

Louvain School of Management

**Impact Investing: A Comparative
Assessment of Impact
Measurement Methodologies Used
by Impact Investing Funds: the
Present Situation and Future
Development**

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Academic year: 2020-2021

Thank you very much to Professor Yves De Rongé. Your patience and your positivity with my project were very much appreciated. Your sense of what is right in this world is admirable and I endeavour to have such an attitude.

Thank you very much to everyone at LSM and UCL, I've thoroughly enjoyed my time studying here and I look forward to returning when the current Covid-19 crisis is over to see all my friends.

I would like to acknowledge Belgium for being my host for 2 years of my education. What the country lacks in mountains and valleys, they make up for with spirit, kindness, and positivity in their people. It has been fantastic to be in the midst of the Belgian acceptance of diversity and multiculturalism during my time as an international student.

I would like to thank Julie O'Keeffe for the times that I needed a distraction away from the thesis in order to come back to the computer with a good attitude. You were there for me and I'm so grateful.

Thank you to all of the friends in Belgium, Ireland, and Portugal for helping me through this difficult year, it is very much appreciated.

Also thank you to my family for cooking me meals, looking after me and keeping me on the right track to finish this thesis, I'm very lucky to have such a family.

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1. Introduction

“Traditionally, funders such as governments, multilaterals, philanthropies, and nongovernmental organizations (NGOs) have dominated the social and environmental sectors, bearing primary responsibility for impacts such as food security, well-being and energy conservation. Today, however, the world is witnessing an emergence of new market-based players – impact investors – who are leveraging the power of private capital and using financial and market principles to drive social and environmental change.”

(Reisman and Olazabal, 2016, p. 3)

Impact Investing was first coined in 2007 by a group of investors and industry pioneers (Bugg-Levine and Emerson, 2011). They felt that the terms in use at that moment did not capture the essence of their investors’ interests. “Socially responsible investing” and “ethical investing” were too righteous and focused too much on what type of firms to avoid. “Sustainable finance” was too focused on the environment and not on the array of social problems that exist in the social landscape. “Impact Investing”, however, seemed to evoke the optimism that the investors craved, and it provided a certain call to action. With two meanings in the title, it captured both sides of the coin intentionally, financial return and social impact. The term resonated with those who already had a desire to amalgamate their investment and philanthropic endeavours, as well as those who wanted their investments to work harder socially. Over the last two decades, Impact Investing has arisen as a different asset class. There has been considerable investment in Impact Investing, but research has not always kept up with the pace of practitioners (Agrawal & Hockerts, 2019).

“What united all of them was an interest in assessing the potential and real performance of their capital through more than a passive financial lens”

(Bugg-Levine and Emerson, 2011, p. 12)

After the financial crisis in 2008, the term “Impact Investment” was used more and more as investors looked towards their investment footprint on social and environmental landscapes

(Geobey and Westley, 2012). Since then, there has been a significant increase in publications and specialised conferences around the world.

Since its nascency, Impact Investing has seen the rise of many different wealthy individuals, banks, foundations, and government agencies add to the exponentially growing pool of capital (Weber, 2016). Currently the market for Impact Investments is estimated to be \$715 billion as of June 2020 (GIIN) and assets under the socially responsible investment category are now more than \$30 trillion (Stevens, 2019). Representing one of the biggest and most-exciting trends of the last two decades, Impact Investing links business strategies to a social impact goal allowing investors to pursue financial returns while also intentionally addressing social and environmental challenges (Rizzello, 2016). Even with this incredible amount of investment, the opportunity for Impact Investment to grow could be even greater as there is increasing levels of economic demand at the poorest levels of society, climate change and a growing population within welfare states that are strained. These factors may expand the potential of the Impact Investing market (Martin, 2013).

There are many different actors operating in the Impact Investment markets, from different types of banks, to foundations, government agencies and high net-worth individuals. As a result of the growing importance of the Impact Investment market outlined above, there has been rapid growth in capital invested (Agrawal & Hockerts, 2019). Year on year, agencies such as the US-small business administration fund or the USAID have increased their Impact Investments. The main driver for those investors looking to get involved in Impact Investment is the ability to follow both their social and financial goals in a single investment (Rizzello et al., 2016).

The thesis below is set out in three key chapters. Firstly, a literature review which looks backwards at how the Impact Investment world has progressed in the last two decades, both in practice and in the literature surrounding it. Chapter Two delves further into Impact Measurement and the methodologies that are currently used to measure the social or environmental impact of Impact Investment. After highlighting the need for further exploration on how to measure long-term investments, chapter 3 gives some insights and explanations from industry practitioners who were interviewed as a part of the research undertaken.

