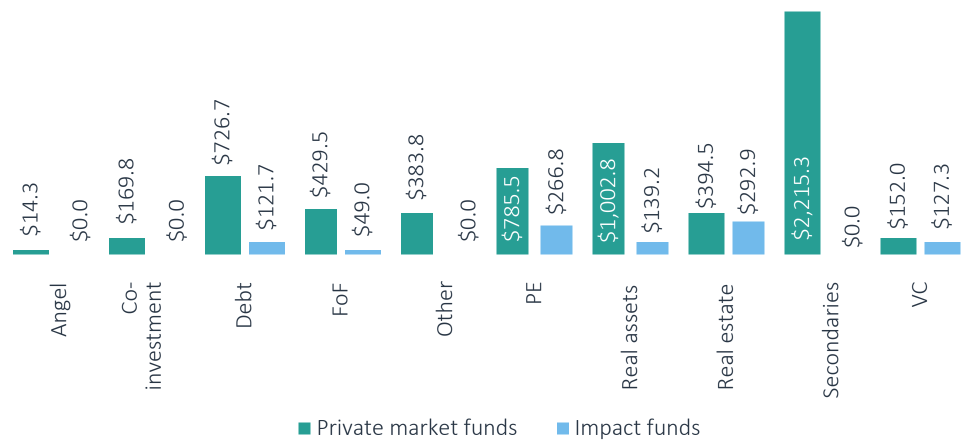
Impact fund sizes tend to be smaller than the general population of private market funds. In 2020, the average private market fund size overall was $471.2 million, while the average impact fund size was only $167.6 million. This disparity was especially true in Europe, where the impact funds were, on average, about 1/5 the size of the region's broader private market. On the other hand, Africa-based impact funds in 2020 were larger than private market funds overall in the region, on average. This is partially due to very few funds closing in the region. 14 Africa-based funds closed in 2020, six of which were impact funds. Of the six largest funds raised for Africa in 2020, four were impact funds, each of which was greater than $100 million. These vehicles skewed the average fund size for impact funds larger than the size of Africa-based private market funds overall.

Average fund sizes ($M) in 2020 by region*



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Average fund sizes in 2020 ($M) by strategy*



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

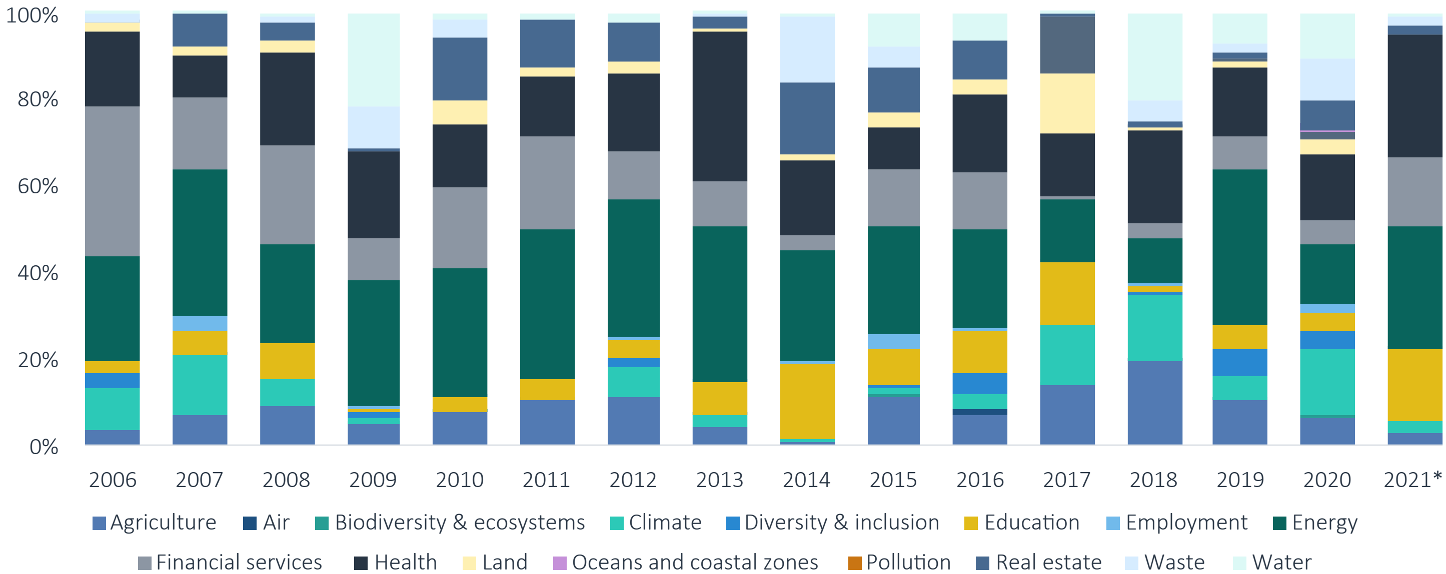
Average fund sizes ran lower for impact funds than the broader industry at the strategy level as well. The difference between the groups was smallest for VC, where vehicle sizes tend to be small anyway. The average VC fund size is typically much smaller than many realize, given the press that mega-funds receive. Real assets recorded the largest disparity in 2020, logging a $1.0 billion average overall but just $144.8 million for impact funds. The marquis projects that real assets portfolios pursue generally include opportunities such as airports and toll roads, which would not qualify as impact investments. In addition, the average size of real assets impact funds in 2020 was much lower than in prior years, as fewer big funds were raised than in the past.

