

A Work Project, presented as part of the requirements for the Award of a Master's degree in Impact Entrepreneurship and Innovation and Management from the Nova School of Business and Economics.

Evolving approaches to impact investment: a focus on US philanthropy

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Individual Abstract

This thesis examines the evolution of impact investing strategies in both capital markets and philanthropic foundations. The group's primary objective was to highlight the history and development of these strategies in two distinct geographical contexts: the United States and Europe.

As a team, we identified the key events that have shaped the evolution of these strategies and collectively reviewed the existing academic research on the topic. Additionally, we collaboratively developed the methodology for the thesis. After conducting individual analyses, we came together to construct final considerations, identifying the common factors that have influenced and continue to influence impact investing in both regions.

In my individual contribution to the thesis, I conducted a detailed analysis of how philanthropic foundations in the United States have approached impact investing over the past twenty years. In particular, I focused on two major foundations: the Heron Foundation and the W.K. Kellogg Foundation. In my analysis, I examined the key investment strategies of the Heron Foundation and the W.K. Kellogg Foundation. This included examining how each foundation selected its investment portfolios, the criteria it used to evaluate potential investments, and the specific sectors it prioritised. I also examined the ecosystems of actors with which these foundations worked. In addition, I analysed the primary sources of capital used by these foundations for their impact investing activities. Finally, I assessed the goals these foundations sought to achieve through their impact investing efforts. This included examining their mission statements, strategic goals, and specific objectives related to social and environmental outcomes. Finally, I conducted a comparative analysis of the Heron Foundation and the W.K. Kellogg Foundation to provide a comprehensive overview of their impact investing behaviours and practices. This comparison highlighted similarities and differences in their approaches, such as their investment philosophies, risk tolerance and the impact metrics they use to evaluate their success.

i. Abstract

This thesis investigates impact investing's changing strategies with an emphasis on capital market and philanthropic organisations. This study examines the mechanisms, behaviours, and drivers that influence impact investment by analysing a total of eight case studies, including four from capital market players and four foundations across the European Union and the United States. By analysing these cases, the study reveals the strategies these entities have adopted over time. The findings elucidate how impact investments can align with broader social objectives, offering insights for all actors involved in the ecosystem of impact investing seeking to improve effectiveness of these investments.

Keywords

Impact Investing, Evolution, Strategy, Philanthropy, Capital Markets, Impact Measurement

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iii. List of abbreviations

AIC - American Investment Council
AGM - Annual General Meeting
AUM - Assets Under Management
BSR - Business for Social Responsibility
CDP - Carbon Disclosure Project
CSRD - Corporate Sustainability Reporting Directive
CSR - Corporate Social Responsibility
DNSH - Do No Significant Harm
EKS - Eberhard von Kuenheim Stiftung
EROI - Environmental Return on Investment
ESG - Environmental, Social, and Governance
FRE - Fee Related Earnings
FOF - Fund of Funds
GAAP - Generally Accepted Accounting Principles
GHG - Greenhouse Gas
GIIN - Global Impact Investing Network
GIIRS - Global Impact Investing Ratings System

GRI - Global Reporting Initiative
ICE - Intercontinental Exchange
IMP - Impact Management Project
IRR - Internal Rate of Return
ISS - Institutional Shareholder Services
KPI - Key Performance Indicator
LEED - Leadership in Energy and Environmental Design
LIS - Social Investment Laboratory
MSCI - Morgan Stanley Capital International
MRI - Mission-Related Investment
MSM - Mustard Seed Maze
NAM - Nordea Asset Management
NAV - Net Asset Value
NGO - Non-Governmental Organization
NOK - Norwegian Krone (currency)
PCAF - Partnership for Carbon Accounting Financials
PE - Private Equity
PRI - Program Related Investment
PPP - Public-Private Partnership
ROI - Return on Investment
RPA - Rockefeller Philanthropy Advisors
SASB - Sustainability Accounting Standards Board
SDG - Sustainable Development Goals
SFDR - Sustainable Finance Disclosure Regulation
SIB - Social Impact Bond
SME - Small and Medium-sized Enterprises
SRI - Socially Responsible Investing
SROI - Social Return on Investment
SSIR – Stanford Social Innovation Review
TCFD - Task Force on Climate-related Financial Disclosures
UNEP PI - United Nations Environment
PFI - Program Finance Initiative

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1. INTRODUCTION

Impact investments stand at the confluence of philanthropy and investment, aiming to generate social and environmental benefits alongside financial returns. This dual-purpose approach has attracted a diverse range of investors, from foundations to capital market participants, each bringing their unique goals, strategies, and mechanisms to the table. While considerable research has been devoted to financial outcomes and societal impacts of these investments and the possibility of their simultaneous achievement, there is a paucity of studies exploring the foundational drivers that facilitate and shape their evolution in different regulatory and geographic contexts. This thesis addresses the gap by posing the central research question: What are the key drivers shaping the evolution of impact investment strategies in philanthropic and capital market entities across the US and the EU, and how do these drivers influence the effectiveness and development of impact investing?

Through a meticulous analysis of eight case studies, this work investigates various dimensions of impact investments. The case studies are categorized into four groups: philanthropic organizations and capital market entities in both the US and EU regions, with two examples from the US and two from the EU for each category. Each case study delves into capital sourcing strategies, investment mechanisms, risk management practices, and impact measurement frameworks across different time periods. This longitudinal perspective allows the analysis to reveal the nuanced ways in which these entities approach impact investing over time, identify potential problems or conflicts of interest, and offer suggestions for enhanced performance. The temporal aspect of this work is crucial as it highlights how strategies and practices have evolved, reflecting changes in regulatory environments, market conditions, and overall investment philosophies.

The investigation reveals significant regional variations in how these drivers are manifested, particularly in the role of government regulations and the challenges of

standardizing impact measurement. Preliminary findings suggest that the European entities face stricter regulatory environments than their American counterparts, which has several noticeable implications for their investment patterns. Moreover, the persistent difficulty in standardizing impact measurement across regions underscores the need for a more unified global approach to enhance the efficacy of impact investing.

The importance of this research therefore lies not only in its contribution to academic discourse but also in the guidance it provides to policymakers and practitioners to provide greater clarity to investors and the public. Hence, understanding the drivers of impact investment can help stakeholders navigate its complexities, develop more effective investment strategies, and ultimately contribute to a more sustainable and equitable global financial system.

1.1 Theoretical setting

1.1.1 From Humble Beginnings to Trillion Dollar Market

Impact investing, defined by the GIIN as “investments made with the intention of generating positive, measurable social and environmental impact alongside a financial return”, was coined in 2007 at a Rockefeller Foundation conference held in its Bellagio Conference Center in Italy. This gathering of investors, entrepreneurs, and philanthropists was centered on brainstorming ideas for more efficiently allocating capital for social and environmental benefits, marking a significant step toward the creation of a new, cohesive global industry that unifies diverse initiatives across multiple sectors. This movement underscores the increasing recognition within both public and private sectors that the complex 21st century challenges require a collaborative approach to sustainable development and societal well-being (Social Impact Investment Taskforce 2014).

The industry has seen substantial growth: as reported in GIIN (2022), the worldwide impact investing market is valued at approximately \$1.164 trillion in assets managed by 3349 organizations, making this a significant milestone as the value surpassed one trillion dollars for the first time. Moreover, according to GIIN regular market surveys, since 2012, assets under management in impact investing have increased by over 1000%, reflecting its rising popularity (BMW Foundation Herbert Quandt 2021). Despite gaining momentum only in the last decade, due to a wider trend in modern market economies advocating for a more ethical and socially inclusive form of capitalism, the concept of impact investing traces its roots back to the 1970s, when there was a first explicit desire for incorporating social or environmental values into financial investments following events like the oil crisis and apartheid in South Africa, hence initiating the need for alternative energy sources and social justice mechanisms. This is when the term “sustainable investing” was first used: in the 1980s, investors began screening out industries with negative impacts on society and the environment, although these methods often led to potential underperformance and reduced diversification (Snider 2016).

The concept further evolved in the early 2000s with the advent of socially responsible investing (SRI), which included positive screening by proactively seeking out investment opportunities in companies with exemplary Environmental, Social, and Governance (ESG) practices (Fire Capital Management n.d.). The term “ESG” was introduced in a 2004 report, and it has since then become a critical component of political, social, and economic discussions, especially with the European Union’s emphasis on Sustainable Finance under the European Green Deal (Yaşar 2021).

Impact investing, often confused with sustainable or ESG investing, stands out due to its clear, outcome-focused approach which actively measures and engages with the impacts of investments. Unlike the more passive, avoidance-based strategies of socially responsible investing (SRI), which mainly avoid harmful industries, impact investing aims for direct and

measurable positive contributions; however, despite its growing popularity, a unified definition of impact investment is reportedly absent, as well as a clear understanding of what the term stands for (Höchstädter and Scheck 2014).

1.1.2 Industry dynamics

When considering the overall framework of the impact investment industry, like any other market it is predicated on a combination of demand (for capital to finance impact-driven organisations), supply (of impact capital) and intermediaries that help to connect supply and demand. The interplay between these two sides of the social impact investment ecosystem is intricate, characterized by a multiplicity of actors and instruments; these interactions are not only financial but also deeply influenced by the socio-political context, where policy frameworks, market dynamics and community values influence the flow and effectiveness of impact capital.

The industry framework can be summarized as follows: *(i) Impact-seeking purchasers* such as governments, foundations, and socially engaged corporations provide the revenue that fuels *(ii) impact-driven organizations*; these organizations range from nonprofits with specific social goals to businesses blending profit with purpose, e.g. a renewable energy startup aiming to reduce carbon emissions. *(iii) Forms of finance* fulfil these entities' varying needs, with instruments like secured loans for asset-rich projects and social impact bonds (SIBs) for innovative social programs. *(iv) Channels of impact capital*, like social banks and community finance institutions, bridge the gap between investors and these organizations, ensuring that capital reaches where it's most needed. Lastly, the *(v) sources of impact capital* — from governmental funds to individual investors — supply the investments necessary to spur social change (Social Impact Investment Taskforce 2014). This capital might support anything from

large-scale public infrastructure projects promoting inclusivity to small, local initiatives improving community health.

