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Shifting the Lens

A De-risking Toolkit for Impact Investment

Bridges Ventures

Bank of America Merrill Lynch

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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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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.

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

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': 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-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.

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

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[2] 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]

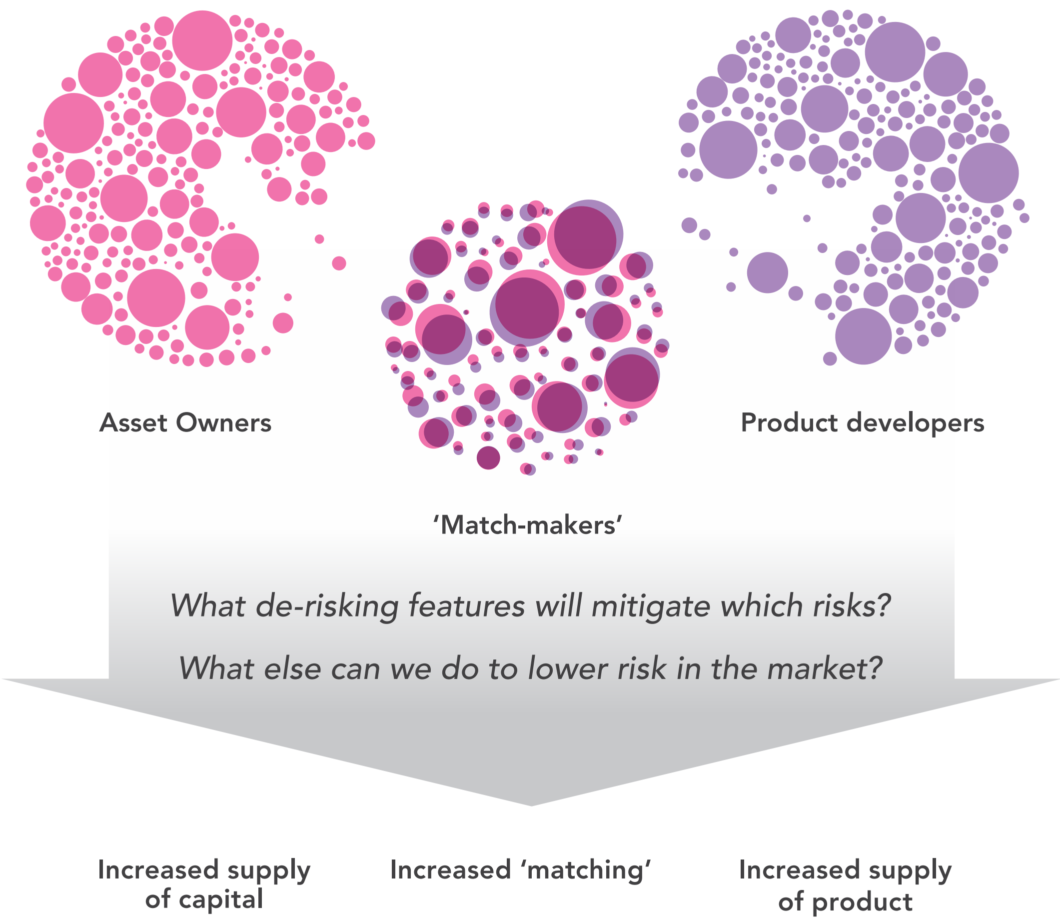
Target audience

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[3]

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

'Unpacking' risk

In an investment context, risk is the probability that the performance of an investment will be different than expected.[4] 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’[5], 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.

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.

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’.

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.

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.

Performance expectation	Relevant risk factor	Banks Own balance sheet
Capital preservation, at a minimum, in either real or nominal terms	Capital risk	Lack of clarity about whether competitive risk-adjusted financial returns are widely achievable has led to a focus on limiting downside.
Minimal 'unknowns': an understanding of risk factors that are relevant to an investment	Unquantifiable risk	'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 impetus.
Transaction costs in proportion with potential returns	Transaction cost risk	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.
Sufficiently liquid investments to meet uncertain cash flow demands	Exit risk	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 un-rated investments.
Impact evidence that is sufficiently robust to justify diversion of funds from other opportunities	Impact risk	Impact performance has to be sufficiently compelling to justify transaction costs (see Transaction cost risk above).

6 Investments made by foundations that seek to achieve specific social and/or environmental goals while targeting market-rate financial returns comparable to similar non-mission focused investments.

7 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, must lack any significant investment purpose, and may not be used for electioneering or lobbying.

8 The obligation to act in the best financial interest of the client.

* The level of impact benefit created relative to the level of cost incurred.

Pension funds	Foundations	Family Offices & HNWI	Retail investors
	• **Mission-Related Investment (MRI)[6]** • **Programme Related Investment (PRI)[7]**	• **Multi family offices** • **High Net Worth Individuals (HNWIs)/Single family offices**	
Role as conscientious 'steward' of people's pensions means a focus on capital growth and makes protection against losses a priority.	*MRI:* Concern about erosion of capital base (ability to generate income for grantmaking) makes capital preservation, at minimum, a priority. *PRI:* Intention to re-cycle funds to achieve further impact requires (some level of) capital preservation.	Demonstrated willingness to forgo some financial return for the sake of impact but typically not prepared to absorb capital losses.	Generally wealth is for retirement purposes or for the next generation, making capital preservation, at a minimum, a priority.
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.	*MRI:* Unfamiliar products imply trustees play a more active role in decision-making, since ability to calculate risk is viewed as core to fiduciary duty[8] (to ensure sufficient income and capital growth for future grantmaking activity). *PRI:* Willingness to venture into uncharted territory depends on potential for impact 'upside'.	For those HNWIs investing directly, willingness to venture into uncharted territory depends on potential for impact 'upside'. However, 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.	Unfamiliar products are a challenge for Independent Financial Advisors (IFAs) (bandwidth, liability and fee-wise), who want to show clients a product with track record and to benchmark that product within conventional portfolios.
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.	*MRI:* Require sufficiently large capital outlay to justify expenditure on due diligence, structuring and management of impact investments. *PRI:* Willing to tolerate higher transactions costs, providing the cost-benefit ratio* is still superior to a grantmaking approach.	Willing to tolerate higher transactions costs, providing the cost-benefit ratio* is still superior to a grantmaking approach.	Require transaction costs to be sufficiently low so as to be in proportion to smaller investment.
Long-term investment strategy means liquidity not a top priority, although exit path must be clearly defined.	*MRI:* Liquidity not a priority (buy-to-hold investments have a place in these portfolios). *PRI:* Short-term liquidity not a priority but goal of re-cycling capital for further impact does require a defined exit strategy within a reasonable timeframe.	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.	Uncertain cash flow demands can make liquidity a top priority.
Protecting against (the reputational risk of) poor impact performance often viewed as priority.	Critical that impact performance is sufficiently cost-effective to justify opportunity cost of capital, i.e. to justify diverting funds from grantmaking (PRI) or to diverting funds from existing 'tried and tested' investments that optimise surpluses for grantmaking (MRI).	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).	Impact performance must be sufficiently transparent and easy to understand to justify opportunity cost of capital (diverting funds from either grantmaking or traditional investments).

