



UNIVERSIDADE CATÓLICA PORTUGUESA

A Theoretical and Empirical analysis of Impact Investing

A comparison between Impact Investing and other sustainable investments

Trabalho Final na modalidade de Dissertação
apresentado à Universidade Católica Portuguesa
para obtenção do grau de mestre em Finanças

por

Diogo Teixeira Martins

sob orientação de
Prof. Doutor João Filipe Monteiro Pinto

Universidade Católica Portuguesa
Maio 2024

Acknowledgments

As I conclude another personal milestone, I would like to thank everyone involved in it.

To my teacher Dr João Pinto for all the support and guidance.

To the partners at Planetiers for the help and all the ideas they gave.

To the people interviewed for their availability and kindness.

To my family for supporting me and giving me the motivation needed to get back to study. You made my life much easier by being there for me and showing endless love.

To my friends and girlfriend who played such a crucial role during my studies by not only allowing me to relax and have fun but also helping me with all the constructive discussions we had.

Finally, to my international friends that I got the privilege to know during my Erasmus for all the memories we created together. It was truly an amazing experience.

Without you all I would never be able to finish this journey. Thank you.

Resumo

As preocupações ambientais, sociais e de governança (ESG) têm aumentado nos últimos anos e mudado o comportamento das empresas e dos consumidores. O setor financeiro não é imune a esta evolução e existe cada vez mais uma ênfase nas finanças sociais, que são produtos financeiros com dois grandes objetivos: retornos financeiros e retornos ligados a ESG.

Finanças sociais englobam vários tipos de produtos financeiros. No entanto, este trabalho foca-se na vertente de investimento das finanças sociais, referidos como investimentos sustentáveis. Existem vários tipos de investimentos sustentáveis, dependendo do grau de importância que os retornos não financeiros têm para os investidores, assim como a relação entre o investidor e o projeto ou empresa alvo de investimento. No entanto, ainda existe alguma confusão sobre as diferenças e como os distinguir. Existe também a crença que estes obtêm retornos financeiros inferiores devido às suas preocupações com ESG. Este trabalho foca-se em Investimentos de Impacto que são caracterizados por exigirem retornos não financeiros como objetivo principal e implicam uma abordagem mais ativa por parte do investidor, em comparação com outros tipos de investimento sustentável.

Neste trabalho foram realizadas entrevistas a diferentes fundos de capital de risco para analisar as diferenças entre Investimento de Impacto e PRI (Princípios para o Investimentos Responsável) ao nível das seguintes dimensões: retornos financeiros, retornos não financeiros e dificuldades associadas à implementação da regulação da EU.

Após análise dos resultados, é possível concluir que os retornos financeiros são ligeiramente menores em Investimento de Impacto, mas que, ao contrário do esperado, nenhum dos tipos de investimento diverge significativamente dos

retornos de mercado. Comparado com PRI, o Investimento de Impacto tem uma preocupação maior com os retornos não financeiros e tenta mitigar problemas de ESG, sendo tal refletido no processo de seleção do projeto ou empresa alvo do investimento. Finalmente, o Investimento de Impacto exige um reporte mais profundo para cumprir as restrições da EU, o que torna o processo mais exigente, demorado e dispendioso, quando comparado com o processo de reporte de PRI.

Palavras-Chave: Finanças Sociais, Investimento sustentável, Investimento de Impacto, ESG, retornos não financeiros, EU SFDR

Abstract

Environmental, social and governance (ESG) concerns have been growing in recent years and changing the behaviour of both companies and consumers. The financial sector is not immune to this evolution and there has been a bigger emphasis on social finance, which are financial products linked with two main objectives: financial and ESG-linked returns. Social finance englobes various types of financial products. However, this work focuses on the investment part of social finance, which will be referred to as sustainable investments. Sustainable investments can take many forms depending on the degree of importance that non-financial returns have for investors as well as on the investors' relationship with the investee. However, there is still some confusion about the differences how to distinguish them. There is also the belief that these generate relatively lower financial returns, because of their concerns on ESG factors. This work will focus on Impact Investing which is one of the many types of sustainable investments, which is characterized by requiring non-financial returns as a main goal and it implies a more active approach by the investor, compared to other types of sustainable investments.

In this work, interviews were conducted to different venture capital funds to show the differences in financial returns, the importance of non-financial returns and the difficulty of following the EU legislature between Impact Investing and PRI (Principles for Responsible Investment).

After analysing the results, it can be concluded that financial returns are slightly lower in Impact Investing but, contrary to common belief, both do not differ significantly from the overall market returns. Comparing with PRI, Impact Investing has a bigger concern with non-financial returns and tries to actively mitigate ESG problems and this is reflected on their screening process of

investees. Finally, Impact Investing demands a deeper type of reporting to follow the EU legislation which is more demanding, time consuming and costs more than PRI.

Keywords: Social finance, Sustainable investment, Impact Investing, ESG, non-financial returns, EU SFDR

Index

Acknowledgments.....	iii
Resumo.....	v
Abstract.....	vii
Index.....	x
Graph Index.....	xi
Table Index.....	xi
Abbreviations.....	xiii
Introduction.....	15
1. Literature review.....	20
1.1. Origin of Social Finance.....	20
1.2. Financial versus social and environmental returns.....	23
1.3. Supply and Demand of Impact Investing.....	27
1.4. Phases of investment and influencers of outcome.....	29
1.5. Impact washing.....	31
2. Research Question and Methodology.....	34
2.1. Research Question.....	34
2.2. Clinical Study Methodology.....	34
2.3. Interview structure.....	35
3. Interviews Results.....	37
3.1. Non-financial returns.....	37
3.2. Financial Returns.....	39
3.3. EU Requirements.....	41
3.4. Problems and the future of sustainable finance in Portugal.....	41
4. Conclusions.....	43
Bibliography.....	45
Annex.....	52
Annex 1- Interview Questionnaire.....	52

Graph Index

Graph 1- Quarterly Global Sustainable Funds' Flows.....	16
Graph 2 - Global sustainable funds' launches per quarter.	16
Graph 3 - Global Venture Capital financing.	17
Graph 4 - Quarterly global sustainable funds' assets.	21
Graph 5 - European sustainable funds' net flows compared with conventional funds' flows	21
Graph 6- Distribution of the number of risk capital funds in Portugal by article 6, 8 and 9 of EU SFDR Source: CMVM.....	33

Table Index

Table 1- Criteria in the screening process.....	38
Table 2- Reasons to follow a strategy based on ESG	40

Abbreviations

ESG - Environmental, Social and Governance

II - Impact Investing

IRRs - Internal Rate of Return

OECD - The Organization for Economic Cooperation and Development

PRI - Principles for Responsible Investment

SFDR - Sustainable Finance Disclosure Regulation

SIB - Social Impact Bonds

SME - Small and Medium-sized Enterprises

SRI - Socially Responsible Investing

VC- Venture Capital

WTP - Willingness to Pay

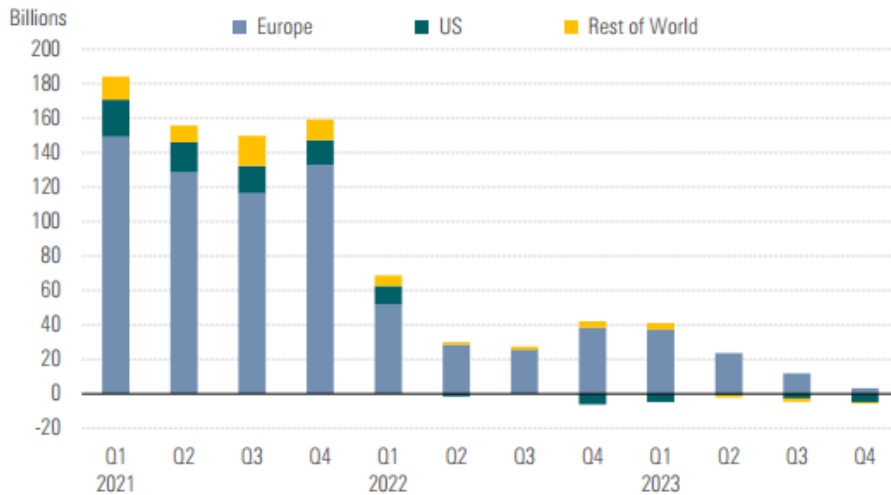
Introduction

In recent years there has been a larger concern regarding environmental, social and governance (ESG) issues, with a significant focus on environmental dimensions. According to Armstrong et al. (2023), 64% of global consumers are very or extremely concerned about environmental sustainability and more than half of these had their concerns intensified in the last 2 years. This translates in a change of consumption habits and creates a Willingness to Pay (WTP) for a product that has ESG issues into account.

