



AIFIFI

Associazione Italiana del Private Equity,  
Venture Capital e Private Debt



# UNPACKING IMPACT:

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**A DEEP DIVE INTO THE EVOLUTION  
OF SUSTAINABLE INVESTING**

***NAVIGATING THE IMPACT INVESTING ECOSYSTEM***

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***JUNE 2025***

# Unpacking Impact: A Deep Dive into the Evolution of Sustainable Investing<sup>1</sup>

## *Navigating the Impact Investing Ecosystem*

### WHAT IS IMPACT INVESTING

Over the past 15 to 20 years, **growing global awareness and sensitivity towards social and environmental issues** have significantly **influenced both consumer behaviour and investment practices**.

As economic development accelerates, climate change, global pollution, deforestation and biodiversity loss have become increasingly urgent matters to be addressed. Additionally, social concerns – including fair labour practices, working conditions in developing countries, and diversity and inclusion – have gained widespread public attention, as key elements for a more sustainable economic development, mindful of the needs of both developing and developed countries and fostering a more equitable society.

The resonance of these challenges has been amplified by scientific research, media coverage, and global initiatives, like the Paris Agreement and the United Nations' Sustainable Development Goals (SDGs), pushing governments, businesses and individuals towards greater accountability and collective action.

The evolving consciousness of some consumers has started to **reshape the economic ecosystem with new preferences and consumption patterns**, favouring **more sustainable products and ethical business practices**. Similarly, an increasing number of investors have begun aligning their portfolios with their values, supporting companies and projects that promote meaningful social and environmental change. This growing movement has laid the foundation for Environmental, Social, and Governance (ESG) considerations to take centre stage in financial decision-making.

The concept of **sustainable investing** has subsequently emerged as a broad framework to incorporate ESG considerations into financial strategies, including multiple investment approaches – along a **spectrum from financial returns to positive impact**. According to the estimates of the Global Sustainable Investment Alliance (GSIA)<sup>2</sup>, responsible investment Assets Under Management (AUM) amounted to 28.8 Tln Euro globally as of 2022 (up 40% with a 6% CAGR from 20.6 Tln Euro in 2016). As sustainability becomes more relevant in the public discourse and policymaking, the concept of responsible investing is also in constant evolution, with new approaches and interpretations gaining traction.

<sup>1</sup> The analysis is realised by EY and, in particular, by Maria Cristina Breida, Giuseppe Bovenzi, Fieke Dhondt, Chase Jordan, Umberto Nobile, Francesco Patroncini, Elisa Pirani, Marco Trombetti, Francesca Vico.

<sup>2</sup> GSIA is a global collaboration of memberships organisation that promote sustainable investments.



Among these, one of the most widely discussed and increasingly popular forms is the so-called “**Impact Investing**” – an approach to sustainable investing that seeks financial returns while generating positive social and environmental impacts, with a more **systemic and codified approach**, addressing global issues with a **clear, measurable, and long-term view**. Reflecting this growing trend, Impact Investing has more than tripled, from 424 Bln Euro in 2019 to 1.5 Tln Euro by 2024<sup>3</sup>.

This research aims to uncover the key concepts behind a once-niche type of investment, which is rapidly gaining traction and is set to play an increasingly relevant role in raising and distributing capital to address global business and societal challenges. Starting with a historical overview of the origins of sustainable investing – as an umbrella term encompassing various approaches – the research will delve into the current landscape of Impact Investing, exploring its foundational elements, challenges, and barriers to expansion. Additionally, key development trends will be analysed, both globally and nationally, with a specific focus on AIFI members, helping us to understand the potential future trajectories for growth.

### ***Historical evolution from Socially Responsible Investing (SRI) to Impact Investing***

Impact Investing can be referenced to a branch of a larger tree that has evolved over decades through diverse approaches, all falling under the broader concept of sustainable investments. This evolution originally began with simple **negative screening practices for risk avoidance** and has evolved towards proactive approaches aimed at achieving tangible positive impacts on global challenges.

Largely driven by religious principles, the first forms of negative screening emerged in the 18<sup>th</sup> century, deliberately avoiding investments in otherwise profitable sectors, such as alcohol, tobacco, and gambling. The second wave of negative screening started pushing for the withdrawal of investments from companies involved in weapons manufacturing, particularly those producing chemical weapons as a response to the Vietnam War<sup>4</sup>. This approach, based on exclusionary principles, would later be known as “**Socially Responsible Investing**” (SRI). SRI focuses on achieving competitive returns while screening out relevant harm and, in some cases, mitigating ESG risks. Shareholder activism gained consistent and notable momentum in the following decades, particularly in response to apartheid in South Africa. Initially, in 1977, these efforts were largely driven by private initiatives and voluntary actions that pushed for the introduction of Corporate Social Responsibility (CSR) codes for companies.

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<sup>3</sup> Source: GIIN Sizing the Market.

<sup>4</sup> Source: Morningstar.



As the decades progressed, awareness of environmental issues intensified, laying the groundwork for global initiatives in the following years; the establishment of the Intergovernmental Panel on Climate Change (IPCC) in 1988<sup>5</sup>, the 1992 United Nations Conference on Environment and Development<sup>6</sup>, and the Kyoto Protocol in 1997<sup>7</sup>, signalled a growing recognition of the different types of global challenges requiring coordinated international efforts. As a result, sustainable investment options continued to grow in the '90s; sustainable mutual funds, for instance, were able to raise around 2 Bln Euro by mid-1990s.

During this time, after years of more reactive approaches – responding to problems rather than proactively seeking solutions – **positive screening** perspectives were introduced, with proactive and data-driven approaches aiming to **identify investment opportunities in companies that exceeded expected thresholds** and common ratings. These included more rigorous corporate responsibility standards – also known as “best in class”, due to their nature of comparison with industry peers – not only to protect, but also to enhance underlining value, broadening the scope of socially responsible investment strategies.

The 1990s also marked the emergence of the **Theory of Change (ToC)**, a structured framework developed to map present-day challenges and guide the planning, evaluation and implementation of initiatives aimed at addressing them over time. By incorporating indicators built around four essential components – population, targets, threshold, and timeline – ToC introduced a **goal-oriented method for measuring implementation and impact effectiveness**. These early efforts represented some of the first steps towards a more rigorous and structured approach to impact measurement, laying the groundwork for what would later become a cornerstone of Impact Investing.

While SRI remained relevant as one of the earliest sustainable investment approaches, trends emerging in the early 2000s pointed to a gradual shift towards **ESG integration**. This reflected a growing recognition of ESG factors as essential for financial analysis – also influenced by the increasing role of consumers – with the objective remaining to target competitive returns, but through more positive and forward-looking screening methods. The evolution, which continues to shape investment strategies today, has been largely driven by rising consumer pressure and heightened public awareness of most pressing environmental (e.g., climate change) and social (e.g., labour conditions in supply chains) issues.

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<sup>5</sup> The IPCC provides scientific assessments on climate change and its potential impacts.

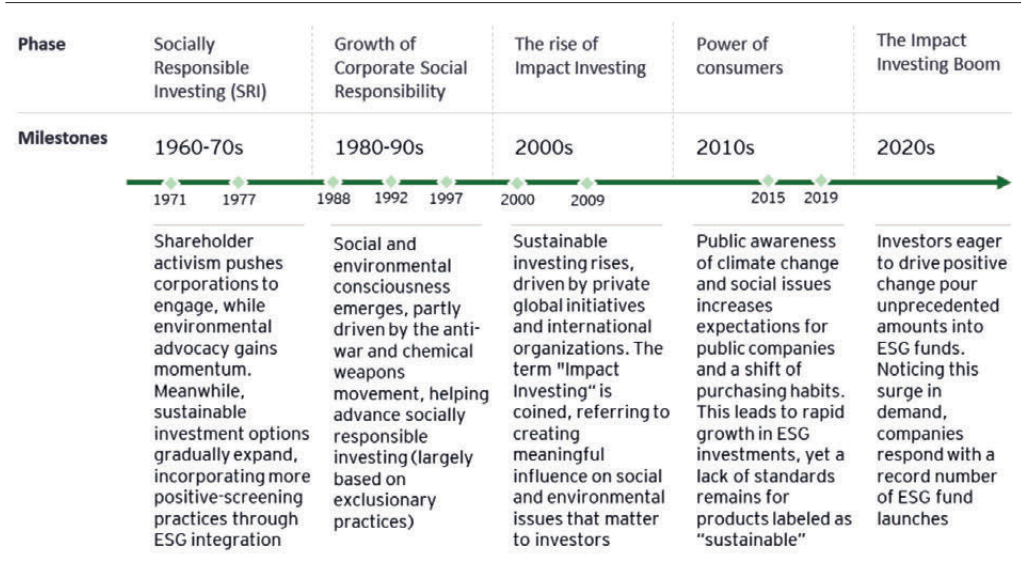
<sup>6</sup> The 1992 UN Conference addressed the balance between economic growth and environmental protection.

<sup>7</sup> The Kyoto protocol is an international treaty setting national binding targets for reducing greenhouse gas emissions.





## Exhibit 1 - The evolution of sustainable investing concepts



## THE EMERGENCE OF IMPACT INVESTING - FROM PRIVATE TO REGULATORY INITIATIVES

The growing recognition of sustainability considerations progressively led to a thriving ecosystem of global voluntary initiatives aimed at disseminating knowledge on sustainability-driven investment. These initiatives have further pushed the industry towards the concept we refer to as Impact Investing today.

