

# PURSUING FAITH-BASED IMPACT INVESTING:

INSIGHTS ON FINANCIAL  
PERFORMANCE



# ACKNOWLEDGMENTS

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## Sponsor

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## About the Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see [www.thegiin.org](http://www.thegiin.org).

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# INTRODUCTION

The last decade has seen increasing sophistication in sustainable investment strategies, evolving from company engagement to purposeful portfolio construction that intentionally seek to drive positive, measurable impact.

Faith-based investors – from individuals to religious institutions – have engaged with values-based investing for generations, demonstrating a rich history of negative screening, divestment, and shareholder advocacy that has sparked movements and generated deep social change.

For years, some faith-based investors across the globe have sought to put their faith to further action through impact investing, aiming to create intentional and measurable social and environmental impact alongside financial returns. Their faith teachings, which often include advancing human dignity and protecting the environment, align with commonly pursued impact investing themes such as those in the United Nations Sustainable Development Goals (SDGs).

However, faith-based investors' uptake of impact investing continues to be limited. According to the GIIN's 2020 brief, [Engaging Faith-Based Investors in Impact Investing](#), while the majority engaged in divestment and negative screening (88%) and/or ESG screening (61%), just 11% of 33 participating faith-based investors reported allocating any assets to impact investing.<sup>1</sup> The top three challenges cited by faith-based investors in the survey all relate to a lack of suitable investment opportunities given their performance objectives, risk-tolerance, and faith-tenets.

Nevertheless, when asked what would enable faith-based investors to allocate more capital to impact investments, over half indicated that research and data on the performance of impact investments, and convening with and learning from other impact investors would be significantly helpful resources.

In an effort to address the challenges faced by faith-based investors interested in exploring impact investing, the GIIN has produced this issue brief to provide access to practical information about impact investing. This brief demonstrates that impact investors seeking risk-adjusted market rate returns can achieve them, while balancing a variety of facets when making capital allocation decisions and managing performance. Specifically, the brief offers the following:

1. Introduction to impact investing
2. Dynamic decision-making approach to inform impact investing strategies
3. Overview of the financial performance of impact investments
4. Spotlight on a faith-based impact investor, Trinity Wall Street

For active and potential faith-based impact investors, this brief offers insights and resources on the financial performance of impact investments in private markets and highlights the various considerations that inform investing strategies.

This issue brief draws from two GIIN reports, including the GIIN's [2020 Impact Investor Survey](#) and [Impact Investing Decision-Making: Insights on Financial Performance](#). Readers are encouraged to engage with these publications for additional insights into the topics explored in this brief.

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<sup>1</sup> [Engaging Faith-Based Investors in Impact Investing](#) (New York: The Global Impact Investing Network, January 2020).

# IMPACT INVESTING: AN INTRODUCTION

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, across asset classes, and target a range of returns from below market to market rate, depending on investors' strategic goals.

## Core characteristics of impact investing

The core characteristics complement this definition of impact investing and aim to provide clear reference points and practical actions to establish the baseline expectations for impact investing.<sup>2</sup>

1. **Intentionality:** Impact investing is marked by an intentional desire to contribute to measurable social or environmental benefit.
2. **Use evidence and impact data in investment design:** Investments cannot be designed on hunches, and impact investing needs to use evidence and data where available to drive intelligent investment design that will be useful in contributing to social and environmental benefits.
3. **Manage impact performance:** Managing investments toward impact intention includes having feedback loops in place and communicating performance information to support others in the investment chain to manage towards impact.
4. **Contribute to the growth of the industry:** Investors with credible impact investing practices use shared industry terms, conventions, and indicators for describing their impact strategies, goals, and performance to enable others to learn from their experience

*Unlike impact investing practice, however, analogous markets do not yet feature rigorous impact measurement and management at their core and not all analogous approaches introduce positive intention into investment decision-making.*

## Relationship to analogous markets

Like impact investing, analogous investment approaches that are often referenced by faith-based investors — such as Environmental, Social, and Governance (ESG) investing and Socially Responsible Investing (SRI)<sup>3</sup> — incorporate additional facets beyond financial performance into their investment approaches. Unlike impact investing practice, however, analogous markets do not yet feature rigorous impact measurement and management at their core and not all analogous approaches introduce positive intention into investment decision-making.