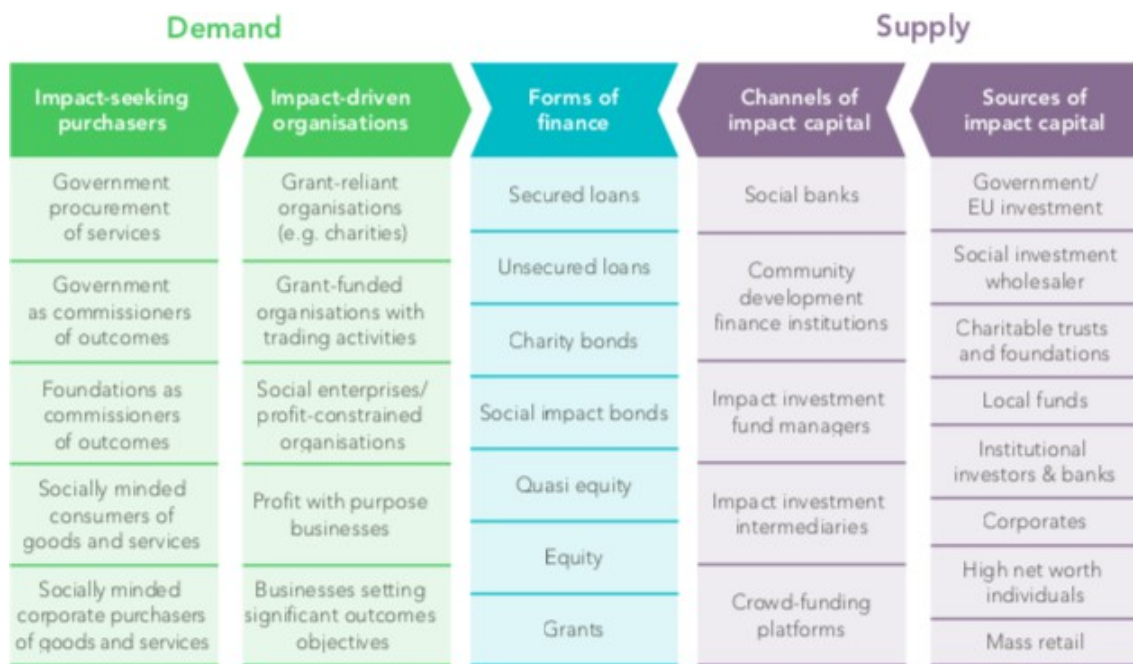


Table 1: Impact Investing industry framework (Social Impact Investment Taskforce 2014)

This intricate yet complete ecosystem ensures that financial resources are effectively mobilized to generate positive, measurable social and environmental impacts.

Regarding the geographic location of the beneficiaries, a reportedly common view would associate impact investing mainly with investments in developing and emerging markets. In contrast, a number of practitioner reports explain that impact investing can span geographies and can also target beneficiaries in the developed world. Indeed, underserved populations also exist in developed countries, such as low-income households, individuals with disabilities, and other minorities, and environmental projects can benefit society at large, independent of a person’s socioeconomic status (Höchstädter and Scheck 2014). In some countries, aspects of impact investing have a long history such as community development finance in the US, the credit union and Quebec social economy movements in Canada, or the thriving cooperative movement in the EU. Each country has its own ecosystem where

government, foundations, individual investors and both public and private sector play different roles. These differences affect the driving forces behind impact investment; for example, in France and Italy the *social sector* is the driving force, while in Japan *large corporations* have historically been at the forefront of the movement.

1.1.3 Impact Measurement

Despite being typically associated with investment sectors such as agriculture, clean energy, education, healthcare, microfinance, and housing, the applications of impact investing are not limited to these areas. It can also be applied to technology access, job creation, and broader community or international development, indicating its versatility in addressing diverse goals (Höchstädter and Scheck 2014). Measuring social and environmental impact is crucial to evaluate the effectiveness of investments and maintain accountability. As impact investing gains popularity among a wider variety of investors, standardisation efforts in impact measurement are intensifying. This includes the development of an ecosystem highlighting the role of investor networks like the GIIN, reporting standards like the Impact Reporting and Investment Standards (IRIS), evaluative bodies like the Global Impact Investing Ratings System (GIIRS), and databases like ImpactBase.

However, despite established methods for assessing financial returns, impact investing sector struggles with the lack of a universal standard for quantifying intangible social or environmental outcomes. Leading organizations such as the Rockefeller Foundation and the World Economic Forum are actively working to overcome these challenges by developing metrics like Social Return on Investment (SROI) and Environmental Return on Investment (EROI), alongside other methods that assess changes through qualitative stakeholder engagement (Addy et al. 2019). Together with these standardisation efforts, various frameworks have been introduced to simplify impact assessment. The IRIS provides a

foundational taxonomy for impact measurement, while the Impact Management Project (IMP) develops specific norms and standards helping investors classify, measure, and manage the social and environmental performance of their investments effectively. Additionally, the adoption of the Sustainable Development Goals (SDGs) is promoting uniformity and guidance in the sector. In fact, according to a 2023 GIIN report, 76% of impact investors use the SDGs to shape their impact strategies, and 78% employ IRIS+ for measurement and management (Hand, Sunderji, and Yeung 2023).

1.1.4 Different Investment Instruments

As impact investing focuses on investments with an explicit willingness to reach both financial and environmental and societal returns, the choice of the proper asset class assumes a paramount role and is strongly dependent on the impact objective of the investor. A widespread belief considers impact investing limited to private debt and equity; among others, this view is supported by an insightful definition by the *Rockefeller Foundation* according to which an impact investment is “capital that is placed outside of public equities markets” (Höchstädter and Scheck 2014). In fact, a significant percentage of investments are directed towards private debt and private equity; funds investing in this asset class typically have a minimum entry level, as well as a longer investment horizon, making it more complex for smaller investors to diversify their assets across multiple investments (Levitt 2011).

While it is true that private debt and equity investments are widely used for impact investments, investments in the public sphere do exist. Indeed, many experts expressed their belief that, as the market matures, more publicly traded investment opportunities would have become available, a scenario that appears to have materialized (Höchstädter and Scheck 2014). Actually, there are no limitation regarding the financial instruments and asset classes impact investors can employ; some examples include cash, fixed income, debt, equity, private loans,

guarantees, venture capital and real assets. In other words, the belief that impact investing represents an asset class on its own lost popularity during last years, implicitly favouring the treatment of impact as an investment philosophy that can span almost any asset class. More innovative structures, such as so-called social impact bonds (SIBs), first launched in the UK, are also mentioned among them (Hochstadter and Scheck 2014).

Social Impact Bonds (SIBs) represent a novel approach to funding social services, that implies a collaborative model involving a *private entity* that finances the intervention, a *social entity* that implements it and a *public entity* which defines the results to be contracted and – in case of success – reimburses the investors, as summarized in the table below.



Figure 1: Functioning of SIB (IES 2014 adapted from Social Finance 2011 and MaRS Centre for Impact Investing 2013)

This financial instrument is truly distinctive, as it shifts the risk to private investors, thus not compromising the public budget. Moreover, by operating on an outcome-based model, it encourages a culture of evaluation and monitoring, meaning that returns to investors are contingent upon achieving specific social objectives, such as enhanced educational outcomes or improved public health metrics. Its functions involve optimizing the operations and finances of public services with the help of private players under strict accountability clauses.

Illiquid asset classes feature prominently in the impact investing industry, i.e. investments that cannot be traded on a daily basis on mainstream trading platforms; as such, these asset classes need a longer and more complicated due diligence process, considering that unlisted organisations do not share information so easily, and thus public data have often limited availability (Levitt 2011). The research capacity needed will naturally augment as investors would probably diversify their assets across multiple fund investments, rendering this process even more time-consuming and expensive. Accordingly, investing in a *fund of funds*¹ prospectively allows for a higher extent of diversification, helping in addressing usual minimum investment fees and subdividing the costs of research and monitoring across multiple investors.

1.2 Thematic Insights into Impact Investing

This section explores the key drivers and challenges shaping the evolution of impact investments. With this analysis, we aim to provide a thorough understanding of the dynamics at play in the impact investing space, drawing attention first to the inherent conflicts and inefficiencies of the market and secondly to critical factors pivotal in guiding the sector forward. A prominent theme that consistently emerges in the literature on impact investing is the tension between simultaneously achieving social impact and generating market-rate returns. This dual objective highlights the sector's ambition but also underscores its inherent challenges. One major issue is the persistence of traditional fund structures and return expectations, which often prioritize financial gains over social outcomes.

Despite the foundational goal of impact investing to support early-stage companies, there remains a significant gap between the supply of capital provided by investors and the

¹ A *fund of funds (FOF)* is an investment strategy where a fund invests in a portfolio of shares of other funds, rather than investing directly in other securities, with the main aim of achieving broad diversification and asset allocation, offering investors a wider exposure with reduced risks (Corporate Finance Institute 2024)

demand from businesses that target underserved populations. While capital flow into impact investing has increased, only a limited subset of players are willing to accept the high risks and modest returns associated with these investments. The preference of many investors towards opportunities that promise quicker returns contributes to a market inefficiency where high-quality goods and services remain inaccessible to the poor (Dichter et. al 2013).

While the rhetoric in impact investing often promotes achieving 'market' rates of return, this goal can be unrealistic when investing in underprivileged markets. Such expectations result in a misalignment between the true objectives of impact investing and the financial strategies of investors. Bolis and West (2017) suggest that a broader market could be addressed if return expectations were adjusted to be more realistic.

While philanthropic grants could play a significant role in funding early-stage businesses, the total amount of money available from these sources may still be insufficient to effect change on a global scale. To bridge the previously mentioned gap between supply and demand, structural changes in the capital market are essential to attract more investors by possibly adjusting expectations to more realistic levels and prioritizing investments with the highest social returns. This would be the opposite of what is currently happening in the sector, where businesses are primarily focused on financial returns and are required to meet minimum social impact objectives. However, implementing these changes is challenging as investment committees need time to adjust their strategies and risk tolerance. A mindset shift towards maximizing social impact with more modest financial returns is required to better align impact investing with its social objectives and realize the potential of the impact investing market (Dichter et. al 2013).

Another hot topic which is vividly present in literature is the issue of impact creation and measurement. There is an open debate regarding the ability of social investments to generate an impact and how to track it. Despite significant efforts to establish universal

standards to quantify this impact, these standards prove insufficient for academic discussion. A document published by the SSRI (Brest and Born 2013), points out that the Impact Reporting and Investment Standards (IRIS) and the Global Impact Investment Rating System (GIIRS) offer standardised metrics focused more on company operations than on the impact of the products offered.