Chapter One and Two were carried out through an extensive crawl through Socially Responsible Investment management books and articles using DIAL and Google Scholar. The research was skewed towards articles post 2010 due to the nature of Impact Investing which has developed greatly since its inception in 2007. Due to the Covid-19 pandemic it was impossible to access the

physical library in Belgium so there are some physical books and library resources that were inaccessible.

Chapter Three is primary research carried out via semi structured interviews. The interviews took place on video conference due to the Covid-19 pandemic. Their insights are personal as well as relevant to the Impact Funds of which they are part. There were considerable difficulties sourcing the right interviewees for this project as the search was for a specific type of impact fund manager. As a result, further research would need to expand on this set of semi-structured interviews to have a more statistically significant result.

Chapter One: Literature Review

In this chapter of the thesis, a literature review, a collection of the most important academic articles on Impact Investing are investigated to give a current outlook of the field. The state of the field is examined, and definitions and characteristics of Impact Investing are set out for the rest of the thesis. Finally, further research questions are explored as a result of the investigation into the literature and previous literature reviews.

The coming section is set out as the following: firstly, an introduction to Impact Investment, where it lies on the investment spectrum, and its objectives. Secondly, the actors involved in the Impact Investment process are explored and investor motivation is further developed. Thirdly, investor strategy factors are outlined and considered on the basis of literature. Finally, a development of the literature regarding levels of the industry and performance is explored. The body of work that was examined for this review was greatly influenced by two existing peer-reviewed publications, Hockstadter & Scheck (2014) and Agrawal & Hockerts (2019), as well as other peer-reviewed articles that have been published between 2005 and 2020 (See full list In Bibliography). This literature review looks to expand on their research and develop further insights from the academic papers in the industry.

2. What is Impact Investing?

“Impact Investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact Investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals.”

(Core Characteristics of Impact Investing, 2020)

For the purpose of the paper, Global Impact Investing Network's (GIIN) definition of Impact Investments above is taken to guide the analysis throughout. Impact Investment definitions in literature are pinned around two core basics: a financial element of return (usually between the principal and the market rate) and a non-financial (social or environmental return) (Hochstadter

and Scheck, 2014). On top of this, there are four key elements that distinguish Impact Investments from other types of investments:

1. Intentionality

- Impact Investments are those in which there is a specific intention to contribute to social and environmental solutions, distinguishing them from ESG Investing, responsible investing who look to screen financial instruments, either positively or negatively.

2. Financial Returns

- Impact Investments expect a return that can range from anything from below the market rate to the risk-adjusted market rate, distinguishing them from philanthropy which does not look for a financial return.

3. Range of Asset Classes

- Impact Investments can be in the form of different asset classes.

4. Impact Measurement

- One of the distinguishing factors of Impact Investment is reporting on the social and environmental Impact Measurements throughout the course of the investment.

(Core Characteristics of Impact Investing, 2020)

Impact itself is defined as the positive change generated by an investment. Impact Measurement, as a result, are the activities the investor organisation takes to evaluate and report on the social and financial change generated (So & Staskevicius, 2015). The weighting between the financial and the non-financial elements of the Impact Investment has little academic coherency currently and in fact, it is seen as a decision for the specific impact investor to make, as explored later on in this review. As a result, it is up to investors to choose to what degree they are financially motivated or socially and environmentally motivated when looking at their returns but both of these basics, financial and social return on investment, must be present when there is an intention to invest (Hochstadter and Scheck, 2014).

2.1. Objectives Behind Impact Investment

Impact Investing is making inroads into the way that people traditionally think of business and philanthropy. It is an old long-held view that social and environmental endeavours are to be resolved through philanthropic donations and that business should focus on maximising financial

returns (GIIN, 2021). Impact Investments allows investors to pursue social and environmental goals while also producing financial returns from market rate to principal return (Hochstadter and Scheck, 2014). Impact funds from banks, pension funds, wealth managers and financial advisors are able to offer traditional investors an opportunity to make more of a difference with their money by investing in general and specific social and environmental causes while employing their capital for financial return (GIIN, 2021). Those foundations that traditionally worked primarily in the philanthropic area can now recycle their capital to advance their impact objectives (GIIN, 2021). Finally, governmental investors and development finance institutions can target specific social and environmental objectives while also proving their financial viability for private sector investors.