Thus, impact investing provides the opportunity for systematic and measurable positive impact throughout the investment cycle, across a diverse range of investor types and classes.

<sup>2</sup> Learn more about the Core Characteristics of Impact Investing [here](#).

<sup>3</sup> ESG is defined as a set of standards for a company's operations that socially conscious investors use to screen potential investments, typically to mitigate against environmental, social or governance risks. Responsible investing is [defined](#) by the United Nations Principles for Responsible Investing (UNPRI) as a strategy and practice to incorporate ESG factors in investment decisions and active ownership.

# DYNAMIC DECISION-MAKING IN IMPACT INVESTING

Understanding financial performance is important for all investors, including faith-based investors, to inform capital allocation decisions, shape investment management strategies, and ultimately, support their quest for alpha. However, as the impact investing industry grows in depth and sophistication, investors are exercising a multi-dimensional approach to decision-making, considering a variety of facets that are relevant to the particular investment thesis at the intersection of financial performance, impact performance, and risk. For investors—including faith-based investors—seeking to engage further with impact investing, incorporating additional considerations beyond risk and return factors can help them achieve the results they seek with their investments.

To achieve impact and financial performance in line with their goals, impact investors balance six key facets that influence capital allocation and performance management:

- **Financial return objectives:** The extent of financial returns that an investor seeks relative to a pre-defined financial threshold.
- **Impact objectives:** The extent of the impact returns an investor seeks relative to a pre-defined impact threshold.
- **Financial risk tolerance:** Capacity to accept risk of financial loss relative to financial return expectation.
- **Impact risk tolerance:** Capacity to accept risk of intended impact not being realized relative to impact return expectation.
- **Resource capacity:** The extent to which the investor has the resources, such as skills, financial funds, and capacity, to provide for all the costs associated with making impact investments, including setting goals, measuring results, and reporting on results.
- **Liquidity constraints:** The extent of time/duration after which the investor needs the investment to be readily convertible to cash.

To illustrate how these six facets are integrated into impact investment strategies, the following spotlight explores the perspectives of one faith-based impact investor, Trinity Wall Street, highlighting the relative significance of each facet in its decision-making process. The GIIN's [Impact Investing Decision-Making: Insights on Financial Performance](#) includes five additional spotlights across a variety of investor types. While the process of assessing various priorities will be unique to each investor and in accordance with their particular values, these six facets may help guide investors' approaches to managing impact investment performance throughout the investment cycle.

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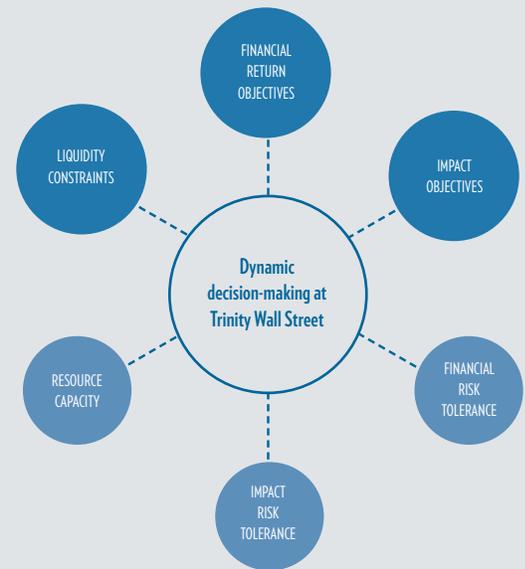
## SPOTLIGHT

# TRINITY WALL STREET

Trinity Church Wall Street is an Episcopal community that seeks to break the cycles of mass incarceration, mass homelessness, and housing instability in New York City. Trinity's core values of faith, integrity, inclusiveness, and social justice are foundational to its mission to build neighborhoods, generations of faithful leaders, and financial capacity. Nearly half of its total portfolio is invested directly into real estate, while the other half is invested through a portfolio of managers, 75% of which is invested through managers that engage in responsible investing to varying degrees; 1% of the portfolio is considered as impact investing. Since April 2016, it has made three impact investments, one focused on access to healthcare in underserved U.S. communities and two into U.S. affordable housing funds.