Diving deeper: What's being impacted?

Using the IRIS+ category framework, we can take a more detailed look at what specific areas of impact are attracting the most capital. A small note on methodology: We have allowed single funds to have more than one impact category tag, so any IRIS+-level numbers could involve instances of one fund being counted multiple times, so one must be careful in adding these up to arrive at totals. We are estimating the money flowing to these categories but cannot say for certain how much of a fund will go to the categories they are targeting. For that reason, we showcase this data as proportions in the accompanying visuals rather than as absolutes.

The chart on the following page shows that some impact categories have received fairly constant investment share over time, while others have big years and then fade back. Energy, for example, is a consistent target of impact funds, while education is often a much smaller portion. Education and oceans & coastal zones ballooned in 2017, however, as they were two of the categories targeted by the €80 billion (EU) Horizon 2020 Fund, a state-funded pool investing between 2014 and 2020. We realize this chart is showing a lot with some very thin lines, so we recommend that you peruse the data pack linked to this note.

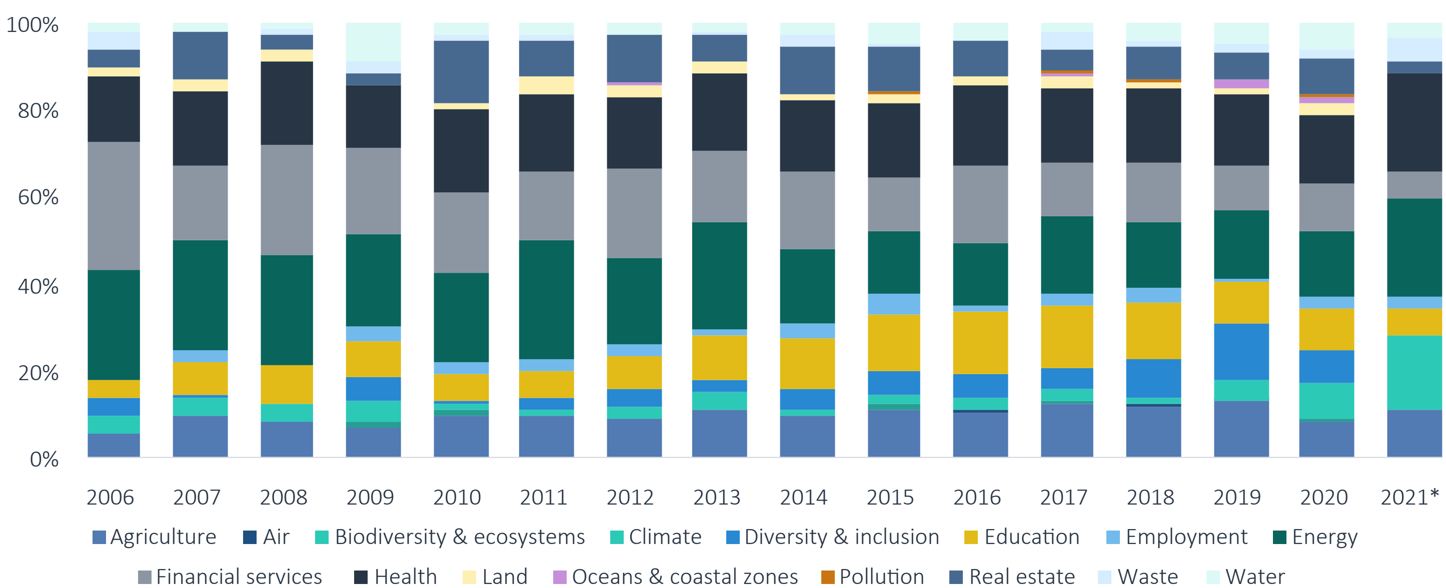
Share of impact capital raised from 2006 to March 2021 by impact category and close year*