7 ways to de-risk

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.

Risk factor	De-risking feature
Capital risk	Downside protection
	Bundling
Exit risk	Liquidity
Transaction cost risk	Bundling
Unquantifiable risk	Track record
	Placement & distribution
	Technical assistance
Impact risk	Impact evidence

1

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[9], the use of impact-first capital to absorb first losses[10], 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.

2 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.

3 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 as young a market as this, the track record and credibility of co-investors can also help to de-risk an overall investment proposition.

9 A type of credit enhancement in which a third party agrees to make good in the event that the company or person who has promised to make the payment defaults.

10 For a detailed discussion of this feature, see Catalytic First Loss Capital (GIIN, October 2013)

4

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.

5

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 'sidecar' 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[11] (or other scientific study) that demonstrates the causal link between the investment'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 randomized controlled trial (RCT) is the outcome variable being studied.

De-risking catalogue

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.

Asset Class	Geog of Impact	Example Product
Cash	UK	Ecology Building Society's Foundations Share Account
Cash	USA	Hope Credit Union
Cash	USA	Southern Bancorp Depository Institution
Debt	USA	California FreshWorks Fund – Senior debt
Debt	USA	Calvert Foundation Community Investment Notes
Debt	USA	Community Capital Management CRA Qualified Investment Fund
Debt	Global	Finethic
Debt	Global	Gates Global Health Investment Fund – Senior tranche
Debt	UK	Golden Lane Housing Bond
Debt	USA	Habitat for Humanity's FlexCAP Notes
Debt	India	IFMR Multi Originator Securitisation (Mosec™)
Debt	Asia	Microfinance Initiative for Asia Debt Fund – Senior debt
Debt	USA	New York City Acquisition Fund – Senior debt
Debt	UK	Scope Bond
Debt	UK	Threadneedle UK Social Bond Fund
Public Equities	UK	Good Energy Transferable Shares
Public Equities	UK	Triodos Renewables Ordinary Shares
Private Equity	Africa	African Agriculture Capital Fund – Senior tranche
Social Impact Bond	USA	Social Finance NY State Workforce Re-entry 2013 LLC – A-1 tranche
Social Impact Bond	Australia	Westpac Social Benefit Bond – Senior tranche

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

Annualised Return Target	Downside Protection	Bundling	Track Record	Liquidity	Technical Assistance	Placement & Distribution	Impact Evidence
1% AER/Gross p.a.	●		●	●		●	○
N/A	●		●	●			○
N/A	●		●	●			○
ISDA® mid-market swap rate plus 225-275 bps to investors	○		○			●	○
0-3% to investors	○	●	●	○		●	○
4.65% annualized since inception (6/30/99) for CRA investor shares	○	●	●	●		●	○
4-6% net to investors		●	○	○		●	○
7%+ net return to the fund	○		○			●	○
4% to investors			○	○		●	●
3.0-4.25% to investors	○		●				○
N/A	○		○	●		●	○
4% to investors	○	●	●		●	●	○
3% to investors	○		○			●	●
2% to investors				●		●	●
In line with a UK corporate bond index[12]		●	○	●		●	●
N/A			●	●		●	●
9-10% to investors			●	○		●	●
15% annual gross compounded return	○		○		●		●
Up to 12.5% dependent on social outcomes	○					●	●
Up to 10% dependent on social outcomes	●					●	●

Key	●	○
Downside Protection	100% protection of principal	Some features that provide partial principal loss protection
Track Record	Track record of product and product manager > 10 years	Track record of product and/or manager 5-10 years
Liquidity	On-demand liquidity, typically through established exchange	Featured on a marketplace that connects buyers and sellers on a 'matched bargain' basis, or product 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 3rd party verification or objective measurement of outcomes	Credible assessment methodology

Recommendations

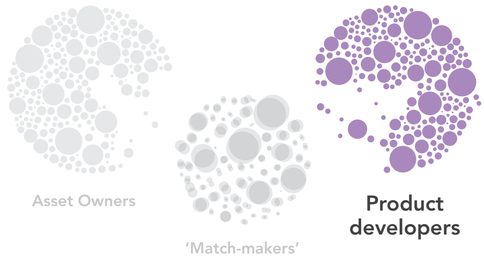
How can we encourage the use of these product features to mitigate risk?

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'

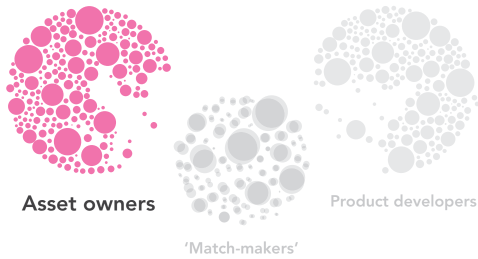
Risk factor	De-risking product feature(s)	
CAPITAL RISK	**DOWNSIDE PROTECTION** • Collateralisation • First loss / Guarantees • Insurance **BUNDLING** • Diversification through a multi-asset portfolio • Diversification through a range of investments that are of the same asset class but create exposure to sufficiently diverse sectors or geographies	*Example* *Habitat for Humanity International's bond product, FlexCAP, uses both a cash reserve and a 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.* *Example* *Calvert Foundation's Community Investment Notes support a diversified portfolio of nearly 150 organizations in the U.S. and around the world in a wide range of impact sectors including international microfinance, U.S. community development, affordable housing, social enterprise, and fair trade.*
EXIT RISK	**LIQUIDITY** • 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)	*Example* *The disability charity Scope has issued a bond programme, which is listed and trades on the 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.*
TRANSACTION COST RISK	**BUNDLING** • Scale through a multi-asset portfolio • Scale through a range of investments that are of the same asset class but create exposure to sufficiently diverse sectors or geographies	*Example* *Finethic Microfinance S.C.A., SICAV-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.*



