Impact Investor Insights
2019 Aotearoa
New Zealand
CONTEXT AND BACKGROUND

When the Sustainable Development Goals were adopted by 193 members of the United Nations in 2015, an unprecedented call to action was issued to the investment community, acknowledging the critical contribution of finance to ending poverty, combating climate change and promoting sustainable economic growth.

Since that time, we have witnessed a tangible shift around the purpose of capital in society, alongside the dramatic growth in responsible investing over recent decades. Impact investing – as one approach to responsible investment – is playing a central role in defining and driving this shift. Globally and locally, we are seeing examples of impact investing’s potential to champion innovative approaches to resolving entrenched issues and direct capital towards the delivery of measurable, positive social and environmental outcomes.

ABOUT THIS REPORT

Quality data about market demand and activity is critical for the development of impact investing, both in highlighting the early work being done by pioneers as well as encouraging those not yet active to participate.

This research is the first in-depth study of Aotearoa New Zealand’s (NZ) impact investment market, published by the Responsible Investment Association Australasia (RIAA) in partnership with The University of Auckland.

It reports the results of a survey of New Zealand investors conducted in July 2019 with New Zealand impact investors and investors not yet active in impact investing. The survey attracted a strong response from 99 investors of all different types who represent $83.5 billion in assets under management (AUM). The report charts investors’ awareness, interest and activity in impact investing; how demand for impact investments is taking shape in New Zealand; and the prospects and challenges facing this emerging field.

The survey was complemented by interviews with leaders of a number of Māori investment organisations. Through this we gain valuable new insights into the relationship between the Māori economy and impact investment, as well as current investment practices and how they are influenced by cultural imperatives.

<table>
<thead>
<tr>
<th>Number of respondents (n)</th>
<th>Number of respondents disclosing AUM (n)</th>
<th>Total AUM ($ million)</th>
<th>Impact investment AUM ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals &amp; family offices</td>
<td>23</td>
<td>22</td>
<td>269</td>
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<tr>
<td>Diversified financial institutions</td>
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<tr>
<td>Investment managers</td>
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<td>Impact investment fund managers</td>
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<td>7</td>
<td>351</td>
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<td>Trusts, foundations &amp; not-for-profits</td>
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<td>30</td>
<td>5,859</td>
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<tr>
<td>Total sample</td>
<td>99</td>
<td>89</td>
<td>83,539</td>
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</tbody>
</table>
KEY FINDINGS:

AWARENESS, INTEREST AND ACTIVITY

• There is interest and activity in impact investing across all types of investors with 51% of respondents already active impact investors.

• Of the $83.5 billion in assets under management (AUM) of survey respondents, $889 million (or 1%) of this capital is identified by investors as impact investments (noting that this is self-declared and subject to differing interpretations of what constitutes an ‘impact investment’).

• Of those investors that are not yet active in impact investing, most (78%) are aware of the field, and the vast majority are interested in participating. Nearly a third (28%) are actively exploring impact investment options.

• Active impact investors are motivated to allocate capital to impact by its alignment to their mission (23%), to meet commitments to responsible investment practices (20%) and to contribute to building the impact investment market (12%).

• The main perceived barriers preventing investors from participating in impact investing are a lack of evidence or track record of financial returns (11%) and a lack of investable deals (10%).

THE SHAPE OF INVESTOR DEMAND

• Geographic location of the social or environmental impact is more important for investors not yet active in impact investing than for active impact investors. Of investors not yet active in impact investing, 65% would have a region-specific preference (if/when they invest for impact).

• Active impact investors have invested in a wide range of impact areas with environment and conservation (20%) and clean energy (12%) being the most popular. The top preferred impact areas for investors not yet active in impact investing include health (including medical research) (13%) as well as environment and conservation (11%).

• In terms of asset classes, active impact investors prefer private equity and venture capital (23%), real assets (17%) and public equities (14%). Investors not yet active in impact investing will first look for real assets (23%), private equity or venture capital (21%) then public equities (13%).

• Financial return expectations are high. In an endorsement for impact investment, it is the experienced impact investors that have the highest expectations, with 74% expecting competitive or above market rates of return, while 58% of not yet active impact investors expect the same.

• 81% of active impact investors consider that their financial return expectations are either being met or exceeded.

• 79% of active impact investors indicate that their expectations for social or environmental impact are being met or exceeded by their current investments.

• Impact measurement practices vary widely and 50% of active impact investors use a measurement framework with varying levels of sophistication. Of these, 9% use third-party frameworks, 15% use their own proprietary frameworks and 26% use a combination of third-party and propriety frameworks. Of the remaining 50%, 28% use anecdotal or qualitative measures only and 22% do not measure impact.

FUTURE INVESTOR DEMAND AND CHALLENGES

• Investors indicate that they would allocate $5.9 billion to impact investing in the medium term (5+ years) with $3.4 billion coming from active impact investors and $2.5 billion from investors not yet active in the area. This suggests the potential for a six-fold increase in the capital deployed to impact investments, assuming appropriate investments are available.

• Active impact investors identify the following three issues as the most important for increasing their impact investment allocations: more investible deals (20%), evidence of social and environmental impact (17%) and evidence of financial performance or longer track record (12%).

• Most investors expect impact investing’s significance to increase over the next five years; 96% of active impact investors and 72% of investors not yet active in impact investing agree or strongly agree with this position.

• Most investors that are not yet active in impact investing (85%) indicate that their organisation is likely to consider social, environmental or cultural impact metrics in their investment decisions within the next five years.
Mission alignment is the primary motivating factor for allocating funds to impact investments among impact investors.

There is the potential for a 6-fold increase in impact investment allocations in the medium term to $5.9 billion.

77% of impact investors expect competitive or above market rates of return. 81% of impact investors consider their financial expectations are being met or exceeded.

Issues influencing future impact investment allocations include availability of investible deals, evidence of social impact and evidence of financial performance.

Survey respondents have made impact investments totalling $889 million.

Environment and conservation; clean energy; and health are the most popular impact areas for investors.

ABOUT THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA (RIAA)

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand, and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 250 members managing more than $9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

In 2017, RIAA launched the Impact Investment Forum to support the development of the market for impact investing in our region and to promote the integration of impact across investment portfolios. The forum is focused on growing awareness and knowledge of impact investing; building the capacity of impact investing advisers and practitioners; broadening networks; and influencing policy in support of impact investing.

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www.responsibleinvestment.org/resources/impact-reports