**Trinity aims to build a portfolio focused on long-term outperformance, relative to both its financial return and impact performance objectives. To do so, it works with its asset managers to consider a variety of facets that influence its impact investment decision-making.**

*Note: The variation in size and color of circles depicts the relative importance of each facet for Trinity Wall Street when managing performance and making capital allocation decisions.*



## FINANCIAL RETURN OBJECTIVES

Financial return objectives play an **important** role in shaping Trinity's capital allocation and investment decision-making. Trinity seeks to achieve market-rate returns through its impact investments and maintain or increase purchasing power net of spending, so that its ministries and programs can be maintained for generations to come. Three quarters of Trinity's securities portfolio is allocated to equity while the remainder is invested through debt.

To better understand performance against its own financial objectives, Trinity primarily uses the MSCI ACWI and Barclays Capital U.S. Aggregate Bond Index at both the overall portfolio and asset manager levels. Trinity also assesses relevant benchmarks when evaluating a particular manager based on factors such as asset class, sector, and geography to enable an appropriate comparison. For example, in the past, Trinity has assessed the relevant vintage year returns for private equity and venture capital funds or assessed sector or geography-specific benchmarks depending on a manager's investment focus.

## IMPACT PERFORMANCE OBJECTIVES

Impact performance objectives play an **important** role, on par with financial return objectives, in influencing Trinity's investment decision-making. Investment stewardship is at the core of Trinity's investment management practice, as Trinity focuses on building manager capacity and advancing affordable housing and racial justice. These impact objectives are also reflected in Trinity's Grants and Mission Investing work. The lynchpin of its investment stewardship is Trinity's three-pillar framework: portfolio sustainability, manager sustainability, and diversity and inclusion. This framework aims to gauge potential and active managers' depth of focus on sustainability and inclusion, which in turn shapes the evaluation of active managers' strengths as well as the screening and underwriting of potential managers.

Trinity sets both quantitative and qualitative impact targets to assess its managers and portfolio, and uses metrics and standards built by investors, academics, and the government for the affordable housing sector. Quantitative indicators within affordable housing include the number of affordable units and very low-income housing created, preserved, and restored; household area median

income bands; and the number of units that offer social services. Trinity also considers qualitative indicators such as green building initiatives, availability of flexible payment options, debt collection facilities, and the impact of exits. Both quantitative and qualitative impact indicators enable Trinity to strategically engage with its managers in order to drive positive and sustainable impact.

## FINANCIAL RISK TOLERANCE

Financial risk is **somewhat important** to Trinity in its investment decision-making. This is primarily driven by its relatively high financial risk tolerance in the short-term and its focus on long-term outperformance, which Trinity maintains through a diversified portfolio with multiple sources of return and protection. For example, Trinity sets a manager concentration limit of 8% and a geographic concentration limit of 15% for any single country outside the United States to diversify its risk. In cases where Trinity invests into managers with concentrated portfolios, it actively monitors the level of financial risk for those managers while also periodically reviewing its own aggregate position-level exposure across the overall portfolio.

## IMPACT RISK TOLERANCE

Due to its focus on long-term financial and impact outperformance, Trinity's approach to impact risk is similar to its financial risk approach, with impact risk playing a **somewhat important** role in influencing investment decision-making. Trinity selects managers who are long-term focused and incorporate elements of sustainability and diversity in their investment management. To manage its impact risk, Trinity conducts in-depth discussions with each of its managers to understand their investment selection process, considering factors such as the managers' depth of impact knowledge, potential to generate impact through their investment process and underlying holdings, and typical investment time horizon. Trinity also gauges the quality of its strategic engagement with each of its managers and in turn their engagement with their investees. Trinity tends to avoid strategies that are short-term oriented or not fundamentally research oriented, such as macro and CTAs. To further align to its faith-based values, Trinity considers reputational risk when selecting its asset managers. While Trinity indicates that achieving impact through its affordable housing and criminal justice work is important, it does not add investments to its portfolio unless financial objectives are met.