Risk factor	De-risking product feature(s)	
UNQUANTIFIABLE RISK	**TRACK RECORD** • 'Bolt-ons' to an existing platform • Credible co-investors • If a new team, then a relevant combination of experiences; if a new product, then sufficiently similar characteristics to conventional products	*Example* *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.*
	PLACEMENT & DISTRIBUTION • Inclusion on advisory platforms • Backing by credible brand name with wide networks, e.g. large banks	*Example* *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.*
	TECHNICAL ASSISTANCE • 'Smart subsidy' vehicles • Best practice 'cross-fertilisation' through multi-fund platform	*Example* *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 Agicultural Capital Fund.*
IMPACT RISK	**IMPACT EVIDENCE** • Clear impact strategy and credible assessment methodology • Cost-effectiveness of product relative to comparable options	*Example* *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.*

Recommendations for Asset Owners

Risk factor	De-risking product feature(s)	
CAPITAL RISK	**DOWNSIDE PROTECTION** ***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. Asset owners should also request that product developers consider downside protection for individual elements of the product, for example, factoring in the cost of insurance products to mitigate political risk or currency risk associated with frontier markets.	*Example* *Civic.org (a US-based school facilities developer working with underserved communities) uses grant capital to provide credit enhancement 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* *There are specialised intermediaries emerging, such as DeRisk (the first insurance marketing agent to be authorized by the Multilateral Investment Guarantee Agency), to help private impact investors take advantage of the downside protection mechanisms offered by the World Bank and other public bodies.*
	BUNDLING ***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.	*Example* *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.*
TRANSACTION COST RISK	**BUNDLING** ***Request for proposals.*** To encourage bundling, asset owners (either individually or in groups) should challenge product developers to bring opportunities forward that match the investment allocations the asset owners are prepared to commit. If asset owners are prepared to issue Requests for Proposals (RfPs) that have a relatively long development timeline (for example, two years), this will also significantly increase the likelihood of matching, as product developers will have sufficient time to understand the asset owners' requirements and build in the appropriate de-risking features to their product.	*Example* *In 2013, 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*



Risk factor | De-risking product feature(s)

UNQUANTIFIABLE RISK

TRACK RECORD

Compare like-for-like. Even if a product is new, it may have similar characteristics to other, more mainstream products. For example, some impact investment products have transparent cash flow profiles and government as the ultimate creditor. 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.

Example
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 US$ 4.5 billion to date from both institutional and individual investors seeking a market-rate financial return alongside social impact.

TECHNICAL ASSISTANCE

Partner & package. We encourage complementary asset owners (such as an impact investor and enterprise-oriented philanthropist) to partner in order to provide a package of support, such as a sidecar grant facility alongside investment. By distinguishing between traditional investment management costs and those additional technical assistance costs particular to impact investment, asset owners can break down murky (often high) management fees into sensible investment management costs and smart strategic grants. Ideally this disaggregation will also help the asset owner observe a reduction in technical assistance requirements as a product (and its surrounding market) matures.

Example
In 2011, the Grassroots Business Fund (GBF) successfully closed a USD$49m 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 some asset owners chose to either invest or donate, others, such as the Netherlands Development Finance Company (FMO) both invested in the fund and provided a grant to the non-profit for business advisory services.

IMPACT RISK

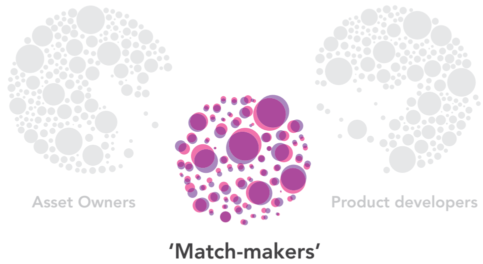
IMPACT EVIDENCE

Value for money. We encourage asset owners to evidence not just the impact of their allocations but the cost-effectiveness of their 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.

Example
Acumen Fund's Best Available Charitable Option (BACO) methodology is a practical approach for estimating the cost-effectiveness of comparable (and available) approaches for addressing a specific social issue. The output of the methodology, the BACO ratio, compares the net cost per unit of social impact of a given approach relative to the best available alternative. Put another way, BACO answers the question: 'For each dollar invested, how much social output will a given option generate over its life-cycle relative to the best available charitable option?' For any impact investor or grantmaker who believes that the optimal approach for solving a specific social or environmental issue is that which has the lowest net cost per unit of social impact, the BACO methodology provides a quantitative estimate of whether a proposed investment or grant opportunity will meet their objective.

Recommendations for 'Match-makers'

Risk factor	De-risking product feature(s)	
CAPITAL RISK	**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 entrepreneurial, catalytic first loss capital or guarantees, either alone or sitting alongside philanthropy. In addition to guarantee schemes for cash and debt products, we particularly encourage more governments to catalyse the growth of impact equity markets, by providing first loss funding at either the fund- or fund-of-fund level. Governments can also provide downside protection through tax schemes. While tax incentives are often used to enhance upside (such as capital gains relief), they can also protect downside, entitling investors to tax relief 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 payer this equates to 35% value 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.	*Example* *Governments 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% loan guarantee (pari-passu, not first loss) to local banks to lend to Acumen investees. With this downside protection, local banks become engaged with high-impact enterprises, providing crucial working capital to enterprises otherwise perceived as too risky, while USAID's risk-share frees up some of Acumen's own capital to take higher risk equity and equity-like investments elsewhere. www.acumen.org* *Example* *In 2012, the medical research charity RAFT span out a for-profit subsidiary to develop a potentially game-changing new health product called Smart Matrix Ltd., aimed at treating full thickness skin injuries (e.g. wounds). RAFT was the first charity to gain permission from the Charitable Commission to use the UK Government-backed Enterprise Investment Scheme (EIS) to spin out a for-profit subsidiary, lowering the investment risk of an early-stage venture and enabling Smart Matrix Ltd. to close its first investment round www.smartmatrix.co.uk* *Example* *The UK Government's Cabinet Office has worked with various organisations, including legal firms, to create guidance to make it cheaper and easier to set up capital stacks (so-called 'co-mingling' structures), and to provide information for trustees presented with a co-mingling opportunity, particularly with a view to clarifying how capital stacks need not conflict with fiduciary duty. www.gov.uk/government/publications/investing-charitable-funds*
EXIT RISK	**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* *Ethex offers a not-for-profit brokering service in the trading of shares in ethical businesses. providing its members with information about suitable investment opportunities, as well as a platform to build a personal portfolio of shares and bonds. The initiative lists each opportunity with detailed information (including financial track record and associated risks, as well as social impact performance), bringing greater transparency to impact investment products and encouraging greater liquidity through a secondary marketplace. www.ethex.org.uk*



