

IMPACT INVESTING 2.0

THE WAY FORWARD – *Insight from 12 Outstanding Funds*

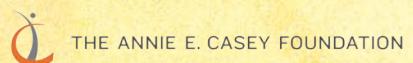
NOVEMBER 2013



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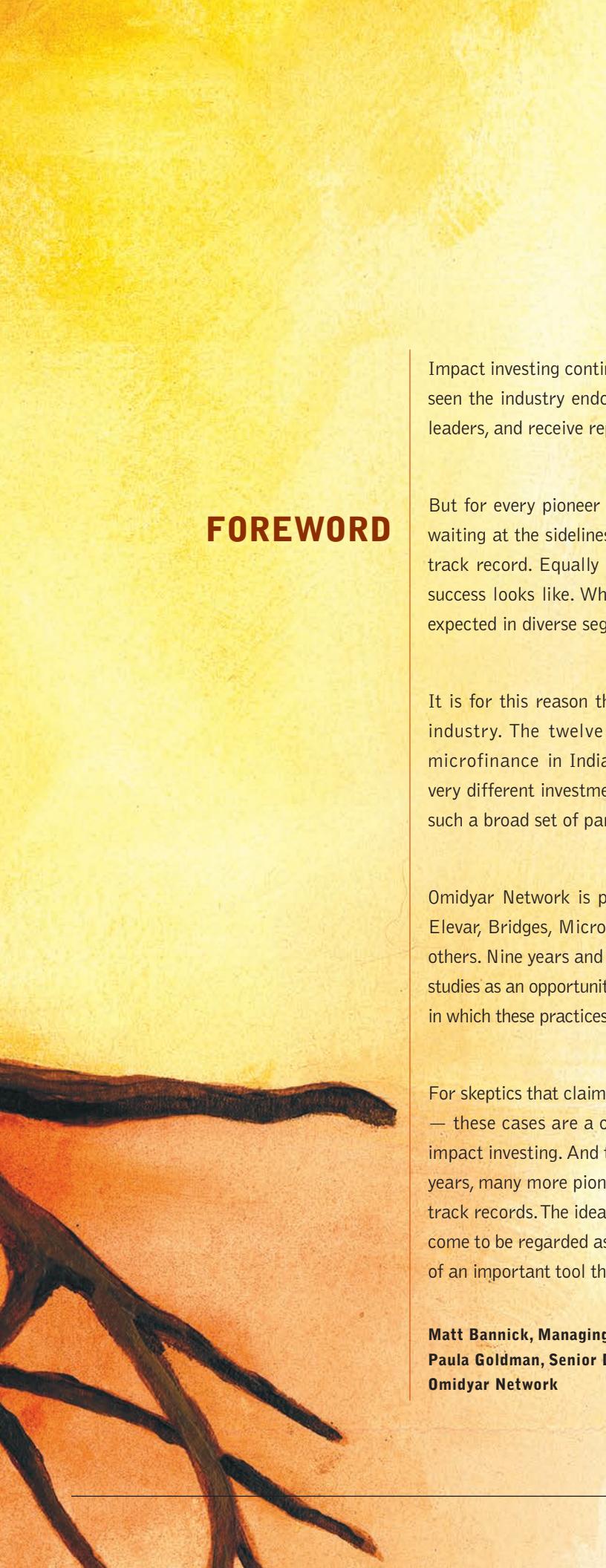
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The views expressed in this research are those of the authors alone – as are the errors and omissions.

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FOREWORD

Impact investing continues to capture the world's imagination. In the past few years, we've seen the industry endorsed by some of our biggest financial institutions, taken up by G8 leaders, and receive repeated coverage in major newspapers.

But for every pioneer blazing a path forward in impact investing, there are many others waiting at the sidelines. They have indicated they need more robust data about the field's track record. Equally if not more important, they are waiting for a clear vision of what success looks like. What reasonable combinations of social and financial returns can be expected in diverse segments of the industry?

It is for this reason that Impact Investing 2.0 represents a major step forward for the industry. The twelve funds profiled herein work in vastly different sectors, from microfinance in India to sustainable property in the UK, and have accordingly pursued very different investment strategies and approaches to social impact. Their success across such a broad set of parameters offers many lessons for the industry and beyond.

Omidyar Network is proud to be an investor in many of these leading funds—including Elevar, Bridges, MicroVest, and SEAF—and a partner in field-building with many of the others. Nine years and 630 plus million dollars in to our own journey, we look at these case studies as an opportunity to understand best practices for impact investing funds, and the ways in which these practices may differ from (and, indeed, be similar to) mainstream investing.

For skeptics that claim no one can serve two masters — financial success and social impact — these cases are a clear signal of the diversity of paths towards high performance in impact investing. And they are but the tip of the spear. We are confident that in the coming years, many more pioneering impact funds will mature and inspire us with their successful track records. The idea that it is possible to combine financial return and social impact will come to be regarded as common sense. And in so doing, we will have unlocked the potential of an important tool that can help solve some of our most intractable problems.

Matt Bannick, Managing Partner

Paula Goldman, Senior Director of Knowledge and Advocacy

Omidyar Network

ACKNOWLEDGEMENTS

We would like to acknowledge the numerous partners and colleagues who have provided extraordinary support to our work over the past two years. There are literally hundreds of them and they have taken several key roles.

We must first call out our *funders* without whom this work would not have been possible. Special thanks to Paula Goldman and Rosita Najmi of Omidyar Network, Annie Chen of RS Group, Tracy Kartye of the Annie E. Casey Foundation, Tony Berkley of the W.K. Kellogg Foundation, Asad Mahmood of Deutsche Bank, and Kate Starr of the Heron Foundation, for their engagement with us and within their organizations to build support for this work, and for their innovative work in the market as leading impact investors in their own right.

We are grateful as well to the members of our *expert advisory group*, a global brain trust that has provided important feedback to our work along the way. These include:

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KATE STARR, F.B. Heron Foundation

We have held *four major expert convenings* over the course of the project, two prior to the Skoll World Forum in 2012 and 2013 and two within the SOCAP conference in the same years. Huge thanks to Pamela Hartigan of the Skoll Centre for Social Entrepreneurship at Oxford and Kevin Jones and his team at SOCAP for integrating this project into their events, and for the over 400 participants from all over the world who helped shape our collective thinking.

We are indebted to our leaders at PCV InSight, CASE i3 at Duke, and ImpactAssets, particularly PCV President Beth Sirull, CASE co-founder, J. Gregory Dees, and CASE i3 Advisory Board Chair, John M. Buley, Jr., for their constant guidance. And our staff and students have been busy interviewing and documenting data for this project for over two years. At PCV InSight, we must thank staff members Colby Dailey, Brenna McCallick, and Daniel Brett, and summer interns Christopher Cox and Katya Makovik for their dedicated work. At CASE, nine MBA students engaged with the project, most as part of the CASE i3 Fellowship program:

JAMIE ATTARD

JACK BEUTTEL

VICTORIA GANDY

HA LE

JORGE MENDES

MAILANDE MORAN

BRENDAN MULLAN

GREG PAYNE

JACQUELINE WESTLEY

Thanks also to our *copy editors*, Abigail Lundy and Elana Boehm, for their highly efficient and thoughtful contributions.

And last, but not least, a special thanks to our *interview subjects*: fund managers, investors, entrepreneurs and intermediaries that we interviewed for this project. There were over 150 of them involved in helping us document the lessons of the field

For a full list of organizations that participated in this project this project, see Appendix A on page 37.

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“THE RESEARCH REVEALS A SOPHISTICATED MARKETPLACE
THAT IS MUCH LESS HAPHAZARD THAN MANY THINK AND A PATHWAY
OF PRACTICE AND EXPERTISE OTHERS MAY WANT TO EMULATE.”



ABOUT THE RESEARCH

THE GOAL. The Impact Investor Project was established in 2012 as a two-year research partnership between InSight at Pacific Community Ventures, CASE at Duke University, and ImpactAssets. The goal was simple: supplant the guesswork and conjecture in impact investing with solid evidence of high performance and, in the process, expose the concrete practices of outstanding funds¹ for use as the foundation for a more sophisticated and successful market. An initial report on our project goals was published in March 2012.²

OUR SCOPE. Starting with a list of 350 funds internationally – including many from the community finance, microfinance, and international development sectors that have anchored impact investing – we asked investors in these vehicles which of them had “exceptional performance,” defined as meeting or exceeding the financial and social returns they had promised. In other words, which funds had proven they were successful impact investors to their key stakeholders, regardless of geography, asset class, and blended return objective. Around 30 funds met our criteria, which is described below. From these, we selected 12 to study in detail, representing a diversity of objectives, geography, impact focus, and background. A second report on lessons from our investor interviews was published in October 2012.³

OUR PROCESS. Under strict confidentiality agreements, we made sure the funds fit our criteria: an explicit impact objective; a minimum of five years of operation; demonstrable, realized financial return; and a clear and shareable system of accountability for their impact objectives. We then undertook a 360-degree

interview process that included the funds’ key principals and staff, and selected investors and investees. We also conducted a thorough desk review of agreements, presentations, and reports.

WHAT WE ASKED. Our objective was to try to understand, in each case, what factors led to a fund’s success. A sample of the questions we asked include: What were the fund’s origins? Who were its early champions? What other partners joined along the way and why? What missteps did the fund managers make and how did they correct them? At what does the fund excel? What differentiates the fund from its peers?

12 RICH STORIES. In conjunction with this report, we are releasing 12 fund case studies online over the next three months, through February 2014. Each case study provides thorough context for the notion of performance by impact investing funds as well as insight into world-class learning organizations that have course-corrected carefully throughout their lifespan.

CROSS-CUTTING THEMES. Taken together, the case studies disclose a magnitude of private impact investing fund data never before shared publicly. By applying strict criteria during our fund selection process, and delving into the funds with a consistent research methodology, we have revealed a cross-section of high-performing impact investment funds and, just as importantly, a set of shared attributes that are unique to this generation of fund creation, management, and harvest (from 1981 through 2013).

A PATHWAY FOR FUTURE PRACTICE. What follows is a synthesis of fundamental cross-cutting themes. The research reveals a sophisticated marketplace that is much less haphazard than many think and a pathway of practice and expertise others may want to emulate. As previously stated, two initial publications were released in March and October of 2012. Each of our research initiative’s reports, including this one, will be available at www.pacificcommunityventures.org/impinv2 together with the supporting case studies and videos from our convenings and other events. This report is designed to be a resource for the broad community interested in the future of impact investing, but especially for practitioners: fund managers, investors, entrepreneurs, policymakers, and advisors who are creating and managing new and existing funds, and striving to achieve successful social and financial performance.

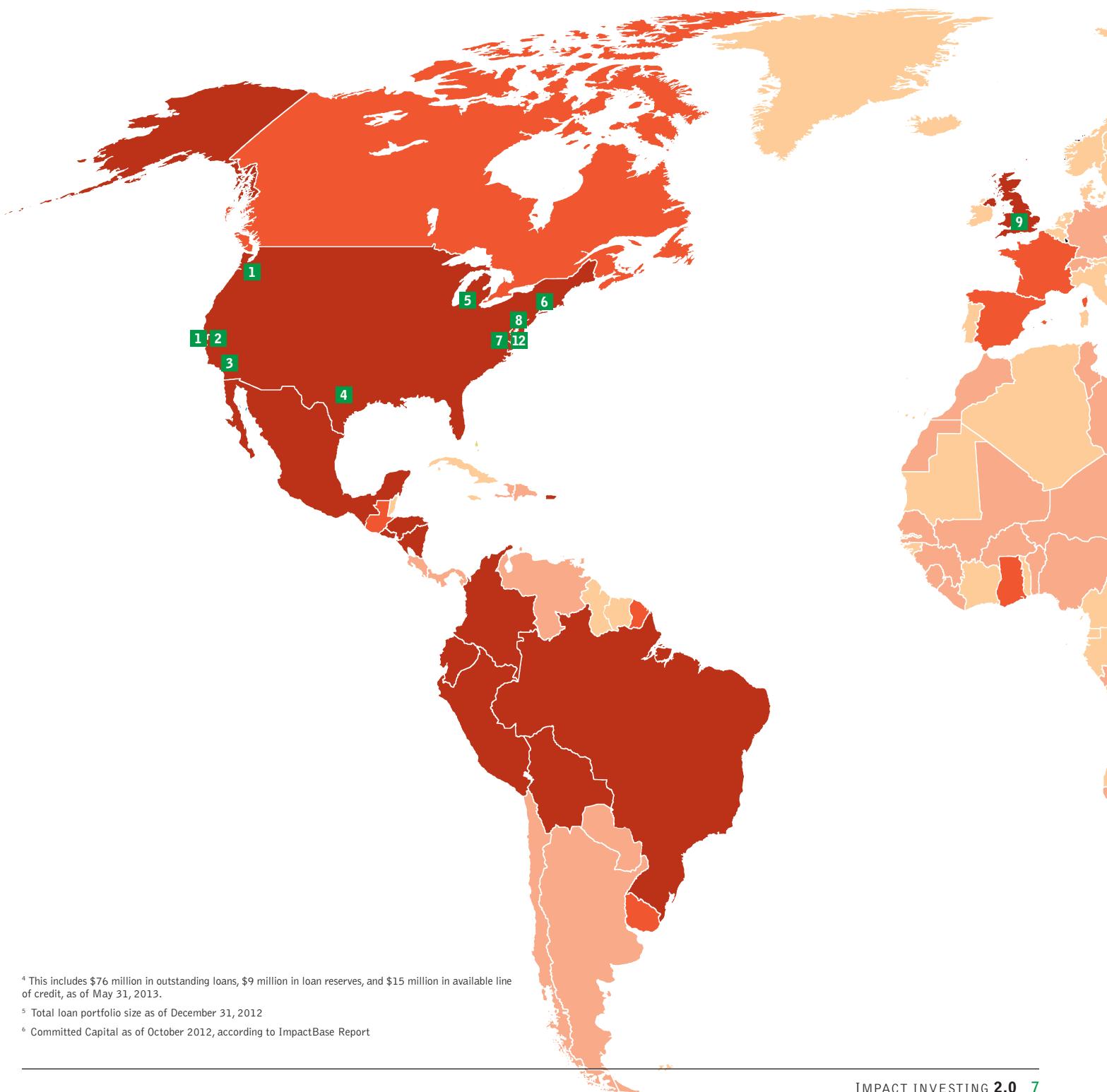
¹ We use the term “funds” to refer to all of our case study subjects as a group. We consider funds to be discrete pools of capital, often time bound, and aggregating third-party capital for the purpose primarily of making direct investments in enterprises and projects. Where there are exceptions – Accion Texas, Business Partners Limited, Calvert Foundation, and the W.K. Kellogg Foundation – we focus on aspects that are analogous to the fund approach.

² “The Need for Evidence and Engagement.” <http://www.pacificcommunityventures.org/reports-and-publications/the-impact-investor-best-practices-in-impact-investing/>

³ “A Market Emerges: The Six Dynamics of Impact Investing.” <http://www.pacificcommunityventures.org/reports-and-publications/the-impact-investor-a-market-emerges-the-six-dynamics-of-impact-investing/>

THE 12 FUNDS

1 ELEVAR EQUITY San Francisco, CA Seattle, WA Bangalore, India Unitus Equity Fund; Elevar Equity II Equity funds supporting essential BOP services \$94,000,000 (combined)	3 HUNTINGTON CAPITAL San Diego, CA Huntington Capital Fund II, LP Mezzanine debt fund \$78,000,000	5 THE W.K. KELLOGG FOUNDATION Battle Creek, MI Mission Driven Investing Diversified strategy including a portfolio of direct investments \$100,000,000	7 CALVERT FOUNDATION Washington, DC Community Investment Note Registered security available to retail investors channeling capital to community and micro finance \$230,000,000⁶
2 RSF SOCIAL FINANCE San Francisco, CA RSF Social Investment Fund Social enterprise loan fund \$101,000,000⁴	4 ACCION TEXAS, INC. San Antonio, TX Community Development Financial Institution providing microloans \$29,782,042⁵	6 DEUTSCHE BANK New York, NY Global Commercial Microfinance Consortium 1 Structured microfinance fund \$80,600,000	8 MICROVEST Bethesda, MD MicroVest I, LP Hybrid low-income financial institution fund \$48,500,000



⁴ This includes \$76 million in outstanding loans, \$9 million in loan reserves, and \$15 million in available line of credit, as of May 31, 2013.

