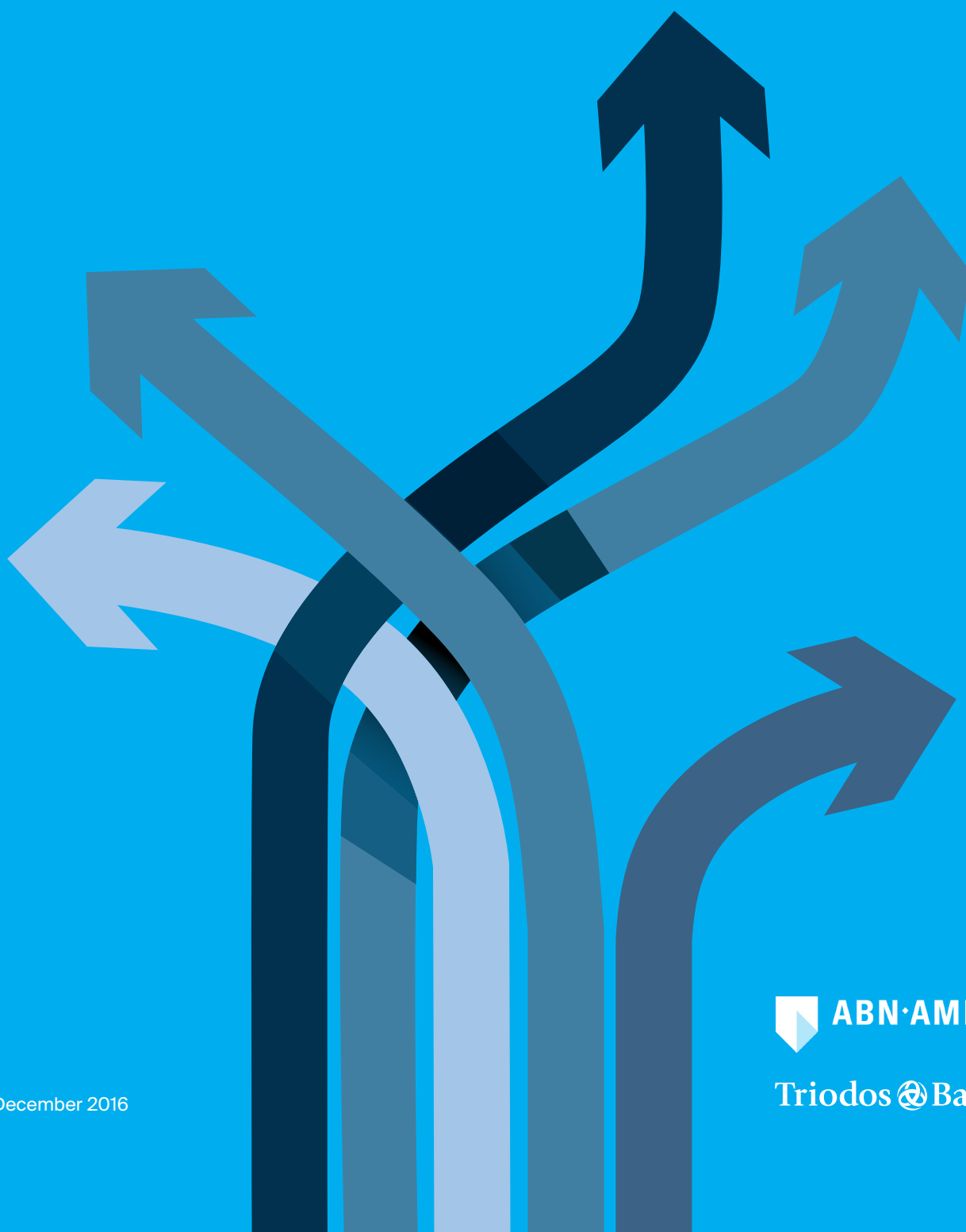


Mobilizing Impact Capital from Retail Investors

SDG Investing as the “New Normal”



December 2016

 **ABN·AMRO**

Triodos @Bank

Foreword

In this paper we have identified concrete ways that can make the Sustainable Development Goals (SDGs) matter for a wider audience. The financial industry can trigger market-wide uptake of impact investing by all retail investors. Our long-term goal for this agenda: **To make SDG investment 'the new normal' by encouraging and enabling all Dutch retail investors to invest with impact.**

Findings in the report are the result of a collaborative process by ABN Amro and Triodos Investment Management. Its insights and recommendations are based on the professional experience of the leads, available market research, and the input of multiple financial institutions with offerings to retail investors¹.

This paper does not contain an investment advice. The examples in the paper may serve as an inspiration for increasing the positive impact of retail investors' money. We will, together with other parties, promote SDG investing in the years ahead and welcome any feedback you may have².

ABN AMRO and Triodos Investment Management,
December 2016

¹ Organizations that participated in a half day working session included ABN Amro, ASN Bank, C-Change, FMO, ING Bank, NIBC - NIBC Retail, Van Lanschot, Theodoor Gilissen, VBDO. Separate input was received from ASR, NN, and RobecoSam

² For the full SDG Investing Agenda, please visit: www.sdgi-nl.io

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Exhibit 1: Overview of the 2030 Sustainable Development Goals



1. Introduction

1.1 WHAT ARE THE SDGS?

The Sustainable Development Goals (SDGs) have the potential to transform our world by 2030. The SDGs are a set of seventeen goals and 169 underlying targets to improve life on earth. They have been formulated by consulting the 193 Member States of the United Nations and members of global civil society³. On the left is a brief overview of the 17 SDGs.

1.2 WHAT IS NEW ABOUT THE SDGS IN COMPARISON TO THE MDGS

While the eight Millennium Development Goals (MDGs) were primarily aimed at ending extreme poverty in all its forms in developing countries, the most important novelty of the SDGs is that they broaden the focus to all countries, including the wealthier nations of this world. The UN's new global Sustainable Development Goals will additionally require industrialized countries to start implementation beginning in 2016.

