Shifting the Lens

A De-risking Toolkit for Impact Investment
Executive summary

The debate about a supply-demand mismatch in impact investing has often centred on its characterisation as a relatively high risk strategy and therefore on whether sufficiently high risk-adjusted financial returns are achievable. This report shifts the lens: while demonstrating a track record of sufficient financial return is one way to bring supply-and-demand into line (and is a key step forward for the impact investment industry), another approach is to adjust the risk side of the equation – to ‘de-risk’ impact investment.

Despite the compelling ‘win-win’ of generating both a financial and societal return, the addition of an impact lens to investment propositions has increased the sense of risk for many asset owners, deterring or even prohibiting them from entering the market. One way to reduce this sense of risk (and to scale the market) is to wait for the industry to prove itself. We do not have time. As one interviewee for this report remarked, ‘it takes 10 years to build a 10 year track record’ and yet the societal challenges that impact investing can address are too urgent to wait this long.

To help accelerate the de-risking of impact investments, this report unpacks the general ‘sense of risk’ associated with impact investing into five distinct risk factors that are most deterring asset owners. It then investigates de-risking features that can mitigate each one. The result is a practical de-risking toolkit for those designing impact investment products, brought to life by a ‘catalogue’ of real-world examples of de-risking features already at work, on which we hope the market will readily build. The report closes with actionable recommendations for those investing, or facilitating investment, into the market.

To broaden the market, we need to clarify the risks and, when they are real, to mitigate them.

About the author
Bridges IMPACT+ is the advisory arm of Bridges Ventures LLP, a specialist fund manager dedicated exclusively to using an impact-driven investment approach to create superior returns for both investors and society at large.
Bridges IMPACT+ seeks to promote the growth of the sustainable and impact investment sector by offering practitioner-led advisory services, based on Bridges Ventures’ eleven years’ experience of investing for financial returns and positive impacts. While many of our projects are bespoke to clients, we also disseminate public research whenever we see an opportunity to support the sector’s thinking.
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To-date, much of the activity (and even more of the discussion) in impact investment has focused on high risk opportunities. This is partly because early players in impact investing have tended to be pioneers who, by their very nature, are prepared to bear the risk that no one else is willing to bear. It may also be due to a belief that high risk investments are necessary to achieve social impact. This report acknowledges the need for such higher-risk investment strategies, like grant-making, they are critical to our ability to address tough societal challenges. However, a continued need for high risk-taking does not preclude a sizeable opportunity to create impact through lower-risk investments.
To broaden the market, we therefore need to clarify the real risks, and when they are real, to mitigate them. This report takes a practical look at how this might be done.
Introduction

Over the last decade, we have seen both the supply and demand side of impact investing accelerate rapidly. On the demand side, charitable organisations are becoming increasingly market-based, enterprise is becoming more socially-motivated and the public sector is increasingly ‘spinning out’ provision of services. On the supply side, a broadening range of asset owners are beginning to engage with the idea of combining financial and social returns. Yet, despite some progress, a sense of inadequacy persists, with some saying that there is too much capital chasing too few investable projects and others concerned that there is too much demand and not enough supply of capital.

This supply versus demand issue is probably less a question of quantum and more one of how well the two are matched – about how well aligned the risk/reward requirements of capital suppliers are to the risk/reward profiles of the organisations that need it. In addition, even where there could be a match between investor appetite and available product, many of the advisors and intermediaries that connect product to asset owners are not yet marketing it to them.

The debate about this mismatch has often centred on the notion that impact investing is a relatively high risk strategy and that the issue is whether an investment product can deliver sufficiently high risk-adjusted financial returns. This report shifts the lens: while demonstrating a track record of sufficient financial return is one way to bring supply-and-demand into line (and is a key step forward for the industry), another approach is to adjust the risk side of the equation – to ‘de-risk’ impact investment.

Our interviews (See Methodology, p24) suggest that a significant portion of asset owners, representing the lion’s share of potential capital available, simply cannot participate in the market today because of a variety of risk factors, or perceived risk factors, whether on a commercial or impact-first basis. To broaden the market, we therefore need to grow the range of lower risk opportunities available for investors. This report takes a practical look at how this might be done.

Definition

Impact investments are investments made with the intention to generate measurable social and environmental impact alongside a financial return. Investments can target a range of returns from below market to market rate.1

A significant portion of asset owners simply cannot participate in the market today because of a variety of risk factors, or perceived risk factors.  

Target audience

By looking at the impact investment market through a risk lens, the intention is to drive action across the value chain: to those supplying capital (asset owners), to those developing investment products (both frontline organisations and intermediaries) and to those connecting the two (which we shall call ‘matchmakers’ and take to include both advisors and government). In particular, we aim to provide useful, practical recommendations and examples, with the hope that it will translate into greater matching of capital and product – and ultimately into more capital flowing in service of society.

A note on the role of Government

As a matchmaker, government can either participate directly in the impact investment market (to encourage others) or influence impact investing through policy or regulation. It can seek to increase the amount of capital for investment (supply development), increase the availability or strengthen the capacity of capital recipients (demand development), or adjust the terms of trade, market norms, or prices (directing capital).

At a national level, the use of ‘government’ in this document refers to a country’s local and regional governing bodies, as well as central government. At the international level, it refers to government-funded development banks and international development agencies.

1 Source: www.thegiin.org
2 Defined as investors who primarily aim to generate social or environmental good and are willing to give up some financial return if they have to (Monitor Institute, 2009).
3 For an in-depth discussion of this topic see ‘A framework for Policy Design and Analysis’, Insight, 2011.

Asset Owners

Product developers

A note on the role of Government

What de-risking features will mitigate which risks?

What else can we do to lower risk in the market?

Increased supply of capital

Increased ‘matching’

Increased supply of product
‘Unpacking’ risk

In an investment context, risk is the probability that the performance of an investment will be different than expected. This has two implications: risk is multi-factored, since poor performance can be driven by a range of factors (what we will call ‘risk factors’) and risk is subjective, since it is always relative to an investor’s particular expectations.

With this in mind, adjusting the risk side of the equation is not a one-size-fits-all approach. It requires an understanding of who the target investor is and what they expect; which risk factors are therefore most relevant; and how to lower the probability that those risk factors will affect performance.

Performance expectations vary by, and within, each category of asset owner. While a comprehensive study of all asset owners allocating (or seeking to allocate) to impact investment is well beyond the scope of this brief, interviews with a wide range of asset owners and advisors globally revealed certain shared concerns about aspects of performance where impact investments, relative to other investment options, may fall short.

We have not included a discussion of other important risk factors, such as market risk, operational risk or currency risk. While these factors are equally relevant to impact investments, the addition of an impact lens was not cited as significantly increasing the presence of these factors.

Capital risk

“Many asset owners are concerned more about loss of principal than about the upside potential when considering impact investments.”

Retail investor

Capital risk is the risk of an asset owner losing any of the original investment amount, in either real or nominal terms. Lower risk asset owners are often concerned more about loss of principal (downside risk) than about the return potential (risk of generating upside) when considering impact investments. Of these, some are seeking a market-rate product (lower risk with lower commensurate return). Others are behaving as impact-first investors (willing to forgo some or all yield for the sake of high impact) but only if their principal, or a significant portion of their principal, is protected. A good example of this might be in relation to the trustees of foundation endowments, who need to believe that, in their lower-risk investment strategies, they can at least recover their principal, from which they can then continue generating the income needed for grant-making.

Some large banks, ‘testing the water’ with small impact investing funds on their own balance sheet, have expressed similar concerns, believing that future success in mainstreaming impact investment among their clients rests first and foremost on the ability to demonstrate capital protection.

Exit risk

“Without liquidity, or the perception of liquidity, huge sections of the investing community will not be able to participate in the impact investment market.”