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

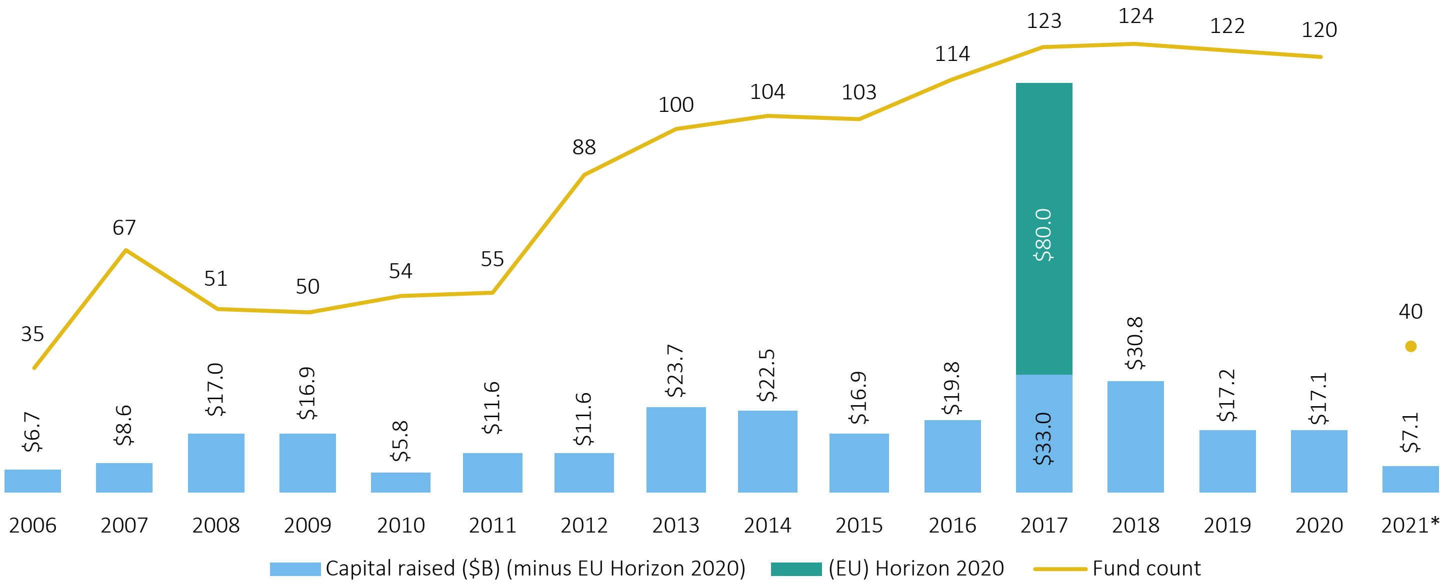
Looking at the number of funds targeting each of the impact categories, there are many years when no funds are focused on air or biodiversity & ecosystems, but in most years going back to 2006, over a dozen funds have targeted energy, financial services, health, and real estate. In the last five to 10 years, agriculture, climate, and diversity & inclusion have regularly been counted in the annual double-digit club. Overall fund numbers are rising, though we must invoke the same caution mentioned earlier: If a fund invests in multiple IRIS+ categories, it will be counted in each category.