1.3 IMPACT INVESTING: THE INTENT TO CONTRIBUTE TO SOCIAL AND ENVIRONMENTAL GOALS

Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances. The growing impact investment market provides capital to address the world's most pressing challeng-

es in sectors such as sustainable agriculture, clean technology, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

The practice of impact investing is defined by the following four core characteristics:

1. Intentionality

An investor's intention to have a positive social or environmental impact through investments is essential to impact investing.

2. Investment with return expectations

Impact investments are expected to generate a financial return.

3. Range of return expectations and asset classes

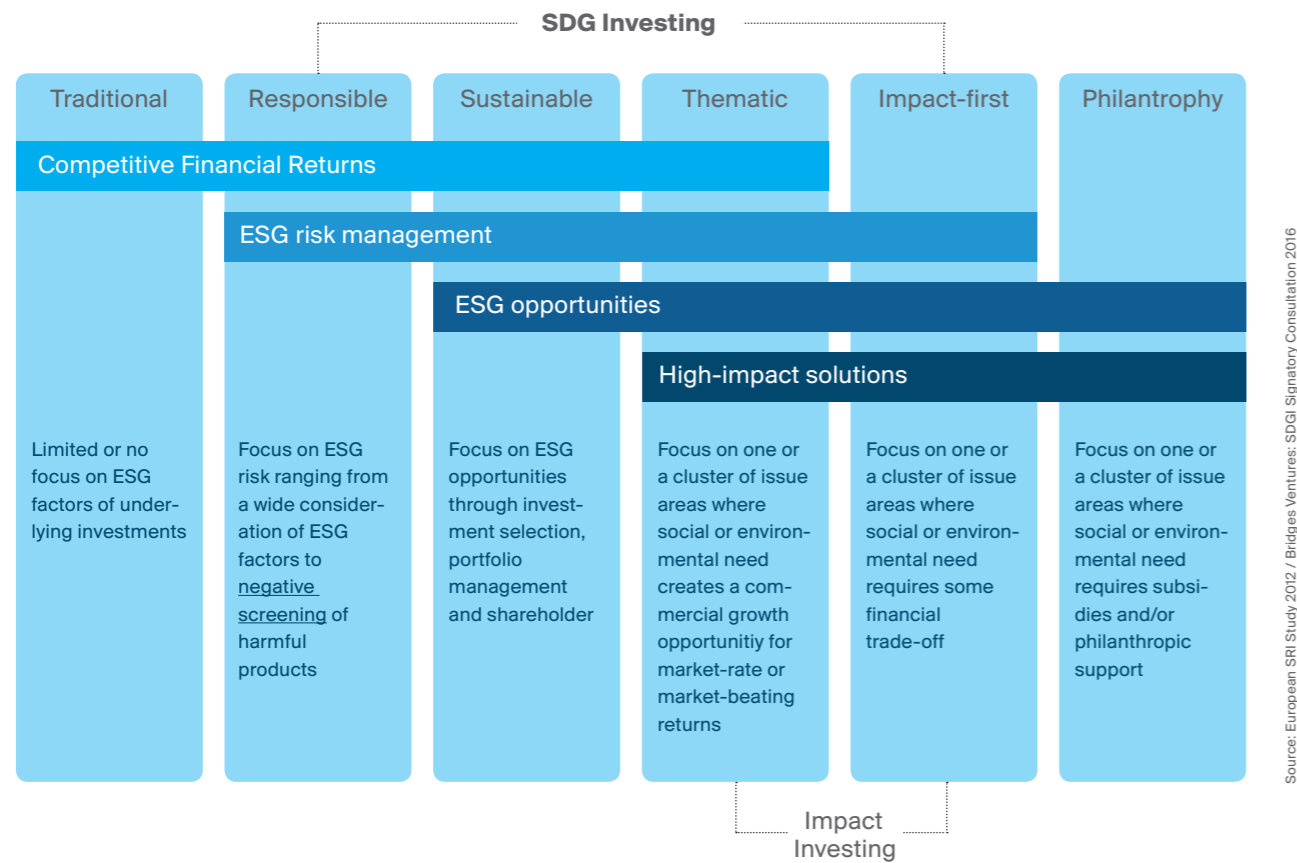
Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across various asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity.

4. Impact Measurement

A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.

³ Paragraph 54 of the United Nations Resolution A/RES/70/1 of 25 September 2015.

