Impact Investing 101: An Introduction

Thursday May 7th, 2020
1:00 – 2:30 PM ET

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Impact Investing 101

If you're new to impact investing or in need of a refresher, attend this session for a whirlwind tour of terms and concepts. Presenters will explain the tools most used by foundations and provide an overview of impact investing strategies in the philanthropic community. They'll also provide legal insights and share how impact investing can complement traditional grantmaking, using tactical examples from the field.

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Mission Investors Exchange
Vice President, Programs

Humaira Faiz
W.K. Kellogg Foundation
Mission Investment Manager

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Vodia Ventures
Managing Partner
Agenda

• Definitions
• Players and Motivations
• Spectrum of Sustainable, Responsible, and Impact Investing
• Opportunities for Charitable Institutions
• Other Concepts
“Use the money as you please so long as it promotes the health, happiness and well-being of children.” - W.K. Kellogg, 1930
Vodia Ventures invests early stage capital in companies tackling pressing social and environmental challenges in the following areas:

1. **Food Security and Clean Water**
2. **Aging and Access to Healthcare**
3. **Resource Efficiency and Circular Economy**
Definition of Values-Aligned Investing

Intentionally target positive social and / or environmental impact alongside financial returns.
Ex: Battle Creek Small Business Loan Fund

Small businesses employ 35% of Battle Creek’s 50,000 residents and create 67% of net new jobs in the U.S. The fund is a response to local need for employment and entrepreneurial opportunities.

- Partnership with Northern Initiatives, a long-standing, high-performing, Michigan-based CDFI focused exclusively on small businesses
- Established Loan Fund to encourage entrepreneurship and small business growth in Battle Creek, Michigan
- WKKF matched local funders 2:1 and has contributed $4.4M to date along with technical assistance grants for Battle Creek entrepreneurs
- Loan Fund has disbursed $1.5M to 9 businesses, including 4 new businesses, 3 of which are up for the Battle Creek Chamber’s Start-up of the Year
Players and Motivations

**Individuals and Families:** retail investors, high net worth individuals, family offices, family foundations

**Institutional Investors:** pension funds, sovereign wealth fund, insurance companies

**Ecosystem Players:** law firms, financial advisors, consultants, network organizations

**Investees:** social entrepreneurs, SMEs, publicly traded companies

**Institutional Philanthropic Organizations:** large foundations, DAFs
Sustainable investing in the U.S. accounts for $12 trillion out of $52.1 trillion total U.S. AUM

Source: USSIF, Global Sustainable Investment Alliance, Vodia Capital
Spectrum of Sustainable, Responsible, and Impact Investing

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<th></th>
<th>TRADITIONAL</th>
<th>RESPONSIBLE</th>
<th>SUSTAINABLE</th>
<th>THEMATIC</th>
<th>IMPACT-FIRST</th>
<th>PHILANTHROPY</th>
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<td><strong>FOCUS</strong></td>
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<td>Limited or no focus on ESG factors of underlying investments</td>
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<td>Focus on ESG risks ranging from a wide consideration of ESG factors to negative screening of harmful products</td>
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<td>Focus on ESG opportunities, through investment selection, portfolio management and shareholder advocacy</td>
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<td>Focus on one or a cluster of issue areas where social or environmental need created commercial growth opportunity for market rate or market beating returns.</td>
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<td>Focus on one or a cluster of issue areas where social or environmental need requires some financial trade-off</td>
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<td>Focus on one or a cluster of issue areas where social or environmental need requires 100% financial trade-off</td>
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<td><strong>EXAMPLES</strong></td>
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<td>• PE firm integrating ESG risks into investment analysis</td>
<td>• Best-in-class SRI fund</td>
<td>• Clean energy mutual fund</td>
<td>• Fund providing debt or equity to social enterprises and/or trading charities</td>
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<td>• Ethically screened investment funds</td>
<td>• Long-only public equity fund focused on deep integration of ESG to create additional value.</td>
<td>• Emerging markets health care fund</td>
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<td>• Microfinance structured debt fund</td>
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ESG Example: iShares ESG MSCI USA ETF (ESGU)

ESGU "seeks to track the investment results of an index composed of U.S. companies that have positive environmental, social and governance characteristics as identified by the index provider while exhibiting risk and return characteristics similar to those of the parent index."

- Seeks to maximize company's ESG ratings while minimizing tracking error to parent index
- Metrics include: carbon emissions, employee health and safety, and board diversity
- Screens out tobacco, controversial firearms, and significant ESG controversies

Top Holdings
- Microsoft (5.74)
- Apple (5.10%)
- Amazon (3.84%)
- Alphabet (1.97%)

Sources: iShares..com as of 5/1/2020, MSCI
# ESG for Early Stage Private Companies

Sample Framework from Vodia Ventures:

| GOVERNANCE                  | Board Composition and Independence | Does the company have a Board in place, and who sits on it? |
|                            | Executive Compensation and Oversight | Is the executive team's pay in line with industry standards? How is it determined? |
|                            | Employment Practices and Livable Wages | Is the company providing employees with appropriate pay and benefits? What is the company’s policy regarding contracts? |

| DIVERSITY                   | Executive Leadership | Is the company actively working to build a diverse executive leadership team? |
|                            | Board Members        | Does the company’s Board bring to the table a diverse set of backgrounds, experiences, and perspectives? |
|                            | Ongoing Hiring and Employment Practices | Does the company work to eliminate biases and increase diversity through its hiring practices? |
|                            | Client Base          | Is the company working to serve individuals in underserved communities and ensure that everyone has access to its products? |

| PLACE-BASED CHARACTERISTICS | Location of Headquarters and Other Offices | Is the company based in an area that has historically been overlooked by capital allocators? |
|                            | Location of Clients | Is the company working to serve individuals in areas that are underserved? |

| RESOURCE EFFICIENCY AND CIRCULAR ECONOMY | Design of Key Products | Are the company’s products designed with strict adherence to reduce, reuse, recycle design principles? |
|                                          | Ongoing Operations    | Does the company have policies in place to reduce its environmental footprint across its operations? |
Thematic Investing: Impact America Fund

Women entrepreneurs and entrepreneurs of color receive 2% and 3% of venture capital funding, respectively. 95% of the Impact America portfolio has a woman or person of color at the helm.

