



OVERVIEW OF IMPACT INVESTING

in Aotearoa





NOVEMBER 2020

Part I: What is impact investing?

*Part II: The impact investing landscape
in Aotearoa and the world*

Part III: Case studies

Part IV: Resources

This has been a collaborative project coordinated by Steven Moe and the Centre for Social Impact,



with invaluable contributions from





Introduction

IMPACT INVESTING *in Aotearoa*



The COVID-19 pandemic has disrupted our old ways of doing things and provided an opportunity to embrace new, more regenerative approaches. Impact investing is one of those areas where there is increasing interest. There is a real desire to understand how it is different from traditional ways of thinking about investing, and what its potential is for Aotearoa.

Increasingly, investors are looking at the low returns from traditional investments and asking if they could have far bigger impacts from their investments beyond financial returns – actually using investing as a force for good. The scale of the social and environmental problems that we are facing today will require more than access to our traditional funding pathways.

COVID-19 has amplified social inequality and the impacts of climate change, creating a driver to build back better. Impact investing is one tool we can use to do that – let's explore how.

In this paper we break down the essential ingredients that set impact investment apart and provide an update on the current landscape for impact investment in Aotearoa. We cover the theory, and we back that up with some real-life examples from some of the market leaders in this space. We look at the challenges they have faced and what have they learnt.

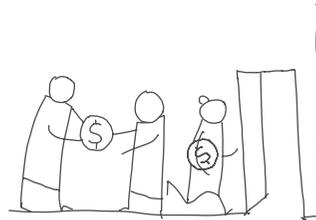


Impact investing refers to investments made into companies, organisations, and funds with the intention to generate positive social or environmental impacts alongside financial returns.¹ While impact investing is a small sub-set of the investment sector, the term still represents a broad range of activities.

For example:

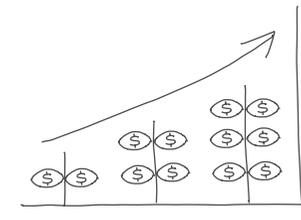
• **Impact first investment**

seeks to optimise social or environmental impact, while obtaining financial returns²



• **Finance first investment**

seeks to optimise financial returns, while obtaining social or environmental impact.²



It should be noted that either type of approach can take the form of debt or equity investments.

The practice of impact investing has three core characteristics:

Intentionality

– an investor’s intention to have a positive social or environmental impact through investments



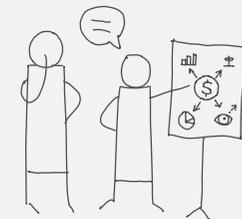
Expectation of return

– an expectation that an investment will generate a financial return on capital or, at a minimum, a return of capital



Impact measurement

– a strong commitment by the investee to work with the investor on measuring and reporting on the social or environmental performance and the progress of underlying investments, ensuring transparency and accountability³



¹ [Global Impact Investing Network](#)

