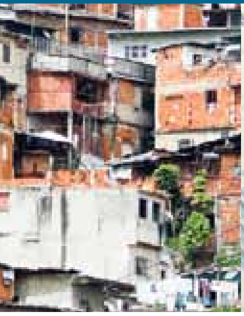
Investing FOR Impact

CASE STUDIES ACROSS ASSET CLASSES



Bridges Ventures

The Parthenon Group

Bridges Ventures

Bridges Ventures originated the concept of this report with the goal of contributing to the greater understanding within the investment community of the opportunities offered by Impact Investment and to promote the flourishing of further investments that can make a difference as well as making financial returns.

Bridges Ventures is an innovative investment company based in London that invests funds delivering both financial returns and social and environmental benefits. Founded in 2002 and chaired by Sir Ronald Cohen, a founding partner and the former Chairman of Apax Partners, the company believes that market forces and entrepreneurship can be harnessed to do well by doing good. The team pride themselves on working closely with the companies they back and are committed to helping entrepreneurs achieve long-term success. Bridges Ventures currently has two venture funds under management that invest in businesses based in regeneration areas and in sustainable business sectors such as the environment, education and healthcare. They also recently launched the Bridges Social Entrepreneurs Fund, a quasi-equity fund for social enterprises and the Bridges Sustainable Property Fund, which invests in properties in regeneration areas and environmentally sustainable buildings.

For more information, please visit www.bridgesventures.com.

The Parthenon Group

Parthenon has taken the lead in researching and authoring this report. The work has been done on a pro bono basis because the report has the potential to leverage more capital into investments that can produce great social and environmental benefits.

The Parthenon Group is a leading advisory firm focused on strategy consulting with offices in Boston, London, Mumbai, and San Francisco. Since its inception in 1991, the firm has embraced a unique approach to strategic advisory services; long-term client relationships, a willingness to share risk with clients, an entrepreneurial spirit, and customised insights are the hallmarks for which Parthenon has become recognised in the industry. This unique approach has established the firm as the strategic advisor of choice for CEOs and leaders of Global 1000 corporations, high-potential growth companies, private equity firms, healthcare organisations, and non-profit organisations. Our Non-Profit Practice assists non-profit leaders, foundations and corporations with strategy development, corporate social responsibility, organisational alignment and other strategic issues.

For more information, please contact Tracy Palandjian at tracyp@parthenon.com or visit www.parthenon.com.

Global Impact Investing Network

This report has drawn upon information and case studies provided by the Global Impact Investing Network (GIIN), which has been extremely open and helpful. The authors would like to thank the many members and partners of the GIIN who contributed to this work and hope that they will find that the report, in turn, contributes to their success in growing this exciting new sector. The GIIN is a newly-formed, independent, non-profit organization dedicated to building industry infrastructure, developing activities, and disseminating research and education that address systemic barriers to effective impact investing. By measuring the social and environmental performance of impact investments, the GIIN's IRIS (Impact Reporting and Investment Standards) initiative brings transparency and credibility to the sector and enables further industry infrastructure like performance benchmarks and rating systems that help increase the scale and effectiveness of impact investing.

These efforts are informed by the GIIN Investors' Council, a membership group comprised of leading impact investors committed to developing a coherent industry that facilitates more private capital investment in businesses addressing social and environmental problems around the world. By bringing together the large-scale family offices, institutional investors, pension funds, investment banks, wealth managers, private foundations and development finance institutions whose goals lie in the territory between philanthropy and the sole focus on profit-maximisation, the GIIN seeks to drive collectively towards the maturation of a sector that is currently inhibited by fragmentation.

www.globalimpactinvestingnetwork.org

Contents

FROM DAVID BLOOD, SENIOR PARTNER OF GENERATION INVESTMENT MANAGEMENT

It has never been a more appropriate time to re-consider the role of capital markets in creating value for society. What has become exceedingly clear to us here at Generation is that sustainability and long-term value creation are inextricably linked. We hope by our participation in this study we can help demonstrate that "Impact Investment" makes sense even for mainstream investors.

Generation Investment Management is proud to support this report by Bridges Ventures and Parthenon, as well as support the work of the Global Impact Investment Network (GIIN). We look forward to helping expand the community of Impact Investors, and we think now is the time for these activities to move from niche to mainstream.

Today, the sustainability challenges the planet faces are extraordinary and completely unprecedented. Even beyond the bailouts and recent volatility, the challenges of the climate crisis, water scarcity, income disparity, extreme poverty and disease must command our urgent attention. Philanthropy alone cannot provide the full set of solutions needed to address these challenges. Now, more than ever, capital markets need to play a role in addressing global sustainability challenges.

Whether you are a private individual, family office, investment bank, foundation endowment, or pension fund, this report should be helpful in providing a view across asset classes to highlight the variety of opportunities and ways to invest for impact. We hope you will join us on the path to create a more sustainable form of capitalism.

David Blood
Senior Partner of Generation Investment Management

FROM JUDITH RODIN, PRESIDENT OF ROCKEFELLER FOUNDATION

The Rockefeller Foundation supports innovative solutions to many of the world's most intractable challenges, affirming its mission, since 1913, to "promote the well-being" of humanity. During the last several years, Impact Investing has clearly emerged as one such solution: an innovation that can help more people tap into expanding markets while strengthening their resilience to 21st century risks.

Government funding, international aid and philanthropic donations alone are insufficient to achieve the world's development aspirations, especially against the backdrop of global recession. Private investment capital, therefore, will need to complement traditional resources or solve problems on a larger scale. Fortunately, the emerging Impact Investing industry enables investors to direct their resources toward multiple bottom-line returns – financial and social or environmental. This means doing good with the market, not only doing well in it.

The Rockefeller Foundation recently launched a major initiative on Harnessing the Power of Impact Investing because we believe the industry could potentially become a powerful complement to our – and others' – work. Through this initiative, we organised an inspiring group of partners — ranging from entrepreneurs starting Impact Investment banks and wealth management firms to leaders of major pension funds and investment banks — to help accelerate this new industry's evolution. A mature impact investing industry will enable more investors to address a wider range of social and environmental challenges more efficiently, making our job easier in turn.

This new report, Investing for Impact: Case Studies Across Asset Classes, is particularly encouraging both for what it describes and for what it signals about how Impact Investing is evolving. It provides fresh evidence of the diversity of investment opportunities now available and, importantly, the range of investors this industry now counts among its ranks. The detailed case study approach complements the Monitor Institute's analysis, Investing for Social & Environmental Impact, which was released earlier this year. Together, this seminal scholarship lays groundwork for new and clearer understandings of the industry.

The process by which this report materialised is also encouraging. The 50 Impact Investing pioneers who contributed their time – and opened their books – to the report's authors exemplify the collaborative commitment necessary for this new industry to reach its potential. The Global Impact Investing Network, whose founding members constitute many of the investors profiled in this document, will draw on this commitment and provide a platform for keeping these case examples "live." We are also grateful to the Parthenon Group and Bridges Ventures for their leadership and generosity in producing this study as a pro bono contribution to the field.

I hope this publication makes plain exactly why my colleagues and I are so excited about Impact Investing's possibilities. We look forward to working with you to build an industry that generates many more promising case studies of high-Impact Investment.

Judith Rodin
President of the Rockefeller Foundation

What is Impact Investment?

Impact Investment, often referred to using other terms such as *social investment or sustainable investment*, is defined as **"actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor."[1]** By leveraging the private sector, these investments can provide solutions at a scale that purely philanthropic interventions usually cannot reach. Investors in Impact Investment Funds include high-net-worth individuals, institutional investors, corporations or foundations, who invest in a wide range of asset classes. The intention of Impact Investment vehicles to make a social/environmental impact is a primary qualifying criterion; **investments that unintentionally result in social good are not regarded as Impact Investments**. Impact Investment is closely allied to but differentiated from Socially Responsible Investment (SRI) which generally employs negative screening to avoid investing in harmful companies or shareholder activism/advocacy to encourage corporate social responsibility practices.

[1] Adapted from the Monitor Institute: *Investing for Social and Environmental Impact*

SOME EXAMPLES OF IMPACT INVESTMENT

JP MORGAN URBAN RENAISSANCE PROPERTY FUND ($175MM RAISED)	• The fund targets urban development and redevelopment of affordable housing using "green" specifications from solar heating to recycled building materials • The fund is targeting market rate returns, with a projected return of ~15% net of fees • To support local communities, the fund is including cultural amenities such as partnering with after-school educational providers
IFFIM BONDS ($1.6B RAISED IN 2 ISSUES)	• Launched to support the GAVI (Global Alliance for Vaccines and Immunisation) Initiative, these bonds use the public markets to support vaccination efforts in the developing world • Leveraging future grants from developed countries, these bonds have been issued at market rates to both commercial and retail investors and hold a AAA/Aaa rating • The offering has allowed GAVI to frontload committed funds (that have been guaranteed over a 20 year time horizon), facilitating more lives to be saved in the near years and creating the infrastructure to more efficiently administer vaccinations across the developing world
ROOT CAPITAL ($48MM AUM)	• Root Capital provides senior debt to the primarily large co-ops servicing the rural poor, the "missing middle", too large for microfinance and too small or risky for corporate banks • Using contracts with agricultural buyers like Starbucks to mitigate the lender's risk, Root Capital provides access to funds and also creates sustainable partnerships between farmers and buyers • Root Capital provides below market-rate returns to investors (2.5% at present), but has been able to drive significant impact in farming communities in Tanzania, contributing to the growth of GDP in poverty-stricken rural areas

More details on these examples and others are found in the Case Study section of this report.

Executive Summary

Why Impact Investments?

Governments and charities do not have sufficient capital nor the complete skill set required to solve the world's pressing challenges. At the same time, the recent economic crisis has shaken established orthodoxies about the risk and return profiles of traditional investments. The Impact Investment sector is emerging as a partial answer to the twin challenges that these two realities present: Impact Investment unlocks substantial capital to build a more sustainable and equitable global economy while allowing for diversification across geographies and asset classes.

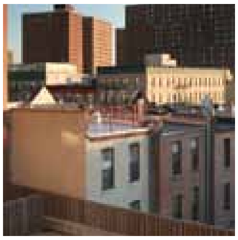
A plethora of investments is emerging across multiple asset classes that provide investors with market-rate investments, or for more altruistic investors, substantial social impact, while still generating positive financial returns. The old binary system—the widely-held belief that for-profit investment could only maximise financial return while social purpose could only be pursued through charity—is breaking down.

Who is this report for?

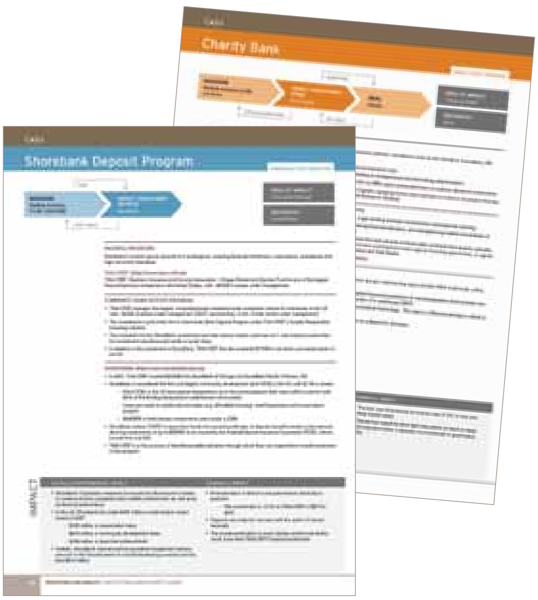
This report is intended for the investment community and aims to help investors understand this emerging industry. Many investors have begun to explore Impact Investments by investing in microfinance in developing countries or community development projects in the US. However, there is still a perception that Impact Investment always entails a sub-market financial return, which this report demonstrates is far from the case. For example, Lyme Timber, a forestry fund based in Hanover, New Hampshire, has been able to utilise conservation contracts, partnerships with the Nature Conservatory, and deep industry experience to invest in sustainable forestry projects throughout the US. These projects help conserve local forests, while delivering market to above-market returns to their investors.

Meanwhile, the industry is developing globally and the financial products available for investors are diversifying. Investments range from tropical rainforest preservation in South America, to finance for charities in the UK, to low-income housing development in New York City, to infectious disease prevention in Africa.






A case study approach in an asset allocation framework



The report employs a case study approach, mapping examples of Impact Investments on a traditional asset allocation framework [pg. 15]. This structure illustrates readily the diversity of products that are being developed, where they reside within a traditional asset allocation framework and the types of opportunities that are available to date. From these cases the report draws a series of findings [pg. 10].

This report, in conjunction with a new monograph by Rockefeller Philanthropy Advisors, *Solutions for Impact Investors: From Strategy to Implementation*, demonstrates how impact investing can be integrated across asset classes and equips investors with the tools to frame their investment decisions from strategy to implementation and evaluation.

The growth potential of impact investment

Compared to more traditional investments in established asset classes, Impact Investment is only now emerging from infancy. Some initiatives have achieved substantial scale but many others remain small. Questions include how much the sector can scale and whether achieving greater scale will result in reduction in either social / environmental impact or financial returns. However, apart from growing in its own right, the sector has fostered a high level of innovation which can potentially serve as a catalyst to influence how mainstream investments are made.

The positive momentum of the Impact Investment sector continues, despite the recent turmoil in global capital markets. While the basic investment infrastructure needs to be developed, Impact Investment is becoming a stable and sustainable alternative for institutional investors and high net worth individuals. As the infrastructure builds further and more funds across asset classes achieve market-rate performance, the Impact Investment sector stands poised to become a powerful vehicle both to address significant social and environmental issues and to chart a new course for the financial services industry to reclaim its stature as an engine of social and economic upliftment.