Share of impact fund count from 2006 to March 2021 by impact category and close year*



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

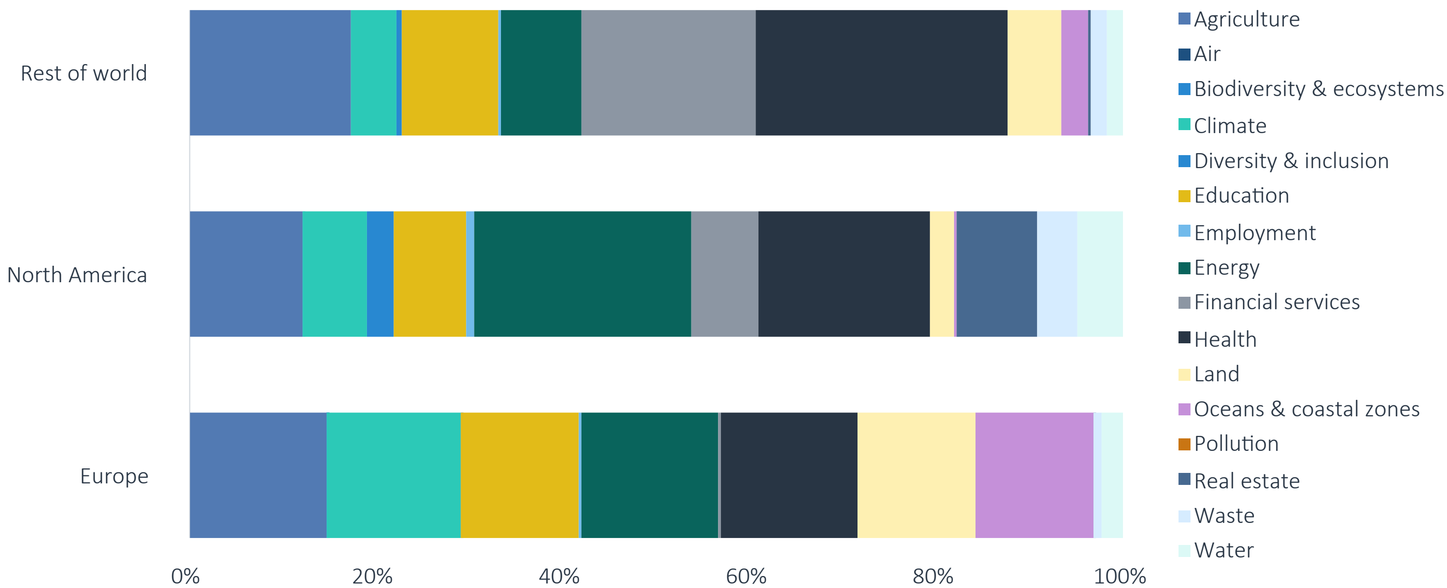
Impact fundraising activity from 2006 to March 2021



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

We also wondered if there were any variations in how different geographies were investing for impact. Going back to 2006, the largest category that the European impact fund universe has been targeting is energy, which is not only a popular cause, but also one able to absorb large amounts of capital. While it is also a large target for North American impact funds, health constitutes a much bigger proportion of impact capital raised in that region than in Europe. This aligns with the fact that the US, which accounts for most capital raised for North America, does not have nationalized healthcare to nearly the degree that Europe does, so private sector methods of approaching health problems are more available for investment. Financial services accounts for the largest proportion of impact capital raised for the "rest of world" grouping; we believe this could be because many countries in that group are historically underbanked, meaning fewer residents in those areas have access to bank accounts or loans that help facilitate business formation and economic development. Education also represents a larger proportion of capital raised for impact funds based outside of North America and Europe; we think one factor could be that some emerging markets have lower literacy rates.

