

Masterclass

Beyond Returns

Impact Investing: How to Get Started





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Agenda



Introduction & Objectives

Background & Context

Definitions

Market Size

Current Trends

Q&A

Case Studies



Introduction & Objectives



LSFI
Luxembourg
Sustainable Finance
Initiative

IIAB
Impact Investing
Advisory Board

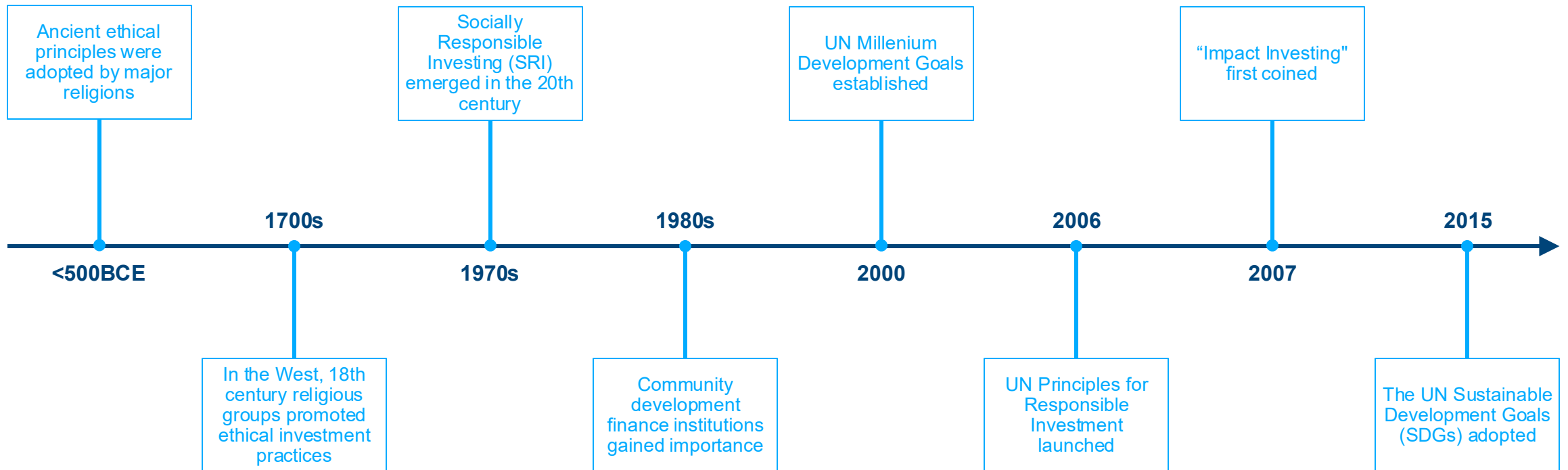


Background & Context





A Brief History of Impact Investing



Impact Investing has grown into a **recognized approach** to align financial goals with societal and environmental benefits. The focus has shifted to be on **generating positive impact**, going beyond the avoidance and reduction of negative impact.

Source: <https://www.investopedia.com/news/history-impact-investing/>, https://papers.ssm.com/sol3/papers.cfm?abstract_id=2886088, and many others



Definition





Spectrum of Capital

APPROACH	TRADITIONAL INVESTMENTS	RESPONSIBLE INVESTMENTS				PHILANTHROPY
				IMPACT INVESTMENTS		
FOCUS	FINANCIAL ONLY	NEGATIVE SCREENING	ESG INTEGRATION	IMPACT DRIVEN		IMPACT ONLY
				FINANCIAL-FIRST	IMPACT-FIRST	
FINANCIAL GOALS					Accept low risk-adjusted returns	Accept partial/full capital loss
FEATURES				Manage ESG risks		
				Pursue ESG opportunities		
				Intentionality: delivering impact is central to underlying assets/investments		
				Impact investment is measured and reported		
IMP INTENTIONS	MAY OR DO CAUSE HARM	ACT TO AVOID HARM				
			BENEFIT ALL STAKEHOLDERS			
			CONTRIBUTE TO SOLUTIONS			

Source: adapted from Bridges Fund Management (2014), PRI (2013), RIAA (2019), UK NAB (2017), IMP (2018)



Impact Investing Definition

Impact Investing **involves:**

- **Investments made with an intention** to contribute to solving social and/or environmental problems alongside a financial return
- **Measuring and managing** positive and negative impact
- Leveraging **financial markets infrastructure**
- **Financing companies or projects** that aim to provide solutions to address social or environmental challenges