The Impact Investment Sector

Investor motivation and returns

Although investors in Impact Investments share the vision of combining financial returns with positive social/environmental impact, they can be categorised into two broad groups. The Monitor Institute, in their *Investing for Social and Environmental Impact* report, defines them as follows:

1. **FINANCIAL FIRST INVESTORS**, who seek to optimise financial returns with a floor for social/environmental impact. This group tends to consist of commercial investors who search for investment vehicles that offer market-rate returns while yielding some social/environmental good.

2. **IMPACT FIRST INVESTORS**, who seek to optimise social or environmental returns with a financial floor. This group uses social/environmental good as a primary objective and may accept a range of returns, from return of principal to market rate. This group is willing to accept a lower than market rate of return in investments that may be perceived as higher risk in order to help reach social/environmental goals that cannot be achieved in combination with market rates of financial return.

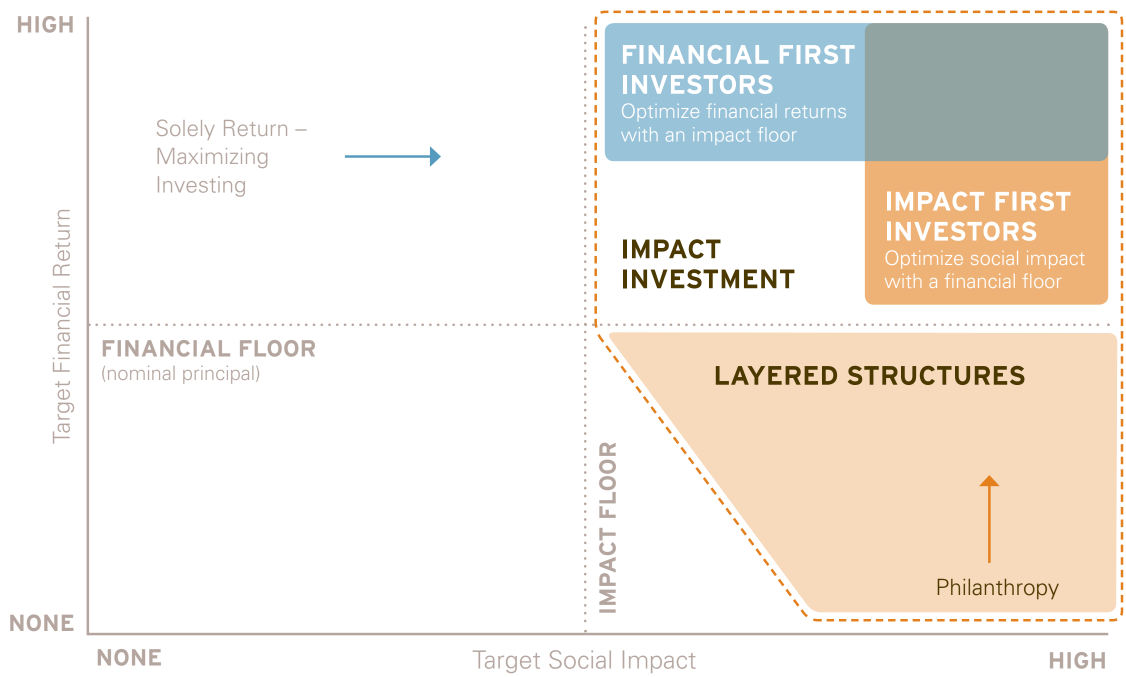
LAYERED STRUCTURES

Sometimes Financial First and Impact First investors collaborate in what we term as **layered structures** (also termed "Yin-Yang" investments[2]). These layered structures are created when the two types of investors work together, combining capital from Impact First and Financial First motivations, **blending different types of capital with different requirements and motivations**. In these deals, Impact First investors accept a sub-market risk-adjusted rate of return enabling other tranches of the investment to become attractive to Financial First investors. This symbiotic relationship allows Financial First investors to achieve market rate returns and Impact First investors to leverage their investment capital thus achieving significantly more social impact than they would if investing on their own. It is important to note that these structures are not limited to Financial First and Impact First investors, but can include philanthropic organisations pairing grant money with Financial or Impact First investors to generate high levels of impact.

This segmentation of Impact Investors, as adapted from the Monitor Institute Report, is summarised in the figure on page 7.

[2] Adapted from the Monitor Institute: *Investing for Social and Environmental Impact*

SEGMENTS OF IMPACT INVESTORS



Who can invest in the impact investment sector?

While we have broken down our investor groups into Financial First and Impact First Investors, investors can engage in Impact Investments on either side of this spectrum. Some investors, such as Prudential's Social Investment Arm, have internal allocations for the percentage of their total assets to be placed in Financial First investments versus Impact First investments. Investors who have the flexibility to invest in either Financial First or Impact First investments achieve different goals. Financial First investments deliver strong risk-weighted returns as well as positive social / environmental impacts, while Impact First investments can trail-blaze, to meet tougher social / environmental challenges by accepting lower returns or taking initial capital risk to allow new types of funds to develop a track record. Finally, some investors are bound by fiduciary duties either set out in their mission statement or governed by their legal status and are restricted to only Financial First Investments.

PENSION FUNDS AND OTHER INSTITUTIONAL INVESTORS

Pension funds and other institutional investors are normally bound by strong fiduciary duties, limiting their ability to play in Impact First investments. Although generally confined to Financial First investments, these investors have a multitude of options available to them for achieving market-rate return Impact Investments. From direct investments through to investments in numerous funds, pension fund managers have the ability to put together a diversified portfolio of Impact Investments. TIAA-CREF in the United States is one example of this new opportunity for market-rate Impact Investment, having committed more than $600 million to Impact Investments across asset classes (from cash to debt to private equity) that comply with fiduciary responsibility regulations. Layered structures also give these investors further opportunities to meet their fiduciary responsibilities while achieving various impact targets.

> Pension funds and other institutional investors are normally bound by strong fiduciary duties, limiting their ability to play in Impact First investments.

ULTRA HIGH NET WORTH INDIVIDUALS

Ultra high net worth individuals and family offices typically have greater flexibility in their investment mandates. Without the same level of fiduciary duty as many other types of investors, these investors can invest across different asset classes. The Impact Investment space allows these investors to pick multiple strategies for their investments. They, like pension funds, can look to maximise returns through a diversified Financial First platform. Or they can choose a particular social or environmental mission they wish to undertake, allocating a part of their investment portfolio to sub-market rate Impact First funds targeted at their preferred areas of social/environmental impact. Given their flexibility, family offices were instrumental in pioneering the early commercial investment vehicles in microfinance and are proving similarly influential in seeding the rapidly growing field of Impact Investment funds.

> High net worth individuals and family offices typically have greater flexibility in their investment mandates.

FOUNDATIONS

Like high net worth individuals, foundations often have the latitude to take a more specialised and tailored approach to Impact Investment. They can invest their endowment in Financial First investments (sometimes known as "Mission-Related Investment") then use a portion of their grant allocations or assets to invest in Impact First Investments (often referred to as "Social Investment" and sometimes as "Programme-Related Investment" from their designation in the US tax code). Given the breadth of opportunities available in the market, many foundations have started to invest in Impact First funds. Like high net worth individuals and family offices, foundations can often achieve strong returns, while creating impact not just broadly, but in specific target missions that relate to the foundation's own mission.

Like high net worth individuals, foundations often have the latitude to take a more specialised and tailored approach to Impact Investment.

ENTRY POINTS MAY VARY

The wide range of available Impact Investment opportunities can be daunting for someone new to the space. According to John Goldstein of Imprint Capital, "The flexibility to invest across asset classes, impact areas, and return profiles possessed by some high net worth investors is both a blessing and a curse. This ability to play across the whole spectrum can be paralysing, leaving some thinking 'Where do I start?' Finding clear anchors and entry points is essential." When the Kellogg Foundation chose to embark on this strategy, they set aside $100MM of the foundation's endowment as a deliberate operational learning experiment in Mission Driven Investing. They saw investments as an additional tool to drive impact and used the funds to test various investment vehicles from deposits in community banks, to funds of funds, to private fixed income, to direct venture capital investment. RSF Social Finance decided to offer its clients portfolios consisting exclusively of market rate mission managers such as Beartooth Capital, a real estate investor restoring and protecting ecologically important land. The Hull Family Foundation employed an asset class approach as their core strategy, allocating 100% of its corpus to fixed income impact investments, both market rate and below market rate. Each strategy fits the individual goals of the investors but demonstrates a defined, thoughtful approach and entry point.

Main Findings and Conclusions

The emergence of the Impact Investment sector is especially timely. The current economic crisis has shaken established orthodoxies about the risk and return of mainstream investments. At the same time, there has been rising interest among the investment community towards social and environmental responsibility in investment, as illustrated by the growing importance of initiatives such as the UN Principles for Responsible Investment. As Rockefeller Foundation President Judith Rodin notes in her introductory letter, charitable donations do not provide enough capital to solve our pressing social and environmental challenges at scale. The private sector/investors may be better placed to address certain social/environmental issues than charities, foundations or governments. With the global economy hobbled, mobilising all capital efficiently will be crucial if we are not to lose ground in creating a more sustainable and equitable world.





FLOURISHING NEW MODELS OF IMPACT INVESTMENT

Creativity in the Impact Investment sector has led to strong increases in investment activity. From its genesis in community investment and low-income housing development, clean-tech and microfinance, Impact Investment is now helping to provide the scale-up finance that enables slum schools in India to expand, farmers in Africa to participate in international value chains and underprivileged Mexicans to build better homes. Impact Investors are also becoming more innovative in designing investment structures that are drawing institutional capital to new asset classes. The case studies in this report have debunked the notion that socially or environmentally beneficial projects always require charity.

Creativity in the Impact Investment sector has led to strong increases in investment activity.

IMPACT INVESTMENT IS BECOMING A GLOBAL MOVEMENT

Impact Investment examples are springing up across the globe and are flourishing both in the developed and the developing worlds. Impact Investment is also getting more local, be it a Venture Capital firm investing in rural developers as Aavishkaar is doing in India, or developing new homes for the poor as Ignia is doing in Mexico. As new models are flourishing, new geographies are also coming into focus. Layered structures are also helping to drive money into new areas. For example, IFFIm bonds are currently tapping the reserves of the wealthier Western world to provide immunisation for the 70 poorest countries globally.

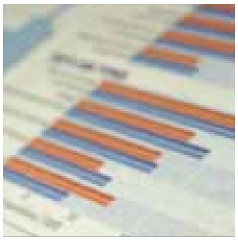
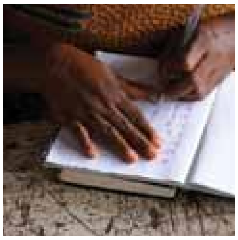
ALL ASSET CLASSES ARE NOW SHOWING DEVELOPMENT OF IMPACT INVESTMENT

The majority of Impact Investment is no longer composed of microfinance loans or equity investments in cleantech start-ups. It is moving far beyond the quoted asset class in which Socially Responsible Investment (SRI) has its roots. Whether through sustainable forestry or cash lending to community development banks, investors have more choice than ever to diversify their portfolios through Impact Investments. There are investments across all asset classes that provide investors with numerous options to trade off among risk, return *and* level of impact.

OLD SECTOR BELIEFS ARE BREAKING DOWN

As these Impact Investments become more widespread, when faced with a choice between putting their money in traditional investments or Impact Investments, foundations, high net worth individuals and institutions are increasingly opting for the latter. The perception that Impact Investment necessitates accepting sub-market rate returns is eroding. For example, many investors choose to invest in sustainable banks like Triodos, a bank which provides financing exclusively to companies and projects that have a social or environmental impact and delivers market rate returns to its depositors. Many funds today are raising their second or third fund after delivering market-rate or above returns to their investors. Microfinance, once viewed as an investment opportunity only for the benevolent, currently has over 100 investment funds managing $6.1 billion in assets and draws money from all investor types as larger institutional investors are attracted by the diversification, returns, and social impact generated from these investments.[3]




AS FUNDS MATURE, SOME ARE MOVING FROM IMPACT FIRST TO FINANCIAL FIRST

Many impact-oriented funds cited their beginnings as Impact First funds. Traditionally, their investor base was made up of foundations and high net worth individuals that were willing to receive below-market returns in exchange for certain levels of impact. As these funds were able to prove that they could also generate

[3] International Association of Microfinance Investors

market rate returns, institutional money started to flow in and these funds eventually migrated to the Financial First segment.

As more impact oriented funds demonstrate market rate returns made from high-impact platforms, more institutional funds will look to invest in this sector. This will attract more funds to be raised, increasing the social impact that can be achieved. By pioneering investment in new fund managers and investment areas, investors with a risk appetite can help to accelerate this trajectory and seed the next generation of Impact Investment funds that can be accessible to Financial First investors.

As more impact oriented funds demonstrate market rate returns made from high-impact platforms, more institutional funds will look to invest in this sector.

CLARITY IS EMERGING

The Impact Investment sector is gaining clarity. Long seen as an investment sector only for the philanthropic investor, the solid returns the sector is producing are changing this landscape. Numerous success stories have allowed the sector to break down the stereotypes many mainstream investors had on Impact Investments.

Through using the Asset Allocation Framework presented in this paper, investors can more easily navigate around the plethora of options available. Alongside research like this, developments are being made in the infrastructure of the sector. Initiatives set forth by the Rockefeller Foundation and B Labs are looking to standardise metrics for measuring the sustainability or relative impact in an attempt to give investors tools to compare and contrast their investment options. These developments in building a sustainable ecosystem for Impact Investments are driving the confidence many institutional investors are starting to gain in the sector.