Risk factor

De-risking product feature(s)

UNQUANTIFIABLE RISK

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 unmoved 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
Imprint, a registered investment advisor exclusively focused on impact investing, often works in partnership with a client's traditional advisor to design impact investment platforms across asset classes and issue areas. For example, Imprint was approached by a family with a broad interest in impact investing and a specific geographic focus in Baltimore. Working side-by-side with the individual's existing wealth manager, Imprint weaved both market rate, mission-related investments into the client's portfolio and developed a targeted Baltimore investment strategy. www.imprintcap.com

Another specialist young firm in the UK, Worthstone, is seeking to distribute impact investments to the community and has been actively working to educate, raise awareness and understand the necessary steps to uptake in this market segment. www.worthstone.co.uk

PLACEMENT AND DISTRIBUTION

Placement platforms. We encourage governments, 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.

Example
In Canada, SVX, led by the MaRS Centre for Impact Investing in Toronto and supported by the Government of Ontario, has been set up as a private investment platform to connect impact ventures, funds and investors. In Asia, the Impact Investment Exchange (Asia) (IIX) has launched Asia's first private placement platform dedicated to connecting sophisticated Impact Investors with a select group of pre-screened social enterprises. Among others, this is supported by the Singapore Economic Development Board, a Singapore government agency. www.asiaiix.com; www.impactinvesting.marsdd.com

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
The UK government's Department for International Development (DFID) has launched a £75m Impact Fund to invest in promising impact investment intermediaries, backing businesses targeting low-income populations in sub-Saharan Africa and South Asia. Alongside, DFID have also funded a £7.5m technical assistance facility, designed to support investee companies in which the DFID Impact Fund managers will deploy capital. The facility supports transitional companies in need of 'the kind of support that goes beyond the scope of traditional investor-investee relationships' and funding is available both pre- and post-investment. www.cdcgroup.com/dfid-impact-fund

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.

Appendix – catalogue of product

Ecology Building Society's Foundations Share Account

Liquid savings account to support green properties

	Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature:

De-risking Feature	Product details	De-risked Product Features
Downside Protection	Description: Ecology Building Society is a U.K. mutual organization 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.	Downside protection: The account is covered by the Financial Services Compensation Scheme. An eligible shareholder is entitled to claim up to £85,000. The Society maintains a promise to pay no less than 1.00% gross on the account.
Placement & Distribution	Impact: Ecology is committed to building a greener society. Its activities promote: • The saving of non-renewable energy or other scarce resources • The growth of a sustainable housing stock • The development of building practices, ways of living or uses of land which have a low ecological impact.	Placement & Distribution: The account is available directly from the Society and can be accessed through Ethex
Bundled Product		
Technical Assistance		
Liquidity	Size: N/A	Liquidity: Deposits are liquid and can be withdrawn without notice or penalty
Impact Evidence	Minimum Investment: £25	Impact Evidence: Environmental impact is a core part of the lending decision and integrated into pricing structure through interest rate discounts based on energy efficiency. Evidence of energy efficiency standards achieved is collected through this process, along with other environmental features of projects. Case studies are used to identify contribution to wider social and environmental benefits and evidence of additionality. A high level of member feedback is achieved through the Society's Annual General Meeting, member surveys and online engagement (blogs and social media), as well as frequent two-way correspondence.
Track Record	Target Returns: Current interest rate 1.00% AER/Gross p.a. (0.80% Net p.a.)	Track Record: Since 1981, it has successfully made loans to over 2,000 projects.

Hope Credit Union

Liquid cash deposits to support U.S. community development

	Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature:

De-risking Feature	Product details	De-risked Product Features
Downside Protection	Description: Hope Credit Union is a community development financial institution that helps low- and moderate-income people build a solid financial foundation for a better future. Its mission is to strengthen communities, build assets, and improve lives in economically distressed areas of the Mid South (Arkansas, Mississippi, Tennessee, and Louisiana).	Downside Protection: Federally-insured by the National Credit Union Administration
Placement & Distribution	HOPE has a range of federally-insured deposit products including deposits, money market accounts, savings accounts, IRA accounts, jumbo rates, CDs, and High Impact CDs. High Impact CDs, including Hurricane Rebuilding CDs and Community Builder CDs, offer below market rates allowing Hope to reinvest additional resources in specific programs that empower low-wealth families and communities	
Bundled Product		
Technical Assistance	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 in the Mid South since 1994.	
Liquidity		Liquidity: Deposits are liquid
Impact Evidence		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 consumer, mortgage and small business loans and # of member-owners.
Track Record		Track Record: Hope Credit Union has a 19 year track record in community development banking

Southern Bancorp Depository Institution

Community deposit program at established US rural development bank

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- **Downside Protection**
- Placement & Distribution
- Bundled Product
- Technical Assistance
- **Liquidity**
- **Impact Evidence**
- **Track Record**

Description: Southern Bancorp is the third largest development bank in the U.S. It was founded in 1986, after then Governor Bill Clinton and the Winthrop Rockefeller Foundation announced an initiative to end decades of economic decline in rural Arkansas by creating new trends of investment in people, jobs, business and property. Today, Southern's family of companies includes a CDFI community bank and a CDFI non-profit organization serving Arkansas and Mississippi.

Southern Bancorp mobilizes deposits through accounts or Community Deposit Certificates, which help it achieve its mission by providing loans to people, businesses and organizations in the rural communities it serves.

Impact: Southern has originated over $3bn in loans – primarily to individuals and organizations in some of the poorest areas of the U.S. It has three 20-year goals for its communities: reducing the gap in a) poverty rate, b) employment rate, and c) educational attainment between county and national averages by 50%.

De-risked Product Features

Liquidity: Deposit accounts and CDs are liquid

Downside Protection: All deposits are FDIC-insured

Track Record: Southern has a 25+ year successful track record in rural development banking

Impact Evidence: Southern is developing a social metric program that will evaluate and help optimize progress towards its three goals focused on poverty, employment, and education. In 2011, it identified key metrics and baselines for these goals, and reports on key performance indicators including asset purchases facilitated by IDA accounts, and # of individuals receiving credit counselling.