2.2. Terminology

From the reading of many different articles across many different sources, it is clear that there is some confusion on where exactly Impact Investing lies amongst the other socially responsible investment options there are in the world. This section hopes to clear this up by explaining the differences and similarities between the most common terms used across the industry. Six factors give distinction to Impact Investments over microfinance, socially responsible investment, social impact bonds, venture philanthropy and venture capital:

1. The size of the capital invested
2. The degree of engagement with the investee party
3. The process of selection of where to invest the capital
4. Social outcome relevance and measurement
5. Reporting of both social and financial outcomes
6. The role of the government

Without this clarity between the different terms, there can be undesired consequences as Hochstadter and Scheck (2014) have outlined. Muddling the definitions across the range of socially responsible investments can result in a situation where Impact Investing is:

1. A muddled concept that takes from the legitimacy of the idea and any of the social organisations that are involved in the search for impact investors or vice versa.

2. Growing more slowly and has more difficult growth in the financial market. Those looking to get involved in Impact Investing are deterred since it is hard to grasp the concept and they have an opinion on it.
3. Not investigated and followed up by academic research because the boundaries of the concept are not clearly defined, and precise discussions cannot proceed.

2.2.1 Social Finance

The world of Impact Investing has many different terms that offer explanations for ranging portions along the responsible investing spectrum. Two articles, Achleitner et al. (2011) and Hochstadter and Scheck (2014), explored this spectrum and clarified definitions in greater detail. What becomes apparent through investigating between these two articles and others, is the mixing up and the interchangeability of the terms Impact Investing and Social Finance. It appears that “Social Finance” is more widely used in UK and in Europe, whereas Asian and US academics are more likely to use “Impact Investing” (Agrawal & Hockerts, 2019). For the purposes of this thesis, Social Finance and Impact Investing will be used interchangeably and understood to have the same meaning.

2.2.2 Social Investment

Social Investment and Impact Investing have a complicated relationship, and the term Social Investment has had many meanings across different papers. The two terms have often been used interchangeably as well. On top of this, it is highlighted that Social Investment has also been referred to a larger meaning like SRI (section 2.2.4.). There are also other academics who perceive Social Investment to be a subset of Impact Investing. Although the investor is looking for a financial return, this is not one of their primary motives, rather they are looking to make non-financial impact on a social purpose (Hochstadter and Scheck, 2014). Going forward, the understanding of Social Investment will be taken as an interchangeable term with SRI for the purpose of this paper.

2.2.3. Microfinance

There is contention in the academic field as to whether or not microfinance is Impact Investing. Hangl (2014) suggests that microfinance is part of Impact Investing but Agrawal & Hockerts (2019) makes an important distinction between microfinance and Impact Investing. Agrawal & Hockerts

argue that there is a distinction between the two in the capital that is invested by an impact investor, which is much greater than that which is loaned by a microfinance institution (Ashta, 2012). Further, impact investors are more involved with their investment results than a microfinance institution usually would be (Roundy, Holzhauser, and Dai, 2017). Finally, it is argued that the interest rates required by an impact investor would be much lower on their investment than that of a microfinance institution looking to make interest to maintain the feasibility of the organisation. In totality, this shows that microfinance is different from Impact Investment but that impact investors can be investors in microfinance institutions.

2.2.4. Socially Responsible Investing (SRI)

SRI is investing in publicly traded investment opportunities that have a much stronger emphasis on the Environment, Sustainability, and Governance (ESG) (Agrawal & Hockerts, 2019). Compared to SRI, Impact Investment is much more involved on the social impact side of the investment. The impact investors are looking to bring value both socially and commercially rather than just rely on the ESG policy of a publicly traded investment. Most academic and practitioner texts conclude that Impact Investing distinguishes itself from SRI by going further than the bounds of SRI (Hochstadter and Scheck, 2014). That is to say that Impact Investing:

1. Has a greater proactiveness to involve itself in the social and environmental issues rather than trying to influence corporate governance through positive and negative screening.
2. Differentiates itself in the sizing of the typical investment. Impact investors typically invest in smaller companies at early-stage investment while SRI is more involved in public traded securities.
3. Has a different risk/return profile than a typical SRI investment. Impact investors are more considerate of the non-financial real impact and looking for a return from the principal to the market rate whereas SRI investment is concentrating on market returns through ESG safe companies.

“Socially responsible investing seeks to minimize negative impact, while Impact Investments are ‘intended to create positive impact beyond financial return”

(O’Donohoe et al., 2010, p. 5).

2.2.5. Venture Philanthropy

The main and most prevalent difference between venture philanthropy and Impact Investment is that venture philanthropy is much more focused on the social impact side of an investment rather than the financial return (Defourny et al., 2013) whereas an Impact Investment is much more balanced between the two sides. Apart from this, there are many similarities between the two: both look after the social side trying to maximise the social impact that they can make through their investment, both look after their investees through engagement and both hold their investments accountable with measurable instruments which differentiates them from charity.

