IMPACT INVESTING IN THE U.S. AND THE FIFTH DISTRICT

IMPACT INVESTING is an investment strategy that finances companies, organizations and funds that generate a positive social or environmental impact, in addition to a financial return for the investor. While community development financial institutions (CDFIs) have historically funded socially impactful ventures, the term “impact investing” was coined in 2007 by the Rockefeller Foundation and impact investing has since grown into a more widely pursued investment strategy. The net assets of investment funds pursuing an impact investment strategy have grown from $12 billion in 1995 to $4.3 trillion in 2014.

WHAT SECTORS DOES IMPACT INVESTING TARGET?

WHAT ARE THE STANDARD FINANCIAL INSTRUMENTS FOR IMPACT INVESTING?

<table>
<thead>
<tr>
<th>TYPE OF FINANCIAL INSTRUMENT</th>
<th>Financial instruments for impact investment by number in operation in 2014:</th>
<th>Financial instruments for impact investment by share of impact investment value in 2014:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GROSS NUMBER</td>
<td></td>
</tr>
<tr>
<td>Community investing institutions (Community development banks, credit unions, loan funds)</td>
<td>880</td>
<td>43.6%</td>
</tr>
<tr>
<td>Alternative investing vehicles (Private equity and venture capital funds, hedge funds)</td>
<td>336</td>
<td>16.6%</td>
</tr>
<tr>
<td>Separate account vehicles</td>
<td>214</td>
<td>10.6%</td>
</tr>
<tr>
<td>Registered investment companies (Mutual funds, variable annuity funds, closed-end funds)</td>
<td>480</td>
<td>23.8%</td>
</tr>
<tr>
<td>Other pooled products (Co-mingled portfolios for institutional and individual investors)</td>
<td>109</td>
<td>5.4%</td>
</tr>
<tr>
<td>Total impact investing vehicles</td>
<td>2,019</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOCIAL IMPACT BONDS

Social Impact Bonds (SIBs) are financial instruments that use private investment to fund social programs and allow the government to delay repayment of program costs until after the achievement of pre-determined program goals. SIBs are a relatively new instrument for impact investing, and there is continued debate about how best to use this tool.

PRIVATE IMPACT INVESTOR(S)

Provides up-front funding for the designated project.

INTERMEDIARY

Oversees financial arrangements and serves as a liaison between SIB partners.

PROGRAM OPERATOR(S)

Implements the project with funding from the private investor(s).

SECOND-THIRD EVALUATOR

Conducts independent evaluation of the program to assess achievement of impact goals.

GOVERNMENT

Pays the intermediary upon successful completion of the project goals; the intermediary then repays the original investor.

For more information, visit http://www.richmondfed.org/publications/community_development

Sources: