Analyzing Impact-Oriented Private Equity as an Asset Class through the Past, Present, and Future

by

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Abstract

This paper explores impact-oriented private equity as an asset class and its role within the overall impact investing sector. Based on comprehensive research from the perspectives of multiple stakeholders, I was able to identify characteristics of success for impact funds, key constraints that the industry faces, and recommendations to address those limitations. Many of these constrains are symptoms of the nascent nature of the industry and may disappear over time. However, coordinated action from all stakeholders is required to expedite this process and allow impact investing to achieve its true potential.

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Finally, I would like to thank the six impact fund managers and two industry consultants that took the time out of their busy schedules to let me interview them. However, I will be keeping their identities confidential as per request. These interviews allowed me to get a more practical understanding of the space, which helped to shape my findings.

I. Introduction

Many people talk about how they want to make the world a better place and create change through social enterprise. However, social entrepreneurs often don't have the capital or opportunities to do so. Given the right capital, these social entrepreneurs can innovate, make more efficient/sustainable technologies, and improve the environment that we live in. This then raises difficult questions: how do these entrepreneurs get access to the right capital? Why invest in social ventures when an investment in a regular venture might yield a better return on investment? Although it may go against basic finance intuition, there is an investment strategy that has emerged called impact investing, in which investors look for market-rate financial returns as well as social returns. While this movement still has a lot of room to grow, impact investing has quickly been popularized as an approach to achieve double-bottom line returns.

The Rockefeller Foundation first coined the term "impact investing" in a 2007 sustainability conference. Although the groundwork had been being laid many years before, the idea of impact investing as a concrete alternative investments strategy has been around for less than a decade. In that time, the industry has grown to an estimated $25 billion to $50 billion in total invested capital. According to a 2013 report by J.P. Morgan and the Global Impact Investing Network (GIIN), a sample of 125 impact investment funds worldwide planned to increase impact investing commitments by 19% in 2014.[1] Due to the private nature of most investment funds and the lack of accurate reporting, it is hard to pinpoint an exact size of the industry. What we do know is that even though it has captured tremendous momentum in the past eight years, impact

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[1] Saltuk, Yasemin, Amit Bouri, et al., *Spotlight on the Market: The Impact Investor Survey*, J.P. Morgan and GIIN, May 2, 2014

investing still only makes up a modest portion of the $13.5 trillion in responsible and sustainable investments globally.[2]

Impact-oriented private equity (IOPE) is an asset class used to employ the impact investing strategy. While private equity is not the only asset class utilized, the use of other asset classes is a very recent development in the industry. In the earliest stages of the sector, the only instruments being used were simple microfinance loans and equity investments. However, the emergence of alternative investments in mainstream investing paved the way for these new methods in impact investing. Now, funds are investing in everything from venture capital to convertible debt to real assets in order to achieve double-bottom line returns. Considering all of this, private equity is the easiest asset class to analyze because it is the most popular (used by 83% of funds) and the one with the most information available about its performance.[3] There are advantages and disadvantages to investing in equity over other securities, as well as private securities over public securities, which will be discussed later. Additionally, there are many funds that invest across asset classes, but there is not a sufficient track record for the other asset classes, leaving us unsure exactly how to interpret those numbers. Throughout the paper, IOPE and impact investing may be used interchangeably, because they are heavily correlated. IOPE makes up the bulk of the overall impact investing market; thus, as one grows, so does the other and vice-versa.

Objective and Thesis

Impact investing is an incredibly difficult space to work in, due to the fact that funds are working towards two separate goals. One goal is to achieve financial returns for

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[2] World Economic Forum, *Impact Investing: A Primer for Family Offices*, December 2014
[3] Saltuk, Yasemin, Amit Bouri, et al., *Spotlight on the Market: The Impact Investor Survey*, J.P. Morgan and GIIN, May 2, 2014

investors and the other is to achieve meaningful impact in society through investments. While it is a challenge to align both of these goals, there are many funds that are doing so successfully. At first glance, it may seem as if all funds must sacrifice financial returns to achieve social returns. However, this is not true; it is a common misconception that all funds are willing to trade return for impact. Many have certain thresholds that must be met on both fronts, or else they won't make the investment. In fact, according to a study done by Pacific Community Ventures, 52% of the industry is made up of investors that consider themselves financial-first (Figure A).[4] The purpose of this thesis is to figure out what is needed to make impact-oriented private equity a more mainstream investment vehicle. In order to do this, we need to answer three main questions: (1) What makes an IOPE fund successful? (2) What is currently holding the industry back? (3) What can be done to mitigate these constraints?

In order for impact-oriented private equity to thrive as an investment vehicle, there are many misconceptions and impediments about impact investing that need to be removed. Impact investing has the potential to become a widely accepted investment strategy that can generate significant returns to both investors and society. Market-rate returns and social benefits appeal to a wide range of investors, and as more people realize that there is not necessarily a trade-off between financial and social returns, capital will start to flood in. In the future, impact-oriented funds will be able to carve out a distinct competitive advantage as vehicles for investors to make money as well as make positive change in the world. Although there will be setbacks along the way, stewardship and

[4] Woelfel, Tom, Ben Thornley, and Beth Sirull, "Market for Social Impact Investing by Private Equity Funds," Pacific Community Ventures, July 2012

coordinated action from stakeholders will help to eliminate these setbacks and further impact investing as a viable investment strategy going forward.

A. Background

Although impact investing is a relatively young industry, it is already quite complex. Within impact investing, there is a wide range of asset classes in which a fund can invest. Within a specific asset class—private equity for example—there is a spectrum of returns on which various investors fall. On one end of the spectrum are investors who place an emphasis on return-maximization and on the other end of the spectrum are pure philanthropists, who place an emphasis on impact-maximization and don’t care about financial returns. Then, you also have investors who fall everywhere in between, such as: responsible investors, sustainable investors, thematic investors, and impact-first investors. Responsible investors are closer to the returns-first end of the spectrum, as their strategy revolves around screening out immoral or contentious companies. Impact-first investors tend to be on the other end of the spectrum, and they would be willing to give up a few percentage points on their return if they can increase the social impact of their investments. Sustainable and thematic investors are in the middle of the spectrum, as they look for areas that are primed to benefit from the integration of social and economic factors. Figure B further details the segmentation of impact investors.

Impact investing and IOPE are not just methods that investors employ in order to feel good about themselves. In addition to the social benefits, an impact portfolio may result in strategic portfolio advantages as well, such as helping to reduce overall portfolio volatility and capture alpha through market inefficiencies and capitalizing on long-term social and environmental trends. Additionally, IOPE can help investors to diversify their portfolios by providing more exotic, uncorrelated exposures. Investors are starting to adopt these principles, which can be seen in the market as major institutional investors have opened impact-oriented funds. In 2013 alone, Goldman Sachs, UBS, and Morgan Stanley announced that they would be raising funds for impact investing initiatives.

B. <u>Overview of Asset Classes</u>

The availability of a breadth of investment opportunities in this space has been a recent development. Most instruments that are available to mainstream investors are now being using in impact investing as well. Before we analyze how impact-oriented private equity differs amongst the other asset classes within impact investing, it may be useful to first look at how IOPE differs from plain vanilla PE. Besides the obvious difference in investment objectives, IOPE funds are also different from vanilla funds in their makeup. According to GIIN, 80% of IOPE funds claim to target market-rate returns (Figure C).[5] This number may be overstated because funds have an incentive to claim that they are targeting market rates, even if they are willing to accept lower returns, as they would have a hard time finding investors otherwise. The average target IRR for IOPE funds targeting market-rate returns is 19.3%, while the average for the funds targeting below-market returns is 5.5% (Figure D).[6]

One of the asset classes currently being used is cash and equivalents. This involves investing cash-like assets into community banks or other financial institutions that will only lend to businesses with a social mission. Perhaps the oldest asset class in the industry is fixed income. Microfinance, which involves making small-sized loans to businesses or individuals, essentially ushered in the first wave of impact investments.