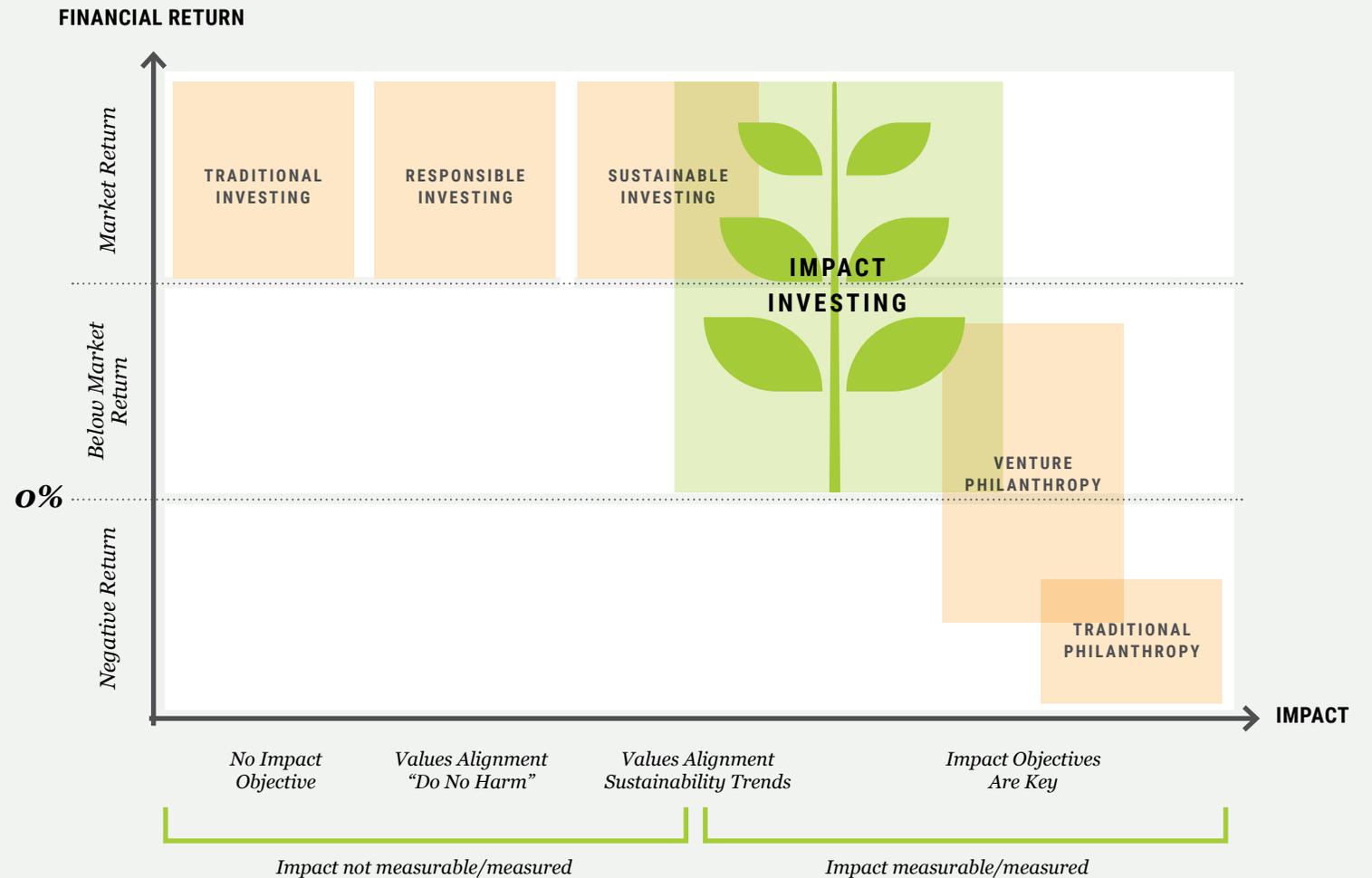
² [Growing Impact In New Zealand Impact Investment: need, practice and opportunity September 2017](#)

³ [Impact Investment Part One: An introduction to impact investing \(2017\) by the Centre for Social Impact and the Ākina Foundation](#)



Merging motivations

The practices and motivations of investment and philanthropy have traditionally been divided. These worlds are now converging, creating an investment continuum. This continuum links traditional investing with traditional philanthropy (grants) through sustainable and responsible investment, impact investment and venture philanthropy. These approaches differ in the degree to which they integrate societal and financial considerations.



