

Trustee Tutor 24:

Impact investing

Everyone is talking about impact investing right now and the opportunity it represents for institutional investors like retirement funds. This issue of Trustee Tutor explores what impact investing is, what it isn't and what the difference is between impact investing, ESG investing and responsible investing.

Let's start at the beginning: What is impact investing?

Impact investing is an investment approach aimed at generating positive, measurable social or environmental impact alongside a financial return. It intentionally targets sectors or companies that address specific societal challenges, such as clean energy, affordable housing, healthcare and education, while delivering competitive financial returns.

Impact investing is a way of putting money into companies or projects with the goal of making a positive difference in the world (improving society or protecting the environment) while also aiming to earn financial returns. It is about using investments to create both good social or environmental outcomes and financial gain at the same time, rather than just focusing on profits alone.

This approach intentionally supports businesses or causes that help communities, promote sustainability or solve important challenges, all while expecting some level of financial reward from the investment.

Unlike traditional investing, which primarily focuses on financial gain, or philanthropy that donates funds without expecting returns, impact investing seeks a dual objective of impact plus profit.

What is the difference between impact investing and ESG investing?

While impact investing and ESG (Environmental, Social and Governance) investing are related and often conflated, they differ fundamentally in approach and intent:



- **Impact investing** prioritises investments deliberately made with measurable, positive social or environmental outcomes alongside financial returns. It requires active measurement and reporting of impact metrics, targeting sectors or initiatives that address clear societal problems.



- **ESG investing** integrates environmental, social and governance factors into traditional financial analysis to identify risks and opportunities. Its primary aim is to improve risk-adjusted financial performance by investing in companies with strong ESG practices, rather than directly targeting impact.

ESG investing functions as an overlay within investment analysis ensuring companies have sustainable business practices, whereas impact investing drives capital toward specific impact goals with intentionality and accountability for those outcomes.

Both strategies align with responsible investing values and long term sustainability but differ in methodology and emphasis: ESG focuses on risk mitigation and responsible governance; impact investing on creating demonstrable positive change.

And while we're clarifying the definitions, **Socially Responsible Investing (SRI)** primarily involves choosing investments based on ethical criteria, and avoiding companies or industries that cause harm (negative screening). It is more about aligning investments with personal or societal values by excluding harmful sectors, for example alcohol, tobacco and weapons, while still aiming for competitive financial returns.

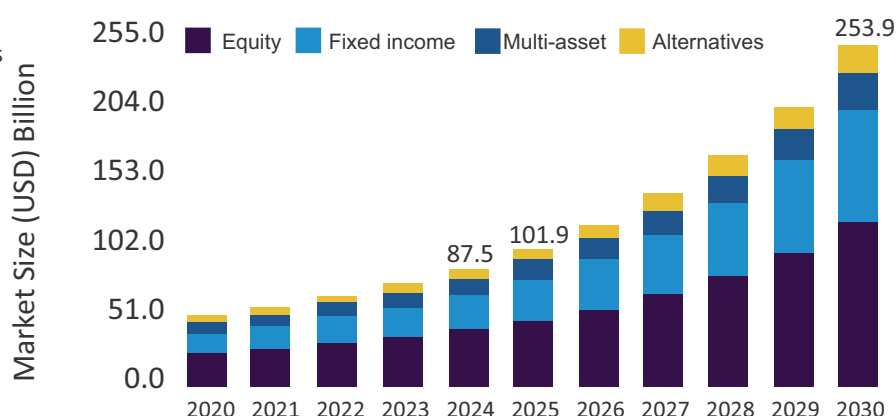


Examples include funds investing in renewable energy infrastructure, social enterprises improving healthcare access or microfinance ventures empowering low income entrepreneurs. The sector's growth aligns with global agendas like the United Nations Sustainable Development Goals (SDGs), which provide a shared blueprint for impact priorities worldwide.

The global impact investing market size was estimated at USD 87.53 billion in 2024 and is projected to reach USD 253.95 billion by 2030, growing at a compound annual growth rate (CAGR) of 20.0% from 2025 to 2030.

Impact Investing Market

Size, by Asset Class, 2020 - 2030 (USD Billion)



Source: Grand View Research

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One of the main drivers is the increasing demand from investors to align their investments with their values and positively impact society and the environment. Investors are becoming more aware of our social and environmental challenges, and seeking investment opportunities to address these issues while generating financial returns.