⁵ Total loan portfolio size as of December 31, 2012

⁶ Committed Capital as of October 2012, according to ImpactBase Report

9 BRIDGES VENTURES

London, UK

Sustainable Growth**Funds I and II**

Equity funds targeting high growth, high impact businesses

\$ 184,575,000⁷**10 BUSINESS PARTNERS LIMITED**

Johannesburg, South Africa

Southern African SME**Risk Finance Fund**

Equity and debt fund targeting small and medium size enterprises

\$331,300,000⁸**11 AAVISHKAAR**

Mumbai, India

India Micro Venture Capital Fund (AIMVCF)

Equity fund targeting early-stage rural enterprises

\$9,428,270⁹**12 SEAF**

Washington, DC

Chengdu, China

Sichuan SME Investment Fund, LLCEquity fund targeting small and medium sized enterprises
\$22,512,500**TOTAL FUND ASSETS:**

\$1,309,697,812

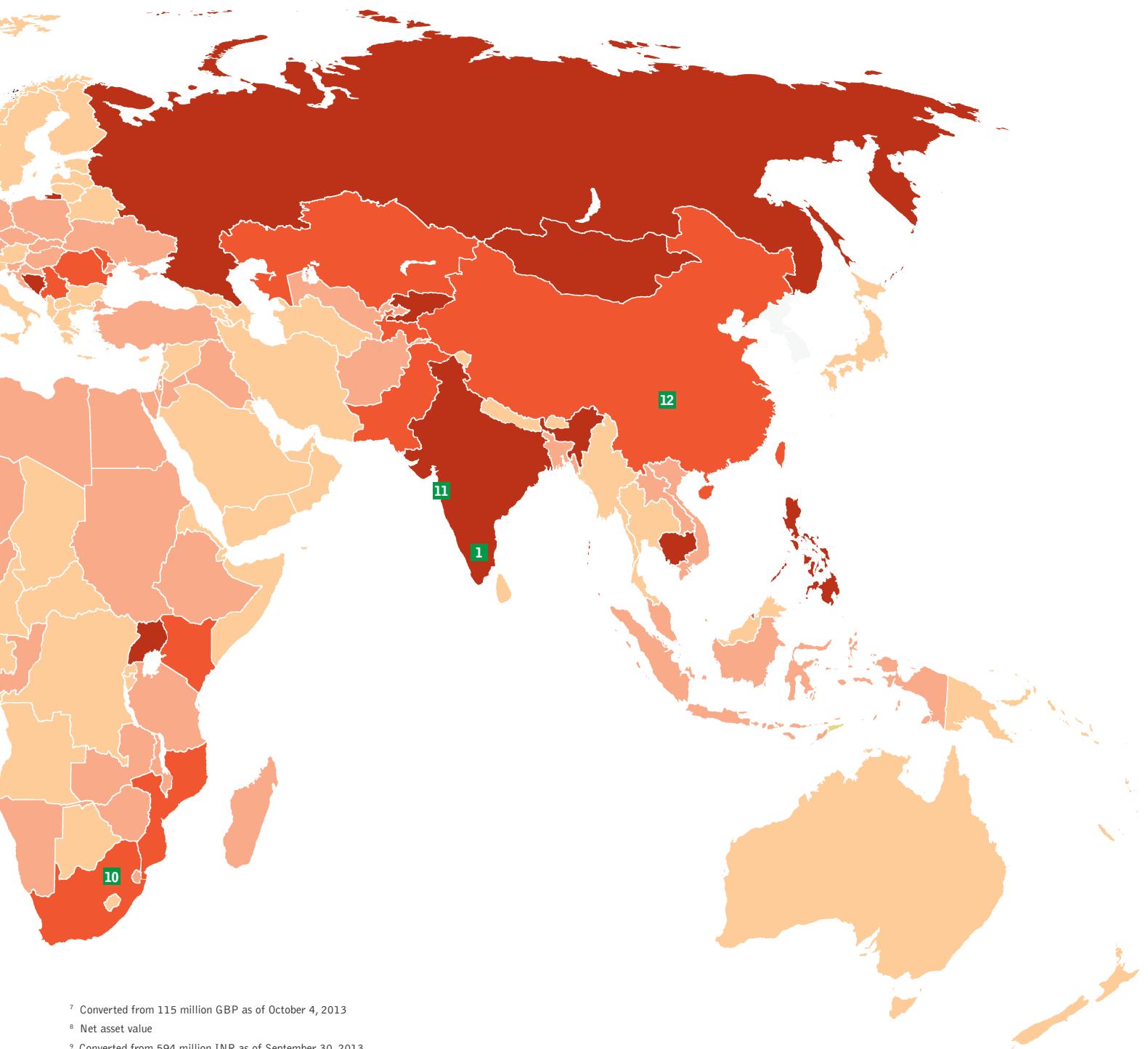
RECIPIENT MARKETS

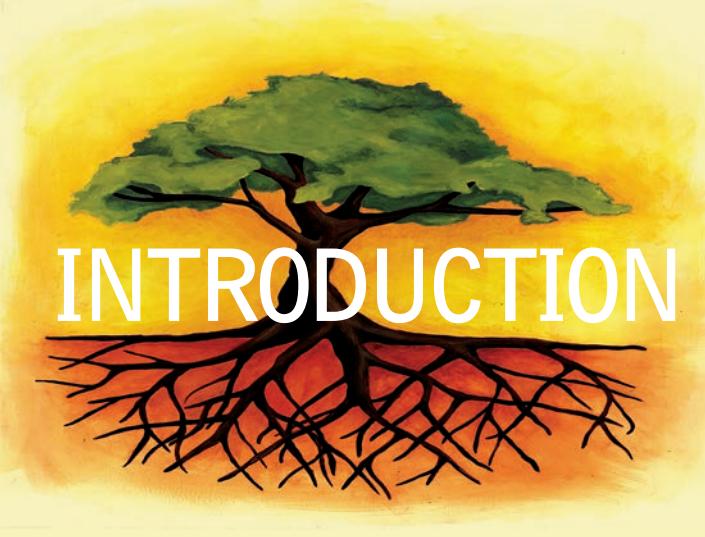
3+ FUNDS INVESTING

2 FUNDS INVESTING

1 FUND INVESTING

0 FUNDS INVESTING

⁷ Converted from 115 million GBP as of October 4, 2013⁸ Net asset value⁹ Converted from 594 million INR as of September 30, 2013



INTRODUCTION

CAPITAL LIVES!

The flow of funds through capital markets is much more than just streaming numbers on exchange boards or endless financial talk shows with their bobbing heads and self-referential commentary; both the numbers and pundits' ruminations reflect human interpretation informed by quantitative analytics. Money moves this way and that because of decisions made and assumptions presumed by living, breathing investors. What counts? What doesn't? What is the trend and where is the future marginal value creation to come?

Capital considerations are the collective, social manifestation of our common values and beliefs, and aggregated investor experience. Each new deal and investment offers a new path forward; each entry of an investor or capital source offers validation of an investment strategy or denies needed capital to other potentially innovative financing ideas. In an academic sense, capital markets evolve in a linear manner from individual deals, to boutique offerings and syndications, to funds and secondary markets, and, finally, to publicly listed companies on multi-tiered exchanges. In the real world, capital markets are alive and sizzling. They writhe, sometimes behind closed doors in private offerings made only to accredited investors, and other times on open platforms of crowdfunding and pulsing financial indices.

The dominant assumption of mainstream investing has been that capital is "objective," continually seeking its highest and best use. In reality capital markets change, learn, and grow into new opportunities and away from punishing experiences. While often hidden behind the closed doors of investment committees and fund manager offices, this process of evolution need not be one of individual investor development alone; rather, it is possible to

track, dive into, and learn from the experiences of those investors (in the case of this research, fund managers) who are pioneering the emerging better practices of impact investment around the world.

While it is popular to state that impact investing is "new" or an aberration from the norm, investors have long sought to use the power of capital to attain various social and environmental ends, including on the positive side of the ledger through practices such as socially responsible investment, community finance, microfinance, and international development. The latest evolution has simply taken us from incidental to intentional impact and the understanding that, while social and environmental factors may affect financial returns, the way in which we manage and allocate capital can also generate positive non-financial impacts that can be directed and measured.

EVOLVING IMPACT AND EMERGING PRACTICE

Other practitioners and researchers have offered thoughtful discussions of the progressive development of impact investing as a defined field of practice.¹⁰ The research conducted for this report is intended to complement this prior work by exploring a new topic: emerging better practices as applied by the managers of leading impact investing funds and proven by data that is often difficult to obtain and aggregate. This is not simply a question of what makes for a solid fund manager (e.g. clarity of investment thesis, a sound and tested management team, deep insight into emerging market opportunities), but rather an exploration of the investment practices that take the fundamentals and apply them toward a new purpose of generating financial return and creating managed, evident impact on individuals, communities, and the planet.

The research findings presented and discussed in the following pages will be of interest, of course, to active impact investors, but also to the committed observer. These findings build on the sound practices of traditional investing and ultimately augment them with considerations of how best to manage capital to optimize value creation along concurrent levels of economic, social, and environmental performance.

Beginning with a universe of 350 impact investing funds, our research team winnowed the observable pool down to 12 and has spent over a year drilling into each, as detailed in the next section of this report. With an eye toward understanding what key factors have undergirded their exceptional performance, we interviewed not only the fund's managers, but the investors in those funds, the recipients of their capital, and the actors within their immediate universe.

¹⁰ See, most recently, Dr. Tessa Hebb in the Journal of Sustainable Finance and Investment, 2013, Vol. 3, No. 2, pages 71 -74, who offers a well-researched and thoughtful discussion of the evolution of impact investing and its relation to responsible investing.

It should come as no surprise that many of the best impact investing funds do, indeed, apply the most disciplined practices from traditional investment firms. But what makes their performance unique are four themes of impact investing that have been hidden from view and sometimes run counter to popular belief.

These four themes are: Policy Symbiosis, Catalytic Capital, Multilingual Leadership, and Mission First and Last. Each

theme represents a unique way to drive consistently impressive financial returns, together with outstanding overall management and profound impacts. When the themes are woven together, they offer an exciting way forward for the new funds and current investors who seek to fulfill their fiduciary duties as actors within capital markets that, in years to come, will only continue to change and expand toward deeper, more sustained impact for investors and communities.





NEW DIRECTIONS

From its origins in socially responsible investing, community finance, microfinance, and international development, impact investing has emerged as a distinct practice. This has warranted the creation of new field-level infrastructure, like the Global Impact Investing Network (GIIN) and Impact Investing Policy Collaborative (IIPC), and spurred volumes of excellent research that have added tremendous depth and, at times, differing conclusions to the conversation among practitioners. For example, new work continues to fuel debates over whether impact investing is a separate asset class and what it means to invest with true impact.¹¹

While such thought experiments are certainly valuable, wrestling with impact investing's existential problem of definition will inevitably keep the market stunted in what we have labeled the "1.0 era." Rather than establish definitive categories for impact investing in the hope this will allow practitioners to move forward with greater confidence, we set out to look at the current state of the market, and to define success as it is actually being achieved.

In our research, we focused on the Investment Fund segment of the impact investing ecosystem, as distinct from Capital Providers or Investment Targets (categories defined by the World Economic Forum, shown in Figure 1).¹² As we described in our first report, *A Market Emerges: The Six Dynamics of Impact Investing*, funds are essential intermediaries and provide a prime vantage point from which to examine the entire sector:

While funds do not have a monopoly on knowledge by any means, they provide an excellent locus for the purposes of this research with their on-the-ground experience of interacting with hundreds of companies and their ultimate responsibility for delivering the blended financial and social performance upon which the case for impact investing rests. Indeed, when funds succeed, many important results follow that can positively impact the development of the field: limited partners increase their investments over time, replicable financial structures emerge for new pools of fund capital, entrepreneurs have clear guideposts of what to expect of investment, and secondary markets will more naturally emerge.¹³

Furthermore, as with many investment markets, funds are and will continue to be the primary vehicle for deploying the largest volumes of capital.¹⁴ In its recent landscaping of the market, the World Economic Forum placed funds squarely at the center of the impact investing ecosystem.

The challenge in studying the performance of impact investment funds is twofold. First, as we found in our research, relatively few dedicated intermediaries have track records of financial and social performance longer than five years (i.e. of the 360 funds we identified, it was apparent that only around 30 had data we could examine and verify). Granted, this might have been different if we had delved deeper into some of the impact areas with more historical activity, like the community finance sector in the U.S. or the markets for nonprofit microfinance and other forms of local lending around the world. However, these sectors have already been the subjects of extensive research, and we wanted to approach impact investing from a broader perspective.

The second challenge is that very few of the funds doing this work are motivated to share both financial and impact data beyond their investors. We made use of the public impact data collected by the Impact Reporting and Investment Standards (IRIS) and Global Impact Investing Rating System (GIIRS), but performance data is still mostly proprietary.

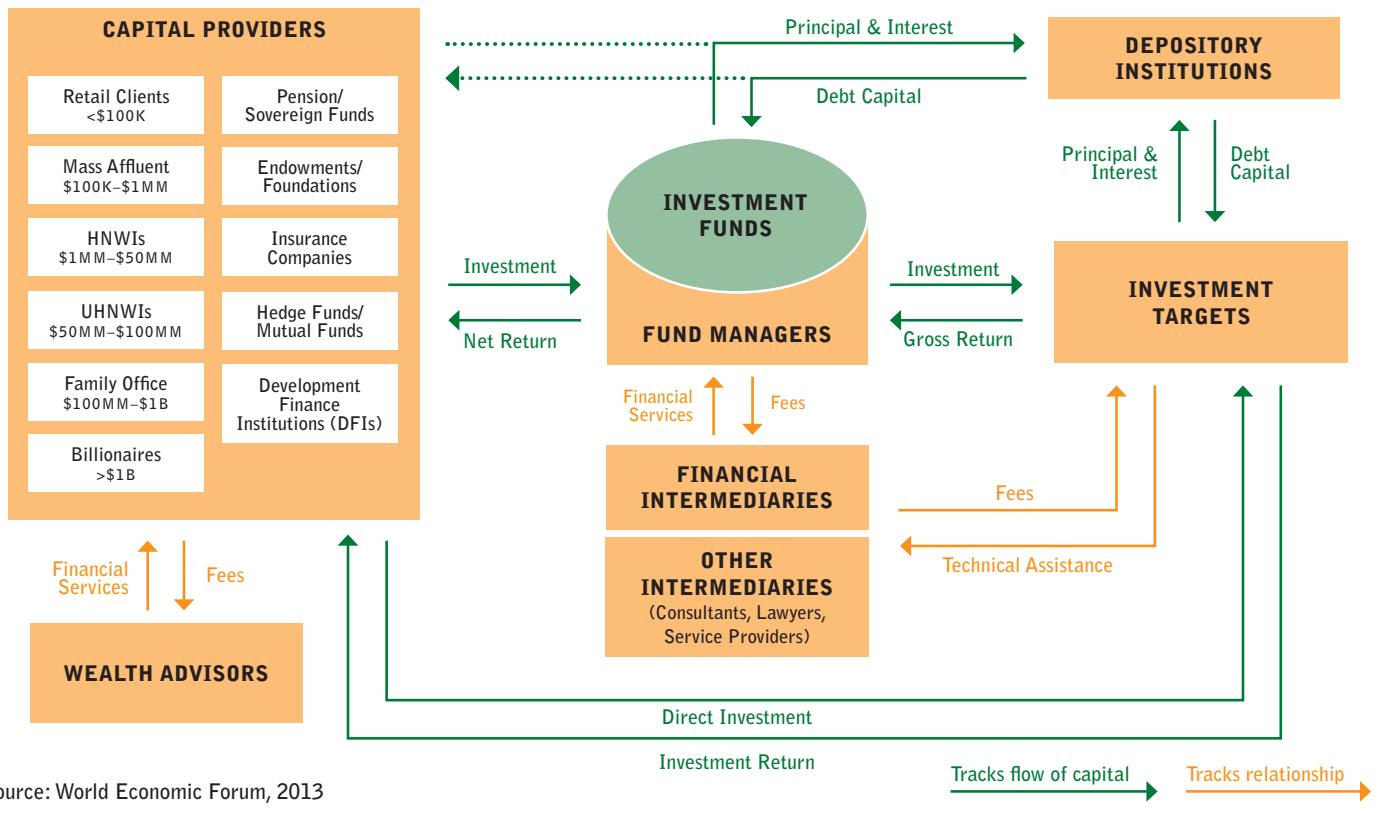
¹¹ See World Economic Forum (http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf), JP Morgan (http://www.jpmorgan.com/directdoc/impact_investments_nov2010.pdf), and Stanford Social Innovation Review (http://www.ssireview.org/articles/entry/impact_investing)

¹² World Economic Forum 2013. "3.2 Impact Investment Ecosystem: The Landscape Today." "From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors".