This change in consumption has translated to the finance world, being denominated as social finance and more specifically to the investment world with sustainable investments. Sustainable investment is an investment made to get not only financial returns but also social, environmental or governance returns that benefit the overall society (Lehner & Rexhepi, 2016). There are several types of sustainable investment and, even if they are similar at first sight, they have different characteristics. The most common types are Principles for Responsible Investment (PRI), which is an investment strategy that has strong ESG policies; and Impact Investing, which invests in companies that mitigates ESG issue and it implies a much deeper connection between both parties (Agrawal & Hockerts, 2021).

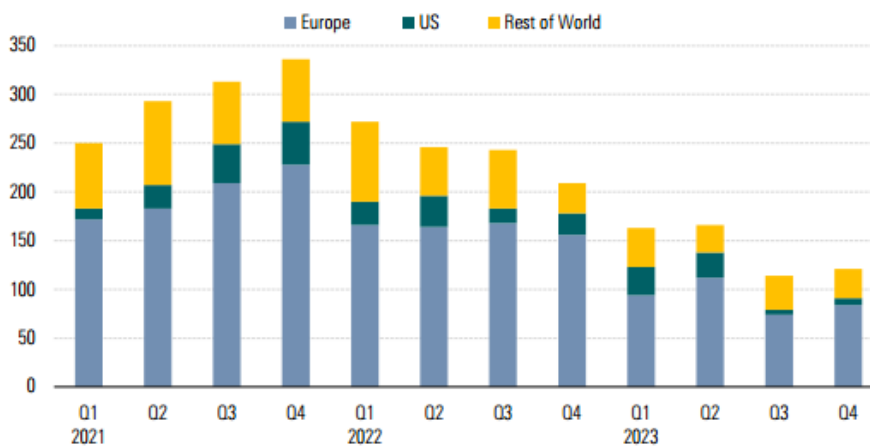
Even if the concept of sustainable investment is not new, only in recent years the funds linked to it started to grow significantly. According to Pérez et al. (2022), the inflow into sustainable funds grew from 5 billion to 70 billion in 2021. After 2021 we can see a big drop in Graph 1 below, but still a positive flow in all quarters. This drop is mainly due to Europe's socioeconomical context, for example high interest rates, inflation, and overall fear of recession, which has caused investors to seek other type of assets like government bonds. Therefore,

substantially decreasing the inflow in a continent that been the leader in sustainable funds by a large margin (Morningstar, 2024).



Graph 1- Quarterly Global Sustainable Funds' Flows.
Source: Morningstar

Nevertheless, the number of sustainable funds launched over the last 3 years can be a positive sign that the market is growing, and that Europe is leading it. Graph 2 shows that the launch of new funds has been slowly dropping but this can be justified by the decrease in demand due to the difficult economic times Europe faced in this period.

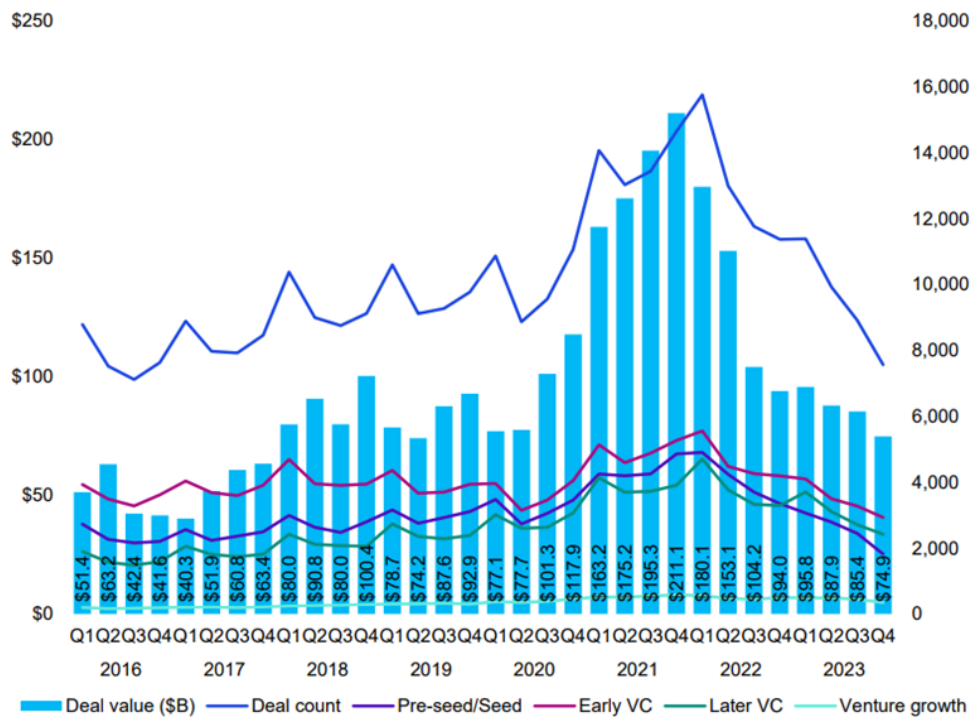


Graph 2 - Global sustainable funds' launches per quarter.
Source: Morningstar

One of the many ways sustainable projects get their funding is through venture capital (VC), an investment made in early-stage companies in exchange for equity in which the investee receives not only the monetary investment but

also guidance and monitoring to help their business grow¹. If successful, this will raise the price of equity and allow the venture capitalist to sell after some years (Schertler, 2006). This type of investment is more common in start-ups and growing markets, because other types of investments don't offer the best conditions for such companies which have a higher risk of failure (Schertler, 2006).

Looking at the recent evolution of VC in Graph 3, we can see a trend very similar to the overall funds seen previously. There is a break in the global financing amount that started in the beginning of 2022 and, just like explained above, this is linked to the economic cycle and uncertainty (KPMG, 2024). This downturn trend is further confirmed by the number of closed deals which have been consistently falling since 2021 and, according to KPMG (2024), are likely to continue in 2024.



Graph 3 - Global Venture Capital financing.
Source: KPMG

¹ Private equity not only includes VC but also other types of investments made in late-stage companies as well (Cumming, 2012).

Portugal's VC financing evolution follows the global trend as it is also decreasing but at a much slower pace. Actually, the average deal size slowly increased, which mitigated the decrease in the number of deals (Statista, 2024).

Regardless of the trend, VC continues to be an important accelerator for start-ups (Landström & Elgar, 2007) and, because of its link to Impact Investing, it will be this work's main type of funding to study.

This thesis will focus on the differences between the various types of sustainable investments as this has been a topic in which there is some confusion in the literature. Furthermore, it will be demonstrated how Impact Investing funds compare to standard and other type of sustainable funds in terms of financial and non-financial returns by looking specifically at VC deals. It will also be shown the differences between the selection processes and the legal requirements between these fund types. This was based on the literature review, but most importantly, by following a case study approach and relying on the interviews conducted with different VC funds to see in practice the theoretical differences that the literature review allowed to point out. It was possible to confirm that there was a bigger concern for ESG returns in Impact Investing compared to PRI. Additionally, the financial returns are at least at market levels for both type of investments, but Impact Investing has lower returns than PRI. Finally, both these strategies must follow EU SFDR requirements and even if both had trouble doing it so, the process is relatively more difficult and time consuming for Impact Investing.