2.2.6. Social Impact Bonds

Social Impact Bonds pay out financial returns when a specific social outcome has been met (McHugh et al., 2013). They are multi-stakeholder agreements between the government, the service provider and the investor facilitated by an intermediary organisation. There are many papers which see social impact bonds as Impact Investing instruments, although Agrawal & Hockerts (2019) outline that there is a significantly higher level of stakeholder engagement and Impact Measurement in social impact bonds.

2.3. Actors of Social Finance

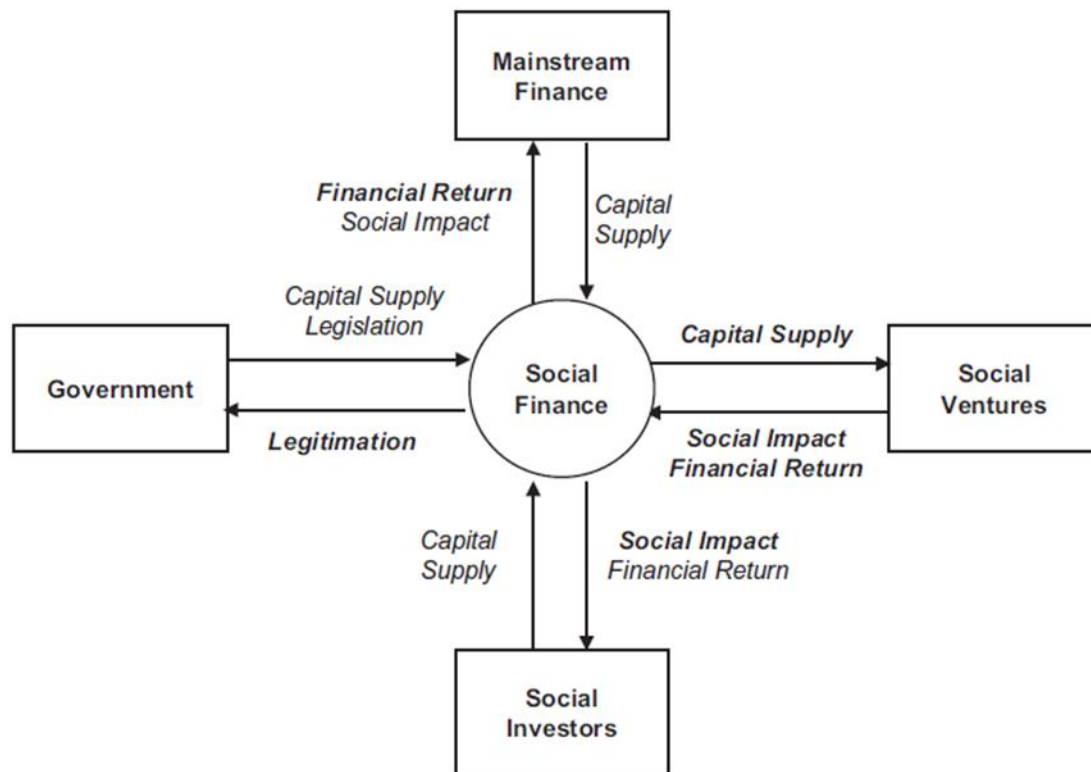


Figure 1: Actors in Social Finance (Rizzi, Pellegrini, and Battaglia, 2018)

Rizzi, Pellegrini and Battaglia (2018) set out in figure 2 all of the main actors of Social Finance (Impact Investing) in a short and simple diagram. It shows the flow of information and capital that occurs in Social Finance. This diagram also tries to show the relationships and exchanges that occur between the four primary stakeholders of Social Finance. Starting from the left side of the diagram, governments provide the necessary environment for Impact Investment to occur through legislative frameworks that allow for the growth of the Social Finance market. Social Finance then affects governments through its financing of social projects that alleviate some of the financial burden that governments have in social services. Mainstream financial investors looking to further CSR efforts and balance their portfolio, along with social investors looking to make a difference, invest in Social Finance institutions and in return, they receive financial and social returns. Social ventures receive the capital from these investors for their social projects and it is them that generate the financial and social return (Rizzi, Pellegrini, and Battaglia, 2018).

2.3.1. Social Ventures

Social ventures need more capital to address the social needs of society. With the risk profile of social ventures and the return profile of their business, social ventures have struggled to access mainstream financing and as a result they struggle to have adequate capital to address the social problems they are looking to address (Huybrechts and Nicholls, 2012).