Another driver for the growth of the impact investing industry is the growing recognition of the potential for financial returns from investments that create positive social and environmental outcomes. Impact investments are no longer seen as a trade-off between financial returns and impact but rather as an opportunity to achieve both. More evidence emerges of successful impact investment strategies and the financial performance of impact funds. As a result, investors are becoming more confident in allocating their capital to these opportunities.

So we know that globally the impact investing market will grow by around 20% per year over the next 5 years. What about locally, in South Africa?

Impact investing in South Africa – the opportunity

Locally, impact investing has gained momentum as a way to tackle entrenched socio-economic challenges such as poverty, unemployment, inequality and environmental concerns.

South Africa's key impact needs reflect its socio-economic realities:

Poverty alleviation and economic empowerment: High unemployment and inequality drive the need for initiatives that create jobs, support entrepreneurship and improve skills development.

Access to quality healthcare and education: Addressing disparities in service delivery is critical for social inclusion and improved human capital.

Affordable and sustainable housing: Many South Africans lack safe, affordable homes, creating demand for innovative housing finance and development solutions.

Clean and renewable energy: Energy access and sustainability are urgent for environmental protection and economic participation.

Environmental conservation: Biodiversity, land restoration and climate change mitigation require investment to preserve natural resources and livelihoods.

Support for marginalised groups: Women, youth and rural communities need targeted programs to overcome historic exclusion and fuel broader social progress.

And the country's well established retirement fund industry, managing assets of nearly R6 trillion, represents a significant untapped opportunity to channel capital toward sustainable development and social upliftment.

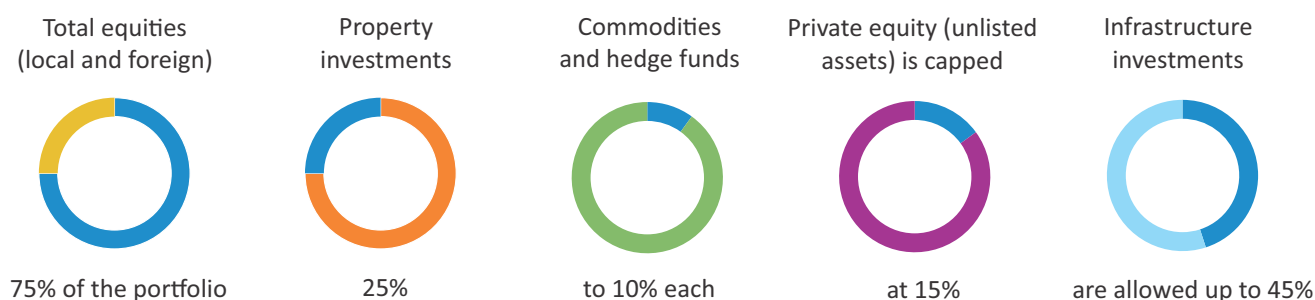
The need

South Africa needs substantial infrastructure investments to close its development gap and support economic growth. The country aims to increase its Gross Fixed Capital Formation (GFCF) from the current 15.6% to 30% of GDP by 2030. This translates to an additional investment need of approximately \$85.2 billion over the next six years, on top of the private sector's current investment of around \$27.6 billion (2023 figures). The government is also committed to investing more than R940 billion over the next three years in infrastructure projects, focusing on energy, transport, water, sanitation, digital infrastructure and social facilities, with strong emphasis on public-private partnerships to mobilise private capital.

What does the law allow? Regulation 28 limits on impact investing in South Africa

South African retirement funds are governed by Regulation 28 of the Pension Funds Act, which prescribes prudent asset allocation limits to protect members' interests by ensuring diversified, risk appropriate investment portfolios.

Regulation 28 currently limits allocations such as:



Regulation 28 does not impose a specific limit on "impact investments". These are typically accommodated within the broader asset classes of alternatives, infrastructure and unlisted assets (provided they meet the criteria for those asset classes).

That's not to say that you can't find impact investments in the listed space. There are emerging opportunities to integrate impact within listed equities - sectors like infrastructure, energy, technology and advanced manufacturing are particularly attractive for impact driven investments.

Regulation 28 treats ESG integration and explicit impact mandates as distinct but complementary approaches within retirement fund investment decision making:

- Regulation 28 requires retirement funds to incorporate environmental, social and governance (ESG) factors systematically into their investment analysis and decisions. This means considering ESG risks and opportunities as part of prudent investing to protect the long term sustainable performance of the fund's assets. ESG integration is seen as part of good risk management and as a fiduciary duty, ensuring factors like climate risk, governance and social impacts are factored into the decision process without necessarily targeting explicit social/environmental outcomes.
- Explicit impact mandates, on the other hand, involve actively seeking investments with intentional and measurable social or environmental impact objectives alongside financial returns. This is more focused on funding projects or businesses that directly contribute to sustainability goals or positive societal change, such as infrastructure or private equity investments aligned with impact investing principles. Regulation 28 allows for such impact-focused investments within prescribed asset class limits, offering trustees the ability to pursue explicit impact within a regulated framework.