This work is organized as follows: In the chapter 1, concepts will be clarified to determine the difference between the types of social investments and ease the interpretation of what comes ahead. After, some data concerning the reasons behind the financial and non-financial returns, supply and demand, investments' outcome and green/impact washing will be explored. Chapter 2 will focus on the methodology, the hypotheses studied and how the questionnaire was

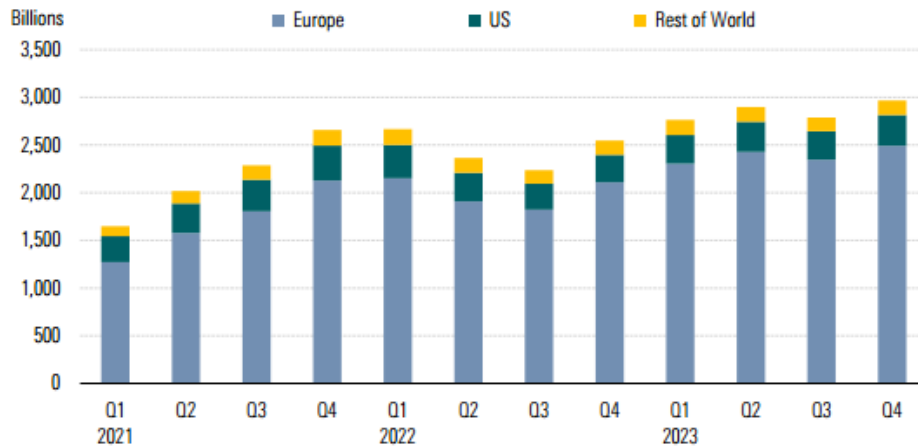
formulated. Finally, chapter 3 brings the analysis and discussion, that will be summed up in chapter 4.

1. Literature review

1.1. Origin of Social Finance

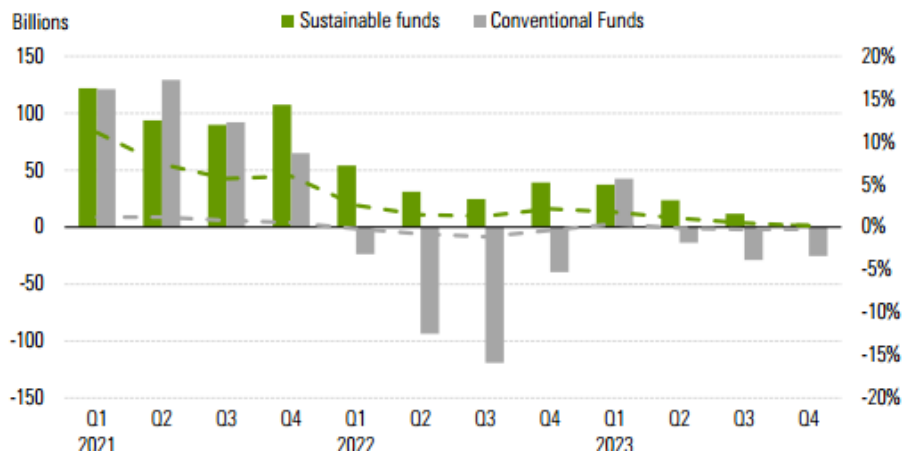
Social finance is a concept that started to spread around the world in the recent decade. Even if it is a new concept for this day and age, it has roots that go as far as 1119 in Jerusalem and reaches to Europe around 1950s. However, after the 1973 crisis, the concept of welfare model started to disappear to give place to a more neoliberal ideology (Lehner & Rexhepi, 2016). It is not easy to define social finance since there is no broadly acceptable definition, but the general idea, according to Howard (2011), is that social finance is about trying to mitigate social, environmental and governance problems without forgetting to generate profits to secure their own existence and maintain its sustainability. This introduction of financial gains is a big difference from other types of social care like charity (Lehner & Rexhepi, 2016). Inside social finance we have many types of financial activities (Lehner & Rexhepi, 2016), but the focus of this work will be in investments that are denominated as sustainable investments.

Globally the market was growing, in 2020 it grew 15% (Global Sustainable Investment Alliance, 2021), but due to the socioeconomic circumstances that affected Europe the total inflow in sustainable funds decreased in 2021, 2022 and 2023 (Morningstar, 2024). As shown in Graph 4 below, there is no doubt that Europe has a more developed and diverse market, which is shown by the fact that 84% of the sustainable fund assets belong to Europe, followed by the United States with 11% (Morningstar, 2024). Therefore, it is expected that scenarios like economic crisis that affect Europe will have a big effect on the sustainable investment market as well.



Graph 4 - Quarterly global sustainable funds' assets.
Source: Morningstar

When comparing with conventional funds it can be seen in Graph 5 that the trend is not unique to sustainable funds and it even has more impact in conventional funds, which shows the disinvestment is general.



Graph 5 - European sustainable funds' net flows compared with conventional funds' flows

One stream of sustainable investment is Impact Investing, which, according to The Global Impact Investing Network (2019), is an investment made for both financial and non-financial returns like social or environmental returns. As this definition is too broad, Schlütter et al (2023) refers to Impact Investing as the investment “conducted by professional investors in companies, organizations, and funds with the intention to create a measurable social and/or environmental impact, alongside a financial return paid by the investee.” However, this

definition can still be very wide and describe more than one type of sustainable investment inside social finance.

To better understand this, it is important to point out the differences between investments. The difference between Impact Investing and, for example, microfinance or crowdfunding social investments is that Impact Investing implies a much deeper connection between investor and investee and needs to be done by professional investors to organizations rather than individuals (Agrawal & Hockerts, 2021).

Another term that might confuse investors is Socially Responsible Investing (SRI) with Principles for Responsible Investment (PRI) with Impact Investing. Starting by comparing SRI with PRI, the first term is associated with a screening methodology used in investments where the investor actively excludes or includes companies depending on their ESG practices while the latter takes a step forward by actively incorporating ESG factors in the investment strategy which helps decide how attractive an investment is (Chidi, 2017). To be a PRI signatory is mandatory to follow their 6 principles which are related to the consideration of ESG issues and the reporting. They were developed by an international group of investors and are supported by the United Nations to create a global trustworthy base of investors who are committed to this type of sustainable investment (PRI, n.d.). On the other hand, Impact Investing is a strategy used by investors to target a specific type of investment that has the goal of having non-financial returns, so it takes a proactive approach because without social, environmental or governance impact the investment does not exist (Foroughi, 2022). While Impact Investing looks to mitigate a social or environmental problem by investing directly into a project that will measure the outcome, PRI, on the other hand, implements ESG factors into the decision making process of a company and incorporates a more sustainable way of thinking in management decisions and financial analysis (Phenix Capital, 2023). For example, in an SRI or

PRI strategy, a fund would stop investments in a company that uses cheap labour while in an impact investment strategy the investment would be made in a company that actively tries to solve cheap labour issues (Foroughi, 2022).

So even if literature sometimes uses the above terms as interchangeable, they have different meanings in terms of how big the degree of commitment is. Schlütter et al. (2023) suggest seven core criteria to classify Impact Investing:

- a) Targeting firms and organizations rather than individuals;
- b) Expecting a financial return;
- c) Aiming for a positive social/environmental impact;
- d) Intentional impact creation rather than a passive side effect;
- e) Ensuring measurability of impact;
- f) Conducted by professional investors;
- g) The investee itself pays the financial return.

1.2. Financial versus social and environmental returns

Concerning financial returns, it is commonly accepted that impact investors have generally gained lower IRRs, as most responsible investors claim they expect sustainable funds to perform worse in terms of financial returns and have a worse sharpe ratio. This acceptance of less financial returns in order to create social and environmental impact is what Barber et al (2017) call willingness to pay (WTP). The WTP varies across the type of investors and the type of impact the project is going to have. For example, according to Barber et al. (2017) investors that sign the PRI or that benefit from local goodwill have a relatively higher WTP. In addition, projects that focus on environmental issues have a higher WTP than SME funding.

There are three main reasons that make investors accept fewer financial returns: non-pecuniary reasons, social signalling, and financial motives. (Rau & Yu, 2023; Riedl & Smeets, 2017)

Regarding the first reason, social preferences have been shifting to a more responsible consumption and a greater care for sustainability and the environment, so investors demand and look for investments aligned with their values (Choy et al., 2023). According to Riedl & Smeets, (2017), these sustainable investors are more likely to hold funds for a longer period, are less selfish and more willing to share financial returns.

To a lesser extent, social signalling is also an important event that explains the growing of the investment made in these funds. There is pressure for investors to decide their investments based on ESG related issues, so they do it to improve their social reputation not because it reflects personal preference (Rau & Yu, 2023). According to Riedl & Smeets, (2017), this is true for investors with small social preferences that like to show their investments. Christiansen et al. (2019) further concluded that investors who participate in a smaller extent in sustainable investments are more likely to do it for social signalling reasons.