Efforts to evaluate the concrete results of market-oriented social enterprises have been limited, and the paucity of data makes it complex for investors to evaluate the social impact of the companies in which they invest (Brest and Born 2013). The literature suggests that, except where robust market mechanisms such as measurement of greenhouse gas reductions or contracts based on the results of remedial measures against environmental damage or social injustices are in place, the incentives for investors and firms to collaborate in developing effective measurement standards are relatively weak (Reeder et al. 2015). From the analysis of the literature, one of the most significant challenges for organizations such as IRIS/GIIN and Big Society Capital, and for the entire impact investing ecosystem, is to reach consensus and make substantial progress towards greater standardisation in the measurement of impact. The absence of international standards portrays impact as subjective, complicates benchmarking and undermines the use of impact data in decision-making.

Lastly, a key topic emerging from previous research is the role and importance of industry regulation. Indeed, politicians have a crucial role in the advancement and progress of the impact investment market. Governments can help create an enabling regulatory environment and encourage greater transparency for impact investing (Liu and Wu 2023). Several countries have approved tax relief programs and special organizational structures for social enterprises, to simultaneously promote the development of the social impact capital industry.

1.3 Methodology

As outlined in the introduction, the primary goal of the thesis will be the one to investigate and analyse the key drivers that have shaped and are to shape the evolution of impact investments. Indeed, our research examines the evolution of the investment strategies of institutions that have implemented impact investing within their portfolios. The entities analysed were categorized by origin (philanthropic or capital markets) and by geographical location (European Union and United States). Two cases were studied for each origin in each geographical region, for a total of eight cases.

The research design will be comparative. Initially, each case study will be analysed based on a common theoretical framework shown in detail in Appendix 1. This framework breaks down the investment methods of the investigated entities into smaller parts, to identify the driving forces behind the evolution of the different investment strategies. The elements incorporated into the framework were chosen based on key factors like inflows (e.g. source of capital), outflows (e.g. financial performance) and the mechanisms (e.g. investment criteria) that organizations use to make investment decisions. These components reveal important variables that direct the investigation and highlight the decisive factors affecting the analysis, allowing for a more detailed evaluation of shifts in investment strategies across different periods.

Once the individual case analyses were completed, a comparative assessment was conducted to identify similarities and differences among the approaches of these entities. Direct comparisons were made only between similar organizations – i.e. philanthropic and capital markets respectively – as the two categories of investors analysed differ significantly in their investment techniques. Therefore, a cross-category comparison based on the same geographical location would not be methodologically valid.

The case studies chosen for this thesis concentrate particularly on entities that are acknowledged as key players in their markets and industries. These actors are significant not just because of their size and market share but also because they have stood out for their continuous interest and commitment towards impact investment, trying to adapt their strategies with industry developments and positioning themselves as leaders and pioneers of the sector. Most of the entities were chosen considering their long history with impact investing, thereby making it possible to analyse the different temporal phases they went through and better understand the evolution of their strategy in the given time frame.

The choice of the geographical context is based on the pioneering role of the United States in the impact investing industry and on the importance of the European Union as another globally active ecosystem in the sector. Therefore, the analysis is focused on these two regions as they host markets where impact investing strategies are particularly advanced and consolidated. It is intriguing to explore whether there are developmental differences or distinct approaches between these regions, given the ongoing evolution of this field.

For this paper the main source of data collection will be through secondary sources. The data will be mainly collected through reports and other studies already conducted by important institutions, such as the GIIN; the need to use external sources that can provide general information becomes evident considering that the analysis of just eight cases is not sufficient to draw generalized conclusions, due to the limited size of the sample. Therefore, the reports produced by the individual organizations are not enough to obtain a complete view of the overall trends at the ecosystem level but are nonetheless informative and relevant.

The structure of this study is outlined as follows: first, US philanthropy will be analysed, followed by an exploration of EU philanthropy. Then, the focus will shift to capital markets, analysing US and EU scenarios in turn. Once the individual analyses are complete, a comparison between similar entities in different geographies (foundations and capital market)

will be conducted to highlight key trends identified throughout the study. Finally, the study will transition into the final discussion where the past and future key drivers of impact investing will be exposed and examined.

2. SEGMENT ANALYSIS

2.1 US philanthropic institutions

Over the past two decades, the philanthropy landscape in the United States has seen remarkable growth, with the number of charitable foundations doubling and their assets increasing by more than 1,100% (Porter and Kramer 1999). Despite the impressive growth, the effectiveness of these foundations in using their resources for the benefit of society remains uncertain. The following sections explore two case studies of American foundations that have integrated impact investing, examining why and how impact investing has been chosen over traditional investment strategies and how foundations are evolving, striving to create substantial value for society beyond traditional philanthropic activities.

2.1.1 Heron Foundation

Established in 1992 Heron foundation has slowly and consistently emerged as one of principal player among philanthropic foundation within United States. Since its establishment the main focus of the foundation's mission has been on affordable housing and community economic development. Heron's mission is the one to equip disadvantaged families with the necessary resources to help them build assets in order to build wealth (Swack, 2009).

Heron journey with impact investing can be defined by the following events and milestone, each one of them will be analysed to understand what were the main key drivers that dictated Heron process within impact investing.



Figure 2: Heron Foundation's Timeline

In its first period of activity (1992-1996) Heron assumed a conventional foundation approach in managing its own assets, the endowment of the foundation was in fact invested to maximize the financial return needed for have the necessary liquidity to satisfy the 5% charitable payout required by the IRS (Voorhes and Hoque 2014), and to maintain, and if possible, increase the purchasing power to fund the charitable activity (Swack 2009). Nevertheless in 1996, after only four of activity the board questioned if something more (more than acting as a private investment company that used the excessive cash flow to support charitable causes) could have been made (Swack 2009). That was the first year in which the foundation started to ponder the possibility to switch to an impact strategy.

The first step into the directions of impact investing were driven by the already existing ecosystem of foundations who have adopted it and could act as an example to follow, such as Ford or Mac Arthur. Heron found about the below-market investments from both Ford and Mac Arthur foundations (Swack 2009). So, the possibility of having an ecosystem to learn and get support from was of fundamental relevance for Heron first approach to impact investing.

Once the decision of pursuing impact investing was formalized it was necessary to determine the screening strategy, Heron determined that its grantee pool was a natural place for its initial investments. Once the recipients of the investments were selected there was the need to build the foundations market-rate portfolio. This was done in 3 different ways:

- i. Conducting active outreach efforts to identify opportunities within asset classes;

- ii. Adapting traditional investment vehicles and asset managers to mission goals;
- iii. Researching and developing new investment vehicles, such as the Community Investment Index, a positively screened, best-in-class method used to identify publicly traded companies with superior records of engaging with underserved communities.

In 2005, to further enhance its portfolio construction, Heron launched the U.S. Community Investment IndexTM, an index offering exposure to the equity market through a screened portfolio of companies demonstrating success in and commitment to serving economically underserved communities (Heron Foundation 2005). Heron's experience selecting, tracking, and refining company selection allowed it to develop skill and understanding about how public companies contributed to (or detracted from) Heron's impact and mission objectives.

Heron initially engaged in impact investing through Program Related Investments (PRIs), which are mission-driven investments made by foundations to advance their philanthropic objectives; they provide low-cost capital to target organizations with the expectation of repayment and a below-market return. Over time, Heron expanded its approach to include Market Rate Investments (MRIs), which aim to generate both positive social or environmental impact and competitive financial returns² (Wood and Hagerman 2010). This gradual shift allowed Heron to pursue solid financial outcomes alongside its mission-driven goals.

Initially, the foundation maintained a well-diversified portfolio by integrating mission-related possibilities into its current asset-allocation framework without changing its regular investment approach. Heron compared the risk and return of its mission-related investments to typical capital market options by evaluating them against predetermined performance benchmarks (Swack 2009).

² *Program-Related Investments* (PRIs) focus solely on charitable goals and can't seek financial returns, while MRIs also support the mission but may aim for market returns. Thus, all PRIs are MRIs, but not all MRIs are PRIs.

This initial approach adopted by the foundation proved to be successful in 2008 when during the financial crisis the mission related part of portfolio stood out for its effectiveness, demonstrating that an approach focused on social impact can lead to positive outcomes even in times of economic uncertainty. In fact, when 2008 crisis hit the overall portfolio dipped in 40% (from \$245 million to \$147 million), yet the more mission-orient part of the portfolio held steady (from \$63 million to \$60 million) (Heron Foundation 2015). This was due to two main reasons: first of all, the mission-oriented segment had a higher allocation to fixed income securities (they are for their very nature a lower risk investment); secondly, by integrating feedbacks from community partners with insights from investment managers and focusing on the sustainability of mortgage loans for low- and moderate-income families, they were able to spot the problem of mortgages within a strategic time frame, thereby deciding not to allocate any kind of investment within that area. They identified early warning signs from their grantees about unsustainable mortgage practices and collaborated with Community Capital Management to create custom 30-year fixed-rate mortgage-backed securities that were suitable for their target demographic (Heron Foundation 2015). In this case, mission investing turned into a tool for risk mitigation, as Heron's understanding of risk in the conventional markets, along with its "charitable" market knowledge, protected it against the risk of "exploding" adjustable-rate mortgages when the mortgage crisis struck.

In light of the challenges following the 2008 financial crisis and its prolonged aftermath – including the Great Recession – the foundation recognized the shifts in the socioeconomic landscape, such as increased rates of poverty, increased joblessness, and substantial structural changes in the economy. This understanding served as a catalyst for the foundation to further strength its commitment to funding initiatives and causes that lessen the difficulties that its recipients confront, reaching a 40% of endowment towards impact investing by 2012 (Swack 2009).

In 2012, the foundation launched a five-year plan to invest 100% of the endowment toward better fluffing the organization's mission. A shift in approach and an updated theory of change brought about an emphasis on running Heron as a comprehensive, integrated business. It merged its grant-making and investing activities into a single capital deployment department, bringing together expertise in grant-making, research, financial analysis, and community development. Heron was consequently restructured as a single, cohesive platform with all of its resources—both financial and human—directed at assisting individuals and communities in escaping poverty (Miller 2012).

The main switch that occurred within the implementation of this new strategy was the fact that Heron's investment policy was redefined toward enterprises rather than asset classes, favoring growth-stage businesses whose product or service will employ the poor and/or formerly unemployed at relatively high wages. Also, the concept of risk was re-defined. Risk, for Heron, now refers to the probability of non-performance on both social and financial dimensions, and the interaction between the two (Heron Foundation 2017). Heron's new view is that poor financial performance undermines a company's ability to deliver mission returns. Likewise, poor performance across broad social dimensions results in compromised enterprise value and increased risk over time, including depreciation of Heron's expected return as an investor. Both are material to Heron's investment management. Finally, Heron began working on a provisional analytical framework that would allow the organization to evaluate, compare, and report all of its financial commitments.