The Global Reporting Initiative (GRI), established in 2000, and the United Nations Principles for Responsible Investment (PRI), launched in 2006, are key milestones in the evolution of sustainable investing.

The PRI has been instrumental in raising awareness and advancing the growth of sustainable investing. By outlining six key principles, it guides investors in incorporating sustainability factors into their decision-making processes. Through this framework, the PRI has enabled investors to more effectively integrate sustainability considerations into their analyses, promote transparency and engage with companies on material issues.

With the founding of the **Global Impact Investing Network (GIIN)** in 2009, the term "Impact Investing" took on the traits and characteristics that we refer to today for the first time. GIIN is a U.S.-based independent nonprofit established under the initiative of the Rockefeller Foundation, with the goal of **"building important infrastructure and supporting activities, education, and research to help the Impact Investing industry grow faster."** GIIN has since emerged

as the point of reference for the whole industry, with more than 300 members as of today. Along with other similar initiatives (like the Impact Management Project –IMP– and Operating Principles for Impact Management – OPIM), the Impact Investing ecosystem started to gain momentum.

While the **voluntary push for establishing industry standards** supporting the integration of sustainability concepts within investment frameworks has often originated in the U.S., Europe has on the other hand, played a significant role in creating a **regulatory infrastructure** that effectively pushed the introduction of **sustainability considerations and disclosure for financial institutions**, especially with the **SFDR** (Sustainable Finance Disclosure Regulation) entering into force in 2019.

The SFDR's concepts (especially those related to the categorization of funds under Article 8 and 9) effectively pushed for the **introduction of sustainability considerations and disclosure within financial institutions**, but they are not entirely aligned with the pillars of Impact Investing. Nevertheless, the introduction of sustainability-related disclosures and commitments has significantly advanced the understanding and evolving knowledge of sustainability, even in contexts where such considerations were historically limited. By promoting transparency and accountability, it helps build a favourable ecosystem for the global growth of Impact Investing.

### ***Private initiatives: Enhancing Impact Investing standards and collaboration***

Impact Investing, despite totalling about 1.5 Tln Euro and growing year on year by 14% from 2019 to 2024, remains a relatively **unstructured and constantly evolving field**. To address this challenge, various interconnected initiatives aim to establish a more standardized and transparent approach to impact measurement and reporting (Exhibit 2).

As previously anticipated, the main private voluntary initiatives include the Global Impact Investing Network (GIIN), Impact Management Project (IMP), Impact Frontiers (IF) and Operating Principles for Impact Management (OPIM). Collectively, these initiatives contribute to greater data clarity and comparability, prevent financial institutions from being misclassified as Impact without meeting essential criteria and offer practical, step-by-step guidance to help Impact Investors make informed decisions and enhance their management practices.

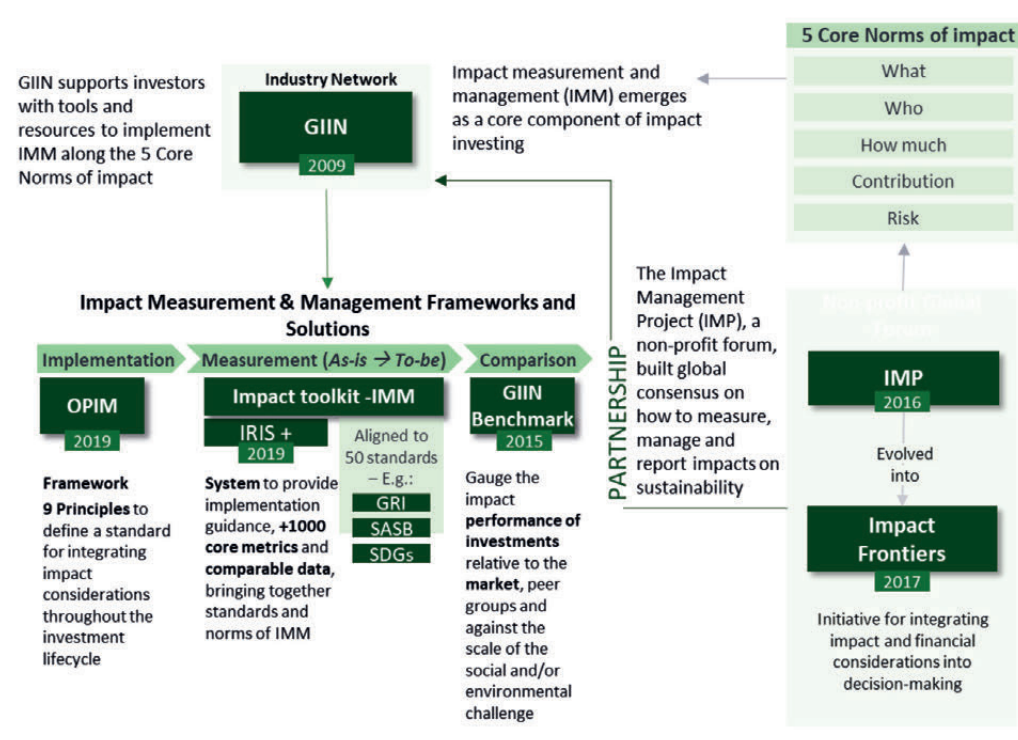
One of the cornerstones of the market, GIIN was established to **address critical gaps in standardization and transparency**, to **grow and scale the Impact Investing market** and to **foster networking and collaboration** among investors. A key offering from GIIN is the GIIN Benchmark, a vital tool that helps investors assess the impact performance of their investments in relation to the broader market, peer groups, and the magnitude of social or environmental challenges. While the GIIN Benchmark represents a significant step towards enhancing data comparability, it currently only covers five main thematic areas: agriculture, energy, fi-



financial inclusion, forestry, and healthcare. To further enhance impact measurement, GIIN partnered with the IMP to establish a structured consensus on how to measure, improve, and disclose impact. This partnership resulted in **five norms** – stewarded by Impact Frontiers<sup>8</sup>, to **provide shared standards for Impact Measurement and Management (IMM)**. These norms ensure that Impact Investing is transparent, consistent and accountable.

1. **What:** Identifying the outcomes enterprises and investors contribute to – whether positive or negative – and assessing the significance of those outcomes for the people, communities, and the planet.
2. **Who:** Understanding the people, communities, and aspects of the natural environment affected by activities, and how social, behavioural, geographic, and cultural characteristics shape their experiences of the impact.

**Exhibit 2 - Impact Investing landscape - structure of private initiatives, organisations and frameworks**



<sup>8</sup> Note: Impact Frontiers launched as part of IMP in 2019.

3. **How much:** Measuring the extent of the impact across scale – e.g., number of people affected – depth (degree of change experienced), and duration – i.e., how long the impact lasts for people and communities.
4. **Contribution:** Assessing what would have likely happened in the absence of the enterprise's activities to provide context for the impact.
5. **Impact risk:** Evaluating the likelihood that the impact will differ from expectations and whether the difference will be significant from the perspective of the people, or the environment affected.

For each norm, IMP specifies impact data categories to further clarify the data to be collected, starting from the intentionality of engaging with products, services or opportunities.

Under the GIIN, OPIM emerged to provide an “end-to-end framework of best practices for investors” in designing, implementing and continuously improving their impact management systems and processes.

The **IMP and OPIM are complementary**; while IMP serves as a starting point for investors to tailor their impact management frameworks, OPIM acts as a reference point for assessing the effectiveness of these systems. **OPIM poses three key questions to measure impact**, which largely overlap with the definition of Theory of Change and IMP, focusing on **impact intention, affected parties, and significance**.

In 2019, the GIIN launched **IRIS+** as an evolution of the original IRIS (Impact Reporting and Investment Standards) framework introduced in 2008. IRIS+ is a **widely accepted system designed to help investors measure, manage, and optimize their impact**. The IRIS+ metrics are based on the five dimensions of IMP. IRIS+ offers a library of KPI's specifically tailored to measure Impact Investing intentions. The metrics are linked to various impact categories, related themes and UN SDGs. Notably, the IRIS Catalogue of Metrics contains over 1,000 social and environmental performance metrics used by leading impact investors, aligned with 50 global standards, while the Thematic Taxonomy is based on generally accepted impact categories and themes.

In practice, when defining their internal frameworks, Impact Funds tend to follow some of the main frameworks but often tailor the concepts by incorporating different elements of each framework.

This customization allows for better representation of the Fund's objectives and investor requests but, to some extent, it creates challenges when comparing data across various funds.