Concerning financial motives, there is a diversity strategy behind investing in these funds. Maxfield and Wang (2021) look at how sustainability can play a role in risk mitigation of funds and examine these funds' level of risk by taking a different approach and studying investment funds' returns in a continuous basis. The authors show that sustainable funds outperform during a bear market and underperform during a bull market. This happens because these types of funds avoid investments in irresponsible companies, which helps reduce the overall risk but also the financial returns (Maxfield & Wang, 2021). Companies that have ESG policies are less likely to have litigations due to social or environmental reasons which reduces risk (Renneboog et al., 2008), there is also less employee turnover and more productivity (Brammer et al., 2015), greater satisfaction from

all stakeholders and other positive policies that help reduce overall risk (Verheyden et al., 2016).

So, we can conclude that the risk reduction comes largely from the characteristics of the firms held in the funds. Looking at risk adjusted returns these are not statistically worse in sustainable funds compared to their counterpart (Renneboog et al., 2008; Verheyden et al., 2016).

Looking at the social and environmental side, there is a big gap in the market in terms of tracking and reporting the actual returns a project brings (Schlütter et al., 2023). Most of the problems Impact Investing aims to tackle are complex, like climate change or poverty, so the measurement of the social or environmental return is a hard task. There is an idea that organizations should only measure outcomes when there is a well established cause-effect between the project and the social or environmental outcome or only when an organization can control all the interventions needed to achieve the outcome desired. Because of the complexity described previously it is difficult to meet these requirements. Therefore, the standard approach is to measure outputs and make claims about the links between output and outcome (Schlütter et al., 2023).

However, Schlütter et al. (2023) believes social and environmental outcomes should not be ignored, that projects shouldn't just assume they are being met because of the linkage and that a holistic system where the focus is changed from a single aspect to the whole system is better. In fact, according to Geczy et al. (2021), rewarding only one part of investments that have a dual goal lead to lower effort on the unmeasurable one, which in the case of Impact Investing is the social and environmental impact. Both objectives should be complementary because only then can a project bring non-financial returns for a longer time due to its financial viability and self-funding.

There is a big gap in the literature regarding non-financial returns, which needs to be closed since this return is arguably just, if not more important than, the financial one (Schlütter et al., 2023).

Hartzmark and Sussman (2019) study the flows before and after sustainability reports to examine if they matter for investors. Focusing on Morningstar ratings (1-low; 5-high), authors found that after the ratings were given by Morningstar, investors took around 15 billion dollars from funds with rating of one and invested 32 billion dollars into funds with rating of five. Liang et al. (2022) showed that hedge funds that support responsible investment attract a significantly bigger inflow than those who don't. This proves that in fact investors are not indifferent to sustainability.

There are several reasons to why sustainable investors would prefer to switch to a more sustainable fund. First there is institutional constraints, for example a university imposing implicit constraints to its fund manager which forces a change to more sustainable ones (Hartzmark & Sussman, 2019)

Second, there is the belief among investors that funds with a higher rating in sustainability have a bigger financial return than the ones with a lower rating (Riedl & Smeets, 2017). This is called the Halo effect and is common in these types of investments. Investors view sustainability as a positive indicator for performance when in fact there isn't evidence to support this belief (Blair & Chernev, 2012). This impact is also bigger in extreme values of ratings like one and five, while middle ratings experience the Halo effect but in a much smaller scale (Hartzmark & Sussman, 2019).

Finally, there is also the non-pecuniary reasons. Investors are looking for funds that have impact besides financial returns. In this case they believe sustainability is an important characteristic and look for funds with it. So, if investors value sustainability it makes sense to change from a low rating fund to a high rating one (Riedl & Smeets, 2017).

1.3. Supply and Demand of Impact Investing

There are numerous instruments to finance Impact Investing projects either by debt, equity, or other supplementary tools (Spiess-Knafl & Scheck, 2023). The authors claimed that grant deals are the most common way for social enterprises to be financed, followed by equity deals.

One equity instrument is VC, which is an investment in private equity made by institutions, firms, or individuals usually in early-stage companies that are not traded in the stock market with the objective to be an active partner and make them grow (P. Gompers & Lerner, 2001). Landström & Elgar (2007) explained there are three types of institutional VC: independent limited partnerships, which act as a general partner and raise money from institutional investors that take the role of limited partners because they are not active in everyday management; corporate venture capital firms, which differ from the previous one because they are mainly created by a parent company and raise capital from said company; and finally, government venture capital firms, which are financed and owned by the government (Landström & Elgar, 2007).

The main focus of the work is the independent limited partnership, and it starts with a firm raising money from investors, then they monitor and add value with their knowledge and connections and ends with their exits which ideally would be successfully selling their equity and returning capital to the investors (P. Gompers & Lerner, 2001). In 2023, the average IRR on this type of investment was 13%, this already taking into consideration all the investments that weren't successful (Söderblom et al., 2023).

Regardless of the type of investment there are some problems with both supply and demand of capital in Impact Investing. Looking at the supply side, one way to address the mismatch is to create a platform of Social Stock Exchanges which allows for investors to access these projects of, usually, more mature

enterprises (P. Gompers & Lerner, 2001). These platforms exist in some countries already, like Canada, India, and Jamaica, although they are still very recent, most are only 10 years old. The idea is that these platforms allow enterprises to raise funds for their social and environmental projects but first they need to answer and explain various details of said projects so that investors can have some information and guarantees that these are in fact social and environmental projects (Tripathi, 2023). Another problem from suppliers is that the investments for these projects can involve complex investment structures which can create some confusion on investees. Plus, investors can also make demands about financial returns which can cause mission drift and lead to undesirable results (Islam, 2022). Finally, many investors are interested in large investments because that would compensate the smaller financial returns in absolute terms. However, the market is not at this stage yet. Most investees look for smaller investments as they are still in early stages of operations and look to gradually expand (Hazenbergh et al., 2015).

Looking at the demand side, investees in Impact Investing are not “investment ready” which means they don’t have the structure to attract investors, more specifically financial sustainability, good governance, and a solid business model. There is a gap between both sides because investees lack the financial knowledge and investment capital awareness that investors look for (Phillips & Johnson, 2021). This issue can be mitigated with an intermediate that acts as a knowledge provider and helps to close the barrier between investors and investees, however, Phillips & Johnson (2021) recognized that even though the market is full of typical intermediates, there aren't a lot for Impact Investing and most of the ones that exist are still relatively small. Finally, impact investors are usually younger and look to make a change in the world, so they are more inclined to invest in projects that have an authentic team, looks to mitigate an important problem, and has financial stability (Block et al., 2021). It is important

that investees communicate their impact clearly to attract more investors which most of the times is not the case since these returns are difficult to measure. (Schrötgens & Boenigk, 2017).

Looking at Portugal, there are some government programs and policies to help grow the market. Some notable examples are Portugal Inovação Social that has the goal of promoting Impact Investing by educating both sides while trying to create bridges between them. They achieve this goal by developing management skills, promoting investment events, and even using Social Impact Bonds (SIBs) to invest in projects (Resolução Do Conselho de Ministros n. 54/2023, 2023). There is also the Fundo de Inovação Social which is a public fund that co-invests in impact projects with private investors (*FIS - Fundo Para a Inovação Social*, 2023). This and more projects make Portugal a good pioneer country on Impact Investing, and it is working well as the market is growing steadily. In fact, according to a 2021 report from OECD, Portugal was in the top 10 countries with more SIBs (Lüske, 2021). However, in terms of the value of those SIBs, Portugal is the 11th country in the rank (Statista, 2022), which means that there are many SIBs but for a smaller amount. This makes sense looking at the business paradigm in Portugal and when taking in consideration that both programs are very recent and with small, limited funds for now.

1.4. Phases of investment and influencers of outcome

Looking at different phases of investment and how they can shape the outcome, we have the pre-investment stage which consists of all activities before the contract is signed. This stage involves the sourcing and selection that the investors make by analysing the financial and social or environmental aspects of the investees and it is considered one the most relevant phases for success

(Gompers et al., 2020). The financial sustainability and scalability of the business model and its degree of innovation are the most common factors investors look during the screening process (Block et al., 2021). Investors also predict the potential impact and usually expect less financial return because of it (Lyon & Baldock, 2014). Lastly, there is the alignment between investors' mission and objectives with the social and environmental issues addressed which is crucial as well. This can be achieved with a greater emphasis on the non-financial mission during the pre-investment phase which in return increases the chances of a successful result at the end (Agrawal & Hockerts, 2019). Cetindamar & Ozkazanc-Pan (2017) look at the initial mission of the investees and explains how and why mission drifts happen. The authors define mission drift as a means-ends decoupling phenomenon instead of the dominance of one side over another, assuming the minimum percentage of at least 40% in the social and environmental side is fulfilled. This means that it doesn't matter if the financial side is more dominant, it only matters if there is a change in the proportions. Without social and environmental side Impact Investing loses all its meaning and fails to deliver their goals, however this outcome is common, because companies are inherently more inclined to give priority to financial returns (Ebrahim et al., 2014). Even tough Impact Investing contracts are usually modified they rarely tie compensation to social or environmental outcomes which shows the financial thinking talked about before (Geczy et al., 2021).