Exhibit 2: Working Definition SDG Investments



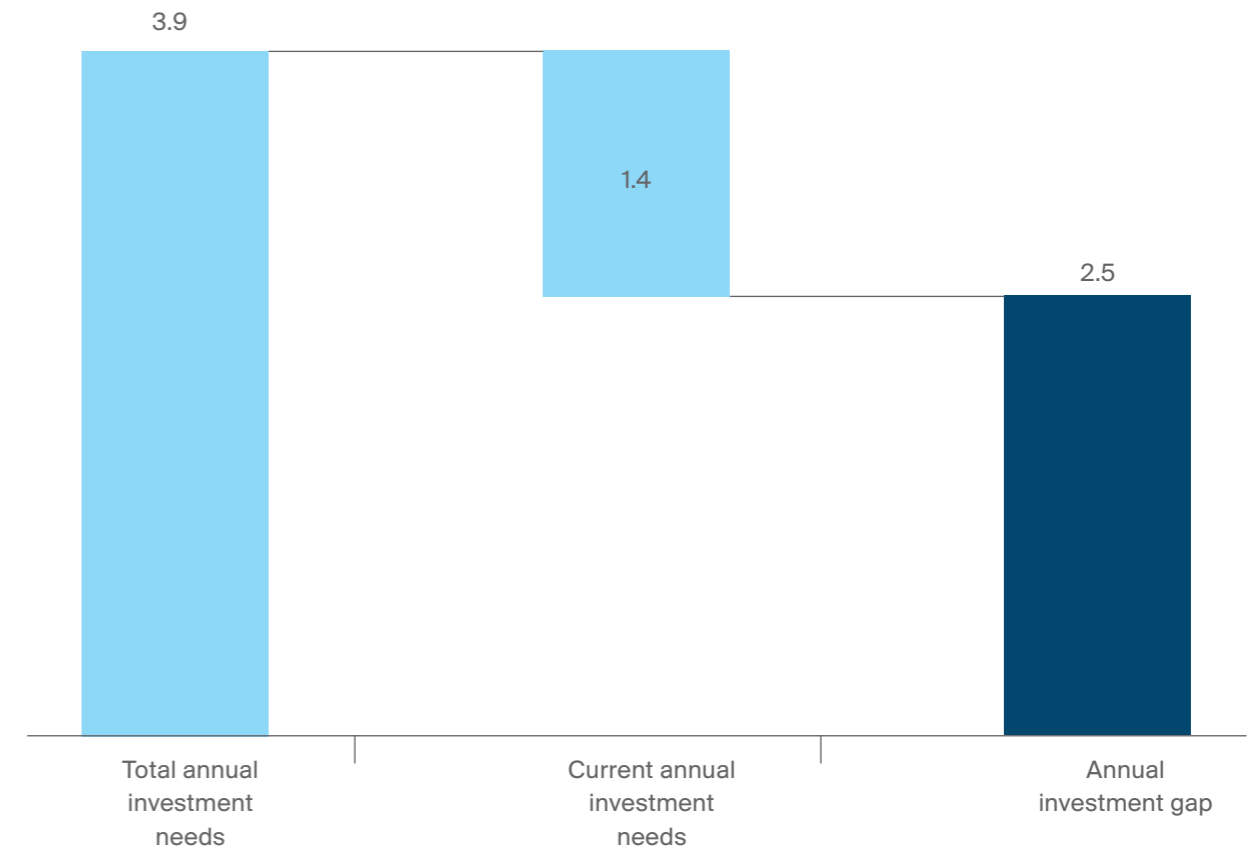
Investors' approaches to impact measurement will vary based on their objectives and capacities, and the choice of what to measure usually reflects investor goals and, consequently, investor intention. In general, components of impact measurement best practices for impact investing include:

- Establishing and stating social and environmental objectives to relevant stakeholders
- Setting performance metrics/targets related to these objectives using standardized metrics wherever possible
- Monitoring and managing the performance of investees against these targets
- Reporting on social and environmental performance to relevant stakeholders

Impact investing as an instrument is part of a broader set of approaches to the SDGI agenda, that together form "SDG investing". Other forms are responsible investing and sustainable investing. Sustainable or responsible investing distinguishes itself from mainstream investing by applying various instruments, such as: exclusion, positive and/or negative screening, ESG integration, voting and engagement. These instruments are all very important for contributing to a sustainable transition. What sets impact investments apart however, is that they have a clear intention to reach for positive, measurable social and environmental goals⁴. Therefore, we take impact investing as the main focus in this paper about retail investing for SDGs. See Exhibit 2 for a visualization.

⁴ Global Impact Investing Network, www.thegiin.org

Exhibit 3: Estimated 2015-2030 Annual Investment Needs in Key SDG sectors – Developing Countries Only (Trillions of Dollars, Annual Average)



1.4 WHAT IS THE ISSUE? THE SDG FUNDING GAP

To achieve the SDGs in 2030, more money needs to be allocated towards sustainable and inclusive solutions for global challenges. Each year, an estimated \$5-7 Trillion dollars is needed to finance the SDGs⁵. When we only look at developing countries, an average annual funding shortfall over 2015-2030 of some \$2.5 trillion remains.⁶

Next to a higher rate of participation of institutional investors, we should not forget the potential power of retail investors. Increasing the participation of retail investors in SDG financing can help bridge the multi-trillion Dollar gap between the current level of annual investment and the actual required annual investments needed to achieve the SDGs.

⁵ Estimates are that \$5-7 trillion of incremental annual investment is needed to finance the SDGs, mostly for energy. This represents 7 to 10% of global GDP and 25-40% of annual global investment – H.

Kharas, J. McArthur, Brookings, 2016

⁶ UNCTAD World Investment Report 2014

2. The Opportunity

2.1 RETAIL & PRIVATE BANKING CAPITAL: A CRITICAL FACTOR TO SDGI SUCCESS

To achieve the SDGs in 2030, more money needs to be allocated to positive solutions for global challenges. Developing countries have an average annual funding shortfall over 2015-2030 of \$2.5 trillion.⁷ Increased participation of retail investors in SDG financing can help bridge this multi trillion-dollar gap.

We believe that the involvement of retail and private banking capital is critical, to broaden the SDG Agenda to a wider audience, to create a possibility to act for individuals and to mobilize the capital needed to achieve 2030 success.

As a country, we have a long tradition in retail-oriented sustainable finance. We take pride in the leading positions that value banks such as Triodos Bank and ASN Bank have taken globally and in the role that banks like ABN AMRO, ING bank and Rabobank take as distribution partners. Similarly, a source of pride is the pioneering role our country has taken in rolling out retail-oriented impact funds – as early as 1968 when Oikocredit opened its doors, and as recently as March 2016 when ABN AMRO and FMO – the Dutch Development Bank – launched their FMO Privium Impact Fund.

2.2 MANY DROPS MAKE A SHOWER

Why is inclusion of a wider retail audience as important to making the SDGs happen?⁸ Many drops make a shower. There are a number of reasons why the inclusion of retail investors in the impact investing landscape is important:

- More invested money from a wider group of retail investors will channel more money to achieving the SDGs. This money can help bridge the multi trillion dollar gap between the current level of annual investment and the actual required annual investments needed to achieve the SDGs.
- It provides an opportunity for individuals to become more involved with the SDGs and it creates a concrete possibility to act. Individuals are empowered to act and to contribute positively to the SDGs themselves by allocating (parts of) their savings and investments towards SDG related investments. Similar to the power that people can exercise with the money they spend on consumption (e.g. buying green energy, buying sustainably sourced groceries, commuting by train) and their donation money (supporting SDG related charities), impact investments empower people to contribute to SDGs with their investments.