### ***Six core elements of Impact Investing***

Although there is no universally accepted definition of Impact Investing, within this research we aim to map key commonalities across organisations and industry associations, including the GIIN, Impact Frontiers (IF), OPIM, and, to some extent, the SFDR. The elements we identified are the following:





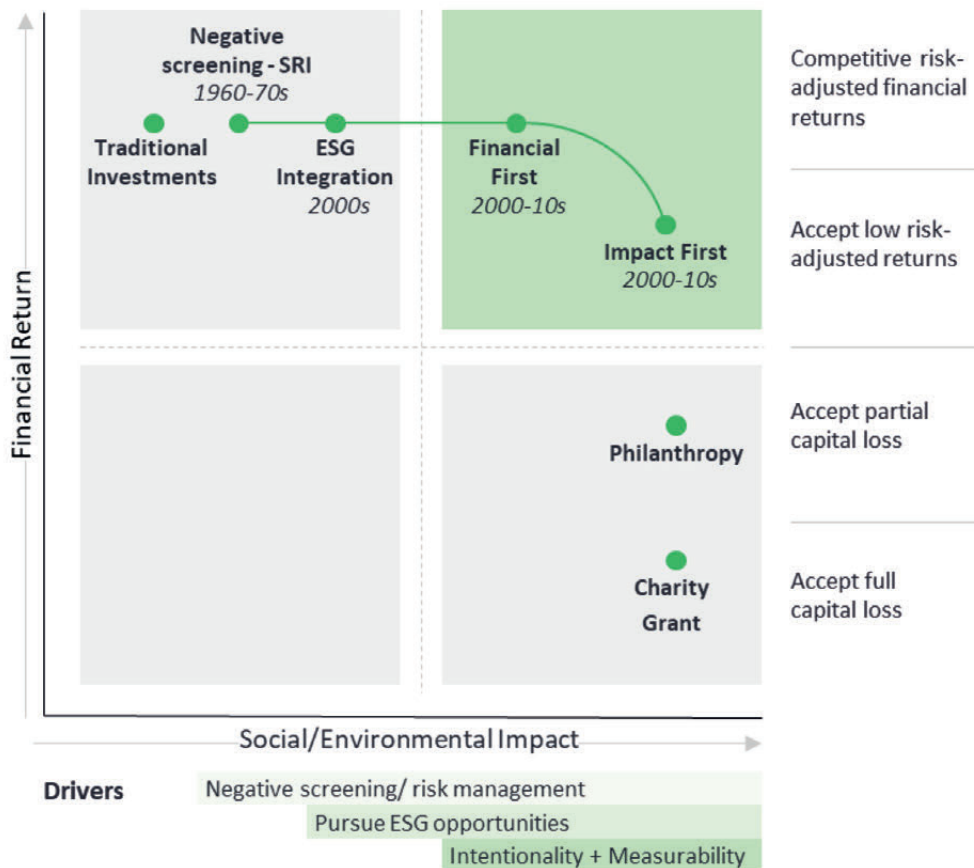
1. **Positive Impact:** the tangible contributions to social and/or environmental well-being that the investments aim to achieve. The GIIIN refers to “positive” impact broadly, while IF expands the definition to include the reduction of negative impacts, aiming to “ultimately achieve sustainability and increase well-being”.
2. **Intentionality:** a clear and proactive commitment to achieve positive impact while ensuring no harm. The first principle of OPIM emphasizes that intentionality should be reflected in well-defined, strategic impact objectives aligned with the overall investment strategy. For instance, within its OPIM declaration, a Fund may explicitly commit to driving impact in areas such as energy transition, environmental sustainability and inclusive growth — aligning its investment strategies and impact KPIs accordingly.
3. **Measurability:** monitoring and measurement to produce data-driven evidence and allow comparability across investments. Alongside intentionality, measurability forms the foundation of Impact Investing. The KPIs help to measure the value creation of a portfolio company through impacts that directly relate to their core business. Expert interviews, as well as renowned frameworks, stress that Impact Investing extends beyond investing in companies that present sustainable features from the get-go — it will however require a rigorous assessment of achieved impacts. The IMP helped in defining key impact measurement criteria, while the GIIIN developed IRIS+, a platform with over 1,000 KPIs and benchmarks to guide data selection, measurement and comparability across companies.
4. **Additionality:** indication of whether a positive external outcome would have occurred without the investor’s contribution. Often overlooked in most definitions, additionality is a key driver of Impact Investing, particularly in undercapitalised areas. However, proving additionality can be challenging, as specific impacts might result from other investors or external factors. Therefore, some organisations and associations treat it as an optional rather than strict requirement.
5. **Management:** active oversight of impact strategies to ensure long-term sustainability and effectiveness. Expert interviews highlight the importance of continuous impact management, particularly in sectors at the forefront of technological innovation. In these rapidly evolving landscapes, shifting global perceptions and market dynamics require careful and adaptive management.
6. **Financial Returns:** generation of financial returns while pursuing impact. Financial performance remains a fundamental part of impact investment strategies; while some approaches, such as impact-first investing, may involve a trade-off with financial returns, other seek competitive or market-rate returns alongside measurable impact.

### ***Impact Investing in the Spectrum of Capital***

For many years — and sometimes, even today — the dominant idea has been that financial returns and positive environmental and social impacts were mutually exclusive and could not



Exhibit 3 - Spectrum of Capital and evolution of sustainable investing considerations



Source: Hansen, S. E., &  
Sigurjonsson, T. O. (2024)

coexist within a single investment approach. Efforts to enhance environmental and social well-being were traditionally prerogatives of philanthropic and charitable initiatives, while investors and corporations pursued the main goal of creating direct value for shareholders and the limited ecosystem of close stakeholders (e.g., employees, clients). However, from the second half of the last century, this notion has been increasingly challenged by approaches that have gradually shifted this paradigm. Impact Investing has emerged as a model, able to balance financial performance with intentional and measurable social and environmental benefits.

To better understand the key characteristics of Impact Investing against more traditional investment practices, the so-called **Spectrum of Capital** (Exhibit 3<sup>9</sup>) **helps to visualize investment categories along two dimensions**: the **impact** on social/environmental factors and the **financial return**.

More traditional investments can be classified as paying limited consideration for sustainability practices in a broader sense; charity, on the other hand, tackles societal challenges with typically no expectation of financial return for investors. Between these concepts there is a variety of investment approaches, discussed in the previous section, that all fall under the “Responsible” or “Sustainable” investments’ umbrella.

Although different in terms of timing and characteristics, SRI and ESG integration fall within the top-left quadrant of Exhibit 3 — where the impact on the environment and society remains limited.

However, moving to the right brings us into the quadrant of our primary interest: the impact quadrant. Within Impact Investing, there are **two distinct types** that are commonly recognized: **financial-first** and **impact-first**. The financial-first approach targets competitive market-rate returns, while the impact-first approach accepts lower risk-adjusted returns in favour of achieving greater social or environmental impact. What distinguishes Impact Investing from previous approaches is its clear intention to generate positive outcomes, combined with a focus on ongoing management and measurable results.

### ***Deep dive into regulatory initiatives: a focus on SFDR***

Next to voluntary initiatives, regulatory initiatives are being established to align taxonomy efforts, create a common understanding of the various shades of sustainability, and develop widely recognized labels and terminology.

In this context, a central role is played by the **Sustainable Finance Disclosure Regulation** (Regulation EU n. 2019/2088, commonly referred to as SFDR), adopted on 27 November 2019 and applicable from 10 March 2021, which marks a significant milestone in the European Union’s strategy for sustainable finance and contributes to the ongoing process of delineating the regulatory framework of impact investing.

The SFDR requires financial market participants and financial advisers to disclose key information on **how sustainability risks are integrated into their investment decision-making** and advisory processes, as well as the **actual or potential adverse impacts of investment decisions on sustainability factors**. The transparency obligations under the SFDR concern both the intermediary and its processes as well as the products and services provided and their re-

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<sup>9</sup> Source: Hansen, S. E., & Sigurjonsson, T. O. (2024). Do Impact Investment Opportunities Exist in Public Equity? An Empirical Examination.



lated sustainability features, by requiring financial market participants and financial advisers to disclose different types of information (pre-contractual disclosure, periodic report and website disclosure).

The SFDR aims to promote transparency and comparability across the financial sector by standardizing sustainability-related disclosures, thereby enabling investors to make more informed and responsible investment choices.

Since its initial introduction, the SFDR has been amended and supplemented by other legislative acts of the European Union, in particular:

- **Regulation (EU) 2020/852** – the Taxonomy Regulation – has set the main criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable<sup>10</sup>. It supplements the disclosure requirements of the SFDR by providing a common framework for assessing environmental sustainability and further strengthens the transparency obligations imposed on financial market participants. The Taxonomy Regulation has also directly amended the SFDR, introducing, most notably, the requirement for financial market participants to disclose the degree to which the investments underlying a financial product are aligned with the environmental objectives defined under the Taxonomy.
- The SFDR is further complemented by **Commission Delegated Regulation (EU) 2022/1288**, which sets out the regulatory technical standards (RTS) specifying the content, methodology, and presentation of information relating to sustainability indicators and principal adverse impacts. It also defines the content and format of disclosures concerning the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, periodic reports, and on websites.

The SFDR and the related EU legislative acts do not provide a definition of Impact Investing. Therefore, in order to understand how Impact Investing is positioned within the existing regulatory framework, it is necessary to refer to the broader EU legislation on sustainable investments.

To date, sustainable products with varying levels of ambition have been developed. Consequently, the SFDR transparency provisions are designed to match the different sustainability-related features of financial products. In addition to the general category of financial products that neither promote ESG characteristics nor have sustainable investment objectives (Article 6), the SFDR distinguishes between financial products that promote environmental or social characteristics, or a combination of those characteristics (Article 8) and those that have sustainable investment as their objective (Article 9).

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<sup>10</sup> Article 1 of Regulation (EU) 2020/582.





Not all financial products falling under the SFDR qualify as impact investments: Impact Investing is more closely aligned with the objectives of financial products under Article 9 of the SFDR, which are explicitly designed to pursue sustainable investment objectives. In more detail, Article 9 requires that, where a financial product has a sustainable investment objective and uses a designated index as a reference benchmark, financial market participants shall disclose how that index is aligned with the stated objective and how it differs from a broad market index. For such financial products, the disclosures shall demonstrate that the composition of the benchmark is appropriate to achieve the objective and that the product's strategy ensures continuous alignment with that benchmark<sup>11</sup>.