Investment bank

Many impact investments are structured as private equity or debt structures that make it very difficult to sell or transfer the assets. Underlying this particular risk theme is a core principle for the early pioneers of impact investing: the principle of ‘patient capital’, which argues that building successful social impact business models can often require investors to wait longer – with greater patience – to realise their returns.

While ‘patient capital’ and illiquid products are critical to achieving certain forms of impact, many investors formally require there to be the ability to sell the security, even if they choose not to exercise this right. Others, particularly high net worth and retail investors, may like the flexibility to sell their investments to help manage cash flow needs or at least know that this option is available. At the same time, wealth advisors may have a fiduciary duty to insist on the provision of liquidity for a product before they can market it.

In addition, even tradable impact investment products can be perceived as carrying liquidity risk since, as a new product with unfamiliar profile, many asset owners believe they might struggle to find a buyer when they want to sell, being forced to sell at a significant discount to market value.

We refer you to “Unpacking” risk — 6 Bridges Ventures | Bank of America

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4 Source: www.investopedia.com/terms/r/risk

5 See The Blue Sweater, Novogratz, for a more developed thesis on the importance of patient capital to impact investing.
Unquantifiable risk

“Risk is a function of understanding, and there is a black box when it comes to impact investing.”

Financial advisor

The economist Frank Knight defined risk as ‘quantifiable’. In other words, risk is something that can be measured (historical standard deviation of returns, or volatility, being the most common measurement approach used in the stock market). When asset owners consider an investment product, they will look at a variety of data-points, such as historical performance (of both product and team), regulation, current and forecast events and human behaviour in order to estimate (sometimes accurately, sometime very crudely) how an investment will perform over time. What an asset owner cannot quantify, however, is the probability of risk factors occurring which they do not necessarily know are relevant or even exist. We call this ‘unquantifiable risk’.

While all investments carry risk, unquantifiable risk applies to situations in which the world is not well-charted. Since impact investment is not yet a mainstream strategy – in terms of its investment products and investment teams – asset owners can find quantifying the level and type of risk involved particularly challenging.

Unquantifiable risk is of particular concern to wealth advisors – the gatekeepers to a wide range of institutional and high net worth investors – who, bound by fiduciary responsibilities, are typically uncomfortable recommending a product that they struggle (and are not necessarily incentivised) to situate alongside more traditional investment opportunities.

Impact risk

“Impact risk is particularly real for those whose existence depends on achieving targeted societal outcomes.”

Foundation

As with financial analysis, understanding the impact risk of an investment is as important as understanding its potential for impact return. Impact risks can take various forms. For example, there may be a lack of evidence that an intervention will lead to the desired outcome. Even if the intervention is successful, the investment could cause displacement, leading to reduced or no net benefit.

Or, the investment may create positive change for its target beneficiary but a negative change for other stakeholders, which reduces or undermines its impact. In this respect, impact risk is directly linked to reputational risk.

For the asset owner providing concessionary capital, choosing between an impact investment product and another tool to create social outcomes (such as foundations making grants or the government allocating taxpayer money), the impact risk is greater still: the product needs to demonstrate that the investor’s foregone financial return will generate equivalent or superior outcomes relative to an alternative approach to achieving the same impact.

Transaction cost risk

“It’s a struggle to see more institutional investors entering this space, when the ticket size is so small.”

Pension fund

Each investment an asset owner makes usually incurs transaction costs (the time and money spent on due diligence, deal structuring and ongoing monitoring of the asset), and the smaller the transaction the greater the risk that these costs will be out of proportion with potential returns and therefore prohibit investment. We call this Transaction cost risk. Furthermore, even if an asset owner’s average investment size can be accommodated by a product, many asset owners will have concerns if their investment represents too significant a percentage of the product’s investor base, since the presence of experienced co-investors provides additional due diligence assurance, as well as cost-sharing if performance is poor and the investors need to ‘step in’.
Perspectives of asset owners

Here, we summarise some of the significant performance expectations of a variety of key asset owners, highlighting the risk factors that are therefore of most relevance to each group.

<table>
<thead>
<tr>
<th>Performance expectation</th>
<th>Relevant risk factor</th>
<th>Banks</th>
<th>Pension funds</th>
<th>Family Offices &amp; HNWIs</th>
<th>Retail investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital preservation, at a minimum in either real or nominal terms</td>
<td>Capital risk</td>
<td>Own balance sheet</td>
<td>Role as conscientious ‘steward’ of people’s pensions means a focus on capital growth and makes protection against losses a priority.</td>
<td>MR: Concern about erosion of capital base (ability to generate income for grantmaking) makes capital preservation, at minimum, a priority.</td>
<td>Demonstrated willingness to forgo some financial return for the sake of impact but typically not prepared to absorb capital losses.</td>
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<tr>
<td>Minimal ‘unknowns’: an understanding of risk factors that are relevant to an investment</td>
<td>Unquantifiable risk</td>
<td>‘A testing the water’ attitude can mean a willingness to venture into uncharted territory, providing capital risk is reduced (see above). However, rigorous internal risk, operational and compliance requirements inhibit initial impact.</td>
<td>Many funds rely on external advisors, who are not incentivised (from a liability and fee perspective) to offer products without track record that can not be benchmarked easily within conventional portfolios.</td>
<td>MR: Unfamiliar products imply trustees play a more active role in decision-making, since ability to calculate risk viewed as core to fiduciary duty (to ensure sufficient income and capital growth for future granting).</td>
<td>For those HNWIs investing directly, willingness to venture into uncharted territory depends on potential for impact ‘upside’.</td>
</tr>
<tr>
<td>Transaction costs in proportion with potential returns</td>
<td>Transaction cost risk</td>
<td>Require sufficiently large capital outlay to justify expenditure on due diligence, structuring and management of impact investments. Preference for cost-sharing with other asset owners.</td>
<td>Size of institutions and emphasis on financial returns has led many to have strict rules about investment size, % holding within fund products and management fees.</td>
<td>MR: Require sufficiently large capital outlay to justify expenditure on due diligence, structuring and management of impact investments.</td>
<td>Willing to tolerate higher transactions costs, providing the cost-benefit ratio* is still superior to a grantmaking approach.</td>
</tr>
<tr>
<td>Sufficiently liquid investments to meet uncertain cash flow demands</td>
<td>Exit risk</td>
<td>Financial institutions investing in debt products are less concerned about liquidity. However, capital requirements (both Basel III and Insolvency II) include investment liquidity considerations, so additional capital may be required for less liquid and unrated investments.</td>
<td>Long-term investment strategy means liquidity not a top priority, although exit path must be clearly defined.</td>
<td>MR: Liquidity not a priority (buy-to-hold investments have a place in these portfolios).</td>
<td>While buy-to-hold investments have a place in these portfolios, flexibility to sell a security can be key requirement for advisors considering whether to invest a client’s money.</td>
</tr>
<tr>
<td>Impact evidence that is sufficiently robust to justify diversion of funds from other opportunities</td>
<td>Impact risk</td>
<td>Impact performance has to be sufficiently compelling to justify transaction costs (see Transaction cost risk above).</td>
<td>Protecting against the reputational risk of poor impact performance often viewed as priority.</td>
<td>Critical that impact performance is sufficiently cost-effective to justify transaction costs of capital, i.e. to justify diverting funds from existing ‘tired and tested’ investments that optimise surpluses for grantmaking (MRI).</td>
<td>Impact performance must be sufficiently compelling to justify transaction costs. Advisors will also consider credible impact performance as key to product offering for clients (impact risk therefore linked to reputational risk).</td>
</tr>
</tbody>
</table>

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1. Investments made by foundations that seek to achieve specific social and/or environmental goals while targeting market-rate financial returns comparable to similar non-impact focused investments.
2. Investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs must meet specific requirements under the federal tax code in order to qualify: a PRI must be primarily for a charitable purpose, and may not be used for retirement purposes.
3. The obligation to act in the best financial interest of the client.
4. The level of impact benefit created relative to the level of cost incurred.
5. The obligation to act in the best financial interest of the client.
6. The obligation to act in the best financial interest of the client.