[5] Mudaliar, Abhilash and Lauren Barra, “ImpactBase Snapshot,” Global Impact Investing Network, March 2015
[6] Ibid

Now, large-scale social impact bonds are being underwritten, such as the International Finance Corporation's $1 billion AAA-rated green bond. The IFC uses the capital raised from this bond—underwritten by Citibank, Morgan Stanley, and JP Morgan—to fund projects in developing countries that are environmentally friendly. Public equities are another viable option, but given the early stage of the sector, there are only a few publicly listed social ventures. The London Social Stock Exchange lists only 11 companies that meet the criteria to be considered a "social impact business."[7] As the industry becomes more popular and businesses become larger, we can expect more public social impact companies. A newer asset class being employed is real estate. Investments are being made into sustainably managed properties in low-income areas. These projects aim to provide the basic amenities of life for many impoverished people and have the ability to realize high returns due to the vast impact that they have on poor lives. Furthermore, on the same note, investments are also being made into facilities and infrastructure needed for the effective operation of an economy and society. These investments appeal to institutional investors because of their size and scale. Despite the emergence of all of these new methods of impact investing, private equity remains the most widely employed strategy.

C. Private vs. Public

Not only are there many complexities when looking at impact investing across asset classes, but also there is another layer added when you compare public securities and private securities. In general, if you compare two similar companies—one private and one public—you can expect the public company's valuation to be higher. This is due

[7] Drexler, Michael, Abigail Nobel, and Joel Bryce, *From Margins to Mainstream*, World Economic Forum, September 2013

to two main reasons: a liquidity premium and a transparency premium. Public securities are all traded on a publicly available exchange, making them more liquid and easier to trade, which calls for a premium in the market. Further, because public companies are subject to much stricter disclosure regulations than their private counterparts, investors essentially pay a premium for the access to more accurate information.

When it comes to impact investing, the differences go beyond pricing and allow investors to better optimize their portfolios. Investments in the public market offer a large-scale, diverse set of impact investment opportunities that satisfy the needs for risk-adjusted market-rate returns. Investments in the private sector allow funds to target specific organizations, sectors, and locations. According to the KL Felicitas Foundation—when it was completely transforming its portfolio to an impact portfolio—private investments were sought after when aiming for specific impacts and uncorrelated financial returns. Public market investments, on the other hand, allowed the firm to place capital in many industries and geographies, thereby having broader, diversified impacts.[8]

II. Recent Developments

In the past few years alone, there have been many changes that have affected the global financial markets. Naturally, these changes have had a significant effect on the development of the overall impact investing industry and impact-oriented private equity. Outlined below are some of the major trends that have shaped the space in recent years. These trends fall into three main categories: regulatory changes, technological advancements, and others—such as shifting investor preferences and demographics.

[8] Lai, Justin, Will Morgan, et al., "Evolution of an Impact Investment Portfolio," Sonen Capital and KL Felicitas Foundation, October 2013

Regulatory Changes

One of the factors that have facilitated the growth of the impact investing sector is the passing of the Jumpstart Our Business Startups (JOBS) Act in 2012. This controversial law eases certain securities regulations with the intention of increasing funding for small businesses in the US. Titles II and III of this bill allow smaller retail investors to invest in certain securities that they previously would have been excluded from. Essentially, the JOBS Act provides certain exemptions under which an organization does not have to register certain public offerings with the SEC, but also limits the amount that non-accredited investors can contribute. This raises some concerns, as there are definitely some risks in allowing uninformed investors to engage with funds employing complex investment strategies across various sectors. However, Annie Donovan, the director of the US Treasury's Community Development Financial Institutions (CDFI) Fund, believes that the "opportunity to democratize capital" is worth the effort.[9] This new method, a "Direct Public Offering," allows for a form of equity crowdfunding that includes smaller amounts raised from a much larger investor base, which is beneficial for impact funds as well. DPOs allow fundraising entities to offer the investment opportunity directly to potential investors, rather than going through a middleman, which is expected to have a positive effect on the industry overall.

Wealth Transfer from Baby Boomers to Millennials

Perhaps the most significant demographic trend in recent US history is the baby boomer generation. This generation is currently affecting many industries, such as insurance, health care, and even online dating. As most of the baby boomers are at or

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[9] Annie Donavan, 25th SRI Conference, November 2014, http://blog.firstaffirmative.com/policy-levers-for-impact-investing/

reaching the later stages of life, they will be leaving much of their wealth to their progeny or to charitable foundations. In fact, this is widely projected to be the biggest transfer of wealth in history. The Center on Wealth and Philanthropy at Boston College estimates that in the 55-year period from 2007 to 2061, a whopping $52 trillion of wealth will be transferred. Out of this total, it is expected that $5.4 to $6.3 trillion will go to charity and $32 to $36 trillion will go to heirs.[10] Many of these heirs are part of the millennial generation, whose members tend to be socially conscious and have a more rounded view of the business world. According to a survey conducted by Deloitte of more than 7,800 millennials, 73% of them believe that business should have a positive impact on society as a whole. Additionally, when asked the number one priority of business, respondents ranked "to improve society" and "to generate profits" equally (Figure E).[11] Based on these changing demographics and philosophies, it seems that the new generation of investors—who may receive favorable transfers of wealth—will likely to seek double-bottom line returns.

Shift in Fund Make-Up

In the last couple of years, as players in the industry have been gaining more traction, some mature funds have been transitioning from impact-first funds to finance-first funds. Especially in the early phases of the industry, many funds started off as impact-first, with most of their money coming from foundations and HNWIs who were willing to accept below-market returns. Then, as these funds became successful and demonstrated that they could generate significant social impacts while achieving

[10] "A Golden Age of Philanthropy Still Beckons" – John J. Havens and Paul G. Schervish, Center on Wealth and Philanthropy, Boston College, May 28, 2014
[11] "Mind the Gaps: The 2015 Deloitte Millennial Survey"

competitive returns, institutional money started flowing in and funds are becoming more returns oriented.

III. Measuring Social Impacts

One of the biggest problems in the industry today is finding an effective, broadly applicable method of measuring the returns of an impact-oriented PE fund. Private equity relies on methods of measuring returns that are non-standard among other asset classes and thus even vanilla PE can seem foreign to novice investors. When considering this issue in the impact investing industry, the problem becomes much more complex and even professional investors have a hard time analyzing the returns of impact funds. At the end of the day, all value is subjective; different people can value the same product differently, whether it is a house, a barrel of oil, or a company. What markets do is help facilitate the process of price discovery—or connecting parties who have assigned similar values to a certain good. However, there is no market for social goods, and thus no system of price discovery, which makes it difficult for investors. Measuring social impacts and quantifying them in ways that investors can understand is necessary, because investors are incredibly hesitant to invest when they have incomplete information. To begin this discussion, it is important to consider the ambiguous nature of the term "social impact" and what is currently being done to quantify impact. Then, we will address some of the issues with these methods and look at what can be accomplished if a more standardized method is achieved.

A. The Ambiguity of Impact

The word “impact” has many different definitions and is used everywhere nowadays, but not everyone considers it in the same way. This is evidenced by the wide range of sectors reached by impact investors: agriculture, healthcare, financial services, education, energy, etc. In each of these industries, “impact” means something different. In healthcare, the number of mosquito nets delivered could be a method of quantifying the impact that a company has on fighting malaria. In energy, impact can be measured by the amount of joules provided to a village. If this is considered impact, how do we compare the two? What is the relative value between mosquito nets and joules? This raises difficulties for potential investors, as they cannot appropriately assess the risk and return of two or more investments when there is no common basis for comparison. When you consider this dilemma across all the sectors that impact investing touches, it is easy to see why “impact” is such an ambiguous term and a unified measurement system is key.

Some may say that this problem is nothing new: there are many industry-specific metrics even in the regular private equity industry. For example, EV/EBITDAR is used in the retail industry to adjust for rent. The difference, however, is the relative importance of these industry-specific measures. For regular companies, investors use these metrics to get a more holistic understanding of the company and the industry in which it operates. However, if the metrics didn’t exist, investors could still compare companies using industry-agnostic metrics such as EV/EBITDA. For social companies, on the other hand, comparing companies across industries is rendered virtually impossible. Because investors are looking for double-bottom line returns, they analyze the impact measurements as well as profitability metrics. If industry-specific measurements were removed, investors would not be able to compare companies solely on profitability metrics, because the social metrics are integral to their appeal as an investment opportunity. Therefore, the problem of comparing returns across industries is much more prevalent when dealing with IOPE as opposed to regular PE.