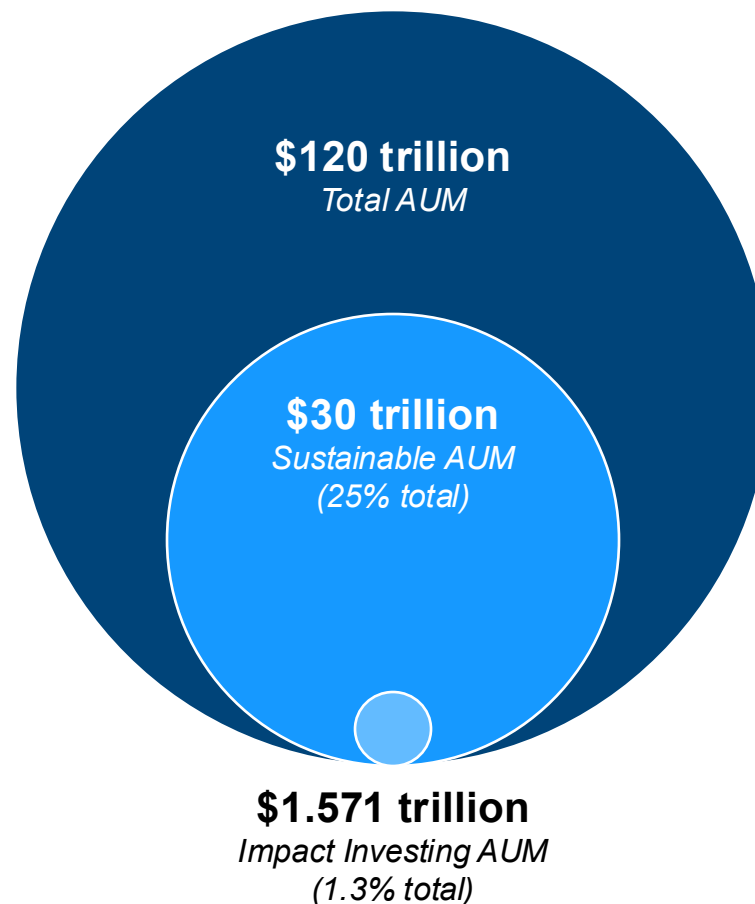
Market Size





Global Impact Investing Market Size

Global Investment Assets under Management (AUM)