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<table>
<thead>
<tr>
<th>Banks</th>
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<th>Family Offices &amp; HNWIs</th>
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<td>Demonstrated willingness to forgo some financial return for the sake of impact but typically not prepared to absorb capital losses.</td>
<td>Generally wealth is for retirement purposes or for the next generation, making capital preservation, at a minimum, a priority.</td>
</tr>
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6. The obligation to act in the best financial interest of the client.
If these various risk factors are deterring more investors from entering the impact investment market, how can they best be mitigated? What product features can be introduced to ‘de-risk’ impact investment products?

Through interviews with a wide range of practitioners, we identified 7 key de-risking features.

**DOWNSIDE PROTECTION**

‘Downside protection’ is broadly defined as a feature that limits the potential financial loss for an investor in the event of poor investment performance. In a classic risk-reward approach, downside protection occurs when issuers establish a capital ‘stack’ – for example, junior equity might provide the first layer of downside protection, preferred equity or mezzanine debt the second and senior debt the third, representing the top of the capital stack. Each ‘layer’ is conditioned by the fact that their potential financial returns from the underlying investment are commensurate with the risk they are taking.

There are cases, however, where the financial risk-reward profile of the underlying investment does not lend itself to a capital stack. Perhaps the investment’s potential financial return is not sufficient (or perceived to be sufficient) to attract investors to form a lower layer, or perhaps the lower-risk investor needs even more protection than the lower layer(s) can provide. In such cases, it is possible to synthetically build forms of downside protection into the product in order to help accommodate the lower-risk investor, who could otherwise not participate. One version of this is collateralisation, where an asset is pledged as security in the event of poor repayment. Collateral can take the form of specific assets (e.g. real estate), pools of assets (such as mortgage-backed securities), promissory notes or deposit accounts. Other versions include third party guarantees, the use of impact-first capital to absorb first losses, insurance and tax benefits.

These downside protection mechanisms can prove a particularly relevant and cost-effective tool for the impact-first investor, whose prioritisation of impact means that they can ‘flex’ the financial risk-reward profile of their own investment just enough to attract lower-risk capital that could not otherwise participate. By catalysing a capital stack, the impact-first investor can channel more capital to their target social outcomes, significantly furthering their impact.

**BUNDLING**

Bundled products offer asset owners the opportunity to buy a single product that comprises two or more different underlying investments. A good example of this is a traditional fund structure, which allows an investor to place capital with an intermediary, who spreads the risk across multiple underlying investments. Our definition would go further than this, defining ‘bundled’ as the deliberate aggregation of product that is sufficiently dissimilar in profile in order to provide diversification. For example, an intermediary could construct a multi-asset portfolio with property-backed debt balancing higher-risk equity investments, or with liquid product balancing illiquid. Alternatively, an intermediary could bundle a range of investments that are of the same asset class but create exposure to sufficiently different sectors or geographies.

**TRACK RECORD**

Of all features, track record – both financial and social – is the most inherent, and also the most challenging in the impact investment industry. While there are examples of products that have already built up an impressive track record, a relatively fragmented and small-scale industry will necessarily have a limited track record.

At the same time, there are increasing examples of well-established managers (with strong track records in investing strategies) starting to partner with impact investment experts (either through joint ventures or by bringing the impact analysis skills in-house). There are also cases where existing impact investors, with a track record of delivering one kind of impact investment product, are adding new products to their existing platform, which draw on their core skill set of combining financial and social returns. First-time fund managers (or first-time products) can build credibility with investors by ‘bolting on’ to an existing platform (benefitting from the experience, networks and ‘back-end’), rather than starting from scratch.

While these strategies do not create a track record in its pure sense (since the full team has not worked together before or the manager has not executed against the precise strategy before), the presence of team members who have worked together for a long time, with brand recognition, can provide comfort to some asset owners. Finally, in a young market as this, the track record and credibility of co-investors can also help to de-risk an overall investment proposition.

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1. For a detailed discussion of this feature, see Catalytic First Loss Capital (2019, October 2013).
2. A type of credit enhancement in which a third party agrees to make good on the event that the company or person who has promised to make the payment defaults.
3. For a detailed discussion of this feature, see Catalytic First Loss Capital (2019, October 2013).
LIQUIDITY

Liquidity (or illiquidity) is a more inherent feature of each asset class, although there are increasingly creative ways that investors are enhancing illiquid products with more liquid features. We define a liquid impact investment as any product that is tradable on a platform, where the platform may be a widely used exchange or a smaller listing that matches buyers with sellers by providing detailed product information (including financial and impact track record, as well as associated risks). Liquidity can be influenced by a range of factors, including the quality and type of legal documentation, the number of trading platforms and market-makers, transaction costs and overall market transparency.

TECHNICAL ASSISTANCE

Technical assistance can be a de-risker of product performance and can take a variety of forms, including: improving financial controls, upgrading management information systems, training staff, improving corporate governance, financing riskier business development activities (e.g. to test new markets), providing impact assessment training and implementing systems or procedures essential to exit. In some cases, such technical assistance is provided as part of day-to-day investment management (and a higher management fee is often required as a result). However, it is also increasingly separated out and provided through a ‘sider’ vehicle (often funded by grants), which is tailored to the specific needs of the product.

In addition, our research also highlighted an interesting variation of technical assistance provision: the increasing number of impact investment products that are part of a larger investment management platform, where a new product can benefit from an experienced ‘headquarters’, which provides standardised best practice support, either global or regional (and often cross-fertilised), across the platform.

PLACEMENT & DISTRIBUTION

A product with placement and distribution is backed by an advisor who can communicate and demystify the product to unfamiliar audiences (providing useful comparators, as well as contextualising the product within the asset owner’s overall portfolio). The ideal advisor also has a wide distribution network. While there are some specialist advisors emerging, effective placement and distribution can also occur when a product is marketed by a credible, well-known brand name. For larger transactions, as with mainstream markets, a number of advisors or underwriters will need to work together to sell the investment, and potentially take responsibility for managing the ongoing liquidity needs.

IMPACT EVIDENCE

A product with impact evidence has defined an impact strategy together with its stakeholders and worked collaboratively, using a credible methodology, to track progress against the expectations set. Impact evidence is most robust when the product’s method of intervention is well-understood and is supported by a randomised control trial (or other scientific study) that demonstrates the causal link between the intervention’s outputs and the asset owner’s target social outcomes. Since this level of evidence is typically far too costly for earlier-stage impact investments, a credible methodology will combine primary research (such as customer surveys, stakeholder feedback forums and qualitative interviews/case studies) with reasonable efforts to analyse additionality (that the positive change would not have occurred anyway). Products with strong impact evidence also demonstrate an understanding of their costs to deliver the target outcomes, which can be benchmarked against other comparable approaches. This cost-effectiveness analysis is particularly important for the impact-first investor, who wants their foregone financial return to address a social issue as efficiently as possible.

Finally, a product with strong impact evidence focuses not just on its target outcomes but also on its wider stakeholder impacts, in order to spot and manage any negative unintended consequences or externalities and, ideally, turn these into value creation opportunities. In this respect, lower-risk impact investment products overlap with those other responsible and sustainable investment products that deeply integrate Environmental, Social and Governance factors (ESG) into their investment management.

11 A study design that randomly assigns participants into an experimental group or a control group. As the study is conducted, the only expected difference between the control and experimental groups in a randomised controlled trial (RCT) is the outcome variable being studied.
Taking an empirical approach, our research considered a wide variety of impact investment products that are employing, or starting to employ, these de-risking features.

