



cio investment club

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Social Impact Investing White Paper: Sizing up the Opportunities



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Contents

- 03 Introduction
- 04 Defining characteristics
- 05 Striking a balance
- 07 Horses for courses
- 08 Measuring up
- 09 One step forward
- 10 Participants

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Social Impact Investing White Paper: Sizing up the Opportunities

Social impact investing is on the rise, with the market valued at £10bn in 2023, up from £9.4bn in 2022, according to Better Society Capital.



However, social impact investing still lags other markets under the umbrella of sustainable investment. Reasons for this could include the more nebulous characteristics of social impact investing, its leaning towards smaller organisations and niche investments, and a lack of clarity on how achieving social outcomes are balanced with delivering financial returns.

Furthermore, while investors generally acknowledge that social impact investing tackles social issues and drives change while generating financial returns, it is often bundled in with impacting investing and ESG frameworks, rather than identified as a standalone strategy.

Plus, concerns have been raised on inconsistencies between how fund providers market their social impact goals and whether they're prioritising financial returns over impact.

Pension funds and charities, endowments and foundation are still the largest investors in the social impact market, providing 21% and 14% respectively of investment, mainly in social and affordable housing initiatives. Which begs the question, are the characteristics of certain social impact investment a better fit for some institutional investors than others?



Defining characteristics

The cio investment club hosted a roundtable to examine the strategies employed by social impact fund managers, how asset owners are approaching social impact investments, and the ways in which the industry as a whole can tackle the challenges facing the sector.



Lars Hagelman, chief operating officer at Big Issue Invest, had a clear view on distinguishing between social impact and impact investing.

“Social impact investing is straightforward; we fund an organisation that is dedicated to creating a positive social change, which enables us able to measure the social impact of their work.

“There are nuances as to what that effectively means, but for us the definition is clear; if you can measure what social impact a cohort has, that is social impact investing. If you cannot measure any change or maintain that social impact, then that is a real challenge.”

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Lars admitted social impact investing does not deliver the same commercial returns as impact investing, adding: “I do not put social impact and impact investing on the same spectrum. Impact investing is reporting impact and social impact investing is delivering impact – two completely different things.”

Craig Campbell, UK head of responsible investment at Aon, put forward that Aon has some pension fund clients who invest in affordable housing – which makes an impact by providing housing for local communities – while adhering to the financial return parameters in place to meet the provisions of their Statement of Investment Principles.

However, Lars countered that, while there may be pockets of affordable housing in the UK, ‘affordable housing’ in London, for example, is a misnomer.

“In London affordable housing is 20% below normal rent. That’s not affordable. It’s the government’s definition of affordable housing, but many normal people can’t afford that. There are plenty of people who have a job yet still have to go to a food bank to ensure they can feed their family.”



Striking a balance

Peter Martin, investment officer at the MDU, questioned whether social impact and targeting returns on investment are mutually exclusive.

“There are some investors who want to do ‘good’ and are potentially agnostic to producing a return. However, there are asset owners who want to do ‘good’ but must produce a return for clients. There’s a balance to be struck. We represent financial institutions that have a need to generate a sufficient and meaningful return to meet our liabilities and claims but in a context of being responsible investors.

“Whoever the asset owners are investing with, fundamentally they need to provide a credible process so there is confidence you will receive a positive return on investment over a specified timeframe, consistent with what was outlined under the premise of social impact investing.”

Stephan Breban, CEO at Giants’ Shoulders Capital, suggested there are “arbitrage opportunities” among companies operating in the social impact sector that are caught in the crossfire of the ESG backlash and a pushback on “woke liberalism”.

“I accept there can be areas where you’re going to get a lower return. But there’s an arbitrage opportunity in that a lot of social investment is tainted by accusations of being a woke liberal, which puts people off. In America people are being diverted away from renewables, for example, which has driven down the prices of solar panels and turbines. That makes the opportunity for investing in renewables in Europe, Canada and Australia much more attractive.”

There are also diversification benefits to be found in social impact investing, Stephan added. Case in point, affordable housing, one of the better-known sectors under the umbrella of social impact investing, has limited correlation with the wider real estate market.

“Social housing may have some correlation with the rest of the real estate market, but it’s not going to be +1, it’s



going to be significantly below that. So by investing in these areas you’re getting diversification, which arguably means the return doesn’t need to be as good. Diversification may not mean a free lunch, there is still work to be done, but the opportunities are there.”

Blended portfolios can potentially provide a solution in this respect, but the way they are constructed and marketed can prove a sticking point at a time when whispers of tokenism abound. Indeed, concerns have been raised on the way fund providers market their social impact goals, with some suspected of prioritising financial returns over impact.

“A blended portfolio with 10%-20% in social impact investments could make a big social impact with a slightly lower return,” said Lars. “That would completely change where we’re heading. But that’s not how it is right now.”

