

DEEP DIVE: THE RISE OF PRIVATE ALLOCATORS

Introduction

The global development finance ecosystem is undergoing profound disruption. With the dissolution of USAID and a reorientation of U.S. fiscal policy inward, public funding for international development and impact initiatives has sharply contracted. This has intensified a systemic financing gap, particularly across emerging and frontier markets.

In this new environment, private asset allocators—institutional investors, family offices, foundations, corporations—are no longer merely complementary actors; they are becoming the architects of impact finance. In this deep dive, we will explore the evolving role of private asset allocators as they step in to fill the gap left behind by government funding sources. We believe these asset allocators have strategic advantages that can be utilized to create continued impact and propose an adaptive framework to structure impact investments absent traditional government underwriting.

Rather than presenting private capital merely as a “replacement” for public funds, we believe that this is a secular shift: a redefinition of how systemic global challenges—climate change, inequality, health, and education—are financed in a multipolar world.

The collapse of traditional public funding

The closure of USAID, which provided [28% \(\\$64 billion\) of global development aid in 2023](#), has left major gaps in healthcare, clean energy, and gender equality programs, particularly in Sub-Saharan Africa and Southeast Asia, driving a 40% surge in unmet financing needs for climate resilience infrastructure. Meanwhile, the U.S. administration’s pivot toward domestic infrastructure and a tariff-driven sovereign wealth fund deprioritizes global challenges. Newly imposed tariffs—[including a 20% duty on EU goods and a 104% tariff on Chinese imports](#)—threaten to inflate supply chain costs for impact ventures, while proposals to extend corporate tax cuts risk constraining federal budgets and weakening co-investment in critical climate and development initiatives.

As this evolution continues, more investors are embracing private market opportunities, such as impact investing, that aims to offer deeper impact potential and diversified returns. This shift marks a transformative moment for the field, as it seeks to fulfill both financial goals and a broader moral mission.

Catalytic capital — reframing risk to unlock systems change

The recent limited funding role of the U.S. government has redefined the role of catalytic capital. Historically seen as gap-fillers for government or market failures, catalytic investors are now central players in creating entirely new investable markets. In the absence of robust public funding, catalytic capital is reframing risk, absorbing innovation risk, and changing how systemic global challenges are financed.

Catalytic investors - family offices, foundations, development finance institutions—are stepping into roles once occupied by governments, providing first-loss positions, guarantees, and flexible instruments (e.g., revenue-based finance, mezzanine debt) that reset market risk perceptions.

Key Insight: Catalytic capital is no longer just about “filling a gap”; it is about building new investable markets.

Leading Allocators of Catalytic Capital

Allocator Type	Example Actions
Family Offices	Bloomberg Philanthropies’ decision to cover U.S. climate dues after the country’s withdrawal from the Paris Agreement and Melinda French Gates’ \$1 billion pledge to advance women’s rights and leadership globally.
Foundations and Donor-Advised Funds	The Skoll Foundation has committed \$25 million to offset U.S. federal spending cuts that threaten critical international aid programs. The MacArthur Foundation has increased its payout rate to 6% —above the standard 5%—to address urgent needs, a move in line with its past emergency responses, such as its \$125 million commitment during the COVID-19 pandemic. Ceniarth and an aligned DAF investor backed a Canadian asset manager to deploy gender-smart capital across Latin America and the Caribbean, catalyzing a broader wave of gender-lens investments.
Development Finance Institutions	Over the past decade, British International Investment has deployed \$1.9 billion in catalytic capital to drive impact, inclusion, and unlock commercial investment in emerging markets.

Market rate capital — from follower to force multiplier

Once catalytic capital seeds an investment or industry, market rate investors bring scale, standardization, and liquidity. Today, market rate capital is not passive. Many large allocators are redefining fiduciary duty to include sustainability and long-term systemic resilience. Market rate capital brings rigorous governance, pricing discipline, and secondary markets, accelerating the normalization of impact sectors within mainstream portfolios.

In today’s environment—marked by rising systemic risks, widening funding gaps, and urgent climate and social challenges—market rate capital must be more agile. Investors are being pushed to embrace greater risk, seek catalytic partners, and engage earlier in the investment lifecycle than ever before. Collaboration is no longer optional; it is critical to achieving both impact outcomes and resilient long-term financial returns.

Key Insight: Institutional investors are increasingly viewing sustainability and impact not as “concessions” but as essential to long-term alpha generation.

Leading Allocators of Market Rate Capital

Allocator Type	Example Actions
Institutional Investors	CalSTRS (California State Teachers' Retirement System) aims for 50% GHG emissions reduction by 2030 and net-zero by 2050 , allocating over \$20 billion to sustainable assets. In 2024, it awarded a \$150 million mandate to Ninety One's Global Environment strategy. Similarly, \$502.9 billion in assets, is more than halfway toward its goal of investing over \$100 billion in climate solutions by 2030 . As part of its Sustainable Investments 2030 strategy, CalPERS has already committed over \$53 billion to climate adaptation, transition, and mitigation initiatives. The strategy also targets a 50% reduction in portfolio emissions by 2030 and net-zero emissions by 2050. For example, in late 2024, CalPERS expanded its commitment to Nuveen Real Estate's affordable housing strategy with an \$400 million, bringing its total investment to \$500 million.
Pension Funds	Pension funds globally are scaling up impact investments. European giants APG and TIAA awarded a \$475 million impact investing mandate to Arcmont Asset Management in 2024, while PGGM is prioritizing Paris-aligned private equity and co-investments. Meanwhile, Canadian fund CDPQ has invested \$47 billion in low-carbon assets and committed 79% of its portfolio to ESG integration.