## RESOURCE CAPACITY

Resource capacity plays a **somewhat important** role in Trinity's capital allocation and investment decision-making. While every member of its investment team has developed expertise on sustainability and inclusion, Trinity views the relationship between itself, as the asset owner, and its asset managers as central to driving systemic change in the investment value chain. Using its three-pillar framework, Trinity seeks to understand each manager's approach to sustainability and inclusion, highlight their strengths, and identify areas of further development, serving as a thought partner and resource. For example, for pillar 1 – portfolio sustainability - Trinity considers factors such as the range of sustainable investing tools used by the manager, the breadth and progressiveness of the approach to sustainable investing as shown by their underlying holdings, and alignment with Trinity's values and mission.

## LIQUIDITY CONSTRAINTS

Liquidity constraints are **important** in shaping Trinity's portfolio. Trinity's focus on achieving strong financial returns along with stable performance in the long run enables it to be a countercyclical provider of capital. As the funding source for a growing Episcopal Congregation and focused grant makers, Trinity's portfolio must maintain sufficient liquidity to fund its ongoing expenses, including capital calls, even in periods of market dislocation. Trinity ensures that over a third of its portfolio is able to be liquidated within one year without significant losses, but for the remaining two-thirds, Trinity's investment horizons are generally five years or more. Longer-dated positions include seed and Series A venture capital as well as centuries-old ownership of real estate in Hudson Square, highlighting Trinity's focus on long-term investments and strategy. Trinity's impact investing managers strive to ensure sustainable exits through ensuring long-term preservation of quality and affordable housing.

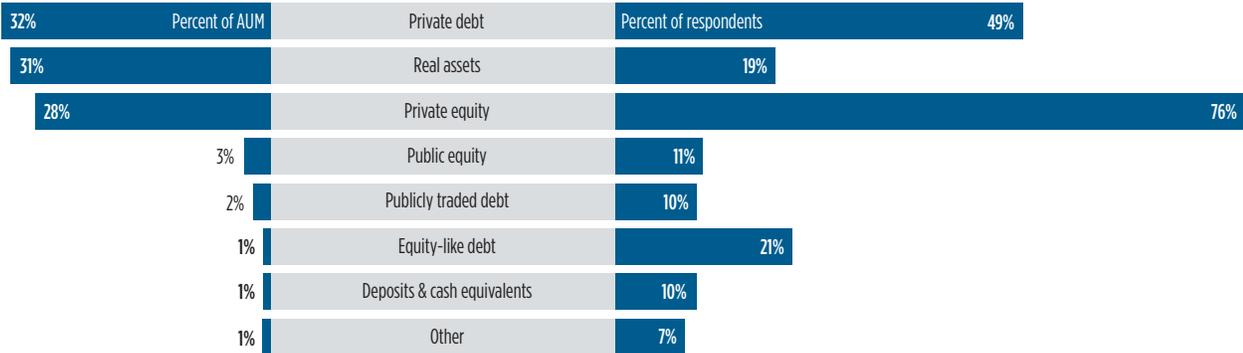
# OVERVIEW: FINANCIAL PERFORMANCE OF IMPACT INVESTMENTS

This section offers insight into the three most common asset classes in impact investing – private equity, private debt, and real assets. Specifically, it explores a subset of data from the [2020 Impact Investor Survey](#), focusing on 161 market-rate-seeking impact investors – including asset managers, foundations, development finance institutions, and others – investing primarily into private markets globally. The GIIN’s [Impact Investing Decision-Making: Insights on Financial Performance](#) offers further insight on financial performance based on the 2020 Impact Investor Survey, and additionally provides a synthesis of other published research and benchmarks on the financial performance of impact investments.