In the current status quo there are social impact funds struggling to generate a high single-digit return on one side, and so-called impact firms ‘social washing’ on the other, he claimed.

“Some private equity firms that have recently launched impact funds are executing the same deals as they were previously but some of the deals are categorised as impact investments. But overall, the portfolio, and what the firms does is not that different.”

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Horses for courses

Pension funds are the largest investor in the social impact market, providing 21% of investment, mainly in social and affordable housing initiatives while endowments and charities are the second biggest, responsible for investing 14%.

Ryan Higgins, investment manager, private credit, at Phoenix Asset Management, explained the long-term fixed cash flow from social housing is a good match for Phoenix's long-dated pension liabilities, which stretch up to 50 years.

"Social Housing not only provides long-dated cashflows that are a good match to pension liabilities but also the underlying revenues are inflation linked, which means margins do not compress from an increasing cost base."

He added that from an insurance company perspective and the Solvency II requirements, social housing is low risk compared to corporates, although Peter warned the introduction of EPC ratings and the potential for rising inflation could put pressure on the sector.

"Investing in social housing has got to be based on affordability for the tenants. If inflation goes through the roof tenants won't be able to afford to rent," Peter said.

Asset-backed, long-term investments may be a good fit for large-scale investors, but as social impact enterprises

have evolved and become localised, it is becoming more challenging for the big players to invest in smaller companies.

"The social impact market has evolved over the past 20 years and there are more players in the space, operating in healthcare and supporting those who are homeless or excluded from education. But that has led to the market becoming fragmented and investors are trying to fund smaller portions of the market. It's an issue in the UK," Lars said. "In the UK ticket sizes are £50m and above. There's a limited number of organisations that need £50m of investment."

Craig suggested local place-based investments could help address the disparity of needs, while Ryan was optimistic the Mansion House Compact would support investment in social enterprises.

Craig said he is seeing more strategies emerging for institutional assets that invest in UK affordable housing, adding that depending on the location, it may be possible to negotiate segregated arrangements with the fund manager, whereby the asset owner can invest a small proportion of the portfolio in their local community.

"Not everyone is going to be able to do that, but place-based investing is rising in demand for investors such as local authority pension funds. Although in many cases there's often a limited supply of place-based investments that also meet other

investment criteria," Craig said. "Plus, in general, it makes sense to diversify across regions to limit the impact on the investment portfolio of stranded asset and other downside risks."

Ryan responded: "As a signatory of the Mansion House Compact, with a focus on a UK-based LTAF, we see the venture and private credit-type investments which come with smaller ticket sizes helping to spark some of growth."



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Measuring up

Assessing and quantifying the outcomes of investments is key to attracting capital but remains an ongoing challenge across the spectrum of impact investing, although Lars posits analysts dealing with environmental metrics have an easier time of it.

“Environmental metrics are more straightforward to look at because if you’re brutal you can combine everything down to emissions. Measuring social impact is extremely challenging. How can you combine the factors from free dental care to end of life care and Robin Hood nursery models?”

“I would love to see impact measured on a balance sheet basis; not just measuring the positive output of a company but the negative side too. Then you would probably get a completely different picture.”

Craig agreed measuring social impact “does need to be bespoke”, and said the industry is moving on from aligning with the SDG framework as best practice.

He gave the example of Aon, which produces analysis for clients illustrating the investment portfolio’s exposure to fossil fuels and other potentially harmful sectors and companies, but added he was wary of the governance burden and costs that bespoke metrics would place on the trustees of pension schemes, as well as the ease of comparing projects and companies on a consistent basis.

Stephan raised the point that benchmarking performance is a powerful tool because no-one wants to be an outlier.

“When you start measuring something, behaviour changes. When CAPS – combined actuarial performance services – was set up by actuaries to measure the performance of hedge funds, everyone started trending towards the average rather than aiming for the best possible return, because if they got it wrong, they were going to get hammered. But on balance it was hugely beneficial.”

In late 2024 the Taskforce on Inequality and Social-related Financial Disclosures (TISFD) was launched by a coalition of companies, institutions and organisations to address inequality and financial risks relating to social issues. But will organisations be open to adopting another framework?

“I’ve been asking fund managers about TISFD,” said Peter. “It is still nebulous because the full infrastructure



is not yet in place for reporting, and many are not fully conversant with this important topic. But you need to start somewhere and ask the questions. If asset owners/investors such as us ask about social disclosures, it will make the point to that this is an area that is important to us, and that they need to invest the time money and resource and integrate this fully into their process and philosophy and disclosure.”

Ryan added asset managers will need to ensure they can walk the walk as well as talking the talk.

“Many asset managers don’t have the reporting infrastructure to answer portfolio-level questions on ESG-related metrics, despite marketing themselves as having strong ESG credentials,” he said.