¹³ "A Market Emerges: The Six Dynamics of Impact Investing", Pacific Community Ventures, CASE at Duke University, ImpactAssets, http://www.pacificcommunityventures.org/uploads/reports-and-publications/The_Six_Dynamics_of_Impact_Investing_October_2012_PCV_CASE_at_Duke_ImpactAssets.pdf

¹⁴ As Abigail Noble and Joel Bryce wrote in an SSIR article summarizing the World Economic Forum report, "From the Margin to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors", the average size of "direct investments into social enterprises or impact businesses are historically around \$2 million," while investments into impact funds "...are typically much larger... (median impact investment fund size in ImpactBase is about \$60 million)." Given that fund investments dwarf direct investments in the market, the Forum predicts that asset owners will continue to look primarily toward these intermediaries to deploy capital.

FIGURE 1: THE IMPACT INVESTMENT ECOSYSTEM



It is thus quite understandable that, with scant data to point to, impact investing has appeared to many observers as either new or unintelligible in the 1.0 era. And it is true that impact investing is relatively unconventional by design. In an effort to generate multifaceted financial and social returns, impact investors expertly blend capital market tools, investor motivations, and professional disciplines from the private, public, and social sectors.

As a result, the 1.0 era of impact investing has relied more on “observation” than on “evidence.” And even though observation has been sufficient to align key stakeholders, drive product development, and foment demand from new capital providers,¹⁵ it is no longer enough. The market has not been growing as fast as many practitioners had hoped, in part because the larger wealth advisors and institutional investors on which growth depends are demanding a level of product and performance specificity that only time and experience can provide. And to the extent that impact investing can be more difficult to perfect than traditional investing – operating as many impact investors do in newly forming markets, with financial tools and infrastructure that necessitate extreme creativity and collaboration – the need for evidence is even more acute.

In an effort to respond to this need, we have spent two years examining the strategies and practices of 12 high-performing funds from around the world.

FOUR PRACTICES COMMON TO OUTSTANDING IMPACT INVESTING FUNDS

Outstanding impact investing funds are characterized by a number of practices common to all asset managers: they carefully nurture their brands, leverage all of the relationships at their disposal, are often headed or backed by singularly reputable or experienced individuals and institutions, demonstrate exceptional financial discipline, are models of operational excellence and transparency, and work relentlessly to support the growth of their investees. The 12 case studies that accompany this report offer unparalleled insights into the concrete steps that proven impact investors have taken to deliver exceptional financial and social performance, many of which are consistent with mainstream investment practices.

¹⁵ Investors are eager to proactively align their portfolios with their values, as data from Hope Consulting makes clear. <http://www.gatewaystoimpact.org/images/gatewaystoimpact.pdf>



Above and beyond the attributes shared with successful traditional investors, however, there are four qualities that we have found to be distinct to impact investing and that anchor our analysis of the four elements are the foundation of successful impact investing:

1. POLICY SYMBIOSIS: Impact investing is grounded in deep cross-sector partnerships, including with the public sector. Impact investing intersects with all levels of government, consistent with the public sector's strong interest in maximizing social and environmental benefits to society, and the promise that impact investing can deliver these benefits at scale.

2. CATALYTIC CAPITAL: Investments that trigger additional capital not otherwise available to a fund, enterprise, sector, or geography can be transformative, generating exponential social and/or environmental value. Catalytic Capital can be instrumental to a fund, from providing early funding to driving reputational benefits.

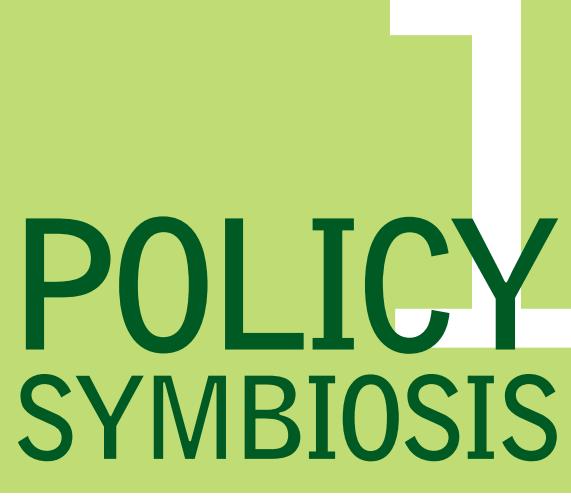
3. MULTILINGUAL LEADERSHIP: Those responsible for making investments must execute with unshakable financial discipline, but successful fund leadership is about more than simply effective money management. It requires cross-sector experience and fluency both at the institutional and individual level.

4. MISSION FIRST AND LAST: As opposed to being "financial-first" or "impact-first," successful funds place financial and social objectives on an equal footing by establishing a clearly embedded strategy and structure for achieving mission prior to investment, enabling a predominantly financial focus throughout the life of the investment.

Ultimately, identifying these practices signified to us that, while inherently diverse in its application, impact investing is in fact more developed and coherent than many believe. It is now time to shift our emphasis from the "why" of impact investing to the "how," rooting our thinking in the experiences of funds with veritable track records of successful financial and social performance across geographies, investment strategies, and impact objectives. And, judging by the 12 outstanding funds featured in this research, we believe that this 2.0 era of impact investing has arrived.

With decades of practice to draw upon, there is no need to speculate on what impact investing might be or debate whether it is possible for investors to receive financial returns along with social and/or environmental impacts. This level of doubt was warranted in the 1.0 era, but the 12 funds we studied prove that the sector has developed beyond such questions.

We can now enter the 2.0 generation of impact investing with confidence, knowing which practices undergird success and building on these lessons to bring the field to scale.



POLICY SYMBIOSIS

There is a dichotomous way of thinking about the role of government in capital markets. It dictates that policymakers should strive to safeguard public good, entrepreneurs and investors should focus on profitability, and each should stay in their respective silos, far away from what they don't understand.

But in impact investing, it's different. By nature, impact investors represent a marriage of public and private interests. They combine a commitment to improving public welfare with the power and efficiency of capital markets. Policymakers – who have a vested interest in maximizing the social and environmental wellbeing of their constituencies and hold massive power to influence the market through laws and regulations – are natural partners for impact investors.

Indeed, some market segments, like community development finance in the U.S., would not exist without policies driving private capital to them, creating intermediary infrastructure, and ensuring that impactful investments make financial sense for capital providers through tax credits and other incentives.

Impact investors and policymakers increasingly realize that they share common goals and that each has something powerful to contribute in achieving these goals. Governments are recognizing that social enterprises can offer sustainable and effective solutions to social and environmental problems;¹⁶ investment practitioners are becoming more conscious of the opportunities to engage with policymakers, and the risks of not doing so. As Matt Bannick and Paula Goldman write in the groundbreaking Omidyar Network report, *Priming the Pump*:

"Impact investors cannot afford to ignore critical political considerations. Enlightened politicians and policymakers have the potential to dramatically speed up the rate at which an industry can scale to responsibly serve hundreds of millions. Conversely, when impact investors fail to align with policymakers, we will find ourselves at risk of double jeopardy. We can fail because the companies we invest in may have a hard time growing in the most challenging of markets. Or we can fail because these same companies may eventually be seen as too successful and profitable—inviting a powerful and potentially destructive backlash from public opinion, threatened incumbent commercial interests and/or politicians."¹⁷

So it was no surprise when, after examining our 12 research subjects, we found that government is ubiquitous in the market and that impact investing is, in fact, anchored in deep cross-sector partnerships.

The funds we studied actively utilized and benefited from public policy, but the relationship between these funds and government entities was more than just that of "recipients" and "benefactors." The funds treated the relationship as an ongoing, evolving partnership, directly or indirectly influencing the development of public policy at the investee, market, and field levels, and the government entities supported fund development in various ways.

This dynamic relationship can best be characterized as *symbiotic* and typically falls under one of the following five, non-exclusive categories of practice:

¹⁶ For examples of how governments around the world are supporting impact investing, see the recent World Economic Forum and Schwab Foundation for Social Entrepreneurship report, produced in collaboration with InSight at Pacific Community Ventures, the Initiative for Responsible Investment at the Hauser Center for Nonprofit Organizations at Harvard University, and SK Group, "Breaking the Binary: Policy Guide to Scaling Social Innovation" (World Economic Forum, 2013), http://www.schwabfound.org/pdf/schwabfound/PolicyGuide_to_ScalingSocial%20Innovation.pdf

¹⁷ Matt Bannick and Paula Goldman, "*Priming the Pump, The Case for a Sector Based Approach to Impact Investing*" (Omidyar Network, 2012), http://www.omidyar.com/pdf/Priming_the_Pump_Sept_2012.pdf

CATEGORY	DESCRIPTION	EXAMPLE
FOUNDATIONAL	The origins of the fund/firm are deeply rooted in a partnership with government, above and beyond the provision of any financial or other assistance.	Business Partners Limited was created as a partnership between the South African government a leading philanthropist, and some of the country's largest corporations.
FINANCIAL	Government entities are direct investors in the fund.	In addition to a foundational role in helping to form Bridges Ventures , the UK government provided a 1:1 investment match for every pound raised in the £40 million Sustainable Growth Fund I.
REGULATORY	Government regulations directly and heavily influence the structure, operations, or investments in/of the fund.	Huntington Capital's first fund was a Small Business Investment Company, registered with the U.S. Small Business Administration. Its second fund received investment from institutions motivated by both the U.S. Community Reinvestment Act and California state-level regulations.
ADVOCACY-DRIVEN	The fund works directly with government to influence the broader, systemic policy environment in which it and its investees operate.	Avishkaar has been a key player in the formation of the Indian Impact Investor Council (IIIC), which seeks to create voluntary guidelines to avoid potential crises like what occurred in the Indian microfinance industry in 2010.
OPPORTUNISTIC	The fund makes a dedicated effort to identify and leverage the discrete, non-systemic opportunities for government to support the success of portfolio companies – as do many traditional investors.	SEAF's managers in Sichuan, China work closely with local and regional governments and have leveraged their relationships and knowledge of government processes and priorities to help portfolio companies obtain permits and approvals as well as take advantage of policy-driven incentives.

1. FOUNDATIONAL

When co-creating a firm, governments and impact investors recognize a shared goal – a desired impact or the development of a specific product or service – and enter into partnership to make that goal a reality. In these instances, governments can play a significant role in influencing the fund's initial and ongoing practices; bringing attention to the market and attracting additional investors; and contributing other public expertise, policy supports, and high-level relationships.

For two of our 12 featured funds, government played an especially significant role in the actual creation of the institution. The clearest example is **Business Partners Limited (BPL)**, a financial institution based in South Africa.

The firm was founded in 1981 by the Rupert family (specifically, father and son team Anton and Johann Rupert) in partnership with the Government of South Africa and other large South African corporations. After several months of negotiations in 1981, the government agreed to match what the corporations collectively contributed, providing 50 percent of the funding to launch BPL as a debt fund. The government's contribution to BPL's lending capital took the form of quasi-guaranteed fees that allowed the firm to support micro-enterprises and riskier startup companies.

The South African government maintained a 50 percent ownership position in BPL for 15 years. In 1996, in an effort to narrow its target market and begin offering equity and quasi equity, the firm returned all of the government's initial lending capital and reduced its equity share to 21 percent. While its stake in the firm has been significantly reduced, the government played a significant role in creating BPL, contributing to the foundation that allowed the firm to grow and thrive in its market niche: risk finance for underserved SMEs.

Based in the UK, **Bridges Ventures** was also formed through partnership with government as an outcome of the work of the 2000 Social Investment Task Force, chaired by investor Ronald Cohen. In addition to a foundational role in helping to form Bridges Ventures, the UK government provided a one-to-one investment match for every pound raised in the £40 million Sustainable Growth Fund I.

2. FINANCIAL

Governments also take an active position in the impact investing market as investors, sometimes on an equal footing with private capital providers, but often providing grants or guarantees as first-loss capital intended to de-risk investments.¹⁸ This type of government involvement is most prevalent in market segments

¹⁸ Investments that unlock commercial capital are explored in greater detail in the Catalytic Capital section of this report.

that are either new and undeveloped, or where market failure is entrenched.

Eight of the 12 funds in our study received capital from public sources, including BPL and Bridges, as described above.

- **Aavishkaar** raised the equivalent of more than \$1.5 million from NABARD, India's national development bank;
- **Accion Texas** receives financial assistance from the U.S. Department of Treasury's Community Development Financial Institutions (CDFI) Fund;
- **Calvert Foundation** received a \$999,000 grant from the U.S. State Department for a diaspora initiative that uses its Community Investment Note to enable U.S. diaspora members to invest in the development of their countries of origin or heritage, and U.S. regions where their diaspora community is concentrated;
- **Deutsche Bank's Microfinance Consortium I** received a \$1 million grant from the Department for International Development (DFID) in the UK and a \$15 million guarantee from the U.S. Agency for International Development (USAID) in the US;
- **MicroVest** sold more than \$14 million worth of senior notes in MicroVest I to the Overseas Private Investment Corporation (OPIC, the U.S. Federal Government's Development Finance Institution, or DFI); and
- **SEAF's** SME Sichuan Investment Fund raised over \$13.5 million in equity investments from four DFIs, namely DEG (Germany), Norfund (Norway), Swedfund (Sweden), and the International Finance Corporation (IFC).

3. REGULATORY

In a regulatory relationship, the fund is directly impacted by public policies that influence its structure, operations, and investments. This might happen through targeted policies that create special-purpose investment entities (e.g. CDFIs), provide tax credits or other incentives in key markets, or use investment rules and regulations to direct the capital of others. It can also be seen in macro-level policies related to competition, consumer protection, and support for entrepreneurship, as underscored in *Priming the Pump*.

Five of the 12 funds in our study have this type of relationship with government. **Accion Texas Inc. (ATI)** takes advantage of

several government regulations. First, the nonprofit microlender based in San Antonio receives the majority of its lending capital from local banks. This investment is driven by the Community Reinvestment Act (CRA), which requires banks to invest some of their assets in underserved communities. ATI is a certified CDFI, meaning bank investments automatically qualify for CRA "credit" and that ATI can apply for grant funding from the U.S. Department of Treasury's CDFI Fund. Secondly, ATI has diversified its revenue by becoming a U.S. Small Business Administration (SBA) 504 loan servicer. ATI became an SBA-Certified Development Company¹⁹ in 2008/2009 and, as such, became an official approver of SBA 504 loans. While not a lender in this program (the typical structure is that a bank provides about 50 percent and has the first lien, the SBA guarantees 40 percent as a debenture, and the borrower puts up 10 percent), ATI services the loan for a fee. It also receives a portion of the 1.5 percent fee paid by the borrower for the deal, and can also receive compensation for packaging and processing.