- WKKF made a $3M mission-related investment as an LP in Impact America Fund in 2019
- Impact America is focused on large, underserved markets with diverse leaders that have untapped potential for investors targeting above-market returns
- The goal is to provide capital to excellent companies that also have a positive impact on low- and moderate-income communities and help create economic agency and mobility
- Investments include:
  - Camino Financial – online financing company focused on entrepreneurs of color
  - Mayvenn – black hair care marketplace for products and salon services
Sizing the Industry

U.S. Sustainable Investing

- Impact / Thematic Investing ($1.1 trillion)
- Negative Screening ($9.0 trillion)
- ESG Integration ($9.5 trillion)
- Corporate Activism ($1.8 trillion)

Source: USSIF, Global Sustainable Investment Alliance, Thinking Ahead Institute, Vodia Capital
## Foundation Tools

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<th>Grants</th>
<th>Program-Related Investments</th>
<th>Mission-Related Investments</th>
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<td><strong>Funding Source</strong></td>
<td>Foundation's annual 5% payout requirement</td>
<td>Foundation's annual 5% payout requirement¹ for private foundations¹</td>
<td>Typically the endowment or a carve out of the endowment</td>
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<tr>
<td><strong>Return Expectations</strong></td>
<td>No expectation of return²</td>
<td>Below market-rate returns, typically recycled into philanthropic capital</td>
<td>Typically market-rate or above-market rate returns, usually reinvested into the endowment</td>
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<td><strong>Legal Requirements</strong></td>
<td>Must be made with a charitable purpose, and for some foundations, the output must be a public good</td>
<td>Charitable purpose must be the primary consideration when making the investment</td>
<td>No legal requirements of charitable purpose, typically furthers both philanthropic and financial goals, prudent investor standards apply</td>
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<td><strong>Types of Investments</strong></td>
<td>Primarily (and sometimes exclusively) to non-profits (501c3) or fiscal sponsors</td>
<td>There are no prescribed limits on investment size, returns, vehicle, etc.</td>
<td>Can be made in any asset class</td>
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1. Community foundations are not subject to IRS restrictions on their use of program-driven investments and have flexibility to make investments from endowment, donor advised or unrestricted funds.
2. One exception is recoverable grants that will return the grant funding to the foundation.
PRI Example: Rio Grande Valley Multibank

Predatory lenders charge rates up to 700% a year and in Texas alone constitute a $6B industry. RGVMB provides an alternative solution for short-term loans up to $1,000 at 18% interest.

- WKKF made a $1M, 10-year subordinated loan as a program-related investment to provide alternatives to predatory lending
- There are high rates of poverty, obesity and unemployment near Mexico border as well as a lack of financial options and education among residents
- Dominance of high-interest loans and monthly payment plans for furniture, tires
- Also expanding model to other regions with similar challenges: Mississippi, New Mexico, Michigan, Louisiana, Maryland, Indiana
Grant Example: South Valley Social Enterprise Center

New Mexico ranks 49th in the nation in child poverty levels, disproportionately skewed towards the state’s Hispanic and Native American families. Job creation and economic development are critical levers to providing access to income and opportunity for families.

- WKKF made a $1M grant to support public-private partnership for economic development to alleviate poverty and create opportunities in Albuquerque’s South Valley
- WKKF originally considered a program-related investment and upon further investigation, WKKF team realized that a grant would catalyze far more capital
- After WKKF’s initial grant, 11 additional grantmakers and investors funded the initiative
- The center houses a production/manufacturing space, an early childhood center, training space and offices and will be used for professional development workshops, pre-accelerator trainings, parent leadership classes and educational support training
Other Concepts to Discuss

- System Level Change
- Measurement and evaluation
- Place based investing
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<tr>
<th>Company</th>
<th>Impact Summary</th>
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<td>Cryocytex</td>
<td>Since inception: 1,144,667 farmed fish lives saved, 51,510,714 protein portions enabled, 3,219,375,000 wild fish not wasted</td>
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<td>DemandQ</td>
<td>Since inception: 72.1 MM kWh reduction, 600,000 kW reduction, 51,000 tons of CO2 reduction</td>
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<td>Helparound</td>
<td>Since inception: 30,000 type 1 diabetes patients have gained access to medical supplies they could not otherwise afford</td>
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<td>Resilience Therapeutics</td>
<td>Since inception: Product still in R&amp;D</td>
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<td>In calendar year 2018: 29.7 MM kWh reduction, 200,000 kW reduction, 21,000 tons of CO2 reduction</td>
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Place Based Investing

- Investing in specific regions allows philanthropists to hone in on the cities, states and regions they care about the most
- WKKF has a national portfolio as well as a place-based portfolio across specific regions in the United States and in Mexico and Haiti
- Place-based investments may include real estate, infrastructure, community institutions and place-focused private equity investments