We have selected 20 products, chosen for their various combinations of features. Drawn from around the world and across asset classes, this ‘catalogue’ provides real world examples of de-risking features at-work.

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.

### De-risking catalogue

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Geo of Impact</th>
<th>Example Product</th>
<th>Annualised Return Target</th>
<th>Downside Protection</th>
<th>Bundling</th>
<th>Track Record</th>
<th>Liquidity</th>
<th>Technical Assistance</th>
<th>Placement &amp; Distribution</th>
<th>Impact Evidence</th>
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<tbody>
<tr>
<td>Cash</td>
<td>USA</td>
<td>Hope Credit Union</td>
<td>N/A</td>
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<tr>
<td>Cash</td>
<td>USA</td>
<td>Southern Bancorp Depository Institution</td>
<td>N/A</td>
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<tr>
<td>Debt</td>
<td>USA</td>
<td>California FreshWorks Fund – Senior debt</td>
<td>ISDA® mid-market swap rate plus 225-275 bps to investors</td>
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<td>Debt</td>
<td>USA</td>
<td>Calvert Foundation Community Investment Notes</td>
<td>0.3% to investors</td>
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<tr>
<td>Debt</td>
<td>USA</td>
<td>Community Capital Management CRA Qualified Investment Fund</td>
<td>4.65% annualized since inception (6/30/99) for CRA investor shares</td>
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<td>Debt</td>
<td>Global</td>
<td>Finethic</td>
<td>4.6% net to investors</td>
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<tr>
<td>Debt</td>
<td>Global</td>
<td>Gates Global Health Investment Fund – Senior tranche</td>
<td>7% net return to the fund</td>
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<td>Debt</td>
<td>UK</td>
<td>Golden Lane Housing Bond</td>
<td>4% to investors</td>
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<td>Debt</td>
<td>USA</td>
<td>Habitat for Humanity’s FlexCAP Notes</td>
<td>3.0-4.25% to investors</td>
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<tr>
<td>Debt</td>
<td>India</td>
<td>IFMR Multi Originator Securitisation (Mosec™)</td>
<td>N/A</td>
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<tr>
<td>Debt</td>
<td>Asia</td>
<td>Microfinance Initiative for Asia Debt Fund – Senior debt</td>
<td>4% to investors</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Debt</td>
<td>USA</td>
<td>New York City Acquisition Fund – Senior debt</td>
<td>3% to investors</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Debt</td>
<td>UK</td>
<td>Scope Bond</td>
<td>2% to investors</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Debt</td>
<td>UK</td>
<td>Threadneedle UK Social Bond Fund</td>
<td>In line with a UK corporate bond index¹²</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Equities</td>
<td>UK</td>
<td>Good Energy Transferable Shares</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Equities</td>
<td>UK</td>
<td>Triodos Renewables Ordinary Shares</td>
<td>9-10% to investors</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>Africa</td>
<td>African Agriculture Capital Fund – Senior tranche</td>
<td>15% annual gross compounded return</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Social Impact Bond</td>
<td>USA</td>
<td>Social Finance NY State Workforce Re-entry 2013 LLC – A-1 tranche</td>
<td>Up to 12.5% dependent on social outcomes</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Social Impact Bond</td>
<td>Australia</td>
<td>Westpac Social Benefit Bond – Senior tranche</td>
<td>Up to 10% dependent on social outcomes</td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

### Key

- **Downside Protection**: 100% protection of principal or some features that provide partial principal loss protection
- **Track Record**: Track record of product and manager greater than 10 years or track record of product and/or manager 5-10 years
- **Liquidity**: On-demand liquidity, typically through established exchange or featured on a marketplace that connects buyers and sellers on a ‘matched bargain’ basis, or provides some liquidity through allowing redemptions
- **Bundled**: Bundled
- **Placement and Distribution**: Wide placement and distribution by credible brand name
- **Technical Assistance**: Technical assistance facility provided alongside investment product
- **Impact Evidence**: Credible assessment methodology, plus third party verification or objective measurement of outcomes

¹² Such as Merrill Lynch £ Non Gilt Index currently yielding 4% p.a.
Recommendations

How can we encourage the use of these product features to mitigate risk?
Below we summarise the ‘de-risking toolkit’ for product developers, followed by recommendations for how asset owners, government and advisors can help accelerate the adoption of these de-risking features in the market.

With each recommendation, we provide a real world example, where steps are already being taken, that may provide inspiration.

Recommendations for Product Developers: ‘The De-risking Toolkit’

<table>
<thead>
<tr>
<th>Risk factor</th>
<th>De-risking product feature(s)</th>
<th>Example</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPITAL RISK</td>
<td>DOWNSIDE PROTECTION: • Collateralisation • First loss / Guarantees • Insurance</td>
<td>Habitat for Humanity International’s bond product FlexCAP uses both a cash reserve and a</td>
<td>Habitat for Humanity International’s bond product FlexCAP uses both a cash reserve and a</td>
</tr>
<tr>
<td></td>
<td>BUNDLING: • Diversification through a multi-asset portfolio • Diversification through a range of investments that are of the same asset class but create exposure to sufficiently diverse sectors or geographies</td>
<td>guarantee mechanism to lower risk for a range of investors, including pension funds, insurance companies and banks. In addition, FlexCAP’s notes are secured by a collateral assignment of general obligation notes from Habitat affiliates.</td>
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<tr>
<td>LIQUIDITY</td>
<td>Listed on a widely used exchange • Listed on a secondary market that matches buyers with sellers • Documentation that facilitates easy ownership transfer • Larger deal size (see also Bundling)</td>
<td>The disability charity Scope has issued a bond programme, which is listed and trades on the</td>
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<tr>
<td>EXIT RISK</td>
<td></td>
<td>Euro MTF market in Luxembourg offering daily liquidity, while also being listed on the UK’s Social Stock Exchange. It should be noted, however, that its current small scale inhibits liquidity.</td>
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<td>Finethic Microfinance S.C.A., SKAV-SIF microfinance sub-fund is a microfinance investment vehicle (MIV) that bundles a wide range of loans diversified by country, region, institution, and investment size. It was created in 2006 with the institutional investor in mind, and is currently $161M in size.</td>
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<td>The UK Social Bond Fund has been set up by Big Issue Invest, bringing social impact expertise, in partnership with Threadneedle, which brings a strong track record in investing as the UK’s 4th largest retail fund manager.</td>
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<td>• Inclusion on advisory platforms • Backing by credible brand name with wide networks, e.g. large banks</td>
<td>Westpac’s Social Benefit Bond, focused on reducing the number of children entering the foster care system, was effectively arranged and placed by two leading Australian banks, Westpac and Commonwealth.</td>
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<td>• ‘Smart subsidy’ vehicles • Best practice ‘cross-fertilisation’ through multi-fund platform</td>
<td>The United States Agency for International Development (USAID) has contributed a $1.5m grant to fund a Technical Assistance facility that sits alongside the African Agricultural Capital Fund.</td>
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<td>IMPACT EVIDENCE</td>
<td>• Clear impact strategy and credible assessment methodology • Cost-effectiveness of product relative to comparable options</td>
<td>Golden Lane Housing’s bond supports specialized housing to disabled populations. The organization measures its impact on the people who have moved into its housing through a progression tool based on Mencap’s ‘What Matters to Me’ framework that allows it to report on the long-term outcomes that the move has made in terms of quality of life and independence of the tenants. It also considers financial impact – identifying the cost to the public purse of moving into a property purchased with bond monies versus alternative housing.</td>
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</tr>
</tbody>
</table>
### Recommendations for Asset Owners

#### Risk factor: Capital Risk

**De-risking product feature(s):**

- **Multi-layer investing:** In addition to catalysing a ‘capital stack’ for third-party investors, we encourage asset owners to consider using their grant or programme-related funding to provide downside protection for their own endowment allocation, which can then invest in a more senior tranche of the same project. In this scenario, the risk to the asset owner may be no more than if it had used only grant funding to support the initiative but it can allocate a far larger amount of capital to achieving its target social outcomes. For the foundation ‘arms’ of banks and other corporates, this may also be a way to attract commercial funds from the main corpus. This shift from ‘two pocket’ thinking to a thoughtful and strategic application of an asset owner’s entire capital base is proving a smart way to leverage impact.