The growing importance of the interaction of catalytic and market rate capital collaboration

In a world of severe funding gaps—exacerbated by the retreat of federal funding—collaboration between catalytic and market-rate capital is becoming essential. This interaction ensures that risk, return, and depth of impact are optimized across all stages of the private investment lifecycle.

Investment Phase	Catalytic Capital Role	Market Rate Capital Role
Early Stage/High Risk	Provides first-loss guarantees, patient equity	Observes market formation; enters selectively
Growth Stage	Deploys flexible growth capital, derisks scaling	Co-invests in scaling ventures, targets competitive returns
Maturity/Exit Stage	Recycles or exits	Dominates ownership, seeks liquidity and impact sustainability

Unique structures emerging

As public funding retreats and systemic financing gaps widen, innovative structures that bridge risk appetites and mobilize private capital have moved from optional to essential. They now serve as critical infrastructure for sustaining and scaling impact markets in a reshaped global funding environment.

- **Blended Finance Vehicles:** Blended structures enable family offices and foundations to absorb first-loss positions, thereby unlocking institutional capital at scale.
 - For instance, the [\\$1.1 billion SDG Loan Fund](#), led by Allianz with catalytic backing from FMO and the MacArthur Foundation, demonstrates how blended finance structures align institutional risk appetites while driving climate and development impact.
 - Similarly, [the CrossBoundary Energy Fund](#), supported by the Shell Foundation and the Rockefeller Foundation, how blended finance can unlock institutional capital for commercial and industrial solar projects in Africa. By using catalytic grants and concessional funding to de-risk early investments, the fund has mobilized long-term private capital to expand access to affordable, clean energy across underserved markets.
- **Impact Linked Incentives:** Pricing tied to KPIs is emerging as a powerful tool to align financial incentives with impact outcomes.
 - Acumen's [Hardest to Reach initiative](#) uses Impact-Linked Financing, where loan pricing adjusts based on how successfully enterprises serve last-mile and off-grid communities; for instance, Acumen's investment in Zambia's RDG Collective.
 - Similarly, Lendable's [Decarbonization Fund](#) structures Sustainability-Linked Loans (SLLs) where borrowers receive margin reductions upon meeting climate-related performance targets, such as expanding green fintech products or financing low-carbon micro, small, and medium enterprises. Unlike traditional SLLs, Lendable's model offers only positive incentives without penalties for underperformance. While Acumen focuses specifically on last-mile energy access and extreme poverty, Lendable applies KPI-linked pricing to accelerate climate-aligned growth among early-stage digital lenders. Together, these approaches demonstrate how pricing incentives can de-risk early-stage investments and catalyze private capital into high-impact sectors.
- **Debt-for-Nature Swaps:** Debt-for-Nature Swaps involve sovereign debt conversions linked to biodiversity and climate goals.
 - The Walton family office, through the ZOMA Foundation, provided early catalytic support to help [establish a coalition focused on scaling these swaps](#). This coalition is building a shared pipeline of sovereign debt conversion projects and developing the first global practice standards for nature- and climate-related outcomes. By stepping in early, the Walton family office helped lower barriers for other investors, accelerate project development, and lay the foundation for a scalable market in nature-focused sovereign finance.

- **Outcome-Based Financing:** Outcome-Based Financing (OBF) ties investor returns directly to independently verified impact outcomes, increasingly attracting private capital into social and climate solutions.

- In OBF structures like the Educate Girls Development Impact Bond (India), investors earned returns only after third-party verification showed significant improvements in girls' enrollment and learning.
- Similarly, the Cameroon Cataract Bond financed thousands of eye surgeries, repaying investors based on verified health outcomes. This approach can be applied to sectors like renewable energy, resilient infrastructure, and agriculture, linking financial rewards to measurable development results.

Key Insight: Successful structures actively manage impact alpha and financial alpha as co-equal objectives, not sequential ones.

Conclusion: private capital for risk, return, and impact

Recent events mark a fundamental realignment: private capital is no longer a supplement to public finance—we believe it is the cornerstone of global progress. For financial advisors and asset allocators, the opportunity is clear: achieve measurable impact without compromising downside protection or returns.

Innovative structures like blended finance vehicles, first-loss guarantees, and impact-linked incentives allow investors to mitigate risk while accessing new markets with strong growth potential. By participating in catalytic strategies, investors can position portfolios for sustainable upside while protecting against early-stage volatility.

A path forward:

- **Go Beyond Risk-Return:** Look at impact materiality alongside financial materiality.
- **Innovate Capital Stacks:** Embrace bespoke structures that offer both principal protection and upside participation.
- **Prioritize Measurement and Verification:** Use frameworks like IRIS+, SDG-aligned KPIs, and third-party audits to ensure transparency and maintain performance discipline.

Private allocators are uniquely positioned to align impact, risk, and return—not as trade-offs, but as co-equal objectives. Those who seize this opportunity will not only drive portfolio resilience but also help define the future of sustainable investing.

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