Collectively, impact investors in this sample managed more than USD 111 billion in impact investing assets as of the end of 2019,<sup>4</sup> with 32% and 31% allocated through private debt and real assets, respectively, followed by 28% through private equity (Figure 1). Although only 5% of AUM are allocated through public equity or public debt, about one in five respondents have at least some allocation to public markets, reflecting the fairly large share of impact investors allocating relatively small amounts of capital to public markets.

**FIGURE 1: ALLOCATIONS BY ASSET CLASS FOR MARKET-RATE SEEKING IMPACT INVESTORS**

Left side – Percent of AUM excluding outliers, n = 159; AUM = USD 111 billion.  
Right side – Percent of respondents with any allocation to each asset class, n = 179; respondents may allocate to multiple asset classes.



Note: ‘Other’ includes guarantees, mezzanine financing, and social outcomes contracts.

Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*

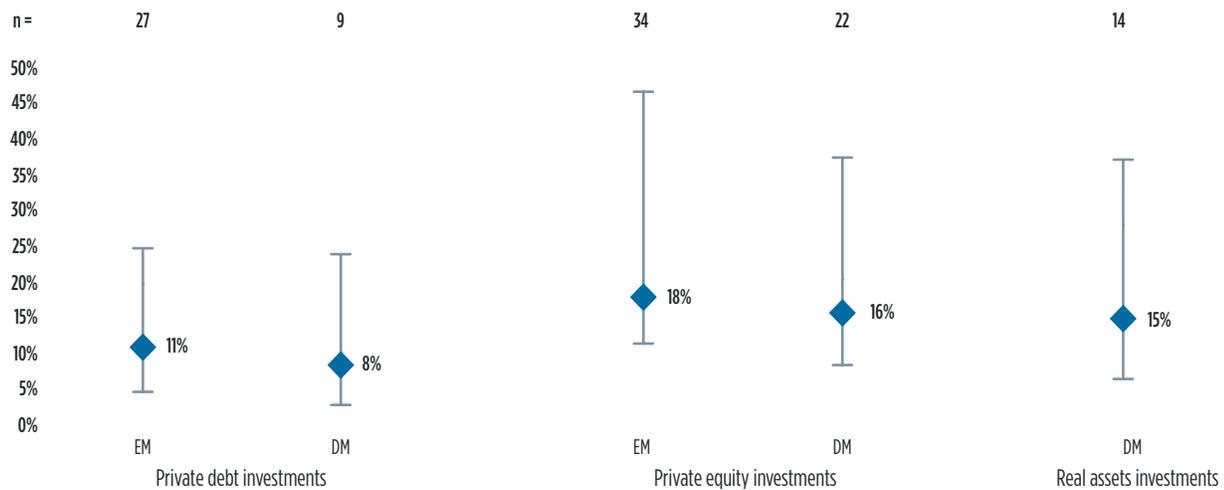
<sup>4</sup> This figure excludes two large outliers.

## Realized financial returns

In total, 98 market-rate-seeking investors disclosed data since their inception on average gross realized returns across their private market impact investing portfolio in 2019. Figure 2 shows average realized returns achieved by investors through various asset classes in both emerging and developed markets. Private equity investments saw higher average returns and greater variation than did private debt investments; investments in emerging markets saw greater variation than did investments in developed markets. The top 10% of emerging-market private equity investments earned the highest realized returns, all generating returns in excess of 29%; the top 10% of emerging market private debt investments reported realized returns greater than 14%. The bottom 10% for both private equity and private debt investments (across geographies) reported less than 6% realized returns (and less than 8% for developed market real assets).

**FIGURE 2: AVERAGE GROSS REALIZED RETURNS FOR MARKET-RATE-SEEKING IMPACT INVESTMENTS (SINCE INCEPTION)**

Number of respondents shown above each bar; year of first impact investments ranges from 1956 to 2019, with 2010 as the median year. Averages are shown beside each diamond; error bars show 10th to 90th percentiles.