California FreshWorks Fund – Senior Debt

Senior debt in public-private partnership loan fund to support healthy foods

Cash Deposits	**Debt**	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- **Downside Protection**
- **Placement & Distribution**
- Bundled Product
- Technical Assistance
- Liquidity
- **Impact Evidence**
- **Track Record**

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 icreated in partnership with The California Endowment, NCB Capital Impact, J.P. Morgan Chase and other community, industry and government partners.

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

Size: $125M fund size with $100M in senior debt

Term: All-in tenor 13 years. Facility features 3-year Draw Period, and each Project Loan can have a term of up to 10 years.

Target Returns: ISDA® mid-market swap rate plus 225-275 bps.

De-risked Product Features

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.

Placement & Distribution: Deal structuring and syndication of senior debt led by J.P.Morgan Chase.

Track Record: NCB Capital Impact has an established track record of healthy foods lending in California. Furthermore, NCBCI partners with Emerging Markets Inc., an organization which has extensive knowledge of the California market and the grocery industry. The California Endowment is also an important programmatic partner, bringing local market expertise.

Impact Evidence:

- Increase access to healthy food options in geographies with few options currently ('food deserts')
- Economic Development/Job Creation and Retention.

Calvert Foundation Community Investment Notes

Community Development Notes offered via multiple channels

Cash Deposits	**Debt**	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- **Downside Protection**
- **Placement & Distribution**
- **Bundled Product**
- Technical Assistance
- **Liquidity**
- **Impact Evidence**
- **Track Record**

Description: Calvert Foundation is a Community Development Financial Institution that empowers investors to empower communities. Through its Community Investment Note, Calvert Foundation connects individual investors with organizations working around the globe, developing affordable housing, creating jobs, protecting the environment, and working in numerous other ways for the social good. Calvert Foundation has more than $200 million invested in roughly 150 nonprofits and social enterprises working in approximately 80 countries. It makes slightly below-market rate loans to its portfolio companies. Borrowers are selected based on their financial and operational self-sufficiency and their ability to build strong, healthy communities.

Impact: Calvert Foundation's Notes address the following impact areas: affordable housing, microfinance, women's empowerment, fair trade and sustainable agriculture, small business development, and critical services like education and health care.

Minimum Investment: $20 or $1,000 depending on purchase method

Term: Various terms of 1 – 20 years

Target Returns: 0 – 3%

De-risked Product Features

Downside Protection: Investors are protected by over $30 million in loss reserves, net assets and subordinated debt.

Placement & Distribution: Calvert Foundation's Notes are offered through three channels: direct, through brokerage firms, or online.

Track Record: Calvert Foundation has raised nearly $1bn from more than 13,500 investors and lent more than $600mn to its portfolio partners since 1995.

Bundled Product: Proceeds from the Notes are invested both internationally and domestically into a wide range of organizations to build strong communities

Liquidity: Early redemptions and withdrawals are at Calvert Foundation's discretion, but have always been allowed in the product's 18 year history, allowing flexibility for investors

Impact Evidence: Calvert Foundation collects custom social and environmental performance data from each of its partners and impact stories on an annual basis. Key performance indicators include jobs created and homes built.

Community Capital Management CRA Qualified Investment Fund

U.S. fixed-income fund with a focus on community development

Cash Deposits	**Debt**	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- **Downside Protection**
- **Placement & Distribution**
- **Bundled Product**
- Technical Assistance
- **Liquidity**
- **Impact Evidence**
- **Track Record**

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.

The Fund has three classes of shares: CRA investor shares (CRAIX) – its flagship class launched in 1999, as well as institutional (CRANX) and retail (CRATX) shares launched in 2007.

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 property for seniors, and a taxable municipal bond to finance loans for energy audits and efficiency improvements.

Size: $1.5bn (at 12/31/13)

Minimum Investment: $500,000 (for CRA and Institutional Investors) $2,500 (for retail investors)

Target Returns: 4.55% annualized since inception (8/30/99) for the CRA investor shares

De-risked Product Features

Downside Protection: More than 70% of the portfolio is made up of agency mortgage backed securities, limiting downside risk. Agency MBS are typically guaranteed by US government sponsored enterprises, or backed with the full faith and credit of the US government.

Placement & Distribution: The CRA Qualified Investment Fund is available on most major platforms (Charles Schwab, NFS/Fidelity, Pershing, etc.) Minimums vary per platform.

Bundled Product: Mutual fund product diversified across 800+ holdings

Liquidity: Daily liquidity

Track Record: Community Capital Management, the Fund's registered adviser, has a strong record in ESG portfolio management with a 15 year history.

Impact Evidence: Institutional investors receive detailed quarterly reports on the community impact of the Fund's securities. Impact metrics include # of affordable rental units established, # jobs created, and environmentally sustainable initiatives

Finethic

Established and liquid global microfinance investment vehicle

	Cash Deposits	**Debt**	Public Equity	Private Equity	Social Impact Bond

De-risking Feature: Downside Protection; **Placement & Distribution**; **Bundled Product**; Technical Assistance; **Liquidity**; **Impact Evidence**; **Track Record**

Description: Finethic Microfinance S.C.A., SICAV-SIF microfinance sub-fund is a microfinance investment vehicle (MIV) registered in Luxembourg and managed from Switzerland. Finethic (Finance + ethics) started with the Institutional Investor in mind, and created a product that met the stringent criteria of Pension Fund investors. Finethic's fund manager (Fundo SA) has vast experience in investment risk management for institutional investors; this experience lead to unparalleled levels of diversification, caution in 2008-11, and expansion in 2012-13; this has served investors well as they have yet to experience a 'down' month since launch in 2006.

Impact: Finethic measures the capacity of its investments to contribute to building inclusive financial systems, increasing the depth and breadth of outreach and access to capital for the world population at the bottom of the social pyramid. It collects detailed impact data and tracks performance metrics on a monthly basis, including grading the Social Outreach value of the fund. The Finethic non-profit Foundation is funded through management fees. The Foundation supports education, health-care, anti-child labour and micro entrepreneurial projects globally. Finethic also offers a 0% return share class for philanthropic investors; proceeds are used to fund the Finethic Foundation or other charitable causes.

Size: $161mn (soft close target $250m)

Minimum investment: Lux. rules = ~£100,000

Term: 90 working day liquidity

Target Returns: Above USD 3-year swap rate; with internal targets of 4-6% p.a. net to investors

De-risked Product Features

Track Record: Unparalled i.e. 86 straight months of positive returns since inception (October 2006); net annualised return 5% p.a. in USD.

Fundo (Manager) manages investments for leading pension funds. Advisor (Symbiotics) has brokered >$1.5bn in microfinance investment to >200 MFIs in >50 countries.