B. Methods of Quantifying Impact

While impact measurement metrics are not considered commonplace in the social impact world just yet, there are many organizations that are employing these metrics and advocating for their widespread use. Various stakeholders—from large impact funds, such as the Acumen Fund, to philanthropic organizations, such as the Bill and Melinda Gates Foundation—are involved in this push towards a unified way of measuring impact, which indicates that the future is bright. Below is an overview of three of the most popular techniques of impact measurement, all of which are classic methodologies that have been applied through a social lens. The remaining methods are promising approaches that have been developed by leading organizations in the space, such as the Acumen Fund's BACO Ratio and the Hewlett Foundation's Expected Return, but are not as widely used.

Cost-Benefit Analysis

Cost-benefit analysis (CBA) is a method that involves monetizing the costs and benefits associated with a project and calculating a benefit-cost ratio (BCR) to see whether it is a worthwhile investment. Further, this analysis allows the comparison of multiple investments by assessing their respective BCRs to determine which one provides the most benefit per unit of cost. If you consider the payoffs to be the social benefits generated by the investment, CBA is essentially the same as net present value analysis, which is one of the most common methods of analyzing investments. However, this method doesn’t address the root cause of the issue of measuring social impact. This is the most demanding approach because it requires you to place a dollar value on all the impacts generated by the program, which is incredibly difficult. The underlying reason that social impacts are not easily comparable is that they are hard to monetize, which this analysis fails to acknowledge. While this methodology allows you to compare multiple investments easily (only after the ratios are calculated), it does not include steps to monetize impacts, which is the most difficult part of this whole process.

Cost-Effectiveness Analysis

Cost-effectiveness analysis (CEA) involves the calculation of a ratio of cost to a non-monetary outcome (e.g. cost per high-school graduate, cost per child given polio vaccine). This method is effective because it combines appropriate measures of outcomes with the associated costs, allowing investors to compare the effectiveness of multiple investments within the same sector. Also, CEA allows organizations to circumvent the uncertainties in monetizing social impacts. While this method can be effective when impacts are particularly difficult to quantify, it’s difficult to compare ratios across various sectors. Because these non-monetary outcomes are measured in natural units, the cost-effectiveness ratios become industry-specific. This is the key distinction between CEA and CBA; even though it is difficult to monetize impacts, you can always compare dollars, as opposed to more specific non-monetary outcomes.

REDF’s Social Return on Investment

REDF is a social venture fund founded in 1997 in San Francisco, CA that invests in the employment of low-income and formerly homeless individuals. Over the years, the organization has developed a Social Return on Investment (SROI) framework in an effort to demonstrate the blended value that can be created through impact investments. According to the SROI Network, there are six stages to SROI analysis: (1) establishing scope and identifying stakeholders, (2) mapping outcomes, (3) evidencing outcomes and giving them a value, (4) establishing impact, (5) calculating the SROI, and (6) reporting, using, and embedding. A key step in this process is to set up outcome indicators that can identify when positive change is happening. Using a mix of subjective and objective indicators is effective, because there are certain risks with subjective or self-reported metrics that can be offset by using objective ones.[12]

The most difficult part of this process is the third step, which requires assigning values to social outcomes. In order to address this problem, REDF and the SROI Network advocate the use of financial proxies. As expected, finding the right proxy can often be challenging, but there are techniques available to help with this. In a stated preference model, also referred to as contingent valuation, effected stakeholders are asked to value certain social outcomes. This method has been widely employed by the U.S. Government when analyzing environmental projects, and definitely has the capacity to be extended to other sectors. However, as this is essentially a survey-based methodology, the credibility of stakeholders is crucial to the overall accuracy. Since many social ventures operate in third-world markets, their stakeholders are not as informed as ones in developed countries, which is a definite limitation of this technique. Another technique that can be used is the revealed preference methodology. This technique differs from the stated preference technique in that it infers values of social goods from the values of related market-traded goods. The theory behind this model is that consumers will reveal their preferences through their measurable purchasing habits, which can then be used as

[12] SROI Network, "The Guide to Social Return on Investment"

proxies for their preferences for social goods. Figure F contains examples of potential proxies that can be used for various issues.

C. Issues and Limitations of Methods

A common theme of impact-oriented investing is the complexity of the industry. The large, intertwined web of stakeholders, the youth of the industry, and the private nature of many funds make it such a difficult industry to operate in. Naturally, even though the above methods of quantifying impact are promising steps in the right direction, they are not perfect. The limitations fall into two categories: technical and big-picture. The technical issues affect the actual measurement calculations, whereas the big-picture issues affect the overall accuracy of impact measurement rather than the output of an individual formula.

Technical Issues

The first issue that plagues impact measurement is that of assumptions. Assumptions are often an issue regardless of the analysis being performed, but they are especially troubling in impact investing. According to the Bill and Melinda Gates Foundation, executives of social ventures tend to be more optimistic than their single-bottom line counterparts. This optimism affects projections of social outcomes, projections of financial performance, and estimations of project timeframes.[13] Another issue is discounting future outcomes. Any outcome, social or financial, that occurs in the future should be discounted to the present value using an appropriate discount rate. The problem is that the appropriate discount rates haven't been identified yet. Additionally, different discount rates may be necessary across sectors. For example, in the drug,

[13] Tuan T., Melinda, *Measuring and/or Estimating Social Value Creation*, Bill and Melinda Gates Foundation, December 18, 2008

criminal justice, and youth intervention areas, a 4% discount rate is typically used. But, in other sectors, discount rates greater than 10% have been used.[14]

Furthermore, it is challenging to select an accurate timeframe when analyzing impact investments. Typically, when calculating the NPV of an investment, there is a set timeframe that is used and then a terminal value that is calculated when exiting the investment. However, in impact investing, the timeframe is more ambiguous because even after an investment has been exited, it can have lasting impacts on various stakeholders. Calculating the terminal value of such an investment can be incredibly difficult, especially because investors are often dealing with inaccurate information. Another factor that severely limits the effectiveness of the above methods is the lack of shadow pricing—or assigning monetary values to unclear results—in this market. The quality of many of these methods depends on the ability to monetize social outcomes, which is intrinsically difficult. There is no equilibrium market price for curing someone of malaria, which results in organizations using their own shadow prices, furthering the inconsistency that exists throughout the industry. Considering that these are some of the most important pieces of information for analyzing an investment, it is clear that there is much room for improvement in measuring and valuing social impacts.

Big-Picture Issues

Having just discussed technical issues limiting the industry, we can now look at some of the broad, overarching themes that may be causing the aforementioned technical issues to persist. First and foremost, the most pressing issue is one that we keep referring back to: the lack of common measures across sectors. This severely limits the ability of

[14] Karoly, Lynn A., M. Rebecca Kilburn, et al., RAND Corporation, *Assessing Costs and Benefits of Early Childhood Intervention Programs*, 2001.

funds to grow and diversify, because different projects have different outcome indicators. Without common measures, funds can't accurately choose investment X over investment Y, as it is a problem of comparing apples to oranges. While the use of financial proxies to convert these non-market outcomes to a monetary value can help mitigate this issue, there is a lack of quality data on costs, impacts, outputs, and outcomes, which can make the use of proxies inaccurate. Often times, the data is not even available and there is a lot of creativity and educated guesswork that must go into the process.