IMPACT INVESTMENT IS HELPING ANSWER CHALLENGES AND CHANGE THE MARKET

By creating mechanisms through which investors can both make money and address social and/or environmental challenges, Impact Investment offers the potential to expand the pool of capital available to fund innovative solutions. Impact Investments often leverage grants, sometimes in mezzanine financing arrangements that create a large multiplier effect on the amount of impact generated. However, as the examples in this report show, Impact Investors are not limited to partnering with grant makers: from tropical rainforest preservation, to low-income housing development in New York City, to infectious disease prevention in Africa, Impact Investors are also making market-rate returns on investments that fit seamlessly into their portfolios.

> By creating mechanisms through which investors can both make money and address social and/or environmental challenges, Impact Investment offers the potential to expand the pool of capital available to fund innovative solutions.

The early pioneer investors are helping catalyse the sector by showing how profitable investment portfolios can be compounded with impact. Early investors have also helped inspire replication in other areas of impact. Having seen the success IFFIm was able to achieve through its bond offering, the Prince of Wales is currently proposing a similar structure for rainforest bonds to halt the deforestation of the world's endangered rainforests.

IMPACT INVESTMENT IS EMERGING FROM INFANCY

New capital is employed across the asset allocation spectrum. In Mexico, Ignia is developing housing communities for families who earn less than $10,000 a year while still targeting above market-rate returns. In Honduras, Pico Bonito is looking to receive a 20% IRR from the regeneration and sustainable forestry of native forests adjacent to a national park without the aid of local government subsidies. These investment vehicles are examples of how expansion into new asset classes is helping to broaden the reach of Impact Investment, while allowing investors to diversify across multiple asset classes.

Opportunities for institutional investors are still constrained by the relatively small size of many funds in this emerging sector, but as the sector matures, larger opportunities are becoming available. However, as opportunities grow in scale and number, will the same returns exist? Will impact be compromised as the sector grows? The answers to these questions will prove critical to the future of the sector.

Case Studies and the Asset Allocation Framework

The objective of this report is to map the Impact Investment market in a framework that resonates with investors. For this reason the Impact Investment sector and case studies are mapped along the traditional asset classes, resulting in an Impact Investment Asset Allocation Framework (AAF). This Framework aims to combine the traditional asset classes with the specificities inherent in Impact Investment. The framework is thus organised along two key dimensions: investor motivation (Financial First vs. Impact First) and asset class (as per traditional asset allocation)

A representation of this concept is shown on the opposite page.

Understanding the Asset Allocation Framework

The objective of this paper is to help potential investors understand the Impact Investment market better by describing concrete case studies for each cell in the AAF. The cases outlined in the following pages were chosen to show the reader the diversity of Impact Investments in the sector, especially the number of investments that aim to make returns at the market rate.

The allocation of case studies to the different cells in the framework was done on the basis of the following:

- The investor motivation is used to allocate case studies to the Financial First or Impact First rows of the AAF.
- Investment funds/vehicles typically have multiple investors so motivation for the fund/vehicle is established in the following way:
    - If at least one of the investors of an investment vehicle/fund has fiduciary responsibilities, then the fund/vehicle is deemed Financial First because investors must have been able to satisfy themselves that a risk-adjusted market-rate return is being targeted; otherwise it is deemed Impact First.
- The allocation to a specific asset class was driven by the specific instrument used in the deal profiled; in the case studies presented an effort was made to select a deal using an instrument that is representative of what is commonly used by the investment fund/vehicle (although it is worth noting that certain investment funds may use more than one asset class in their investments).

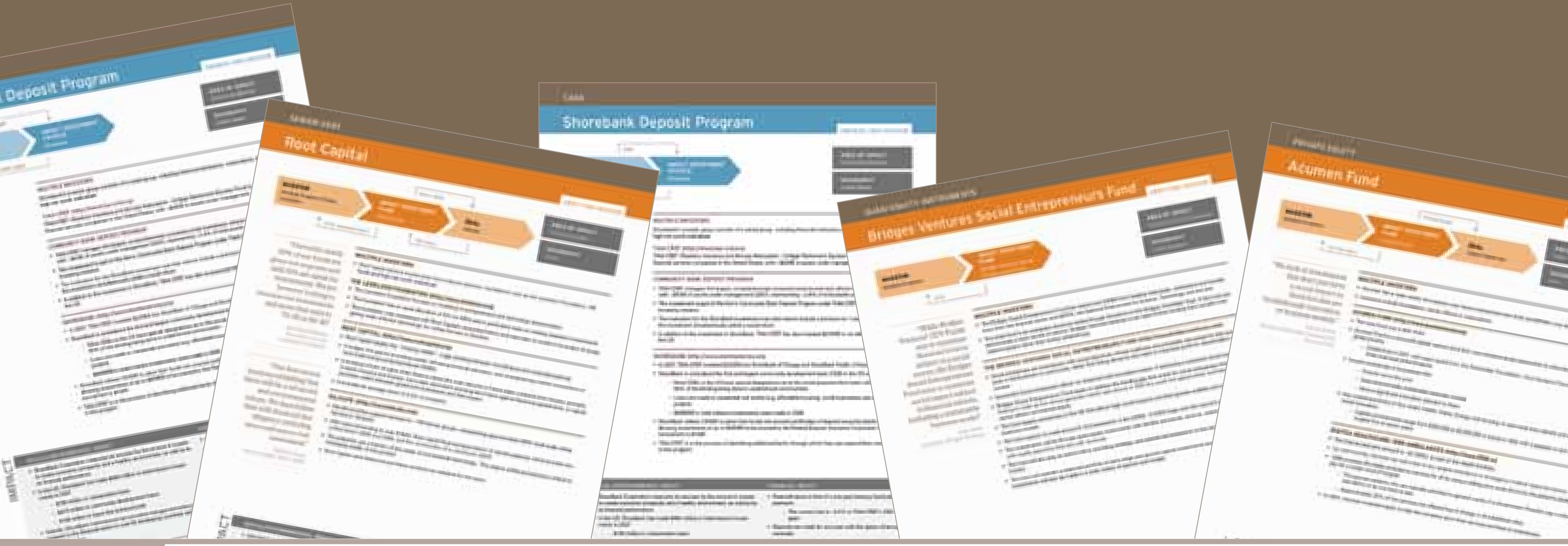
The following case studies should not be used as recommendations for an Impact Investment portfolio, but rather serve as a guide to the breadth of opportunities that exist in the sector.

Asset Allocation Framework

	ASSET CLASSES								
					ALTERNATIVE INSTRUMENTS				
	CASH	SENIOR DEBT	MEZZANINE /QUASI EQUITY	PUBLIC EQUITY	VENTURE CAPITAL	PRIVATE/ GROWTH EQUITY	REAL ESTATE	OTHER REAL ASSETS	ABSOLUTE RETURN (HEDGE FUNDS)
FINANCIAL FIRST	ShoreBank $2.1B	Blue Orchard Dexia Micro-Credit Fund $2.1B	Triodos Renew-ables Europe Fund £30M	Generation Investment Management $3.5B	Bridges Ventures CDV Funds £115MM	ProCredit Holding	JPMorgan Urban Re-naissance Prop. Fund $175MM	Lyme Northern Forest Fund $190MM	Harcourt BelAir SA Fund $345MM
IMPACT FIRST	Charity Bank	Root Capital $48MM	Bridges Ventures Social Entre-preneurs Fund £8MM		Aavishkaar	Acumen Fund $34.1MM	Ignia $60MM	Bosques Pico Bonito $5MM	

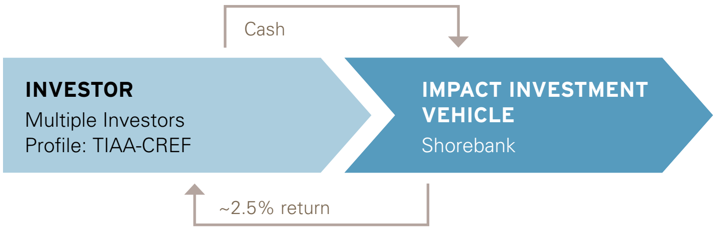
This Framework aims to combine the traditional asset classes with the specificities inherent in Impact Investment. It is organized along two key dimensions: investor motivation (Financial First vs. Impact First) and asset class

CASE STUDIES



Shorebank Deposit Program

FINANCIAL FIRST INVESTOR



AREA OF IMPACT
Community Banking

GEOGRAPHY
United States

MULTIPLE INVESTORS

Shorebank's investor group consists of a varied group including financial institutions, corporations, foundations and high net worth individuals

TIAA-CREF (http://www.tiaa-cref.org)

TIAA-CREF *(Teachers Insurance and Annuity Association - College Retirement Equities Fund)* is one of the largest financial services companies in the United States, with ~$400B in assets under management

COMMUNITY BANK DEPOSIT PROGRAM

- TIAA-CREF manages the largest, comprehensively screened social investment vehicle for individuals in the US with ~$9.6B of assets under management (2007), representing ~2.4% of total assets under management
- This investment is part of the firm's Community Bank Deposit Program under TIAA-CREF's Socially Responsible Investing initiative
- The motivation for the ShoreBank investment was that returns include a premium to 1 year treasury bond while the investment simultaneously yields a social return
- In addition to the investment in ShoreBank, TIAA-CREF has also invested $27MM in six other community banks in the US

SHOREBANK (http://www.shorebankcorp.org)

- In 2007, TIAA-CREF invested $22MM into ShoreBank of Chicago and ShoreBank Pacific of Ilwave, WA
- ShoreBank is considered the first and largest community development bank (CDB) in the US with $2.1B in assets
  - Most CDBs in the US have special designations as to the social purposes their loans will be used for with 80% of the lending being done in underserved communities
  - Loans are made to residential real estate (e.g. affordable housing), small businesses and conservation projects
  - $445MM in total of mission investments were made in 2006
- ShoreBank utilises CDARS (Certificate of Deposit Account Registry Service) to place its funds into insured certificates of deposit issued by banks in the network, allowing investments of up to $50MM to be insured by the Federal Deposit Insurance Corporation (FDIC), whose normal limit is $100K
- TIAA-CREF is in the process of identifying additional banks through which they can expand their overall investment in this program

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- ShoreBank Corporation measures its success by the amount it invests to create economic prosperity and a healthy environment, as well as by its financial performance
- Cumulatively, ShoreBank has financed over $3.7 billion in mission-related investments, with over $371 million in new mission loans in 2008. These include:
  - conservation loans
  - community development loans
  - loans that achieved both
- Globally, ShoreBank International has provided management advisory services to the financial sector in over 60 developing countries and has lent $914 million

FINANCIAL IMPACT

- Financial return is that of a 1-year treasury bond plus a premium
  - The current rate is ~2.5% to TIAA-CREF's CBD Program
- Deposits are made for one year with the option of annual renewals
- The investment horizon is much shorter and the risk level is much lower than TIAA-CREF's typical investments

BlueOrchard

FINANCIAL FIRST INVESTOR

Debt

Loans

INVESTOR
Multiple Investors

IMPACT INVESTMENT FUND
BlueOrchard
Dexia Microcredit Fund

DEAL
ACEP Cameroun S.A.

6-month Libor + 100 / 200bps

AREA OF IMPACT
Microfinance

GEOGRAPHY
Global

"We have focused on microfinance because it has proven to be an efficient mechanism of socioeconomic inclusion by enabling entrepreneurship and value creation at the grassroots level in emerging markets. We believe that establishing successful and effective relationships between investors, asset managers, MFIs and their clients is the key to directing sustainable flows of capital to this growing and immensely rewarding industry."

Jean-Pierre Klumpp
CEO BlueOrchard Finance S.A.

MULTIPLE INVESTORS

60% of the investors in the BlueOrchard Dexia Micro-Credit Fund are institutional investors whereas 40% are high net worth individuals

DEXIA MICRO-CREDIT FUND (DMCF) (http://www.blueorchard.com)

- Invests in debt instruments of up to 3 years in maturity issued by microfinance institutions (MFI) in Africa, Asia, Eastern and Central Europe, and Latin America
- Over 10 years in existence and nearly $500MM in assets under management
- Lends to microfinance institutions that have a minimum 3-year track record, have their accounts externally audited and rated, possess a minimum of $1MM in assets and are operationally self-sustainable and profitable
- Loan maturity ranges between 18 months and 3 years and most loans are renewed on expiration
- As of May 2009 there had been no defaults on any loan made by the Fund to MFIs
- The micro loans (provided by MFIs to micro-entrepreneurs) ranged from $50 to $8,000 with an average of $1,584, and only 3.2% of the loan repayments to MFI lenders were delays over 30 days as of March 31, 2009
- The Fund is a Luxembourg SICAV and has a minimum investment of US $10,000, or CHF 15,000. It is now available to US accredited investors with a minimum investment of the USD equivalent of £125,000 (~$175,000)

ACEP CAMEROUN S.A.