In summary, Regulation 28 mandates ESG integration as a risk and value consideration embedded in all investment decisions, while explicit impact mandates are more targeted investments designed to create intentional social/environmental benefits and are governed by specific asset allocation rules.

Why would retirement fund trustees want to invest in impact investments?

There are many compelling reasons for retirement fund trustees to incorporate impact investments into their fund's investment strategy:

- **Alignment with trustee fiduciary duties:** Modern fiduciary standards increasingly recognise that generating sustainable financial returns includes considering long term environmental and social factors that affect economic stability.
- **Dual value creation:** Impact investments satisfy the mandate to generate competitive returns while addressing pressing societal problems affecting beneficiaries and broader communities.

- **Risk mitigation:** Many impact investments focus on sectors crucial to future economic resilience (like, renewable energy, healthcare), reducing portfolio vulnerability to environmental or social shocks.
- **Member demand:** Retirement fund members increasingly value responsible investing and desire their retirement savings to contribute to sustainable development and social justice.
- **Regulatory and market trends:** Global standards and frameworks incentivise incorporating impact, positioning funds for future regulatory compliance and enhancing reputation.
- **Economic development:** By investing in South African impact projects, funds help create jobs, enhance economic inclusion and contribute to social stability, all conducive to long term national growth that underpins retirement security.

Not to alarm you but ...

There has been a global rise in legal actions against pension funds regarding their handling of ESG and impact investing. In the United States, several lawsuits have challenged funds for either overly focusing on ESG goals at the expense of financial returns or failing to clearly disclose their ESG and sustainability policies. Meanwhile, in Europe and Australia, litigation often targets pension funds for lack of transparency or insufficient ambition in ESG investing. This trend reflects increasing pressure from members, regulators and activists demanding accountability in how retirement funds address sustainable and impact investing.

How, then, can retirement funds access these impact investments?

South African impact investing spans unlisted assets like private equity and infrastructure focused on energy, healthcare, education and affordable housing projects, as well.

Impact investments can be accessed through different portfolio structures, including:

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- **Direct investments:** Trustees or funds invest directly into impact enterprises, projects or funds, often unlisted private equity or infrastructure deals requiring hands-on management.
- **Impact funds:** Specialised pooled funds targeting sectors like renewable energy, affordable housing or social enterprises providing diversified exposure and professional oversight.
- **Listed impact equities:** Investments in public companies committed to measurable positive impact, increasingly available through ESG-integrated equity funds.
- **Fixed income impact bonds:** Instruments such as green bonds or social bonds funding specific sustainable projects with fixed returns.
- **Blended finance portfolios:** Structures combining philanthropic grants, concessional capital and commercial investment to mitigate risk and amplify impact.
- **Thematic portfolios:** Focus on key SDG-aligned themes for targeted impact (like climate resilience or gender equity).

The 2030 Agenda for Sustainable Development, adopted by all United Nations members in 2015, created 17 world Sustainable Development Goals (SDGs). The aim of these global goals is "peace and prosperity for people and the planet" – while tackling climate change and working to preserve oceans and forests.

South African trustees typically have greater access to unlisted funds and direct deals within regulation constraints, but as already mentioned, listed impact opportunities are growing.

Why would retirement fund trustees want to invest in impact investments?

There are many compelling reasons for retirement fund trustees to incorporate impact investments into their fund's investment strategy:

It's not just about having enough saved to retire comfortably. It's also about the kind of world members want to retire into.

- **Alignment with trustee fiduciary duties:** Modern fiduciary standards increasingly recognise that generating sustainable financial returns includes considering long term environmental and social factors that affect economic stability.
- **Dual value creation:** Impact investments satisfy the mandate to generate competitive returns while addressing

Criteria for making impact investments

When evaluating impact investments, trustees and investors should consider these criteria:

- **Intentionality:** Clear, explicit intent to generate positive social or environmental impact alongside financial return.
- **Measurability:** Ability to identify and track relevant metrics that demonstrate the investment's impact outcomes using standardised frameworks.
- **Additionality:** The investment should produce benefits that would not occur without the capital deployed.
- **Financial viability:** A sound investment proposition that balances risk and return in line with fiduciary obligations.
- **Alignment with fund objectives:** Correspondence with the fund's values, mission and member expectations.
- **Transparency and reporting:** Frequent, reliable impact and financial reporting to ensure accountability.
- **Scalability and sustainability:** Potential for impact to grow and endure over time, promoting systemic change.
- **Stakeholder engagement:** Inclusion of affected communities or beneficiaries in decision making and assessment.