In the investment stage there is asymmetry of information between investor and investee which can undermine both financial and non-financial returns. These problems are usually related with the difficulty of reporting social, environmental and governance returns, because of how complex it can be to measure the impact and how reluctant investees are to independent statistical assessments due to the loss of control about what is reported and the oversharing of information (Berry, 2016).

The relationship between investor and investee can also be affected by differences in languages, culture and beliefs which can lead to interorganizational tensions. Investors tend to judge more favourably projects located in countries whose religion and values are more aligned with their home country ones (Mersland et al., 2020). However, Mersland et al. (2020) concludes that if the partners can maintain a good relation and share information with each other the chances of a good outcome are bigger.

Finally, there are external parameters that are important to speak about like the government support and the legal context in general. Looking at India, impact investors tend to prefer investment projects that are in more technological and economical advanced regions and heavily populated ones, because these ones are more supportive for business investments (Rajan et al., 2014). This can be a problem as the market is shying away from the regions that need more help. To show how government can help, Rajan et al. (2014) gives the example of the UK in which the government is actively supporting Impact Investing with funds like Big Society Capital or by creating legal structures like Community Interest Company which are a special type of limited companies that look to benefit the community and have some benefits when compared to traditional companies. Finally, intermediaries and networks are also important since they can give business advice and reduce costs and risk by mitigating asymmetry of information (Phillips & Johnson, 2021). All these things can shape the outcome of the project for better or for worse.

1.5. Impact washing

With the rise of sustainable investing and more precisely Impact Investing, a new problem emerged as well. Companies can sometimes claim that their funds

or projects are sustainable when in fact they are not or, even if they are, there is no proper measurement taking place. This can trick investors into thinking they are investing in sustainable funds and even accept lower returns because of it (Cote, 2022).

In the USA, there is no public legislation taking place, so the risk is high, and it is on the investor to have a closer look into the financial products before investing (Cote, 2022).

In Europe, the EU has taken some measures to stop it and in November of 2019 the Parliament and the Council reached an agreement which establishes rules regarding social finance and the reporting of those claims. It separates the financial products in 3 levels:

Article 6 – First level for all type of funds. They are required to disclose how sustainability risks are considered during investment decisions and which risks exist.

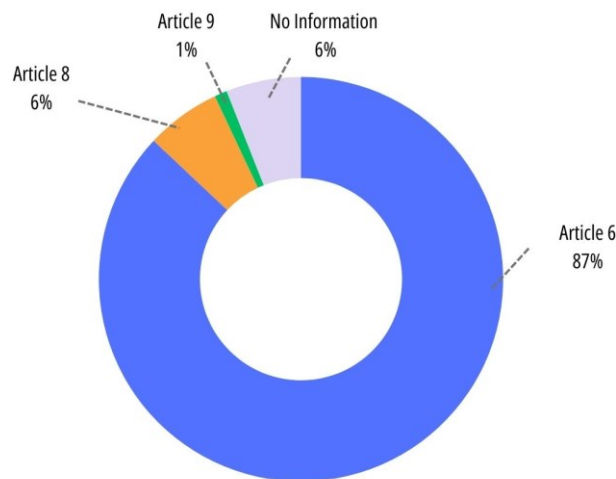
Article 8 – This article is for funds that promote ESG characteristics, but whose main goal is not ESG returns. These funds must inform how these characteristics are reached.

Article 9 – This article goes deeper into ESG goals, and it is for funds with an objective of creating non-financial return, like Impact Investing. These funds are obliged to show how the investment aligns with their non-financial goal and how is it different from general market indexes.²

As expected, when moving from article 6, to 8 and then 9 there is a reduction in the number of funds. Below, Graph 6 shows the differences between them in the Portuguese risk capital funds market.

² All three articles above are according to the REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on Sustainability-related Disclosures in the Financial Services Sector, 2019

Distribution of the number of risk capital funds in Portugal by article 6, 8 and 9 of EU SFDR



Graph 6- Distribution of the number of risk capital funds in Portugal by article 6, 8 and 9 of EU SFDR
Source: CMVM

These articles started to be applied from January 2022, but there is still some confusion on how to report the necessary information. The complexity of the rules posed along with the novelty are leading to noncompliance even in firm that want to follow the new legislation (Mezzanotte, 2023). So, despite the efforts from the EU, there are still concerns about impact washing in Europe (Huw, 2024). To change this, the EU organized a consultation committee in December 2023 and will look into the concerns and questions fund managers have (European Comission, 2023).

2. Research Question and Methodology

2.1. Research Question

Considering the literature review carried out in the previous section, it is possible to identify that some significant risks from Impact Investing are the misalignment of ESG returns, the lack of appropriate measuring practices, and the possibility of impact washing. Therefore, the main intention was to analyse Impact Funds and PRI Funds based in Portugal from three perspectives: (i) their financial returns; (ii) their non-financial returns and (iii) their characteristics and reporting. Under this framework, the following hypotheses were raised:

I - Impact Investing funds are more concerned with ESG factors vis-à-vis PRI and traditional funds.

II - Average returns are larger in PRI funds than Impact Investing funds.

III - The adaptation to the UE requirements is easier for PRI funds vis-à-vis Impact Investing ones.

2.2. Clinical Study Methodology

A case study approach is a research methodology that focus on investigating a phenomenon in its real-life context by utilizing multiple data sources of evidence to reach a conclusion about many variables of interest (Yin, 2003). The first discussion of case studies in the financial world was by Jensen et al (1989) in the editorial of the Journal of Financial Economics. Here, some of the expectations and objectives of using case studies were presented to further develop empirical and theoretical research. Nowadays, case studies take a much bigger role for

investigators as they allow to study theories while retaining multiple complex variables of real-life (Yin, 2003)

In this work an exploratory examination of multiple cases was made for a richer comparison – a clinical study approach.

There are multiple sides of analysis needed to answer the research questions, so there is a need to look at multiples angles and have different approaches. To do so, data on financial returns (e.g., returns, sharpe ratio and ESG ratings), the funds' policies and their way to measure social and environmental impact was gathered and analysed.

By using funds of the same country, the comparison is easier, more focused, and more meaningful because they are dealing with the same external conditions. Portugal was selected as the country to study not only because of personal interest, but also because, as seen in the literature review, it is a country where Impact Investing is growing, where there has been an increase focus by the government with the creation of new programs to invest and where there is a lack of studies.

Information was gathered by using their financial reports and other type of reporting, like the ESG Report, the information available in the funds' websites, news and press releases about the funds, and the interviews conducted with two people from VC funds.

2.3. Interview structure

To get answers to the hypotheses raised earlier, two funds were chosen to study more deeply by doing an interview with two key people from each fund. There was a need to choose one PRI fund and one Impact Investing fund because it would allow a richer comparison between two types of sustainable investment.

After consideration, Crest was chosen for the PRI fund because of their size, history, and their explicit commitment to article 8 of the EU SFDR. For the Impact Investment, the fund wanted to remain anonymous so they will be referred to as Fund X³. Fund X was chosen because of its clear goal to non-financial returns.

The interview was conducted via Microsoft teams call supported by a questionnaire, which can be found in the annex section, mostly constituted by closed answer questions to increase chances of having an appropriate answer and to allow an easier comparison. Doing the interviews in a meeting allows for real time clarification of both questions and answers, therefore increasing the response accuracy (Schober & Conrad, 1997) which was essential due to the reduced number of interviews conducted.

The questionnaire was designed with the purpose of enlightening which fund is more concerned with ESG issues, which has better returns and why and which one has more challenges following the EU requirements. In order to do that, the questionnaire has the following structure: general descriptive question with the objective of contextualizing each fund (1 and 2), then there are theoretical questions with the goal to validate the hypothesis raised above (3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14 , 17), control questions to verify the consistency of the theoretical questions (13, 15, 16, 18 , 19), and finally there are some open answer questions to further develop some topics without guidance and also confirm previous answers (20, 21, 22, 23, 24).