Stephan took a firm stance that another framework is not the answer.

“We don’t need another framework. Having 20 different frameworks which are all slightly different is not helpful. What we need is something to manage those frameworks and help them evolve over time.”

“If you have a legislative reporting route then everyone has to report on it and the money doesn’t flow to whoever shouts loudest.”

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One step forward

Commenting on the future for the social impact sector Peter voiced a concern that any potential ‘pushback against ESG’ in the US, whether perceived or real, could also filter across to Europe and halt or diminish flows into those areas.

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Craig agreed that was a risk, with populist politics starting to take more of a hold in the UK – citing the example of recent local council election results – albeit not to the same extent as the pushback in the US, as sustainable investing in the UK and Europe continues to grow.

Lars remained sanguine on the outlook for the sector.

“We need to celebrate the journey so far – we’ve come to a point where social impact investing is on the

table,” he said. “Nobody was talking about this 10 or 15 years ago. We had to explain to people what social impact investing is.

“Growth in the sector might slow down because there’s a blip in the system with ESG targets being erased from some large corporations, but I’m confident there will be more and more money allocated to the social impact market, and at some point, we will be able to measure this. Hopefully within five to 10 years.”





Participants



Craig Campbell

UK Head of Responsible Investment and Senior Investment Consultant, Aon

Craig is an Associate Partner and UK Head of Responsible Investment (RI) at Aon, overseeing the development and delivery of the RI proposition. As well as leading a team of c.20 RI specialist consultants, Craig leads on the delivery of market-leading RI advice and discussions across clients directly, including some of the investment practice's largest accounts.

He is actively involved in representing Aon across several collaborative industry-wide sustainability groups and serves on the Institute and Faculty of Actuaries' Sustainability Research and Thought Leadership Subcommittee, and the Cambridge Institute for Sustainability Leadership's Investment Leaders Group.

Keen to share his own experiences from his mixed-race heritage, Craig is a proud and active member of Aon's Multicultural Network Committee and Aon's Retirement and Investment Inclusion Group. He also mentors and coaches other Aon colleagues as well as external mentees through the Moving Ahead "Mission Include" program.



Peter Martin

Investment Officer, Medical Defence Union

Peter is the Investment Officer for The Medical Defence Union and has been with the MDU since 2016. He has over 30 years' experience as a senior investment professional.

Prior to joining the MDU, Peter was head of manager research at JLT Employee Benefits and before this at Aon Consulting. Peter's investment research specialisms have included bonds, LDI and property. He is currently a member of the Investor Committee of the Association of Real Estate Funds.

Peter was also a member of the Society of Pension Professionals (SPP) Investment Committee for many years and in addition was a member of the Investment Committee to the Pensions Board of the Institute of Actuaries. More recently, Peter was a member of the Management Committee for the Association of Member Nominated Trustees and a Trustee for the MDU Pension & Life Assurance Scheme.

He is a Fellow of the Institute and Faculty of Actuaries and also holds the Investment Management Certificate (IMC).



Stephan Breban

Head of Research, Renewity

Over 30 years advising pension plans on private equity investment and GP/fund of funds selection.

Stephan started out with Bacon & Woodrow (now Aon) in London in 1988 covering private equity manager research and selection. After working for different larger pension plan consultants Stephan decided to strike out on his own to provide a conflict free service to institutional investors. Throughout his career he has advised pension plans, and other institutional investors, on a range of investment issues but, focused on private markets.

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Lars Hagelmann

Chief Operating Officer, Big Issue Invest

Lars Hagelmann is the Chief Operating Officer and the Chief Investment Officer at Big Issue Invest and a senior investment executive with over 20 years' experience leading impact-driven portfolios across Europe, Asia, and the Middle East. He specializes in ESG integration, fund management, and strategic leadership in regulated social finance environments.

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Ryan Higgins

Investment Manager, Phoenix Group

Ryan is an Investment Manager within Private Markets, a vertical of Phoenix's Capital Markets Division, tasked with the origination, credit due-diligence and execution of Private Credit assets that meet the requirements of a Solvency II Balance Sheet and are aligned to Phoenix's Sustainability Framework.

Graduated from Heriot-Watt University in 2013 with BSc Honours in Mathematics Statistics & Actuarial Science. Holds various Actuarial CT exams, the Investment Management Certificate (IMC) and is a CFA Charter holder.



In attendance



Beth Brearley (Moderator)

Freelance Writer

Beth Brearley is a freelance writer specialising in asset management, institutional investing and private equity.

A former editor of several prominent B2B titles, Beth has spent almost two decades covering the financial services sector.



