Impact Investing Returns

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Can investors make socially conscious decisions without hurting their portfolio returns?

Yes, according to an analysis of data from a new impact investing benchmark. Launched by consulting firm Cambridge Associates in collaboration with nonprofit group Global Impact Investing Network, the benchmark aggregates the returns of private equity and venture funds focused on generating positive social and environmental impact.

The funds in the pool target sectors from education to microfinance to economic development. The benchmark, like any dataset, is by no means perfect at its inception—especially because a nascent market presents a smaller sample. But it's poised to grow as the industry matures.

Here are some takeaways from the research:

- **Does impact investing require sacrificing returns?**

  Impact funds that delivered top quartile returns have generally performed in line with the comparable universe of top quartile private equity and venture capital funds.

  An exception: the top quartile of impact funds launched in vintage years 2008 to 2010 fared more poorly than the top quartile of the comparable universe of funds.

  The lesson: impact investing can deliver market returns—if managers and the timing of deals are carefully selected. "Market rate returns are attainable in impact investing, but you also need to pick good fund managers," said Amit Bouri, chief executive of the Global Impact Investing Network.

- **Data is still somewhat scarce.**

  The benchmark was launched with 51 funds that began deploying capital in the years between 1998 and 2010. The funds in the benchmark held assets of $6.4 billion, a fraction of the $293 billion amassed by 705 funds in the comparable universe.

  "We recognize that this is an industry that's still developing and a lot of funds haven't exhibited realized returns yet," said Jessica Matthews, managing director and head of Cambridge's mission-related investing group. She's hopeful that the dataset will become more robust and statistically significant over time.

- **Signs of a young industry**

  The majority of the funds in the benchmark were launched after 2005, pointing to the relative youth of the impact investing space. They also tended to be small: 27 of 51 raised less than $50 million.

  Across the impact investment space, "There are many new fund managers," said Mr. Bouri. "As they get more mature and gain more experience, their fund sizes will grow and their ability to attract institutional capital will grow."

- **Small is beautiful?**

  Impact focused funds $100 million and less launched between 1998 and 2010 posted a 9.5% pooled net internal rate of return, outperforming the 4.5% delivered by funds of the same size that were not focused on impact investments.

  Conversely, impact funds of more than $100 million that were launched in the same period delivered 6.2% pooled net IRR, falling short of the 8.3% generated by the comparable universe. This raises a question, can impact investment funds deliver beyond a certain scale?

- **Mixed picture**

  Impact funds launched between 1998 and 2001, largely realized by now, outperformed funds in the comparative universe of private equity and venture capital funds that were just focused on investment returns.

  These funds delivered a 15.6% pooled net internal rate of return, exceeding the 5.5% delivered by the comparable universe. Over longer time frames, the picture gets muddied. Collectively, the impact funds launched from 1998 to 2010 delivered pooled net IRR of 6.9%, falling short of the 8.1% that the comparable universe delivered.