Clearly, there are problems in the field of tracking outcomes and measuring impacts, but there are also issues at the organizational level. Just as in the regular private equity industry, transparency is not incentivized. This leads to a self-reporting bias, as there is no reason for a fund to show their losses to potential investors. The result is that poor results get swept under the rug and only the strong results are showcased, which is not good for the IOPE sector as a whole. There is much that can be learned from failures and burying useful data in an industry already notorious for imperfect information is essentially stunting the advancement of the industry.[15] Furthermore, another issue limiting the push towards an integrated measurement methodology is the cost of measurement. Collecting and analyzing data requires a lot of resources, especially in the impact investing space. While 70% of all impact assets under management are in emerging markets, only 14% of funds are headquartered in emerging markets (Figure G).[16] Considering the potential geographic distances, measuring and tracking data can be costly if they are to be done accurately. Ideally, investors should include the costs of

[15] Tuan T., Melinda, *Measuring and/or Estimating Social Value Creation*, Bill and Melinda Gates Foundation, December 18, 2008
[16] Saltuk, Yasemin, Amit Bouri, et al., *Spotlight on the Market: The Impact Investor Survey*, J.P. Morgan and GIIN, May 2, 2014

measurement when making capital allocation decisions, but this eats into investors' financial returns and some of them may not be willing to make that tradeoff. However, it is important to keep in mind that these initial measurement costs are essentially investments into the future of the industry. Lastly, it is important to realize that these costs bear a much bigger burden on individual investors and organizations. If industry members work together, pool resources, and share best practices, the costs will be diffused across multiple geographies and sectors, and a unified measurement methodology will be reached faster.

D. What Can be Accomplished

A clear definition of impact is necessary to develop IOPE into a more rewarding and reliable asset class. There is currently a barrier that exists between mainstream investors and the impact investing market, because measuring social returns is still a murky area. Once more effective ways to quantify impacts are developed, the information gap will be bridged and more capital will flow into the industry. Not only will effective measurement attract more investment, but it will also allow funds to make better decisions in regards to portfolio optimization. If effective outcome indicators are employed and tracked, organizations will be able to better target their resources to hedge against any potential unexpected outcomes.

Figuring out this dilemma is the next step in the development of this industry. As information becomes more accurate and abundant, an increased number of investors will want to enter, all with slightly different risk-return preferences. As the investor base composition changes, there will be a more varied demand for impact investments, which will cause product offerings to develop further as well. Assuming that the IOPE market mimics the development of the regular PE market, we can expect another expansion in the breadth and depth of products. Perhaps, in the long-term, once investors can more easily compare funds, we will see a rise in impact fund-of-funds and the development of a secondary IOPE market.

IV. Analyzing Various Funds and What Led to their Success

A. Case Studies

Below is a brief overview of four different impact-oriented private equity funds that have achieved significant success with generating both financial returns and social impacts.

1. Elevar Equity

Elevar Equity was founded in 2008 in San Francisco, California and currently has offices in Seattle, Washington and Bangalore, India. The firm has $94 million in committed capital under management between two funds: Unitus Equity Fund and Elevar Equity Fund II. Over its seven-year history, Elevar has employed a successful investment strategy in which it connects underserved communities—specifically in India and Latin America—to global networks. This thesis has seen positive results: the fund has realized an IRR of 21% since inception and impacted over 11 million households through investments in 16 companies.[17] Prior to Elevar, the founders had over 15 years of experience investing in emerging markets and over 8 years of microfinance/impact investing experience. The team's deep understanding of these spaces allowed them to identify customer needs in adjacent sectors, such as: financial services, payment

[17] Clark, Cathy, Judd Emerson, and Ben Thornley, "Impact Investing 2.0: The Way Forward – Insight from 12 Outstanding Funds," November 2013

networks, and rural healthcare. Further, Elevar is known for its forward thinking, as it was one of the biggest investors in the IPO of the Indian microfinance institution, SKS Microfinance, the first public company of its kind in India.

2. Bridges Ventures

Bridges Ventures was founded in 2002 in London, England with the vision that hands-on investment combined with entrepreneurial talent can address society's biggest issues, as well as drive sustainable growth. The company seeks to generate returns for investors through addressing social or environmental problems in underserved markets. The specific themes that Bridges focuses on are: health & well-being, education & skills, and sustainable living. When assessing the risk and return of investments, Bridges looks at four different criteria: target outcomes, additionality, alignment, and any environmental, social, or governance (ESG) factors. Understanding that different investors fall into different spaces on the risk/return spectrum, Bridges has three funds catered to different types of investors. The Sustainable Growth Fund invests in high growth, high impact businesses and has had 10 successful exits generating multiples from 1.6-2.2x.[18] The Property Funds invest in sustainable, environmentally friendly properties that provide benefits to society, such as homes for the elderly. The Social Sector Funds directs capital towards early-stage social ventures to address the funding gap and help these enterprises reach scale faster. In addition, Bridges Ventures donates 10% of its own profits to the Bridges Charitable Trust for philanthropic activities, reasoning that there are simply some problems that cannot be solved when a financial motive is attached.

3. Aavishkaar

[18] Bridges Ventures website and press releases

Aavishkaar was founded in 2001 in Mumbai, India and has been a pioneer in early stage investing in the country. It is the smallest fund ($9.5 million) of the four outlined, but fittingly so, as it invests in early-stage rural enterprises in India that do not need as much capital as ventures in other markets. Regardless of its size, Aavishkaar has built a track record of high impacts and strong returns in seven main sectors: agriculture, education, energy, handicrafts, health, water & sanitation, and technology for development. Throughout all of these sectors, Aavishkaar utilizes an enterprise-based approach to spur economic and social activity in rural India by providing capital and advisory support to early-stage ventures. Its outcome objectives include creating local livelihoods and reducing the vulnerabilities of low-income and rural populations. Since inception, Aavishkaar has realized a 13% IRR net of fees. It has made six complete exits: three with IRRs between 12% and 39% and three at a discount. In addition, the fund has made two partial exits that have achieved IRRs of 45% and 63%.[19] Since the fund targets multiple sectors, its social returns cannot be aggregated; however, its numerous impacts can be seen in Figure H.

4. SEAF

The Small Enterprise Assistance Fund (SEAF) was founded in 1989 to help Eastern European companies make the difficult transition from communism to capitalism after the fall of the Berlin Wall. Seeing the success of this first fund, the IFC approached SEAF with the proposition of launching a similar impact fund in China. Although China was experiencing astronomical growth, there were still regions, like the Sichuan Province, that were underdeveloped. With support from the IFC, SEAF launched a new

[19] Clark, Cathy, et al., "Impact Investing 2.0: The Way Forward – Insight from 12 Outstanding Funds," November 2013

fund based in Chengdu, China in order to promote job creation and wage growth. The fund targeted SMEs across several sectors (primarily agribusiness and manufacturing) in areas that lacked access to finance and business advisory services. The fund manages a total of $22.5 million in committed capital and was one of the first providers of risk capital in China. Since inception, the fund has realized a net IRR of 11.4% for its investors, while achieving a 21% average annual increase in employment and a 17% average annual increase in wages.[20]

B. Characteristics of Success

It should come as no surprise that the best impact funds employ disciplined practices, just as traditional investment firms do. However, that alone is not enough, as there are certain characteristics unique to impact investing that seem to heavily influence the success of a fund.

Policy Symbiosis

As previously mentioned, impact investing is an industry that is intertwined with many stakeholders, including the public sector. Policymakers have a strong interest in maximizing social benefits, which impact investing can help deliver at scale. Since both parties have aligned interests, funds that use this to their advantage can realize greater returns. As Matt Bannick and Paula Goldman wrote in *Priming the Pump,* “Impact investors cannot afford to ignore critical political considerations. Enlightened politicians and policymakers have the potential to dramatically speed up the rate at which an industry can scale to responsibly serve hundreds of millions.”[21]

[20] Ibid
[21] Bannick, Matt and Paula Goldman, “*Priming the Pump: The Case for a Sector Based Approach to Impact Investing*” (Omidyar Network, 2012)

There are a few different ways in which IOPE funds can work with the government in a mutualistic manner. Bridges Ventures, for example, directly raised funds from the UK government. Both parties entered into an agreement in which the government would match every pound raised by the fund. SEAF also successfully applied this strategy. The fund works closely with local Chinese governments, which allows it to leverage relationships and knowledge of government processes to obtain permits and approvals for its portfolio companies, boosting both financial and social returns. In both cases, the government is willing to establish these relations, because the funds are investing in improving the welfare of society. Additionally, funds could also employ an advocacy-driven method, like Aavishkaar did in the wake of the 2010 Indian Microfinance Crisis. The fund was a key player in the formation of the Indian Impact Investor Council, which is a government entity that seeks to create guidelines for impact investing.