Source: GII, *Impact Investing Decision-Making: Insights on Financial Performance*

TABLES 1 AND 2: AVERAGE GROSS REALIZED RETURNS ACROSS PEER GROUPS

PRIVATE DEBT INVESTMENTS			Average realized returns		PRIVATE EQUITY INVESTMENTS			Average realized returns	
Peer group		n	Emerging Market	Developed Market	Peer group		n	Emerging Market	Developed Market
<b>Investor type</b>	Impact-only investments	33	9%	7%	<b>Investor type</b>	Impact-only investments	50	16%	17%
	Both impact and impact-agnostic investments	13	15%	10%		Both impact and impact-agnostic investments	17	23%	16%
<b>Sector</b>	Energy	24	10%	9%	<b>Sector</b>	Energy	36	17%	18%
	Food & agriculture	22	6%	6%		Food & agriculture	39	27%	16%
<b>Investor size</b>	Small	18	10%	9%	<b>Investor size</b>	Small	39	20%	17%
	Medium	12	12%	10%		Medium	9	16%	13%
	Large	14	9%	6%		Large	17	16%	17%

Note: Impact-only investments refer to investor organizations whose entire portfolio is impact-oriented. Both impact and impact-agnostic investments refer to those organizations who make impact investments and make non-impact investments, which could include ESG, responsible, or sustainable investments or traditional investments. Sector peer groups include impact investors with any allocation to the energy and food & agriculture sectors.

Source: GIIN, *Impact Investing Decision-Making: Insights on Financial Performance*

To help appropriately contextualize the realized returns, respondents also shared information on the financial and impact performance of their investments relative to their targets and expectations. Ninety percent of market-rate-seeking impact investors were pleased with the financial performance of their impact investments; nearly three-quarters of respondents (71%) reported performing in-line with their financial expectations and another 19% reported outperforming relative to their financial expectations. About eight in ten respondents (81%) indicated performing in-line with impact expectations. While only 10% of respondents reported underperforming on their financial expectations, none reported underperforming relative to their impact expectations.

To learn more about the financial performance of impact investments and access a list of relevant resources, please see the GIIN's [Impact Investing Decision-Making: Insights on Financial Performance](#) report.

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# CONCLUSION

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As the industry continues to grow, impact investors are approaching investment performance and decision-making with increasing sophistication. Financial performance is an important but non-exhaustive factor in assessing overall performance, as impact investors consider a variety of facets in making decisions—including target objectives, liquidity requirements, resource capacity, fiduciary obligations, and risk—to maximize both financial and impact outcomes. The GIIN's *Impact Investing Decision-Making: Insights on Financial Performance* draws on existing resources in the industry to offer syntheses of six existing published studies on the financial performance of impact investments, and, through a series of investor spotlights, offers practical examples to reflect how investors assess various levers to drive decisions on capital allocation and performance.

## This brief, along with its parent report, offer the following key findings:

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1

Financial performance varies based on asset class and the diverse set of objectives that impact investors pursue;

2

Risk-adjusted, market-rate returns can be achieved through impact investments and impact investors report overwhelming satisfaction with financial performance relative to expectations;

3

Impact investors are approaching performance and capital allocation with increasing sophistication, considering various facets that influence performance to maximize outcome efficiency; and

4

Impact debt funds are especially important for risk mitigation and diversification.

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Faith-based investors have long used their investments to advance their mission, values, and financial goals. For decades, they have used a wide variety of strategies including divestment, screening, and shareholder advocacy to seed change.

This brief demonstrates that through considering the six key facets - financial return objectives, impact objectives, financial risk tolerance, impact risk tolerance, resource capacity, and liquidity constraints - when allocating capital and managing investment performance, investors including faith-based investors can achieve market-rate returns. This approach presents an opportunity for faith-based investors to deepen their commitment to the very values that underpin their faith in all their activities, including investment.

## DISCLOSURES

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Readers should be aware that the GIIN has had and will continue to have relationships with many of the organizations identified in this report, through some of which the GIIN has received and will continue to receive financial and other support.

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