- Retail investors challenge the financial sector to transparently manage and communicate both the financial (risk, return) and societal (environmental, social) aspects of investments.
- Retail investors stimulate the diversity of local approaches to impact investing. Retail investments are linked to diverse topics such as health, education, energy, infrastructure, transportation and can be explicitly local, in line with the diverse identities and needs of retail investors. This diversified retail approach can also lead to the further inclusion of small and medium, unlisted, social enterprises that are looking for finance.
- Retail impact investing can stimulate more long-term thinking in the investment industry and forms a tangible connection of money and the financial sector to society. Impact investments help people to engage with their investments, to engage with what their money is actually contributing to. In that sense, investments in change also changes investments.
- SDG investing is about investing for the long term. SDG investments provide an opportunity for individual pension solutions to implement a long term investment approach. On top of potential financial and diversification benefits, these investments will benefit society in 2030.
- It builds a more resilient private investment industry and investor culture, more practiced at understanding all aspects of an investment and better equipped to form judgments about their financial and social interests. An impact investment will contain a financial return (money) and a social return (e.g. cleaner environment, availability of healthcare, education). These returns need to be reported in such a way that they can be easily understood and assessed.

⁷ UNCTAD World Investment Report 2014; Note that this amount involves a subset of the total financing need that was described in Chapter 1, and addresses the financing gap, not the full financing need.

⁸ Triodos Bank, 2014, *Impact investing for everyone*, Report produced for the Social Impact Investment Taskforce, established by the G8

3. Today's SDG-related Retail Market

This section is divided into an investor demand and a market supply section.

3.1 INVESTOR DEMAND

There is plenty of evidence to suggest that there is market demand from individual investors into SDG-related investments. Today, the market for sustainable savings and investments grows faster than conventional savings and investments. Moreover, a majority of surveyed investors is interested in making impact investments. We also see indirect evidence in the fact that individuals are willing to support environmental and social challenges financially, through their donations.

- The worldwide market for impact investing is overall growing year on year⁹
- The total Dutch market of sustainable investments, which includes impact investments, amounts to 13 billion Euros, which implies a strong growth of 39,8% between 2013 and 2014. This includes the increase in capital invested in sustainable funds, as this market has grown by 24,3% from 4,8 to 6 billion Euros.¹⁰

• The Dutch Wealth Report of 2015 outlines about fifty percent of Dutch millionaires/wealthy persons are interested in impact investing¹¹

• The Dutch market of sustainable savings continued its trend of growth in 2014. Sustainable savings increased by 3,7% to a total value of 16 billion Euros. This is larger than the conventional savings market, which has seen a smaller increase of 2,1%. The market share of sustainable savings increased in light of this from 4,7% to 4,8% of the total Dutch market of savings, which has a total value of 332,1 billion euro.¹²

• Supporting environmental and social themes with money seems to be important for Dutch citizens. More than 50% of the Dutch donate to charities,¹³ and the Netherlands ranks as number 7 just behind UK in the CAF WORLD GIVING INDEX 2015¹⁴.

Internationally, we see a similar interest in sustainable investing:

• A recent study indicates that 71% of individual investors are interested in sustainable investing. Millennial investors express even greater interest, 84% of responding millennial investors are interested in sustainable investing¹⁵;

• In the UK, 73% of people with net wealth of between £50,000 and £100,000 expressed an interest in social investments.¹⁶

• In the US, High Net Worth Millennials show a very high interest in giving back, of which impact investing is one way to achieve this goal. Based on an annual US Trust survey 74% give donations to non-profit organizations and 15% of HNW Millennials already invests in companies that support social and environmental policies and practices.¹⁷

⁹ JP Morgan & GIIN market survey 2016

¹⁰ VBDO: Duurzaam Sparen en Beleggen 2015: Idealen en vermogen in beheer

¹¹ see <https://www.vanlanschot.nl/actueel/nieuwsoverzicht/20150520-vermogen-nederland-2015>

¹² VBDO: Duurzaam Sparen en Beleggen 2015: Idealen en vermogen in beheer

¹³ <http://www.goededoelen.nl/sites/default/files/feitencijfers2014.pdf>

¹⁴ CAF WORLD GIVING INDEX 2015 A global view of giving trends, November 2015

¹⁵ Morgan Stanley Institute for Sustainable Investing, Sustainable Signals: The Individual Investor Perspective (February 2015)

¹⁶ UK Government Cabinet Office update on Social Investment (June 2014)

¹⁷ US trust insights on wealth and worth 2016

Exhibit 6: Illustrative Available “SDG Retail Products” in The Netherlands¹⁸

Funds and asset classes	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
FIXED INCOME																	
ASN Groenprojectenfonds																	
FMO Privium Impact Fund	•	•															
ING Groenfinanciering																	
NN Euro Green Bond Fund																	
Triodos Sustainable Trade and Agriculture Fund		•															
Triodos Groenfonds																	
Triodos Multi Impact Fund	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Triodos Cultuurfonds																	•
PUBLIC EQUITY																	
ASN Milieu & Water fonds																	
NN Global Sustainable Opportunities Fund	•	•	•														•
RobecoSAM																	
- Sustainable Agribusiness		•														•	•
- Smart Energy																	
- Smart Materials																	
- Sustainable Healthy Living			•	•													
- Sustainable Water	•	•		•													
- Global Child Impact Equities					•												
- Global Gender Equality Impact Equities						•											
Triodos Sustainable Pioneer Fund				•													
HYBRID DEBT/EQUITY																	
ASN - Novib Microkredietfonds	•	•	•	•	•												
ING Impact Finance	•			•													
Triodos Fair Share Fund	•	•	•	•	•												
PRIVATE EQUITY																	
Triodos Organic Growth Fund																	
REAL ASSETS																	
Triodos Vastgoed Fonds																	
Triodos Renewable Europe Fund																	
SAVINGS PRODUCTS																	
ABN AMRO Groen spaarregeling																	
ASN Ideaalsparen																	
ING Groenspaar regeling																	
Rabo Groenspaarregeling																	