Catalytic Capital

Often times, investments are made that trigger the flow of additional capital that otherwise would not have been available to an enterprise. These investments essentially can generate exponential social and/or environmental returns and can be transformational for a company. Catalytic capital can be invested into funds or into ventures and it has been present in all of the funds researched. There are four distinct purposes that catalytic capital serves: sustaining, seeding, reducing perceived risk, and signaling. Seeding is incredibly important in impact investing because it alleviates the widespread perception of risk that exists in underfunded markets. Often times, investors in these markets have asymmetric information and thus different perceptions of risk. A prime example of the importance of seeding in order to reduce risk is Elevar Equity. Unitus and the Omidyar Network, which are well-known organizations in the space, backed Elevar's first fund. This played a key role in Elevar's development and made its fundraising efforts much easier, as they had credibility from reputable organizations. Further, the early placements by those anchor investors signaled to other potential investors that the fund was legitimate and facilitated the flow of more capital.

Multifaceted Leadership

While those responsible for making impact investments must have a solid understanding of financial markets, successful fund leadership goes beyond effective money management ability. It requires a breadth of cross-sector experience and the ability to influence both at the institutional and individual level. This is evidenced by the success of Aavishkaar. It was founded by Vineet Rai, who was a former paper executive with no background in finance. This goes to show that fund managers must effectively infuse financial perspectives with field-based perspectives of various stakeholders. Each of the funds studied have a diverse set of leaders who bring unique perspectives to the table. For example, Bridges Charitable Trust holds a minority interest in Bridges Ventures, whose board is made up of different members. Furthermore, SEAF hired a local executive when it started its fund in China, as most of its executives were American. Elevar Equity also displays this attribute, as the founders all had prior experience in microfinance. Applying this lens to the impact investing sector provided valuable lessons into the dynamics of underserved markets, which management was able to use to form a successful investment thesis.

Not Compromising on Mission

As opposed to trading off financial returns for social returns, successful funds treat both objectives as equally important and establish a clear strategy to achieve their mission prior to investment. While all the firms that we studied shared this characteristic, there are two main ways in which a firm can address it: thematic or structural/investor-driven. Elevar Equity, Bridges Ventures, and Aavishkaar embedded their missions within a certain investment strategy that targeted specific enterprises and populations. The funds aim to make their financial returns by improving the lives of underserved rural inhabitants. SEAF, on the other hand, was investor driven. The fund had two key investor groups: an insurance company eager to demonstrate its support for Chinese enterprises and FDIs committed to capitalizing SMEs in China. Since the fund was able to find investors that were aligned with their mission, it made it easier to manage expectations later on.

V. Constraints on the Industry

Although impact-oriented private equity has seen a vast amount of growth over the past few years, there are still certain impediments to its expansion. If these constraints are alleviated, IOPE will be able to realize its true market potential, thereby advancing the total impact investing industry as well. Below are a few factors that are currently restricting the expansion of both the asset and the overall industry.

Lack of Unified Set of Definitions

As impact investing is a relatively new and rapidly changing industry, there is no unified set of definitions for commonly used terms. For example, there are multiple definitions for “social entrepreneurship,” “impact investing,” and even “impact.”

Unaligned definitions and models fuel misunderstandings about the industry and perpetuate the ambiguity that is already rampant. This also constrains the effectiveness of impact measurement; if we cannot define impact, we definitely cannot measure it.

Few Funds with Strong Track Records

This is another symptom of the fact that impact investing is still in its early stages. Only 38% of funds have a track record greater than three years (Figure I).[22] This makes it difficult to conduct due diligence and thus, many mainstream investors are still hesitant to enter the market. Furthermore, another problem arising from this is that there is a divergence between the rates of return that funds target and the rates of return that investors expect. According to Deloitte, 80% of impact investment funds target market rate returns, whereas only 60% of pension funds expect impact investment funds to generate market rate returns. Additionally, due to the nascent nature of the industry and youth of most funds, there is still a limited set of investment opportunities. While it has been expanding, 83% of pension fund managers believe that there are not enough scalable deals in the impact investment market. Further, there is a lack of creative and innovative products that would attract mainstream capital into the industry.

Small Average Deal Size

The average investment into an impact enterprise is $2 million, as opposed to the average investment into a growth company in the regular PE industry, which is $36 million (Figure J).[23] Because the deal sizes are much smaller, the costs of due diligence are relatively higher. Sourcing the right deal can be a costly ordeal because information is

[22] Saltuk, Yasemin, Amit Bouri, et al., *Spotlight on the Market: The Impact Investor Survey*, J.P. Morgan and GIIN, May 2, 2014

[23] Drexler, Michael, Abigail Nobel, and Joel Bryce, *From Margins to Mainstream*, World Economic Forum, September 2013

never perfect or easily available in this industry. This constraint can be addressed with the use of intermediaries, as they allow investors to pool their capital and contribute to larger-scale investments that are more consistent with their mandates, pleasing their investors. Although there are some small, niche players in the space, intermediaries still have to scale and grow in order to become mainstream. As the industry progresses, mainstream intermediaries will start to accept impact investing and impact intermediaries will become more commonplace.

False Perception that Funds Sacrifice Financial Returns for Social Returns

This notion that impact funds cannot generate both financial and social returns at competitive rates is merely a false perception. I personally interviewed six IOPE fund managers and they all told me that they do not sacrifice financial returns for social impacts. Rather, they have strict hurdle rates for both and will not make the investment if it doesn't meet their requirements. While funds are incentivized to say that to the public, further research seems to prove that this is indeed true. As mentioned in the previous section, a defining characteristic of successful impact funds is not compromising on their mission. While there are certain funds that are willing to accept below-market rate returns, they are doing so willingly. The successful funds have integrated their social mission into the core of their business and will look for opportunities in which they can achieve those goals while generating market rate financial returns as well.

Unclear Fit within Asset Allocation Framework

It is estimated that approximately 2/3 of US-based pension funds believe that "it is difficult to fit these types of [impact] investments into my existing asset allocation framework."[24] This makes sense, as institutional investors manage the risk and return of their portfolios by considering a number of factors including: volatility, liquidity, timeline, investment stage, and investment size. All of these factors require a certain amount of data that many impact enterprises or funds do not yet have. Further, it is difficult for these investors to fit impact metrics into the theoretical frameworks that they use, such as Modern Portfolio Theory. In addition, many institutional investors are apprehensive about allocating capital to impact investments because of the perception that impact funds generate below-market rate returns and investing in them would mean breaching their fiduciary duty to their investors.

Ambiguity of Double-Bottom Line

Since all impact funds aim to generate double-bottom line returns—some even aiming for triple-bottom line returns—there is an inherent issue of multiple goals. How does a firm decide between two opportunities when one provides an IRR of 15% and impacts 250,000 people while the other one provides an IRR of 13% and impacts 300,000 people? The natural ambiguity of this industry makes it difficult to create a standard method of impact measurement, and thus it is difficult to compare returns and make assessments across firms/sectors. Because measurement is so complex and expensive, many organizations don't have the capacity to do it, which deters investors from the industry. This calls for a unified, collaborative effort among many stakeholders to solve the problem.

[24] Ibid

VI. Recommendations for the Future

As impact investing is still an unripe industry, there are many things that can be done to improve its prospects for the future. It is still a developing concept in the minds of many people, and stakeholders need to take action in order to expedite the process. Below are recommendations for various stakeholders in the industry. These recommendations were made by synthesizing past trends and current developments in order to ascertain what will help advance the industry going forward.