³ The name Fund X was given to maintain anonymity of the fund and the person interviewed to follow the confidentiality requirements raised during the interview.

3. Interviews Results

Two interviews were conducted, one to Dr António Faria who is an operating partner at Crest and another to one of the funding partners of Fund X⁴. Crest is a fund created in 2017 that invests around 20 to 25 million euros every year and has over 2,000 employees. They are PRI signatories and follow article 8 of the EU SFDR which means they have ESG factors in consideration in their investments even if non-financial returns are not their main goal. On the other hand, Fund X has a year of existence, they invest less than 5 million and their focus is on non-financial returns, which corresponds to article 9 of the EU SFDR, and some financial returns which corresponds to the goals of Impact Investing.

3.1. Non-financial returns

When looking at the weight of ESG in investment selection, Fund X gave the higher grade of importance to environmental returns and the second higher to both social and governance. On the other hand, Crest gave a 3 out of 6 for all of them which shows they are in fact something to consider, but they are not their main concern when choosing a business to invest. To further confirm this, question number 7 asked the funds to rank the criteria when selecting investments from 1 (less important) to 6 (more important). The results are reflected in the Table 1 below.

⁴ The name Fund X was given to maintain anonymity of the fund and the person interviewed to follow the confidentiality requirements raised during the interview.

Criteria	Crest	Fund X
Possible financial return	6	5
Possible social and environmental return	4	6
Alignment with the investee's mission and vision	1	
Easiness of measuring non-financial returns		1
Investee's team	3	4
Investee's financial sustainability and robustness	5	2
Investee's degree of innovation	2	3

Table 1- Criteria in the screening process

Fund X has the “possible social and environmental returns” as their number one criterion, followed by the “possible financial returns”, which is then followed by the “investee’s team” and “investee’s degree of innovation”. Crest number one criterion is “possible financial return” which is then followed by the “investee’s financial sustainability and robustness” and in third comes “possible social and environmental returns”.

As explained in the literature review, there is some difficulty to measure the social and environmental impact and most funds have accepted this. We can see that this is true, as easiness of measuring non-financial returns is low on the list of criteria for Fund X and was not selected by Crest. Nevertheless, they both try to measure it and report it. Crest does it indirectly by using the KPIs of the EU SFDR while Fund X tries to measure the intended direct impact of each project, but states it is very hard to measure all the impact. If possible, they will calculate how much resources a product needs, compare it with the standard production and calculate the impact the difference has. If it is not possible, there will be some KPIs defined previously to get a sense of how the non-financial return is doing,

however this only starts to be controlled in a later phase when the investee is more stable.

Finally, both funds report their non-financial return and claim that this return is important for their investors. As expected, impact investors give more importance, but it is a marginal difference.

3.2. Financial Returns

Moving to the financial returns, there is the idea that sustainable investments bring less returns, but this is not the case for these two funds. Crest has average returns of 11% to 15% which are above expected. As stated previously, market returns are around 13%, according to Söderblom et al. (2023), so Crest is following the market despite having a sustainable investment strategy. Fund X didn't answer because it is their first year of operations but claim that their prediction is to have market returns as well.

Both funds strongly disagree that returns are lower in sustainable investments and think that the correlation between sustainability and higher returns is positive. Crest offers an explanation to this by saying that currently it is harder to get investors and buyers for companies that are behind the curve and that firms that don't have ESG policies have higher risks, unmotivated workforce, among others. Even when looking at risk adjusted returns, Crest still strongly agrees that sustainable firms have a higher return. However, when looking at all kinds of sustainable investing both companies slightly agree that Impact Investing is the one that has lower returns.

Question 15 allows to understand why the funds followed a sustainable investment and why they chose that specific type of fund by asking to rank the

reasons to follow this strategy from 1 (less important) to 6 (more important). The results are in the table below.

Criteria	Crest	Fund X
Higher sharpe ratio compared to conventional investments		2
Social and environmental concerns	3	6
Less competition compared to conventional investments	4	5
Higher financial returns compared to conventional investments	5	
More demand compared to conventional investments	6	4
Other (please specify):		3 (stable returns)

Table 2- Reasons to follow a strategy based on ESG

Crest continues to prioritize the financial side by listing “more demand compared to conventional investments” and “higher financial returns compared to conventional investments” as the first and second reason, respectively. On the other hand, Fund X lists as number one the “social and environmental concerns” which is then followed by “less competition compared to conventional investments” which is especially true when talking about Impact Investing. It is also worth to mention that for Fund X “higher financial returns compared to conventional investments” are not a reason to follow sustainable investment, however they suggested another reason which was “stable financial returns”. This and the selection of a higher sharpe ratio as a reason to invest confirms that the risk adjusted returns are in fact higher in sustainable investing.

3.3. EU Requirements

Looking at the EU requirements, both funds found it challenging to create procedures to follow them. Crest gave question 17 a score of 3 out of 6 and Fund X a 4 in terms of difficulty which shows that there is work to be done by the funds to be compliant. They both disagree that the requirements are easy to follow thus confirming that there are changes to be made by the EU to make the legislation more user friendly and therefore mitigate one of the entry barriers for sustainable investing. The biggest difference between the sustainable funds comes when looking at time and money spent to follow the requirements. Here, Crest gives a 3 out of 6 while Fund X agrees that following the requirements is time consuming and has significant costs by giving it a 5 out of 6.

3.4. Problems and the future of sustainable finance in Portugal

Focusing on the challenge that both VC funds must face, they point out the difficulty of showing their investors that this is not charity and that they will not have to sacrifice financial returns to make room for non-financial ones since neither fund adjusts their expected financial returns based on the ESG returns, because they believe they aren't mutually exclusive.

Looking at the Portuguese market, both funds believe the expectations are positive. Fund X emphasized the incentives Portugal has for investors and investees in the sustainable market, like the Fundo de Inovação Social talked in previous chapters. They added that Portugal is becoming a country that catches attention of foreign investors which will for sure propel this market and open opportunities for the investees since the internal market is still small. Crest

mentions the EU SFDR legislation as an important factor that helped the market gain trust in sustainable financial products further adding that extending this idea to more sectors will be very beneficial for everyone.

4. Conclusions

In a time where ESG concerns are growing and companies try to take a more responsible approach to their business, there is some confusion regarding concepts and the spread of misconceptions like sustainable investing generates lower financial returns. This work looks to positively contribute to the discussion by clarifying concepts and showing in practice some of the differences that exist between sustainable investments strategies while also focusing on financial returns and the difficulties funds have in following the legislation.

This thesis followed a case study approach in which an interview was conducted with two distinct VC funds that follow two different sustainable investment strategies. The results obtained confirm all three hypotheses raised above.

There is a strong concern for ESG problems in the Impact Investing fund and it became clear that they look to generate positive non-financial returns and mitigate ESG issues first and generate return after, while the PRI fund looks at ESG as an opportunity to generate financial returns first and non-financial returns second. Therefore, Impact Investing has a higher concern with ESG returns than PRI and traditional funds.

In the financial returns, both funds have at least market returns which shows that there is no need to compromise returns to implement sustainable investments. In fact, both believe the ESG factors allow for higher returns and an easier sell of the companies they invest in. Nevertheless, the Impact Investing fund is more restrict in the investments made, and this lack of freedom makes it harder to generate higher returns when compared to other sustainable investments strategy thus confirming the second hypothesis.

Finally, there is the idea that EU requirements are hard to follow and get harder moving from article 6 to 8 and then to 9. This hypothesis was strongly confirmed as both funds find it hard to set up procedures and follow the requirements, but the results show that the Impact Investing fund has a considerably harder and more costly task in hands.

The limitations of the work are the lack of public information VC funds have which, allied to the difficulty of communicating with more funds, created a situation where it was only possible to compare two funds. Further investigations should focus on a higher number of funds and a comparison between more sustainable investment funds but also the potential openness to non-sustainable ones.