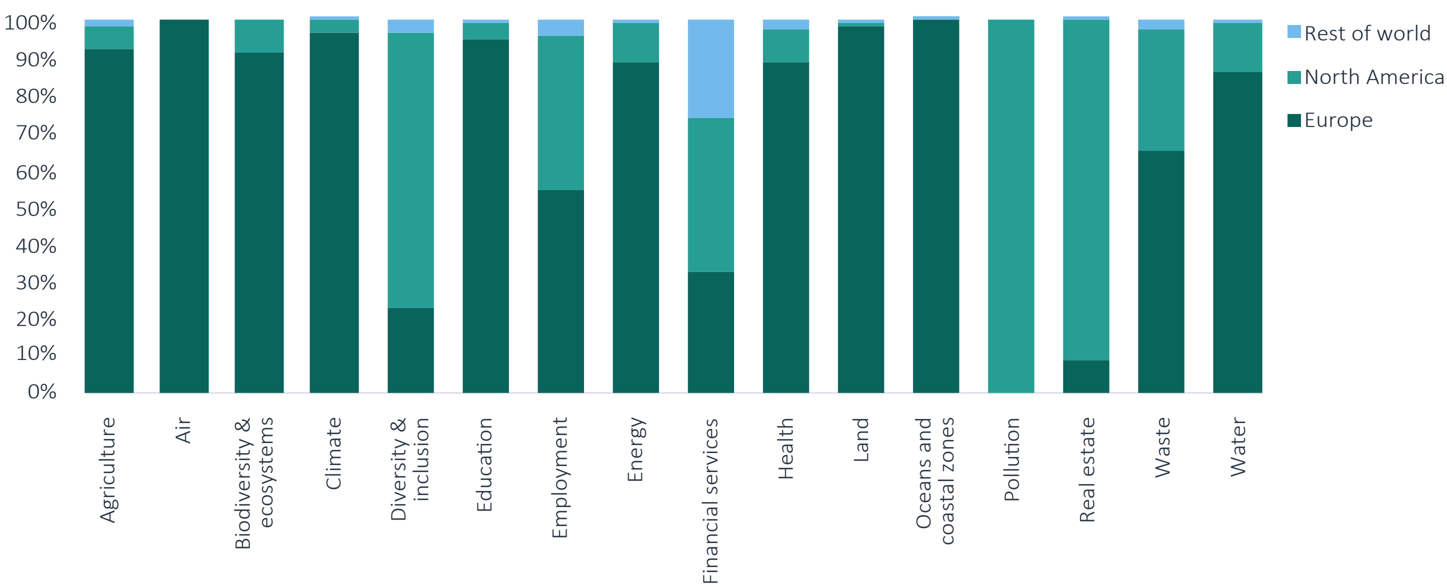
Share of capital raised for impact funds opened from 2017 through March 2021 by region and impact category



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Shifting the lens to look at individual IRIS+ categories, pollution, air, and biodiversity & ecosystems are areas largely being funded in Europe, but North America is leading the charge with investment into climate and diversity & inclusion. All regions are working on improving access to financial services, with North America doing slightly more, only because more impact capital is active in that region. As we noted earlier, financial services accounted for a higher percentage of impact funds based in the rest of world grouping.

Share of capital raised for impact funds opened from 2017 through March 2021 by region and impact category



Source: PitchBook | **Geography:** Global
*As of June 21, 2021

Who are the impact investors?

Some of the largest impact funds in our database are run by managers who have not dedicated their existence to impact investing. TPG, better known for its PE mega-funds, raised the $2 billion Rise Fund in 2017, closed on its $2.17 billion Rise Fund II in 2019, and is currently in the market with its Rise Climate fund, which is targeting $5 billion. While relatively small compared to the past four buyout funds the firm has raised, each of which topped $10 billion, this is an enormous amount of money targeting impact investments from this global player.

Some large impact funds have been created independent of LPs for their funding. The largest impact fund is the (EU) Horizon 2020 Fund, with government backing. Other large impact investment funds come from the corporate world, including Amazon's $2 billion Climate Pledge Fund and the $1 billion Microsoft Climate Innovation Fund.

Of the fund managers who are dedicated to impact investing, some are incredibly targeted, such as Aqua-Spark, with $176 million under management in two funds and a commitment to sustainable aquaculture. Others are broader in their mandates, such as Bridges Fund Management, which has four impact goals: healthier lives, future skills, sustainable planet, and stronger communities. Generally speaking, the broader the mandate, the larger the AUM. Bridges has $1.39 billion under management across 15 funds. Some fund managers have shifted their approach over time. North Sky Capital, a nearly $1 billion AUM firm that spun out of a regional investment bank in 2010, began with a more general approach, but has since found focus in targeting sustainable investments.