While vastly different from ATI in its structure and target market, **Huntington Capital**, a mezzanine debt fund located in San Diego, California, similarly utilizes government policy. Huntington's first fund was registered as a Small Business Investment Company (SBIC) under an SBA program. As such, the fund had access to SBA leverage at a ratio of 2:1 to private investor capital. While Huntington's second fund is not an SBIC, some of its institutional limited partners have been motivated to invest by the CRA mandate and California state-level regulations that extend CRA-like requirements to insurance companies.

Calvert Foundation provides securities registered in nearly all 50 states that are available to retail investors and channel capital to entities, including CDFIs, and is strongly influenced by regulation. It benefits from its nonprofit status in tangible ways as well. (And **The W. K. Kellogg Foundation** and **RSF Social Finance** are both subject to the rules governing investments tied to philanthropic institutions.)

Government-based fund certification programs, like the CDFI initiative or the SBIC mentioned above, can have multiple positive effects, both on funds' ability to catalyze other capital and to clarify mission intentions for those capital providers (see our discussions of Catalytic Capital and Mission First and Last for more detailed examples of each). According to Dave Kirkpatrick, Founder and Managing Director of SJF Ventures, whose first fund was a CDFI and whose third fund became the first national

¹⁹ Certified Development Companies are authorized by SBA to market, package and service SBA 504 loans. See <http://www.sba.gov/community/blogs/community-blogs/small-business-cents/cdcs-and-cdcs-community-development-corporation>.

fund certified through the Impact Investment SBIC initiative at the SBA, the designation helped to catalyze lead investments from Citi, Deutsche Bank, and State Street Bank, and helped build the momentum for the pension, endowment, family office, and wealth management investors who oversubscribed the fund. “Our final fund closing for SJF Ventures III was on \$90 million, well above our \$75 million target and triple the size of SJF Ventures II,” he adds.

4. ADVOCACY DRIVEN

While all successful impact investing firms indirectly influence policy by setting the standards of performance in a market, some make it a point to influence policy directly at a market or field level by engaging with government entities on a regular basis. These firms realize public-private partnership to its fullest extent, recognizing that the success of impact investing initiatives depends, in large part, on the development of supportive policy infrastructure.

At least four of the firms in our study demonstrate active involvement in shaping the broader public policy environment. **ATI** CEO Janie Barrera serves as a local representative on the Federal Reserve Board’s National Consumer Advisory Council. On a national level, in 2010, she was appointed to the President’s Advisory Council on Financial Capability, contributing to the development of methods to improve financial literacy among the nation’s poor and proposing new financial products and services that serve low-income communities.

At the time of our interview with Barrera in early 2013, she had just returned from a meeting with President Obama and members of the U.S. Treasury, at which she proposed creating a product that combines consumer and business loans for low-income earners. (Barrera envisioned that such a product, backed by a loan loss reserve from the Treasury, would provide alternatives to individuals who would otherwise seek consumer loans from predatory lenders.)

The W. K. Kellogg Foundation’s Mission Driven Investments program likewise demonstrates a commitment to advocacy by way of its direct investments in later growth-stage companies in sectors like health and education, where government is active. The overall upside for the Kellogg Foundation (WKKF) is attractive, in part, because of the company’s ability to “influence policy as a more

established market player,” explains Taylor Jordan, co-founder of Imprint Capital and consultant to WKKF. The foundation’s first direct and very strategic investment was in Acelero, one of the only for-profit companies managing and providing technical assistance to Head Start programs, which are part of the largest U.S. government initiative supporting early education.

In a recent *Stanford Social Innovation Review* article, WKKF President and CEO Sterling Speirn explains that, after investing in Revolution Foods, a company that sells healthy school lunches, the foundation received “wholly new perspectives on issues of public policy, school and community food systems, and family and child behaviors that we can use to inform our grant-making and institutional efforts on the very same issues.”²⁰

Aavishkaar has been a key player in the formation of the Indian Impact Investor Council (IIIC), which seeks to create voluntary guidelines to avoid potential crises similar to what occurred in the Indian microfinance industry in 2010, thereby supporting government efforts to ensure the field grows in a sustainable and appropriate manner.²¹ The IIIC is comprised of a core group of impact investors, including the Omidyar Network, Elevar Equity, Unilazer Ventures, the family office of Ronnie Screwvala, and others who seek to promote greater accountability across the impact investing sector. The council hopes to differentiate impact funds from mainstream private equity and venture capital firms, many of whom invest in India and claim impact through job creation and rising income levels, despite not explicitly seeking more nuanced social benefits.

Bridges Ventures has been active in developing the public policy environment for social innovation more broadly in the UK. Bridges Co-Founder and Advisory Board Chair, Ronald Cohen, continues to play a prominent public role in impact investing as the Chairman of a new G8 Taskforce on Social Impact Investing, announced in June 2013.²²

5. OPPORTUNISTIC

As with many traditional investors, impact investors often play a crucial role in working with policymakers to secure support for portfolio companies, obtaining discrete incentives, contracts, and other support as needed. Because impact investors have the delivery of social or environmental benefits as an intentional

²⁰ Speirn, Sterling. “Response to ‘When Can Impact Investing Create Real Impact?’” (*Stanford Social Innovation Review*, 2013), http://www.ssireview.org/up_for_debate/impact_investing/sterling_speirn

²¹ The rapid growth of the microfinance sector in the Indian state of Andhra Pradesh led to high levels of household indebtedness, driven by MFIs whose focus had shifted from social mission to an increasingly commercial approach. At the height of the boom in 2010, the government reacted to mounting criticism of the sector, investigating 76 cases where loan officers were blamed to have driven overindebted borrowers to suicide. The boom came to a halt by the end of November 2010, when the government imposed strict regulation on MFIs, leading to a temporary freeze of the market. See Lützenkirchen and Weistroffer, “Microfinance in Evolution: An Industry Between Crisis and Advancement.” DB Research, 2012, http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000294314.pdf?kid=dbr.inter_ghpen.headline

²² “Government leads global co-operation to grow market for social investment”, UK Cabinet Office, September 10, 2013, <https://www.gov.uk/government/news/government-leads-global-co-operation-to-grow-market-for-social-investment>

objective, they may be at an advantage, compared to more traditional firms, in requesting government support.

One proponent of this idea is Nancy Pfund, Managing Partner at DBL Investors, a San Francisco-based venture capital firm investing in cleantech, information technology, health care, and sustainability-oriented products and services with the goal of delivering tangible benefits to the community, including job creation in low-income neighborhoods and corporate engagement.

Writing recently in the *Stanford Social Innovation Review* (SSIR), Pfund recalls DBL's support for Tesla Motors, one of its investees:

When we were looking for a site to build a manufacturing plant, DBL helped the company explore regions of the San Francisco Bay Area that might be suitable and where economic development incentives could help to level the playing field compared to other countries and states that had lower costs. This effort stemmed from aspects of our mission at that time, which included reducing the carbon footprint of transportation and creating high-quality jobs in Bay Area neighborhoods that needed them. Through

a process that broke apart the conventional wisdom about whether California was an appropriate place to manufacture, the Tesla team's perspicacity helped it grab a plant (the former NUMMI plant in Fremont) that many thought was out of its reach, creating a strategic win for both the company and the community.²³

The approach is entirely strategic. According to Pfund, DBL believes it can "connect the dots a little sooner as to why a particular company idea might work" because it is "keyed into certain societal trends, problems, and policies that have been hard to solve and may even be getting worse". Pfund concludes in the same SSIR article: "We believe that some aspects of double-bottom-line venture capital investing, such as working with broader constituencies, paying attention to place, and engaging in policy issues, will become mainstream."

From our group of 12 funds, **SEAF's SME Sichuan Investment Fund**, in China, stands out for how closely its managers work with local and regional governments and how they have leveraged their relationships and knowledge of government processes and priorities to help portfolio companies obtain permits and approvals, as well as take advantage of policy-driven incentives.

FUND RECOMMENDATIONS

1. Be aware of policies that apply to you.

Governments may be more helpful than you realize. Are there public funds that you can access – for your fund, or your investees? Are there tax credits, regulations, certifications, or procurement policies that might be beneficial?

2. Cultivate relationships. Be part of the conversation.

Develop an understanding of, and relationship with, the policymakers that have an interest in your market sector, or impact investing more broadly, either directly or through a membership or advocacy organization. Take the time to be involved in impact investing at a field level; attend conferences, participate in research, and join and support peer networks. Become a constituent that the government looks to for expertise as a willing and active provider of insights into what strategies/practices have and have not worked, and why.

3. Invite policymakers to the table, fully but appropriately.

Treat the relationship with government as a real partnership. Share your thinking with policymakers and invite public officials into field-level networks and conversations, even as you acknowledge and manage the risks in policy symbiosis. Public officials are exposed to political downside, which may limit their capacity for direct engagement. Understand the degree to which an "arm's length," intermediated relationship with government is more or less appropriate, and what this implies for your structure/strategy.

²³ Pfund, Nancy E. "Response to: When can Impact Investing Create Real Impact?" Stanford Social Innovation Review, Fall 2013. http://www.ssireview.org/up_for_debate/impact_investing/nancy_pfund



Catalytic Capital unleashes impact investing as an instrument for generating immense social value. The concept is relatively intuitive: catalytic investments are those that trigger the future flow of capital to a desired company, asset class, sector, or geography.

In some sense, all investments with more than one investor involve some sort of catalytic effect. This effect can happen as investors enter into a single, syndicated round in which they cooperate to deploy capital at the same time. Or it can happen over time, as new investors invest in subsequent rounds, benefitting from earlier-stage efforts. Investing is a group sport, and growing successful companies through financial markets has always depended on multiple catalytic interactions.

But in the field of impact investing, catalytic investments encourage the flow of capital for distinctive strategic reasons, beyond the pursuit of financial return alone. We have always known that impact investors provide capital for strategic as well as financial reasons; however, we did not expect this explicit rationale to have been so prevalent among top performing funds. As it happens, every one of the 12 funds that we studied has benefitted from or deployed Catalytic Capital.

The fund case studies provide insight into how Catalytic Capital is emerging as a common practice and how it has been instrumental in the growth of impact investing through four distinct purposes, presented below. Understanding the contours of these purposes can help investors see the true intentions and needs of investment partners, and help them to structure deals more effectively based on those needs. In fact, reconciling the different purposes of Catalytic Capital across a variety of investment players is not a new problem. It is a structuring exercise that financial institutions have grappled with for decades. What is new is the need for a deeper understanding of Catalytic Capital and its application to the strategic and mission objectives of different types of investors. These transactions often require more time and energy, and benefit from the help of a negotiating intermediary. Financial innovation is, quite simply, at the heart of impact investing.

There are three common misconceptions in the marketplace about Catalytic Capital:

MYTH 1: Catalytic Capital is always concessionary or subsidy. There is a misbelief that Catalytic Capital is only used by investors aiming to achieve below market-rate returns. While there are examples of investors using Catalytic Capital with the intention of achieving a lower than market-rate return alongside their catalytic purpose (e.g. through grants or tools like foundation Program Related Investments, an investment mechanism specifically designed to encourage mission-aligned investments that target below market returns), there are investors that use private debt and equity to achieve market rate returns and their catalytic purpose. For example, in **MicroVest's** first fund, some of the low income financial institutions (LIFIs) in their portfolio received investments from other international microfinance investment vehicles because they trusted MicroVest's intensive, financial-oriented due diligence.

MYTH 2: Catalytic Capital will distort markets. While Catalytic Capital may have the potential to negatively distort individual company behavior (e.g. by encouraging unnecessary risk-taking) or market behavior (e.g. by preventing a commercial market from developing naturally), we found that at the fund level, Catalytic Capital has been transformative, unlocking billions of dollars of non-catalytic investments into impact funds and enterprises. This is consistent with the experience of many mainstream investment markets. Consider, for example, Fannie Mae and Freddie Mac, two U.S. government-sponsored enterprises that purchase or guarantee 40 to 60 percent of all home mortgages originated in the U.S. annually.²⁴ And the U.S. CDFI Fund and SBA programs each have Catalytic Capital components specifically targeted to provide leverage to funds and other intermediary asset managers. It appears that catalyzing intermediaries may be a strong market-making, rather than market-distorting strategy.

²⁴ See "Catalytic First-Loss Capital," GIIN Issue Brief, October 2013, p. 3., http://www.thegiin.org/binary-data/RESOURCE/download_file/000/000/552-1.pdf

MYTH 3: Providers of Catalytic Capital are always philanthropic or governmental organizations. There are many examples of philanthropic and governmental organizations that use Catalytic Capital. But our research showed that private sector players are starting to engage with catalytic purposes as well, finding ways to blend their strategic objectives with regard to community, sustainability or other impacts, with layers of capital that encourage others to participate. We think this is a positive development, and several of our fund managers agree. **Deutsche Bank**, for example, announced the launch of the Essential Capital Consortium (ECC) in the fall of 2012, which intends to provide “first loss” loans to social enterprises and impact investors, in order to catalyze the participation of

socially motivated, risk-averse, capital providers. “There are many investors that have pent up demand and are waiting for the right opportunities to deploy capital into impact investing,” notes Mark Narron, a Vice President at Deutsche Bank. “What is preventing them from doing this is the unavailability of another party who takes the first step to provide risk capital. Our thought was that we could be that provider.”

Catalytic Capital can take many forms: grants, letters of credit, guarantees or first-loss capital, collateralization, subordinated loans, insurance, reserve accounts, concessionary or cornerstone debt or equity investments. The four distinct purposes these tools serve are as follows:

CATEGORY	DESCRIPTION	EXAMPLE
SUSTAINING	Some segments of impact investing require ongoing grants or concessionary investments, particularly where market failure is endemic.	Accion Texas receives half of its \$14 million operating budget for making high-impact microloans from grants—a proportion that is shrinking but will likely never reach zero.
SEEDING	Making one of the first investments in a fund is often essential to initial operations, and can help develop a track record necessary for attracting other capital.	Deutsche Bank's Microfinance Consortium I was made possible by a grant from DfID in the UK, which provided operating income during fund creation, and additional security to other investors
RISK REDUCING	Several financial instruments as well as tiered fund structures can reduce financial risk for investors in both funds and companies.	RSF Social Finance is becoming adept at using an “integrated” approach in its lending, tapping philanthropic capital, at the margins, to make more borrowers eligible for RSF financing.
SIGNALING	If an investor is particularly large, reputable, or sophisticated, investing in a fund can improve the recipient’s perceived credibility and visibility to other investors.	Elevar Equity's first fund received an early PRI from the Omidyar Network, which also introduced Elevar to other investors and provided added comfort to potential capital providers.

1. SUSTAINING

It is clear that some segments of the impact investing market will require Catalytic Capital in the form of ongoing grants or concessionary investments. Funds in need of sustaining capital are often the ones working in developed investment markets where even commercial players struggle to achieve profitability. The fund’s investments may target a population that is more expensive to serve than the margin that can be earned from charging them. In such instances of market failure, concessionary capital can provide ongoing operating funding if its constituents decide the social impact supersedes the need for a “pure” market. Such market failure can exist for many different groups—disabled populations, disconnected and dispersed populations (e.g. in rural areas), and low-income populations. The latter is the focus of much of the CDFI sector in the U.S.

Accion Texas Inc. (ATI), a CDFI serving eight states in the Delta region of the U.S., receives half of its \$14 million operating budget for making high-impact microloans from grants — a fraction that is shrinking due to the organization’s internal push toward self-sustainability, but will likely never reach zero. ATI targets very small enterprises, and the service it offers — loans averaging \$15,000 — is much more costly to provide than can be recouped through borrowing margins, especially given the cap on interest rates under U.S. state usury laws. The organization proactively works to identify other ways to generate profits, but will not increase the rates on its loans. ATI brings in additional capital by servicing loan portfolios for some of its investors, and by selling the use of its own internally-developed microloan management software to other microlenders. But its loan program will always be anchored in the underserved niche of

the market, a segment that will never be truly profitable so long as interest rates remain capped.

It should also be noted that sometimes certain markets appear deemed to fail when, in actuality, innovation and experimentation can prove otherwise. Microfinance is a prime example of such a market. After 30 years of subsidy, experimentation, and other dedicated forms of Catalytic Capital, microfinance has a commercial core.