To achieve 100% purpose alignment there was the need to implement a more detailed portfolio examination, that is the reason why in 2014 the PEP (Portfolio Examination Project) started. The goal of this was the to examine the 60% of investment unscreened that Heron had in its portfolio at the time (Heron Foundation 2017). A general assessment of each company's position on economic, social, and governance (ESG) criteria was linked with a specific measure

of the number of jobs each company was creating using the Portfolio Examination Process. This project was a pivot point for the company as they screened all their investment they realized that realization of impact and mission aligned activities was not just a matter of number (for example jobs created) but it was a matter of quality as well. By conducting the PEP they realized that within their portfolio they were financing, through indirect investing, the Correction Corporation of America. The Heron Foundation's accidental investment in the Corrections Corporation of America (CCA), a major private prison company, marked a crucial change in their impact investing strategy (Heron Foundation 2015). The Heron Foundation's commitment to social justice and equity clashed with CCA's profit-driven philosophy, forcing Heron to make a major change in its investment strategy. The conflict between profit and social impact forced Heron to re-evaluate its investment standards. The foundation looked closely at the quality of jobs and their wider social impact, going beyond simply counting the number of jobs created. As a result, Heron adopted the Net Contribution Lens framework. This approach considers both the positive and negative externalities of a company, allowing for a comprehensive assessment of its overall impact on society. This change demonstrates the foundation's commitment to aligning its investments with its goal of achieving positive societal outcomes. This methodology considers a range of factors, from employment and taxation to environmental practices and community relations, to ascertain whether the enterprise overall benefits or harms society (Heron Foundation 2018). Furthermore, this evolution in strategy resonated with Heron's broader realization of the necessity for innovative financing approaches in the nonprofit sector.

Below it can be observed the evolution in quantitative terms of the Heron portfolio screen. It is noteworthy to emphasize that within a span of less than ten years, the volume of unscreened activities in the Heron portfolio has dramatically decreased from a value of 220 million to zero.

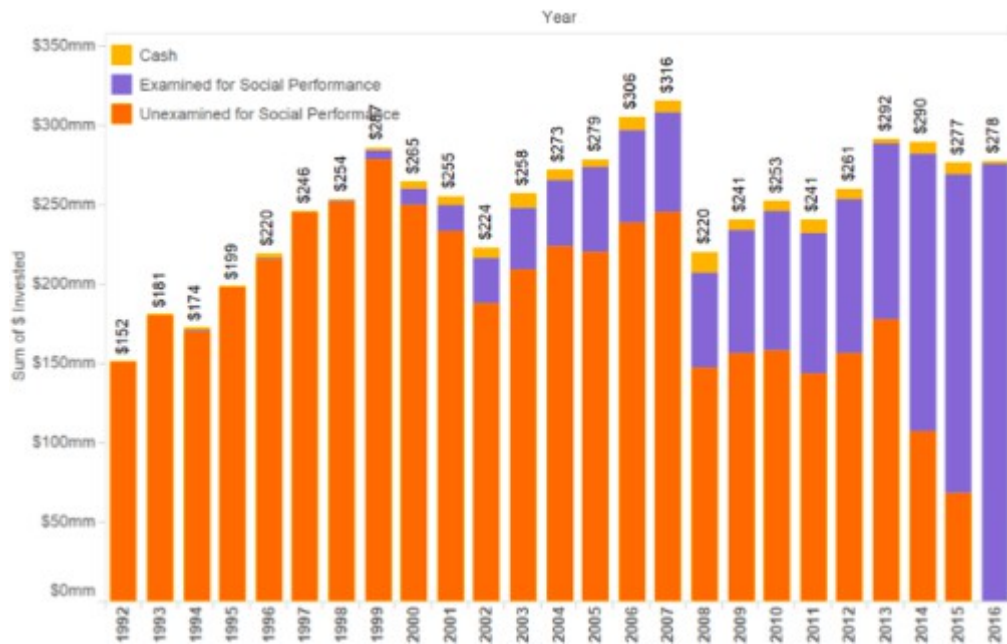


Figure 3: Heron's Examined and Unexamined Portfolio 1992-2016 (Heron Foundation, 2017)

Along its path within impact investing Heron Foundation realized that investments could be a more effective way to support projects, moving beyond the traditional reliance on grants as embracing forms of capital similar to those in the for-profit sector is a way to facilitate organizational growth and transformation. The Foundation underscored, through an interview conducted with Krishna Omolade its director of community capital, the necessity of equity-like "enterprise capital" in the non-profit sector. This type of equity can supply the resources needed for significant and enduring growth of organizations, while also fostering a culture of shared "ownership" and guardianship among investors and ultimate beneficiaries (Heron Foundation 2022).

To sum up, the Heron Foundation's journey through impact investing reflects a clear evolution in its philanthropic approach, characterized by a rigorous reassessment of investment strategies and a commitment to societal well-being. The realization and rectification of unintentional investments, such as the one in CCA, is evidence of a strategic pivot towards a

more holistic assessment of investments' societal impacts, using tools like the net contribution lens framework. This approach, coupled with innovative financing models in the non-profit sector, underscores Heron's dedication to leveraging capital for significant, positive change, and highlights the potential for philanthropic foundations to lead by example in the pursuit of social equity and community development.

2.1.2 W. K. Kellogg

The W.K. Kellogg Foundation was founded in 1930 with the goal of improving children's health, happiness, and well-being regardless of their race, creed, or geography (W.K. Kellogg Foundation 2023). Its main goal is to improve children's lives by helping them escape poverty, the main regions in which the foundation dispense its grants are: Michigan, Mississippi, New Mexico, and New Orleans (W.K. Kellogg Foundation 2024).

Before diving into its investment strategy, it has to be highlighted the investment structure of this entity. The foundation receives most of its investment from W.K. Kellogg Trust, a charitable trust set up by Mr. Kellogg in 1930 with his earnings from his cereal company. These two entities operate synergistically, with the Foundation leveraging a dual-portfolio approach: the Trust focuses solely on raising funds through a broad investment strategy for grant making and operations, while the Foundation endowment, smaller in scale, is directed towards mission-driven investments and immediate philanthropic activities, each governed by distinct leadership to align with their unique objectives (W.K. Kellogg Foundation 2022). Several pivotal events have marked the Kellogg Foundation's journey in impact investing. This thesis will delve into the key milestones that have shaped the foundation's approach:



Figure 4: W.K. Kellogg timeline

In August 2007, the Kellogg Foundation board of trustees approved a ten-year, \$100 million plan from the foundation’s endowment for mission-related investing. The idea was advanced by Tom Reis, Program Officer and Director of Innovation at the Foundation, who saw the growing field of mission-driven investing as an opportunity (GIIN 2010). Reis and his colleagues had been exploring the nascent field, interest by the potential of social enterprises to effect positive change using market-based solutions, moreover, there had been an internal discussion inherent to the limitations of grant-making, particularly around scaling and exit (GIIN 2010). The initial stages of creating a personalized investment strategy for the foundation, involved deep dives into the current marketplace of social investing, learning from pioneers in the field, and understanding what was working and what was not.

Again, it was of fundamental importance the available example from other foundation who already started this type of investing strategy. As the Kellogg Foundation itself mentions in their documents aimed at illustrating their approach to impact investing: “The Heron Foundation is a well-known champion of mission investing with extensive experience in mission-driven investing strategy. Their sage advice, which included everything from valuable suggestions for setting up a program to helping the team envision a model portfolio that identified specific investment selections while leaving plenty of room for new opportunities in the future, proved invaluable in the months ahead.” (W.K. Kellogg Foundation 2007). This is a sign of the fundamental importance that forerunners have within the impact investment market, as they constitute a solid support base of know-how and knowledge for incumbents.

Conducting this analysis helped to develop a clear and actionable plan for the Foundation's approach to mission-driven investing. The Foundation sought to unify its programmatic and financial sides, involving staff from both units to ensure a holistic approach. The first operational phase saw the creation of a Portfolio Management Team (PMT) and the creation of an Investment Committee, to guarantee a solid governance structure for the investment program. The PMT was tasked with developing a liquidity management plan, executing agreements and conducting market analyses to align investments with the Foundation's programmatic framework. The Foundation's initial strategy focused on liquidity management, leveraging short- and medium-term deposits in financial institutions in line with its mission. This strategy aimed to generate immediate social impact while maintaining flexibility for future investments (W.K. Kellogg Foundation 2007). Throughout this journey, the Foundation emphasized learning as a core component of its mission-driven investing program. The PMT captured lessons learned, sharing insights across the organization to foster a culture of innovation and continuous improvement.

It was decided to commit \$100 million of its endowment towards this program, with additional money available in their program budget to strategically fund below market-rate program-related investments (PRIs) (Linnane 2018). In this first period of experimenting and understanding what the right strategy was to use they implemented a predominately a private markets strategy. As stated by Tom Reis (GIIN 2010), at the beginning of the implementation of the impact strategy the foundation allocated part of its endowment towards financial intermediaries, while they were structuring the overall investment strategy to follow. Nevertheless, they soon found out that very few organizations matched the mission they wanted to pursue. This led the foundation to pursue a direct investment strategy within the first years of their activity, sourcing for direct deal and working side by side with their advisor of the time Imprint Capital.

The role of Imprint Capital was of fundamental importance within the overall building of the impact investing strategy for WKK foundation. The advisory firm helped design the MDI program, thinking through parameters, objectives, constraints, and investment policy. Together with Imprint Capital and later KKS advisor the Foundation created a structured approach to monitor and assess the impact of its investments, guided by the "Invest for Impact" framework (KKS Advisor 2023). This comprehensive methodology is centred around several key components:

- i. *Alignment and Evidence*: The foundation assesses how well the impact created by an investee aligns with its mission. This involves evaluating the strength of evidence supporting the alignment and understanding the underlying drivers of the mission.
- ii. *Measurement Quality*: WKKF evaluates the ability to accurately measure the social impacts achieved by investee organizations. This involves considering the quality and reliability of impact measurements, with the foundation potentially adjusting its expectations based on the level of measurement risk.
- iii. *Impact Scalability*: The foundation considers the scalability of the impact, focusing on the potential for expansion and the dependence on external stakeholders for scaling.
- iv. *Disruption Opportunity*: WKKF evaluates the potential for investees to create broader systemic changes through their activities, which could disrupt the status quo and lead to significant societal benefits.