3.2 SUPPLY OF SDG INSTRUMENTS

The table above gives a snapshot of the current offering of retail impact investing across different asset classes in The Netherlands. The overview contains products of the SDGI signatories and Retail working group participants. This overview does not intend to cover the full supply of available

¹⁸ This table was created for illustrative purposes and only shows a subset of retail products that are available in the Dutch market through SDGI

Signatories. Via their bank, Dutch retail investors also have access to a broad range of foreign retail impact funds. These are not included in this table.

retail impact investing funds for Dutch retail investors, but is meant to give an illustration of the large variety of impact investing opportunities across sectors, impact themes and asset classes. There is a broad array of possibilities. Impact investing can offer the same breath and depth in terms of asset class exposure as mainstream investments.

Investment Research companies are publishing tools for alignment of investments with the Sustainable Development Goals (SDGs). An example is MSCI who grouped the 17 SDGs into five actionable themes: basic needs, empowerment, climate change, natural capital and governance.

3.2.1 Retail Impact Funds

Impact investing funds are funds that have the intention to generate social and environmental impact alongside a financial return¹⁹. Currently there are over 400 impact investment funds registered with the Global Impact Investing Network's ImpactBase (at date of publication). While often lower returns are suspected, actually there is a broad spectrum of risk-return balances, from below-market-rate to market-rate. While some funds may accept higher costs or lower return in order to achieve certain social or environmental impact, others target market-rate returns and cost structures. The fundamental difference between impact funds and mainstream funds is not the relationship between risk and return, but the intent to create impact

with the investments. Some examples of such themed funds are listed in Exhibit 5 (page 16-17).

Internationally, we have seen an uptake in impact retail products as well. Two examples that are worth calling out, although not available to Dutch retail investors, are profiled below.

International Retail Impact Examples:

- **France: The Solidarity Finance Movement**

In France, Solidarity Pensions are bringing retail social investment into the mainstream, with over a million of investors to date. Regulation has stimulated this movement by requiring corporations to offer so-called 'corporate solidarity employee savings funds' as an option to all employee saving schemes. In these funds, 90-95% is invested in listed SRI and 5-10% in unlisted solidarity organisations, organisations that have a strong social and/or environmental benefit and reinvest the majority of profits back into the organisation. The organisation Finansol has played an important role in making social investment structures more accessible to the retail public, a.o. by advocating tax breaks for investors and by certifying solidarity financing vehicles. (www.finansol.org). France's 'Solidarity Investment Fund' has been functioning for more than a decade and has raised more than €4.8 billion.²⁰

- **Denmark: project-based community energy initiatives**

In Denmark, the Promotion of Renewable Energy Act requires that citizens living within 4,5 km of a new turbine are given the option to invest in the project directly. This possibility of turbines to be citizen-owned has increased the community acceptance of large on-shore infrastructure such as

¹⁹ <https://theglin.org/impact-investing/>

²⁰ <https://www.bigsocietycapital.com/latest/type/research/good-pensions>

wind turbines. The majority of wind turbines are wholly or jointly owned by local people, communities, landowners and farmers. Moreover, the partnering of developers with municipal government has helped getting projects past the difficult pre-feasibility stage. A government fund provides a guarantee of up to 500.000 DKK (around €65.000) for community groups taking on loans to manage pre-feasibility work themselves. If a project fails and the loan cannot be repaid, the community group can use the guarantee. This stimulates communities to start projects themselves, in partnership with developers and municipalities.

3.2.2 Available Alternative Products and Platforms

Next to above-mentioned investment funds, there alternative investment products and platforms available to retail investors interested in mission-related investments:

Crowdfunding and Peer to Peer lending

Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture. While the market has largely been left unregulated as of 2016 AFM has imposed more strict rules to crowdfunding. The AFM holds the view that a retail investor should not invest more than 10% of his/her freely available assets for investments in crowdfunding projects. Some Dutch examples of crowdfunding platforms with an impact theme, either social, sustainable or cultural include for instance:

- Lendahand, a crowdfunding initiative specifically targeted at Access to Finance for SMEs in developing countries.

- Oneplanetcrowd. Launched in 2012, it offers loans and convertible loans to sustainable project through its platform.²¹

- Duurzaaminvesteren.nl offers crowdfunded bonds that support energy transition related investments in the Netherlands. The platform operates with an AFM license.

- Rabobank is building a peer-to-peer lending platform ("Rabo & Co") that brings together entrepreneurs and private banking clients.

- ABN AMRO has launched Informal Investment Online. On this online peer-to-peer platform the bank connects private banking clients to SME entrepreneurs looking for smart capital. The fastest growing segment on this platform are social entrepreneurs.

Good Cause Bonds and Shares

Private bond placements were used to raise money for the building of the Maxima Hospital and Medical Research Centre for Child Cancer in the Netherlands. For retail investors there is a clear description of tax advantages in the prospectus of the bonds.²² In 2011 Het Concertgebouw NV gave those interested the opportunity to subscribe for 'Anniversary Shares' (depository receipts Het Concertgebouw NV). The reason for this unique share issue was the year 2013, when Het Concertgebouw celebrated its 125th anniversary. The investment aim was the maintenance of the buildings.²³

²¹ Crowdfunding hub - Current State of Crowdfunding in Europe 2016

²² <http://www.prinsesmaximacentrum.nl/media/1907/brochure-obligaties.pdf>

²³ <https://www.concertgebouw.nl/pers/persberichten/historic-share-issue-celebrating-concertgebouw-anniversary>

Exhibit 5: Examples of Impact Investing Funds

FMO Privium Impact fund

This fund was launched in 2016 by ABN AMRO bank as a distribution partner for FMO, the Dutch Development Bank. It is a global emerging markets loans fund. The impact is measured as: Jobs supported and avoided GHG emissions. Targeted fund size is €300m, while the targeted return net of fees of the fund is expected to be between 2,5 and 4 % per annum.