From *Catalyzing wealth for change*, Julia Balandina Jaquier, 2016, Note diagram modified to increase impact investment overlap with venture philanthropy and with sustainable investment – reflecting the merging of activity on the continuum

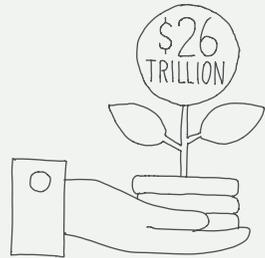
Figure 1: A new investment continuum²

² *Impact Investment Part One: An introduction to impact investing (2017)* by the Centre for Social Impact and the Ākina Foundation

Within the term "impact investing" there is a continuum of activity. An impact investment might focus primarily on financial returns (or "finance-first" impact investments), on impact ("impact-first" mission-related investments) or a mix of both. The performance of an impact investment fund must be considered in terms of the purpose for which it was designed.

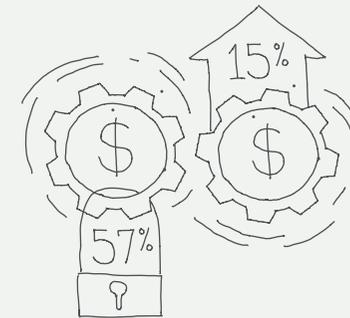
In Part 1 we briefly reviewed what impact investing is from a theoretical perspective. But is impact investing actually being done in practice? The short answer is: Yes, and it is growing. In this section we look with a global lens at some initiatives overseas before we focus on what we are seeing in the New Zealand landscape.

The global perspective

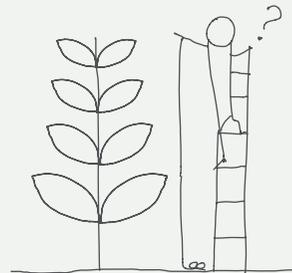


The Global Impact Investing Network (GIIN) conducted [an impact investment survey](#) recently and as a result estimated the market size for impact investing as of April 2020 at US\$715 billion. It found that while the majority of the market consists of small investors, the median investor manages US\$89 million. However, there are a small number of investors that manage significantly larger funds. The International Finance Corporation estimated in its report, [“Creating Impact: The Promise of Impact Investing”](#) that the **investor appetite for impact investing may be \$26 trillion**. It notes that this is a conservative estimate.

Impact investing has wide appeal around the globe, with respondents to GIIN’s latest annual survey coming from 46 countries. While 77% of investors had their headquarters in developed markets, 21% of headquarters were located in emerging markets. To further illustrate the growth in these regions, South East Asia and Sub-Saharan Africa were identified as locations for expansion, with **52% of GIIN respondents planning to grow their allocations in these regions**. Common sectors for impact investment included food production and other agriculture as well as healthcare.



When asked about COVID-19, the GIIN survey respondents indicated that global impact investors are responding flexibly, with **57% of GIIN respondents stating they were unlikely to change their commitments and 15% stating they were likely to increase their capital commitments**.



In terms of how to measure impact, back in 2010 85% of respondents to the first [Annual Survey](#) said they used their own measurement and management systems. In the 2020 survey, 89% of respondents said they used external impact measurement systems, with the United Nations’ Sustainable Development Goals (UN SDGs) often being referred to (although they are not an impact-measurement system in themselves).

Some examples from different regions

It is helpful to consider some detail from a few countries, as well as that high-level overview.



- Australia has seen significant growth in impact investing, with a particular focus on green bonds and environmental investments significantly outweighing social investments.
- Australia's largest social impact bond is [COMPASS](#); it provides housing and support to young people leaving care. In 2018-2019 it secured AU\$14.2 million in investment funding from individuals, families and institutions.
- Another exciting initiative is [Accelerate with IBA](#). This is a collaboration involving Indigenous Business Australia and The Difference Incubator to provide a six-month programme supporting indigenous entrepreneurs.



- The Impact Investing Institute notes that over £5 billion has been committed by impact investors in the UK. The UK is a pioneer in using social impact bonds.
- Impact investing has a wide scope in the UK, encompassing pension funds, insurers and investment banks. For example, the [Greater Manchester Pension Fund](#) has allocated £1.05 billion to both local and impact investments.
- In 2012 [Big Society Capital](#) was founded to engage in impact investing. Since its launch, investments in charities and social enterprises have almost quadrupled, reaching approximately £3.5 billion in 2018.