- **Portfolio construction:** Until there is a wider choice of well-diversified investment products, we encourage asset owners to construct bundled portfolios with products that provide diversified financial and impact exposure.

#### Risk factor: Transaction Cost Risk

**De-risking product feature(s):**

- **Regulatory and technical assistance:** To encourage product developers to bring opportunities forward on a sufficient scale to match the investment allocations pension funds need to impact, relative to comparable options. For example, many asset owners (such as large banks) already donate substantial sums of money to charities and local communities and also lend for impact. However, these approaches are not always ‘joined up’ as part of an overall impact strategy that looks to optimise cost-effectiveness of impact. We encourage, indeed challenge, asset owners to take steps to evidence the cost-effectiveness of all aspects of their giving and social investing in order to develop a coherent optimal approach. This recommendation may also prompt asset owners to consider the ‘multi-layering’ recommendation described above.

#### Risk factor: Unquantifiable Risk

**De-risking product feature(s):**

- **Technical assistance:** In 2011, the Grassroots Business Fund (GBF) successfully closed a USD$69m private investment fund alongside an additional USD$11.5m in grants from donors to benefit the non-profit arm of GBF, which has been set up to provide business advisory services to clients in the fund, with a particular focus on enhancing financial and strategic planning, corporate governance, human resource management, marketing, supply chain management, and management information systems (MIS). While these products may not have formal credit ratings, if publicly rated entities stand behind the cash flows, this helps to support the credit analysis. The growth of ‘use of proceeds’ bonds, most specifically the World Bank Green Bonds, is helping attract investors to support high impact outcomes from specific projects, while enjoying the support of the umbrella credit rating of the issuing entity.

### Risk factor: Track Record

**De-risking product feature(s):**

- **Civic.org** (a US-based school facilities developer working with underserved communities) uses grant capital to provide credit enhancements for Civic’s charter school capital projects. For example, for the Democracy Prep Charter School, Civic used a USD $300,000 grant to provide first loss protection for its additional – USD $1.4m equity investment.

### Example

**Example 1:** The KL Felicitas Foundation (KLF) now has 85% of its asset base allocated to impact, diversified across all asset classes and a wide range of societal outcomes. In order to achieve index-competitive, risk-adjusted returns, KLF has made a particular effort to avoid overexposure to any particular theme, sector, manager or company – sometimes even allocating to cash, cash equivalents or short-term debt when the desired exposures could not be matched with acceptable impact investments.

**Example 2:** In 2011, five local UK government pension funds published an expression of interest advert in the Financial Times, stating that they were looking for opportunities that satisfy both financial and societal needs to challenge asset managers to bring opportunities forward on a sufficient scale to match the investment allocations pension funds are prepared to commit.†

> http://blueandgreentomorrow.com/2013/05/24/uk-pension-funds-to-look-at-social-impact-investment

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† The International Finance Facility for Immunisation (IFFIm) uses long-term pledges from donor governments to help market ‘vaccine bonds’ in the capital markets, making large volumes of funds immediately available for the Global Alliance for Vaccines and Immunisation (GAVI) programmes. With the World Bank as its treasury manager, the bonds hold an AA rating, allowing IFFIm to raise more than USD $3.5 billion to date from both institutional and individual investors seeking a market-rate financial return alongside social impact.
### Recommendations for ‘Match-makers’

<table>
<thead>
<tr>
<th>Risk factor</th>
<th>De-risking product feature(s)</th>
</tr>
</thead>
</table>
| **DOWNSIDE PROTECTION**

**Government as a catalyst.** There are increasing examples from around the world that the government is well-positioned to bring stakeholders together and provide encouragement. Government can play a catalytic role at a local, regional, national and even international level. For example, at an international level, USAID has a partnership with Acumen to provide a 50% loss guarantee (pay-pass, not first loss) to local banks to lend to Acumen investees. With this downside protection, the investor has a downside loss protection of 65p in the £1 invested. The introduction of such a scheme for impact investments more broadly would represent a compelling adaptation of this existing scheme.

**Capital risk.** Governments can provide downside protection through tax schemes. While tax incentives are often used to enhance upside (such as capital gains relief), they can also provide downside protection, enabling investors to take a risk in the event of loss. For example, the UK’s Enterprise Investment Scheme (EIS) allows for capital loss on EIS shares to be set against income in the year the loss arises. For a high tax rate payee this equates to 35% of the EIS shares. Combined with income tax relief, the investor has a downside loss protection of 65p in the £1 invested. The introduction of such a scheme for impact investments more broadly would represent a compelling adaptation of this existing scheme.

As well as participating directly in capital stacks, governments can play a key role in clarifying the regulatory considerations when providing downside protection. This will enable trustees of foundations to allocate with confidence, rather than concern over conflict with fiduciary duty.

**LIQUIDITY**

Secondary markets; liquidity ‘back-stops’. The presence of a vibrant secondary market for impact investments would provide comfort to investors that they could sell a security, even though they may be unlikely to exercise the right. In order to catalyse the growth of secondary markets, we encourage governments to work with intermediaries to help develop innovative liquidity back-stop guarantee schemes, as well as encouraging more market-makers to come forward. Issuers seeking larger amounts can consider using multiple underwriters, who can work together to both share risk and be prepared to invest in developing the market.

Example

**EXIT RISK**

We encourage government in combination with philanthropists and social investors, to catalyse private placement platforms for the sector. These can showcase a wide range of products, as well as provide a ‘pre-screening’ service, which will help de-mystify impact investments and better allow investors to compare and benchmark. Big Society Capital in the UK and similar models in countries like Australia and the US are well-positioned to provide support to these infrastructure developments.

**UNQUANTIFIABLE RISK**

**TECHNICAL ASSISTANCE**

Investment-readiness. Governments, as well as philanthropists, are well-positioned to provide technical assistance funding – both for frontline enterprises and for impact investment intermediaries such as fund managers. To help address investor concerns about the availability of suitable investment opportunities in a nascent market, the government is particularly well-positioned to provide technical assistance pre-investment (otherwise known as ‘investment-readiness funding’).

Example

**TRACK RECORD**

Specialise and collaborate. Specialist knowledge of the impact investment market will enable advisors to identify products with track record more easily, as well as to situate newer products alongside comparable opportunities in clients’ portfolios, which will go a long way to helping mitigate perceived risk factors. While there are increasing specialist teams on the ESG front, the group of impact investment specialist advisors remains small. With bigger financial firms interested but often unmoored by the slivers of demand they observe, and with specialists often better poised to handle these needs, there may be an opportunity to create ‘win-win’ commercial arrangements between big institutions and specialists.

Example

### Risk factor

<table>
<thead>
<tr>
<th>De-risking product feature(s)</th>
</tr>
</thead>
</table>

- **Example**
- **Example**
- **Example**
- **Example**
- **Example**

### De-risking product feature(s)

- **Example**
- **Example**
- **Example**
- **Example**
- **Example**
Concluding remarks

This report has sought to clarify the risk factors most especially associated with impact investment and to provide a de-risking toolkit for mitigating them. In doing so, we in no way recommend that de-risked products should be introduced at the expense of higher risk ones – this is about broadening capital flows.

We do, however, hope that this toolkit sparks a practical dialogue between asset owners and product developers, so that investors previously deterred from the market by risk can participate and impact-driven organisations can access the capital they urgently need. Through a range of examples, we also hope to have provided a glimpse of the powerful role that government and advisors can play to de-risk the industry and match supply with demand.