Triodos Fair Share Fund

Launched in 2002, this fund has invested over €300m in microfinance institutions in over 35 countries through both debt and equity. The impact is measured as: number of underserved persons having access to finance, and the number of female and rural persons in particular (a.o.). It is funded by retail investors in the Netherlands and has returned 6,2% over the last 10 years (as of 30-9 2016).

Green Funds Schemes

These green funds allow retail investors to invest in funds, managed by banks, specifically directed at qualifying green projects such as renewable energy, wildlife conservation, and organic farmland. At least 70% of the funds' volume has to be invested in qualifying green projects. Between 1995 and 2008, there were 5,761 projects financed with over €11bn of funding from 234,000 individual investors. This scheme, which continues today, has helped widen the access of impact investment to Dutch retail investors. It has also been used to support other themes, including microfinance investments in emerging markets and cultural enterprise.

The key element in this model is the Green Funds Scheme, a tax incentive scheme enabling individual investors to put money into green projects that benefit nature and the environment. Individuals who invest in a green fund or save money with financial institutions practicing 'green banking' receive a lower rate than the market interest rate, however this is compensated by a tax incentive. In return, the banks charge green projects a lower interest rate.²⁴



Oikocredit

One of the oldest impact investment institutions, invests in fair trade, microfinance, and agriculture in over 60 countries. It has 52,000 investors from over 20 countries and has over €800m in assets. It serves as a model of a truly global impact investment fund open to retail investors.

ASN-Novib Fonds

The fund invests in microfinance institutions through both debt and equity. Funded by retail investors Fund size as of 31-12-2015 is €236m



Green Bonds

Green bonds can be the underlying investment of an impact fund. A green bond is a bond that investors can use to invest in sustainable projects, such as loans for sustainable real estate or making public transport more environmentally friendly. How does it work? An institutional investor, like a pension fund, buys a 'debt certificate' from a bank or a company. The loan serves as financing for sustainable projects, and a fixed interest rate is paid on the loan. When they buy a green bond, institutional investors know exactly what the sustainable impact is of their investment. A third party checks whether the money is being used in a transparent manner.²⁵ These bonds can be the basis for investment funds offered to retail investors. Triodos offers retail investors access to green bonds (screened by Triodos) via its Multi Impact Fund distributed by Triodos Bank and Rabobank.²⁶

Triodos Multi Impact Fund

Launched in 2015, Triodos Multi Impact Fund offers retail investors the opportunity to make their money work in multiple sectors that are key in the transition to a fairer and more sustainable economy: renewable energy, organic agriculture, microfinance, arts & culture, and sustainable trade. Fund size as of November 2016 is €36m.



²⁴ http://www.rvo.nl/sites/default/files/bijlagen/SEN040%20DOW%20A4%20Greenfunds_tcm24-119449.pdf

²⁵ <https://www.abnamro.com/en/sustainable-banking/finance-and-investment/green-bonds/index.html>

²⁶ 'Impact bonds: a promising new investment category', <https://www.triodos.com/en/investment-management/who-we-are/news/articles/impact-bonds-promising-new-investment-category/>

4. Market Context: Drivers & Barriers to Success

We have seen that there is a large opportunity in impact investing. Investor demand is there, but just a small part of the potential amount is currently invested in impact investing. The movement remains relatively small and constrained. There are various barriers and critical success factors to including retail investors in impact investing, and to widening the scope of impact investing to the wider public. These are:

4.1 AWARENESS & PERCEPTIONS OF THE SDGS & IMPACT INVESTING

- The Sustainable Development Goals have gained a lot of momentum in the business community but remain little known with the general public. Awareness needs to move from the boardroom to the general public: citizens, consumers and investors.
- Impact investing is also little known with retail investors and financial advisors. Healthy markets where competitive products are readily available for retail consumers thrive on a well-balanced supply and demand mechanism. Demand from retail investors could be stimulated by creating more awareness around the existence of retail impact investments and their positive contributions to SDGs. An increase in supply can be facilitated by integrating impact investing in investment advisory services towards retail investors. Financial advisors can only tap into the (sometimes latent) needs and interests of their clients regarding impact investing, if they are themselves well educated in the possibilities and characteristics of impact investing solutions.
- The financial system has tacitly separated people from understanding the connection between their money and the underlying activities of their investment. In many cases money and

returns have become abstract notions. This means that people are no longer aware of the potential influence they have with their investment choices regarding the world they live in. This awareness is the first step in empowering people to invest their money for change. Impact investing offers retail investors, next to financial returns, concrete possibilities to contribute to societal goals like job creation, CO2 reduction, increase in the number of people receiving health or education services.

4.2 FINANCIAL INDUSTRY PRACTICES AND PRODUCT OFFERING

- To match a growing demand for SDG retail investing, there is a need for more impact investing funds and a more diverse fund offering in terms of liquidity, fund sizes and risk-return balances.
- Reporting standards about impact are emerging and require financial service providers to enhance their data universe with non-financial data. This involves extra cost and potentially puts pressure on margins for the distribution of impact investment products.
- Financial advisors need to be trained in the shared set of values underlying impact investing, as well as the more practical insights into the impact investments offering. This can be a particular challenge for financial institutions that have not yet integrated ethical, social and environmental standards in their core strategy.
- As for all forms of retail investing, there will be an increased focus on costs with retail investors. Sometimes, higher costs might be necessary for SDG investments to become reality. Successful SDG retail investing could require costs for on-the-ground project monitoring and business development support, costs which are needed to achieve social

and environmental gains at the level of the real economy. If this results in higher costs, this will need to be accurately explained to the investor.