Liquidity: 90 working day liquidity

Bundled product: Finethic is well-diversified by country, region, institution, and investment size

Placement & Distribution: Fundo's position as a trusted advisor to leading pension funds enhances Finethic's distribution

Impact Evidence: Finethic collects detailed impact data and tracks performance metrics on a monthly basis, including grading the Social Outreach value of the fund

Gates Global Health Investment Fund – Senior tranche

High-impact healthcare mezz fund with innovative 60% loss guarantee

	Cash Deposits	**Debt**	Public Equity	Private Equity	Social Impact Bond

De-risking Feature: **Downside Protection**; **Placement & Distribution**; Bundled Product; Technical Assistance; Liquidity; **Impact Evidence**; **Track Record**

Description: New investment vehicle with innovative 60% loss guarantee 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.

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 Co-operation 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 new treatments by providing critical capital.

Size: $108M

Minimum Investment: $250,000

Term: 10 years from the first closing date; extendable for two additional 1-year periods subject to approval.

Target Returns: 7%+ p.a. net return to the fund

De-risked Product Features

Downside Protection (guarantee): The 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.

Placement & Distribution: J.P. Morgan Chase has wide distribution network.

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 IFFIm immunization bond.

Impact Evidence: GHIF's key social performance metrics are number of new products launched and millions of lives impacted. It will send both social and financial reports on a quarterly basis.

The Fund will have a Charitability Oversight Committee which will review compliance with charitable restrictions and Program-Related Investment (PRI) requirements and monitor the charitability aspects of GHIF investments.

Golden Lane Housing Bond

Charity bond to provide much needed housing for people with a learning disability

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- Placement & Distribution
- Bundled Product
- Technical Assistance
- Liquidity
- Impact Evidence
- Track Record

Description: Golden Lane Housing (GLH) is a registered charity that works with people with a learning disability to provide supported housing around which they can build their lives. In 2013, GLH raised £10m from social investors in the form of an unlisted bond which has enabled it to fund the acquisition of more than 20 additional freehold properties in a variety of locations across England and house over 100 new tenants with a learning disability.

Impact: The bond has funded over 20 freehold properties in England to improve the lives of over 100 new tenants. They were previously living in inappropriate housing such as large institutions often many miles from their home area or with parents who could no longer cope with looking after them. GLH provides these tenants with supported landlord services, helping to bridge the gap between housing and support – such as advice and guidance, support to keep safe, benefit advice, helping people to maintain a tenancy and a bespoke emergency and emergency repairs 24 hour helpline.

Size: £10m

Minimum Investment: £2,000 initially; £500 in secondary market

Term: 5 years

Target Returns: 4%

De-risked Product Features

Placement & Distribution: Triodos Bank, a leader in sustainable finance, worked with Golden Lane Housing to structure and place the bonds. The bonds are also offered through Ethex.

Liquidity: Ethex, a specialist not-for-profit set up to make ethical investment easy to understand and easy to do, is running the secondary market for Golden Lane Housing.

Impact Evidence: GLH is using a progression tool to assess and report the difference the move has made to people in terms of their quality of life and independence. It also is looking at the impact on the bond on families, and the financial impact – identifying the cost to the public purse of moving into a property purchased with bond monies versus alternative housing. Impact assessment is carried out in partnership with third party, Bangor University. Investors in the bond receive regular reports detailing the social impact.

Track Record: Builds on the previous success of their 2003 Social Investment Bond, which raised £1.8m and was redeemed in full in April 2013.

Habitat for Humanity's FlexCAP Notes

Collateralized notes to support low-income housing with downside protection

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- Placement & Distribution
- Bundled product
- Technical Assistance
- Liquidity
- Impact Evidence
- Track Record

Description: 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 co-ordinate 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 selected mortgages 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.

Impact: Habitat's vision is a world where everyone has a decent place to live.

Size: $41M outstanding

Term: 5 or 10 year notes

Target Returns: 3.0% on 5-year notes; 4.25% on 10-year notes

De-risked Product Features

Downside Protection is provided through:

- HFHI repayment guarantee of five percent of the value of the notes
- Each affiliate must deposit in a cash reserve account an amount equal to one quarterly payment under its FlexCAP loan
- Notes are full recourse obligations of the affiliates.

Track Record: Since FlexCAP's inception in 1997, the program has had a 100 percent repayment rate.

Impact Evidence: FlexCAP Note investors receive semi-annual reports on social impact. KPIs include: Number of homes built, repaired or rehabbed. Number of people housed. Number of women and children housed.

IFMR Multi Originator Securitisation (Mosec™)

Pioneering multi originator securitisation in Microfinance in India

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- Placement & Distribution
- Bundled Product
- Technical Assistance
- Liquidity
- Impact Evidence
- Track Record

Description: In January 2010, IFMR Capital structured the first ever multi originator (MOSEC™) securitisation transaction – a global first in the securitisation markets. A Mosec™ transaction involves pooling of microloans from multiple originators into a single Trust, reducing overall transaction risk through increased diversification across originators and geographies in India. The securities issued to investors are backed by cash flows from the pooled microloans. These cash flows are tranched depending upon the investors' risk-return requirements. Since then through December 2013, IFMR Capital has structured over 40 such Mosec™ transactions

Impact: IFMR Capital works to improve access to finance to the financially excluded in Indian as it works in high impact sectors such as microfinance, SME finance, affordable housing finance & CV finance. Since the closure of the first Mosec™ transaction in January 2010, IFMR Capital has shown the usefulness, performance and sustainablity of the structure for enabling access to capital for small and medium sized companies.

De-risked Product Features

Downside Protection: Each Mosec™ transaction provides downside protection to investors by:

a) A first loss cash collateral, of c.10% of the pool of loans being securitized, provided by the originators, which acts as the equity participation by the originator and ensures sufficient incentivisation for it to maintain the collection efficiency of the pool

b) Second loss credit enhancement to senior investors, by way of an investment in junior tranche by IFMR Capital

The above structure ensures that all parties to the deal, whether acting in the capacity of an originator, servicer or structure are well aligned to perform their obligations in the best interest of the investors.

Placement & Distribution: Through effective structuring tools such as tranching and credit enhancements/ subordination, IFMR places securities with mainstream capital market investors including Mutual Funds, Non-Bank Finance Companies, Private wealth clients, family offices as well as larger housing finance companies.