A. Impact Investment Funds

Impact Investment funds have perhaps the most important role in this ecosystem. They make it easier for investors to allocate capital into social ventures and essentially facilitate the flow of capital into the industry. In order to attract more mainstream capital, impact investment funds must be more transparent about their returns and disclose the results to a third-party database, like GIIN. In accord with this, funds must employ an effective system measuring and reporting the social impacts that they generate. Further, impact funds should consider creating innovative strategies to attract capital from large-scale investors. These three efforts combined will have a huge impact on the expansion of the industry. Institutional investors need to compare and assess different investment opportunities because they have much stricter rules in regards to asset allocation. The more transparent funds are with their measurements, the more information available to investors, and the more capital invested into the industry. Additionally, registering with a third-party database adds a sense of credibility to a fund's brand and their reporting of metrics. Furthermore, misconceptions about returns have been hindering many funds from raising capital. Being clear about their investment theses and their existing track record will help to clear up these misconceptions.

B. Social Ventures

With time, as these organizations grow and their sectors expand, they will be better poised for mainstream investment. In that time, however, there are certain steps that organizations can take to be ready for mainstream capital infusion. Organizations should build capabilities that make it easier for investors to allocate capital, proactively measure and report on their social impacts, and strive for competitive differentiation and strong financial management. As we've learned by now, impact investing is far from mundane, and in order to further the industry, both investors and ventures have to be willing to work with innovative financing agreements. Some examples of innovative financing are: revenue sharing agreements, subsidy layering, and varying time horizons.[25] While these methods may not be available to every business model, it will be important for both investors and ventures to keep an open mind in regards to innovative financing. Further, many social ventures lack financial discipline, as they believe that they can make up for it by doing good in society. However, a successful social venture must start with a strong, sustainable financial model and then build its impacts from there.

C. Philanthropies and Foundations

Philanthropies and charitable foundations play a unique role in the development of the industry. They are key players because they aim to generate social impacts without the financial motivation that impact funds have. One of the biggest actions that they can take is to help lower investment risk by providing grants or investments to early-stage

[25] "Innovative Financing for Development," Global Development Incubator, September 2014, http://www.globaldevincubator.org/wp-content/uploads/2014/09/Innovative-Financing-for-Development.pdf

social ventures or funds. Many of the leading philanthropic organizations already implement this strategy and have seen a lot of success from it. Making these “anchor investments” in early stage entities signals to other investors that the investment is legitimate and credible, which helps to minimize excess perceived risk. These organizations can afford to take on the riskier investments because they are not tied to strict fiduciary obligations like impact funds are. Another key step that philanthropies and foundations can take is promoting greater collaboration amongst themselves to help lower due diligence costs. As previously mentioned, impact measurement can be expensive because it involves small average deal sizes. However, by utilizing their networks to share information, learned lessons, and best practices, foundations can lead the charge in impact measurement and lower due diligence costs for the entire industry.

D. Impact Investors

Investors are obviously a key driver of the industry, because they control the amount of funds that get allocated to social ventures. Thus, it is important for them to understand the pivotal nature of their role and take the actions that they can to further the industry. One step that investors can take is to invest through impact funds, as opposed to direct investments into ventures. These intermediaries have sector and geographic expertise that individual investors simply do not have. This will help accelerate the development of the sector, as it allows investors to circumvent the problem of small average deal sizes. By pooling capital, investors will be able to contribute to larger investments that are more consistent with typical investing mandates. Further, investors should play a role in helping organizations measure their impacts. Being able to quantify and track certain metrics give both organizations and investors a better of idea of the outcomes being generated from their inputs. If these outcomes are favorable, more investment can be attracted and impacts amplified. If the outcomes are not favorable, organizations can work to figure out what is impeding success and change their approach. Investors helping their portfolio companies to measure and track data presents mutualistic benefits in both the upside and downside scenarios.

E. Governments

Since social ventures often operate in areas of market failures that could not be reached by the public sector, governments are key stakeholders in the impact investing environment. The government should subsidize risky or early-stage investments that create social benefit, but generate below-market rate returns. Investors will typically avoid these investments unless the government provides some sort of tax incentive or regulatory provision that makes the deal more financially favorable. Another recommendation is to revise regulations that restrict willing capital into impact investments. The Obama Administration has already done this in the US with the passing of the JOBS Act in 2012. However, the cautious employment of this ideal throughout the global markets can allow underutilized capital from retail investors to be used in impact investing. Furthermore, governments can help to de-risk the environment through innovative funding mechanisms. This is similar to the recommendation given to philanthropies and foundations, but governments have even more flexibility to do so. Governments can provide a fiscal safety net for funds by providing guarantees to funds underwriting certain risky instruments or take a subordinate position in a layered-structured fund.[26] In addition, governments could also set up a pool of capital to provide

[26] Drexler, Michael, Abigail Nobel, and Joel Bryce, *From Margins to Mainstream*, World Economic Forum, September 2013

anchor investments to first-time funds, market builders, or early stage ventures, incentivizing innovation and promoting further funding.

F. Intermediaries and Third-Party Organizations

Intermediaries play a huge role in the regular PE market. Although a few small, niche intermediaries have developed in IOPE, their expansion is necessary to the advancement of the overall industry. Intermediaries and third-party organizations can include organizations such as: financial institutions, exchanges/platforms, rating & certification agencies, advisers, etc. Securing the involvement of mainstream financial intermediaries, like the big banks, will surely lead to an increase in capital for impact funds. A key action that intermediaries should take is aggregating data on impact investment deals and publishing the findings. Increasing the visibility and transparency of deals and the financial statistics involved is a surefire way to attract more capital to the industry. Further, intermediaries should promote a common platform that aligns capital and deal flow. Classifying investments by factors such as expected return, projected impact, risk, and investment horizon better aligns investments with investor preferences and helps facilitates deal flow. Furthermore, intermediaries should work on developing an impact shadow-pricing exchange, where various stakeholders place values on impacts generated by social ventures. Having a market price for a baseline set of impacts across sectors would be a huge step in social impact measurement and valuation. An intermediary is best positioned to undertake these sorts of tasks because these costs can be too much for smaller investors to bear.

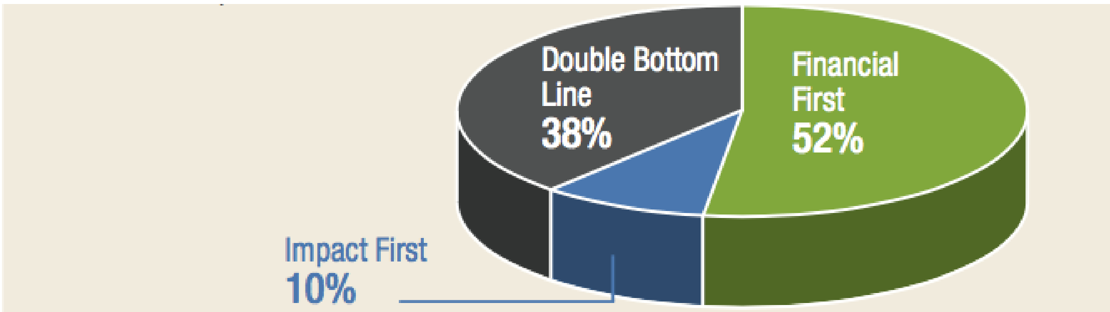
VII. Conclusion

Based on the above research and findings, it is clear that impact oriented private equity is an intricate industry that is difficult to operate in. However, it is also clear that this strategy has gathered a lot of momentum over the past few years and is continuing to grow. There are many factors that are currently restricting the growth of this industry. The good news is that many of these constraints are symptoms of the fact that impact investing is still in its nascent stages. As time goes on and the sector matures, we can expect many of the identified constraints to be naturally mitigated. Deal sizes will grow, track records will be established, and the false perceptions about the strategy will be struck down. However, until then, there needs to be coordinated action from the various stakeholders involved. One of the most difficult things about this industry is that there are so many stakeholders that play a vital role in shaping the industry and in order to facilitate rapid expansion, all of them need to be involved and actively seeking to improve upon their roles.

Going forward, impact investing really has the ability to be a powerful investment vehicle. Given time, all of its complications and limitations will be figured out. It won't be easy, but developing a new asset class or industry never was. Some of the brightest and most reputable institutions in the world are involved in making impact investing a success, such as: Goldman Sachs, J.P. Morgan, the World Economic Forum, the U.K. Government, and the International Finance Corporation. With their varying expertise, resources, and networks, it's only a matter of time before the problems of the industry get solved. There are thousands of social ventures in the world that are trying to impact billions of people. As impact investing grows and more capital flows into these ventures, the livelihoods of the people they impact will be improved and society as a whole will be better off because of this investment strategy.