2. SEEDING

Seeding is the practice of using Catalytic Capital to help establish a new fund. Investors can seed funds either by being the first to commit investment capital or by providing operating capital to help the fund get off the ground. Every fund has a seed investor; however, in the field of impact investing, the role is even more important, because it helps lessen the widespread perception of risk in these currently underfunded markets.

It is rare for a commercial investor to provide seed capital for an impact investing fund. In our group of 12 funds, seed investors were most often foundations, government agencies, or multilateral organizations that stepped in because they wanted to proactively create a fund aligned with their objectives. Policy can be instrumental in creating “carrots” – or financial incentives – for commercial players to step into this role.

Deutsche Bank’s Microfinance Consortium was made possible by a grant from DfID in the UK, which provided operating income during fund creation and additional security to other investors in the final investment structure. That grant layer also served to be risk-reducing for the fund, but the fact it came in first was essential in the creation of the fund. The other fund layers, which included several for commercial companies and investors, were made possible by DfID’s initial support.

We also found several examples of funds that were incubated, accelerated or formed by nonprofits. **MicroWest**, for example, was the brainchild of development finance experts at Cooperative for Assistance and Relief Everywhere (CARE), one of the world’s largest international development NGOs. CARE co-launched the firm in 2003 after identifying the scarcity of capital as a principal barrier facing the growth of strong microfinance institutions.

Elevar Equity was created as an independent fund manager in 2008, but several of its founders had been principals of **Unitus**, a nonprofit microfinance accelerator. In 2006, Unitus had created the first stand-alone equity vehicle for market-rate microfinance investing which the Elevar founders continued to manage on behalf

of Unitus after founding Elevar. Unitus’ support of the Elevar team managing a Unitus fund was an important confirmation of Elevar’s track record and skill as an impact fund manager.

The seeding process is extremely important for new funds, especially in certain markets that are perceived as high-risk. Many funds told us that the first commitment can make or break a fund’s creation. **Ignia**, a venture capital fund focused on bottom of the pyramid (BoP) investments in Mexico, reiterated this. According to Michael Chu, Managing Director, he and Managing Partner Alvaro Rodriguez Arregui had bootstrapped their fundraising with their own capital, but the first seed investment was critical to the fund’s creation and also served an important signaling function:

“It was a slower process than we imagined, especially as we coincided with the global financial meltdown. Venture capital is a new concept for Mexico, let alone a focus on base of the pyramid, so investors had no precedent. There is very little venture capital in Mexico and investors were reticent. As always, the first close was the most difficult and the most key. Our target for the entire fund was \$75 million, with a minimum of \$50 million, without which we would not operate. Omidyar Network said they would come in to be our anchor investor with a \$10 million commitment. To have that kind of anchor as part of our first close was hugely important. It signaled to the world that IGNIA was not just a pipe dream, it was for real.”

Bridges Ventures may have one of the most interesting policy-related seeding stories. Bridges was conceived as part of the work of the 2000 Social Investment Task Force chaired by investor Ronald Cohen in the UK. Michele Giddens, Partner and Co-Founder at Bridges, was an advisor to the task force, a group of leaders from entrepreneurship, investment, the nonprofit sector and civil society. They made five recommendations, one of which was to use venture capital to serve the most deprived parts of the country. Michele summarizes it today as an example of Catalytic Capital seeding:

“The task force then approached the government and said, would you provide matching capital for five such funds. And they actually ended up matching just the first one that Ronald and I put together, which became Bridges Ventures.”

3. RISK REDUCING

At its core, an important role of Catalytic Capital is to reconcile and respect differing perceptions of risk in the marketplace. Often, investors have asymmetrical knowledge about impact investing markets and thus differing perceptions of risk. Catalytic Capital can encourage the flow of capital to these opportunities by improving their risk-return profiles, thus incenting others to invest. There is a market-making factor here as well: over time the perception of risk can be reduced. An investor who earns back a return on an investment she thought was risky may be more willing to make another.

Credit enhancements are commonly used in impact investing. These include letters of credit, guarantees, first-loss capital, over-collateralization, insurance, and reserve accounts.

The GIIN's 2013 *Issue Brief on First-Loss Capital* describes in detail some of the structures used by risk-reducing first-loss capital investors, both in the roles of provider of first-loss capital and the recipients of first-loss capital. It defines first-loss investments as grants, equity, and subordinated debt that are both catalytic and purpose-driven, meaning they attract other capital and also seek to achieve specific social and/or environmental goals.

Nearly all risk-reducing capital requires tiered fund structures to recognize different levels of risk and return for investors. There is an art to creating financial structures that layer investors, and there are some players in the marketplace and in our study who do it extremely well. As Debra Schwartz of the MacArthur Foundation, who has spent the last decade layering capital in multi-million dollar funds supporting affordable housing and community development, explains, "It is a creative exercise, not one-size fits all. High-impact layered capital that works for a range of investors will be made, not found. Roll up your sleeves!"

RSF Social Finance has become adept at using risk-reducing capital in its lending, working with potential borrowers to encourage its stakeholders or outside philanthropic partners to create first-loss layers at the individual borrower level, in certain circumstances. Using the philanthropic funds as partial guarantees, the lending team is now able to make loans to younger and slightly higher risk organizations that have the potential for

great impact, but do not yet meet the full financial requirements of the social enterprise lending program. The lending team is also occasionally able to recommend charitable grants to nonprofit borrowers who need extra support for infrastructure or capacity building. Using these different forms of capital, RSF is able to deploy the right form of money, for the right purpose, at the right time for an organization.

4. SIGNALING

The last type of Catalytic Capital signals to other investors that an investment is legitimate. Seed investments can signal as well, but any investor can join the deal at any time to have a signaling effect. If an investor is particularly large, reputable, or sophisticated, investing in a fund can improve the recipient's perceived credibility and visibility to other investors; a practice as common in commercial investing as it is in impact investing.

Elevar Equity benefits from signaling, and uses it in turn to benefit its investees. Its first fund was raised with an early anchor investor. The Omidyar Network (ON), which, as a private foundation, made a PRI in the fund, both seeded the fund and signaled to other investors that the fund was legitimate. Indeed, ON took the signaling role seriously and introduced Elevar to numerous other investors. When making an investment in a company, Elevar now tries to partner as often as possible with reputable co-investors. Co-investors in the fund's portfolio companies include both impact investors like the Michael and Susan Dell Foundation and Accion International, as well as commercial investors like Sequoia Capital, Silicon Valley Bank India Capital Partners, Helion Venture Partners, WestBridge Capital and Wolfensohn Capital Partners. Elevar works to scale its investments very rapidly after the first 24 months of investing, and has used signaling extensively to project the quality of its investments and ease the way for the large capital raises it will need to follow its own.

FUND RECOMMENDATIONS

1. Re-conceptualize the motivations of investors.

Enlarge your notion of the catalytic investor for the purpose of developing a robust, diverse and well-aligned group of supporters and collaborators. There are all sorts of motivations for individuals and institutions that participate in impact investing. Catalytic Capital does not have to be philanthropic.

2. Target and partner with investors who are both mission- and strategy-aligned.

Find the right anchor investors. Realize that a large portion of your Limited Partners will have strategic, and not just financial, reasons for investing. Without clear alignment, investors will lose faith when performance temporarily falters.

3. Be a catalyst in your own right.

Think about others you want to invest alongside and the strategic value of having them in the deal. Is there a role for your capital in anchoring the delivery of non-financial value in different deals, or in making a contribution with other investors?

4. Create peer groups of structural innovators.

Deep experience in structuring products and blending catalytic and commercial capital is at the crux of impact investing. This core skillset—including a deep understanding of a variety of financial tools, capital providers, and product uses—should be identified, nurtured, and proliferated through an intentional process of network and knowledge development.

3 MULTILINGUAL LEADERSHIP

Multilingual Leadership speaks to the core issue of how leadership is central to effective development and management of impact investing funds, but takes this notion a step further and indicates the institutionalization of a fund's ability to move seamlessly among diverse stakeholders and audiences.

In recent years, the field of impact investing has seen various calls for recruiting and soliciting the guidance of those "with real investment expertise." This message has taken many forms, but seems to boil down to the belief that, if impact investing simply had more fund managers with deeper experience in finance, the overall performance of impact funds would improve. Proponents of this view purport that the tone of impact investing would become more "professional," and focused on what it takes to generate consistent financial returns. They believe that leaders steeped in traditional investment experience will be better able to discern true investment opportunities, as opposed to those that are perceived as various forms of philanthropic or social opportunities.

While *all* successful funds must operate with solid financial discipline, it is not financial acumen and discipline alone that make for consistently good performance. Rather, success in impact investing is a function of infusing financial perspectives with field-based experience in the social aspects of the market in which the fund operates, including its diverse beneficiaries, non-profit infrastructure, and policy environment.

Our research revealed that founders and leaders of successful funds frequently come from varied backgrounds and have expertise in both the social and private sectors. This "cross-silo" experience enables leaders to communicate effectively with diverse sets of stakeholders and systematically approach the challenges of developing and executing an impact investing strategy. We have dubbed individuals with these characteristics "Multilingual Leaders."

This systems-thinking capacity is especially valuable in the context of defining performance. In the traditional view of players operating in financial markets, performance is quite simply a function of assessing financial returns. Within impact investing, however, performance is better understood as a blend of financial returns and the creation of social and environmental impacts. Therefore, performance itself is a cross-sector concept and discipline; while effectively "doing the deal" is key, impact investing, by definition, is about much more than simply structuring and harvesting investment opportunities.

Having key principals with deep, cross-cutting experiences is one way of embedding Multilingual Leadership in an organization, but there are other approaches too. Some funds we have studied internalized Multilingual Leadership in their institutional and governance structures, and have formal decision-making bodies expressly for the purpose of providing different perspectives. **MicroVest**, for example, has a governing board mostly composed of social sector representatives, while management operates autonomously with an explicit goal of achieving market rates of financial return. **Bridges Ventures** provides another example. From its inception, a substantial minority ownership interest in the funds has been held by the nonprofit Bridges Charitable Trust, which has a separate board made up of business and social sector leaders, only two of whom overlap with the fund. The Trust has veto power over changing Bridges' founding articles, in which the fund family's mission is defined.

Where Multilingual Leadership was not inherently part of an institutional structure or individual skill set, funds have strategically acquired and cultivated diverse perspectives over time, in response to clear needs in the market. For example, while **SEAF's** SME Sichuan Investment Fund was launched by the firm's experienced, U.S.-based senior management, a local fund manager with deep knowledge of the regional entrepreneurial ecosystem and strong networks within China's municipal and provincial governments was recruited to the staff.

The three approaches described above – individual, institutional, and acquired Multilingual Leadership – are useful distinctions. However we focus in this section on a different set of categories: not the “how” in Multilingual Leadership, but rather the “why.”

We found in our research that the presence of Multilingual Leadership was especially important in influencing four stages of fund development. These are discussed in more detail below.

CATEGORY	DESCRIPTION	EXAMPLE
CREATION	Deep experience working in sectors outside of finance enables fund managers to think beyond the bounds of traditional business and investment models, introducing innovative approaches to fund management practice.	The nontraditional background of Vineet Rai, Managing Director of Aavishkaar , allowed him to modify the traditional venture capital model and attract a socially-motivated team, helping him operate cost-effectively in rural India.
CAPITAL DEVELOPMENT	The ability to speak the language of different sectors facilitates engagement with a wide range of prospective funders, including government entities, commercial institutions, and philanthropic organizations.	Gil Crawford, CEO of MicroVest , came from a diverse career with several international development and finance institutions including the IFC, Red Cross, and Chase Bank. This experience enabled him to effectively build trust with, and raise capital from, a wide range of investors.
PRE-DEPLOYMENT	Experience across private, public and/or philanthropic sectors provides fund managers insight into the dynamics of various types of enterprises, as well as the range of financial and nonfinancial tools necessary to help businesses flourish – for strategy setting, screening, and thorough diligence	Nazeem Martin, CEO of Business Partners Limited , worked previously as Deputy Director of Public Works in South Africa. A desire to fuel SME growth and rural development at the macro level permeates BPL and manifests in its outreach to, and screening of, prospective investees.
ACCOUNTABILITY	Experience across sectors enables management to more rigorously track performance and effectively communicate financial and impact results.	Calvert Foundation is already (and increasingly) linking its performance and reporting to the more focused values and impact preferences of its thousands of investors, a process made possible by their deep connections to, and experience in, retail investment in the social sector.

1. CREATION

As is true of all investing (in fact, all business innovation), finding a unique opportunity often comes from being able to see what the mainstream market has missed or under-valued. Within impact investing, fund managers with deep experience in sectors outside of traditional finance are able to think beyond the bounds of traditional business models, introducing innovative approaches to fund management practice. The fund manager with a varied background is able to see how insights from one sector may inform the strategies developed in the other.

The W.K. Kellogg Foundation’s Mission Driven Investment (MDI) program serves as a clear example. Beginning in 2006, the foundation’s president and CEO, Sterling Speirn; leader of the Design and Innovation team, Tom Reis; and Design and Innovation team member and deputy director of the Education and Learning team, Tony Berkley, joined forces to launch the MDI program just as the top-tier foundation (with one of the largest endowments in the U.S.) celebrated its 75-year anniversary. Tired of foundation endowments sitting on the sidelines of impact investing, Reis approached Speirn with the idea of launching a mission-related investing initiative, in which

a portion of the foundation’s endowment would be invested for intentional, measurable impact. Speirn, who had recently joined the foundation after being active in promoting the field of venture philanthropy, instantly became an advocate.

After receiving buy-in from WKKF’s Board, the newly dubbed Mission Driven Investments team contracted with the consulting firm Imprint Capital to bring the “financial sensibility of a venture capital approach,” says Berkley. More recently, WKKF added John Duong, a former Wall Street banker eager to move into the social sector, as a program and portfolio officer. This very intentional combination of skill sets and expertise has been key to the program’s success.

Similarly, the creation and successful performance of **Aavishkaar** illustrates that innovative impact investing models need not be created by financial gurus and, in fact, that previous venture capital experience may actually narrow the thinking of potential investors in new markets.

With limited knowledge of investing or entrepreneurship prior to founding Aavishkaar, Vineet Rai describes himself as an unlikely candidate to launch a fund. However, his nontraditional

background with a paper conglomerate and government-sponsored incubator was key to Aavishkaar's existence: most Indian venture capitalists in 2000 had experience in Silicon Valley, and had concluded that the Silicon Valley venture capital organizational structure was too expensive to operate in rural India.

According to Rai, other would-be early-stage investors in rural India were trying to replicate the Silicon Valley model, making the same size investment and using the same mathematics to invest in India. Their minimum fund size was near \$20 million, and they only wanted to invest in Bangalore and Mumbai. Aavishkaar, on the other hand, raised a roughly \$12 million fund focused on India's enormous rural population, estimated around 700 million people. To make this model work, Rai chose to start people with low salaries, "with the idea of making a difference," and share the fund's profits with them in a "socialist" manner, in order to motivate his team and continue to attract talent. In the minds of Aavishkaar's would-be competitors, what AIMVCF tried to do was impossible. And yet it has flourished—generating financial returns with significant impact.

2. CAPITAL DEVELOPMENT

In weaving together strategies from the finance and social sectors, impact investors often struggle with the task of gaining credibility in both. When fund leaders have not only experience, but also networks and personal credibility across siloes, their chances of success improve significantly. This cross-sector fluidity is increasingly important in instances where capital acquisition, and capital providers, diverge from established investment norms. As observed elsewhere in this report, the most successful funds are those that are able to attract and engage a range of supporters—public, private, and nonprofit. The ability to speak the languages of different sectors facilitates engagement with a wide range of prospective investors, including government entities, commercial institutions, and philanthropic organizations.

Gil Crawford, CEO of **MicroVest**, had a diverse career with several international development and development finance organizations, including the International Finance Corporation (IFC), the Red Cross, and Chase Bank. This experience has given him a unique perspective on the importance of a more explicitly commercial approach to the sector and allowed him to effectively communicate with nonprofit and foundation stakeholders.