Liquidity: In January 2013, IFMR Capital completed the first listing of a securitised debt instrument in India on the wholesale debt segment of the Indian Stock Exchange. Several Mosec™ transactions have been listed on the Stock Exchange since then. IFMR Capital has also facilitated a secondary trade, brokering a deal whereby PTCs amounting to INR 330 million were sold by a Bank to an NBFC.

Impact Evidence: Working in high impact sectors such as microfinance, SME finance, affordable houisng finance & CV finance, over 3 million households in 23 states in India have been able to access capital through IFMR's structures & interventions. The impact is measured through regular social performance reports, field level monitoring reports & external reviews.

Track Record:The IFMR Group has had a track record of 6 years, having mobilised over US$ 750 million of funding to 45 institutions through rated capital market transactions with a Nil NPA / Zero default record.

Microfinance Initiative for Asia (MIFA) Debt Fund – Senior debt

A Private-Public Partnership to promote financial inclusion in Asia

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- Placement & Distribution
- Bundled Product
- Technical Assistance
- Liquidity
- Impact Evidence
- Track Record

Description: BlueOrchard Finance S.A. was founded in 2001 as the first commercial manager of microfinance debt investments worldwide. To this day, the company has deployed in excess of USD 2bn in loans to microfinance institutions, providing access to microcredit to over 30 million individuals across 50 countries.

MIFA, a strategic partnership between IFC and KfW, is the first microfinance initiative of its size to exclusively target financial inclusion in Asia. BlueOrchard was appointed sole manager of the MIFA Debt Fund in 2012.

Impact: The two main objectives of MIFA are to create and enhance institutional capacity for sustainable microfinance delivery and to foster responsible finance in the region. The strengthening of financial institutions will lead to increased lending to microentrepreneurs and small enterprises and therefore contribute to job creation and growth in more than 20 countries.

Size: $100M

Minimum Investment: $1M

Term: closed-end fund maturing in 2021

Target Returns: 4% p.a. (in USD) for Senior Class A Investors

De-risked Product Features

Downside Protection: The capital structure of the MIFA Debt Fund is comprised of three tranches (Junior, Mezzanine, Senior). Public investors in Junior Class C Shares (BMZ, EU) provide credit enhancement through a credit-risk guarantee, thus improving the risk/return profile for private Senior Class A investors.

Placement & Distribution: IFC and KfW act as catalysts to crowd in private funding and are invested in the Mezzanine Tranche.

Bundled Product: The investment universe of MIFA includes MFIs in 20 countries across Asia with a focus on Tier 2 and 3 institutions.

Technical Assistance: A separate, donor-funded grant facility will provide Technical Assistance.

Impact Evidence: The MIFA Debt Fund has clearly defined ESG objectives and reports on social and environmental outreach achievements on a quarterly basis.

Track Record: BlueOrchard has a successful 15-year track record of managing global and regional funds making private debt investments in microfinance.

New York City Acquisition Fund – Senior debt

Affordable housing fund which provides downside protection to senior lenders through subordinated investments from NYC and foundations

Cash Deposits	**Debt**	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- **Downside Protection**
- **Placement & Distribution**
- Bundled Product
- Technical Assistance
- Liquidity
- **Impact Evidence**
- **Track Record**

Description: The New York City Acquisition Fund (NYCAF), formed in 2006, provides 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 property to developers of affordable housing – 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

Term: 3 years

Target Returns: PRI Funds: 1-4% annually
Senior Lenders: 3% annually

De-risked Product Features

Downside Protection: A consortium of banks including J.P. Morgan Chase, Citibank, HSBC, Morgan Stanley, Wells Fargo and Deutsche Bank provided senior debt to the fund totalling $125M. Downside protection comes from subordinated loans of $28.8M from the City of New York and foundations including the Robin Hood Foundation, MacArthur Foundation, the Rockefeller Foundation and Enterprise Community Partners.

Placement & Distribution: The placing of senior debt was led by J.P. Morgan Chase.

Impact Evidence: The NYCAF has enabled affordable housing developers to move quickly and be competitive with market rate developers in an increasingly tight market. The fund has supported a wide range of project types including preservation, mixed-income, rental and ownership.

Track Record: The fund is managed by Enterprise Community Investment, Inc, the National Equity Fund and Forsyth Street Advisors. Citibank and Chase are Administrative Agents. The fund has selected an experienced group of non-profit and governmental lending institutions to originate and service its project loans including: Corporation for Supportive Housing, Enterprise Community Loan Fund, Local Initiatives Support Corporation, Low Income Investment Fund, and the New York City Housing Development Corporation.

Scope Bond

Liquid charity bond to support the disabled

Cash Deposits	**Debt**	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- **Placement & Distribution**
- Bundled Product
- Technical Assistance
- **Liquidity**
- **Impact Evidence**
- Track Record

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 income 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: 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 supported 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

Term: 3-years

Target Return: 2% p.a.

De-risked Product Features

Placement & Distribution: Investing for Good, a specialist social finance intermediary, worked with Scope to launch the programme. BNY Mellon acted as fiscal agent and registrar, and Capita as nominee holder. The bonds are also listed on the Social Stock Exchange.

Liquidity: The Scope Bond Programme is listed and trades on the Euro MTF market in Luxembourg [5]

Impact Evidence: The Scope Bond's independent impact report, produced by The Good Analyst, is published annually. It analyzes Scope across four dimensions: mission fulfilment, beneficiary perspective, wider impact and impact of contribution. Key performance indicators include # of people that have accessed Scope information online, and called the hotline, and # of those who have maintained employment through its employment services

With the bond proceeds. Scope opened eleven new retail shops at a cost of £410,000. This investment is forecast to provide Scope with additional income of £291,000 during the financial year 2013/14. £1.6million of the proceeds were invested in donor acquisition generating a monthly income to date of £157,000.

Threadneedle UK Social Bond Fund

Liquid, fixed income fund that supports economic development in the UK

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- Placement & Distribution
- Bundled Product
- Technical Assistance
- Liquidity
- Impact Evidence
- Track Record

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 organizations 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.

Threadneedle Investments is the manager of the Fund. Big Issue Invest, the social investment arm of The Big Issue whose mission is to back sustainable social enterprises and ventures that help tackle poverty and inequality, developed the Fund's Social Assessment Methodology and acts as Social Advisor to the Fund.

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.

Size: £15m at launch

Minimum Investment: £2,000

Term: Daily liquid

Target Returns: In line with a UK corporate bond index such as Merrill Lynch £ Non Gilt Index currently yielding 4% p.a.

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 a portfolio of debt instruments across the eight focus sectors in the U.K.

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.