An investment qualifies as **"sustainable"** if it **contributes to an environmental or social objective**, does not significantly harm any such objective, and the investee companies follow **good governance practices** (Article 2(17) SFDR). Environmental contributions may be assessed through indicators such as energy or resource efficiency, waste reduction, or impact on biodiversity. Social objectives include reducing inequality, fostering social cohesion, or investing in human capital and disadvantaged communities.

The **"do no significant harm" (DNSH) principle is essential for Article 9 and also for Article 8 products**, to the extent that they include sustainable investments. In both cases, financial market participants shall disclose the proportion of sustainable investments and explain how DNSH and good governance criteria are met<sup>12</sup>.

The SFDR does not mandate a specific methodology for determining whether an investment qualifies as sustainable. However, financial market participants are required to **disclose the methodology used**, including **how contributions to sustainability objectives are measured**, how harm is avoided, and how governance standards are assessed.

The SFDR provides **detailed disclosures requirements for Article 9 SFDR products**, distinguishing between pre-contractual, periodic and website disclosure. All information shall be provided free of charge and in a way that is easily accessible, non-discriminatory, prominent, simple, concise, comprehensible, fair, clear, and not misleading. Specifically, for pre-contractual and periodic disclosures, these shall be presented using the specific templates provided by Delegated Regulation n. 2022/1288.

<sup>11</sup> While products under Article 9 require pursuing a sustainable investment objective, Article 8 SFDR provides that a financial product that promotes environmental or social characteristics (or a combination of both), and provided that

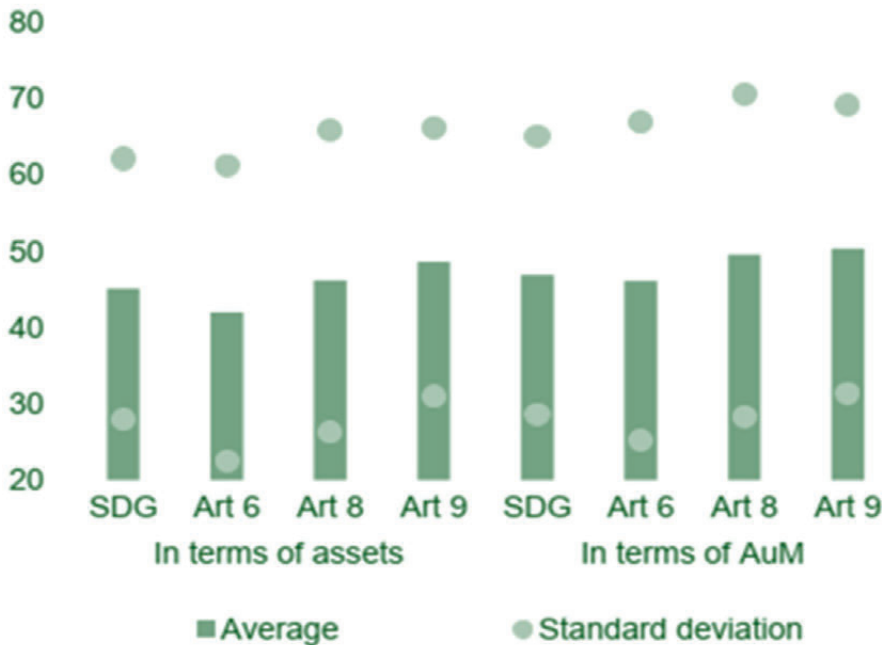
<sup>12</sup> The companies in which the investments are made follow good governance practices and shall disclose how those characteristics are met. If an index is designated as a reference benchmark, the financial market participant shall also disclose how and whether this index is consistent with the promoted characteristics. It is important to note that some funds within the scope of Article 8, while promoting environmental or social characteristics, may also commit to sustainable investment objectives (sometimes referred to as "article 8 plus" funds). In such cases, the disclosure shall include a definition of the sustainable investment objectives of the fund.



Comparing SFDR funds with SDG funds, ESMA found that funds under Articles 9 and 8 of SFDR “seem to fare” better than SDG funds, despite the more stringent requirements imposed on them<sup>13</sup>.

The **broad definition of “sustainable investment”** and the lack of an explicit consideration for impact investment within the SFDR contribute to a **risk of potential greenwashing or impact washing**. To address this challenge, ESMA released a supervisory briefing<sup>14</sup> on best practices for SFDR disclosures, providing guidance on the **terminology to be used in fund names**

**Exhibit 4 - Exposure to UN Global Compact companies - SDG funds less exposed to the UN Global Compact than Art. 9 funds**



Note: Average and standard deviation of exposures (in terms of assets and AuM) to companies participating to the United Nations Global Compact.

Sources: Morningstar, UNGC, ESMA.

Source: ESMA TRV Risk Analysis

<sup>13</sup> ESMA TRV Risk Analysis: Impact investing - Do SDG funds fulfil their promises?

<sup>14</sup> ESMA's Supervisory briefing: Sustainability risks and disclosures in the area of investment management.

under SFDR and issued guidelines<sup>15</sup> on fund names using ESG or sustainable-related terms. In particular, in these documents it is specified that while Regulation (EU) 2019/2088 does not mention “impact” or “impact investing”, these terms, along with any other impact-related terminology, should be used only for funds whose investments are made with the **explicit intention to generate positive and measurable social and environmental impact** alongside a financial return<sup>16</sup>. The aim would be to create an additional qualifying link between the strategy of the fund and its name, ensuring a measurable dimension to the strategy itself.

In order to address the issues that have emerged in the first few years of applicability of the SFDR, in September 2023 the European Commission opened a public targeted consultation<sup>17</sup> on the SFDR to evaluate its implementation and identify potential shortcomings. Specifically, the key focus of the consultation was to understand the major challenges of the SFDR in order to develop a more stringent and precise categorization of financial products.

In response to the Commission’s consultation<sup>18</sup>, as well as on the opinions published by the ESAs, the European Commission will build upon the **upcoming revision of the SFDR, expected in 2025**.

According to the Work Programme 2025 published on 11 February 2025 – which outlines the key strategies, action plans, and legislative initiatives that the Commission will adopt in the first year of its mandate – the review of the SFDR is scheduled for the fourth quarter of 2025.

## IMPACT RISKS AND GOVERNANCE STRATEGIES: ENSURING EFFECTIVE IMPACT INVESTING

### *Assessing impact risks*

The Impact Management Project and Social Value International identified **nine types of impact risks** that investors should consider. These risks evaluate the chances that an organisation’s actual impact will fall short of expectations – and what the consequences of that shortfall might be.

Understanding and assessing these risks is a crucial step in ensuring that capital is being directed towards initiatives delivering meaningful, lasting change.

By analysing both the likelihood and potential consequences of such risks, investors are better equipped to make informed, responsible decisions – ultimately strengthening the credibility and effectiveness of impact strategies.

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<sup>15</sup> ESMA Final Report. Guidelines on funds names using ESG or sustainability-related terms.

<sup>16</sup> In addition, ESMA specifies that terms such as “ESG”, “green”, “sustainable”, “social”, “ethical”, and “impact” should only be used when substantiated by evidence of sustainability characteristics that align with the fund’s investment objectives and strategy, as described in the relevant fund documentation.

<sup>17</sup> Consultation document: Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR).

<sup>18</sup> Summary Report of the Open and Targeted Consultations on the SFDR assessment.



## Exhibit 5 - Nine types of impact risks

Risk type	Definition <sup>19</sup>
<b>Evidence risk</b>	The probability that insufficient high-quality data exists to understand the impact being generated
<b>External risk</b>	The probability that external factors disrupt an enterprise's ability to deliver the intended impact
<b>Stakeholder participation risk</b>	The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account
<b>Drop-off risk</b>	The probability that positive impacts do not endure and/or that negative impacts are no longer mitigated
<b>Efficiency risk</b>	The probability that impact could have been achieved with fewer resources or at a lower cost
<b>Execution risk</b>	The probability that the activities are not delivered as planned and do not result in the desired outcomes
<b>Alignment risk</b>	The probability that impact is not locked into the enterprise's business model
<b>Endurance risk</b>	The probability that required activities are not delivered for a long enough period
<b>Unexpected impact risk</b>	The probability that significant unexpected positive and/or negative impact is experienced by people and/or the planet

The nine types of impact risks (Exhibit 5) can be categorized based on various stages of an organisation and its connection to stakeholders.

Alignment, efficiency and execution risks mainly relate to the operational activities of an organisation, encompassing the journey from inputs to outputs. These risks highlight potential inefficiencies, operational issues, and shifts in alignment as a business grows and potentially loses its impact.

For instance, this alignment risks can occur when an organisation shifts its focus from underserved communities to more lucrative consumers segments. Drop-off and endurance risk relate to the outputs and outcomes of an organisation, manifesting when an impact diminishes over time (e.g., vaccines) or when a company fails to achieve its intended outcomes promptly (e.g., biodiversity impacts).

Additional risks related to output and outcome include stakeholder participation and external, unexpected impacts, all of which are influenced by political, cultural, and socioeconomic

<sup>19</sup> Source: Impact Management Project.





context. This leads to varying outcomes than may differ from initial expectations, whether positive or negative. Finally, evidence risk encompasses the entire spectrum of an organisation, from input to outcome. These typically arise when organisations lack awareness of on-the-ground realities and do not implement adequate data collection processes.