Crawford remembers the original demands he made of W. Bowman Cutter, founder of MicroVest, Managing Director of the private equity firm Warburg Pincus, and Chairman of

the Board of CARE, one of the world's largest international development NGOs:

"The founders need to put enough capital into the holding company to give us a fighting chance to get up and running. The first fund needs to become large enough so that the management fees cover the cost of the team, with the working capital to make it successful. I need to have a pro-business Board of Directors that understands the best way to have social impact is to do it commercially. I need to be able to hire financial professionals and pay them more than Peace Corps wages. I need an independent autonomous investment committee because I can't have outside influences saying 'we've known these guys for seven years, we really like them, and we want you to invest in them'. I need to align senior management's financial incentive with the results of the fund. And finally, I do not want to be beholden to one large NGO."

Cutter, who also had a multilingual experience after working in the Clinton Administration, replied that he was waiting for someone to say as much.

Investors uniformly cited their interactions with Crawford, and his deep knowledge of microfinance from multiple perspectives, as a reason for investing with MicroVest. "Gil struck me as a very solid business professional who was running an investment firm as if it were [operating in] the commercial space," says Lorene Arey, President of the Clara Fund and an investor in MicroVest's first fund. She went on to discuss how the combination of Crawford's traditional investing and microfinance experience, along with his passion for international development, was critical to her investment decision. "While the business model was commercially structured, Gil also was very excited about what MicroVest was doing in terms of benefiting the BoP and underserved sectors of the economy. It wasn't pure business - it was business with a heart."

3. PRE-DEPLOYMENT

Once funding has been secured, Multilingual Leadership can help fund managers in understanding how best to identify prospective investees, and even to deploy capital. Experience across private, public and/or non-profit sectors provides fund managers insight into the dynamics of various types of enterprises, as well as the range of financial and nonfinancial tools necessary for helping companies flourish—and for strategy setting, screening, and diligence.

Business Partners Limited (BPL), was created by one of South Africa's foremost entrepreneurial, industrialist and philanthropic families in partnership with the South African government and a group of large South African corporations. BPL has institutionalized not only financial expertise at the enterprise level, but also a higher-level understanding of what it takes to develop the South African economy by growing the SME sector. This multilingual approach has resulted in the customization of a range of products that provide debt, equity and quasi-equity in line with the needs of entrepreneurs that BPL is uniquely qualified to understand. Furthermore, BPL has 22 office locations in South Africa, including its headquarters in Johannesburg, ensuring local presence and accessibility nationwide.

BPL's Multilingual Leadership is exemplified by the fund's CEO, Nazeem Martin, who, in addition to his private sector experience, previously served as Deputy Director-General of Public Works in the Nelson Mandela government in South Africa. But Martin's leadership in this regard is not the only factor in the successful management of BPL. In total alignment with shareholders, Martin and his team all share a strong desire to fuel SME growth sustainably, ensuring that the goal of economic development, at the macro level, permeates the entire institution. This is embodied in BPL's consistent mission over 32 years of "doing good" – i.e. facilitating access to risk finance, technical assistance/mentorship and business premises for SME entrepreneurs on a large scale, so that they may pursue wealth for themselves, grow the economy, broaden the tax base and create jobs for many – and "doing well" – i.e. being sufficiently profitable in order to remain sustainable in the long term.

Several of **Elevar Equity's** founders started working on their first fund, Unitus Equity Fund, at the nonprofit Unitus, where they worked with nonprofit microfinance institutions (MFIs). At Unitus, they realized that MFIs tended to scale to about 2,000 clients and then taper off. They wanted to know if a market-rate equity fund could be created that would bring for-profit microfinance institutions to greater scale and impact. Using their personal experience in on-the-ground client interaction models, experience investing in 10 countries, and first-hand understanding of microfinance business drivers and systems, the team worked to identify MFIs that could successfully become for-profits and use equity capital to dramatically scale their business models and increase client bases more rapidly. One of Elevar's early exits, the IPO of SKS Microfinance in India, demonstrated its success at this strategy.

4. ACCOUNTABILITY

Finally, experience across sectors enables management to track performance more rigorously and effectively communicate both financial and impact results.

Calvert Foundation is already – and increasingly – linking its performance and reporting to the more discrete values and impact preferences of its thousands of investors, a process made possible by its deep connections to, and experience in, retail investing and the social sector. In its Women Investing in Women Initiative (WIN-WIN), for example, investors can invest in a portfolio of organizations in which the majority of clients served are women (50 percent or more), the organization has a mandate to serve women in its mission or has a specific program targeting women, and/or the majority of the organization's products or services offered have shown to especially benefit women. This accountability on the back end, with input from multi-sector groups and perspectives, allows Calvert Foundation to push out new kinds of retail products to more investors.

Huntington Capital is a firm with primarily institutional limited partners and a commitment to generating market rates of return. Yet, Huntington has a practice of tracking and reporting impact that some LPs say is the best they have seen, honing in on the income and demographic characteristics of portfolio company employees.

Morgan Miller, a co-founder and managing partner, exemplifies the multilingual approach, even with a background almost entirely in banking. The firm's impact goal "wasn't an accident, but it wasn't all that intentional either," Morgan says. "We were trying to create a fund that would make money and be a success for investors. My partner, Barry [Wilson], had started a venture fund in Michigan, primarily to create jobs. I was coming from commercial banking, including 10 years in Latin America. Economic development was a big part of the work. Studying the impact of investment in emerging markets and identifying ways we could stimulate growth drove us."

FUND RECOMMENDATIONS

1. Recognize that you will need other kinds of expertise.

Given that impact investing funds will need to successfully address a multitude of issues and develop a range of relationships, the fund must be prepared to view such challenges from a variety of perspectives. Diverse skill sets and perspectives enabled the funds profiled in our study to be best positioned to respond to not just the traditional challenges of successful investing, but those specific to investing with impact.

2. Leverage strong foundations into even stronger teams.

Our research has demonstrated that most successful funds are built upon strong foundations—anchor investors and founders with unmatched reputations and relationships. As the organization develops, however, these individual relationships cannot, by themselves, sustain organizational success. Funds working to offer long-term impact should cultivate a team grounded in Multilingual Leadership and reward collaboration.

3. Be open to growth and transformation.

Expertise is not fixed; it is dynamic, fluid, and evolving. The innovative nature of impact investing requires funds to constantly assess and add to the core competencies of their team and individual members. Existing impact funds that do not embody the concept of Multilingual Leadership should intentionally develop and execute strategies intended to cultivate diverse, “cross-sector” perspectives, and evaluate and augment team and individual expertise.

4. Train the next generation of leaders to be multilingual.

Multilingual Leadership itself is rarely intrinsic, even when it might be possible to look back at the trajectory of a Multilingual Leader and determine how they achieved such cross-sector fluency. Different perspectives must be nurtured through training and experience. The impact investing community should encourage leaders interested in the field to diversify their education and career paths.



MISSION FIRST&LAST

In 2009, the Monitor Institute's landmark report, *Investing for Social and Environmental Impact*,²⁵ categorized impact investors as either financial-first or impact-first, reflecting a prioritization of competitive rates of financial return on the one hand, or the delivery of social outcomes on the other.

The distinction became a default barometer for good reason. For the first time, impact investors were able to describe themselves in a way others understood. This enabled them to identify the right peers and products more quickly, and also provided for a more segmented and, therefore, actionable conversation.

However, in just the last few years, it has become clear that the objectives of investors are more multi-faceted than this initial dichotomy allowed – a reality reinforced by our fund case studies.

For example, some institutional investors in **Huntington Capital**, one of the most financially-oriented funds in our study, are motivated to invest, in part, to satisfy regulatory requirements that they direct capital to underserved communities. In order to help these investors demonstrate compliance, Huntington tracks and reports on impact rigorously – even more so than many funds that seek social impact above all else. And for many investors, financial and social outcomes are both secondary. New York Life, a cornerstone investor in **SEAF**'s Sichuan SME Investment Fund, was primarily motivated by the opportunity to gain a foothold in China.

In other words, fund investors have any number of reasons for their involvement in impact investing. Their engagement can be informed by deeply-held values and convictions; strategic institutional/mission priorities; rules and regulations; or, of course, risk and return objectives.

Turning to impact investing *funding intermediaries*, the primary subject of this study, we find that the same, complex mix of motivations drives them. However, because these intermediaries are creating time-bound funds or initiatives that must be clearly articulated, created through binding agreement with investors, and deployed expeditiously and in keeping with these commitments, they provide the ideal platform to explore how complex financial, social, and strategic drivers are actually realized through investment.

What we found surprised us: no matter their origins, objectives, or institutional form, all 12 funds were entirely consistent in their approach to balancing financial and social/environmental impact.

Simply put, every one of our 12 case study subjects put financial and social objectives on an equal footing by establishing a clearly embedded strategy and structure for achieving mission prior to investment (sometimes called “mission lock”), enabling a clear financial priority during deployment. Knowing early and explicitly that impact is contained in a fund’s DNA allows all parties (investors, investees and the fund itself) to move forward with the investment discipline akin to any other financial transaction, confident that mission drift is unlikely.

Funds also demonstrated high degrees of transparency across the board. The 12 funds set up robust systems to track the mission they had originally defined. They tracked impact regularly over the course of the investment, even while prioritizing financial and operational performance. And toward the end of the fund lifecycle, they more comprehensively assessed the impact that had been achieved and reported it back to investors. We call this “Mission First and Last” – an admittedly complicated theme relative to others, but one that points directly to a more sophisticated understanding of the blended approach to value creation in the 2.0 era of impact investing.

Put another way, Mission First and Last connects two core elements in impact investing: first, *intention*, or the manner in which mission is embedded in the structure and strategy of a fund during its initial conception, design, and creation; and, second, *accountability*, or the manner in which a mission is revisited, evaluated and reported throughout and at the back-end of the investment cycle. Mission First and Last explains how the funds make choices about implementing their mission lock, and the relationship between their intention, accountability practices, and the environment in which they work. The four categories below emphasize important differences between potential approaches to Mission First and Last. These are key to understanding impact investing. It is interesting to note that the pressures on the fund to define and implement its own accountability systems generally increase along the four categories.

²⁵ Fulton, Katherine and Jessica Freireich, “Investing for Social and Environmental Impact.” Monitor Institute, 2009. http://www.monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf

CATEGORY	DESCRIPTION	EXAMPLE
STRUCTURAL	Mission is locked into the DNA of the fund through an external designation, registration, or special-purpose corporate form. The performance of a fund is assumed to be consistent with this structure, which may include reporting standards. Accountability is often limited to the requirements of the form.	Calvert Foundation manages a Community Investment Note registered in nearly all 50 U.S. States that is accessible to non-accredited investors. It uses CARS and other third-party standards to report on impact. In addition, the impact thesis and constraints of the fund are built into the registered security.
STRATEGIC	Mission is embedded in an investment strategy that explicitly targets certain enterprises or populations, often with defined attributes, which are generally understood to be inherently impactful. Once the fund is confident of an investee's fit, the link between the enterprise's activities and outcomes is assumed, thus lessening the depth of required accountability.	Business Partners Limited targets SME growth broadly in South Africa, but takes care to identify viable companies located in urban and rural areas and/or run by women and/or indigenous entrepreneurs. These businesses have been plainly underserved by mainstream capital markets, particularly for the provision of risk capital/ finance, in which BPL specializes.
INVESTOR DRIVEN	These funds are created in close collaboration with investors, for whom the fund is meeting a very specific mission objective. Demonstrating impact against this objective is an important element of accountability.	SEAF's Sichuan SME Investment Fund answered a clear need for two key investor groups: a U.S. insurance company eager to demonstrate its support for Chinese enterprise, and DFIs committed to capitalizing small business development in China.
THEMATIC	These funds embed mission in an investment strategy targeted toward sectors that contain potential for social/environmental impact, though the sector may include many other non-impact investments. Accountability relates to demonstrating that investments within these sectors have been impactful.	The Bridges Ventures Sustainable Growth Funds I and II focus on a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns. Their investments are in health, education, the environment, and socially-beneficial products and services where tangible impact can be demonstrated.

1. STRUCTURAL

Some funds embed their mission through structure – literally a legal construct or some other binding form of third-party commitment that standardizes, to some degree, the type of impact desired. This might include being registered as a philanthropic foundation or public charity, where fidelity to mission is paramount in investment programs that are established explicitly to invest for financial and social outcomes. Another approach is to earn designation as a community finance institution or some other special-purpose entity created or certified by government (such as a CDFI or an SBIC in the U.S., defined earlier in the Policy Symbiosis section). A fund could also provide a registered security required to invest in a very specific, impactful fashion. Three of our funds meet these criteria: **The W. K. Kellogg Foundation, Accion Texas, and Calvert Foundation**.

The “structural” approach to Mission First and Last is the purest demonstration of what we call “mission lock.” Investors in these funds are confident they are making an impact investment because the fund has agreed to adhere to some generally recognized standards of impact. The performance of a fund is assumed to be consistent with this structural requirement, which may include reporting standards. Since their accountability

must be aligned to the standard requirements of the form, these funds have less motivation to define and implement their own accountability systems.

The W. K. Kellogg Foundation is an independent, private foundation that operates under a clear mission: to support children, families and communities by creating conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society. Investments that do not explicitly meet this mission are not even considered for investment by the foundation’s Mission Driven Investments (MDI) program, the subject of our case study. MDI’s primary accountabilities are external, to the IRS (adhering to guidelines for endowment investing by private foundations), and internal, to an investment committee and board of trustees. Nonetheless, the internal tracking MDI does is innovative, focused on determining the proportion of a company’s impact for which WKKF’s investment is responsible.

Accion Texas (ATI) is registered as a CDFI with the US Department of Treasury’s CDFI Fund. CDFIs are required to have community development as a primary mission and provide a majority of their financial services in low- to moderate-income areas. As a result, CDFIs collect critical information about the income levels of their borrowers. Moreover, investments in

CDFIs automatically provide other U.S. investors with credit for making impactful investments under the terms of related legislation.

Calvert Foundation's Community Investment Note is a security registered in nearly all 50 U.S. states. The Note's prospectus describes in detail the investments that Calvert Foundation, a nonprofit organization, is permitted to make. Calvert Foundation also collects social and environmental performance data from each of its portfolio partners annually using a custom Social Performance Measurement Report template that incorporates industry-aligned metrics and best practices, based on IRIS, GIIRS, the CDFI Assessment and Ratings System (CARS), and the U.S. Department of Housing and Urban Development. With a total of \$183 million invested in more than 190 organizations as of December 2012, Calvert Foundation has been a powerful influencer in promoting the use of third-party standards.

2. STRATEGIC

Funds categorized as "strategic" address Mission First and Last primarily via their stated investment strategy. However, while sectors of interest are a priority for these funds, they also target a very particular type of organization that is viewed by investors and the funds as inherently impactful (e.g. SMEs in rural areas or social enterprises).

In practice, this means that the accountability of funds with a "strategic" approach is similar to those funds we categorize as having a "structural" approach: any investment they make is assumed to be impactful, as long as it is consistent with their stated investment strategy. While funds report primarily on outputs as a social metric, rather than outcomes, it is important to note that this does not reflect a diminished commitment to impact, or of the rigor with which they track non-financial performance. On the contrary, all of the funds we studied thought deeply about the change they were making through investment. It merely reflects a different approach to accountability focused on outputs.

The funds we place in the "strategic" category include **Aavishkaar, Business Partners Limited (BPL), Elevar, and RSF Social Finance**.

Aavishkaar took on the extremely difficult challenge of making venture capital investments in early stage SMEs in rural India from the outset – an unheard of proposition at the time. For this reason, and especially during Aavishkaar's early years, there

was relatively limited scrutiny of the impact of Aavishkaar's portfolio companies. As a result, Aavishkaar was not required by investors to report as extensively on impact as some of the other funds in our study. Through 2012, Aavishkaar's first fund used a range of metrics to assess the fund's non-financial performance, which were determined jointly by the team and its investees to be the closest proxies to the positive social and environmental outcomes generated by each portfolio company. Examples include the amount of abated CO₂ emissions, and increased access to healthcare, drinking water, financial services, and education.