The learning curve of the Foundation grew very fast in the first year of implementing this program. The period from 2008 to 2013 served as a key experimental phase. Starting from 2014, the foundation further refined its approach, drawing inspiration from structured and

strategic elements often seen in sophisticated investment frameworks to enhance its investment methodologies. The strategy implemented by Kellogg resembled somehow a Venture Capital fund kind of investment approach. This can be noticed in the fact that Kellogg Foundation's approach has a clear intent for their investments to go beyond financial gains by fostering enhanced growth and sustainability for the businesses they invest in. This is evident in their practices, similar to the ones used by venture capitalists who not only provide capital but also take active roles such as board positions and offer extensive coaching (Letts, Ryan, & Grossman 1997). Similarly, the Foundation typically secures an observer board position and prefers to be an integral part of investing group led by institutional investors, thereby embodying a strategy that emphasizes holistic support and collaboration, in alignment with their broader investment philosophy. This shift towards a more sophisticated investment philosophy is reflected in the progressive increase in direct investments in the foundation's portfolio. Witnessing intense growth from 11% in 2009 to 30% in 2010, before reaching a stable state at 28% by 2013 (Thornely and McCallick 2014), this evolution is not only in line with the Foundation's initial projections, but also recognizes the tangible impact of direct investments. In fact, across all of its 32 investments did since the start of the inception of the MDI program, 11 are classified in the Venture Capital deal class, with the remaining being either Private Equity, or other class (Pitch Book 2024).

To date, the Kellogg Foundation's investment strategy carefully evaluates potential investments across a spectrum of both financial and social metrics to ensure alignment with its mission and purpose. From a financial perspective, investments are examined by asset class, including cash, fixed income, private equity and real estate, along with considerations such as maturity terms, Foundation ownership stake and expected financial return by a targeted interval. From a social perspective, the Foundation evaluates the impact of its investments on various fronts: the number or value of products and services provided, job creation, the inflow

of capital into low- and moderate-income communities, housing units developed, small businesses and family businesses supported, and consumption. extended loans. The number of beneficiaries, with particular attention to the effects generated by the investment on children and families. Additional metrics include philanthropic giving leveraged or influenced by the Foundation to benefit vulnerable children and families. Each investment is expected to demonstrate intentionality through equitable approaches and have risk-adjusted return potential that justifies the investment, with a preference for sectors such as business-to-business, technology, healthcare and health-tech, education and agriculture, among the others.

2.1.3 Comparison of US foundations

Firstly, it is evident that having access to a robust ecosystem of other foundations and market actors engaged in impact investing was crucial for both organizations. The presence of established industry leaders and examples of best practices provided essential insights that significantly influenced their strategies. Both Heron and Kellogg foundation when getting started with these new programs, found valuable help in the presence of the other players who already did the same. In fact, in the US, these practices had already been fully implemented and developed by other players for at least four decades. The Ford Foundation, the John D. and Catherine T. MacArthur Foundation, the Rockefeller Foundation, and other foundations had invested hundreds of millions of dollars through PRIs in issues like housing, healthcare, education, and international development (Buchanan, Glickman, and Buteau 2015). Also, the two foundations capitalized on partnership with other kinds of actors involved within the industry of impact investing, such as advisory firms.

Going on the regulatory landscape also played a significant role in the development of both foundations' strategies. As mentioned above, in the United States since 1969, tax laws have required foundations to spend at least 5% of their total assets each year. This mandate not

only served to push both entities beyond the bare minimum, but also served as an incentive for broader engagement, for both Heron and Kellogg. Additionally, a pivotal moment came in 2015, when the IRS released guidance that incorporated mission-related investing (MRI) into the prudent investor rules (Zolfaghari and Hand 2023).

These government-established standards guide foundations on how to invest their endowments. The guidelines indicated that impact investing strategies aligned with the mission would not jeopardize the foundation's tax-exempt status or be seen as compromising the duty of care with respect to the foundation's endowment investment strategies (Zolfaghari and Hand 2023). Crucially, the legalization of MRIs as part of prudent investment strategies has paved the way for foundations to channel more funds into impact investing. Heron had already fully committed to this approach in 2012, while in the same year Kellogg moved from a preliminary strategy to a fully implemented strategy. The legalization of MRI in 2015 provided an indirect incentive, further solidifying their ongoing commitment to impact investing. Although this legislative change may not be the most visible or proactive force driving the evolution of impact investments within foundations, it undeniably plays an active role in shaping their development.

The analysis of individual cases revealed that both the market ecosystem and government policies significantly influence the development of impact investment strategies within American foundations. Shared characteristics among these foundations indicate that the expansion of such programs will rely on changing market dynamics and the enactment of conducive government policies.

2.1.4 Comparison of EU philanthropic institutions

European foundations have increasingly adopted impact investing to strategically adapt their endowments to address societal challenges while achieving financial returns. Among these, the BMW Foundation Herbert Quandt and the Calouste Gulbenkian Foundation stand

out as pioneers in the region's impact investing ecosystem.

Both foundations began their impact investing journey with a strong emphasis on furthering the philanthropic mission, using their own capital for small investments in impactful projects with higher regard on repayment of the principal rather than on obtaining immediate financial return. Nevertheless, over time both foundations went through some progressive stages that helped them gain experience in the field and understand how to best deploy capital for the creation of impact. Indeed, both institutions transitioned to using their endowments more strategically by investing into funds, ensuring the achievement of both higher impact and financial sustainability, and thus balancing the philanthropic goals with the need for financial returns.

However, the two foundations present several differences in how they structured their impact investment strategies. Their differing scopes can also be traced back to their inception dates; BMW began its impact investment journey in 2011, allowing more time to craft a robust strategy that might position them as a powerful institution in the industry.

Indeed, on one hand, the BMW Foundation has specialized in creating and enhancing the ecosystem by partnering with several relevant institutions in the field and several programs such as RISE and RESPOND. These initiatives aim to advance the overall impact investing industry by standardising impact management and assessment, streamlining data collection and ensuring benchmarking. Through its 2021 impact investing report and adherence to frameworks like the Sustainable Development Goals and the Impact Management Project, the BMW Foundation hopes to lead and guide the industry. On the other hand, the Gulbenkian Foundation has pioneered in a distinctly different way by focusing specifically on an innovative financial mechanism – the Social Impact Bond. This approach has positioned Portugal as a model for SIB expertise in Southern Europe. Moreover, its high-quality practices in impact investing have also been proved by the recent investments alignments with the Sustainable Development Goals framework.

Tackling the geographical scope of their investments, Gulbenkian foundation's efforts are more nationally focused, emphasizing local investment strategies and public-private partnerships to encourage public sector adoption of impact investing. This more nationally focused strategy contrasts with BMW Foundation's global approach, which included developing the ecosystem in regions like India and Latin America.

Speaking of the financial mechanisms applied, while initially experimenting with social impact bonds as well and debt instruments in general, the BMW foundation later decided to switch to private equity and invest mostly through funds, finding them less costly and more scalable compared to the challenging public sector collaboration. By switching from debt instruments to equity, BMW increased the riskiness of its investments, which is however under control thanks to its “core and satellite” investment strategy, which allows for a balanced investment distribution in the portfolio. Meanwhile, despite starting as a sole investor in the first social impact bond, by collaborating with other relevant investors such as Deloitte since

2017 with the “first edition of SIBs”, the Calouste Gulbenkian Foundation shared the financial risk associated with impact projects. This collaboration, coupled with operational support from maze – its personally-created impact investment firm – such as project monitoring, has strengthened the projects’ potential for success by uniting expertise and resources. Sector focus also varies: BMW has narrowed its investments to primarily target four specific SDGs after initially spreading its efforts across various areas. Recently, it has strategically shifted to focus on SDGs 11 and 13, aligning with the Paris Agreement. Conversely, Gulbenkian has expanded its impact scope, expanding from education to include unemployment and health through its innovative use of social impact bonds.

This analysis reveals the pioneering role that philanthropic organizations like the BMW and Gulbenkian Foundations can play in the impact investing field. By leveraging public-private partnerships and leading the standardisation of impact management, these foundations demonstrate how strategic investment can significantly foster societal benefits. Researchers should explore the effectiveness of these differing approaches in varying geopolitical contexts, investigating how regional characteristics influence the adoption and success of impact strategies. For practitioners, these case studies serve as robust examples of how to navigate and influence the impact investing ecosystem effectively.

2.2 Global trends' analysis

As anticipated, in the next section of this thesis a comparison will be made between similar actors from different geographical areas; this will allow us to identify past and current trends in impact investing, both for philanthropic foundations and for the capital markets.

2.2.1 Global Trends in Philanthropy

According to the Global Philanthropy Report, there are more than 260 000 Foundations in 38 countries, with 60% based in Europe, and 35% in North America. With over 75% of foundations established in the last 25 years, the philanthropic sector is growing rapidly and may eventually create more social and economic impact. According to the report, the industry spends about USD 50 billion a year and has global assets worth at least USD 1.5 trillion, heavily concentrated in the United States (60%) and Europe (37%) (Johnson 2018).

Historically, impact investing has not been widely adopted by philanthropic organizations because of their traditional emphasis on non-financial charitable goals. However, in response to growing criticisms about the unsustainability of traditional charity, philanthropic entities have been embracing impact investing to address more systemic solutions to social issues. Moreover, the development of a global infrastructure designed to enhance and professionalize philanthropy plays a critical role in advocating, raising visibility, and building capacity within the sector. Despite the challenge of balancing the traditional non-profit attitude with investment-oriented strategies, the philanthropic sector is ideally positioned to lead in impact investing because of its long-term, mission-driven investment perspective. To provide a clearer overview of the key differences and similarities between philanthropic foundations in the United States and European Union, the following table summarizes various aspects of their

impact investing strategies emerged from the comparative analysis, which will be explained later in detail.