These criteria help ensure that impact investments truly contribute to development goals without sacrificing financial stewardship.

Measuring impact investments – what gets measured, gets managed

Measuring the impact of investments is crucial for accountability and effectiveness. Common practices include:

- **Impact metrics and KPIs:** Using quantitative and qualitative indicators aligned with the investment's goals (for example, carbon emissions reduced, number of affordable homes built, jobs created).
- **Global frameworks:** Employing standards such as the Impact Reporting and Investment Standards (IRIS+), the GIIN's Impact Measurement and the Sustainable Development Goals (SDGs) mapping.
- **Third-party verification:** Engaging independent evaluations or audits to validate claimed impacts.
- **Continuous monitoring:** Regular collection of data to assess progress and identify improvements.
- **Financial and impact integration:** Combining impact data with financial performance metrics to provide a holistic view of investment success.

Robust impact measurement enhances trustee confidence, enables transparent communication with members and informs adaptive management for increased impact.

Obstacles and challenges - Why does impact investing still feel so difficult?

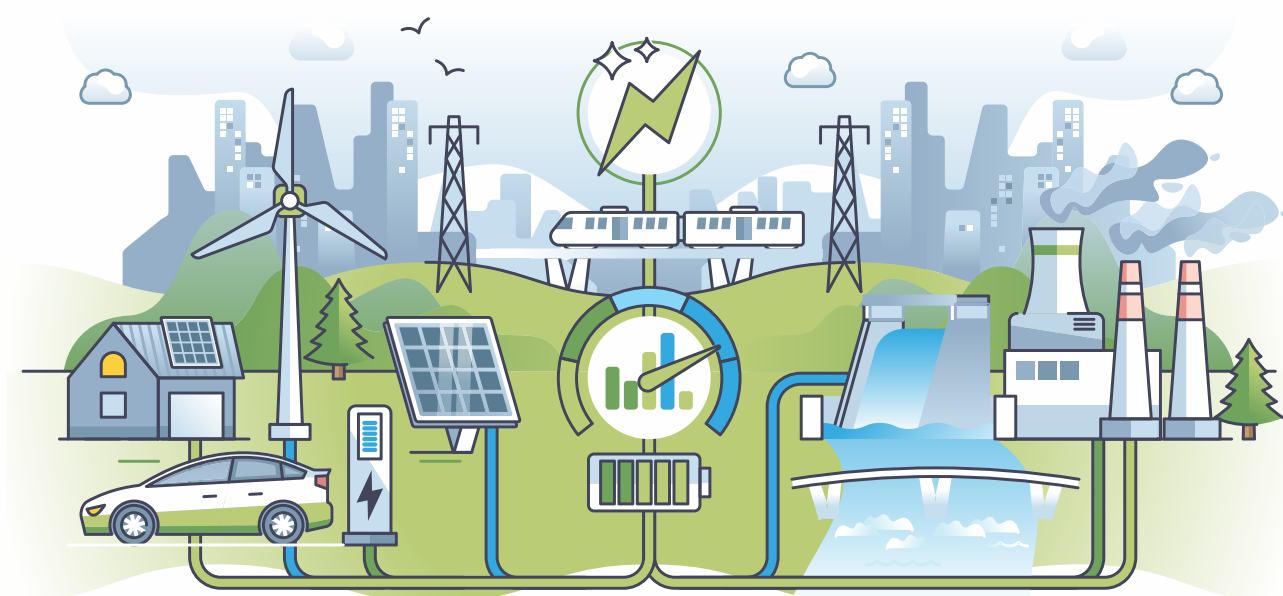
Despite its promise and importance to the future of South Africa, impact investing faces several obstacles:

- **Limited awareness and expertise:** Many trustees and fiduciaries lack understanding of impact investment opportunities, criteria and measurement demands.
- **Data gaps and standardisation:** Impact data can be inconsistent or difficult to compare, complicating assessment and reporting.