### ***Effective governance and control strategies to boost impactful exits***

In Impact Investing, ensuring the continuity of impacts in portfolio companies is a critical priority, requiring strong governance and robust operational controls. The presence of impact risks makes the need for such effective management frameworks even more pressing. **Successful management of exits** can enhance long-term success of the investee company and, more importantly, **reduce impact risk to beneficiaries, communities, and environments**.

We observe **three sets of challenges to achieving an impactful exit** in relation to ownership, management, and operations. First, a **change in ownership can result in misalignment** if the new investor's objectives differ from those of the original impact fund. Secondly, a change in prioritization at top management by **a change in strategic direction** through placing profitability over impact may reduce the company's social or environmental contribution. Lastly, operational risks come into play when a **company's business growth stagnates**, making it difficult to sustain the systems and process necessary for continued impact.

Addressing these challenges and achieving impactful exits requires sound governance, encompassing the frameworks, policies and practices to ensure investments are managed effectively and ethically, while achieving their intended social and environmental impacts. This begins with **robust control strategies**, where impact investors incorporate **impact considerations alongside traditional metrics** like Internal Rate of Return (IRR) or market-share.

The governance journey starts at the pre-investment stage, where screening processes are designed to assess alignment between a potential investee and the fund's investment strategy. The criteria vary, with some funds focusing on specific issues like resource efficiency and pollution control, while others adopt a broader mandate aligned with the UN SDGs.

During the ownership phase, active stewardship is critical. This includes shareholder engagement on sustainability topics, reinforcing workplace ethics compliance and accountability, strengthening impact measurement systems, and implementing risk management practices. It also involves embedding impact goals into the company's culture, ensuring that these values endure beyond individual leadership changes.

A well-managed exit strategy is the final step in ensuring impact continuity; considerations on long-term impacts, including the buyer's reputation, performance to date and potential exit strategies, should be carefully considered.

Finally, while the exit phase is a critical milestone, it is important to recognize that the im-



impact journey does not end with the fund's ownership in the investee company. **Post-exit assessments** play a valuable role in enabling investors to **revisit past investment and exit decisions**, uncover key lessons learned, and apply those insights to improve the design, execution, and impact performance of future investment strategies.

## TRENDS AND SIZE OF IMPACT INVESTING

As the Impact Investing market continues to mature, it reflects not only the growing demand for responsible investment options, but also a broader shift towards sustainability, accountability and business resilience. This section takes a closer look at the current size of the market across different geographies, examines different approaches to Impact Investing, discusses the key challenges the sector is facing and explores the investment strategies that are shaping its future trajectory.

### *Market trends and growth opportunities*

#### Growing momentum for Impact Investing globally<sup>20,21</sup>

The Impact Investing market has undergone a remarkable transformation in recent years, driven by increasing awareness of the social and environmental implications of investments decisions, resulting in significant market growth. In 2018, the global assets under management (AUM) stood at approximately 424 Bln Euro. By 2024, that figure had surged to an estimated 1.5 Tln Euro, reflecting the sector's rapid expansion and rising investor interest.

**Europe** is at the forefront of this movement, also due to its **strong policy frameworks** and significant **public investment initiatives** (e.g., Next Generation EU, Green Deal, InvestEU) that helped channel capitals towards more sustainable and socially impactful projects.

The region's AUM rose from an estimated **563 Bln Euro in 2022<sup>22</sup> to 773 Bln Euro in 2024**. While Europe's market share has seen a slight dip from 55% to 53%, its **CAGR** of approximately **14%** highlights a fast commitment to Impact Investment practices. Some sources attribute the large share of European Impact Investments to the positive effect driven by SFDR. While some expert interviews suggested that SFDR may act as a partial deterrent, particularly due to the challenges in meeting stringent requirements for compliance under

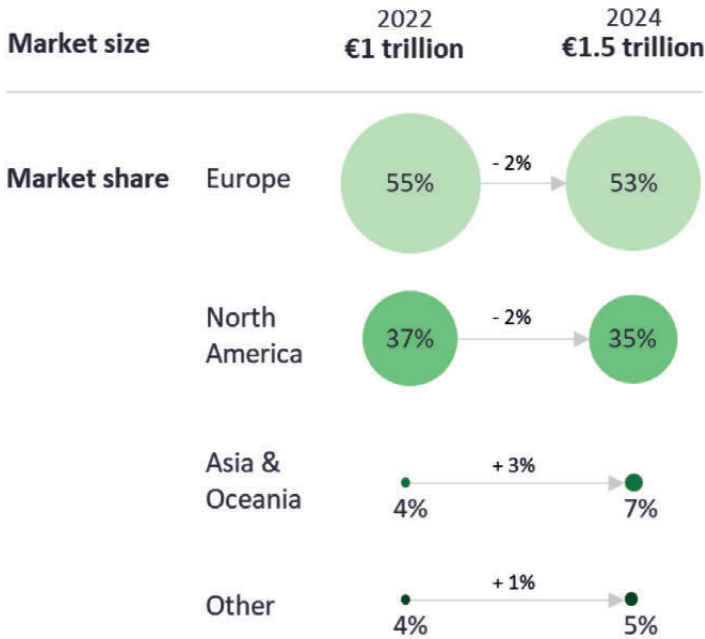
<sup>20</sup> Note: The definition for Impact Investing in each study varies. These numbers focus on both listed and unlisted assets. The next sections dive deeper into the difference between both.

<sup>21</sup> Source: GIIN Sizing the Market, GIIN State of the Market, Impact Europe the Size of Impact, EY analysis and extrapolation. Note: Both Impact Europe and GIIN used extrapolation for their market size estimates. The surveys covered 40-75% of the total population.

<sup>22</sup> Note: The U.S. Dollar to Euro Exchange rate of 2022 is aligned with the rate used by Impact Europe.



Exhibit 6 - Increasing Impact Investing market size across geographies and shifting market shares



Source: GIIN

Article 8 and 9 funds, the consensus remains positive. A general sense of **regulatory clarity**, a **supportive political landscape** and continued subsidies for renewable energy, in particular, have contributed to, and will continue to support, a **more attractive environment for Impact Investing**.

Growth in **North America** has also been notable, with AUM increasing from an estimated **379 Bln to 511 Bln Euro** over the same period. The region's CAGR stands at around 13%, reflecting steady and sustained interest in Impact Investing. However, ongoing geopolitical unrest, looming trade tensions and the erosion of social contracts between citizens and governments are likely to shape the direction of future impact-focused investments. While these challenges pose risks, they may offer businesses unique opportunities to address emerging societal needs and strengthen their long-term resilience. The market share of North America has decreased from 37% to 35% from 2022 to 2024, suggesting that other regions are offering more promising opportunities.

**Asia & Oceania** have emerged as a significant player in the Impact Investing space, with

AUM increasing from 41 Bln Euro in 2022 to 102 Bln Euro in 2024, reflecting an impressive **CAGR of 54%**. This growth is accompanied by a notable increase in market share from 4% to 7%, highlighting the region's potential for impact investments. Particularly in India and South-east Asia, economic growth is fuelling interest towards this type of investment approach. The region's economy has seen a general boost in recent years, driven by a rising middle class that is also increasingly conscious of social and environmental issues<sup>23</sup>. Moreover, the evolving interpretation of fiduciary duty<sup>24</sup> – which now extends beyond financial return to include social and environmental considerations and the responsibility to act in the best interest of investees – has contributed to this shift. This broader perspective is more widely adopted among Asian investors than their U.S. counterparts, positioning the region as a dynamic and progressive force in the Impact Investing landscape<sup>25</sup>.

### Analysing the market size of Article 8 and 9 funds in relation to Impact Investing

At the end of 2024, roughly three years after the SFDR came into effect, the total size of Article 8 and 9 funds grew to **6-7 Tln Euro globally**, encompassing approximately **12.000-14.000 funds**<sup>26</sup> that promote environmental and/or social characteristics or pursue sustainability objectives.

Article 8 dominates the landscape, holding 95% of the AUM of SFDR funds<sup>27</sup>.

The clarification on Article 9 funds requirements, published by the European Securities and Markets Authority of the EU Commission<sup>28</sup>, create a significant distinction between Article 8 and 9 funds. This renewed classification led to a large downgrade of Article 9 to Article 8 funds in the last quarter of 2022 and the beginning of 2023, with **nearly 70% of Article 9 funds altering their SFDR status to Article 8**.

Notably, the size of Article 8 and 9 funds combined is more than three times the estimate size of the Impact Investing market. While **it is challenging to properly estimate the overlap between these two definitions**, the marked difference in size highlights underlining differences in terms of requirements and definitions. In particular, Impact Investing imposes, especially

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<sup>23</sup> Source: OECD.

<sup>24</sup> Note: Fiduciary duty is the responsibility to manage investments in the best interests of clients, traditionally mainly in the sense of financial returns. Japan officially stated in its 'Grand Design and Implementation Plan for New Capitalism' that fiduciary duty can include non-financial factors, including impact, as long as investors achieve medium to long-term improvements in investment returns.

<sup>25</sup> Source: Pensions & Investments, Ignites, Asia Asset Management.

<sup>26</sup> Note: Including all types of funds, e.g., Private Equity, ETFs, Venture Capital, Infrastructure.