Sean Thompson

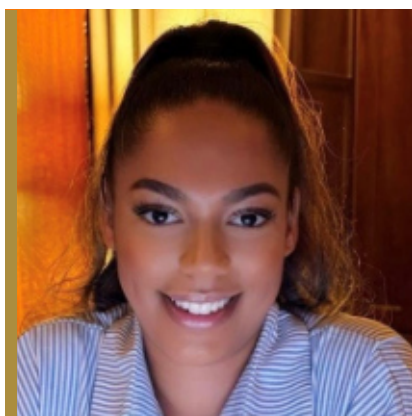
Founder & Director, cio investment club

Sean has nearly 40 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

The cio investment club's mission is to become the voice of chief investment officers and investment professionals at institutional firms. To help achieve this the club hosts events throughout the year that educate and inform, whilst providing thought-provoking content to its members.



cio investment club



Chloe Irapah

Administrator, cio investment club

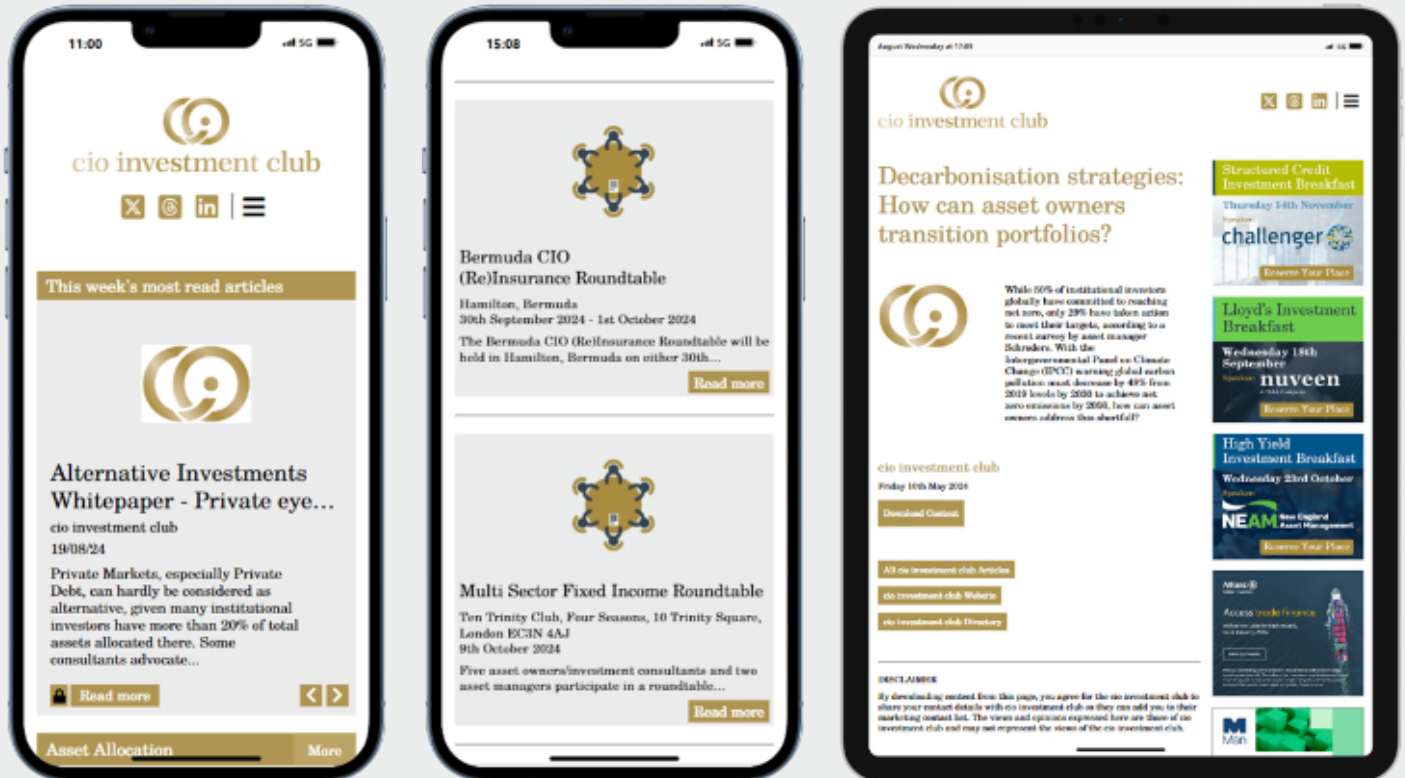
Chloe joined the cio investment club in June 2025 to assist with the coordination of marketing, events, and administration of the club.

Chloe is a Marketing and Management professional with over six years of industry experience, starting in luxury fashion and progressing into roles focused on partnerships and project management.

She holds a First Class Honours Bachelor's degree in Marketing and Management and is known for aligning brand vision with innovative marketing strategies and impactful partnerships.



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