Finally, through the many case studies provided here, which showcase innovative de-risking efforts at-work around the world, we hope this report highlights the importance of drawing on our global collective learning as we seek to grow the market.

Methodology

This report was created after original interviews with a wide range of sector participants, as well as an extensive review of existing literature on impact investment. It reflects more than 70 interviews conducted with a range of product developers, advisors and asset owners about their experiences with impact investment. The interviews focused on identifying key risk factors especially associated with impact investments, as well as relevant mitigation strategies. The interviews were subsequently translated into a ‘de-risking toolkit’ aimed at product developers, along with recommendations for how asset owners, government and advisors can help accelerate the adoption of de-risking features in the market.

The report takes an empirical approach by providing a catalogue of 20 real-world case studies that provide concrete examples of de-risking features at-work. All cases selected are from existing investment products (with some much newer than others) and were chosen for their various combinations of asset class, de-risking features and impact. The Appendix to the report provides detailed case studies for each of the products described in the Catalogue. 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.

This paper contains general information only. Nothing in this paper constitutes investment advice. You should consult a suitably qualified financial services or legal expert on any specific issues or matters.

Appendix – catalogue of product

Ecology Building Society's Foundations Share Account
Liquid savings account to support green properties

<table>
<thead>
<tr>
<th>Cash Deposits</th>
<th>Debt</th>
<th>Public Equity</th>
<th>Private Equity</th>
<th>Social Impact Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downside Protection</td>
<td>Description: Ecology Building Society is a U.K. mutual organisation that offers sustainable mortgages for properties and projects that respect the environment. Mortgages are funded through the organization’s range of savings accounts, including the Foundations Share Account. All savers in the Foundations Share Account (become members of the Society and subject to conditions) have voting rights.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Placement &amp; Distribution</td>
<td>Impact: Ecology is committed to building a greener society. Its activities promote:</td>
<td></td>
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</tr>
<tr>
<td>Bundled Product</td>
<td>• The saving of non-renewable energy or other scarce resources</td>
<td></td>
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</tr>
<tr>
<td>Technical Assistance</td>
<td>• The growth of a sustainable housing stock</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>• The development of building practices, ways of living or uses of land which have a low ecological impact.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact Evidence</td>
<td>Size: N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Track Record</td>
<td>Minimum Investment: £25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target Returns: Current interest rate 1.00% AER/Gross p.a. (0.80% Net p.a.)</td>
<td></td>
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Hope Credit Union
Liquid cash deposits to support U.S. community development

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<tr>
<td>Placement &amp; Distribution</td>
<td>Impact: Hope aims to strengthen communities, and has brought more than $1.7bn in financing and economic opportunities to over 400,000 people in economically distressed areas of the Mid South since 1994.</td>
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<tr>
<td>Bundled Product</td>
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<tr>
<td>Technical Assistance</td>
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<tr>
<td>Liquidity</td>
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<tr>
<td>Impact Evidence</td>
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<tr>
<td>Track Record</td>
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</tbody>
</table>

De-risked Product Features

Downside Protection: Federally-insured by the National Credit Union Administration

Liquidity: Deposits are liquid

Track Record: Hope Credit Union has a 19 year track record in community development banking

Impact Evidence: HOPE has an extensive policy and evaluation expertise that allow it to effectively monitor and report on the organization's impact. Through publicly available resources and member surveys, HOPE measures environmental conditions and the outcomes it creates for credit union members. Key performance indicators include # of consumers, mortgage and small business loans and # of member owners.
California FreshWorks Fund – Senior Debt
Senior debt in public-private partnership loan fund to support healthy foods

<table>
<thead>
<tr>
<th>Downside Protection</th>
<th>Placement &amp; Distribution</th>
<th>Bundled Product</th>
<th>Technical Assistance</th>
<th>Liquidity</th>
<th>Impact Evidence</th>
<th>Track Record</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description: The California FreshWorks Fund (CAFWF) is a public-private partnership loan fund which finances grocery stores and other forms of fresh food retail and distribution in underserved communities throughout California. The fund also provides grants on a limited basis and for targeted activities. The fund was created in partnership with The California Endowment, NCB Capital Impact, J.P. Morgan Chase and other community, industry and government partners.</td>
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<tr>
<td>Impact: The fund's impact is three-fold: 1. Increase access to healthy food as a means to improve health outcomes 2. Spur economic development that supports healthy communities 3. Encourage innovation in healthy food retailing and distribution</td>
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<tr>
<td>Size: $125M fund size with $100M in senior debt</td>
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<tr>
<td>Terms: All-in tenor 13 years. Facility features 3-year Draw Period. Each Project Loan can have a term of up to 10 years</td>
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<tr>
<td>Target Returns: USDA mid-market swap rate plus 225-275 bps</td>
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<tr>
<td>De-risked Product Features</td>
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<tr>
<td>Downside Protection: The loan fund is composed of $100M in senior debt, $25M in sub-debt provided by mission-driven investors, including Calvert Foundation, NCB Capital Impact, and the California Endowment (TCE), and $7.5M in first-loss capital in the form of grants from J.P. Morgan Chase Foundation, TCE, and the CDFI Fund. In addition, lenders are secured by an assignment of the collateral securing the underlying loans from FreshWorks Fund.</td>
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<tr>
<td>Placement &amp; Distribution: Deal structuring and syndication of senior debt led by J.P. Morgan Chase.</td>
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Community Capital Management CRA Qualified Investment Fund
U.S. fixed-income fund with a focus on community development

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<thead>
<tr>
<th>Downside Protection</th>
<th>Placement &amp; Distribution</th>
<th>Bundled Product</th>
<th>Technical Assistance</th>
<th>Liquidity</th>
<th>Impact Evidence</th>
<th>Track Record</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description: Community Capital Management CRA Qualified Investment Fund is a U.S. fixed-income fund with a focus on community development. The Fund’s investment objective is to provide a high level of current income consistent with the preservation of capital by investing in community development initiatives that are deemed to be qualified under the U.S. Community Reinvestment Act of 1977. These include investments in single-family, multi-family, and economic development loan-backed securities.</td>
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<tr>
<td>Impact: The Fund focuses on community development initiatives that serve low and moderate-income individuals and families, and underserved and distressed areas. Recent investments include a low-income housing tax credit investment for seniors, and a municipally backed bond to finance loans for energy audits and efficiency improvements.</td>
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<tr>
<td>Size: $15bn (at 12/31/13)</td>
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<td>Minimum Investment: $300,000 for CRA and Institutional Investors and $250,000 for retail investors</td>
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<tr>
<td>Target Returns: 4.55% annualized since inception (8/30/99) for the CRA investor shares</td>
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Finethic
Established and liquid global microfinance investment vehicle

**De-risked Product Features**
- Track Record: Unparalleled i.e. 86 straight months of positive returns since inception (October 2006), net annualised return 5% p.a. in USD.
- Funds (Manager) manages investments for leading pension funds.
- Advisor (Gembolsta) has brokered >$1bn in microfinance investment in >200 MFI's in >100 countries.
- Liquidity: 90 working day liquidity.
- Bundled product: Finethic is well-diversified by country, region, institution, and investment size.
- De-risking Feature: Bridges Ventures | Bank of America.

**Target Returns:**
- 7%+ p.a. net return to the fund
- 4-6% p.a. net to investors

Gates Global Health Investment Fund – Senior tranche
High-impact healthcare mezz fund with innovative 60% loss guarantee

**Description:** New investment vehicle with innovative 60% loss guarantees by the Gates Foundation that provides mezzanine debt financing to advance the development of drugs, vaccines, diagnostics and other interventions for diseases that disproportionately burden low-income countries.

**Placement & Distribution:** The fund was structured by J.P. Morgan Chase and the Bill and Melinda Gates Foundation with anchor support from Grand Challenges Canada, the German Ministry of Economic Cooperation and Development, and the Children's Investment Fund Foundation. They see the fund as a cutting-edge alternative to traditional grant-based funding for global health.