- MFI that targets urban micro-entrepreneurs in 3 regions of Cameroon
- Launched in 1999 as a government project and transformed into a private company in 2005
- As of February 2009, ACEP had a portfolio of $12M in which
  - There were 7.439M clients
  - 34% of the clients were women, who often borrow in groups of 3-5 and receive between $105 - $325 6-month loans
  - Many of them have now "graduated" to single loans, highlighting the positive impact of the micro-loans
- ACEP's performance showed a 5.8% ROA and <5% portfolio at risk over 30 days
- Over 50% of the portfolio is targeted at trade and the remaining covers services, agriculture and manufacturing
- BlueOrchard was the first international lender to ACEP, which until recently received its funds from local banks and shareholders

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- Over 400,000 micro-entrepreneurs funded by the loans from DMCF
- 41% of the entrepreneurs are in rural areas
- Most loans were typically granted to low-income, unbanked and isolated beneficiaries
- 52% of the recipients are female
- Almost 20% of the loan volume in 2008 was destined for agriculture
- Micro-entrepreneurs in 31 countries benefit from the fund

FINANCIAL IMPACT

- Financial return objective is 6 month Libor + 100/200 bps
- The fund provided a return of just over 68% in its 10+ year period
- Annualised return of 6% in USD, net, in 2006-2008

Triodos Investment Management

FINANCIAL FIRST INVESTOR

Mezzanine

INVESTOR
Multiple Investors

IMPACT INVESTMENT FUND
Triodos Renewables

DEAL
GFS Veurne

7% pa long term projected return

AREA OF IMPACT
Renewable Energy

GEOGRAPHY
EU member state countries

> "Renewable energy more than ever attracts a great deal of interest. EU legislation has defined that in 2020 the share of renewable energy needs to be increased to 20%. Triodos has been active in renewable energy investing since 1986 and via Triodos Renewables Europe Fund investors can contribute to a further increase of renewable energy supply in Europe".
>
> \- Bob Assenberg
> Fund Manager
> Triodos Renewables Europe Fund

MULTIPLE INVESTORS

- The Triodos Renewables Europe Fund is primarily funded by retail investors and a small number of institutional investors. Triodos Renewables Europe Fund is an open-ended fund, founded in June 2006 with a total committed capital of approximately £30M

TRIODOS RENEWABLES EUROPE FUND (http://www.triodos.com)

- Launched in June 2006, the Triodos Renewables Europe Fund is managed by Triodos Investment Management, the 100% owned investment arm of Triodos Bank. Triodos Bank, established in 1980, finances social, environmental and cultural organisations and was named Financial Times Sustainable Bank of the Year 2009
- Triodos Investment Management has been active in renewable energy investments since 1986 and was amongst the first equity investors in renewable energy projects in the Netherlands. Triodos Investment Management currently has four energy investment funds under management
- The Fund generally takes significant minority stakes (equity or quasi equity) in renewable energy projects (in construction or operational) with proven technology (wind, solar, hydro, biomass)
- Geographically, the primary investment focus is on countries where Triodos Bank has a presence (i.e. the Netherlands, Belgium, U.K., Germany, France and Spain). The Triodos Renewables Europe Fund is also open for investments in other EU member states
- The Fund invests in small to medium sized renewable energy projects and has a minimum investment size of £1MM. The maximum amount per investment is dependent on the size of the fund and is limited to a maximum 15% of the fund's committed capital (currently maximum of £4.5MM per investment)
- Instruments for investments in equity and/or quasi equity include common shares, preferred shares, convertible debt, subordinated debt, profit sharing notes
- The Triodos Renewables Europe Fund is a Luxembourg SICAV II open-ended fund

GFS VEURNE

- GFS Veurne BVBA, with a capacity of 2.7MW, is the largest solar PV project in Belgium
- 700 households can be serviced by this project, avoiding the production of 1,500 tonnes of CO_2, equal to 300 hectares of forest
- The Triodos Renewables Europe Fund has invested in the form of a subordinated loan of £1.25MM

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- Investments in small to medium sized renewable energy projects providing the vital capital required, in the form needed, to enable projects to reach completion and developers to free up funds to develop new projects. The fund thereby contributes to an increase in supply in renewable energy in Europe and a reduction of carbon emissions
- All renewable energy projects are carefully screened and comply with the sustainable investment criteria as set by Triodos Bank

FINANCIAL IMPACT

- As per 30th of June 2009, The Triodos Renewables Europe Fund has made 15 investments in renewable energy projects. Based on the existing pipeline of approved projects, the envisaged number of investments by year end is expected to be 20 with an invested capital ratio of approximately 70%
- Returns performance in 2007 and 2008 were 5.9% and 2.9% respectively

Generation Investment Management

FINANCIAL FIRST INVESTOR

Equity

INVESTOR
Multiple Investors
Profile: UK Envir. Agency

IMPACT INVESTMENT FUND
Generation IM

DEAL
Novo Nordisk

9-12% projected returns above benchmark over 3 years

15+% expected returns

AREA OF IMPACT
Sustainability

GEOGRAPHY
Global

> "[The] appointment [of Generation IM] evidences our opinion that those fund managers who seek to take into account financially material environmental risks and opportunities such as climate change in their investment decisions will produce better financial returns for the beneficiaries of our pension fund, and this is entirely consistent with our fiduciary duty'"
>
> Howard Pearce
> Head of Environmental Finance and Pension Fund Management for the Environment Agency

MULTIPLE INVESTORS

- Generation IM's investor group includes government agencies, foundations, high net worth individuals and institutional funds

UK ENVIRONMENT AGENCY (http://www.environment-agency.gov.uk/pensions)

- In 2008, the UK Environment Agency selected Generation IM to manage £50MM of its £1.5B Active Pension Fund
- Generation was awarded the investment mandate as part of the Agency's drive to adopt the UN Principles for Responsible Investment, which urge investors to consider environmental, social and governance (ESG) issues in their investment decisions

GENERATION INVESTMENT MANAGEMENT (http://www.generationim.com)

- Generation manages approximately $3.5B through their Global Equity Strategy and Climate Solutions Fund
- The firm takes a long-term investment view and integrating sustainability research (economic, environmental, social and governance criteria) within a rigorous fundamental equity analysis framework
- As part of its long-term focus, the firm measures its performance over a 3-year time horizon
- Generation's concentrated approach allows maximum leverage of an intense research effort, and investments are made only with high levels of conviction. The research effort is characterised by fundamental, bottom-up analysis on companies based on primary and secondary financial and non-financial research
- The Global Equity portfolio is comprised of 30-50 global public equities, which are selected on the basis of valuation and potential upside from a Focus List of roughly 100 public companies
- The Global Equity product has a typical investment horizon of 3 years, with no restrictions on size, sector or location, with no more than 30% of their portfolio in small cap companies (defined as US $3B market cap or less)
- In 2008, Generation launched the Climate Solutions Fund to complement the Global Equity product, deploying capital to solve the climate crisis. The Climate Solutions Fund invests in private equities and restricted public equities, in addition to public equity

NOVO NORDISK (http://www.novonordisk.com)

- Generation's view on Novo Nordisk is based on its assessment of "business quality"(BQ) and "management quality"(MQ), with sustainability issues a key component in the analysis of both these metrics
- For Novo Nordisk, the company's high BQ results from three principal factors: a market with good, long-term volume growth; strong barriers to entry in diabetes due to manufacturing capabilities, patient loyalty and patent protection; and a sustainable insulin strategy in developing markets that is built around prevention and patient needs
- Novo Nordisk's management quality is similarly high: sustainability is deeply embedded within the company's management structure, and sustainable business practices have strong senior support (triple bottom line). The high management quality is also a result of a strong culture of innovation and low staff turnover and an impressive track record in stakeholder engagement

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

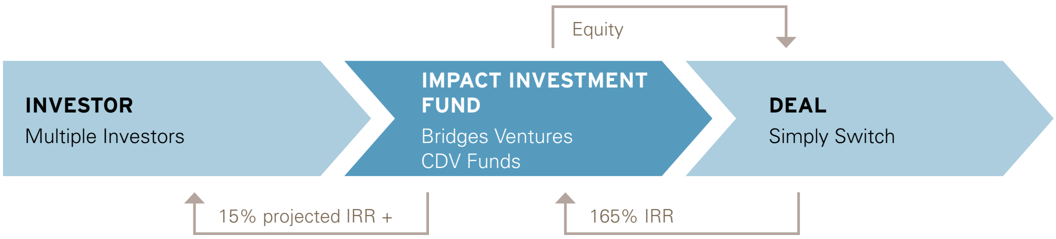
- Intensive primary research is used to gather the qualitative and quantitative information needed to make judgements on the sustainability of a business
- The firm's Industry Roadmaps examine the long-term outlook of specific industries and identify the highest quality businesses and management teams and key sustainability challenges confronting companies within the given sector
- Generation does not disaggregate social returns from financial returns—the firm views sustainability as material to the financial prospects of a company and sees it as critical to determining an investment's ability to deliver long-term outperformance

FINANCIAL IMPACT

- Target is to outperform the market by 9-12% above the benchmark MSCI World Index over 3 years (gross of fees)

Bridges Ventures CDV Funds

FINANCIAL FIRST INVESTOR



AREA OF IMPACT
Sustainability & Regeneration

GEOGRAPHY
United Kingdom

> "Bridges Ventures believes that market forces and entrepreneurship can be harnessed to create social and environmental benefits. We aim to continuously innovate to find new ways of delivering our investors with this combination."
>
> Michele Giddens
> Executive Director
> Bridges Ventures

MULTIPLE INVESTORS

- Bridges Ventures' investors range from institutions such as banks (HSBC, Cooperative Financial Services, Lloyds TSB, Barclays and Citigroup) and pension funds (such as Universities Superannuation Scheme and West Midlands Local Authority Pension Fund) through to wealthy individuals, families, trusts and endowments

BRIDGES VENTURES CDV FUNDS (http://www.bridgesventures.com)

- Bridges Ventures is a private sector, mission-driven investment company that specialises in funds that can deliver financial returns and make a positive social or environmental impact
- Bridges Ventures has launched two venture funds that invest in ambitious entrepreneurial businesses that have at least one of the following two characteristics:
  - **Regeneration**–businesses located in the most deprived 25% of the UK
  - **Sustainable Business**–businesses whose social/environmental impact is intrinsic to what they do
- The first £40MM venture fund was raised in 2002. Based on the track record of that fund, Bridges Ventures raised a second fund of £75MM in 2007, which beat its original target of £50MM and was over-subscribed
- The venture funds invest in early stage, later stage and property-backed businesses
- Bridges Ventures utilises a three-stage process to target, maximise and report upon social and environmental impact
  - **Social Screen**–Setting clear social impact of location or sector, then use strictly commercial criteria to select amongst those companies that pass the social screen; looking for winners commercially that do good
  - **Engagement**–Working with the portfolio companies using Bridges Social IMPACT Scorecard to find ways to improve their community and environmental impact while increasing the value of the business
  - **Reporting**–Reporting back to investors on the social and environmental impact of the companies as well as financial and commercial performance

SIMPLY SWITCH (http://www.simplyswitch.com)

- In late 2002, Bridges Ventures invested £125K of early-stage capital in Simply Switch, an online and telephone based provider of comparative information for utilities suppliers. Follow-on investments resulted in a total commitment of £345K
- Simply Switch was sold to The Daily Mail and General Trust for £22MM in 2006, returning £7.5MM to Bridges Ventures and resulting in a money multiplier of 22x and an IRR of 165% to investors
- Simply Switch located itself in a Bridges Ventures target area, creating 80 new jobs in the local economy
- Simply Switch helped raise £500K for charities where it had established an affinity relationship
- By being the first provider to offer its service both online and over the telephone, Simply Switch made it easier for those without resources to go online to save money on their bills

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- 1,300 jobs created or sustained; 500 in target areas and 163 taken out of unemployment
- Almost all investments in the most deprived 25%; 58% in the most deprived 10% of the UK
- Multiplier effect of £3 of additional spending in deprived areas for each £1 invested by Bridges Ventures and £2.13 of Gross Value Added

FINANCIAL IMPACT

- Bridges Ventures has invested over £51MM in 37 companies
- Follow-on investments have been made in over 70% of the portfolio
- Exit returns to date range from 29-165% IRR and from 2x to 22x money multiples

ProCredit Holding

FINANCIAL FIRST INVESTOR

Private Equity

INVESTOR
Multiple Investors
Profile: TIAA-CREF

IMPACT INVESTMENT VEHICLE
ProCredit Holding

15% ROE Expected

AREA OF IMPACT
Microfinance

GEOGRAPHY
Developing Countries

MULTIPLE INVESTORS

- ProCredit's investor group is a varied group including financial institutions such as IFC and foundations like the Doen Foundation

TIAA-CREF

- TIAA-CREF *(Teachers Insurance and Annuity Association - College Retirement Equities Fund)* is one of the largest financial services companies in the United States, with ~$400B in assets under management

GLOBAL MICROFINANCE INVESTMENT PROGRAM (http://www.tiaa-cref.org)

- TIAA-CREF manages the largest, comprehensively screened social investment vehicle for individuals in the US with ~$9.6B of assets under management (2007), representing ~2.4% of total assets under management
- The ProCredit investment is part of the firm's Global Microfinance Investment Program ($100MM) under TIAA-CREF's Socially Responsible Investing initiative
    - The ProCredit investment has been larger than TIAA-CREF's typical SRI initiatives
    - Whilst this is a direct investment, most other investments will be fund investments

PROCREDIT HOLDING AG (http://www.procredit-holding.com)

- ProCredit is a majority shareholder in 22 fast-growing banks in transition economies/developing countries
- Provides credit and other banking services to very small and medium-sized enterprises and lower and middle income savers: more than 93.5% of ProCredit's outstanding loans were for amounts of less than $12,700
- TIAA-CREF made a growth investment into ProCredit to help advance economic development through the provision of transparent, stable banking services and financial awareness in developing countries
- TIAA-CREF's initial investment into ProCredit was $34M
- Sample investment: Congo
    - Underdeveloped banking sector with 11 banks in total for Congo, which is the size of Western Europe
    - Most banking services focus on wealthy individuals, international corporations and the public sector, leaving the poor underserved
    - ProCredit launched in 2005 to serve the many small and very small enterprises and now has 3 branches in Kinshasa and holds 45% of all customer deposits in Congo

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- Social returns are not explicitly measured, however:
    - As of June 30, 2008, more than 1 million loans with a combined volume of $4B were outstanding
    - Since the group's formation in 1998, the institution has grown rapidly, and it now operates through 704 branches with over 19,350 employees globally

FINANCIAL IMPACT

- The investment horizon is ~8 years
- Financial returns are measured by book value growth and potential multiple expansion at sale
- The investment is targeting 15% return on equity

JP Morgan Urban Renaissance Property Fund

FINANCIAL FIRST INVESTOR

INVESTOR
Multiple Investors
Profile: Prudential

Equity →

← 15% expected return

IMPACT INVESTMENT FUND
JP Morgan Urban Renaissance Property Fund

Equity →

← >15% expected return

DEAL
Various Real Estate Transactions

AREA OF IMPACT
Urban Renewal

GEOGRAPHY
United States

" The idea behind investing in the JP Morgan Urban Renaissance Fund was to earn market rate returns while supporting a project that propagates urban renewal and green development."