2.3.2. Governments

Government plays a crucial role in creating the ecosystem which has the necessary frameworks and stimulation for the Social Finance market. Governments have realised that the influx of funds into Social Finance could have a direct effect on the same social issues that they are trying to address. By creating new legislation, which is supporting social ventures and Social Finance markets, governments are allowing easier access to social ventures to access capital as well as providing capital to these organisations (Martins, 2013). According to Martins (2013) there are three primary ways in which governments can support the Impact Investing market: stimulating supply, directing capital, and regulating demand. By incentivising impact investors to invest in social ventures by risk-sharing or co-investing, governments can increase the amount of Social Finance capital. Governments can direct the supply of Impact Investing capital by better leveraging its own investments and expenditures for social impact. This will help to change the risk/return profiles of Impact Investments with changes in market prices and also improved transaction efficiency and market information such as standardising measurement. Lastly, governments can stimulate the demand for social Impact Investment by building the capacity of investee organisations to receive and take in funding (Martins, 2013).

2.3.3. Mainstream Finance

As Social Finance has grown among institutions and Impact Investment funds, mainstream finance has become more interested by its proposition. They can use it as a tool for portfolio diversification as well as a way to reach their corporate social responsibility targets (Rizzi, Pellegrini, and Battaglia, 2018).

2.3.4. Social Investors

Traditional philanthropists who were generally involved in donations and grants as well as foundations and socially-motivated individuals are encouraged by Impact Investing as they are

looking for a better way to employ their capital in the resolution of social problems (Rizzi, Pellegrini, and Battaglia, 2018). Impact Investing provides an innovative model of investment that provides a social return on investment while returning the capital invested for reallocation which is attractive to traditional philanthropic investors.

2.4. Motivations of Impact investors vs Other Providers of Capital

2.4.1. Other Providers of Capital

Impact investors have distinct motivations to provide both a financial and a social return on their investment. But the question still remains as to what differentiates them from a venture capitalist who has the same effect financially and maybe socially, or a philanthropist who has the same effect socially and maybe financially. Leaning on Roundy, Holzhauser and Dai (2017), this section explores the motivations of the impact investor and what differentiates them from the rest.

Starting with venture capital, the key difference between the motivations of venture capitalists and impact investors are that a venture capitalist sets out to maximise his financial return whereas impact investors set out to maximise their impact, both financially and socially with both sides of the coin having focus in the investment decision. Venture capitalists receive money from their investors, and it is their fiduciary duty to set out to maximise the returns on this capital. In Roundy, Holzhauser and Dai's 2017 paper, one of their venture capitalist manager interviewees sets out the intentions of venture capitalists:

"[It is] strictly financial. [...] As long as it's not illegal or immoral, we're probably going to do it."

Flip the coin and philanthropy is the exact opposite of venture capital, donations make up the capital that philanthropists give to address purely social needs. There is no expectation of any financial return (Roundy, Holzhauser and Dai, 2017). Philanthropists are generally concerned with the direct addressment of a certain social issue, and this is how they assess the impact of their investment, social return on investment.

Somewhere between venture capital and philanthropy lie both Impact Investing and Angel Investing. Angel investors and impact investors are similar because both make investment

decisions that are not made on a purely financial returns basis. Angel investors go past the financial foreground when making investment decisions and they cite reasons such as helping the start-up community and helping entrepreneurs as their extra-financial return (Roundy, Holzhauer and Dai, 2017). The key difference between angel investors and impact investors lies with the measurement of the social return. Where impact investors see measurement of the financial and social return as part of the process, angel investors view the process of investing itself as a social good and as a result do not need to measure any social return on investment. Another key difference between the two is the investee organisations. Angel investors do not intentionally set out to invest in social organisations whereas impact investors look to place their investments within organisations who will return a social impact. Angel investors also see a clear distinction between investment and philanthropy, they view the two processes as exclusive to each other whereas impact investors are intentionally trying to blend the two together and create a different outcome which satisfies both sides of the spectrum.

2.4.2. Motivations of Impact Investors

Motivations of impact investors are not uniform; they are usually personal to the investor and align with the investor's social values. What is uniform with impact investors is that these values are looking to create change in society through the investment to create a social good (Roundy, Holzhauer and Dai, 2017). If it weren't for the values of the investors, they would simply place their capital in a profit maximising investment instead.

What motivates a single impact investor is not necessarily what motivates another. For example, one impact investor could look to make investments in order to create jobs and another investment could be made in order to save certain animal species. For this reason, the social values which the impact investor has creates an emotional motivation to pursue an investment with a certain social outcome (Roundy, Holzhauer and Dai, 2017).

One of the reasons that investors choose Impact Investing over traditional philanthropy is that they are motivated by the opportunity to re-deploy the financial return on investment to generate further social returns (Roundy, Holzhauer and Dai, 2017). This provides a more sustainable use of the capital where it can be reused over and over addressing social issues.