- The US pioneered the green-bond market, issuing US\$34.1 billion in 2018 alone.
- [KKR & Co.](#) raised US\$1.3 billion for its first global impact fund, with a focus on improvements that contribute to the UN SDGs.
- [TPG's The Rise Fund](#) was also created to support the UN SDGs, and currently has US\$4 billion under management. [BlackRock](#), the world's largest asset manager, launched a global impact fund this year.

The New Zealand perspective

There is increasing interest in impact investing here in New Zealand. The case studies in Part III are illustrative of the fact that there are funds active in the market that are actually investing. This is not just an overseas development. A great deal of interest was shown at an impact investing event in August 2020, where eight impact-investing leaders shared their insights (the audio is [here](#)). The Impact Investing Network is another example of a community developing in this area.

In this section we outline some examples of impact investing funds and initiatives, of which some also feature as case studies in Part III. They show that impact investing is not just a theory, it is a reality. We expect that in just a few years the list of funds and options for impact investors will grow.

Tikanga-led Impact investment

One thing that makes Aotearoa unique is the perspective that we can draw from Te Ao Māori. The Connective, an impact-first company that collaborates with investors, funders and local and indigenous communities to design systemic investment programmes and projects, has recently released four guides. The guides are designed to share some of the learnings from the collaboration Te Pai Roa Tika O Te Taitokerau, a tikanga-led impact investment platform (see the case study by The Tindall Foundation in Part III, which discusses Te Pai Roa Tika). We encourage you to check out this valuable resource at this [link](#).



NAME	WHO IS INVOLVED AND THE FOCUS
<i>Impact Enterprise Fund</i>	This was the first impact investing fund in New Zealand. It invests in New Zealand businesses that provide tangible societal or environmental returns from their operations, alongside attractive financial returns. Organisations involved include the Ākina Foundation, New Ground Capital and Impact Ventures.
<i>Purpose Capital Impact Fund</i>	The Purpose Capital Impact Fund is a collaboration between the New Zealand business, investment, and philanthropic sectors. Combining the power of the commercial with the expertise of the philanthropic, Purpose Capital brings new resources and capital to projects and organisations working toward social and environmental solutions. The Fund is seeking to raise \$30 million to generate meaningful impact and financial returns in its regions and across New Zealand. It has raised \$20,910,000 to date.
<i>Community Finance</i>	Community Finance focuses on social housing. It has raised \$40 million for The Salvation Army to build new housing. The variety of limited partners include The Tindall Foundation, the Matua Foundation, and Christian Savings. Recently Generate KiwiSaver invested more than \$20 million.
<i>New Zealand Green Investment Finance</i>	This Crown-owned green investment bank was established to accelerate low-emissions investment in New Zealand, with an initial \$100 million fund.
<i>Soul Capital</i>	Soul Capital invests in companies whose purpose is to tackle societal or environmental problems head-on with innovation and scalable business models.
<i>Te Puna Hapori</i>	Trust Waikato is a fund sponsor of Te Puna Hapori, which is a blended finance fund that focuses on enabling small towns and provinces across the country to thrive. It is targeting NZ OCR+3-4% net IRR with semi-annual distributions. It will provide flexible debt funding solutions to community organisations.
<i>ACC's Impact Investment Fund</i>	This \$50 million fund focuses on companies that are making positive differences to the health, safety and wellbeing of New Zealand.

We wanted to make this part practical, with an “on the ground” view of some of the leading local impact investors.