Preston Pinkett
Head of Social Investment
Prudential

MULTIPLE INVESTORS

JP Morgan set out to create the fund by drawing investments from a variety of investors

PRUDENTIAL FINANCIAL (http://www.prudential.com/socialinvestments)

- The Social Investments group at Prudential is responsible for investing over $400MM of both the Prudential Corporation and The Prudential Foundation's funds
- The SRI group takes a 3-tier approach to investing its money: about 40% of the funds target market returns, 20% target significantly below-market returns but high impact investments and the remaining 40% target the middle of the two bookends, usually delivering strong returns, but low compared to the risk undertaken for the investment
- Prudential purchased $10MM of equity in one of the Fund Investment Vehicles (FIVs) of the JP Morgan Urban Renaissance Property Fund
- Prudential was attracted to the investment due to the ability to invest in both green certified development and urban renewal through commercial and residential projects

JP MORGAN URBAN RENAISSANCE PROPERTY FUND

- The investment thesis of the fund is targeted at the development and redevelopment of real estate projects in market rate, affordable and workforce housing, retail, mixed-use development, hospitality and other real estate sectors in Urban Renaissance Markets (URMs)
- The fund hopes to target the top twenty URMs in the US including: Manhattan-Bronx, San Francisco, Philadelphia, Chicago, Los Angeles, Minneapolis, and Newark
- The Fund intends, when feasible, to invest in residential and retail properties that are subject to "green" specifications, such as geothermal, and/or solar heating and cooling system, photovoltaic glass, and recycled building materials
- The Fund is also including cultural amenities and market-based after-school educational providers in its retail and mixed-use projects
- The Fund has $175MM of fully subscribed capital with $75MM more in the investor pipeline
- The targeted financial returns of the Fund are at market rate levels of ~15% net of fees

880 GLENWOOD AVENUE, ATLANTA

- The Fund made an investment in this 300K square foot luxury mid-rise apartment community in Atlanta
- The apartment complex comprises 325 one and two bedroom units
- The total development cost of the apartments was ~$46MM

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- The 880 Glenwood Avenue investment has won several neighbourhood green recognition awards including:
  - 2006 Urban Land Institute Development of the Year
  - 2005 Earthcraft House Development of the Year
  - 2003 Charter Award from the Congress of New Urbanism
- Greater environmental efficiencies will be achieved through the green building strategy

FINANCIAL IMPACT

- Targeted financial returns at market rate levels of ~15%, net of fees

Lyme Northern Forest Fund

FINANCIAL FIRST INVESTOR

Investment in Real Estate

INVESTOR
Multiple Investors

IMPACT INVESTMENT FUND
Lyme Northern Forest Fund Limited Partnership

DEAL
Chateaugay Woodlands

Market rate return less Fund fees

Above market rate return

AREA OF IMPACT
Sustainable Forestry

GEOGRAPHY
United States

"We seek to recover development and non-conservation values of real estate through the sale of conservation easements and other ecosystem services (e.g. wetland mitigation credits and carbon offsets). We like these sales to occur within the first two to three years of our investment. During this time and afterwards, we and future owners are obligated to manage the property sustainably. On timberland properties, our goal is to demonstrate that sustainably managed properties can generate attractive cash flows."

Jim Hourdequin
Managing Director
The Lyme Timber Company

MULTIPLE INVESTORS

- The Lyme Northern Forest Fund (LNFF) investors include high net worth individuals, university and college endowments, pension funds and foundations such as the Rockefeller Foundation

THE LYME TIMBER COMPANY (http://www.lymetimber.com)

- The Lyme Timber Company was formed in 1976 to invest in timberland and real estate using its own capital
- In 2002, the Company created its first timberland investment fund, the Lyme Northern Forest Fund, with $65MM in capital commitments and a 3-year investment window
- In 2005, the Company formed a second fund, The Lyme Forest Fund, with $190MM in capital commitments and a 3-year investment window
- The Lyme Timber Company's investment thesis is to make timberland investments in partnership with conservation agencies or government entities to mitigate risk. In many investments, Lyme will retain the rights to sustainably manage the timberland on parts or all of the purchased real estate and will sell an option to a partner organisation allowing the partner to acquire fee interest portions of the property with high conservation value and one or more 'conservation easements' over the remainder of the property. The conservation easements permanently restrict development and require The Lyme Timber Company and future owners to sustainably manage the property
- The investments are typically exited by sale to another timberland investor; a part of the real estate is therefore perpetually conserved as managed timberland
- The deal sizes range from $4MM - $80MM; the nominal return on the investments ranges from 11-25%

CHATEAUGAY WOODLANDS, UPSTATE NEW YORK

- Chateaugay Woodlands is an 85,000 acre property adjoining the Adirondack Park in Northern New York
- The LNFF purchased the property from Domtar, a forests product company, for $18.5MM in late 2004
- The purchase was made in partnership with the Nature Conservancy, a conservation agency, which paid $600K for the option to subsequently purchase a conservation easement over the woodland property
- LNFF financed half of the investment using $9MM of New Markets Tax Credit Financing at attractive rates
- In late 2008, LNFF sold a conservation easement to the State of New York for $10MM
- In early 2009, LNFF sold the timberlands, subject to the terms of the conservation easement, for $20 million

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- The sale of the conservation easement to the State of New York (facilitated by The Nature Conservancy) will
  - allow full public access to 38,400 acres of the property under a public recreation plan;
  - maintain private hunting club leases on the property; and
  - restrict all further development of the property.
- The structure of the conservation easement contract requires that sustainable forestry practices continue under successive owners
- The Forest Stewardship Council (FSC) has certified the property as adhering to its standards and criteria for forest management
- The Lyme Timber Company has been recognised with multiple awards for the quality of its management of the Chateaugay lands

FINANCIAL IMPACT

- Taking into account operating income and losses, the sale of the conservation easement, and the sale of property subject to the conservation easement, the investment produced an equity internal rate of return of approximately 22% for the Lyme Northern Forest Fund (does not include asset management and promote fees paid to The Lyme Timber Company)

BelAir SA Fund

FINANCIAL FIRST INVESTOR

Private Equity

INVESTOR
Multiple Investors

IMPACT INVESTMENT FUND
BelAir SA Fund

DEAL
SRI compliant hedge funds

> Libor+300bp

AREA OF IMPACT
Broad SRI

GEOGRAPHY
Global

"SRI is important to many of our investors and they have few options available, especially in hedge fund strategies."

Erik Eidolf
Executive Director Nordic
Harcourt Investment Consulting AB

MULTIPLE INVESTORS

- The Harcourt BelAir Sustainable Alternatives Fund has several investors – notable lead investors and co-founders are Folksam (Swedish Insurance Group) and Storebrand (Norwegian Insurance Group)
- Assets in BelAir exceed $345MM (as of March 2009)
- Folksam and Storebrand have a long history of SRI investing and invested seed capital of $200MM as part of their UN PRI (Principles for Responsible Investment) strategy
- The lead investors take an active role in SRI screening of investment instruments along with Harcourt, which is the fund manager and specialises in hedge fund manager selection and portfolio management
- Some other well-known investors of Harcourt are Barclays UK, Sumitomo Japan, and Swisscom Pension Fund

THE HARCOURT BELAIR SUSTAINABLE ALTERNATIVES FUND (http://www.harcourt.ch)

- Harcourt was the first fund-of-hedge-funds firm to sign the United Nations PRI initiative
  - Tracks global hedge fund data and meets over 1,000 hedge fund managers per annum
  - Screens the global hedge fund universe to find high quality managers that employ strategies that are suitable to implement in the internally defined SRI (Socially Responsible Investing) Policy developed jointly with Folksam and Storebrand
  - Performs rigorous due-diligence of hedge funds and monitors all the invested funds for SRI compliance
- Investment in hedge funds is based on
  - relevance and compliance to the defined SRI policy which spans 5 criteria
  - financial performance
  - quality of the manager
- The BelAir "universe" of screened companies consists of 2,800 companies as of Q1 2009. All underlying hedge funds in BelAir constrain themselves to only be exposed to the SRI approved list of instruments
- As of March 2009 BelAir portfolio consisted of 24 underlying hedge fund managers

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

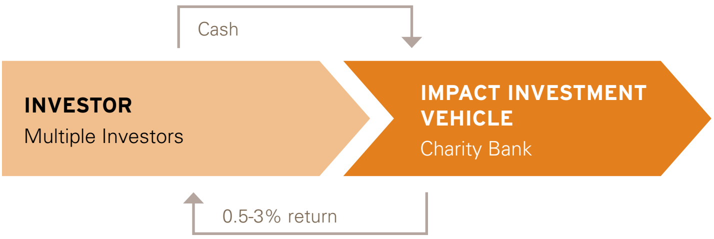
- BelAir implements a strict SRI Policy that results in an approved list of SRI compliant instruments to which the underlying hedge funds limit their exposure
- As such, the investor is guaranteed not to be exposed to companies and countries that are not SRI compliant
- SRI impact affects a broad number of instruments covering over 2,800 companies globally
- BelAir has strong Social and Environmental impacts through the SRI analysis conducted which includes engagement and dialogue with companies to improve their practices in a SRI context

FINANCIAL IMPACT

- Investors can gain exposure to absolute return hedge fund strategies while being able to make CSR/SRI investments
- BelAir provides diversified global hedge fund exposure across asset classes, regions and hedge fund strategies
- Returns: overall portfolio targets returns > Libor +300bp with limited downside
- Between inception in November 2007 and February 2009, BelAir has appreciated by 1.1% compared to -55.4% MSCI World Index

Charity Bank

IMPACT FIRST INVESTOR



AREA OF IMPACT
Various Sectors

GEOGRAPHY
Predominantly UK

> "Perhaps now more than ever there is a need for intermediaries like Charity Bank that offer alternatives to the traditional commercial banks. People who are as concerned about the impact their money achieves as the financial return they seek can place their money with confidence in such institutions."
>
> Julia Novy-Hildesley
> Executive Director
> Lemelson Foundation

> "Talking to participants of schemes enabled by Charity Bank allows me to better understand the difference that my and others investments have made to people's lives."
>
> Depositor
> Charity Bank

MULTIPLE INVESTORS

- Charity Bank is unusual among charities in having share capital
- Shares are held by Charities Aid Foundation, the National Council for Voluntary Organisations (NCVO), 15 charitable trusts and foundations, and Barclays Bank (not for its own profit but in trust for charity)
- Shareholder types include ordinary, non-cumulative B and C preference shareholders and holders of 10-year subordinated loan notes
- Charity Bank is currently raising capital from HNWI's and already has commitments in principle of £2MM in preference share capital. The Bank is aiming to raise up to £12MM of core capital long term
- In 2007, Charity Bank received £3MM of capital investment, as including share capital from the LankellyChase Foundation, Community Foundation for Northern Ireland and DB Microcredit Development Fund

CHARITY BANK (http://www.charitybank.org)

- By saving with Charity Bank, depositors can earn a modest amount of interest to protect their capital, knowing that they can get their money back at the end of the term
- Returns depend on the length of the deposit and can vary between 0.5% and 3%, some opt for zero
- Deposits can be made into a variety of products, including savings accounts, Charity ISA, CITRA and Deposit Bonds
- 100% of personal deposits of up to £50k are protected under the financial services compensation scheme
- 100% of deposits are used to provide affordable loan finance and advice to enable charities, community associations, voluntary organisations, community businesses and social enterprises predominantly across the UK to grow
- Loans are mostly made to organisations within the areas of social/health care, affordable housing, education, sustainable development, community transport, the arts and community regeneration
    - For example, Charity Bank provided a loan of £300k to a charity (CHICKS) that organises respite breaks for disadvantaged inner-city children
    - The loan enabled the charity to purchase a much-needed building to house its operations
    - CHICKS are on target to provide 1,000 breaks per year from 2010 – they currently provide 800

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT	FINANCIAL IMPACT
• 100% of deposits used for lending to organisations delivering solutions to social problems • Charity Bank has committed over £83.4MM to charities and other socially driven organisations since its launch in 2002 which has levered in an extra £48.2MM of funding. The bank's borrowers work with more that 3MM people in the UK • Charity Bank is currently devising a formal reporting system to measure the impact its loans create	• Returns depend on length of deposit, varying between 0.5% and 3%

Root Capital

IMPACT FIRST INVESTOR

Senior Debt

INVESTOR
Multiple Investors Profile: Lemelson

IMPACT INVESTMENT FUND
Root Capital

DEAL
Kilicafe

2.5% expected return

9% return

AREA OF IMPACT
"Missing Middle"

GEOGRAPHY
Africa

"Currently nearly 90% of our funds are given out as grants and only 10% are spent for investments. We are however looking to increase our investments and move that ratio to 70-30 or 60-40."