Another motivation for impact investors to engage in this form of investment over traditional philanthropy is the ability for the investee organisation to use the money as they require rather than the strict controls that cover grant obligations. This allows investee organisations to invest in what they need in terms of back-office infrastructure and developing revenue streams to be sustainable and scale-up. Impact investors are motivated to see this growth in the organisations rather than just a focus on funnelling capital to the end social goal (Roundy, Holzhauser and Dai, 2017).

Another focus of impact investors is the “slow money” concept whereby the long-term investment into an organisation who needs time to develop in order to address a social need that neither philanthropy nor venture capital can address with their respective capital restrictiveness and short-term outlook (Roundy, Holzhauser and Dai, 2017). Impact investors want to hold onto their investment until it makes sense to offload it again rather than a pre-prescribed 3-5-year span like venture capital. This is explored further in Chapter Three where long gap measurement is delved into deeper.

Impact investors’ motivation is personal, and it can be as a result of a traditional capital market that doesn’t fit the needs of the investee organisation. Whatever the motivation of the individual impact investor, what ties them together is the desire to receive both a financial and a social return on investment.

2.5. Criterion of Impact Investors

Roundy, Holzhauser and Dai (2017) carried out a large study into how and why impact investors choose the investee organisations. From their 31 semi-structured interviews with single impact investors and Impact Investment fund managers they found that they have financial targets in both size of the venture, and stage of their development that determine if they invest. Certain investors are looking to enter at an early private equity stage as the organisations become cash flow positive, others evaluate the potential investee organisation based on the capital requirements that they have. Some impact investors are looking for a pre-prescribed financial rate of return, others are not as preoccupied with this as long as it is a positive return.

Some of the criteria used is similar to traditional venture capitalists such as the analysis of the management team that it is on board in the social organisation and its potential to grow the company. What is unique to Impact Investment, is the assessment of the organisations to create social value. The way in which impact investors evaluate this social value dimension is varied, from fulfilling the B-corp criteria to internal metrics set out to address the social issue that is personal to the investor (Roundy, Holzhauser and Dai, 2017). Other impact investors look to the level of social alignment between the investor and the investee.

In conclusion, what impact investors evaluate in order to differentiate themselves from other forms of early-stage investment is the social mission aspect. The other due diligence on the financials and governance can be seen in other forms of investment.

2.6. Strategic Considerations

This section will give a general overview of some of the strategic considerations needed for impact investors, investees, and other stakeholders. With strong guidance from Hochstadter and Scheck's 2014 review on Impact Investing, the five dimensions of demography and geography, organisational processes, sector, and impact objectives, financial or organisational structure and finally, asset classes and financial instruments are all analysed. What becomes apparent in the strategic considerations is that Impact Investments are not limited by borders, segments of population, industry sectors, impact objectives nor by the financial instrument which is the medium of investment.

2.6.1. Demography and Geography

Generally, Impact Investments are targeted at a social class that is less well off. This is not to say that it is exclusive to underserved populations but rather that, more often than not, the target of the Impact Investment is a certain section of society that has not been served well, such as the homeless, prisoners, or marginalised populations. Hochstadter and Scheck (2014) point also to the fact that general environmental Impact Investments are non-discriminatory across the general population because the impact is felt across the different sections of society evenly.

Hochstadter and Scheck (2014) identify a commonly held view that associates Impact Investing with developing and emerging markets where in reality, from their research, it is actually not

exclusively a developing world phenomenon. Impact Investing can take place in any country, although it can be accepted that Impact Investing can occur more easily in the developing world because there is a higher level of social and environmental problems across the board and a general lack of infrastructure, capital, and jobs.

2.6.2. Organisational Processes

It is not just from the output of Impact Investment in social and environmental organisations that social and environmental objectives can be achieved. The investee's business processes can deliver impact through the business processes themselves such as providing jobs to underserved members of the population or sourcing from socially and environmentally sound routes (Hochstadter and Scheck, 2014).

2.6.3. Sector and Impact Objective

Agriculture, clean tech/energy, education, healthcare, microfinance, housing, and water are all identified as common sectors for Impact Investing to occur. Although these sectors are the most common sectors for Impact Investment to occur, it is not exclusive to these sectors nor is it confined to a certain objective within a sector. For example, Hochstadter and Scheck (2014) identify job creation and access to technology as objectives that span across many different sectors as an objective for impact investors.

2.6.4. Financial or Organisational Structure

There is debate over the structure of the investee organisation when examining what qualifies as an Impact Investment. Some academics and practitioners believe that the mission and intent is a responsibility carried only by the investor, whereas others believe that an Impact Investment can only qualify as such in an organisation that has mission primacy at the fore of its social and/or environmental purpose (Hochstadter and Scheck, 2014). Brown and Swersky (2012) view impact investees as typically social organisations or private organisations that have an explicit social purpose and a limit on the profit distribution to shareholders.