Impact Evidence: The fund will use its unique social assessment methodology to select potential investments taking into account factors like primary and secondary social outcome, geographical focus linked to level of social deprivation, and ESG assessment of the issuer. The fund also has a Social Advisory Committee which will monitor and verify social outcomes.

Good Energy Transferable Shares

Liquid shares to support renewable energy in the UK

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- Placement & Distribution
- Bundled Product
- Technical Assistance
- Liquidity
- Impact Evidence
- Track Record

Description: The Good Energy Group is a publicly-listed company that aims to lower UK carbon emissions by developing and distributing renewable electricity within the UK. Its activities include: the supply of electricity and gas, renewable power generation, and Feed-In-Tariff administration for households generating their own renewable power.

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 domestics and commercial electricity customers, 12,000 gas customers, and 55,000 Feed-in-Tariff customers.

Minimum Investment: £500

Source: Ethex

De-risked Product Features

Liquidity: Good Energy Group ordinary shares are traded on the London Alternative Investment Market (AIM).

Placement & Distribution: Good Energy's shares are listed on AIM. Shares can be purchased through a registered broker, an online share dealing account or the bank.

Impact Evidence: Good Energy has a vision of a decentralised and democratic energy network for Britain powered entirely by renewable energy. Its key social performance indicator is electricity generation from renewables. It supplies the UK electricity grid with an equivalent amount of renewable electricity to match all of its customers' demand over a 12 month period.

Track Record: Good Energy was founded in 2000, and has a strong rack record. The company has paid dividends for the past two years, and intends to operate a progressive dividend policy going forward.

Triodos Renewable Ordinary Shares

Liquid shares to tackle climate change

Cash Deposits	Debt	**Public Equity**	Private Equity	Social Impact Bond

De-risking Feature

- Downside Protection
- **Placement & Distribution**
- Bundled Product
- Technical Assistance
- **Liquidity**
- **Impact Evidence**
- **Track Record**

Description: Triodos Renewables (TR) is a public limited company, established by Triodos Bank in 1994, which invests directly into projects that generate clean, green electricity from renewable sources. Triodos Renewables works with developers in the sub-utility space, frequently constructing projects on industrial sites, delivering sustainably priced electricity on site to provide social in addition to environmental returns. It focuses on low financial risk projects that use proven technologies benefiting from long-term contractual arrangements.

Impact: Triodos Renewables tackles climate change through its investments in clean energy generation. Its current portfolio includes 11 operational renewable projects with a total capacity of 53MW of both wind and hydro. The portfolio produces enough clean, green electricity for the equivalent of over 34,300 homes, sufficient for a city the size of Bath.

Size: c. £70M

Minimum Investment: Share price

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

De-risked Product Features

Liquidity: Triodos Renewable shares are held by over 5,000 investors and can be traded on Capita's online share portal, via the Matched Bargain Market. TR shares are also listed on Ethex

Placement & Distribution: Shares are placed and distributed through Triodos Bank.

Track Record: Over the last 7 years, annualised returns have been 7% p.a. (2% dividend yield, 5% capital appreciation).

Impact Evidence: Triodos Renewables key performance indicators include:

- MWh generated in 2013: 107,020.31
- Equivalent number of homes powered: 25,086.81 (4.266MWh/Home DECC)
- Equivalent tons of CO_2 offset: 51,691 (0.483 tCO_2e/MWh DECC)
- % of generation from brownfield (aka industrial) sites: one-third
- % turnover that is reinvested in the community: 7.7%

African Agriculture Capital Fund – Senior tranche

Agriculture-focused fund with capital earmarked for technical assistance

Cash Deposits	Debt	Public Equity	**Private Equity**	Social Impact Bond

De-risking Feature

- **Downside Protection**
- Placement & Distribution
- Bundled Product
- **Technical Assistance**
- Liquidity
- **Impact Evidence**
- **Track Record**

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 undercapitalized agriculture sector. The $25mn 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.

Impact: The agriculture sector in East Africa has suffered from significant under-investment and challenges including food inflation and drought, leaving a gap for much needed investment. By investing in agriculture, the AACF 'paves the way for raising the productivity and incomes of at least a quarter of a million'.

Size: $25M

Target Returns: 15% annual gross compounded return

De-risked Product Features

Downside Protection (guarantee): Capital in the AACF consists of $17M in equity investments from the foundations, and an $8M commercial loan from J.P. Morgan's Social Finance unit. The commercial loan has downside protection, with the subordinated equity investments and a 50% loan guarantee from USAID's Development Credit Authority.

Technical Assistance: AACF will have access to $1.5M in USAID-funded technical assistance. This will include business development services to improve portfolio companies' operations, competitiveness and access to markets.

Impact Evidence: AACF measures its impact on smallholder farmers, on a $ impact per household basis and tracks portfolio companies using IRIS metrics. The fund also engages third party consultants to conduct baseline and follow-up studies on a sample of investees. Two baseline studies have currently been completed.

Track Record: 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

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature: Downside Protection; Placement & Distribution; Bundled Product; Technical Assistance; Liquidity; Impact Evidence; Track Record

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 A-1 and A-2, where the former receive a 'first-loss' guarantee equal to approximately 10% of invested capital, and the latter do not get the guarantee.

Impact: In the U.S, 2.26MM adults are in prison, and over 4.8MM adults are under parole or supervision following prison. Over 50% 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).

Size: $13.5M

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.

Term: 5.5 years

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.

De-risked Product Features

Downside Protection: 'First-loss' Protection: The Rockefeller Foundation will provide 10% first loss protection – available to Class A-1 investors only

Placement & Distribution: Through Bank of America Merrill Lynch and through direct investment in the fund.

Impact Evidence: Repayment to investors is based on social outcomes, verified by a third party validator, and relies on three metrics: 1) reduction in recidivism, 2) increase in employment, and 3) completion of a transitional job program. The first two metrics are evaluated against a control group.

CEO has over 30 years experience providing intensive temporary job and employment services to former prisoners. A 2004-2007 randomized control study of its program, showed that it reduced time spent in prison by 30% over three years compared to control group.

Westpac Social Benefit Bond – Senior tranche

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

Cash Deposits	Debt	Public Equity	Private Equity	Social Impact Bond

De-risking Feature: Downside Protection; Placement & Distribution; Bundled Product; Technical Assistance; Liquidity; Impact Evidence; Track Record

Description: The Social Benefit Bond, launched in June 2013, was 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.

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.

Size: $10M

Minimum Investment: $50,000

Term: 5-years

Target Returns: 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.

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.

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.

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