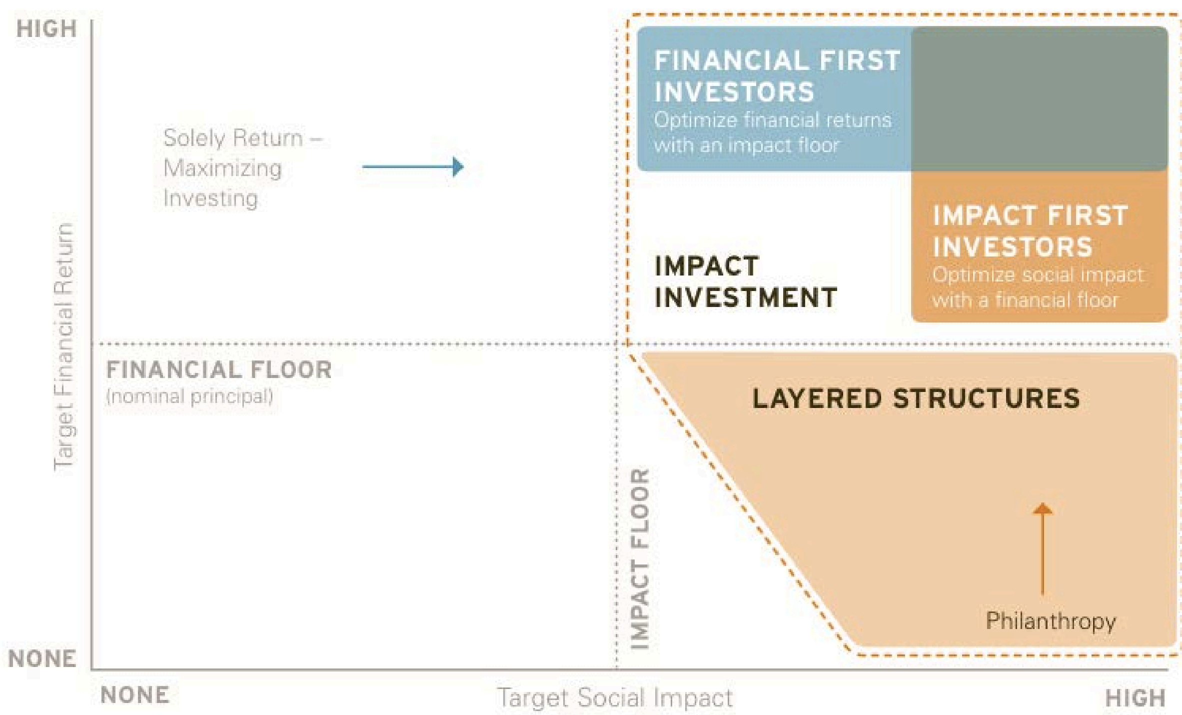
VIII. Appendix

Figure A: Classification of IOPE Funds



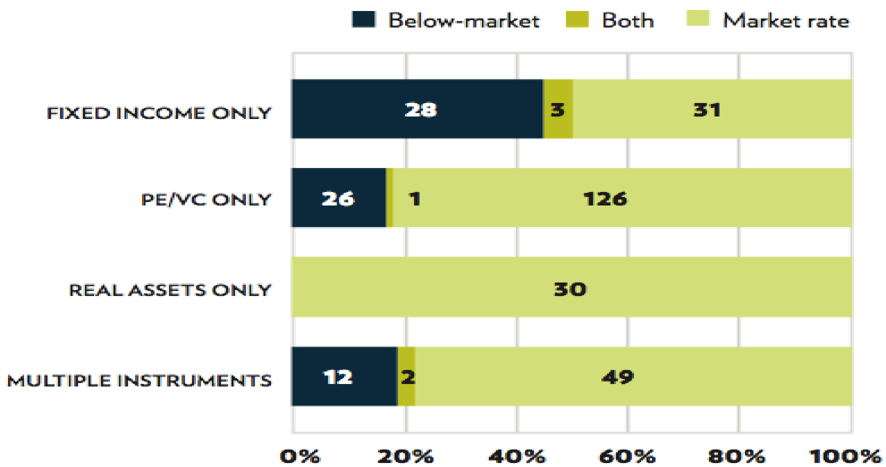
Source: Pacific Community Ventures

Figure B: Segments of Impact Investors



Source: Bridges Ventures, The Parthenon Group, GIIN

Figure C: Return Philosophy of Funds by Asset Class



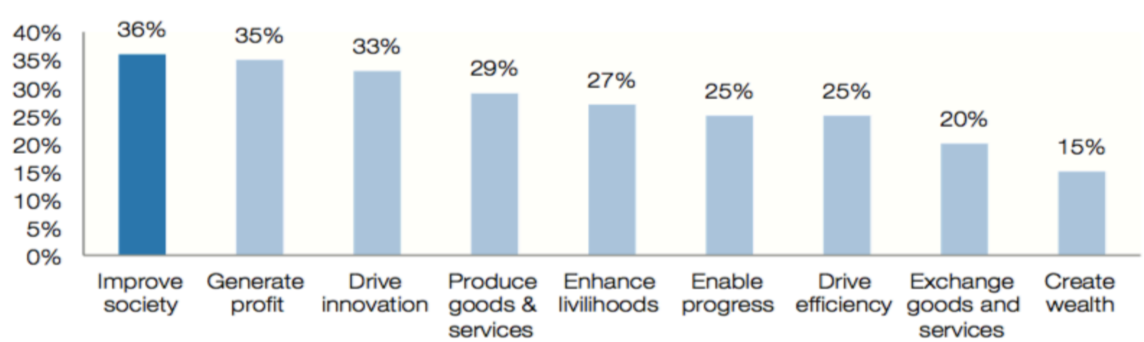
Source: GIIN, ImpactBase

Figure D: Average Target IRR by Asset Class

	MARKET RATE	BELOW-MARKET
FIXED INCOME ONLY	6.2%	2.9%
PE/VC ONLY	19.3%	5.5%
REAL ASSETS ONLY	14.9%	—
MULTIPLE INSTRUMENTS	13.9%	5.4%
OVERALL	16.2%	4.4%

Source: GIIN, Impact Base

Figure E: Millennials’ Responses When Asked “What is the Purpose of Business?”



Source: Deloitte

Figure F: Examples of Financial Proxies Used in SROI

Stakeholder	Outcome	Indicator	Possible proxies
Person with mental health problem	Improvement in mental health	• Amount of time spent socialising • Extent to which participants engage in new activities • Level of use of mental health services	• Cost of membership of a social club/network • Percentage of income normally spent on leisure, • Cost of counselling sessions
Local community	Improved access to local services	• Take-up of those services, and by whom	• Savings in time and travel costs of being able to access services locally
Person with physical health problem	Improved physical health	• Number of visits to doctor • Extent of improvements in health (self reported) • How often they exercise	• Cost of visiting private doctor clinic • Cost of health insurance • Cost of gym membership
The environ-ment	Less waste	• Amount of waste going to landfill • Level of carbon emissions	• Cost of landfill charges • Cost of CO^2 emissions
Offenders	Reduced reoffending	• Frequency of offences for which participant is charged • Nature of offence	• Forgone wages due to time spent in prison or doing community service
Care leaver	Reduced homeless-ness	• Access housing upon leaving care • Satisfaction with appropriateness of housing	• Rent • Cost of hostel accommodation
Women offenders	Improved family relationship	• Child continues living in the family home	• Amount that parents spend on their children annually • Value of time spent with children • Cost of childcare
Local community	Improved perception of the local area	• Residents report improvements in local area	• Change in property prices • Amount spent on home improvements