2.6.5. Asset Class or Financial Instruments

Impact Investments appear to be able to take nearly any form of investment instrument as long as the definition can still be applied to the investment made. Private equity and debt instruments

make up most of the financial Impact Investment forms (Saltuk et al., 2013) but other forms such as social impact bonds, public debt, and equity investments do also occur. There is argument that Impact Investment is its own asset class as it requires different risk management skills, different organisational structures, and education, and requires the use of Impact Measurement (O'Donohoe et al., 2010).

3. Development of the Literature on Impact Investment

Agrawal & Hockerts (2019) found that the way in which Impact Investing has been referred to and defined in the past has shifted. Between 2005-2012, there was much more of an influence on defining Impact Investing to distinguish from charity and venture capital. However, the definitions were broader and more general and therefore they were getting more muddled with other socially responsible investments (Battilana et al., 2012). From 2012-2016, Impact Investing took on more nuanced definitions as the academic world started to further distinguish Impact Investing from the other forms of socially responsible investing, as outlined above in section 2.2. above. Impact Investing was marked out by investors investing in organisations with a clear social mission and a theory of change with an ability to produce financial return (Jackson, 2013). Impact Investing was further expanded upon where characteristics of high engagement, tailored financing, wide-ranging investor and stakeholder support, organisational capacity building, and performance management became crucial to its distinction (Hebb, 2013).

Since 2016, the definitions of Impact Investing have developed further. Different elements of the definition were expanded upon e.g. the stakeholders, social motive, and profit-motive. Roundy, Holzhauser, and Dai (2017) found that impact investors “represent a unique class of investors that differs from socially responsible investing, from other types of for-profit investors, such as venture capitalists and angel investors, and from traditional philanthropists and that Impact Investing was “early stage investing with the goal of generating both financial returns and measurable social or environmental benefits.” They brought to light that impact investors also have a certain amount of financial return that they are willing to sacrifice because they want to see their social impact occur, it ranges from the market rate downwards to principal return. Those who do not wish to pursue both of these objectives cannot be impact investors. Furthermore, they also expanded on the motivations of impact investors as discussed above in section 2.4. The degree to which impact investors are involved in their investments also grew in the definitions since 2016 (Quinn and Muir, 2017).

3.1. Existing Literature on Impact Investing

Agrawal & Hockerts (2019) performed a review of the existing research on Impact Investment, and more specifically the type of questions that were asked by researchers from 2005 to 2018. Their findings presented a development of the literature from more broad and conceptual

questions at the beginning of this period to more detailed and specific questions in recent times. Research in the modern era is more focused on the operational characteristics of Impact Investing.

Early conceptual studies focused more on definitions of Impact Investing, developing the potential of Impact Investment and singular case studies lacking strong empirical evidence (Agrawal & Hockerts, 2019). They pinpoint the transition from philanthropy to venture philanthropy as the emerging point of Impact Investing (Wood and Hagermann, 2010). Brown (2006) sets out the need for a dedicated infrastructure to be in place in order to grow investments in social enterprises. This infrastructure would be able to connect all of the stakeholders together, linking ethical investors to social organisations. With this, Brown expected a know-how, and culture of social and combined financial investment to form. This started to make tracks with the coining of the term “Impact Investment” in 2007.

From 2010 to 2014, Agrawal & Hockerts (2019) observed a focus on case studies that explored the promise of Impact Investing in terms of its performance in isolated settings but lacking the theoretical backdrop to further reinforce findings from isolated cases. But these case studies, such as Lehner & Nicholls (2014) exploration of crowdfunding as a source of Social Enterprise funding, allowed for the initial stage of theory development.

After this period there is an even greater interest in singular country case-studies to explore Impact Investing and its local implications. Location and government policy are clear factors in the success and the applicability of Impact Investing as a result of the contrast between the studies. They go on to acknowledge that the field is becoming more applied and the research questions asked in the case studies are becoming specific in nature (Agrawal & Hockerts, 2019).

3.2. Levels of Impact Investment Development

3.2.1. Institutional Level

There are three different levels upon which there has been existing research and findings have developed (Agrawal & Hockerts, 2019). The first level, institutional level, explores more of how institutionalised Impact Investing has become in the field. This allows for difficulties to be identified. For example, the degree to which Impact Investing is seen as a successful and fruitful endeavour relies heavily on the success of the companies to which the funds are being invested

for social and financial impact, as identified by Nicholls (2010). With the reliance of Impact Investing on the firms in which they invest, it is important for further research to legitimise the practice at an institutional level (Chhichhia, 2015).