Julia Novy-Hildesley
Executive Director
Lemelson Foundation

"Our first screen involves validating that there will be a net social and environmental return. We then follow that with financial due diligence including micro and macro risk assessment."

Namrita Kapur
Vice President
Root Capital

MULTIPLE INVESTORS

- Root Capital attracts investments from industry partners, foundations such as the Lemelson Foundation, SRI funds and high net worth individuals

THE LEMELSON FOUNDATION (http://www.lemelson.org)

- The Lemelson Foundation focuses on investing in entrepreneurs and technology dissemination
- The foundation has an asset allocation of 5% for mission related investments and is particularly keen on making cleantech investments
- The foundation was impressed with Root Capital's operating history and was keen to invest in its project of propagating water efficient technology for coffee farmers in Tanzania

ROOT CAPITAL (http://www.rootcapital.org)

- Root Capital targets the "missing middle", a gap existing between microfinance and corporate banking
- It bridges this gap by providing capital, delivering financial education, and strengthening market connections of rural small and growing businesses
- It employs a form of value chain finance where the main security is future sales contracts from buyers, primarily in North America and Europe. It provides short-term and long-term loans against factoring agreements or signed purchase orders between grassroots businesses and their buyers
- It provides an average return of 2.5% to investors

KILICAFE (http://www.kilicafe.com)

- Kilicafe provides support services to ~100 farmer groups, representing approximately 8,000 small-scale coffee farmers in Tanzania
- With loans amounting to over $1MM, Root Capital financed acquisitions of central pulperies which process raw coffee beans (2006 and 2008) and the construction of a warehouse (2007)
- The pulperies use a fraction of the water required by conventional technology. This step in coffee processing is critical to managing the quality of the product
- Root Capital used Starbucks purchase contracts as collateral for the loans

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

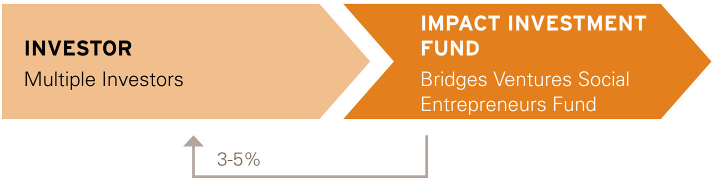
- Membership in Kilicafe has grown approximately 28% from 2006 to 2008
- Turnover has outpaced membership growth, adding $1MM to the local rural economy
- Overall income per member has increased providing easier access to education and health services
- The pulperies have decreased water usage by 80%, critical to a region with scarce water resources

FINANCIAL IMPACT

- The loan was disbursed at an interest rate of 9% (in line with local market rates)
- Kilicafe has repaid its short term loan and is on track to repay its long term loans; in general, it is a borrower in good standing

Bridges Ventures Social Entrepreneurs Fund

IMPACT FIRST INVESTOR



> "While Bridges Ventures' CDV Funds aim to maximise financial returns subject to a social screen, the Bridges Social Entrepreneurs Fund aims to maximise social impact subject to financial criteria, including a sustainable business model."
>
> Skye Heller
> Associate
> Bridges Ventures

MULTIPLE INVESTORS

- The Bridges Social Entrepreneurs Fund has raised over £8MM from leading individuals, institutions and foundations from the financial sector, government and NESTA, the National Endowment for Science, Technology and the Arts
- The funds have been raised through a mixture of donations to the Bridges Charitable Trust and Investments into a Limited Partnership structure. If the fund can demonstrate a track record of returns, Bridges Ventures believes it can raise further funding from socially motivated investors rather than further philanthropy

THE BRIDGES VENTURES SOCIAL ENTREPRENEURS FUND (http://www.bridgesventures.com)

- Social enterprises are businesses with social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners
- Successful social enterprises deliver an important and innovative means of achieving a sustained social impact
- Bridges Social Entrepreneurs Fund seeks to address the funding gap that exists for social enterprises that are looking to scale up but cannot generate market rate returns or offer the usual exit opportunities and therefore cannot attract commercial equity
- The fund targets enterprises based in England that deliver high social impacts and that operate scalable and sustainable business models
- The fund expects to make around 10-15 investments in the £500K - £1.5MM range over the next 4-5 years
- The investments will be through equity or quasi-equity instruments with flexible structures, such as subordinated debt with royalty payments that rise with revenues
- The fund will also play an active role in providing strategic and operational assistance to the social enterprises that it backs
- The fund will maintain a balanced portfolio of early stage and growth capital investments and acquisitions; the investments will also be made in a wide variety of sectors and models

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- Social Impact is measured using the Bridges Social IMPACT Scorecard

FINANCIAL IMPACT

- The Fund aims to maximise social impact whilst seeking a positive financial return
- The financial returns target for the Fund, net of fees and losses, is 3-5%

Aavishkaar

IMPACT FIRST INVESTOR

INVESTOR
Multiple Investors
Profile: Rockefeller Foundation

IMPACT INVESTMENT FUND
Aavishkaar

DEAL
Servals Automation

Equity

Below market return less fund fees

Below market return

AREA OF IMPACT
Rural Poverty

GEOGRAPHY
India

> "At Aavishkaar we wouldn't want to think of ourselves separating the social impact from the financial one or seeing one as distinct from the other. We see social impact as being implicit in the business model of the enterprise. The growth in the business fortunes of this company is directly linked to the social impact it makes; more products sold means higher energy efficiency to poor households and therefore improvement in their quality of life."
>
> Pradeep Pathiyamveetil
> COO
> Aavishkaar

MULTIPLE INVESTORS

- Aavishkaar's investor base includes foundations, high net worth individuals and other impact-oriented investors

ROCKEFELLER FOUNDATION (http://www.rockfund.org)

- Rockefeller Foundation has invested in numerous socially motivated investment vehicles through their program-related investing (PRI) work

AAVISHKAAR (http://www.aavishkaar.org)

- Aavishkaar is a micro economic fund, targeting investments in India
- Aavishkaar also runs a microfinance fund as a joint venture with Goodwell, a Netherlands-based microfinance company
- Looks to invest in SMEs and very small companies engaging in entrepreneurship
- Screens companies from an impact perspective first, and after convincing themselves of strong impact, looks at the financial metrics like growth and profitability
- Typical investment size of INR 1MM (~$25K)
- Primarily equity players, but permitted to provide debt in deals where equity is already present
- Due to Indian regulations on venture capital firms, pure debt can only make up 20% of deals, so debt funding tends to be bridge loans to take care of small requirements for limited time periods

SERVALS AUTOMATION PVT LTD (http://www.servalsgroup.blogspot.com/)

- Servals Automation was founded by P Mukundan as a platform to launch rural innovations
- Servals products include a kerosene saving stove burner targeting the rural poor and a rain gun which at half the price of imported products which uses water more efficiently at half the price of imported products
- The company, headquartered in Chennai, is aligned with the Rural Innovation Network (RIN)
- Servals approached Aavishkaar for an equity investment to help strengthen its assembling, marketing and distribution channels as well as to help promote its products
- Aavishkaar has invested INR 1.119MM (~$25K) in the company through two rounds of equity investment. It has also extended a bridge loan to Servals in order to cover working capital gaps

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- The products sold by Servals have impacted 450,000 low income households
- Average fuel savings have been around 72L of kerosene annually per household
- Financial savings have been INR 3000 (~$70) annually per household
- Servals currently has 60 employees, of whom 60% are women

FINANCIAL IMPACT

- Starting with no revenues in 2003, the company has grown to a turnover of INR 11.4 MM (~$225K) in 2008
- The working capital bridge loan offered by Aavishkaar was repaid in full by the company
- Aavishkaar has received strong dividend payback from the investment after revenues have started to grow
- Aavishkaar looks to exit the investment close to 5 years after the initial equity round

Acumen Fund

IMPACT FIRST INVESTOR

Private Equity

INVESTOR
Multiple Investors

IMPACT INVESTMENT FUND
Acumen Fund

DEAL
Ziqitza Healthcare

10-15% return

AREA OF IMPACT
Health Services

GEOGRAPHY
India

"We look at investments that don't just have a social impact in them but also are breakthrough innovations or business models."

Sasha Dichter
Director of Business Development
Acumen Fund

MULTIPLE INVESTORS

- Acumen has a wide variety of investors who have invested between $10k and $5MM+ into the Fund
- Investors include foundations, family offices and corporations

ACUMEN FUND (http://www.acumenfund.org)

- The total fund size is $34.1MM
- Acumen Fund is a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty
    - Established in 2001 with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists
- Invests exclusively in businesses that
    - directly serve the poor
    - have economically sustainable business models
    - have a significant innovation element to them
- Has created portfolios in four areas: Health, Water, Energy and Housing. In each area it identifies and supports social innovators
    - Capital commitments range from $300,000 to $2MM in equity or debt with a payback or exit in roughly five to seven years

ZIQITZA HEALTHCARE: 1298 AMBULANCES (http://www.1298.in)

- In 2007, Acumen invested equity to help the company grow their services and fleet of ambulances
- The total investment amount is ~$1.5MM, as part of the Health Portfolio
- Up until recently, Mumbai lacked in any reliable ambulance or emergency medical response service
- 1298 provides affordable ambulance services for all by using a sliding price scale driven by the patient's ability to pay for a certain kind of hospital
    - The poorest patients who are typically admitted to general wards of a government hospital, pay a reduced rate (50%) or do not have to pay
    - Approximately 20% of the services are offered free of charge or at subsidised rates

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

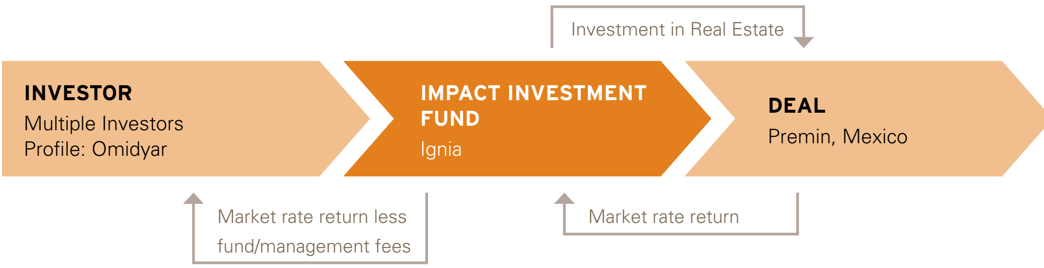
- About 50,000 calls have been made in the last 3 years
- Increased in ambulances from 10 (Q1 2007) to 81 (Q4 2008); another 14 expected by Q1 2009
- 1298 plans to scale to 7 more cities in India by adding more than 400 ambulances in the next 2 years
- 1298 has also developed training programs, certified by the American Heart Association and New York Presbyterian Hospital, to train its own emergency care doctors as well as educate the general public

FINANCIAL IMPACT

- The investment horizon is from five to ten years, usually with rights that allow investors to seek an exit around year 5
- IPOs are preferred exit strategy although trade sales are more common
- Overall portfolio of equity investments has a gross return potential of 10-15%

Ignia

IMPACT FIRST INVESTOR



AREA OF IMPACT
Affordable Housing

GEOGRAPHY
Latin America & Mexico

> "Ignia's potential to act as a model for other VC firms looking to invest in businesses serving the low income segment in Mexico is great."
>
> Matt Bannick
> Managing Partner
> Omidyar Network

> "We are big believers in finding business solutions to social problems... We found that there are many services that the poor simply do not have access to. We thought a catalyst was needed – the answer was a fund."
>
> Alvaro Rodríguez Arregui
> Managing Director
> Ignia

MULTIPLE INVESTORS

- Ignia's investors include institutional investors, multilateral institutions, high net worth individuals and foundations such as the Inter-American Development Bank and Omidyar Network

OMIDYAR NETWORK (http://www.omidyar.com)

- Omidyar Network (ON) is a philanthropic investment firm that makes investments in the areas of access to capital in developing countries and media, markets and transparency in the developed world
- ON's spending is split between grants and for-profit investments; it believes that for-profit models do a better job of achieving scale and sustainability and also in staying responsive to customer needs
- For all investments, the primary aim is to achieve maximum social impact. There is a simultaneous drive towards achieving market rate financial returns for the for-profit investments
- The way Omidyar measures social impact depends on the investment area. The number of people impacted and depth of impact are the basic metrics
- ON was impressed with Ignia's management expertise and the fact that social impact was embedded in its business plan

IGNIA (http://www.ignia.com.mx)

- Ignia is a Mexican Venture Capital firm that invests in businesses that provide products and services to the underserved low income population of Latin America
- It aims to invest in profitable and scalable businesses that create social impact by achieving systemic change
- It believes that there is a strong market for high quality products and services delivered to the poor at affordable rates
- Ignia raised an initial fund of about $60MM and has completed 2 investments in the areas of affordable housing and healthcare services and it hopes to have completed 6 investments by the end of 2009

PREMIN - JARDINES DEL GRIJALVA PROJECT

- In 2008, Ignia made a $2MM investment in Premin for its Jardines del Grijalva housing project in Chiapas, Mexico
- The homes are being built for families that earn less than $10,000 a year
- The idea behind the investment is that small local developers of affordable housing suffer from a lack of capital and large developers seldom go into the South of Mexico or into smaller communities. As a consequence, there is a shortage of housing and families are forced to build their own homes
- Ignia also identified a microfinance institution that would provide mortgages to families without access to them

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- Around 1,800 families have been provided access to affordable but quality housing
- The 1,800 families were also provided with affordable mortgages
- While Ignia does not capture any other specific metric for social impact, it is always conscious of the need to serve the low income segment that is underserved and of making sure that the impact is scalable

FINANCIAL IMPACT

- Ignia expects to earn above market rate returns on the project
- Ignia believes that generating high returns is imperative in the low income segment because:
  - the market perceives the segment to be high risk:
  - the customers in this segment do not have a lot of choice and so high margins are sustainable:
  - it is the best way to achieve scale when creating products and services serving poor people.