To do that we conducted interviews and received information from:

CASE STUDY 1: [New Zealand Green Investment Finance](#)

Jenny Lackey, *Head of Communications and Government Relations*

WHO	FOCUS	A RECENT INVESTMENT	INSIGHTS/LESSONS FROM ENGAGING IN IMPACT INVESTING
<p>New Zealand Green Investment Finance is a green investment bank established by the Crown to accelerate investment that reduces greenhouse gas emissions in New Zealand.</p> <p>We are an independent limited liability company, set up with initial capital of \$100 million.</p> <p>We deploy capital with other investors on a commercial basis, in companies and projects that accelerate emission reductions. With a broad mandate and ability to invest flexibly, we can invest across the capital structure, execute transactions and mitigate risks for our partners.</p> <p>We make independent investment decisions, informed by a board and a senior executive team with expertise in investment, financial markets and sustainability.</p>	<p>Our four key objectives are:</p> <ol style="list-style-type: none"> 1. Invest to reduce emissions 2. Invest on a commercial basis 3. Crowd-in private capital 4. Market leadership and demonstration <p>We focus our efforts on investments in the following sectors:</p> <ul style="list-style-type: none"> • Transport • Process heat • Energy efficiency • Agriculture • Distributed energy resources <p>At present we exclude the following sectors: large-scale renewable electricity generation, forestry interventions, state sector investment and carbon capture and storage.</p>	<p>CentrePort</p> <p>We announced our first investment decision on 18 June 2020, providing a \$15 million green credit facility to Wellington port CentrePort to be used to finance low-carbon initiatives.</p> <p>The green credit facility provided by New Zealand Green Investment Finance will be used exclusively to fund low-carbon projects that will reduce CentrePort’s overall carbon footprint, such as the introduction of electric vehicles, on-site renewable energy generation and energy-efficient upgrades.</p> <p>Successful investments in electrification, renewables and efficiency will not only assist the port to achieve its climate goals and reduce the region’s carbon footprint, but also provide an example for other firms in the port sector and beyond.</p> <p>This investment from New Zealand Green Investment Finance was the first in a series of investments planned for 2020, which can now be found at our website www.nzgjf.co.nz.</p>	<p>There is a growing interest among financial markets in sustainable finance that can help New Zealand meet its low-carbon-future aspirations. We look forward to working with a range of market participants to deliver good economic and environmental outcomes, hand in hand.</p> <p>There are many ways to tell the story of impact, and it can be beneficial to understand and maintain flexibility in the ways you opt to measure or account for carbon. You can tell great stories about system enablers or wider low-carbon transition opportunities using a range of measurement types and case studies. We think that over time the frameworks for measuring climate impacts will be driven by, and respond to, the needs of investors.</p>

CASE STUDY 2: [Foundation North](#)

Eve Jolly, *Innovation Catalyst*

WHO	FOCUS	A RECENT INVESTMENT	LESSONS
<p>Foundation North is the community trust for Auckland and Northland. We hold in trust for these communities an endowment, or pūtea, of over a billion dollars. This allows us to make millions of dollars in grants each year to groups across the region. Foundation North has an impact investment asset allocation in its total portfolio of around \$28m.</p>	<p>We are undertaking impact investment to support our mission across three focus areas of our strategy: increased equity; social inclusion; and regenerative environment. Impact investment is another tool alongside grants to support our communities. The nature, size and scale of social and environmental challenges and opportunities means it is important for a range of approaches, financial instruments and stakeholders to work together.</p>	<p>The Foundation has invested \$2m into The Salvation Army Community Bond, managed by Community Finance. This provides finance to The Salvation Army, an existing grantee of the Foundation, to build three social housing developments in Royal Oak, Westgate and Flatbush. This will support 120 families into safe, warm and secure housing.</p>	<p>We are excited about the potential for our capital to support our communities in Auckland & Northland. We are also excited about working with our communities to create and build deals that work for them, and ensure that finance is shaped to respond to our shared objectives, not just the investors'. There is comparatively less of a market in some of our impact areas so this will take time and partnerships. Deals are created not just found.</p> <p>Beyond individual deals, we have learned that building the regional impact investment market is necessary for the effective deployment of capital over the longer-term. We are establishing a fund, building the pipeline of deals, sharing our learning and supporting market infrastructure.</p> <p>Impact investment is not just about the capital: it is about relationships, collaboration, patience. We need to think – and act – long term.</p>

CASE STUDY 3: [Community Finance](#)

Paul Gilbert, *General Manager*

WHO

Community Finance is a social enterprise owned by a group of charitable trusts. We operate as a finance company that helps match ethical money with positive social and environmental projects. We do this by using well established financial tools such as loans and social bonds, but we do it in different ways to maximise the good outcomes for investors and the projects that are delivering the impact and outcomes – building better, more resilient communities and enhancing the environment.