	UNITED STATES	EUROPEAN UNION
Investing Ecosystem	Mature; reliance on advisory firms for strategy implementation.	Less pervasive; Gulbenkian and BMW innovate as pioneers
Impact Measurement	Initial screening; sometimes lack of a structured framework	Commitment to precise impact management; standard used are IRIS+ or SDG
Investment Strategy	Preference for direct investments to control operations and outcomes; fear of mission drift from indirect investments	Preference for indirect investments through funds to increase scalability and operational efficiency
Operational Role	Act as active investors, sometimes taking board positions to influence outcomes	More passive; ensures proper channeling of funds through intermediaries
Adaptation and Strategy	Adapting strategies towards outcome-based models (e.g., Kellogg with KKS Advisors).	Strategic alignment with global standards like the Paris Agreement (e.g., BMW)

Table 17: Comparative Analysis of Philanthropic Foundations in the US and EU

By analyzing the first aspect, it emerges that in the United States the already existing impact investment market ecosystem has played a crucial role. Both the Kellogg and Heron foundations have developed their investment strategies by drawing on the practices of other players that preceded them and by using the help of specialized advisory firms to achieve their objectives. This dimension is absent in the European philanthropic environment, since both the Gulbenkian and BMW foundations are considered precursors of the topic; in fact, the methods adopted by both are highly innovative and singular. While impact investing was present in the EU, it is less pervasive than in the US. Nevertheless, the influence of the impact investing ecosystem can also be noticed in Europe. For instance, the first social impact bond in history was created in the United Kingdom for the Peterborough prison case (Schinckus 2018). This pioneering initiative has certainly influenced other players like the Gulbenkian Foundation and their approach to building its models. This divergence highlights a key factor guiding the evolution of impact investments: the emphasis on building a cohesive community that leverages collaboration and partnerships. Despite the challenges in establishing and sustaining

such alliances, it is through these that foundations are able to align strategies and achieve significant objectives, as can be seen in public-private partnerships (PPPs) and strategic government collaborations.

A second reflection considers the differing emphasis placed on impact measurement by foundations across regions. Indeed, European foundations have demonstrated a commitment to precise impact management and assessment. For instance, the BMW Foundation has been dedicating itself to standardising practices to improve benchmarking among impact investing players, to consequently enhance collective impact in the ecosystem. Similarly, the Gulbenkian Foundation has focused on a specific financial tool that employs an outcome-based approach, therefore placing a high value on the utilization of metrics. Additionally, both players have been using clear frameworks such as the Impact Management Project (IMP) framework and IRIS+ Metrics from the side of BMW Foundation Herbert Quandt, and the SDG framework from the side of both companies.

Conversely, foundations in the United States have proven to successfully carry out the initial screening process and the decision of where to allocate funds, but they generally lack a structured framework for measuring the impact created by their investments. Nevertheless, while the Heron Foundation has openly admitted their unpreparedness when it comes to their impact measurement strategies, stating that they are “all over the place when it comes to measuring”, the Kellogg Foundation is actively working towards implementing an outcome-based model, with the assistance of KKS Advisors.

A further difference between the strategies of foundations in the United States and Europe involves the approach to direct and indirect investments. Indeed, in the United States what was notable was a preference for direct investments to maintain a tighter control on both operational directions and financial outcomes, after having experimented indirect investments and recognized a higher risk of losing control over the projects they finance. Indeed, both

Kellogg and Heron feared mission drift with their indirect investments, with Heron realizing through its Portfolio Examination Project that some unscreened investments might have supported ventures contrary to its goals, as seen in the example of the Corrections Corporation of America. In contrast, in Europe, the BMW foundation utilizes indirect investments through funds to its advantage, finding this approach the best way to increase scalability and operational efficiency.

The point just discussed leads us to the next phase of our analysis. In the American foundations examined, with particular emphasis on Kellogg, it can be observed how their predilection for a more direct investment strategy has led them to operate more like real investing institutions, sometimes even taking positions within the board of their investee. The case studies involving Kellogg and Heron demonstrate that American foundations wish to be active and engaged operational investors within their deals, so as to have a complete vision of what their investments are generating and to be able to influence the course of events if necessary. Again, this dimension does not emerge so strongly in the two cases of the European foundations examined. Unlike their American counterparts, the two European foundations, investing mainly through intermediaries, do not take on the roles of lead or active investors. Instead, they focus on ensuring that their funds are properly channelled into target entities to achieve the desired impact.

Lastly, a common theme emerges across all philanthropic foundations examined, which is an approach to investment strategy that consistently prioritized the philanthropic mission over financial gains during the initial exploratory phases. In the United States, this pattern emerges from the fact that both foundations started with PRIs rather than MRIs, reflecting a focus on impact rather than profit from the start. Similarly, in the EU, in both cases the foundations started out with smaller investments prioritizing the achievement of impact objectives, even without the promise of financial returns. Even after the exploratory stages, as

the impact investing field has evolved, all foundations have continuously adapted their strategies to deploy capital more effectively for creating impact. Furthermore, the philanthropic institutions highlighted in our case studies have shown a deeper commitment to impact creation by aligning their investment portfolios more closely with their core values. This is evidenced by actions such as the Gulbenkian Foundation's divestment from operations inconsistent with its values and the Heron Foundation's strategic adjustments following the discovery of negative impacts from its indirect investments. Additionally, some foundations have adapted their strategy to meet specific contextual demands; for instance, the BMW Foundation has recently aligned its portfolio with the Paris Agreement to promptly respond to global environmental challenges.

2.2.2 Global Trends in Capital Markets

By now, the extent of complexity that characterize this particular and relatively new industry seems clear, influenced by a multiplicity of actors who shape their operations based primarily on government regulations, return seeking strategies and strong community pressures. These driving factors often differ depending on the geographical area where players operate, thereby causing the application of several diverse approaches for ultimately reaching the same financial-impact result, thus highlighting also those features that could be regarded as homogeneous in the market. Accordingly, the sustainability initiatives and investment strategies among prominent funds in the United States and the European Union show many similarities and some differences, both reflecting a significant commitment to integrating financial performance with environmental benefits; these funds have developed unique approaches to sustainability, direct impact investing, and innovative measurement techniques.

	UNITED STATES	EUROPEAN UNION
Timing of commitment	KKR and TPG initiated sustainability efforts around late 2000s and early 2010s	Nordea and AXA IM began their commitments early 2000s and in 2002
Type of fund / asset class	KKR and TPG focus on private equity funds aligning with UN SDGs	Nordea and AXA IM started with public equity and debt, expanding into diverse impact strategies
Innovative features	KKR uses third-party and internal ESG metrics; TPG employs Y analytics for impact measurement	Nordea and AXA IM use custom ESG training and advanced screening tools like AXA's "Altitude"

Table 18: Comparative Analysis of capital markets' players in the US and EU

In the United States, both KKR and TPG have shaped their paths towards sustainability with serious intent. To begin with, KKR began its commitment to sustainability through its Green Portfolio Partnership Program and was an early adopter of the Principles for Responsible Investment (PRI), influencing guidelines across American private equity firms by 2008. TPG entered a bit later and established its policy sometime between 2012, but with the same intent to produce positive societal impact across sectors such as education and healthcare. In the EU, Nordea and AXA IM demonstrated an earlier and stronger commitment to sustainability: as early as the first 2000s, Nordea incorporated corporate social responsibility into its core strategy and developed its first impact investing strategy in 2008. AXA IM started on sustainability nearly at the same time, in 2002; by 2012 it had an official impact strategy in place, and years later expanded their investment criteria in order to cover multiple asset classes, significantly increasing its impact investing portfolio. Overall, the US impact investing landscape witnessed a slightly later interest towards sustainability, which resulted in a later establishment of specific impact strategies; despite this minimal delay, the type of approaches to this emerging industry seemed to be similar.

In the US, both KKR and TPG have relied on *private equity funds* as their main vehicles for pursuing sustainable impact activities aligned with internationally accepted principles as the UN SDGs, covering a variety of themes, from climate action to inclusive growth. On the other hand, European counterparts like Nordea apparently favoured the creation of *public equity* – and, to a smaller extent, public debt – article 9 (SFDR) investment funds, since considered more effective in raising capital for impact purposes; afterwards, they started expanding their core activities to other investment types, consistently launching direct alternative funds along with tailored climate and impact strategies to follow closely. AXA, though beginning its direct impact efforts some years later, showed a definitely higher effort in issuing a wide and diverse range of impact funds, reflecting a robust strategy to cover multiple sectors, asset classes and investment approaches. AXA’s Social bond fund is a perfect example of such a commitment, as newly established impact financial instrument like SIBs started being comprised among funds’ asset portfolios.

To add on, both regions and cases demonstrate innovation in how they assess the results of their investments but do so in different ways. On one side the US players – like KKR and TPG – have developed extensive, sophisticated impact measurement systems that incorporate relevant third-party standards and use metrics to make investment decisions, quantify and monitor results. While both firms fully comply with the 9 operating principles for impact management in their investment criteria, along with the general sustainable banking principles and other ESG standards, they differentiate substantially in how they measure impact. KKR bases independent reports on the produced impact performance on third-party frameworks’ metrics, such as Blue Mark, in addition to using its internal ESG scorecard. TPG uses an internal tool, Y Analytics, which is an innovative and clear example of leveraging quantitative data to score the environmental and social goodness of investments with a robust measurement base. Apparently, the European counterparts also prefer to develop their own custom-made

measurements: this includes a broad range of initiatives, spanning from Nordea’s internal ESG training ‘curriculum’ to pioneering practices like including other impact funds within their fund portfolios to broaden their influence and reduce risk. This gives them almost total control over how investments are measured, which helps them to closely align assessments with their investment philosophies using any relevant tool in the box; this ranges from networking enhancements (AXA Impact Hub) to cutting-edge ESG screening platforms – e.g. AXA’s ‘Altitude’ – or techniques, such as Nordea’s revenue-based and DNSH screening. By analysing closely these cases, it becomes apparent the widespread willingness to employ own measurement techniques rather than using common frameworks, both in US and EU; arguably, the lack of an *ad hoc* common framework for assessing impact could represent one of the main reasons why the development of the industry still maintains a moderated pace.