4.3 REGULATIONS

- Regulatory minimum amounts for investments can be set too high for reaching a broad investor audience. Setting such high limits could prevent sufficient diversification towards retail investors.
- Most tax and fiscal incentives are designed to keep people investing in mainstream approaches (e.g. mutual funds and stock listed investments). The argument behind these incentives is liquidity and diversification of investment risks. Impact investment opportunities that are too much of a niche, can indeed be illiquid and too targeted for retail investors. With the needs of a retail investor audience in mind, distribution can be organized that serves both purposes of liquidity and diversification of investments.
- There can be a mistaken classification of impact investing instruments as complex, with negative consequences for retail distribution. Many impact investing funds invest in instruments (debt or equity) that are not all listed, and therefore they are non-eligible assets for the EU Directive called UCITS (Undertakings for Collective Investment in Transferable Securities Directive)²⁷. With the introduction of the European Directive AIFMD (Alternative Investment Fund Managers Directive), these impact funds are classified as an Alternative Investment Fund (AIF) with the risk of consequently being classified as 'complex'. Following the logic of "UCITS is simple" and "AIF is complex", distributors in the market will tend to classify an AIF automatically as "complex" with consequences for the distribution. This could lead to a decline of distribution to

retail clients and a limitation of distribution to only professional investors, High Net Worth Investors or Private Banking customers, regardless of an assessment of the actual complexity of the instruments the fund invests in. The AIFMD's effects could thus have an opposite effect to the objective of the current Capital Markets Union initiative, which is to provide better access to capital for smaller, innovative firms that create new jobs and growth.

- Retail investor protection laws like MiFID II can work counterproductively for the distribution of impact investing instruments. Consumer protection and duty of care remain key, but the risk is that it will become an argument not to offer SDG investments to retail investors. This would limit the possibilities of choice for retail investors. Moreover, it reduces the diversity of retail offerings to a mono-offering of listed investments. Impact investing has the potential benefit of increased diversification and resilience of investment portfolios, and in turn a lower system risk. MiFID II will come into effect in January 2018. Impact investing funds that invest in simple, straightforward instruments (relatively low risk, liquid, and low volatility) are highly likely to be regarded as 'complex' under MiFID II. This can lead to a situation where retail advice is required for distributors, who may choose not to use it for these typically smaller funds. The Financial Conduct Authority in the UK observed earlier on that the MiFID II requirements for "complex" products indeed may induce market structure shifts or regulatory arbitrage that do not support investor protection²⁸.

²⁷ "Undertakings for the collective investment in transferable securities" are investment funds regulated at European Union level.

²⁸ <https://www.fca.org.uk/static/documents/discussion-papers/dp15-03.pdf>

5. Recommendations

5.1 FINANCIAL SECTOR RECOMMENDATIONS

Awareness & Perceptions of impact investing

- Creating more awareness around retail impact investments and their positive contributions to SDGs can be stimulated by the financial industry through marketing and communications activities. Furthermore, the financial industry can integrate impact investing in investment advisory services towards retail investors.

- Promotion of the relevance of a long term investment approach and the inclusion of long term sustainable development goals in private investment portfolios can fuel the increase of investments in SDGs. Training of the group of advisers and private bankers that interact with private investors on a daily basis is key in achieving this.

- Integrated reporting by the financial sector can be a way to help people to reconnect money with the real world – to create awareness that the way their money is invested actually has an impact on the environment and society.

Own business practices within the financial sector

- It is important that the financial sector shows leadership and ownership regarding the sustainable development goals. This means that the SDGs become an integral part of the core business, the investment process. The relevance of SDGs is not limited to impact investments that have a clear target

to addressing specific SDGs. Also in the investment practice of mainstream investments, the financial sector can and should take its role regarding the SDGs into account. Through instruments as screening, exclusion, voting and engagement, the financial sector has the opportunity to use its influence and steer on the achievement of sustainability and social goals.

- If retail impact investing were to become mainstream today, it would mean that a lot of money is looking for a too small supply of impact investments. Over the coming years, the sheer volume of impact investment opportunities available to retail investors needs to be seeded and grown by investment managers and the financial sector at large. Agility is the key word. This requires focus on scaling up the scouting of impact projects and companies that can be translated into returns for investors. This increase in scale needs to happen within the regulatory constraints for funds that require proper due diligence on their themed impact selection.

- Develop the supply side of SDG-related impact investments by offering products that are comparable to mainstream investments in terms of size, liquidity and risk-return profile.

- Increasingly motivate investees to be aligned with the objectives of the SDGs and request them to avoid unsustainable business.

- Develop innovative financial solutions to facilitate new impact-driven business models by challenging traditional valuation models and other investment metrics that do not yet fully incorporate social and environmental ‘externalities’ within conventional investments.

- More coproduction between product developers and distributors in order to remove barriers for growth.²⁹

5.2 GOVERNMENT & REGULATOR RECOMMENDATIONS³⁰

The government and regulators can play a role in taking away barriers for inclusion of a wider audience.

SDG Awareness

- The Dutch government can take an active role in promoting awareness of the SDGs with a larger audience. The Dutch creative industry could play a distinct role in this. At the launch of the UN Global Goals on 25th September 2015 the first ever cinema ad campaign for SDG / UNDP was aired in over 30 countries and achieved great success. Nielsen, the media measurement company, measured the activity and reported on large-scale awareness and long-term recall being achieved. In U.S. cinemas alone, the advertisement was seen over 52 million times.

Pension plan choices

- The Dutch pension plan savings are substantial, around 1700 billion Euro (early 2016). Promotion, also by supervising authorities, of the relevance of a long term investment approach and the inclusion of long term sustainable development goals in investment strategies for pension plans can fuel the increase of investments in SDGs.