- **Regulatory constraints:** Regulation 28 imposes caps on unlisted and less liquid assets where impact investments often reside, limiting allocation flexibility.
- **Perceived financial risk:** Concerns about return volatility and risk in certain impact sectors may deter conservative institutional investors.
- **Market development:** South Africa's impact investment ecosystem is still maturing with fewer scalable funds and fewer exit opportunities relative to traditional markets.
- **Measurement complexity:** Capturing and attributing social/environmental outcomes reliably is resource intensive and complex.
- **Balancing dual goals:** Tension exists between financial returns and impact outcomes, requiring skilled management to align interests.

Overcoming these challenges requires education, regulatory adaptations, data innovation and growing market infrastructure for impact.



Conclusion

Impact investing worldwide and in South Africa represents a transformative approach to capital allocation, blending financial returns with concrete societal benefit. While related to but distinct from ESG investing, impact investing demands intentionality, measurement and accountability. Regulation 28 in South Africa guides prudent asset allocation, requiring trustees to balance impact ambitions with risk management.

Retirement fund trustees invest in impact to fulfil fiduciary duties, respond to member interests and contribute to inclusive, sustainable growth addressing the country's urgent development needs. Careful criteria, diversified portfolios and robust impact measurement frameworks enable effective investing, though obstacles remain around regulation, expertise and data. With growing global momentum and a vibrant South African ecosystem, impact investing holds promise as a lever for positive change and retirement security.

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How to?

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1. What is the primary goal of impact investing?
 - a) To maximise financial returns without regard to social or environmental outcomes. ☐
 - b) To invest exclusively in government bonds and treasury bills. ☐
 - c) To generate positive social and environmental impact alongside a financial return. ☐
 - d) To direct all investment capital to emerging markets. ☐
2. What is the key difference between impact investing and ESG investing?
 - a) Impact investing focuses only on financial returns, while ESG investing ignores financial performance. ☐
 - b) Impact investing aims to generate measurable social or environmental impact alongside financial returns, whereas ESG investing integrates environmental, social and governance factors to manage risk and improve returns. ☐
 - c) ESG investing funds only fossil fuel companies, while impact investing supports renewable energy exclusively. ☐
 - d) ESG investing is short term and impact investing is only for longer dated government projects. ☐
3. What is the main driver for the predicted growth in impact investing over the next five years?
 - a) Increasing interest from investors to align their investments with social and environmental values. ☐
 - b) Declining regulatory requirements and reporting standards for impact measurement. ☐
 - c) Preference for short term financial gains over long-term societal benefits. ☐
 - d) Reduction in government policies supporting sustainable investments. ☐
4. How much capital is estimated that South Africa needs to meet its infrastructure plan?
 - a) Approximately R112 billion ☐
 - b) Around \$27.6 billion with no additional requirements ☐
 - c) Less than R500 billion for the next decade ☐
 - d) Over R1 trillion over the medium term ☐
5. Regulation 28 imposes specific limits on impact investments.
 - a. True ☐
 - b. False ☐
6. Choose the incorrect statement. Why would South African retirement funds invest in impact investments?
 - a) To achieve measurable social and environmental benefits alongside financial returns. ☐
 - b) To diversify investment portfolios with alternative assets like private equity and infrastructure. ☐
 - c) To focus on short term gains. ☐
 - d) To align investments with the National Development Plan goals and improve societal outcomes. ☐
7. Three key things trustees should look for when choosing impact investments are:
 - a) Financial returns, social and environmental impact and alignment with members' best interests. ☐
 - b) A balance of short term profits and long term returns, high liquidity and social responsibility. ☐
 - c) Social impact focus, no risky assets and no politically connected persons. ☐
 - d) Speculative investments, ignoring regulatory guidelines and an acceptable balance of risk and return. ☐

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8. How can trustees measure their impact investments?
- a) By tracking financial returns, without considering social or environmental outcomes. ☐
 - b) By relying on anecdotal evidence from the beneficiaries of these investments. ☐
 - c) By using formal impact measurement frameworks like the GIIN's impact measurement, IRIS and aligning with the SDGs. ☐
 - d) By focusing exclusively on short term metrics, like the number of houses built, or percentage carbon emissions reduced, with no external validation. ☐
9. Impact investing still feels so difficult in South Africa because:
- a) There is a lack of standardised measurement frameworks and clear impact definitions. ☐
 - b) There are a shortage of investment-ready deals that meet impact criteria. ☐
 - c) Tension exists between financial returns and impact outcomes, requiring skilled management to align interests. ☐
 - d) All of the above ☐
10. There has been a global rise in legal actions against pension funds regarding their handling of ESG and impact investing.
- a) True ☐
 - b) False ☐



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