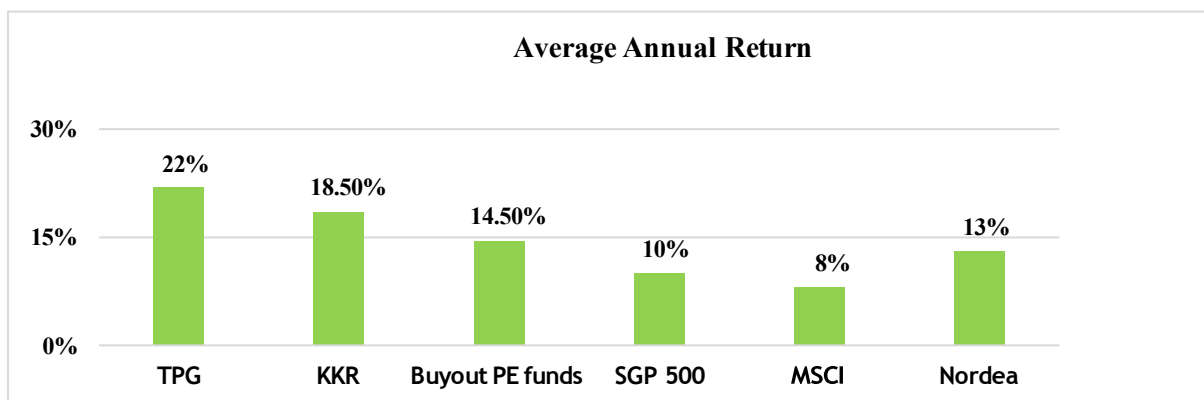


Figure 12: Summative Average Return Comparison EU-US

When considering the financial performances of the players at stake, the results are definitely promising. The Average Annual Return seems to be overall higher in US than in EU, suggesting a possible higher focus of US players in financial return in respect to impact achievements, compared to EU entities. For instance, KKR Global Impact Fund reached a promising 18.5% positive return, outperforming its main benchmarks which stood at 14.5% and 10%, respectively. In Europe, performances appear to be less outstanding than US ones, yet remaining absolutely positive. Through the funds analysed we can ultimately infer that the

financial performances of EU players are more similar to their respective benchmarks, even though in certain cases they have also been outperformed (e.g. Nordea's global climate and environment fund having a cumulative yearly average return of around 5% more than its benchmark, i.e. the MSCI index).

3. DISCUSSION AND MAIN FINDINGS

As stated in the intro of the paper, the main aim of this study is to analyse the drivers that have caused and keep contributing to the development of the impact investment industry as a whole, also differentiating it between geographical areas (US and EU) and organisation type (philanthropic or capital market player). To do so, we decided to analyse and comprehend the 'impact journey' these organisations undertook, focusing on key metrics we believed are crucial in shaping the characteristics of impact investing landscapes.

Having said that, the findings we are about to discuss can be regarded as representative of the general impact investing framework, as we believe the actions of the companies we chose will probably be replicated by many smaller actors with similar objectives and will consequently set a standard the whole market will follow closely. We hope to provide useful insights on the sector development, along with inputs that may help predict the most probable paths impact investing will follow.

3.1 Impact funds' development

Since the early 2000s, impact investing has developed into a widespread phenomenon in both the European Union and the US. The investment strategy has evolved from major capital market players adopting ESG policies aligned with SDGs, to refined practices by leading firms like KKR, TPG, Bain Capital, Citi, AXA, and Nordea. The practice consists in

the creation of specific funds structured to achieve respectable financial performance together with a noteworthy measurable social and environmental goal as opposed to funds that merely satisfy ESG criteria.

Impact investing has predominantly developed through the private sector, with a notable emphasis on private equity as a key avenue for such investments. According to a study by Höchstädter and Scheck (2014), which utilized the Rockefeller Foundation's definition, impact investing was characterized as mainly confined to these private channels, distinctly separate from public markets.

	EU FUNDS	US FUNDS	TOTAL
FUNDS	1160	773	1933
EU INVESTORS	775	433	1208
PRIVATE EQUITY FUNDS(1)	484	450	934
PUBLIC EQUITY FUNDS (2)	179	52	231
CAPITAL RAISED(1)	€65 bn	€76 bn	€141 bn
CAPITAL RAISED(2)	€197 bn	€24 bn	€221 bn

Table 19: US-EU Impact investing funds overview (Phenix Capital, 2023)

By looking at the Phenix Capital report table, this trend is clearly confirmed: it is evident that private equity funds are the predominant asset class in impact investing in both EU and the United States. In total, there are 934 PE funds in these two areas which count for 48% of all impact funds. However, it is interesting to notice that this asset class is more relevant in the United States. They constitute 60% of all impact funds in the US, raising a total of \$76 billion. This is not unexpected, given the general preference for private equity in the US also for conventional investment sectors. The US benefits from a more favorable regulatory framework and better tax incentives for carried interests (Barber and Goold 2007) which creates a more conducive environment for private equity funds. TPG Capital is a perfect example of this dominance, standing as the world's largest impact investing platform with \$14 billion raised solely through private equity funds.

Nonetheless, the EU is undeniably leading the sustainability path. With 1,160 impact funds, the European Union significantly surpasses the 773 in the US. Additionally, the capital raised underscores this regional imbalance; European funds have collected about €262 billion, over twice the €100 billion by US funds. This significant gap highlights not only the European larger number of funds but also a deeper financial commitment to impact investing compared to the US.

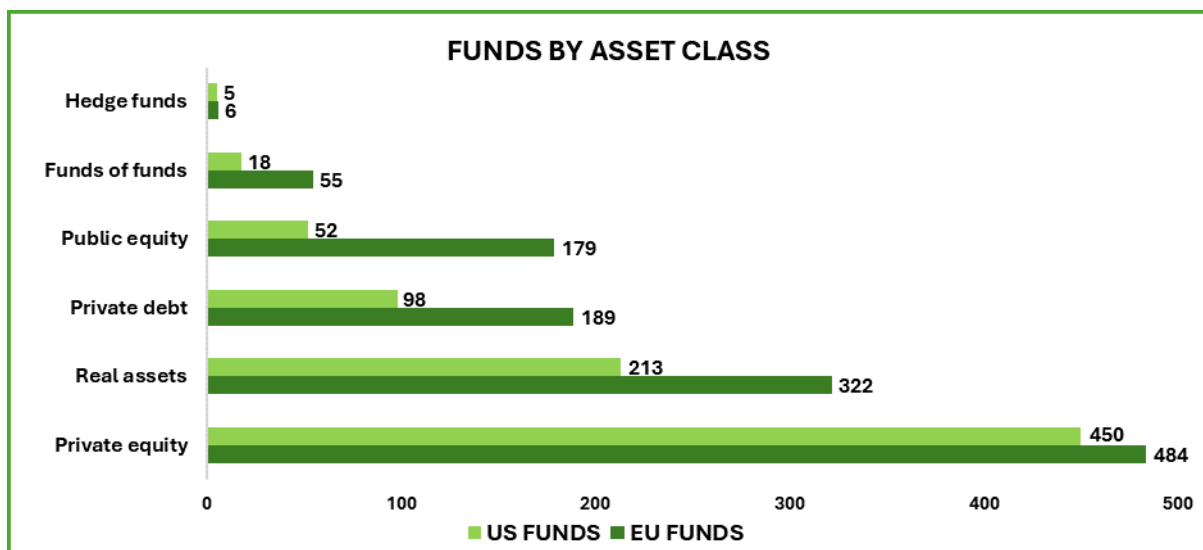


Figure 13: US-EU impact funds by asset class (Phenix Capital, 2023)

Private Equity funds are prominently recognized as the primary vehicles for impact investing, but they are not the only available option. The table above, shows that real assets represent the second most common asset class, followed by public debt and public equity. The EU has notably advanced its public equity funds in the impact investing sector, showcasing a significant distinction in fund distribution compared to the US. Specifically, the European 179 public equity impact funds considerably exceed those in the US and raised a total amount of €197 billion against the €24 billion managed by US public equity fund, reflecting the greater openness of the EU to the public development of impact investing. However, despite the public nature of these investments, barriers to entry are not low. In fact, these types of investments require a high minimum investment commitment, complicating diversification for smaller

investors (D. Levitt 2011); for example, Nordea Asset Management's Global Climate and Environment Fund, sets a minimum investment threshold at £75,000. This indicates that while the market is more inclusive, significant capital contributions are still required, which may be out of reach for many individual investors. It would be beneficial for both the EU and the US to make impact investing more accessible to average investors, given the ease with which substantial amounts of capital could be raised.

Finally, it is vital to understand why major capital market players have started to massively turn to impact investing. There are three main reasons behind this statement. Firstly, private equity firms would like to avoid the risk of their investments becoming stranded assets due to toughening environmental regulations. The second reason is the need to get a reputation premium. It is no longer a market secret that ethical issues and responsibility have started to play an essential part in the success of the business. This means that firms with a Stronger ethical standing in this regard will trade better in the market. Lastly, there is a financial aspect to consider. Impact investments often focus on environmental solutions, which have shown potential to provide financial returns above the market average. Indeed, 79% of impact investors have reported that their financial performance has met or exceeded their expectations (GIIN 2023). This is clearly demonstrated in the performance of the chosen cases; for example, KKR and TPG's impact funds have consistently outperformed benchmarks. Similarly, in the EU, while AXA's funds have closely followed benchmarks, Nordea's funds have exceeded them, further validating the financial viability of impact investing.

3.2 Government regulations

A crucial aspect that emerges from this research, as already anticipated earlier in our study, is the fundamental role of government regulations in the field of impact investing. Government policies influence how institutional asset owners invest their capital. These

regulations establish the regulatory framework that governs investment decisions and can also generate co-investment opportunities, increasing credibility and security for the government in guiding investments towards specific social objectives. From an applied policy perspective, regulations can direct capital towards specific products or transactions, influencing markets primarily through incentives such as tax credits and subsidies for sectors that meet certain impact objectives. Such sectors may include for example access to affordable housing, energy efficiency, public transport-oriented urban development, urban and rural regeneration, as well as health and education (Wood , Thornley and Grace 2013).

On the demand side, policies can expand investment opportunities by promoting the development of robust, investable companies, projects and intermediaries. They can also make investment products more financially attractive through credit guarantees or facilitate the identification of institutions generating positive social impacts through certification systems. These policies are vital to communicating the existence and appropriateness of social impact investment opportunities (Wood , Thornley and Grace 2013). This factor emerged and was positively verified by the cases examined by this research. During the period examined, this type of regulation has in fact always proven to be an important lever of action for the profiling of the market. For example, the innovative approach adopted by Portugal has played a key role in promoting social enterprises.

Since 2013, Portuguese governments have worked intensively on creating a favourable ecosystem through the "Portugal Inovação Social" (PIS) programme, an integral part of the broader "Portugal 2020" (Bagnulo et al. 2019). This program was designed to implement the recommendations of "Europe 2020", a ten-year strategy proposed by the European Commission on 3 March 2010 to promote "smart, sustainable and inclusive growth". In this context, 'Portugal Inovação Social' has carried out a critical role in enabling the Gulbenkian Foundation to refine and expand its impact investing strategy. Creating an enabling

environment through 'Portugal Inovação Social' has allowed the foundation to leverage crucial resources and networks, thus facilitating the development and implementation of innovative intervention models, such as Social Impact Bond. Furthermore, to encourage and promote the social impact bond initiative, Portugal implemented significant legislative changes in 2018 by introducing a tax relief measure that provides significant deductions for investments in social impact securities.