Bibliography

- Agrawal, A., & Hockerts, K. (2019). Impact investing strategy: Managing conflicts between impact investor and investee social enterprise. *Sustainability (Switzerland)*, 11(15). <https://doi.org/10.3390/su11154117>
- Agrawal, A., & Hockerts, K. (2021). Impact investing: review and research agenda. *Journal of Small Business and Entrepreneurship*, 33(2), 153–181. <https://doi.org/10.1080/08276331.2018.1551457>
- Armstrong, C., Baker, N., Balsig, M., Bankert, A., Bertrand, S., Budde, J., Carroll, M., Cerezo, C., Clerx, R., Cruz, C., Cuthell, K., Angelo, F. D. ', Das, P., Depetris, D., Derosa, J., Deryckere, M., Doms, S., Duceman, K., Emmett, E., ... Zhuang, S. (2023). *The Visionary CEO's Guide to Sustainability*.
- Barber, B. M., Morse, A., Yasuda, A., Bond, P., Dalquist, M., Goldberg, L., Gornall, W., Jenkinson, T., Karakaş, O., Owan, H., Phalippou, L., Pikulina, E., Rauh, J., Sensoy, B., Starks, L., & Vissing-Jorgensen, A. (2017). Impact Investing. In *Masahiko Aoki memorial academic conference*. LSE-Chicago Booth Economics of Social Sector Organizations Conference.
- Berry, J. M. (2016). *Negative Returns: The impact of Impact Investing on empowerment and advocacy*.
- Blair, S., & Chernev, A. (2012). *Doing Well by Doing Good: The Benevolent Halo of Social Goodwill* "Doing Well by Doing Good: The Benevolent Halo of Social Goodwill."
- Block, J. H., Hirschmann, M., & Fisch, C. (2021). Which criteria matter when impact investors screen social enterprises? *Journal of Corporate Finance*, 66. <https://doi.org/10.1016/j.jcorpfin.2020.101813>

- Brammer, S., He, H., & Mellahi, K. (2015). Corporate Social Responsibility, Employee Organizational Identification, and Creative Effort: The Moderating Impact of Corporate Ability. *Group and Organization Management*, 40(3), 323–352. <https://doi.org/10.1177/1059601114562246>
- Cetindamar, D., & Ozkazanc-Pan, B. (2017). Assessing mission drift at venture capital impact investors. *Business Ethics*, 26(3), 257–270. <https://doi.org/10.1111/beer.12149>
- Chidi, H. (2017). *A Comparative Analysis of Socially Responsible Investment (SRI) Funds: How Sustainable are SRI Funds?* Harvard University.
- Choy, S. K., Koci, I., & Wang, M. (2023). Does social capital foster sustainable investment? *European Financial Management*, 29(3), 799–840. <https://doi.org/10.1111/eufm.12376>
- Christiansen, C., Jansson, T., Kallestrup-Lamb, M., & Noren, V. (2019). *Who are the Socially Responsible Mutual funds Investors.*
- Cote, C. (2022). Impact Washing: What It Is & How to Stop It | HBS Online. *Harvard Business School Online's Business Insights*. <https://online.hbs.edu/blog/post/what-is-impact-washing>
- Cumming, D. (2012). *The Oxford Handbook of Private Equity.*
- Ebrahim, A., Battilana, J., & Mair, J. (2014). The governance of social enterprises: Mission drift and accountability challenges in hybrid organizations. *Research in Organizational Behavior*, 34, 81–100. <https://doi.org/10.1016/J.RIOB.2014.09.001>
- European Commission. (2023). *Sustainability-related disclosure in the financial services sector.* https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en
- FIS - Fundo para a Inovação Social. (2023). <https://www.fis.gov.pt/>

- Foroughi, J. (2022). *ESG Is Not Impact Investing and Impact Investing Is Not ESG*. Stanford Social Innovation Review. https://ssir.org/articles/entry/esg_is_not_impact_investing_and_impact_investing_is_not_esg#
- Geczy, C., Jeffers, J. S., Musto, D. K., & Tucker, A. M. (2021). Contracts with (Social) benefits: The implementation of impact investing. *Journal of Financial Economics*, 142(2), 697–718. <https://doi.org/10.1016/j.jfineco.2021.01.006>
- Global Sustainable Investment Alliance. (2021). *GLOBAL SUSTAINABLE INVESTMENT REVIEW 2020*. www.robeco.com.
- Gompers, P. A., Gornall, W., Kaplan, S. N., & Strebulaev, I. A. (2020). How do venture capitalists make decisions? *Journal of Financial Economics*, 135(1), 169–190. <https://doi.org/10.1016/j.jfineco.2019.06.011>
- Gompers, P., & Lerner, J. (2001). The Venture Capital Revolution. In *Source: The Journal of Economic Perspectives* (Vol. 15, Issue 2).
- Hartzmark, S. M., & Sussman, A. B. (2019). Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows. *Journal of Finance*, 74(6), 2789–2837. <https://doi.org/10.1111/jofi.12841>
- Hazenbergh, R., Seddon, F., & Denny, S. (2015). Intermediary Perceptions of Investment Readiness in the UK Social Investment Market. *Voluntas*, 26(3), 846–871. <https://doi.org/10.1007/s11266-014-9473-y>
- Howard, E. (2011). *Challenges and opportunities in Social Finance in the UK*. www.cicero-group.com
- Huw, J. (2024, February 1). *EU markets watchdog doubts that “impact” funds live up to their name*. <https://www.reuters.com/sustainability/sustainable-finance-reporting/eu-markets-watchdog-doubts-that-impact-funds-live-up-their-name-2024-02-01/>

- Islam, S. M. (2022). Impact investing in social sector organisations: a systematic review and research agenda. *Accounting and Finance*, 62(1), 709–737. <https://doi.org/10.1111/acfi.12804>
- Jensen, M., Fama, E., Long Jr, J., Ruback, R., Schwert, G. W., Smith Jr, C., & Warner, J. (1989). Clinical Papers and Their Role in the Development of Financial Economics. *Journal of Financial Economics*, 3–6.
- KPMG. (2024). *Global analysis of venture funding 2023*.
- Landström, H., & Elgar, E. (2007). *Handbook of Research on Venture Capital*.
- Lehner, O. M., & Rexhepi, G. (2016). The Architecture of Social Finance. In *Routledge Handbook of Social and Sustainable Finance*. <https://doi.org/10.4324/9781315772578.ch3>
- Liang, H., Sun, L., & Teo, M. (2022). Responsible Hedge Funds. *Review of Finance*, 26(6), 1585–1633. <https://doi.org/10.1093/rof/rfac028>
- Lüske, M. (2021). *SOCIAL IMPACT BONDS : Innovative policy design of active labour market policies*.
- Lyon, F., & Baldock, R. (2014). *Financing social ventures and the demand for social investment*.
- Maxfield, S., & Wang, L. (2021). Does sustainable investing reduce portfolio risk? A multilevel analysis. *European Financial Management*, 27(5), 959–980. <https://doi.org/10.1111/eufm.12296>
- Mersland, R., Nyarko, S. A., & Sirisena, A. B. (2020). A hybrid approach to international market selection: The case of impact investing organizations. *International Business Review*, 29(1). <https://doi.org/10.1016/j.ibusrev.2019.101624>
- Mezzanotte, F. (2023, June 28). *EU Sustainable Finance: Complex Rules and Compliance Problems' Review of Banking and Financial Law*. <https://blogs.law.ox.ac.uk/oblb/blog-post/2023/06/eu-sustainable-finance-complex-rules-and-compliance-problems-review-banking>

- Morningstar. (2024). *Global Sustainable Fund Flows: Q4 2023 in Review*.
- Pérez, L., Hunt, V., Samandari, H., Nuttall, R., & Biniek, K. (2022). *Does ESG really matter-and why?*
- Phenix Capital. (2023). *Impact vs ESG: Understanding the Differences and Similarities*. <https://phenixcapitalgroup.com/impact-vs-esg>
- Phillips, S. D., & Johnson, B. (2021). Inching to Impact: The Demand Side of Social Impact Investing. *Journal of Business Ethics*, 168(3), 615–629. <https://doi.org/10.1007/s10551-019-04241-5>
- PRI. (n.d.). *What are the Principles for Responsible Investment?* Retrieved April 8, 2024, from <https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment?>
- Rajan, A. T., Koserwal, P., & Keerthana, S. (2014). The Global Epicenter of Impact Investing: An Analysis of Social Venture Investments in India. In *Source: The Journal of Private Equity* (Vol. 17, Issue 2).
- Rau, P. R., & Yu, T. (2023). A survey on ESG: investors, institutions and firms. *China Finance Review International*, 13(4). <https://doi.org/10.1108/CFRI-12-2022-0260>
- REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on Sustainability-related Disclosures in the Financial Services Sector (2019).
- Renneboog, L., Ter Horst, J., & Zhang, C. (2008). The price of ethics and stakeholder governance: The performance of socially responsible mutual funds. *Journal of Corporate Finance*, 14(3), 302–322. <https://doi.org/10.1016/J.JCORPFIN.2008.03.009>
- Resolução Do Conselho de Ministros n. 54/2023 (2023).
- Riedl, A., & Smeets, P. (2017). Why Do Investors Hold Socially Responsible Mutual Funds? *Journal of Finance*, 72(6), 2505–2550. <https://doi.org/10.1111/jofi.12547>