FOCUS

Our focus is on getting low-cost finance to proven solution providers on terms that work for them. In most cases this means providing low-cost construction finance as debt, with low establishment fees and on reasonable security terms. We focus on providing investors with security and confidence that not only will they get fair financial and impact returns on investment, but at the end of the term they will get their money back.

A RECENT INVESTMENT

The first investment is directly targeting the New Zealand housing crisis by providing low-cost construction finance to registered charitable community housing providers at rates and on terms that work. The main investment achievement to date was the provision of \$40 million of construction finance to The Salvation Army to build 118 new homes for homeless Aucklanders. As at the end of October 2020 this bond offer had closed two months ahead of schedule and was oversubscribed. Work on new regional community bonds is well advanced.

INSIGHTS/LESSONS FROM ENGAGING IN IMPACT INVESTING

The impact investment market in New Zealand is immature but developing rapidly as investors become more conscious of the power they have with the choices they make. We are seeing a grassroots, consumer-led tide change as people decide to make their money work harder for them in favour of environmental and social impacts. We are seeing growing interest from investors who want to know what their money is being invested in and that it is doing good. Negative screening has become a bottom line, not a value-add. People want to be part of the solutions to the problems they see before them, not part of the problems.



CASE STUDY 4: [The Tindall Foundation](#)

John McCarthy, Manager

WHO	A RECENT INVESTMENT	INSIGHTS/LESSONS FROM ENGAGING IN IMPACT INVESTING
<p>We are the Tindall Foundation. Our statement of investment policy and objectives allows us to invest a certain portion of the cash reserves in impact investing. Around \$12 million is in impact investing now, with about \$10 million also donated each year.</p> <hr/> <p>FOCUS</p> <p>Our trustees saw the opportunity provided by the use of the Foundation's balance sheet about 20 years ago (before it was called impact investing). Our focus has supported both individual initiatives and enterprises through investment, but we also want to be a catalyst to help build the market itself for impact investments. To do this we are often the first investor in new initiatives to help support those new models and encourage innovation, as that then helps build out the diversity of products and services in the area of impact investing. So we view our role as a market builder. Allied with that has been our work with others such as the Ākina Foundation and its Impact Investment Readiness Grants to help build a pipeline of investable opportunities and also support the good they will do in turn.</p>	<p>Apart from the impact investment funds we have invested in (Impact Enterprise Fund, Purpose Capital, and Community Finance), here are two examples.</p> <p>The housing area: The New Zealand Housing Foundation has had development finance provided to it (about \$2 million donated initially and about \$10-12 million of investment since then) to start and continue building affordable housing for low-income families. That finance has also allowed the Housing Foundation to leverage it to access bank finance of more than \$350 million. The tangible outcomes include that in the past 15 years it has built more than 750 houses, and more than 400 families are now in its shared ownership programme. More than 120 families who have been through the Housing Foundation's programme now fully own their own homes.</p> <p>But the impact is beyond the housing; there are flow-on effects for the families through education stability and an ability to save money and grow assets. And community stability is created as well, with large-scale housing developments that have wrap-around support and community development work.</p> <p>Te Pai Roa Tika: We have wanted to help out in Northland for a long time – the Foundation has provided many grants over the years, but we felt we had not achieved very much in helping to transform or turn around the challenges faced by the region. In late 2017 we met with Amokura, a consortium of seven Taitokerau iwi chief executives, to introduce ourselves. That initial conversation led to talks about the economic development plan they had written, (He Tangata, He Whenua, He Oranga) which showed the Māori economy in Taitokerau was a developing economy within a developed economy. They wanted</p>	<p>to use the resources they had to create employment and income-generating opportunities for their whānau.</p> <p>Following that initial meeting, and because traditional finance was hard to access, the iwi leaders wanted to talk about impact investing and how that might support them to achieve the aspirations outlined in their plan. This is where we saw an opportunity to act as a catalyst: we agreed to support them by paying for an external consultant to work with Amokura's Chief Executive to help develop a model for bringing forward investment opportunities. This had to be Māori-owned and -led and underpinned by a tikanga framework.</p> <p>Now an overarching charitable trust (Oati Pai Charitable Trust) has been set up. It is the full owner that governs two entities – a project development company and a capital fund. The project development company supports the development of a pipeline of investment opportunities in areas like forestry, housing, digital, energy and aquaculture projects (and other initiatives). Then funds are raised through the capital fund – they could be from philanthropic investors, private investors, iwi investors or others – to get them underway and delivered.</p> <p>So our role has been to help fund the work done by the external consultant and the consortium Chief Executive to develop the structure. Also, The Tindall Foundation Manager has a temporary role in the establishment governance until additional local iwi governance is appointed. So this is an alternative to The Tindall Foundation only funding through grants and donations – considering opportunities of investing through its balance sheet into a region to help iwi/Māori deliver their own long-term aspirations.</p>