As the nascent impact investing industry focused on rural India has grown substantially over the life of Aavishkaar's first fund, Aavishkaar is now taking a leadership role in the development of increasingly sophisticated impact assessment tools for fund managers. In October 2013, the firm announced the launch of a tool named 'Prabhav', which was developed because Aavishkaar and Intellecap senior managers believed that fund-level impact reporting should not only track the non-financial performance of investee companies, but also the approach taken by fund managers to achieve impact. The tool analyzes this second component of fund impact by assessing the risks undertaken by impact funds, based on the location of investments, stage of investments and financial instruments utilized. While Aavishkaar's early impact assessments included 'snapshots' on companies' social outputs, Prabhav measures both social outputs and outcomes generated by investees in terms of the change between pre- and post-investment.

BPL was also created to invest in the underserved and undercapitalized SME sector, in this case in South Africa. And as with Aavishkaar, BPL developed innovative methods for directing not only debt, but also equity and quasi equity to these companies. "Current stakeholders are looking primarily at Business Partners investing capital, skill and knowledge into all viable enterprises in both South Africa and other selected African countries. That is the mission," explains Mark Paper, Chief Operating Officer of BPL's international subsidiary, Business Partners International. In developing its pipeline, the investment team tries to stimulate the firm's social metrics by actively seeking out businesses owned by women and/or black Africans, in urban and rural areas in need of increased economic activity, and has institutionalized a system by which it can identify sound investment opportunities from among a pool of impactful potential deals. In a sense, this integrated approach "locks in" BPL's impact and allows the team to focus on investing

sustainably – primarily for financial return – trusting that their impact objectives are being met.

Elevar Equity goes so far as to have a tagline that is enterprise- rather than sector-focused: “We back extraordinary entrepreneurs who deliver essential services to disconnected communities.”²⁶ Elevar’s process is unarguably impactful – its investment themes come from a “bottom-up” analysis of a community’s expressed needs for specific, essential products or services. The fund identifies thriving informal sectors in which a variety of services are being demanded and offered, usually at a low quality and high price, and works to invest in companies that deliver products and services to these communities in ways that bring more people into the formal, global marketplace. This approach highlights its inclusion mission. While Elevar tracks extensive impact metrics for each company in its portfolio, it concentrates on several key performance indicators, which are a blend of operational and social impact outputs. For each company, its indicators relate to the reach, acceptance, and depth of use of the service by its target population. Whenever possible, these metrics attempt to include status quo figures so that the companies are comparing results to what existed prior to their intervention.

RSF Social Finance is a nonprofit in its own right and explicitly lends to “social enterprises.” As with the other funds in this category, the criteria it uses to select nonprofit and for-profit borrowers were defined so that the organization’s investments would be impactful by design. Its Social Enterprise Lending Program offers mortgage loans, construction loans, equipment loans, and working capital lines of credit exclusively to organizations dedicated to improving the well-being of society and the environment. This includes requirements that the enterprise has: a mission that addresses one of RSF’s three focus areas; sustainable approaches to sourcing, manufacturing, and distribution; workforce relations which incorporate fair trade principles; and a capital structure and existing financial partners which reflect a commitment to social good and environmental sustainability. The positive impact of its loans is assured by these criteria, and RSF’s obligation to report on non-financial outcomes is more limited.

As the enterprises (and sectors) in which these funds invest become more mature and sustainable, and other funds step in to the same marketplaces, we would expect fund investors to demand more evidence of impact, consistent with the “thematic” approach to Mission First and Last. For example, funds investing

in microfinance might have been categorized as “strategic” 10 years ago; as discussed below, we now consider them to be “thematic”. For now, however, the very fact that funds using a “strategic” approach to Mission First and Last have figured out how to provide capital to more unconventional businesses, in less developed markets, has gone a long way to proving their impact to investors.

3. INVESTOR DRIVEN

In our last interim report on the Impact Investor project, we identified six “dynamics” in impact investing that had surfaced as broader trends in the market. We called one of these dynamics “The Active Investor,” writing that:

“Investors in funds – typically known as Limited Partners (LPs) in the private markets in which most impact investors operate – are playing an especially and increasingly active role in impact investing. This distinguishes impact investing from conventional investing, where a clearly articulated financial return, and a known strategy for achieving it, is typically presented to LPs as a fait accompli. When impact investing is perceived by LPs as a tool for achieving a more nuanced return objective – combining elements of financial and social/environmental performance – it is usually the case that the articulation of this objective precedes any investment, let alone the creation of a fund in which LPs are playing an especially active role. In other words, impact investing and the funds created to deploy capital are often seen by LPs as a means to an end, rather than an end in itself.”²⁷

Funds that embed and are accountable to their mission through an “investor driven” practice grow out of this dynamic. They are conceived of to meet the very specific, strategic objectives of investors, and created in close collaboration with those very same institutions.

There is one fund in our study that meets that definition squarely – **SEAF’s Sichuan SME Investment Fund (SSIF)**. In early 2000, the IFC approached SEAF with a novel proposition: with the IFC’s support, would SEAF be interested in launching a fund in the Sichuan Province of West China? Despite China’s strong economic growth, the region was highly underdeveloped, with income disparities five times as large as East China. At that time, no private equity or risk capital providers were in

²⁶ www.Elevarequity.com

²⁷ “A Market Emerges: The Six Dynamics of Impact Investing”, Pacific Community Ventures, CASE at Duke University, ImpactAssets, http://www.pacificcommunityventures.org/uploads/reports-and-publications/The_Six_Dynamics_of_Impact_Investing_October_2012_PCV_CASE_at_Duke_ImpactAssets.pdf

Sichuan – or any part of China, outside of its major cities – with bank lending as the only formal source of capital for SMEs. The central Chinese government was acutely aware of this growing economic inequity, SEAF learned, and it was their desire to incentivize the growth of their underdeveloped provinces that was the driving force behind the IFC’s request and, ultimately, the formation of the fund.

SSIF prepared Environmental and Social Impact Reports on potential investees and tracked several social metrics during the life of the fund. Examples of these metrics include average annual rates of portfolio company employment and wage growth, percentage of new jobs going to unskilled and semi-skilled workers, and the percentage of employees receiving health and pension benefits – a robust approach consistent with the need to measure the extent to which the fund’s investments were aligned with SEAF’s, LPs’, and the government’s development objectives.

As with all of our themes, the lines between sub-categories are blurred. While we believe that other funds speak more directly to different approaches to Mission First and Last, a number have qualities that are “investor driven.” For example, **Huntington Capital** consulted closely with some LPs on the design of its process for tracking and reporting impact in order to meet their very specific requirements. However, Huntington fits more neatly into the “thematic” category because it is accountable to many more investors than just those that were the most active in its establishment. **Bridges, Elevar, and BPL** were all created by their founding investors – and yet that origin story has been trumped by the emergence of three independent and sustainable investment management firms with a much a more diverse set of stakeholders. SEAF also fits this profile at the organizational level, even as SEAF’s fund in Sichuan is distinctly “investor driven”.

Accountability is complicated in the “investor driven” approach to Mission First and Last. Funds are answerable to the purpose of their creation, which may require anything from a more narrative and strategic form of impact reporting, to the disclosure of detailed impact metrics. Either way, reporting is likely to be relatively rigorous. To be sure, even if investors do not demand robust impact tracking and reporting, “investor driven” funds are incentivized to provide a level of detail sufficient to broaden their appeal beyond a limited group of LPs.

4. THEMATIC

The “thematic” approach to addressing Mission First and Last is grounded less in the origins or institutional characteristics of a fund, as with “structural” and “investor driven” practices, and more

directly in a fund’s stated investment strategy, similar to “strategic” funds. This approach is embodied in a fund’s legal underpinnings (including offer documents, side letters with investors, and partnership agreements) and, of course, in its deployment.

Specifically, these funds are explicitly and intentionally committed to an investment strategy that is, quite literally, thematic – focused on a particular place, market sector, or industry that has the potential to deliver embedded social or environmental outcomes, alongside financial returns.

What matters most in signaling that the fund is aligned with the social objectives of prospective investors is the inherent impact within the targeted sector (e.g. education or health). And yet it remains to be proven that the enterprises in which the fund invests are delivering the social or environmental benefits that have been promised. Therefore, strong accountabilities and a rigorous process for tracking and reporting impact are characteristic of funds that address Mission First and Last using a “thematic” approach.

In this category, we place **Bridges Ventures Sustainable Growth Funds, Huntington Capital, Deutsche’s Microfinance Consortium I, and MicroVest**.

Bridges Ventures’ Sustainable Growth Funds self-identify as taking a thematic approach, providing growth capital for SMEs which create impact either through the products they sell within certain sectors (health and well-being, education and skills, or the environment) or the economic growth they generate in underserved areas (80 percent of investments are located in the most deprived 25 percent of the UK, with over a third in the most deprived 10 percent). They focus closely on a cluster of issue areas where a social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns, insisting that each investment must demonstrate that its mission is “in lockstep” with growth. In addition to an IMPACT Scorecard that is applied across all its funds, Bridges has professional staff dedicated to sharing best practices around integrating impact throughout the investment cycle (from investment selection, to engagement, to tracking and reporting).

Huntington Capital emphasizes place, investing in non-high-technology companies in relatively underserved and racially diverse parts of the southwest United States. Consistent with our findings on accountability for thematic funds, Bridges and Huntington are both recognized by LPs as leading practitioners of impact tracking and reporting.

For **Deutsche Bank's** investors, the Microfinance Consortium's goals were tied directly to the impact of microfinance as a fast-maturing financial sector. The same goes for **MicroVest**. Both funds also illustrate accountability in this category, but for a different reason. In 2004 and 2005, when the MicroVest and Deutsche funds were created, microfinance was believed to be uniformly impactful as a sector. As a result, Deutsche and MicroVest provided cursory social impact reporting. However, the market changed after the IPO of Compartamos in 2007, when investors began to question MFIs' motivations and ability

to serve clients' needs. In response, Deutsche and MicroVest moved quickly to institute more robust systems for impact reporting and tracking; both developed social scorecards to assess the ethics and effectiveness of the specific MFIs and LIFIs (low income financial institutions) they were supporting. The implementation of these scorecards marked a more discerning approach to investing, consistent with the "thematic" approach, and renewed sector-wide commitment to ensuring that mission is not undermined by the push for profitability.

FUND RECOMMENDATIONS

1. Lock in mission.

"Mission lock" was a feature of all the funds and organizations we researched, where mission can be defined as the intentional social or environmental impacts that a fund seeks, and its commitment to doing so through the practice of investment. This connection between impact and investment strategy should be made unequivocally, explicitly, and early in a fund's development, enabling all that follows.

2. Align accountability with mission.

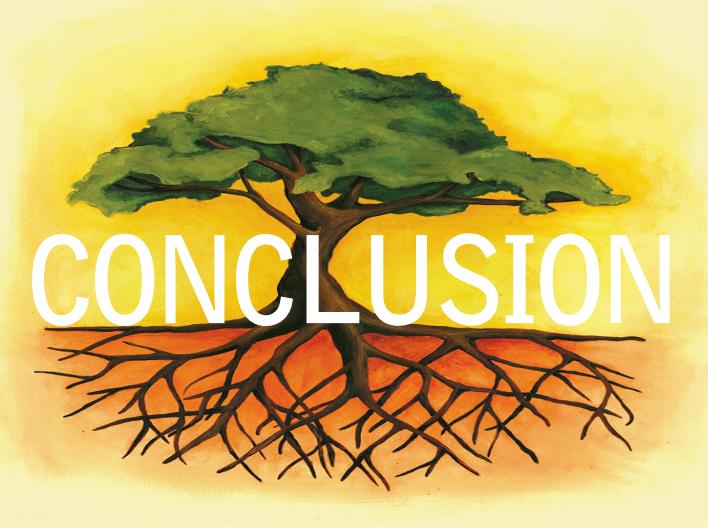
A commitment to transparency and rigorous impact reporting are essential for all funds and a prerequisite for success. However the details of what, precisely, impact reporting entails (whether more narrative or quantitative, output- or outcomes-oriented), and the time and resources devoted to the activity, should be proportional to a fund's accountabilities (i.e. the fund's clearly articulated mission as endorsed by investors). On the one hand, the market does not expect or value any more impact tracking and reporting than necessary; on the other, funds that do not meet investors' expectations for demonstrating impact will be sidelined.

3. Track mission-direct metrics and strengthen feedback loops.

Fund design is paramount. The right metrics should allow you and your investors to clearly understand if fund performance is consistent with mission, not just provide superfluous numbers for the sake of reporting. The right metrics should also support stronger feedback loops for social performance, focusing the attention of investors on a set of clear and consistent strategic objectives. This will limit investor ambivalence on financial and social performance, which is all too common in impact investing and creates significant inefficiencies.

4. Ensure financial discipline in investment.

Mission should be sufficiently embedded such that the core investment phase of a fund's lifecycle – diligence, negotiation, and execution – can be implemented with the utmost financial discipline, utilizing the same processes, analytical methods, and deal terms of any mainstream investor. When funds stray from relatively conventional processes of underwriting and risk mitigation, even if applied innovatively, they risk undermining the premise of impact investing: that impact is realized, and scaled, when enterprises are financially sustainable.



CONCLUSION

The work of our team over the past two years has been grounded in a singular conviction: that what so many of us in the industry intuited about impact investing through broad reflection must shift to an understanding based on methodical research and proven practice. We refer to this in shorthand as moving from “Impact Investing 1.0” to “Impact Investing 2.0.”

This report presented four central practices present in outstanding funds that are meeting or exceeding both their financial and social/environmental impact goals. These four themes were:

POLICY SYMBIOSIS Despite much of the “limited government” rhetoric found in some impact investing discussions, government has been a critical player in both financing the field and creating a supportive regulatory environment within which the best funds prosper. In addition to benefitting the funds themselves, Policy Symbiosis helps inform the creation of supportive public policy environments.

Investors should keep the following lessons in mind with regard to Policy Symbiosis:

- Be aware of policies that apply to you.
- Cultivate relationships; be a part of the conversation.
- Invite policymakers to the table fully, but appropriately.

CATALYTIC CAPITAL The most successful impact investing funds understand the role of Catalytic Capital as critical not only for financial, but also strategic reasons. Catalytic Capital allows investors to be active in markets they might otherwise overlook and has been transformative for impact investors and the field as a whole. Investors should keep the following considerations in mind with regard to Catalytic Capital:

- Re-conceptualize your understanding of the motivations of investors.
- Target and partner with investors who are mission-and strategy-aligned.
- Be a catalyst in your own right.
- Create peer groups of structural innovators.