- Schertler, A. (2006). *The Venture Capital Industry in Europe*.
- Schlütter, D., Schätzlein, L., Hahn, R., & Waldner, C. (2023). Missing the Impact in Impact Investing Research – A Systematic Review and Critical Reflection of the Literature. *Journal of Management Studies*. <https://doi.org/10.1111/joms.12978>
- Schober, M. F., & Conrad, F. G. (1997). Does Conversational Interviewing Reduce Survey Measurement Error? In *Source: The Public Opinion Quarterly* (Vol. 61, Issue 4). Winter.
- Schrötgens, J., & Boenigk, S. (2017). Social Impact Investment Behavior in the Nonprofit Sector: First Insights from an Online Survey Experiment. *Voluntas*, 28(6), 2658–2682. <https://doi.org/10.1007/s11266-017-9886-5>
- Söderblom, A., Le Pendeven, B., & Verbouw, J. (2023). *PRACTICES OF EUROPEAN VENTURE CAPITALISTS*.
- Spieß-Knafl, W., & Scheck, B. (2023). *Impact Investing: Instruments, Mechanisms and actors* (M. La Torre, Ed.). <http://www.palgrave.com/series/14621>
- Statista. (2022). *Europe: value of social bonds issued by country 2022*. <https://www.statista.com/statistics/1292778/eu-social-debt-issued-by-country/>
- Statista. (2024). *Venture Capital - Portugal*. <https://www.statista.com/outlook/fmo/capital-raising/traditional-capital-raising/venture-capital/portugal>
- The Global Impact Investing Network. (2019). *WHAT ARE THE CORE CHARACTERISTICS OF IMPACT INVESTING?* www.thegiin.org
- Tripathi, A. (2023). Social stock exchange: Standardisation to optimization. *The Times Of India*. <https://timesofindia.indiatimes.com/blogs/agyeya/social-stock-exchange-standardisation-to-optimization/>

- Verheyden, T., Eccles, R. G., & Feiner, A. (2016). ESG for All? The Impact of ESG Screening on Return, Risk, and Diversification. *Journal of Applied Corporate Finance*, 28(2), 47–55. <https://doi.org/10.1111/jacf.12174>
- Yin, R. (2003). *Case Study Research: Design and Methods* (3rd ed.). SAGE Publications.

Annex

Annex 1- Interview Questionnaire

Name: _____

Institution: _____ Job: _____

Local: _____ Date: ____/____/____

1. Select the total amount of the investments made in the last economical period.

Select with [X] your choice	
0-5M	<input type="checkbox"/>
5-10M	<input type="checkbox"/>
10-15M	<input type="checkbox"/>
15-20M	<input type="checkbox"/>
20-25M	<input type="checkbox"/>
+25M	<input type="checkbox"/>

2. Select the type of investments made.

Select with [X] your choice	
Green Firms	<input type="checkbox"/>
Brown Firms	<input type="checkbox"/>
Both – Write the percentage of investments made in Green Firms	<input type="checkbox"/>

3. What is the weight of the social return when choosing which investments to make?

Scale from [0] "Without relevance" a [6] "Very relevant"	
Degree of relevance	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

4. What is the weight of the environmental return when choosing which investments to make?

Scale from [0] "Without relevance" a [6] "Very relevant"	
Degree of relevance	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

5. What is the weight of the governance return when choosing which investments to make?

Scale from [0] "Without relevance" a [6] "Very relevant"	
Degree of relevance	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

6. How much do you agree with the following statement: "Impact investment implies a bigger commitment with the social and environmental goal than PRI"?

Scale from [1] "Strongly disagree" a [6] "Strongly agree"	
Degree of agreement	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

7. What are the criteria for selecting investments? Rank them according to its relevance from [1] to [6].

Scale from [1] “Less important” a [6] “Most important”

Possible financial return	<input type="checkbox"/>
Possible social and environmental return	<input type="checkbox"/>
Alignment with the investee’s mission and vision	<input type="checkbox"/>
Easiness of measuring non-financial returns	<input type="checkbox"/>
Investee’s team	<input type="checkbox"/>
Investee’s financial sustainability and robustness	<input type="checkbox"/>
Investee’s degree of innovation	<input type="checkbox"/>

8. How is the non-financial return measured?

Select with [X] your choice

Trough KPIs previously defined by both parts	<input type="checkbox"/>
With calculations like the SROI or equivalent	<input type="checkbox"/>
Is not measured	<input type="checkbox"/>
Other (please specify): _____	<input type="checkbox"/>

9. How important is the social and environmental return for your investors?

Scale from [1] “Not important” a [6] “Very important”

Degree of importance	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

10. What is the average return on investments in the last year?

Select with [X] your choice	
0-5%	<input type="checkbox"/>
6-10%	<input type="checkbox"/>
11-15%	<input type="checkbox"/>
16-20%	<input type="checkbox"/>
21-25%	<input type="checkbox"/>
+25%	<input type="checkbox"/>

11. How much do you agree with the following statement: “The average return on investment is above expected”?

Scale from [1] “Strongly disagree” a [6] “Strongly agree”	
Degree of agreement	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

12. How much do you agree with the following statement: “The average return on investments is lower in green firms compared to brown firms”?

Scale from [1] “Strongly disagree” a [6] “Strongly agree”	
Degree of agreement	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

13. What is the correlation between adding sustainability to an investment and the financial return of that same investment?

Select with [X] your choice						
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
[1]	[2]	[3]	[4]	[5]	[6]	[7]
Very Negative	Negative	Slightly Negative	No Correlation	Slightly Positive	Positive	Very Positive
I have doubts / No opinion						<input type="checkbox"/>
Prefer not to answer						<input type="checkbox"/>

14. How much do you agree with the following statement: “In the investments we make the risk adjusted return is higher when compared to investments without any social or environmental restriction”.

Scale from [1] “Strongly disagree” a [6] “Strongly agree”	
Degree of agreement	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

15. What are the main reasons to follow an investment strategy focused on sustainable investments? Rank them according to its relevance from [1] to [6].

Scale from [1] “Less important” a [6] “Most important”	
Higher sharpe ratio compared to conventional investments	<input type="checkbox"/>
Social and environmental concerns	<input type="checkbox"/>
Less competition compared to conventional investments	<input type="checkbox"/>
Higher financial returns compared to conventional investments	<input type="checkbox"/>
More demand compared to conventional investments	<input type="checkbox"/>

Other (please specify): _____

16. How much do you agree with the following statement: “There are other type of sustainable investments that offer higher returns than investments the fund makes”

Select with [X] your choice					
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
[1]	[2]	[3]	[4]	[5]	[6]
Totally disagree	Disagree	Slightly disagree	Slightly agree	Agree	Totally agree
I have doubts / No opinion					<input type="checkbox"/>
Prefer not to answer					<input type="checkbox"/>

17. How hard was the creation and implementation of procedures to follow EU’s requirements about sustainable investments?

Scale from [1] “Very easy” a [6] “Very hard”	
Degree of difficulty	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

18. How much do you agree with the following statement: “Following EU’s regulations is easy”?

Scale from [0] “Strongly disagree” a [6] “Strongly agree”	
Degree of agreement	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

19. How much do you agree with the following statement: “Following EU’s requirements is time consuming and has significant costs”?

Scale from [1] “Strongly disagree” a [6] “Strongly agree”

Degree of agreement	<input type="checkbox"/>
I have doubts / No opinion	<input type="checkbox"/>
Prefer not to answer	<input type="checkbox"/>

20. How are the non-financial returns communicated by the investees and by the fund?

21. What is the biggest challenge for sustainable investments?

22. Is always possible to measure non-financial returns? If yes, how? If no, how is it evaluated?

23. Is there an adjustment in required financial returns when the investments have a bigger social and environmental base? If yes, how is it done?

24. What are the expectations for the sustainable investments market in Portugal?