Pico Bonito

IMPACT FIRST INVESTOR

Investment in Operating Entity

INVESTOR
Multiple Investors

IMPACT INVESTMENT FUND
Pico Bonito, LLC

DEAL
Bosques Pico Bonito SrL

20% projected return

> 20% expected return

AREA OF IMPACT
Sustainable Forestry

GEOGRAPHY
Honduras

"We are moving down the learning curve quickly and are confident that we can do similar projects on a larger scale."

Robert Lapides
Chairman and CEO
Pico Bonito LLC

MULTIPLE INVESTORS

- Pico Bonito's investors include institutions, multilateral organisations, high net worth individuals, and foundations

PICO BONITO, LLC

- The Pico Bonito project was founded in 2006 by the Pico Bonito National Park Foundation, an NGO based at the project site in Honduras, and the Ecologic Development Fund, a U.S. non-profit focussing on environmental stewardship with local community collaboration in Latin America
- The mission of the company is to establish and manage business models that achieve triple-bottom-line results in the areas of sustainable forestry, environmental and biodiversity restoration and protection, and social equity
- Future plans include establishing a portfolio of 6-12 projects in multiple Central and South American markets utilising capital in the $50-75MM range

BOSQUES PICO BONITO SRL (http://www.bosquespicobonito.com)

- The main idea behind the project was to develop a sustainable business solution to the problems plaguing the areas in and around the Pico Bonito National Park in Honduras including deforestation, endangerment of rare plant and animal species, pollution, and rural poverty that drives further environmental destruction
- The company raised approximately $5MM in capital and developed a for-profit model to establish and sustainably manage native species and generate carbon offsets, while preserving the natural environment and biodiversity of the park and engaging local communities to enable them to share in the benefits achieved by the project
- The company operates in and around the buffer zone of the national park by acquiring threatened or already damaged and deforested land areas and establishing sustainable forestry practices
- To establish sustainable land management practices and create short term food supplies and cash crops for the local communities, the company initiated agro forestry activities which yield such crops such as coffee, corn and beans

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- The company has already planted 500K trees and aims to plant another 500K
- It employs over 150 people from the local communities around the park
- The company was one of the first to have its tropical forestry carbon sequestration methodology approved by the United Nations Clean Development Mechanism which has generated significant carbon offsets
- Local farmers have been trained in agro-forestry techniques, soil conservation and pest management
- The project has also gone a long way in protecting the water supply for the region around the park

FINANCIAL IMPACT

- The project has an overall expected IRR of 20% which is significantly above the risk-adjusted market rate for the timber sector
- Revenue streams include carbon offsets and sales from sustainable forestry including timber, cherry, mahogany, and rosewood

Layered Structures

Is it possible to structure a deal that satisfies the needs of both Financial First investors and Impact First investors? This is a common question that arises when investors contemplate Impact Investment. The AAF extends not only to singular examples that serve a specific intention and asset class, but also to cases that are layered in nature. In these deals Financial First and Impact First investors (sometimes even pure philanthropists using grants) come together to set-up deal structures that otherwise would not be possible or as effective.

Below we discuss a few examples of how these layered structures can work to satisfy the motivations and objectives of different Impact Investors.

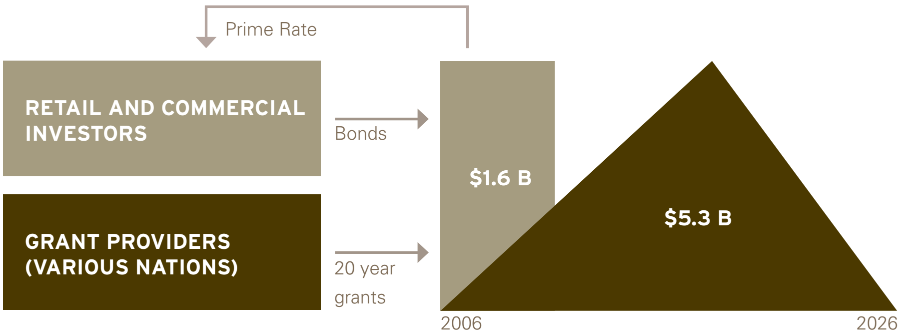
Asset Allocation Framework

	ASSET CLASSES								
					ALTERNATIVE INSTRUMENTS				
	CASH	SENIOR DEBT	MEZZANINE /QUASI EQUITY	PUBLIC EQUITY	VENTURE CAPITAL	PRIVATE/ GROWTH EQUITY	REAL ESTATE	OTHER REAL ASSETS	ABSOLUTE RETURN (HEDGE FUNDS)
FINANCIAL FIRST		2 Bank Consortium 1 Retail & Comm. Investors (IFFIm Bonds)							
IMPACT FIRST	1 Various Countries		2 City of NY + Foundations						

1 International Finance Facility for Immunisation (IFFIm)
2 The New York City Acquisition Fund

International Finance Facility for Immunisation (IFFIm)

FINANCIAL FIRST INVESTOR IMPACT FIRST INVESTOR



AREA OF IMPACT
Vaccination

GEOGRAPHY
70 Poorest Nations

> "There certainly is no discount; each transaction is priced at market so someone doesn't have to differentiate between our product and another based upon returns. When faced with a decision between buying a government bond or an IFFIm bond with a slightly higher yield and helping the immunisation effort, most people will take the second."
>
> George Richardson
> World Bank

INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION (IFFIM) (http://www.iff-immunisation.org)

- IFFIm was launched in 2006 through an initiative of the United Kingdom government to support the GAVI Initiative
  - The GAVI Initiative was launched with a $1.5B grant from the Gates Foundation to fund immunisation in the world's 70 poorest nations
- Realising that the social impact of their committed funds will be greater immediately vs. over the 20 year commitment period, the government sponsors decided to set up IFFIm to tap the financial markets to access funds immediately
- The World Bank, as IFFIm's agent, manages IFFIm's finances and capital markets activities. The World Bank also coordinates with IFFIm's donors, manages their pledges and payments as well as IFFIm's disbursements for immunisation and health programmes through the GAVI Alliance

GRANT PROVIDERS (VARIOUS NATIONS)

- IFFIm was able to gather $5.3B in grants from 6 European nations (UK, France, Italy, Spain, Sweden and Norway) when IFFIm was set up, as well as South Africa who joined later
- The grant money was donated over a 20 year period through legally binding payment obligations, starting in 2006 and growing in aggregate amount every year until 2021 before declining through 2026
- Encouraged by the large donations from the Gates Foundation, the nations wanted to provide support to the global immunisation effort underway by the GAVI Alliance partners

RETAIL AND COMMERCIAL INVESTORS

- IFFIm so far has tapped the financial markets to help raise immediate funds based on the $5.3B in committed dollars
- With a AAA/Aaa rating from numerous rating agencies, they are able to offer returns at a slight premium to government bonds, offering slightly higher than market returns for their rating compared to governments with the same rating
- So far IFFIm has been able to raise funds from investors in the US, Europe and Asia through its inaugural transaction in 2006 and in Japan through two issues specifically for the Japanese market. The latest offering will target both retail and commercial customers in the UK with an offering by HSBC

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

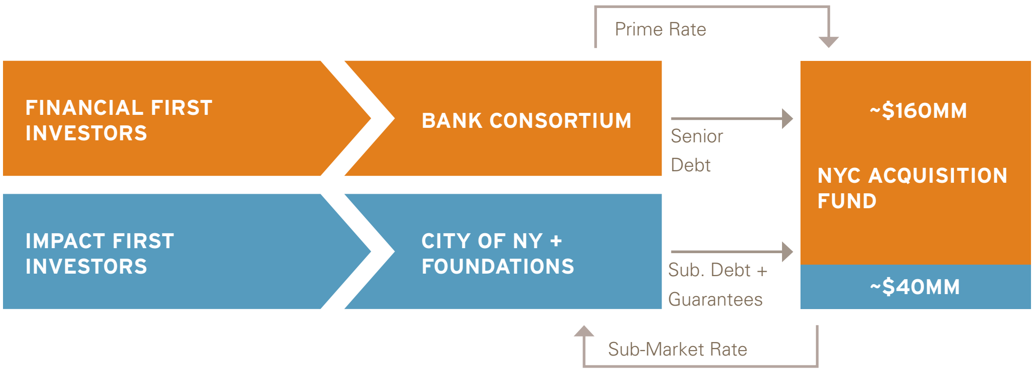
- With money from IFFIm and donors such as the Gates Foundation, GAVI has been able to protect 213MM additional children with new vaccines since 2000
- Due to increased vaccination, GAVI has been able to prevent more than 3.4MM premature deaths
- New and underused vaccine coverage has risen substantially, doubling in most areas

FINANCIAL IMPACT

- IFFIm has been able to raise $1.6B through three offerings to date
- Due to contractual guarantees from various governments, IFFIm has been able to retain their AAA/Aaa status

The New York City Acquisition Fund

FINANCIAL FIRST INVESTOR | IMPACT FIRST INVESTOR



AREA OF IMPACT
Affordable Housing

GEOGRAPHY
United States

INVESTORS

- The New York City Acquisition Fund is an example of a layered structure where Financial First and Impact First investors invest together in a project with the former earning market rate returns and the latter earning sub-market returns
- The Financial First investors in the New York City Acquisition Fund are a consortium of banks including Bank of America, JP Morgan Chase and HSBC
- The group of Impact First investors is led by the City of New York and includes a number of foundations including the Ford Foundation and the Rockefeller Foundation

THE NEW YORK CITY ACQUISITION FUND (http://www.nycacquisitionfund.com)

- The New York City Acquisition Fund was formed in 2006 to overcome the shortage of property available for the development of affordable housing in New York City
- The fund seeks to facilitate affordable housing development by providing flexible, advantageous capital for the acquisition of property to developers of affordable housing
- The fund is worth approximately $200MM with $162MM provided by the bank consortium and the balance provided by the Impact First investors led by the City of New York and allied foundations
- The bank consortium provides senior debt as lending capital while the group of Impact Investors provides guarantees in the form of low-interest subordinated loans
- Developers either refurbish existing affordable housing units or engage in new construction of affordable housing
- The maximum loan amount is $15MM for the acquisition of existing occupied buildings and $7.5MM for the acquisition of vacant land although the Fund has the flexibility to provide exceptions to these limits
- The fund lends to both for-profit and non-profit developers; for-profit developers are eligible for loans up to 95% of the lesser of appraised value or purchase price while the number goes up to 130% for non-profit developers
- All borrowers must contribute 5% of the total acquisition and pre-development costs as equity

IMPACT

SOCIAL/ENVIRONMENTAL IMPACT

- The fund aims to develop 30,000 units of affordable housing in a 10 year time span in New York City
- The success of the fund has spurred the creation of similar funds in Los Angeles, Atlanta and Louisiana

FINANCIAL IMPACT

- The interest rate on loans disbursed by the banks is indexed to the prime lending rate

Acknowledgements

While this report was spearheaded by Bridges Ventures and the Parthenon Group, it was very much a collective effort among many experts in the industry. Through feedback and guidance we received from many, we were able to paint a clearer picture of the history and key trends in the sector, as well as provide insights that will hopefully serve as guidance and education for those investors who are beginning to explore this sector. The thoughts and ideas presented here are the work of many great minds and no single individual or institution can claim them as their own.

Tracy Palandjian, Managing Director at The Parthenon Group and Michele Giddens, Executive Director at Bridges Ventures provided leadership for the report. The case team was led by Pedro Sanches and included JJ O'Brien, Venugopal Mruthyunjaya, Lisa Heidemanns, and Srivaths Swaminathan, all of The Parthenon Group. Antony Bugg-Levine of The Rockefeller Foundation and Lila Preston of Generation Investment Management played crucial roles as key advisors to this paper and, from its inception, helped shape many of the ideas presented throughout this work.

We would also like to thank those who helped shape our main theses and took time reviewing drafts of the report, including Doug Bauer, David Carrington, Katherine Collins, Jed Emerson, Jessica Freireich, Katherine Fulton, John Goldstein, Charly Kleissner, John Kingston, Andrew Robinson, Jason Scott, and Helen Wildsmith.

INTERVIEWS

Without the help of numerous experts in the sector, this report would never have reached fruition. We would like to thank all those listed below who spent valuable time with the team on the phone or in person, helping make this report as impactful and insightful as possible.