In examining the ImpactAssets 50 2021 database,[9] we cross-checked those verified impact funds against the PitchBook database to find a list of funds that appear to be currently in the market seeking investor commitments. As can be seen by the accompanying short list, strategy types are targeting multiple areas of impact, both in terms of geography and the intended impact. Most funds are fairly modest in size, and many are so under the radar that it is difficult to determine the intended fund size.

9: ImpactAssets annually reviews funds claiming to be impact funds and selects 50 that it feels display the breadth of the impact investing landscape. In 2021, noting that many funds carried over from year to year, IA created an emeritus list as well as an emerging list, making for a much longer database of verified impact managers.

Select ImpactAssets 50 funds open to LP commitments*[10]

Fund name	Strategy	IRIS+ categories	Target
Circulate Capital Ocean Fund I	PE buyout, South and Southeast Asia	Oceans & coastal zones	$225 million
Creation Impact Credit Fund (India)	Private debt, financial inclusion	Financial Services	$100 million
CrossBoundary Educational Infrastructure	Infrastructure, African markets	Education	n/a
Ecosystem Integrity Fund	VC	Agriculture, energy	$275 million
Elevar Equity V	PE growth-expansion, India	Agriculture, financial services, health, education	n/a
Encourage Solar Finance Fund	PE buyout, India	Energy	$75 million-$100 million
Global Partnerships Impact-First Development Fund	Private debt	Diversity & inclusion, education, energy, health, real estate, water	$70 million
Northern Arc India Impact Fund	Direct lending, India	Financial services, real estate	$100 million-$150 million
PGIM Real Estate U.S. Impact Value Partners	Real estate core	Real estate	n/a
PRIME Impact Loan Fund I	Venture debt	Climate	$60 million
RH Capital Fund II	VC, US	Diversity & inclusion, health	n/a
Sarona Global Growth Markets PE Fund 2	FoF, frontier and emerging markets	Agriculture, education, financial services, health	$300 million-$500 million
SEAF Caribbean SME Growth Fund	PE growth-expansion, Caribbean common market	Agriculture, diversity & inclusion, Energy	$100 million
WaterEquity Global Access Fund	Private debt, emerging markets	Biodiversity & ecosystems, water	$150 million

Source: PitchBook | **Geography:** Global
*As of June 21, 2021

10: This list is informational only and is in no way meant to be taken as a recommendation.

How are you tagged?

We hope our IRIS+ initiative allows LPs, GPs, and companies with particular impact goals to find each other more easily. This note reports on just the first step of the work, fund tagging, we are doing to build out this impact network. As this is private market data that is often difficult to pin down, we invite impact investors of all stripes to write to ***survey@pitchbook.com*** *to find out how they are being reflected and update their profiles if the data can be improved. The data is scheduled to show up on the PitchBook platform in the fourth quarter of 2021, so now is an opportune time to ensure your profile is accurately reflecting the work you are doing.*

Conclusion

The impact investment space, which is most often implemented through private market vehicles, is a difficult space for LPs and GPs to navigate, given only some investors on each side of the table are targeting impact and each has its own take on what can be profitably impacted. GPs are frequently frustrated trying to identify the perfect LP, one that is looking for exactly what the GP is pitching. On the other hand, as mentioned, LPs often have very specific categories of impact they hope to effect, and it is incredibly difficult to find the ideal vehicle that will meet their objectives. The IRIS+ initiative at PItchBook, which will eventually lead to impact category tags on funds, investors, and companies, will provide a significant boost to facilitating introductions among private market participants with similar aims.

Investing for the double-bottom line is garnering a huge share of attention among investors, many of whom are waiting on the sidelines, watching to see if the model can be proven out. It will take more granular market-level data than has been previously reported to track the trends, something we are committed to further reporting. Looking at fund-level data, it is clear that impact is not a homogeneous market, as a variety of fund managers are testing out investment models to have a positive impact on the world without sacrificing investment returns.