**Impact:** Gates Foundation and Sida of Sweden have committed to cover aggregate first losses of the Fund, up to 20% of invested capital, and will share in any aggregate losses in a ratio of 50% to the Foundation and 50% to investors. This provides downside protection of up to 60% to a potential investor.

**De-risked Product Features**
- Track Record: Lion’s Head Global Partners via LHGP Asset Management LLP is the fund’s investment manager, having advised and structured the fund. They have extensive experience in the area, with principals including members from the team responsible for the design and execution of the IMF immunization bond.
- Impact Evidence: GHI's key social performance metrics are number of new treatments by providing critical capital.

**Downside Protection**
- Description: New investment vehicle with innovative 60% loss guarantees by the Gates Foundation that provides mezzanine debt financing to advance the development of drugs, vaccines, diagnostics and other interventions for diseases that disproportionately burden low-income countries.

**Placement & Distribution:**
- The fund was structured by J.P. Morgan Chase and the Bill and Melinda Gates Foundation with anchor support from Grand Challenges Canada, the German Ministry of Economic Cooperation and Development, and the Children’s Investment Fund Foundation.
- They see the fund as a cutting-edge alternative to traditional grant-based funding for global health.

**Impact:** There is an urgent need for new and affordable interventions in low-income countries, as an estimated 15 million people still die every year from infectious diseases, maternal, infant and child health issues, and nutritional deficiencies. The Fund hopes to accelerate the pathway of maternal, infant and child health issues, and nutritional deficiencies. The Fund hopes to accelerate the pathway of maternal, infant and child health issues, and nutritional deficiencies.

**De-risked Product Features**
- Track Record: Habitat for Humanity International is a non-profit Christian organization that aims to accelerate home ownership in partnership with low-income families globally. In the U.S., it works through local affiliates which coordinate all aspects of home building in their local areas including fundraising, building site selection, partner family selection, house construction, and mortgage servicing on its no-profit mortgages. A Habitat affiliate’s most valuable asset is the mortgage portfolio it develops from selling homes to partner families.
- In the U.S., Habitat administers the Flexible Capital Access Program (FlexCAP), which allows affiliates to borrow against a selected mortgage in their portfolios, generating funding to serve more families. Habitat issues notes to investors which are secured by a collateral assignment of general obligation notes from participating Habitat affiliates.

**Habitat for Humanity’s FlexCAP Notes**
Collateralized notes to support low-income housing with downside protection

**Description:** FlexCAP Note investors receive semi-annual reports on social impact. X% includes: Number of homes built, repaired, rehabilitated. Number of people housed. Number of women and children housed.

<table>
<thead>
<tr>
<th>Cash Deposits</th>
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<th>Public Equity</th>
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<tr>
<td><strong>Downside Protection</strong></td>
<td>De-risked Product Features</td>
<td>Social Impact Bond</td>
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<tr>
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<td>Impact Evidence: Habitat’s vision is a world where everyone has a decent place to live.</td>
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<tr>
<td>Bundled Product</td>
<td>Notes are full recourse obligations of the Notes Issuer.</td>
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<tr>
<td>Technical Assistance</td>
<td>Each affiliate must deposit in a cash reserve account an amount equal to one quarterly payment under its FlexCAP loan.</td>
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<tr>
<td>Liquidity</td>
<td>Notes are full recourse obligations of the Notes Issuer.</td>
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<tr>
<td>Placement &amp; Distribution</td>
<td>Track Record: Since FlexCAP’s inception in 1997, the program has had a 100 percent repayment rate.</td>
<td>Impact Evidence: FlexCAP Note investors receive semi-annual reports on social impact. X% includes: Number of homes built, repaired, rehabilitated. Number of people housed. Number of women and children housed.</td>
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**Habitat for Humanity’s FlexCAP Notes**
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IFMR Multi Originator Securitisation (Mosec™)

Pioneering multi originator securitisation in Microfinance in India

MIFA Debt Fund – Senior debt

**Description:** The New York City Acquisition Fund (NYCAF) was formed in 2006 to provide loans to overcome the shortage of property available for affordable housing in New York City. The fund provides flexible, advantageous capital for the acquisition of properties developed by affordable housing companies who either refurbish existing units or engage in new construction of affordable housing.

**Impact:** The fund aims to address the low-cost housing shortage in New York. To date, it has supported the creation or preservation of over 6,000 units. The fund has also had catalytic impact, spurring the creation of similar funds in Los Angeles, Atlanta, and Louisiana.

**Size:** $153.8M with $125M provided by the bank consortium and the balance provided by the City of New York and allied foundations including the Robin Hood Foundation, MacArthur Foundation, and the Rockefeller Foundation.

**Investment Range:** $4.5M-$20M

**Terms:** 3 years

**Target Returns:** PRI Funds: 1.4% annually; Senior Lenders: 3% annually

**De-risked Product Features**

- Downside Protection: A bankruptcy provision by investors in case of insolvency of the originator.
- Placement & Distribution: Through effective securitization structure such as tranching and credit enhancement/subordination, IFMR places securities in mainstream capital market.
- Bundled Product: IFMR Capital works to improve access to finance to the financially excluded in India as well as in high impact sectors such as microfinance, SME finance, affordable housing and CV finance.
- Technical Assistance: IFMR Capital has a team of subject matter experts who work with the originators to ensure the usefulness, performance and sustainability of the structure for enabling access to capital for small and medium sized companies.

**Scope Bond**

Liquid charity bond to support the disabled

**Description:** Scope is a private company and registered charity founded in 1952 that exists to make the UK a better place for disabled people and their families. In May 2012, Scope raised £2,000,000 as the first tranche of its £20,000,000 Social Bond Programme. Scope is using proceeds from the bond to invest in sustainable economic streams such as that which is achieved through the increase of new donors and the expansion and refit of charity shops in England and Wales. This additional income will be channelled into non revenue generating activities to support Scope’s beneficiaries.

**Impact Evidence:**

- **Impact:** Scope provides support, advice and information for more than a quarter of a million disabled people and their family members every year. Services range from education and learning to residential care and supporting independent living. Scope’s charity shops are income generating and raise millions of pounds to fund its work with disabled people and their families.

**Size:** £2,000,000

**Minimum Investment:** £25,000

**Terms:** 3 years

**Target Return:** 2% p.a.
**Threadneedle UK Social Bond Fund**

**Description:** The Threadneedle UK Social Bond Fund is a fixed income fund set up by Threadneedle Investments and Big Issue Invest to provide a financial return at the same time as investing in organisations that create social benefits and support more sustainable economic development and job creation in the UK. The fund will be available to both retail, via UK platforms, and institutional investors from January 2014.

**Placement & Distribution:** Threadneedle Investments is the manager of the Fund. Big Issue Invest, the social investment arm of The Big Issue whose mission is to back social enterprises and businesses that help tackle poverty and inequality, developed the Fund’s Social Assessment Methodology and acts as Social Advisor to the Fund.

**Placed Product:** The fund invests in a portfolio of debt instruments across the eight focus sectors in the UK.

**Technical Assistance:**
- **Impact:** The fund’s investments will be focused across eight areas: affordable housing and property, community services, employment and training, financial inclusion, health and social care, transport and communications, and utilities and the environment.
- **Liquidity:** The fund is an Open-ended investment company structure with daily liquidity.
- **Liquidity:**
  - **Size:** £15m at launch
- **Impact Evidence:**
  - **Minimum Investment:** £12,000
  - **Terms:** Daily liquid
- **Target Returns:** In line with a UK corporate bond index such as Merrill Lynch’s FT All Gilts Index currently yielding 4% p.a.