Pradeep Pathiyamveetil, AAVISHKAAR
Sasha Dichter, ACUMEN FUND
Brad Presner, ACUMEN FUND
Ben Powell, AGORA PARTNERSHIPS
Christa Velasquez, ANNE E. CASEY FOUNDATION
Demmy Adesina, AQUIFER
Arthur Wood, ASHOKA
Alvaro Rodriguez ARREGUI, IGNIA
Bill Marvel, BALDWIN BROTHERS
John Campagna, BENCHMARK CAPITAL
Roger Frank, BENCHMARK CAPITAL
Lynn Martin, BLUE ORCHARD FINANCE
Michele Giddens, BRIDGES VENTURES
Skye Heller, BRIDGES SOCIAL ENTREPRENEURS FUND
Yasmin Tong, CALIFORNIA COMMUNITY FOUNDATION
Malcolm Hayday, CHARITY BANK (UK)
Christine Eibs-Singer, E + CO
Terry O'Day, ENVIRONMENT NOW
David Blood, GENERATION IM
Lila Preston, GENERATION IM
Amit Bouri, GLOBAL IMPACT INVESTING NETWORK
Steven Godeke, GODEKE CONSULTING
Steve Hardgrave, GRAY MATTER CAPITAL
Raul Pomares, GUGGENHEIM PARTNERS
Eric Eidolf, HARCOURT
John Goldstein, IMPRINT CAPITAL
Pawan Mehra, INTELLECAP
Geoff Burnand, INVESTING FOR GOOD
Teddy Rice, IRONWOOD EQUITY
Tom Reiss, KELLOGG FOUNDATION
Oliver Karius, LGT VENTURE PHILANTHROPY
Jim Hourdequin, LYME TIMBER
Gavin Watson, NEW ENERGIES (E + CO)
Matt Banick, OMIDYAR NETWORK
Jim Bunch, OMIDYAR NETWORK
Rob Lapides, PICO BONITO
Preston Pinkett, PRUDENTIAL
Antony Bugg-Levine, ROCKEFELLER FOUNDATION
William Foote, ROOT CAPITAL
Namrita Kapur, ROOT CAPITAL
Monica Pressley, SAN FRANCISCO FOUNDATION
Mark Campanale, SOCIAL STOCK EXCHANGE
Dan Crisafulli, THE SKOLL FOUNDATION
Richard Fahey, THE SKOLL FOUNDATION
Scott Budde, TIAA-CREF
Cherie Santos, TIAA-CREF
Bob Assenberg, TRIODOS BANK
Alex Connor, TRIODOS BANK
Adam Ognall, UKSIF
John Kingston, VENTURESOME
Anders Ferguson, VERIS
Patricia Frivas, VERIS
David Carrington
Katherine Collins

Appendix

Methodology

The *Investing for Impact: Case Studies Across Asset Classes* report builds on the work previously developed by the Monitor Institute and also draws on the work conducted by Rockefeller Foundation and F.B. Heron Foundation on the Impact Investment sector. The report aims to educate key stakeholders and practitioners on the opportunities they have in Impact Investment. These groups include potential investors (High Net Worth Individuals, Foundations and Institutional Investors) and investment gatekeepers (private bankers and investment advisors).

The report takes an empirical approach by mapping the Impact Investment market along two key dimensions: investor motivation (Financial First vs. Impact First) and asset class (as per traditional asset allocation). The paper proposes an Asset Allocation Framework (AAF) combining the two dimensions to illustrate a comprehensive perspective of the Impact Investment market using language familiar to investors. The report provides detailed case studies in each of the "cells" in the AAF, including profiles of an investor (LP), the Impact Investment fund (GP) and an underlying investment, as well as financial return and impact to society.

The report was created after an extensive review of existing literature on Impact Investment as well as a large number of original interviews with sector participants. It reflects more than 40 interviews conducted with a range of investors - including foundations, high net worth individuals, institutional investors, advisors, consultants and family office representatives - about their experiences with Impact Investment and their motivations for particular investments made across various asset classes.

The interviews were subsequently translated into case studies to provide concrete examples of the Impact Investments that are being developed in each asset class. Cases selected were from existing funds rather than the many that are currently in the fund-raising process. In each asset class, there are other compelling case studies that have not been covered and the authors do not seek to make investment recommendations through this report; rather they wish to illustrate the range and breadth that is emerging in the sector.

Further Reading

RESEARCH PAPERS

- Monitor Institute: *Investing for Social & Environmental Impact*, 2009
  Examines the emergence of impact investing, exploring how it might develop and how leaders can accelerate the industry's evolution
  http://www.monitorinstitute.com/impactinvesting/documents/InvestingforSocialandEnvImpact_FullReport_004.pdf
- Good Capitalist: *February Newsletter*, 2009
  Update on social capital market including participants' initiatives
  http://archive.constantcontact.com/fs047/1101902708153/archive/1102453118973.html
- UKSIF: *Review of Activities*, 2008
  Review of UK Social Investment Forum's 2008 activities including useful figures on the sector
  http://www.uksif.org/cmsfiles/uksif/UKSIF_Review_of_Activities_2008.pdf
- UKSIF: *Sustainable Investment Opportunities for Pension Funds in Alternative Asset Classes*, 2008
  Aims to increase pension funds' awareness of sustainable investment options available across asset classes
  http://www.uksif.org/cmsfiles/281411/SustainableAlternatives.pdf
- Boston College: *Handbook on Responsible Investment Across Asset Classes*, 2008
  Aims to help investors understand sustainable investment and identify opportunities within it across asset classes
  http://www.cof.org/files/images/ExecEd/bcrespinvesthndbk.pdf
- Rockefeller Philanthropy Advisors: *Solutions for Impact Investors: From Strategy to Implementation*
  http://rockpa.org/ideas_and_perspectives/publications

- Rockefeller Philanthropy Advisors: *MRI - A Policy and Implementation Guide for Foundation Trustees*, 2008
  Policy and implementation guide for foundation trustees
  http://www.cof.org/files/images/ExecEd/RockefellerPhilAdvisors.pdf
- Stanford Social Innovation Review: *The Power of Strategic Mission Investing*, 2007
  Suggests that foundations should make strategic mission investments to complement grant making
  http://www.ssireview.org/images/articles/2007FA_feature_kramer_cooch.pdf
- Commission of Unclaimed Assets: *Social Investment Bank*, 2007
  Overview of the Third Sector and role of a social bank within it
  http://www.unclaimedassets.org.uk/downloads/CUA_report_FINAL.pdf
- F.B. Heron Foundation: *Impact Across the Mission-Related Investment Portfolio*, 2007
  Illustrates a spectrum of asset classes within which mission-related investment can take place
  http://www.fbheron.org/documents/ar.2007.mri_gatefold.pdf
- Said Business School: *From Fragmentation to Function*, 2007
  Paper on the social capital's market structure, operation and innovation
  http://www.universitynetwork.org/sites/universitynetwork.org/files/files/Skoll_FromFragmentationtoFunction.pdf
- Jed Emerson: *The Blended Value Map*, 2003
  Snapshot of international players and institutions within the social investment sector
  http://www.blendedvalue.org/media/pdf-bv-map.pdf
- New Economics Foundation: *Mission Possible*, 2008
  Considers how foundations use part of their endowments for mission connected investment
  http://www.cof.org/files/images/ExecEd/NewEconomicsFoundation08.pdf
- Margaret Bolton: *Foundations and social investment—making money work harder in order to achieve more*, 2003
  Providing foundations with information about social investment and its relevance to their goals and strategies
  http://www.esmeefairbairn.org.uk/docs/EFF_foundations_report.pdf
- Venturesome: *Financing Civil Society*, 2008
  Practitioner's view of the UK social investment market
  http://www.cafonline.org/pdf/Venturesome%20-%20Financing%20Civil%20Society%20-%20Sept%2008.pdf
- Venturesome: *The Three Models of Social Enterprises*, 2008
  Examines how to create social impact through trading activities using three theoretical models
  http://www.cafonline.org/pdf/Ventursome%20-%203%20Models%20Of%20Social%20Enterprise_Part1%20-%20Jan%2008.pdf and
  http://www.cafonline.org/PDF/Venturesome%20-%203%20Models%20Of%20Social%20Enterprise_Part2%20-%20July%202008.pdf
- FSG: *Aggregating Impact: A Funder's Guide to Mission Investment Intermediaries*
  Guide to mission investment intermediaries that foundations or funders may employ
  http://www.fsg-impact.org/ideas/section/277
- Antony Bugg-Levine: *Impact Investing - Harnessing Capital Markets to Drive Development at Scale*
  Provides an overview of the proliferation of innovation occurring in the Impact Investment sector globally and addresses the structural causes and likely prospects of the sector's growth in light of the current financial crisis
  http://www.rockfound.org/efforts/impact_investing/beyond_profit_bugg_levine.pdf

Websites

- Bridges Ventures: http://www.bridgesventures.com/
- Rockefeller Foundation: http://www.rockfound.org/
- Generation IM: http://www.generationim.com/
- Global Impact Investing Network: www.globalimpactinvestingnetwork.org
- Skoll Foundation: http://www.skollfoundation.org/
- Heron Foundation: http://www.fbheron.org/
- Annie E. Casey Foundation: http://www.aecf.org/
- More for Mission Investing: http://www.moreformission.org/
- Working with legislators to encourage passage of L3C acts: http://www.americansforcommunitydevelopment.org/
- Non-profit organisation offering interesting research perspectives: http://www.lightyearsip.net/index.shtml
- UK Social Investment Forum: http://www.uksif.org/
- US Social Investment Forum: http://www.socialinvest.org/
- European Social Investment Forum: http://www.eurosif.org/
- European Foundation Centre: http://www.efc.be/
- International Association of Microfinance Investors: http://www.iamfi.com/

Appendix: Market Benchmarking

Impact Investors, whether they are *Financial First* or *Impact First* in their motivations, have a keen interest in measuring and reporting the financial and social returns on their investments. It is critical to benchmark these returns against commonly accepted standards as this facilitates meaningful comparisons between investments and, moreover, allows for judgement of the extent of impact or relative success of an investment.

On the financial returns side, investment returns are typically measured against benchmark indices corresponding to specific asset classes. The indices are typically composites of representative investment instruments in that asset class; for example, the MSCI World Index is a market capitalisation weighted index of public equities in 23 developed countries. The year on year change of the representative index provides a measure of 'market rate' returns on average for that asset class; the growth in the MSCI World Index provides a measure of the average return of investing in a public equity strategy in a developed market.

It is important to note that for most asset classes, the market return benchmark can vary significantly with geography and the actual sector in which the investment is made. The return rate for a real estate investment can be quite different depending on whether the investment was made in a developed or developing country and an agricultural commodity can yield significantly different returns as compared to a precious metal. There can also be cases where no meaningful benchmark exists. When Omidyar Network was considering investing in Ignia, a Mexican Venture Capital firm that makes investments in businesses that cater to the low income segment of the population, Omidyar found that there were insufficient precedents of Latin American Venture Capital firms investing in social enterprises. Says Matt Bannick, Managing Partner at Omidyar, *"We found that there were no historical datasets corresponding to our investment space and as a result there was no benchmark to draw from. We built our own financial model and by testing the sensitivity of our assumptions, narrowed down to a target range for financial return."*

On the social and environmental impact front, the metrics used to measure return vary quite widely. Common metrics include jobs created and extra income and carbon offsets generated. But the lack of standardisation of these metrics renders the process of benchmarking social and environmental returns difficult. However efforts such as those by the B Lab, Veris, Rockefeller Foundation, Global Impact Investing Network and Acumen are underway to create standardised metrics and this will help make benchmarking social impact feasible.

The following table provides the average upper and lower bounds of 5-year compounded annual growth rates of benchmark indices[4] in each asset class by decade. It must be reiterated that the market return benchmarks presented here may not be applicable across all geographies and sectors.

[4] Benchmark Returns/Indices used:
Cash: 3 month discount rate on US Treasury bills
Quasi Equity, Buyout, VC: Cum. Vintage Year Return, US Private Equity Performance Index, Thomson Financial
Public Equity: MSCI World Index
Real Estate: Dow Jones Wilshire US REIT Index
Commodities: Dow Jones AIG Commodity Index

		CASH	QUASI EQUITY	PUBLIC EQUITY	BUYOUT	VC	REAL ESTATE	COMMODITIES
1981-1990	Average Lower Bound	6%	7%	10%	16%	8%	5%	N/A
	Average Upper Bound	10%	13%	16%	22%	18%	15%	N/A
1991-2000	Average Lower Bound	3%	4%	5%	8%	25%	8%	3%
	Average Upper Bound	6%	8%	10%	14%	45%	15%	12%
2001-2005	Average Lower Bound	1%	5%	4%	-10%	-12%	12%	5%
	Average Upper Bound	4%	10%	10%	2%	2%	20%	15%

[5] Range considered was 2001-2008 for Quasi Equity, Buyout and VC

All photos purchased from istockphoto.com.
Photographer credits listed from top to bottom, left to right on each page.
Cover: Alberto L. Pomares G., blackred, Rob Belknap, brytta
Page 4: Denis Jr. Tangney, blackred, Terraxplorer, Johnny Lye
Page 7: Peter Ramsey, Michael Flippo, Keith Lamond
Page 8: Peter Ramsey, Michael Flippo
Page 9: Keith Lamond
Page 10: blackred, Greg Randles, Vikram Raghuvanshi, Keith Lamond, Mark Kuipers
Page 11: King Ho Yim, Christa Brunt, blackred, Melodie Sheppard, Simon Owler
Page 12: Terraxplorer
Back Cover: brytta, Alberto L. Pomares G.

Impact investing, defined as actively placing capital in businesses and funds that generate social and/or environmental good as well as financial returns, is a growing industry. Impact investment funds are attracting investors ranging from high-net-worth individuals to institutional investors, corporations and foundations. Diverse impact investments are emerging across multiple asset classes.

This report is intended for the investment community. It takes a case study approach, mapping examples of Impact Investments on a traditional asset allocation framework to help investors understand this emerging industry.

Bridges Ventures
www.bridgesventures.com

Parthenon Group
www.parthenon.com

Global Impact Investing Network
www.globalimpactinvestingnetwork.org

Printed on Revive Pure Offset, a recycled grade containing 100% post consumer waste, using vegetable based inks. This document has been printed by Impress Print who are FSC certified.

Design: J Sherman Studio LLC