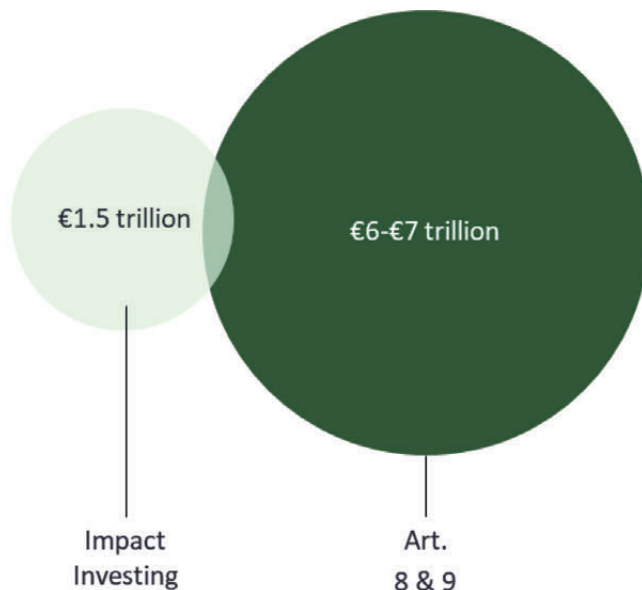
<sup>27</sup> Source: Morningstar "SFDR Article 8 and Article 9 Funds: Q4 2024 in Review, MSCI Funds and the European Sustainable Finance Landscape 2024".

<sup>28</sup> Source: Goldman Sachs "SFDR, two years on - Trends and Anatomy of Article 8 & 9 funds in 2023".





## Exhibit 7 - Impact Investing market size compared to SFDR Article 8 and 9



Source: GIIN, Morningstar, MSCI

on the measurability and additionality of investments, more stringent and challenging requirements than SFDR does, contributing to this gap.

### Financial instruments in the Impact Investing sphere<sup>29</sup>

Market shares and allocated AUM for Impact Investing vary significantly between sources, primarily due to differences in the definitions and financial instruments considered. To the purpose of this research, we adopt a comprehensive view, encompassing both.

The division between impact investments in public (e.g., stocks, publicly traded bonds, etc.) and private assets highlights that a larger share is led by private asset-focused investors. This split is often linked to the **greater control** that private investments offer, allowing for **direct involvement** and a more detailed understanding and **measurement of the impact generated**. The distribution of public vs. private assets generally mirrors across different geographies. In

<sup>29</sup> Source: GIIN State of the Market, Impact Europe the Size of Impact, Expert interviews.



Europe, private assets account for 60–75% of impact investments, while in Northern America the share is approximately 80%. Notably, nearly all impact investments in Asia & Oceania in 2024 were concentrated in private assets.

The differences in asset divisions between Europe and Northern America can be attributed to the distinct financial systems in each region. Europe relies primarily on a bank-based model, exemplified by the European Investment Bank, which was the first to issue a green bond and has paved the way for numerous sustainable initiatives. In contrast, the U.S. and Canada operate within a largely market-based financial system.

In terms of private investments, **private equity is the largest asset class**, holding almost half of all impact AUM. Control plays a significant role here, as active strategies are facilitated by larger ownership stakes and enable better capital execution. Real assets and private debt follow in terms of capital invested, collectively accounting for approximately one-sixth and one-seventh of the global AUM, respectively. Social outcome contracts (SOC) hold the lowest share in private assets. In SOC, a public actor is responsible for the outcome and specifically target social and health outcomes. This narrowed scope likely makes SOC one of the lesser-used private asset types.

Impact Investing in listed market remains underrepresented, primarily because **actively generating impact through listed assets is more challenging**, as investors have much more limited influence over management actions, due to typically smaller ownership stakes. Consequently, the impact produced by these assets may not be substantial enough to qualify as true Impact Investing, making it **difficult to demonstrate additionality and raising concerns about impact-washing**<sup>30</sup>. When public assets are pursued solely for profit, they are often influenced by the denominator effect and index-based strategies, with a core focus typically unrelated to impact. In this context, asset allocation for the purpose of return maximisation is seen as the primary factor, followed by sustainability-related considerations, making genuine commitments to impact objectives unlikely.

Among listed assets, debt instruments are the most popular type of investment globally. The popularity of public debt<sup>31</sup> is not only related to its share in AUM but also to the registered CAGR from 2019 to 2024 at 11%. This growth is likely attributed to the exponential rise of green bonds since the Paris Agreement in 2015.

Exhibit 8 highlights some of the main challenges and trends for both public and private Impact Investing on a global level, with additional focuses on Europe and Italy.

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<sup>30</sup> Source: Hansen, S. E., & Sigurjonsson, T. O. (2024). Do Impact Investment Opportunities Exist in Public Equity? An Empirical Examination.

<sup>31</sup> Note: Defined by GIIN as publicly traded bonds or loans.



Exhibit 8 - Challenges and trends in private and public assets across geographies<sup>32</sup>

	Private assets	Public assets
Global	<p>Verification and comparison of data and the fragmentation across impact measurement frameworks was perceived as a difficulty</p> <p>Impact washing is a risk for investors, whereas only fewer than a third of investors verify their impact measurements through a third-party</p> <p>Private equity is less subject to regulatory and political pressures compared to liquid assets. This results in LPs with a more philanthropic approach to shift towards private players</p>	<p>The issuance of green bonds and sustainability-linked loans is gaining ground, with an 11% CAGR of AUM allocated between 2019 and 2024</p> <p>Challenges occur in defining the positive outcome of green bonds when the investment is spread across a larger share of initiatives</p> <p>Liquid assets are more subject to political pressure (e.g., market fluctuations, regulatory impacts), which may result in a roll-back of impact-investing</p>
Europe	<p>The private market is influenced by the top-down approach driven by regulations (e.g., SFDR), which is pushing for greater transparency and accountability in sustainable investments</p> <p>Additionality is difficult to prove, and Impact Europe, a European Impact Investing organisation, tried to overcome this by sub-dividing additionality in two types: <b>non-financial additionality</b> (aimed at improving impact performance) and <b>financial additionality</b> (aimed to provide financial flexibility to attract traditional financing)</p> <p>Regional ESG priorities divide European countries and their investment allocation. Northern countries generally perceive more climate change threats, whereas southern European countries face more social issues</p>	<p>The European Securities and Markets Authority (ESMA) creates guidelines and restrictions for the use sustainability-related terms in fund names, including "impact"</p> <p>Most European Countries have not established practices and frameworks for addressing impact within listed markets, as most initiatives primarily focus on private assets. An example of this kind of approach is Germany's Sustainable Finance Advisory Board, which advises its government on sustainability aspects in the financial system and the further development of the German Sustainable Finance strategy</p>
Italy	<p>Indirect barriers to entry for Impact Investors due to the below-par management skills and operational expertise of investee companies</p> <p>Overall market culture of Impact Investing in Italy is not as developed as in other European countries yet, also leading to a lower presence of Article 8 and 9 funds. For example, PitchBook's data on Impact Investing Article 8 and 9 funds reveals that Italy is approximately 6 times smaller in total AUM and 4 times smaller in number of funds compared to France. Additionally, Italy is about twice smaller in both AUM and number of funds than Germany</p> <p>Italy's implementation of platform investments, e.g., through Cassa Depositi e Prestiti and the European Investment Fund, help, on the other hand, foster the development of the Italian private financial market for Impact Investing</p>	<p>The Italian government has not yet included Impact Investing in its legal framework, indicating a significant opportunity for future development.</p> <p>For instance, the UK's Financial Conduct Authority (FCA) has done so by publishing a package of regulations to help consumers navigate the market of sustainable investment products through improved labelling</p>

<sup>32</sup> Source: GIIN State of the Market, Impact Europe the Size of Impact, PitchBook Data, Inc Sustainable Investment Survey, Politecnico Milano & Social Impact Agenda per l'Italia Italian outlook, Expert interviews, EY research and analysis.

### Disparity in volume and deal size<sup>33,34</sup>

Recent analyses reveal a significant disparity in the distribution of AUM among organisations engaged in direct Impact Investing. While most of these organisations manage relatively small portfolios, a select few oversee exceptionally large Impact Investing portfolios, a gap that has widened in recent years. As of 2024, the **average impact investment portfolio size is approximately 900 Mln Euro**, whereas the **median portfolio size is around 40 Mln Euro**; while some organisations manage substantial impact assets, many are operating with considerably smaller portfolios. This trend has intensified since 2019, when the average portfolio size was approximately 400 Mln Euro and the median around 25 Mln Euro. This concentration of capital is less pronounced among Impact Investing funds classified under the SFDR as Article 8 and 9. According to PitchBook's data<sup>35</sup>, Article 8 and 9 funds targeting impact-related outcomes show a narrower distribution, with the average portfolio size close to 550 Mln Euro and the median closer to 150 Mln Euro.

The growing number of new entrants into the global Impact Investing space, who often start with smaller funds, contrast with **experienced investors who are shifting towards Impact Investing** with larger fund sizes and deals. This market dynamic may partly explain this imbalance.

The evidence for this was further highlighted in GIIN's state of the market report, showing how the volume of capital kept growing, while the number of transactions continued to decrease, indicating **fewer transactions with larger average sizes**, particularly in private markets. Between 2018 and 2023, both private equity and private debt deal size increased – private equity average deal sizes went from 5 Mln Euro in 2018 to 9 Mln Euro in 2023, while private debt grew from 1 Mln to 4 Mln Euro. The only outlier is the real assets category, where deal size declined from an average size of 17 Mln Euro in 2018 to 5 Mln Euro in 2023.