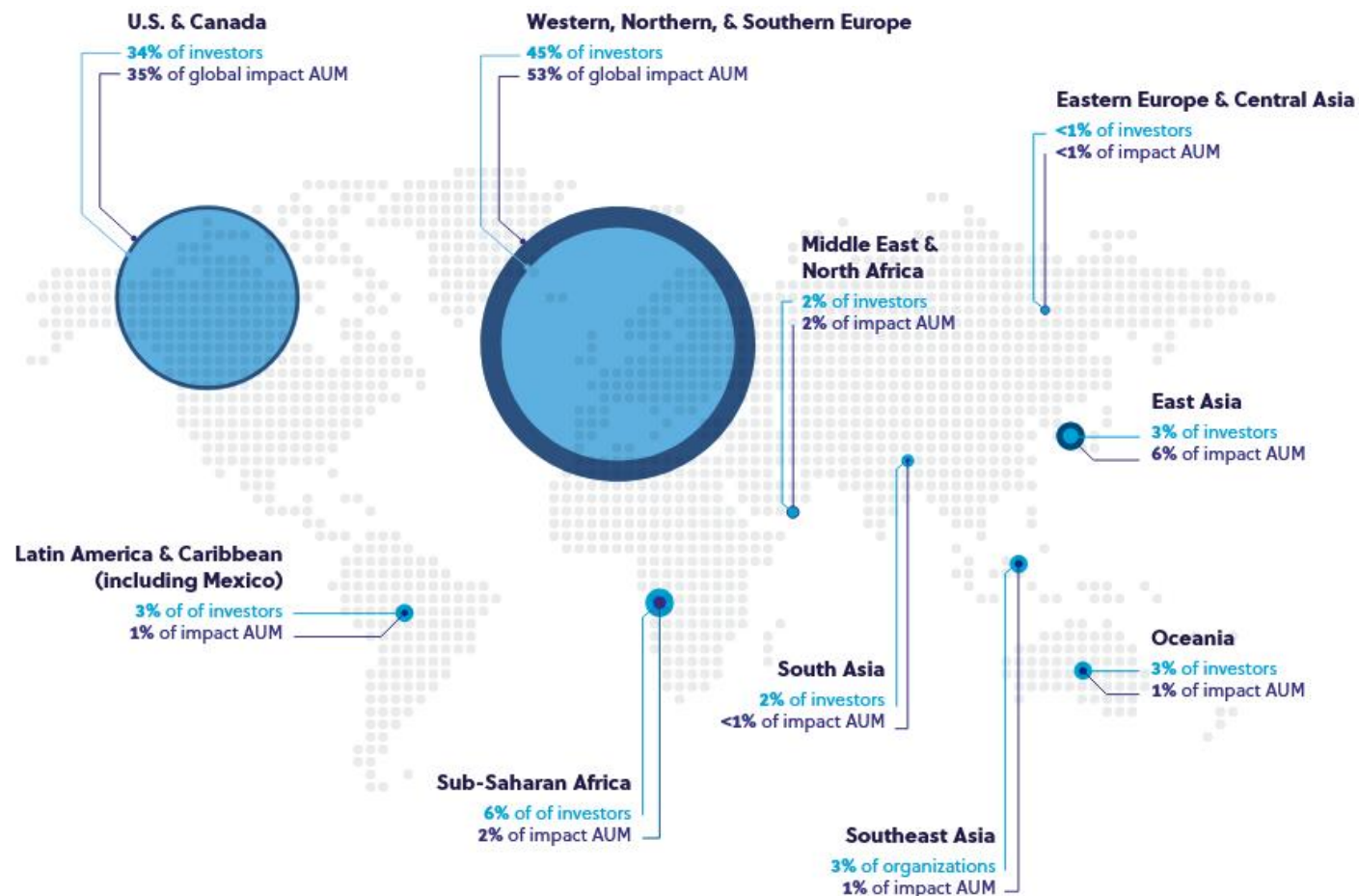


Source: GIIN, Sizing the Impact Investing Market (2024)



Global Impact Investing Market Size

Organizational representation and impact AUM by headquarters location

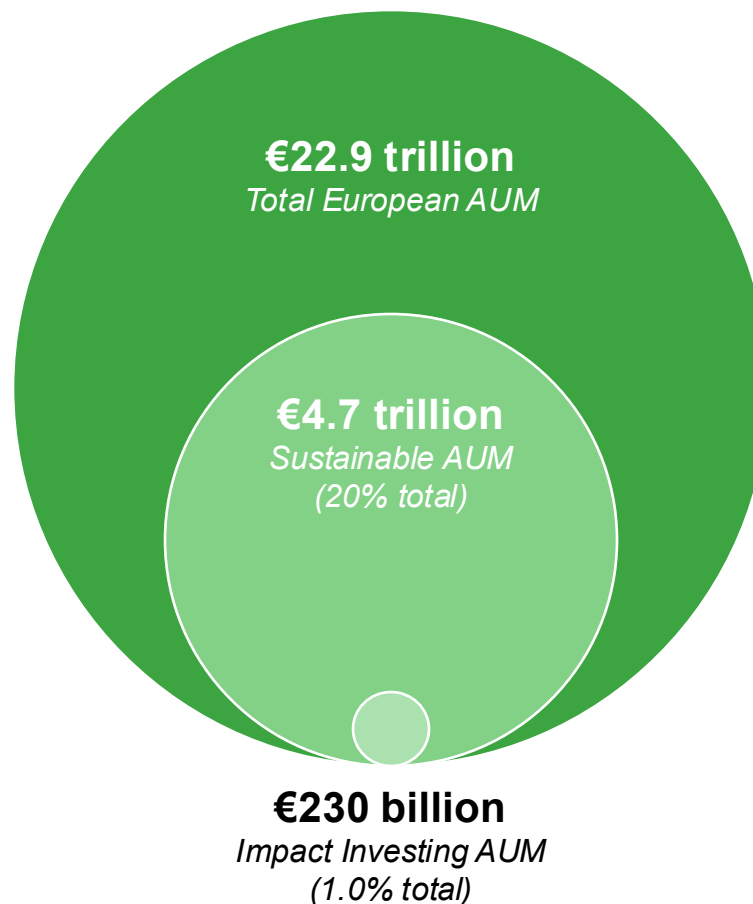


Source: GIIN, Sizing the Impact Investing Market (2024)