**Downside Protection**
- **De-risked Product Features**
  - **Placement & Distribution:** Distributed by Threadneedle Investments (institutional investors) and through IFAs and platforms (retail investors)
  - **Bundled Product:** The fund invests in its portfolio of debt instruments across the eight focus sectors in the UK.
  - **Liquidity:** The fund is an Open-ended investment company structure with daily liquidity.
  - **Track Record:** Threadneedle Investments, established in 1994, is the 4th largest UK retail fund manager. It has a strong track record in responsible investment and stewardship.

**Placement & Distribution:**
- **De-risked Product Features**
  - **Placement & Distribution:**
    - **De-risked Product Features**
    - **Bundled Product:**
    - **Liquidity:**
    - **Track Record:**

**Good Energy Transferable Shares**

**Description:** The Good Energy Group is a publicly-listed company that aims to lower UK carbon emissions by developing and distributing renewable electricity and gas, increasing the supply of electricity into the UK network by increasing the number of renewable customers. It reduces electricity prices at the wholesale level and provides financial benefits for consumers and investors.

**Technical Assistance:**
- **Impact:** The company’s goal is to be a catalyst for change in the UK energy market, by empowering individuals and businesses to switch to renewable electricity, generate their own renewable power, participate in local community energy initiatives, and use energy more efficiently. It has over 35,000 domestic and commercial electricity customers, 12,000 gas customers, and 55,000 Feed-In-Tariff customers.

**Placed Product:**
- **Validity:** The minimum investment is £100.

**Technical Assistance:**
- **Minimum Investment:** £100

**Liquidity:**
- **Impact Evidence:**
  - **Source:** Ether.

**Track Record:**
- **Description:**
  - **De-risked Product Features**
  - **Liquidity:**
  - **Impact Evidence:**
  - **Size:** £70M

**African Agriculture Capital Fund – Senior tranche**

**Description:** The African Agricultural Capital Fund (AACF) is a private equity fund launched in September 2011 to boost the productivity and profitability of Africa’s under-capitalized agriculture sector. The AACF’s fund will invest equity and bring expertise to at least 20 agriculture-related businesses in East Africa. The fund was established by USAID, in partnership with J.P. Morgan, the Bill & Melinda Gates Foundation, the Gatsby Charitable Foundation, and the Rockefeller Foundation. It is managed by Pearl Capital Partners, a specialized African agricultural investment fund manager based in Kampala, Uganda.

**Technical Assistance:**
- **Impact:** The agriculture sector in East Africa has suffered from significant under-investment and challenges including food inflation and drought. The fund is designed to provide the necessary capital and resources to support sustainable growth in the sector.

**Liquidity:**
- **Target Returns:** 9 to 10% p.a. in the medium term

**Track Record:**
- **Description:**
  - **De-risked Product Features**
  - **Liquidity:**
  - **Impact Evidence:**
  - **Size:** $25M

**Track Record:**
- **Description:** Pearl Capital Partners, established in 2005, manages $46M across three agriculture funds in East Africa.
Social Finance NY State Workforce Re-entry 2013 LLC – A-1 tranche

Social impact partnership to reduce recidivism and improve employment in NY

<table>
<thead>
<tr>
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<th>Private Equity</th>
<th>Social Impact Bond</th>
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<tbody>
<tr>
<td><strong>Downside Protection</strong></td>
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<tr>
<td>Description: The Social Finance NY State Workforce Re-entry 2013 LLC is a pioneering pay-for-success project in New York state that aims to reduce recidivism and improve employment for newly-released prisoners. The fund is a partnership between New York State, Social Finance, Bank of America Merrill Lynch, and the Center for Employment Opportunities. The pay-for-success partnership will fund intensive services to newly-released prisoners. Based on the success of the funded programs, New York State will repay investors’ capital plus a rate of return. The product was sold in class A1 and A2, where the former receive a ‘first-loss’ guarantee equal to approximately 10% of invested capital, and the latter do not get the guarantee.</td>
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<tr>
<td><strong>Placement &amp; Distribution</strong></td>
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<tr>
<td>Impact: In the U.S, 2.26MM adults are in prison, and over 4.8MM adults are under parole or supervision following prison. Over 30% of adults return to prison within 3 years of release. The transaction will fund intensive services in New York to 2,000 high-risk formerly incarcerated individuals. The programs will include training, transitional employment, and permanent job placement with two goals: 1) reducing recidivism, and 2) improving employment. The services will be delivered by the non-profit, Center for Employment Opportunities (CEO).</td>
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<tr>
<td><strong>Technical Assistance</strong></td>
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<tr>
<td>Size: $13.5M</td>
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<td>Minimum Investment: $100,000. Offers to purchase interests in this investment were made pursuant to a private placement memorandum, which contains important information about the risks, performance and other material aspects of the investment.</td>
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<tr>
<td><strong>Impact Evidence</strong></td>
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<tr>
<td>Terms: 5.5 years</td>
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<tr>
<td><strong>Product</strong></td>
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<tr>
<td>Target Returns: Varies based on social outcomes. Max IRR of approximately 12.5%. Investors may lose all of their investment if the program does not meet certain measures of success.</td>
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Westpac Social Benefit Bond – Senior tranche

Australian social benefit bond focused on reducing children entering the foster care system

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<thead>
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<th>Private Equity</th>
<th>Social Impact Bond</th>
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<tbody>
<tr>
<td><strong>Downside Protection</strong></td>
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<tr>
<td>Description: The Social Benefit Bond, launched in June 2012, is arranged by Westpac and the Commonwealth Bank of Australia, in partnership with The Benevolent Society (TBS). The bond will finance the establishment of TBS’s Family Preservation Service. The $10M social benefit bond has two tranches, a $7.5M senior capital-protected component, and a $2.5M junior tranche. The financial return is based on agreed performance outcomes which reflect the money saved by the New South Wales Government from keeping families together.</td>
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<tr>
<td><strong>Placement &amp; Distribution</strong></td>
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<tr>
<td>Impact: The Benevolent Society’s Family Preservation Service (Resilient Families) is expected to support up to 400 families in New South Wales over 5 years by giving them extra help to create safe homes where their children can thrive. The goal of the program is to support families and reduce the number of kids entering the foster care system.</td>
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<tr>
<td><strong>Bundled Product</strong></td>
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<tr>
<td>Size: $10M</td>
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<td>Minimum Investment: $50,000</td>
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<tr>
<td>Terms: 5 years</td>
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<td><strong>Target Returns:</strong> Senior tranche returns range ~ 0% – 10% p.a. Expected (Baseline / Good) – 5% – 6% p.a. Junior tranche returns range ~ Loss of investment – 30% p.a.</td>
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<td><strong>Technical Assistance</strong></td>
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<td><strong>Impact Evidence</strong></td>
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<td><strong>Product</strong></td>
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<td><strong>Placement &amp; Distribution</strong></td>
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<td>Impact Evidence: The Resilient Families program embeds 27 evidence-informed practices which have previously demonstrated better resultant parenting outcomes. Similar, less intensive, programs provided by TBS have demonstrated lower immediate entry rates to NSW foster care (though no evidence to confirm sustainability of outcomes). TBS have the ability to tailor program delivery for maximum impact and receive regular performance data from NSW government. TBS have ‘skin in the game’ – through junior tranche investment. Actual success is measured by matched pairs (where match is not receiving an equivalent service) using government data. Protections included to protect against changes in government policy.</td>
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**De-risked Product Features**

- Downside Protection: The senior $7.5M social benefit bond tranche is capital protected (ie capital to be returned even if program is unsuccessful or TBS defaults). There is also a junior $2.5M tranche, which will be partially funded by TBS, the Westpac Foundation and the Commonwealth Bank of Australia (CBA) and will be marketed to other charitable foundations and philanthropists.

- Placement & Distribution: The bond was arranged and placed by two leading double-A rated Australian banks, Westpac and CBA.

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