### Balancing profit with impact<sup>36</sup>

Traditionally, the evaluation of investment returns relied on financial analysis to estimate profitability, often utilizing the IRR as key metric. In this regard, Impact Investing seems to have **lower returns than traditional investments**. When comparing the IRR of private traditional investments to that of impact investments, data indicates that the median IRR for non-impact investments is, on average, 3% to 4% higher<sup>37</sup>.

<sup>33</sup> Source: GIIN Sizing the Market, GIIN State of the Market, Impact Europe the Size of Impact.

<sup>34</sup> Note: The values referred to in this paragraph were calculated using the Euro to U.S. Dollar Exchange rate of the publication dates of the reports (1,1205 for 2019, and 1,0767 for 2024).

<sup>35</sup> Source: PitchBook Data, Inc data extraction for EY, EY analyses.

<sup>36</sup> Source: Expert interviews, GIIN State of the Market, Impact Europe the Size of Impact.

<sup>37</sup> Source: PitchBook Data, Inc data extraction for EY, EY analyses.





This disparity can, however, vary significantly depending on the vintage year of the fund.

It is important to note that **comparing the IRR of impact and traditional investments may not offer a fair assessment of impact investments**, as not all impact investors aim for market-rate returns. In recent years, about a quarter of impact investors have principally targeted below market-rate returns, albeit this portion decreasing over-time<sup>38</sup>. The size and type of the investors plays a significant role, with larger investors typically seeking risk-adjusted market-rate returns, whereas over half of the foundations and development finance institutions target below market-rate financial returns. A large difference is also seen in public and private market-focused investors. While most public market-focused investors (96%) aim for market-rate returns, this is less apparent for private market-focused investors (74%). This finding corresponds with the fact that public assets are more often purchased with a focus on profit maximization rather than impact purposes. Additionally, the sector in which investors are active is directly related to the expected rate on return. Generally, lower return rates are expected in impact areas such as housing and diversity and inclusion, while infrastructure investors typically aim for market-rate returns.

One factor that may not have been fully considered in these findings is that **impact investments are generally expected to have lower risk exposure** compared to other private investments. Including **risk-adjusted returns** in the comparison of performance between impact and non-impact funds **reveals less significant differences**. Suggesting a more comprehensive view where Impact Investing can not only contribute to positive environmental and social benefits, but also on the risk profile of investor portfolios. Many investors tend to find a balance between the impact outcomes and financial returns when executing their strategies<sup>39</sup>. Thus, **focusing solely on financial gains does not capture the complete picture** of the returns these investments generate.

Impact returns are mainly assessed using widely accepted impact metrics and solutions, such as ToC, SDGs, IRIS+ and other frameworks mentioned above. Organisations may also set their own targets or rely on stakeholder models and requirements. When looking at the most widely accepted impact metrics, their key measurement objectives overlap for the elements relating to the intentionality of investments, the stakeholders affected, and the significance of the impact achieved.

The benefit of using standardized metrics is that they allow for easier comparison across funds and investors.

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<sup>38</sup> Source: In the last GIIN Impact Investing reports, 34% (2019), 33% (2020), 26% (2023), 26% (2024) of surveyed investors declared that they principally targeted below market-rate returns.

<sup>39</sup> Source: Jeffers, J., Lyu, T., Posenau, K. (2024) The Risk and Return of Impact Investing Funds, PitchBook Data, Inc Sustainable Investment Survey.



## STRATEGIC APPROACHES TO IMPACT INVESTING

### *Diverse sector allocations among impact investors*<sup>40</sup>

One of the key elements of impact investment, underwriting, is largely dependent on the sector impact investors are in. Enhanced sector knowledge allows for a deeper understanding of actual impacts made by investments.

Impact investors allocate their AUM across various sectors and themes, with significant differences in trends. Interestingly, **some sectors attract**

**a high proportion of investors, yet the overall capital** directed to these sectors **remains relatively low** – indicating broad interest but limited depth of investment.

For instance, 53% of impact investors allocate at least part of their AUM to Food & Agriculture, but this sector receives only 5% of the overall share of impact AUM. Similarly, Education attracts 45% of investors, but this sector only accounts for 5% of overall investments.

**Healthcare leads in terms of number of investors** (54%), followed by Financial Services and Food & Agriculture – both at 53%. Healthcare and Financial Services attract a significant share of AUM, with 12% and 14% of total AUM respectively. However, the **largest sector by share of AUM is Energy** with a share of 20%. Nearly 3/4 of investors plan to increase allocations to Energy, reflecting the growing focus on climate change mitigation and adaptation.

There is also growing interest in emerging sectors and themes, particularly Technology and Housing.

The latter case is quite unique, as it is not in the top 5 sectors by number of investors (34%) but comes second by proportion of AUM allocated (14%). This seems to suggest that investments in housing are quite large and performed by a smaller number of investors with respect to other sectors.

The comparison between the insights from GIIN's dataset with PitchBook's extracts of Article 8 and 9 Impact Funds reveals that a similar proportion of Funds targets the Energy sector, with half of SFDR-aligned (Article 8 or Article 9) Impact Funds active in this area. Other sectors actively pursued by these Funds include ICT (24%), Infrastructure (23%) and Food & Agriculture (17%).

Expert interviews highlighted a **noticeable gap in investments towards water-related initiatives, despite water being one of the most pressing environmental challenges of our time**. This underinvestment is reflected in GIIN's dataset, where water-related initiatives account for just 1% of overall impact AUM, with only 26% of investors allocating any capital to this

### Italy Deep Dive:

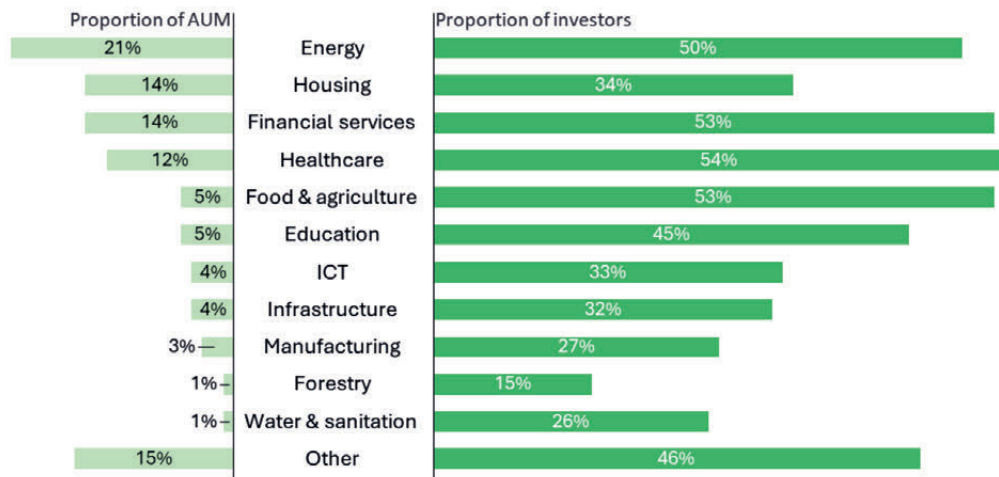
A smaller survey in the Italian market showed that the highest interest in Impact Investing is also in Healthcare (68%) and Agriculture (61%). Two other sectors that score high in Italy but are lower on the list in the global survey by Social Impact Agenda Per L'Italia, are technology (61%) and education (61%).

Source: Politecnico Milano & Social Impact Agenda per L'Italia Italian outlook.

<sup>40</sup> Source: GIIN State of the Market, Expert Interviews.



Exhibit 9 - Impact Investing asset allocation by sector (n = 293)



Source: GIIN

theme. This is striking considering that the World Resources Institute classifies water as “one of the defining issues of the 21<sup>st</sup> century”.

In particular, the Aqueduct Water Risk Atlas further highlights this concern, identifying Southern Europe as a high-risk zone<sup>41</sup>. In Italy, this issue is particularly concerning, also considering water was not even included in the top five interests from finance practitioners in Italy<sup>42</sup>.

### ***AIFI members' alignment with Impact Investing principles***

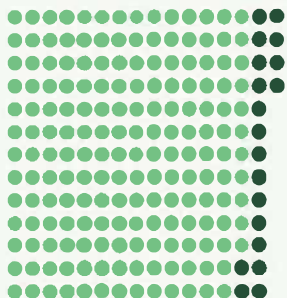
To further position this research in the Italian context, we assessed AIFI's member that align with Impact Investing with the aim of uncovering the level of proficiency of players and the development status of the industry in Italy. Among AIFI's 184 members, **20 were self-reported and officially acknowledged as active in Impact Investing**. This subset served as the focus of our analysis, aimed at evaluating the transparency of their impact contributions, the financial instruments used, their thematic alignment with the SDGs, impact measurement methodologies and the use of KPI's associated with these goals.

<sup>41</sup> Note: The Aqueduct Water Risk Atlas is a publicly available online global database of local-level water depletion and risk exposure.

<sup>42</sup> Source: AIFI members' database, focus on those categorized as Impact Investing, Politecnico Milano & Social Impact Agenda per L'Italia Italian outlook, EY analyses.