European Impact Investing Market Size

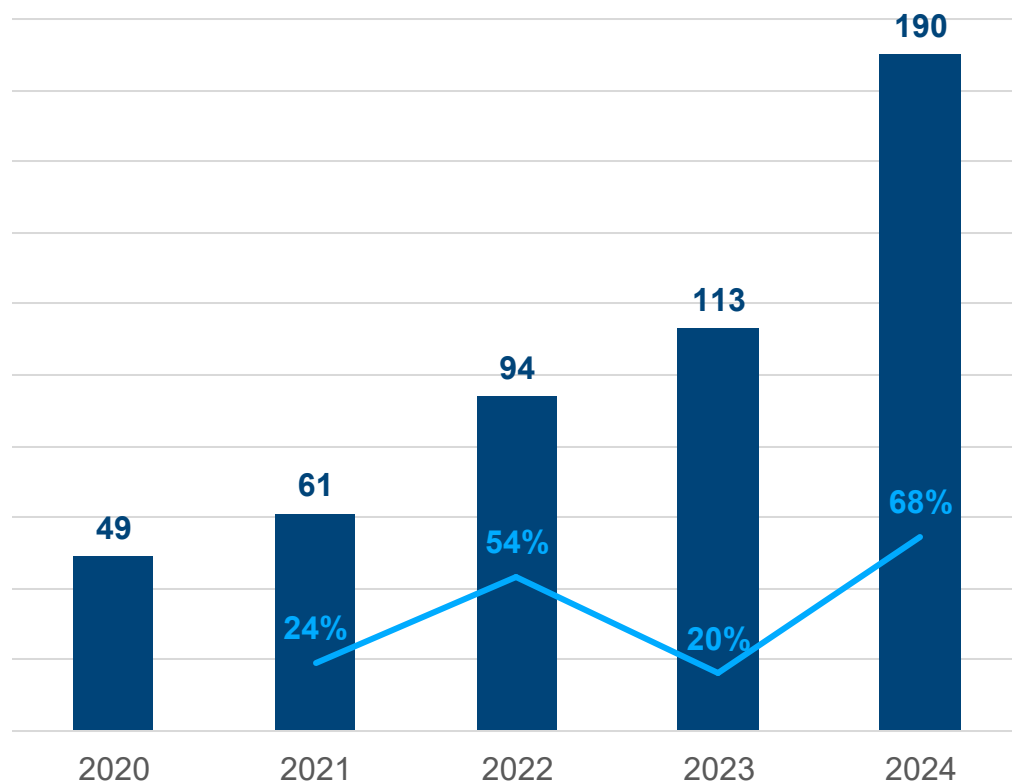
European Investment Assets under Management (AUM)