- The training of financial advisors regarding impact investing can also be a broad sector initiative, with involvement of (associations of) banks, pension funds, wealth advisors and life insurers. E.g. CFA modules, university curricula etc.

- The industry can promote standardized reporting on impact investing offerings. The reporting towards retail investors needs to be standardized and give the full context of the investments, so that retail investors have a good understanding of what their money is contributing to.

- Issuers of impact investing products should have specific methodologies, processes and tools in place in order to ensure the delivery of positive impact on SDGs.

- Providers and distributors of SDGs investments have to provide transparency and disclosure on the intended and realized impact of activities, projects, program and/or entities that are financed. In general, more transparent data has to be developed on impact, risk and return. Reporting standards about impact are emerging and require financial service providers to enhance their data universe with non-financial data. This could involve extra cost and potentially put pressure on margins for the distribution of impact investment products. Industry-wide cooperation, such as through the Global Impact Investing Network’s Impact Reporting & Investment Standards (IRIS), is necessary to further develop generally accepted standards and to build efficient data platforms.

²⁹ For instance the Multi Impact Fund by Rabobank and Triodos and the Privium Impact Fund by ABN AMRO and FMO.

³⁰ Also see: Triodos Bank, 2014, *Impact investing for everyone*, Report produced for the Social Impact Investment Taskforce, established by the G8

- Institutional investors like pension funds are increasingly consulting their beneficiaries about pension plan and investment choices, which could lead to more focus on sustainable development in the future (see the chapter about interests of the millennial generation). Access to impact investments can also be stimulated via individual employee savings plans, for example by building on the French system a part of the capital can be invested in high impact social investment products. In the discussion about the future of the Dutch pension system, the opportunities for the pension sector to combine financial return with a positive contribution to environmental and social change should be taken into account. Next to collective schemes, individual components of pension plans can provide a possibility for individual wealth accumulation through impact investments.

Regulation and market incentives

- In regulation, both consumer protection, consumer choice and consumer education should be taken into account and form a well-balanced mix.
- The Dutch government needs to keep aligning incentives so that impact investments benefit directly from the same tax and fiscal benefits as mainstream investments, or that they receive complementary tax treatment to level the playing field, such as the Social Investment Tax Relief scheme in the UK.

Unnecessary heavy regulation could block the potential of impact investing. It should be prevented that all impact investment funds (AIFs) are classified as 'complex', which could have the negative consequence that 'non-complex' AIFs may not be distributed to retail investors. Some less-complex impact funds could be included in UCITS so they can also benefit from the standardization of the UCITS retail passport. Impact funds that have the classification of 'Lower risk' in the Essential Investor Information could be included in the UCITS regime. This would promote their wider distribution amongst retail investors and support more enterprises that help to grow a sustainable economy.

- The Dutch government can assist in fleshing out the practical application of the European Long Term Investment Fund (ELTIF) guidance and classification. ELTIF may invest in long-term assets such as small and medium-sized businesses and the development and operation of infrastructure, public buildings, social infrastructure, transport, sustainable energy and communications infrastructure.³¹ Some simple adjustments to the ELTIF regulation would ensure the necessary investment in long term projects and ensure continuity of finance for long term projects in a more diversified way. If semi-open funds as well as closed-end funds with a fixed exit, also qualified as ELTIFs, both investors and investees would benefit from a passport for distribution cross border in the EU.
- The longer term involvement of retail investors (and their billions of Euros currently in savings accounts - as the European Commission observes) can only be unlocked if they know what they are doing. The FCA recently published an analysis of retail investors and their understanding of their investments.³² Genuine participation of retail inves-

³¹ ELTIF Final Guidance paper [documents/research/impact-of-rdr-consumer-interaction-retail-investments-market.pdf](https://www.fca.org.uk/static/documents/research/impact-of-rdr-consumer-interaction-retail-investments-market.pdf)

³² See especially chapter 8 in <http://www.fca.org.uk/static/>

tors in longer term projects (such as renewable energy schemes) requires both abolishing the minimum threshold to participate in an ELTIF (European Long Term Investment Fund), and a serious commitment to educate retail investors about what they are investing in. The minimum investment of EUR 10,000 for a retail investor limits the potential for diversity (among funds and fund providers in the event of fund-of-fund products) which can lead to greater risk and less potential for investors to gain a deeper understanding about their potential product choices. The protection of retail investors should be well balanced with the need for more long term involvement of retail investors in SDG related themes.

5.3 EXECUTIVE SUMMARY OF RECOMMENDATIONS

A summary of our recommendations, for the financial sector (FIN), government (GOV), and the regulator (REG), was presented to the government and the Dutch Central Bank on December 7th 2016 at the GIIN Investor Forum Amsterdam, with over 700 attendees from the sector. Lilianne Ploumen, Dutch Minister for Foreign Trade and Development Cooperation, and Frank Elderson, Executive Director at the Central Bank, were invited to collaborate with the financial sector on a shared national SDG Investing Agenda. They received the report on behalf of 21 signatories from the Dutch Financial sector. The report was officially presented by Peter Borgdorff, director at pension fund PFZW and Gerrit Zalm, CEO of ABN AMRO.

1. ALL: Launch an SDG campaign to increase awareness of the SDGs and flag the opportunity for all to invest in the 2030 Agenda

2. FIN: Promote the relevance of a long-term investment approach and inclusion of SDG investment in private investor portfolios as feasible

3. REG: Facilitate SDG investments among retail investors by avoiding that non-complex impact investing funds are unnecessarily classified as such, which can have the consequence that 'non-complex' AIFs are not distributed to retail investors

4. FIN/GOV: Align pension savings schemes and regulations as possible to enable SDGI among individual pension savers

5. FIN: Strengthen advisor capabilities by engaging in a sector-wide SDG and impact investing training initiative across wealth advisors, banks, pension funds, and life insurers (E.g., through CFA modules, University curricula)

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