## Most AFI members with Impact Investing focus headquarter in Italy

**20** out of 184 AIFI members  
classify as Impact Investing



Asset Classes vary from  
Private Equity, Private  
Debt, Venture Capital to  
Infrastructure

Investor sizes



## Large share of Impact Investors publish their sustainability report, with a smaller share in Italy



**80%** of the members  
publish a  
sustainability report



**80%** of these  
members include  
impact highlights

**75%**

of members with a  
headquarter in  
Italy publish a  
sustainability  
report

## Most members are PRI signatories, whereas other initiatives are less represented in the sample



Despite the  
commitment,  
financial  
transparency on  
Impact AUM is  
also an area for  
improvement

**60%**

of PRI signatories  
publish impact  
highlights of  
portfolio  
companies

The sample consists of both smaller local investment funds and large international funds. The majority of the members active in Impact Investing have headquarters in Italy, with only five out of 20 members headquartered in France and the UK. Only **20% of the Fund focus solely on Impact Investing**, all of which are smaller Funds. Dimensions of funds vary a lot, with the portfolio size ranging from smaller, targeted ones (e.g., less than 10 companies, below 200 Mln Euro) to larger ones linked with global entities with deeper portfolios (e.g., more than 100 companies under management). Asset classes targeted by these Funds range between private equity, private debt, venture capital and infrastructure.

Encouragingly, a **substantial share of these investors shows a clear commitment to transparency and reporting**: 80% publish a sustainability report and of those, 80% go a step further by also disclosing impact highlights.

For those funds not publishing dedicated reports, strategies and responsible policies highlighting sustainability objectives and approach to investment management are available online. Within this sample, 75% of funds headquartered in Italy publish a sustainability report, compared to the entirety of foreign funds.

However, the adoption of globally recognized Impact Investing management frameworks remains limited. **Only 1 member formally adheres to the Operating Principles for Impact Management (OPIM)** and only 5% **specifically reference IRIS+ in their reporting**. 75% of members are signatories of the Principles for Responsible Investment (PRI) and, of these, 60% also publish an impact report. Despite the commitment to Impact Investing, financial transparency remains an area for improvement, with only 25% of members disclosing their AUM related to impact investments, of which some also specify the AUM for their Article 8 and 9 funds.

From a regulatory perspective, 95% of the sample manages either an Article 8 or 9 fund, or both.

Only one out of the 20 AIFI members samples does not manage any Article 8 or 9 funds. Notably, **55% manage both Article 8 and Article 9 funds**, and within this groups, almost all (~90%) also share impact highlights, compared to 65% of the total sample.

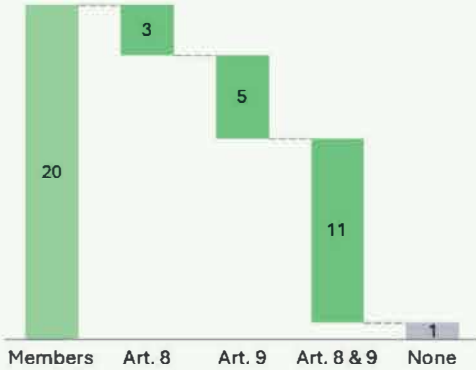
**80% of the funds considered actively share KPIs for impact performance assessment**, either at the fund and/or portfolio company levels. Most adopt a mixed approach to KPI collection, combining both qualitative and quantitative indicators tailored to their investment strategy.

At the fund level, the focus is primarily on environmental and social metrics, with recurring indicators including greenhouse gas (GHG) emissions, water consumption, gender diversity, and employee turnover rates. 20% of the sample do not communicate the KPIs they track, and some funds only publicly share their fund-level, instead of individual, results. Impact measurement is one of the key elements of Impact Investing and should therefore still be tracked on an internal level.





## Article 8 and 9 Funds hold a larger share of published impact highlights



Only one member does not manage an Article 8 or 9 fund

# 90%

of members with both SFDR Article 8 and 9 Funds share impact highlights, compared to 65% of the total AIFI sample

## Most members share KPIs on fund-level, whereas some specify KPI on portfolio company level

# 80%

of members share the KPIs they track, either on fund or portfolio company level

# 45%

of members share KPIs on Fund-level, compared to 35% that also share KPIs for portfolio companies

## A large share of members consider the UN SDGs and the insights align with global surveys



Over a third of investors provide detailed disclosure at the portfolio company level, combining standard indicators with tailored metrics to the nature of the investee companies' businesses. These range from the share of regenerated fibres collected through circular services, to oil absorption capacity in marine spill clean-ups, as well as social impact KPIs like faster turnaround times for rare disease diagnostics or the improved academic performance for students with learning disabilities (DSA/BES). Ultimately, the selection of indicators deeply reflects the specific identity and priorities of each fund: those investing in environmental sustainability prioritize metrics related to ecological impact, while those focusing on social inclusion integrate KPIs that measure improvements in people's lives and community well-being.

#### SDGs Deep Dive:

In the AIFI 2024 yearbook, we mapped 49 portfolio companies that had been acquired in the previous five years.

In 2024, out of 49 companies studied, 39 indicated which UN SDGs their activities related to.

For this year's analysis, we focused on which of the same sample of portfolio companies were part of an impact fund.

8 out of 43 portfolio companies were part of an impact fund.

**All portfolio companies that were part of an impact investment fund disclosed information on related SDGs**, either in their sustainability report, website or through the private equity firm directly.

When comparing last year's sample, Italian portfolio companies exhibit both similarities and distinctions with broader international datasets. **All datasets place SDG 8 (Economic Growth) and SDG 13 (Climate Action) in the top three SDGs addressed.** Notable differences are seen among a **stronger alignment of portfolio companies with SDG 9 (Infrastructure) and SDG 12 (Responsible Consumption and Production)**, which is **less emphasized by global Impact Funds**.

These insights highlight how recent activity might be more focused on gender equality, infrastructure and responsible consumption and production compared to general approaches of global funds.

Overall, the SDG focus of these portfolio companies was largely similar to the AIFI Impact Investing sample considered for this research, reflecting local industrial priorities and investment incentives unique to the Italian market.

Note: This is the same sample as last year's AIFI yearbook, resulting in six companies that were no longer part of a portfolio.

**80% of the sample have integrated SDGs into their investment objectives.** The most frequently referenced goals include SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Consumption and Production), and SDG 13 (Climate Action), highlighting a strong focus on sustainable economic development, and environmental impact.

These priorities mirror international patterns identified by GIIIN and Impact Europe, though



the AIFI sample showed a stronger emphasis on SDG 12 and 13, in contrast to the global focus on SDG 3 (Good Health and Wellbeing).

## CLOSING REMARKS AND FUTURE PERSPECTIVES FOR IMPACT INVESTING IN ITALY

Impact Investing has steadily gained global traction emerging as one of the most compelling lenses to read sustainable finance, supported by initiatives such as GIIN, IMP, and OPIM, and reinforced by regulatory frameworks like the SFDR. Despite this, its **development in Italy has remained gradual**, though the potential for meaningful growth is significant. This slower evolution reflects both a cultural context, that is **still developing its awareness around sustainable investing**, and structural features of the domestic market, where the presence of sizeable, impact-oriented funds – either local or affiliated with major international players – remains limited.

Although Italy has benefited from unprecedented public funding initiatives, most notably through the National Recovery and Resilience Plan (PNRR), many enterprises – particularly SMEs – have encountered challenges in accessing these resources. Bureaucratic complexity and limited managerial readiness have often constrained their ability to seize these opportunities, resulting in substantial portions of the funds not being deployed.

In this context, **private impact-focused capital can play a catalytic role**. Investors with impact orientation can bring the technical expertise to identify new opportunities, navigate evolving regulatory environments, and support portfolio companies in structuring teams with the operational capabilities needed to execute on ambitious strategies. Through blended finance structures – where public and private capital are combined to de-risk investments and scale initiatives – these investors can support unlocking capital for enterprises that are not yet ready to access public funds independently.

The growing popularity of Article 8 and 9 funds signals an encouraging shift in investor consciousness around sustainability goals. However, this has not yet translated into the formation of a cohesive ecosystem of large-scale impact investors in Italy. Broader dissemination of impact investing practices and more targeted capacity-building efforts across the financial sector remain essential. At the same time, the **lack of a comprehensive policy framework** continues to limit the scale of Impact Investing.

A coordinated national strategy is needed – one that moves beyond philanthropy-driven interpretations of impact and positions investing as a driver of innovation, resilience, and competitiveness across key future-facing sectors such as climate adaptation, infrastructure, and healthcare, in line with recent EU priorities.

The Italian industrial fabric offers fertile ground for Impact Investing to take root, provided these actors are supported in defining and communicating clear, credible impact strategies. With **stronger public-private collaboration and a more conducive market infrastructure**, Italy



has the opportunity not only to catch up with more advanced ecosystems but also to capitalize fully on once-in-a-generation initiatives like the PNRR. More importantly, investors can support the adoption of these concepts to allow companies to respond to long-term systemic risks, such as climate change, by embedding resilience and sustainable value creation at the core of their development approach.

To realise this vision, three strategic priorities must be pursued:

1. **Establish robust, sustainability-driven screening criteria** aligned with investor values, to guide long-term strategic direction.
2. **Promote the adoption of standardized frameworks for measuring and reporting outcomes**, to enhance transparency, comparability, and accountability across the industry – for both public stakeholders and private investors.
3. **Clarify and strengthen the sustainability objectives of Article 8 and 9 funds** (i.e., in light of forthcoming SFDR revisions), with a focus on intentional impact.

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