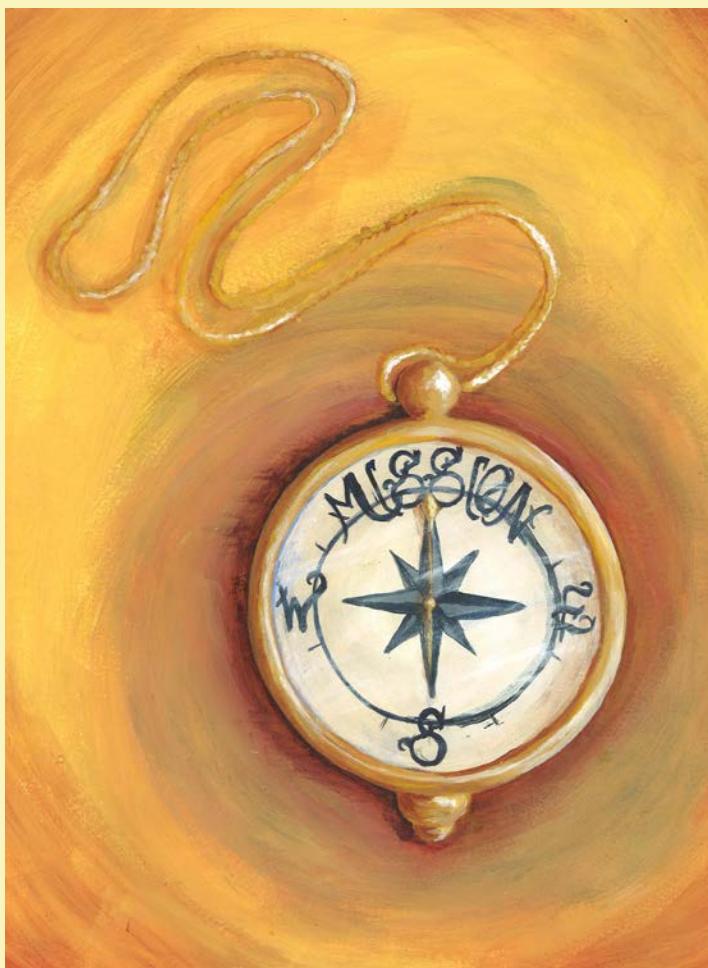
MULTILINGUAL LEADERSHIP There is an evolving myth that financial skills alone are the key to successful impact investing, but our research shows that impact funds managed by those with financial discipline combined with skills from the public, non-profit, and related sectors (e.g. development finance) were best positioned both to generate financial returns and create social/environmental value.

Investors bringing the lesson of Multilingual Leadership to their approach should:

- Recognize that success is dependent on leaders with diverse expertise.
- Seek to leverage strong foundations into strong teams.
- Be open to the growth and transformation of leadership teams.
- Train the next generation of leaders to be multilingual from the start.

MISSION FIRST AND LAST In the 1.0 era, impact investors were encouraged to present themselves as being either “Financial-first” or “Impact-First.” In point of fact, our research has shown that this distinction is a hindrance for those moving into Impact Investing 2.0. The best funds put financial and social objectives on an equal footing by establishing a clearly embedded strategy and structure for achieving mission prior to investment, enabling a predominantly financial focus throughout the life of the investment. Mission First and Last encourages every fund to combine explicit impact intention with operational accountability to impact and suggests it is time to retire our dichotomous “financial-first” and “impact-first” thinking. Impact investors acting with consideration of Mission First and Last will seek to:

- Lock in mission.
- Align accountability with mission.
- Track mission-direct metrics and strengthen feedback loops.
- Operate with the understanding that financial discipline is essential to success.



CREATING THE NEW 2.0 PRACTICE OF IMPACT INVESTING

When taken together, the four trends point to the reasons why impact investing funds have been growing more slowly than some had hoped. Typically, these funds:

- Become familiar with policy issues and spend energy cultivating mutually beneficial relationships with philanthropists and government actors;
- Are less masters of the universe than they are masters of collaboration (soft skills) and financial structuring (hard skills);
- Take the time to build teams with multi-sector experiences, approaches and skill sets;
- Use their capital in strategic ways to encourage other investors to learn and benefit from these kinds of investments; and
- Recognize and act on their accountability to multiple stakeholders, including their LPs, investees, and target beneficiaries.

These trends, along with the four factors outlined in the report, are the ingredients for the “special sauce” that distinguishes successful impact investing fund managers. Referencing these as a checklist makes it easy to identify the funds, in addition to those we studied, that are well positioned for the 2.0 era. In fact, over the past two years of our research, comments from other impact investing funds have strongly echoed these elements as essential to their success, as can be seen from the other groups quoted in this report, including DBL Investors, Ignia, MacArthur Foundation, and SJF Ventures.

It also bears noting that these ingredients point to why the field of impact investing needs more and different kinds of infrastructure in order to succeed. The emergence of impact investing-focused organizations geared toward providing support to the investors that are deploying capital (e.g. membership groups, rating agencies, university programs, investing platforms, stock exchanges, and think tanks) should not be seen as a philanthropic distraction, in other words, but as an important market development function. These are complicated processes and the interstitial relationships between asset managers and other sector players are clearly being formed from cross-sector, multilingual conversations; a successful market for this kind of investing seems to require it.

LOOKING AHEAD

Recognizing that we are in the middle of an evolving market, we must be careful about generalizing our research and claiming that findings are universal prematurely. We know that investors develop greater experience over the life of a fund, much in the same way that entrepreneurs learn more each day about the markets in which they operate. Impact Investing 1.0 has helped us understand the field during its most recent development; the findings and conclusions that we label Impact Investing 2.0 in this report are intended to play the same role moving forward. Some of these themes may be relevant for years to come, while others may be transitional. We believe they will be key to our work toward a new, more effective practice of impact investing today, but not a static set of principles for tomorrow.

Given, then, that impact investing will continue to grow and evolve, what are the fundamental questions we should consider in years to come? We start with this initial set:

- Which of these four trends will still be true 10 or 20 years from now?

- What percentage of the market will remain closely tied to policy and Catalytic Capital? Will the responsibility of institutional alignment come to be seen as commonplace in a holistic approach to capital market development and operations?
- Will Multilingual Leadership get easier as more talent enters the field? Or will the field become more specialized and the experience sets more distinct?
- Will Mission First and Last be strengthened by infrastructure which makes it easier for managers to implement rather than have to invent?

A developmental perspective also asks us to consider if what we are looking at is the tail end of a generational trend, or the tip of a new iceberg. For example:

- Are there additional lessons to be drawn from impact investing's deepest roots, particularly in microfinance and community development? If we look back 20 years in microfinance, for example, could we identify the same themes of policy encouragement, the presence of Catalytic Capital, the need for a new talent pool, and the integration of mission with financial intent? Have these success factors been aligned or jeopardized in the determination to scale and mainstream the market?
- As more return data is shared publicly, contributing to our ability to predict trends and future performance, will impact investing split into different factions? Some have suggested we should divide the field now, developing greater detail and divisions between asset classes, fund strategies, and sub-sectors. Despite the reality that many of the practices that lead to differing performance seem quite universal, a more detailed division may indeed become what is needed to attract more institutional capital.
- Finally, combining both questions, will debt and equity impact investing markets split and grow along distinct paths? Microfinance and community finance have been built on the backbone of debt. The reality is that equity is an extremely small segment of the larger capital market. Will impact investing have a similar trajectory as its predecessors, or will the future truly diverge from the past?

Perhaps impact investing—by virtue of its integration of multiple considerations of value and performance—will always be more complicated than traditional investing and finance. Or, if we turn the consideration inside out, perhaps traditional finance will finally be recognized as having a limited value framework and be reinvented to internalize considerations of off-balance-sheet factors such as social and environmental costs, risk, and opportunity.

Regardless of the answers to these questions, we know in the future, as we have in the past, that the only constant is change, as individual players move toward evolving definitions of success. We are pleased to celebrate the arrival of the 2.0 era in impact investing: the emergence of a core set of successful practices taken from illuminating, real-world examples of investors, funds, entrepreneurs, and beneficiaries who are doing well and doing good together.

APPENDIX A - LIST OF ORGANIZATIONS

We are deeply indebted to all the organizations that have supported this work as funders, advisors, interview subjects, strategists, conveners, and leaders at our project convenings including:

4ENERGY	EUROPEAN VENTURE PHILANTHROPY ASSOCIATION	OVERSEAS PRIVATE INVESTMENT CORPORATION
AAVISHKAAR	F.B. HERON FOUNDATION	PARNASSUS INVESTMENTS
ACCION TEXAS	GEISSE FOUNDATION	PROVIVE
ACUMEN FUND	GLOBALKASNET	RIFLE-SHOT PERFORMANCE HOLDINGS (PTY) LTD
ADVANCED STRUCTURAL ALLOYS	GLOBAL IMPACT INVESTING NETWORK	RS GROUP
AGA KHAN FOUNDATION	GRAY GHOST VENTURES	RSF SOCIAL FINANCE
ANDE	GROFIN	SAID SCHOOL OF BUSINESS, OXFORD UNIVERSITY
AUSTRALIAN DEPARTMENT OF EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS	GUAYAKI	SANTA CLARA UNIVERSITY
BAMBOO FINANCE	HAMILTON LANE	SARAPLAST PVT LTD
BARARED	HAPPY FAMILY	SARONA ASSET MANAGEMENT
BENETECH	HUIJI FOOD CO., LTD.	SEAF
BEYOND CAPITAL FUND	HUNTINGTON CAPITAL	SHOREBANK INTERNATIONAL
BIG ISSUE INVEST	IGNIA PARTNERS, LLC	SKOLL CENTRE FOR SOCIAL ENTREPRENEURSHIP
BRIDGES VENTURES	IMPACT ASSETS	SOCAP
BUSINESS PARTNERS LIMITED	IMPACT INVESTMENT EXCHANGE ASIA	SOCIAL INVESTMENT BUSINESS
CALVERT FOUNDATION	IMPRINT CAPITAL	SOROS ECONOMIC DEVELOPMENT FUND
CAMBRIDGE ASSOCIATES	INVESTING FOR GOOD	STOREBRAND
CANAAN PARTNERS	INITIATIVE FOR RESPONSIBLE INVESTMENT, HARVARD UNIVERSITY	SWIFT SILLIKER (PTY) LTD
CAPRICORN INVESTMENT GROUP	JOHN D. AND CATHERINE T. MACARTHUR FOUNDATION	THE ANNIE E. CASEY FOUNDATION
CASSELL DESIGN	JP MORGAN	THE CALVERT FOUNDATION
CDC GROUP	KL FELICITAS FOUNDATION	THE CLARA FUND
CHENGDU FUTIAN NEW MATERIALS Co.,LTD	LATIN IDEA VENTURES	THE GYM GROUP
CITI	LGT CAPITAL MANAGEMENT	THE PERSHING SQUARE FOUNDATION
CO-OPERATIVE BANK OF MANCHESTER	LIGHTBOX COLLABORATIVE	THE ROCKEFELLER FOUNDATION
COASTAL ENTERPRISES	LYME TIMBER	THE TONY ELUMELU FOUNDATION
D-MIRO	MAGI FOODS	THE W.K. KELLOGG FOUNDATION
DBL INVESTORS	MARS DISCOVERY DISTRICT	TOTAL IMPACT ADVISORS
DEUTSCHE BANK	MCKINSEY & COMPANY	TRIODOS BANK
DUKE UNIVERSITY FUQUA SCHOOL OF BUSINESS	MiCEL	UK CABINET OFFICE
ECOENTERPRISES FUNDS	MICROVEST	UNIVERSITY OF CAPE TOWN
ELEOS FOUNDATION	MONITOR INSTITUTE	VANTAGE MOBILITY INTERNATIONAL
ELEVAR EQUITY	MORGAN STANLEY	VERTICALI COMMUNICATIONS
ENVIRONMENTAL TECHNOLOGIES FUND	NESTA	VISTAAR
ESMEE FAIRBAIRN FOUNDATION	OMIDYAR NETWORK	WEST MIDLANDS PENSION FUND
	ORLA HEALTHCARE	WORLD ECONOMIC FORUM

APPENDIX B - ACRONYMS

AIMCVF – AAVISHKAAR INDIA MICRO VENTURE CAPITAL FUND	LP – LIMITED PARTNER
ATI – ACCION TEXAS INC.	MDI – MISSION DRIVEN INVESTMENT (THE W.K. KELLOGG FOUNDATION)
BoP – BOTTOM OF THE PYRAMID	MFI – MICROFINANCE INSTITUTION
BPL – BUSINESS PARTNERS LIMITED	NABARD – NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (INDIA)
CARE – COOPERATIVE FOR ASSISTANCE RELIEF EVERYWHERE	NGO – NON-GOVERNMENTAL ORGANIZATION
CARS - CDFI ASSESSMENT AND RATINGS SYSTEM (U.S.)	ON – OMIDYAR NETWORK
CASE 13 – CENTER FOR THE ADVANCEMENT OF SOCIAL ENTREPRENEURSHIP INITIATIVE ON IMPACT INVESTING (DUKE UNIVERSITY)	OPIC – OVERSEAS PRIVATE INVESTMENT CORPORATION
CDC – CERTIFIED DEVELOPMENT COMPANY (U.S.)	PCV – PACIFIC COMMUNITY VENTURES
CDFI – COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (U.S.)	SBA – SMALL BUSINESS ADMINISTRATION (U.S.)
CRA – COMMUNITY REINVESTMENT ACT (U.S.)	SBIC – SMALL BUSINESS INVESTMENT COMPANY (U.S.)
DFI – DEVELOPMENT FINANCE INSTITUTION	SEAF – SMALL ENTERPRISE ASSISTANCE FUNDS
DfID – DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (UK)	SME – SMALL AND MEDIUM SIZE ENTERPRISE
ECC – ESSENTIAL CAPITAL CONSORTIUM (DEUTSCHE BANK)	SSIF – SICHUAN SME INVESTMENT FUND (SEAF)
G8 – THE GROUP OF EIGHT INDUSTRIALIZED NATIONS, INCLUDING: FRANCE, GERMANY, ITALY, THE UNITED KINGDOM, JAPAN, THE UNITED STATES, CANADA, AND RUSSIA ²⁸	SSIR – STANFORD SOCIAL INNOVATION REVIEW
GIIN – GLOBAL IMPACT INVESTING NETWORK	USAID – UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
GIIRS – GLOBAL IMPACT INVESTING RATING SYSTEM	WIN-WIN – WOMEN INVESTING IN WOMEN INITIATIVE (CALVERT FOUNDATION)
HC – HUNTINGTON CAPITAL	WKKF – THE W.K. KELLOGG FOUNDATION
IA – IMPACTASSETS	
IFC – INTERNATIONAL FINANCE CORPORATION	
IIC – INDIAN IMPACT INVESTOR COUNCIL	
IIPC – IMPACT INVESTING POLICY COLLABORATIVE	
IPO – INITIAL PUBLIC OFFERING	
IRIS – IMPACT REPORTING AND INVESTMENT STANDARDS	
LIFI – LOW INCOME FINANCIAL INSTITUTION	

²⁸ Lee, Stephanie, et. al. "The Group of Eight (G8) Industrialized Nations." Council on Foreign Relations. <http://www.cfr.org/global-governance/group-eight-g8-industrialized-nations/p10647>

ABOUT THE AUTHORS



PCV InSight

Pacific Community Ventures' impact evaluation and research practice (InSight, www.pacificcommunityventures.org/research) provides information and analysis to investors and policymakers with the goal of driving capital to underserved markets. InSight's work has provided the basis for national policy initiatives, including the White House Impact Economy Forum. In addition, InSight has been asked by the UK Cabinet Office to work alongside the World Economic Forum to lead the Global Learning Exchange, an outcome of the 2013 G8 summit in Northern Ireland. InSight's evaluation team supports clients including the \$250 billion California Public Employees Retirement System, Citi and The Annie E Casey Foundation, and in 2012 assessed the social and economic impacts of over \$25 billion of institutional investments, across asset classes.



CASE at Duke

The Center for the Advancement of Social Entrepreneurship (CASE, www.caseatduke.org) is an award-winning research and education center based at Duke University's Fuqua School of Business, working to promote the entrepreneurial pursuit of social impact through the thoughtful adaptation of business expertise. The CASE i3 Initiative on Impact Investing (www.casei3.org) was the first comprehensive program at a top global business school to blend academic rigor with practical knowledge in the emerging field of impact investing. CASE i3's strategies are to engage MBA students, support practitioners, and develop a research community for the field. In its first two years, it has educated over 850 MBA students about impact investing, formed partnerships with over 65 global practitioner groups and worked with 22 researchers at 12 universities.



ImpactAssets

ImpactAssets (www.impactassets.org) is a non-profit financial services group offering investors access to information and knowledge regarding the Impact Opportunity as well as participation in impact investment vehicles. IA manages one of the nation's leading Donor Advised Funds, allowing philanthropists at all levels access to impact investments supporting community development finance, affordable housing and other areas of interest to investors. The IA-50 provides individuals new to the field a general overview of leading impact investment firms across various thematic areas. In 2011, IA first introduced Impact Investing Issue Briefs, which explore various questions of interest to high net worth individuals and their clients.