At the same time, in the United States, the 2015 legislation relating to Mission-Related Investments (MRI) marked a turning point for the entire industry. This law has significantly increased both the volume of investments and the total capital invested in the sector, demonstrating how government policies can effectively stimulate the expansion of the impact investment market. These illustrious examples clearly demonstrate that, depending on the specific regulations and public initiatives adopted, it is possible to significantly influence the growth trajectory and effectiveness of impact investing globally.

Although all the actors examined have adopted international standards such as SASB, GRI, and others, it is important to recognize that these frameworks are indicative in nature and do not impose implementation obligations. These standards offer guidance on best practices to follow but are not a strong enough incentive to generate real change. In addition, the panorama of frameworks that allow companies to outline and communicate ESG issues to external stakeholders is extremely varied. Among these, the GRI standards, the Task Force on Climate-related Financial Disclosures (TCFD) and the SDGs are the most used for sustainability reporting. However, the diversity and lack of direct comparability between these frameworks can make it difficult for investors to form an objective opinion. An example of this issue can be seen in the sustainability reports published by large US companies in 2021, which vary greatly in length, from 12 to 243 pages, according to a 2021 Teneo report (Teneo 2022).

The case of AXA examined in this study provides a further example: the company adopted the SASB principles in 2012 and these standards have not undergone significant changes since then. As highlighted in the document, what emerges from this observation is the critical need for government regulations with a more unified and incisive level of impact and guidelines, so that players can truly generate a substantial and tangible impact.

This study suggests that a key factor that will shape the industry within the near future is the establishment of a comprehensive supranational framework to guide and monitoring impact investing. It is essential that regulations are not only indicative but also mandatory and universally applied, thus ensuring consistency and comparability between different market players. If this would be implemented, the way in which impact investing is conducted will change in a positive and more impactful way.

3.3 Impact measurement and management

As we delve into the intricacies of impact measurement and management, the interconnection between these practices and the need for robust regulatory frameworks becomes even clearer. Since common standards and metrics are essential for controlling the achievement of impact goals and ensuring the accountability of projects and intermediaries, the measurability of social impact is an essential aspect of impact investing.

When comparing impact investing between the US and the EU, several differences regarding the approach to sustainability disclosures can be seen and analysed in the following table.

CATEGORY	UNITED STATES	EUROPEAN UNION
Regulatory Approach	Laissez-faire attitude Private-sector-led initiatives Market-driven	On the way to a regulated approach; Mandatory directives and regulations such as CSRD and SFDR
Impact Measurement	No clear common framework; Reliance on internal tools	Aims for comprehensive sustainable development
Regulatory Influence on Investments	Minimal: 13% of investors consider regulatory/ tax requirements when selecting impact metrics	Strong; 42% of investors consider regulatory or tax requirements when selecting impact metrics
Stage of Regulatory Development	Early stage of impact-related regulations development	Advanced Requiring detailed reports on environmental and social aspects
Investment Objectives	Desire to be viewed as sustainable and accountable businesses	Political objective of attracting private funding to shift to a net-zero economy

Table 20: Regulatory and Measurement Approaches in US vs EU Impact Investing

The case studies analyzed exemplify these trends in practice. Indeed, in the US, the engagement of KKR with the American Investment Council’s Guidelines for Responsible Investing underscores the significant role private sector initiatives play in shaping sustainability practices without stringent regulatory oversight. Such initiatives are primarily motivated by industry standards and the drive to be perceived as sustainable and accountable leaders, rather than by compliance with public guidelines.

On the other hand, the EU's adoption of a more systematic and centralized approach towards impact measurement is underscored by the implementation of the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR). These regulations not only demand rigorous sustainability reporting and sustainability risk integration but also require detailed reports on environmental and social aspects, contributing to the EU’s goal of attracting private funding to make the shift to a net-zero economy. European entities like Nordea and the BMW Foundation exemplify European examples that deeply integrate sustainability factors in their investment strategies. Indeed,

Nordea aligned with SFDR Article 9 and BMW Foundation adhered to Article 8 to promote ESG factors in public market investments, advancing sustainable finance.

One concern is that the emphasis of regulations such as SFDR is predominantly on environmental sustainability, which may overlook the social impacts vital to European impact investing. As regulatory frameworks evolve, they must be designed to ensure a balanced approach between environmental and social priorities to foster a comprehensive sustainable development (Hehenberger 2023). Conversely, the US is in the earlier stages in the development of regulations and disclosure related to impact considerations. Indeed, only 13% of investors in the US and Canada select impact metrics by considering regulatory and/or tax requirements, a strong contrast to the 42% in Europe (Hand et. al 2023).

The EU's rigorous regulatory framework not only ensures that EU-based or operating companies adhere to stringent sustainability standards but also encourages them to lead in transparency, accountability, and the development of innovative benchmarks and data-driven initiatives that shape and inform the regulatory environment.

This has been proved by our analysis when studying the impact investing strategies of BMW Foundation. The organisation is working towards some field-building efforts on initiatives related to impact measurement and management by fostering a collaborative environment enhancing transparency and comparability, aiming at leading the industry through its detailed impact reports. Among the details to improve, such comprehensive disclosures should go beyond merely listing outputs such as jobs created or the SDG tackled, but they should rather focus on analyzing the changes these investments bring to the communities involved.

Despite these efforts, the industry is still facing the challenge of the lack of a uniform methodology for comparing investment opportunities, which has been highlighted by 36% of investors according to GIIN report (2023) as an obstacle to peer comparison of impact outcomes. The absence of a common framework is particularly evident in the US, where

companies adopt different approaches up to the point of using their own internal tools to report results, as visible in the case of TPG.

Additionally, despite the majority of investors (76%) adhere to the Sustainable Development Goals to craft their impact strategies, the COVID-19 pandemic has increased the funding gap needed to achieve the SDGs by 2030, with recent data showing that only 15% of SDG targets are on track (Phenix Capital 2023). This calls for the critical need to ensure that the SDGs are not only targeted but achieved; an effort towards unified methodologies is therefore needed to drive global sustainable development. Moreover, as the BMW Foundation and others push for more detailed and transparent reporting, there is a growing need within the industry to prioritize the collection and use of robust impact data. It is crucial that impact data receives as much emphasis as financial data in the tools – such as dashboards and scorecards – that guide decision-making processes, in order to avoid misallocation of substantial resources on ineffective projects.

By emphasizing the need for quantitative, evidence-driven targets and leveraging publicly available data, investors can refine Impact Measurement and Management (IMM) practices to set and assess targets more effectively. However, while company reports primarily focus on how financial resources have been utilized, they often fail to include crucial details on what strategies did not succeed, which limits the opportunity for organizational learning and innovation. To foster a culture of transparency and improvement, companies need to enrich their reports with comprehensive data that encompasses both successes and failures from their programs, encouraging open discussions with the community about these findings (Hehenberger 2023).

To sum up, as impact investing continues to emerge within the financial sector, the accumulation of comprehensive datasets is still critical. The future promises a landscape where impact data will be as commonly available as financial data. To bridge the gap between the

diverse approaches to impact measurement and management across the globe, it is essential to cultivate and disseminate best practices in impact management, measurement and reporting, and to share experiences in designing and implementing financing mechanisms and structures that have been successful in either region. By replicating and adapting these good practices across different contexts, it would be easier to foster a more unified global impact investment market.

3.4 Conclusion

This research highlights the key drivers behind the development of impact investing, with a particular focus on the differences between philanthropic and capital market organisations in the US and the EU. The results show that the continuing challenges in standardising impact measurement highlight the need for a more cohesive global strategy to improve the effectiveness of impact investing. Moreover, government legislations play a significant role in determining investment patterns, with European countries implementing stricter regulations than American ones on investments that have a significant impact. Another key takeaway for impact investing from this study is the imperative role of comprehensive impact data which will be crucial in guiding decision-making processes and ensuring the accountability of projects. By fostering a culture of transparency and learning from both successes and failures, the impact investing sector can evolve more effectively and sustainably.

The findings of this paper suggest several directions for future research on impact investing. The impact of regulatory frameworks on impact investing needs to be explored, with a particular focus on regional differences. In addition, research into the contribution of different asset classes to the achievement of social and environmental outcomes could provide useful information. Finally, evaluating the long-term outcomes of impact investments can shed light on their sustainability and effectiveness, providing crucial guidance for investors and policymakers.

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vi. Appendix

Appendix 1: Framework used to investigate each entities investment strategy

Inflows:

Inflows refer to the capital that is being invested into the impact funds and to general objectives. Parameters to consider for inflows include:

1. CAPITAL SOURCING:

- Sources of capital invested: distinguishing between internal funds, external fundraising, or other financial instruments.
- Implications of the source: flexibility and restrictions associated with each funding source, fundraising strategy.

2. GOALS:

- purpose: what do I want to achieve (expected ROI, expected impact)
- motivation (brand exposure, rebranding towards impact)

Mechanism:

Mechanisms are the strategies and processes that the funds use to create impact through their investments. How the funds structure the investment. Parameters for mechanisms include:

3. SCOPE OF THE INVESTMENT:

- Overall strategy definition
- Scouting of opportunities (beneficiaries)
- Investment screening (criteria for selecting opportunities that align with the entities' missions and values; Partnerships, collaborations, or specific projects that align with the goals of the entities.)
- Diversification strategy (specific sectors, geographic regions)
- Type of approach: balanced, income-based, growth etc.

4. FINANCIAL PRODUCTS (asset allocation):

- Grant (no return), loan (no interest = returns only principal), loan (with interest = principal + interest), other (most interesting financial product for our study are SIBs - social impact bonds), MRI (mission-related investment) + PRI (program related investment), equity or debt.

5. RISK MANAGEMENT:

- risk appetite: level of risk an entity is willing to accept in pursuit of its objectives (risk tolerance). Also, assess how the company manages changes in previously calculated expected risk.
- level of control: process for regularly monitoring the portfolio's performance against benchmarks and objectives (financial and non-financial). Define triggers for rebalancing or adjusting the portfolio based on changes in market conditions or the investor's financial situation.

6. TIMING OF THE INVESTMENT:

- Investment horizon, whether it's short-term, medium-term, or long-term, and the strategy tailored accordingly.
- Exit strategy (how the funds exit their investments while maintaining or enhancing the impact, such as through strategic sales or public offerings)

Outflows:

Outflows refer to the distribution of financial returns and the realization of impact. Parameters for outflows include:

1. **ESG METRICS** (impact measurement):
 - Impact realisation: actual social and environmental outcomes achieved by the investments and how they are reported
2. **ROI**:
 - Financial performance of the impact investments and how they compare to traditional investment