A selection of useful articles , resources and websites on Impact Investment

“An impact investing panel discussion held recently, with eight experts sharing their views on a [seeds](#) podcast. The panellists were David Woods (New Zealand Green Investment Finance Deputy Chair and former Chair of the Impact Enterprise Fund), Rangimarie Price (The Connective), Louise Aitken (the Ākina Foundation and Impact Investing National Advisory Board member), Rebecca Mills (founder of The Lever Room and author of the “Build Back Better” report), Liam Sheridan (Foundation North Chief Financial Officer), Pip Best (EY Oceania Climate Change and Sustainability Services Director/The Aotearoa Circle), James Palmer (Community Finance Chief Executive), and Mark Ingram (Brightlight Chief Impact Officer – Australia).

“A Short Guide to Impact Investing”
– by The Case Foundation.

The Aotearoa Circle’s Sustainable Finance Forum

“Creating Impact – The Promise of Impact Investing”
International Finance Corporation.

Global Impact Investing Network
Annual Impact Investor Survey results.

New Zealand Green Investment Finance

“Impact Investment to Deliver Social or Environmental Benefits”
– This two-part report commissioned by Foundation North, from the Centre for Social Impact and the Ākina Foundation, looks at how impact investment could help the Foundation, other philanthropic funders and investors to achieve both financial returns and measurable, beneficial social or environmental impacts.

Impact Investing Network. Aotearoa New Zealand
This network is designed to connect people through discussion and resources about Impact Investing to share, educate, raise awareness and inspire.

“Impact Investing Handbook: An Implementation Guide for Practitioners”,
– by Rockefeller Philanthropy Advisors – A practical publication that features case studies and detailed guidance for individuals, families, foundations and corporations. funders and investors to achieve both financial returns and measurable, beneficial social or environmental impacts.

“Responsible Investment Benchmark Report 2020 New Zealand”
– by KPMG at the request of the Responsible Investment Association Australasia.

“Roles Foundations Play in Shaping Impact Investing”,
– by David Wood, “Stanford Social Innovation Review”.

“Social Enterprises in New Zealand: A Legal Handbook”
– by Steven Moe

“Tikanga-led Impact Investment”
– A series of four guides designed by The Connective to share some learnings from the collaboration Te Pai Roa Tika O Te Taitokerau, a tikanga-led impact investment platform.

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