Source: The SROI Network

Figure G: Respondent Subgroups of Impact Investor Survey

Name of sub-group	Description of the category construction	Number of respondents (all respondents = 125)
DM-HQ Investors	Headquartered in developed markets	102
EM-HQ Investors	Headquartered in emerging markets	17
Fund Managers	Identified themselves as fund managers	61
Non-fund Managers	Identified themselves as anything other than fund managers	64
DM-focused Investors	Have more than 50% of their current impact investment AUM invested in developed markets	54
EM-focused Investors	Have more than 50% of their current impact investment AUM invested in emerging markets	69
Proprietary Capital Investors	Have more than 50% of their current impact investment AUM as proprietary capital	60
Client Capital Investors	Have more than 50% of their current impact investment AUM as client capital	65
Debt Investors	Have more than 50% of their current impact investment AUM as debt	50
Equity Investors	Have more than 50% of their current impact investment AUM as equity	52
Direct Investors	Have more than 50% of their current impact investment AUM invested directly into companies	88
Indirect Investors	Have more than 50% of their current impact investment AUM invested through intermediaries (including fund managers)	28
Early-stage Investors	Have more than 50% of their current impact investment AUM invested in the seed/start-up or venture stages	33
Later-stage Investors	Have more than 50% of their current impact investment AUM invested in the growth or mature (public or private) stages	88
Competitive-return Investors	Principally targeting competitive, market rate returns	67
Closer-to-market Investors	Principally targeting below market, closer to market returns	29
Capital-preservation Investors	Principally targeting below market, closer to capital preservation returns[3]	29
Impact Outperformers	Indicated an impact outperformance of their portfolio relative to their expectations	24
Financial Outperformers	Indicated a financial outperformance of their portfolio relative to their expectations	19

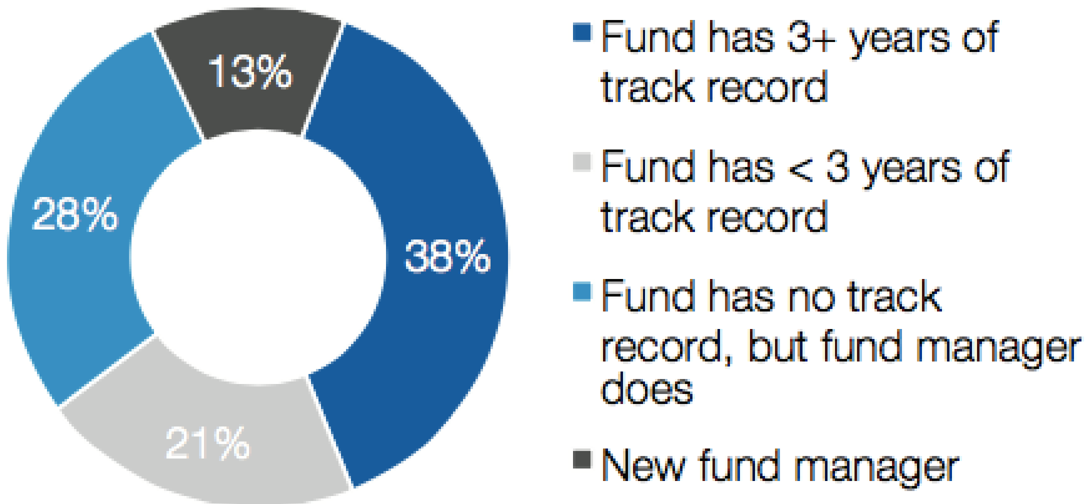
Source: J.P. Morgan and GIIN

Figure H: Aavishkar Social Impacts

COMPANY	LOCATION	DESCRIPTION	SOCIAL PERFORMANCE (2012)
Servals Automation	Chennai	Servals Automation offers affordable and energy efficient cooking solutions for the masses. Its flagship products includea stove burner that saves up to 30% kerosene, an 'any-fuel' biomass stove and a vegetable oil stove.	101,817MT of CO2 emmisions were reduced from Servals energy efficient kerosene burners
Shree Kamdhenu Electronics	Anand	Shree Kamdhenu Electronics Private Limted (SKEPL) pioneered the automation of manula milk collection process in that dominated milk cooperatives societies, thereby elimating several inefficiencies that plagued the milk collection process and bringing increased returns to dairy farmers.	10,500,000 dairy famers witnesssed increased incomes
Net Systems informatics	Mumbai	Net Systems is a leading Accessibility Consulting and Knowledge Management firm based in Mumbai, India that offers webs and technology solutions to enable computer accessibility by people with disabilities.	145,500 people with disability gained access to computer / web
Vaatsalya Healthcare	Bangalore	Vaatsalya offers good quality affordable healthcare to un-derserved populations through a chain of semi urban and rural hospitals in the Southern States of Andhra Pradesh and Karnataka.	20% acceessed affordable healthcare.
Vortex Engineering	Chennai	ATMs that are ideally suited for rugged, remote and rural conditions.	344,925 people accesed to finanical services through rural ATMs.
DAH, Bhuj	Bhuj	Desert Artisans Handicrafts Pvt. Ltd. (DAH) are community-owned companies engaged in the production of handicrafts primarily for supply to the major retail chain, Fab india. The companies operate on an innovative busineess model that allows for artisan suppliers to also be part-owners.	80% of artisans of DAH companies are also part-owners of the companies, 50% women.
DAH, Delhi	Delhi	Desert Artisans Handicrafts Pvt. Ltd. (DAH) are community-owned companies engaged in the production of handicrafts primarily for supply to the major retail chain, Fab india. The companies operate on an innovative busineess model that allows for artisan suppliers to also be part-owners.	80% of artisans of DAH companies are also part-owners of the companies, 50% women.
Saraplast	Pune	Saraplast is the fastest growing portable toilet leasing company in the country that tackles one of the biggest challenges in India — access to hygenic sanitation. The company provides portable sanitation facilities along with cleaning, evaluation and waste disposal services.	11% people accessed clean and safe sanitation
Swas Healthcare	Ahmedabad	Healthcare services based on Ayurveda and Naturopathy for chronic ailments such as kidney disorder, arthritis, etc.	Has not met expectations — not included in 2012 impact report

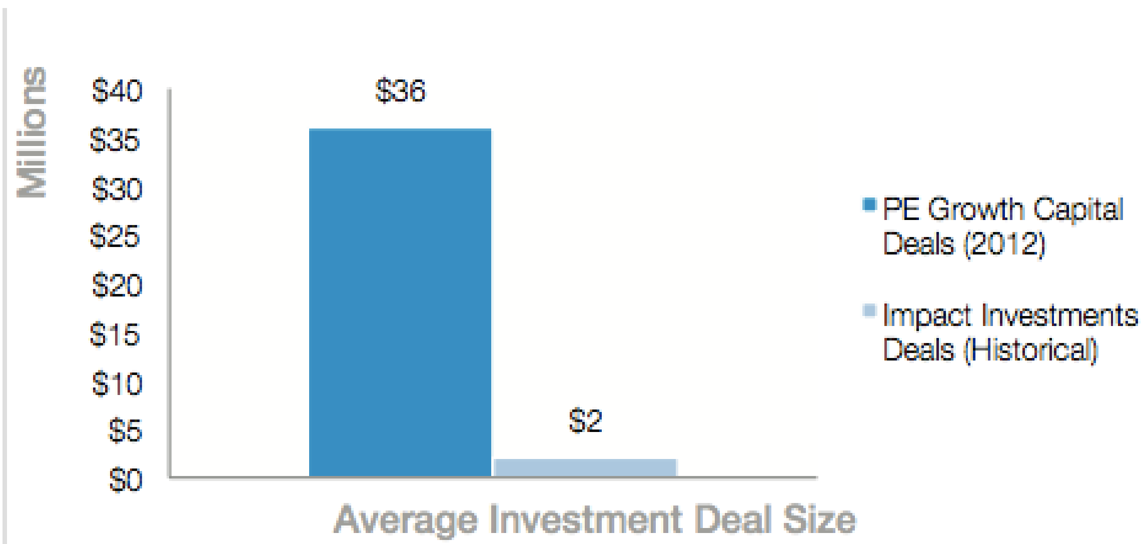
Source: Aavishkaar, Pacific Community Ventures

Figure I: Impact Fund Track Records



Source: GIIN, ImpactBase

Figure J: Average Deal Size



Source: Preqin, GIIN, Deloitte