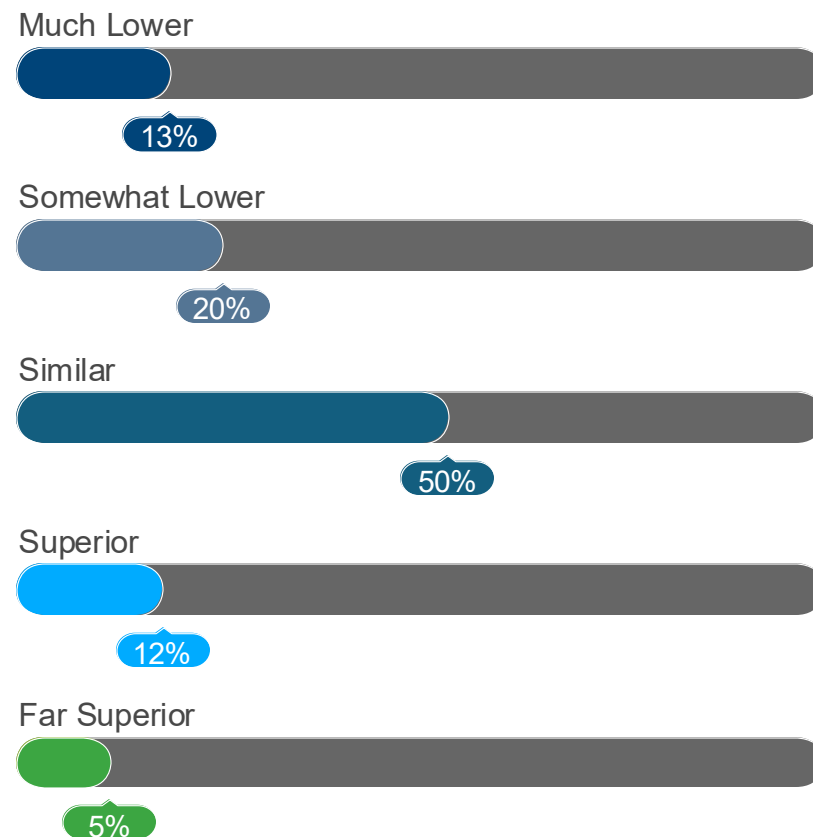


European Impact Investing Market Size

Unlisted Direct Impact Investing
AUM (€bn) and Growth (%)



Expected Financial Returns of Impact Investors
Compared to Risk Adjusted Market
Rate of Return





To learn more



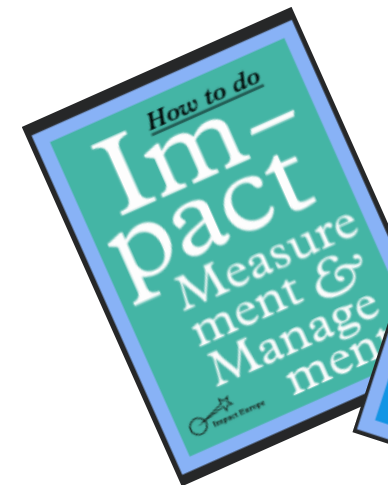
<https://www.gsgimpact.org/>



<https://thegiin.org/>



<https://www.impacteurope.net/>





Current Trends





Developing Impact Economies

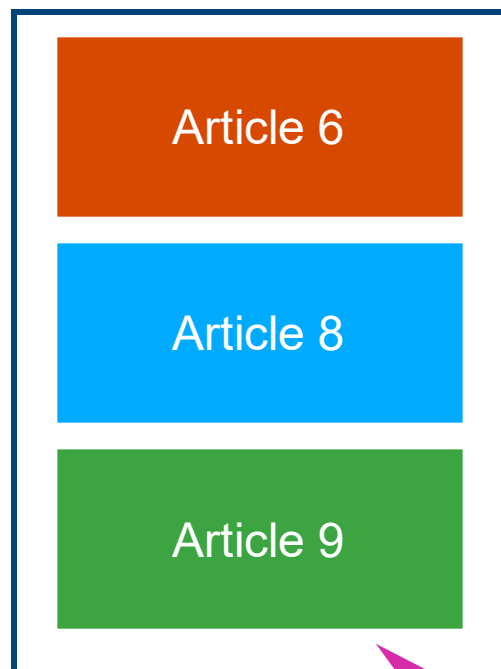
5 pillars and foundations of the impact ecosystem





SFDR: Challenges for Impact Investing

Current SFDR Product Level Disclosures



No Impact Category

Visibility Issues for Impact Investing

- **Pressure** from institutional investors for funds to be “labelled” as Article 9
- **Market confusion** between sustainable and impact products under Article 9
- **Risk of impact washing**

Reporting Burden for Impact Funds

- **Misaligned Reporting:** Regulation is focused on negative impact reporting (PAIs) while most impact investors focus on measuring positive impact, leading to additional reporting burden
- **Burden on Investees:** PAIs were designed for large listed assets, while most impact investees are unlisted SMEs, resulting in high reporting cost for SMEs, inability to provide accurate data, etc.
- **Reporting Flexibility:** Fund managers are still uncertain about PAI reporting for unlisted SMEs.



SFDR: Upcoming Revision

SFDR Revision Timeline

Q4 2023	SFDR Public Consultation
Q2 2024	ESAs' Opinion and EC Report on SFDR Publication
Q4 2024	Platform on Sustainable Finance's Recommendation on SFDR
Q1-Q3 2025	EC exploring ESAs' Opinion and Platform's Recommendation
Q4 2025	EC's Proposal on Revised SFDR
2026	EU Legislative Process
2027/2028	Adoption of Revised SFDR



SFDR Proposal by the Platform on Sustainable Finance

- **New product categorisation scheme:**
 - Sustainable
 - Transition
 - ESG Collection
 - Unclassified
- **Unclassified products will have minimum reporting obligations** (e.g., GHG emissions)
- **No impact category proposed**, but EC to assess whether and how to include impact investing



Thank you for your attention.

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