The trading of investments as equities on an exchange legitimises the field at an institutional level. Chhichhia (2015) explored the new innovative indexes at the time, the UK Social Stock Exchange, Canada Social Venture Connexion, Singapore Impact Exchange and the South African SASIX. The need for capital for social businesses continues to be a key challenge for their existence. Secondary marketplaces give access for these businesses to receive the funding they need and for investors to have more liquidity in their investment (Mendell and Barbosa, 2013). At an institutional level, secondary markets will greatly legitimise the Impact Investing sector.

As stated above in section 2.6., other institutional level factors include the geographic location, and the resulting locational differences from country to country due to policy and regulation. Taxation laws, market norms, literacy rate, quality of public services, and inflation all contribute to the strategy, operations, investment decisions and costs of impact investors (Agrawal & Hockerts, 2019).

There is a paradox between developed economies and developing economies whereby the former is a better trading place for Impact Investments where entrepreneurship can flourish easier, but Impact Investing opportunities are far more abundant in developing economies. Hochstadter and Scheck (2014) identified, as stated above, that the hurdles for Impact Investment qualification in developing countries are lower due to the levels of impoverishment and therefore Impact Investments are more abundant in developing economies but not exclusive to them.

3.2.2. Firm Level

There are six essential operational elements around which the Impact Investing process is organised:

1. Field Level Knowledge
2. Firm-level innovation
3. Sector-specific knowledge
4. Organisational Form
5. Opportunity Recognition

6. Due Diligence

(Agrawal & Hockerts, 2019)

With these six elements working coherently, an Impact Investment can expect to deliver social and commercial success. Only with the achievement in both of these can an Impact Investment be seen as successful (Agrawal & Hockerts, 2019). Just like venture capital organisations are reviewed on their profit results in their investees, impact investors are reviewed on the social impact and commercial success of the investee organisation (Huybrechts and Nicholls, 2013). Regarding the financial dimension, for an Impact Investment to be a success, it appears that at least the principal must be returned to the investor (Hockstadter & Scheck, 2014). Regarding the social dimension, it is up to the investor to have their own measure of success reaching measurable targets. The methodologies to determine success are further discussed in Chapter Two. The degree to which the investor weights social/environmental vs financial targets is up to the investor as long as they are staying within the parameters of the Impact Investing definition or else, they are slipping into venture philanthropy or Socially Responsible Investing (Hockstadter & Scheck, 2014).

3.2.3. Individual Level

There is a lack of proper research at the individual level and it is a point of further research in the future. One study that does look at localised individual level participation of potential impact investors is Apostolakis, G., F. Kraanen, and G. van Dijk. (2016) who explore the willingness to pay for a pension portfolio with SRI and Impact Investments and the relationship with psychological determinants of pension beneficiaries. Interestingly, they find that education and income have a positive effect on the willingness to pay higher administration costs in such a portfolio. Along with this, involvement in the portfolio's outcomes and psychological distance also have a positive effect on the willingness to pay. However, the portfolio is perceived as riskier, and those with lower risk tolerance are turned off such an investment of their pension. As stated, further research is needed to explore this level of Impact Investment fully.

3.3. Literature on Performance

There are many areas of Impact Investing performance that the literature has focused on since Impact Investing was coined as a term in 2007 (Agrawal & Hockerts, 2019):

1. Defining and measuring the “impact” in Impact Investing
 - a. (Bugg-Levine and Emerson, 2011)
2. Public policy implications and potential
 - a. (Nicholls and Tomkinson, 2013)
3. Process of Impact Investing
4. The measurement and effectiveness of social outcomes
 - a. (Saltuk, Bouri, and Leung, 2013)

“Funds and firms earning a seat at the Impact Investment table are focused on strategies that intentionally seek to uplift rather than to exploit poor customers, and they treat Impact Measurement as a central business management practice, rather than as an afterthought to use for external reporting and marketing.”

(Bugg-Levine and Emerson, 2011)

One of the problems that the Impact Investment performance has is that certain sectors can become more appealing to invest in due to their higher returns on investment. Impact Investment can be likened to Venture Social Capital (Roundy, Holzhauser, and Dai, 2017), and just like normal venture capital which has more productive and profitable sector-specific funds (Duong, 2015), Impact Investing can fall foul to this sector specialisation which will redirect funds into certain areas instead of being spread across a multitude of social organisations and projects. One solution is to use government to its full extent to motivate investors in certain sectors of the market. Agrawal & Hockerts (2019) suggest that in order to develop the extent of sector specification and social problem specific investing having an impact on the social outcomes of Impact Investing, further research will have to be carried out.

Portfolio theory is used in many articles when discussing the merits of Impact Investing measurement. Nevertheless, Geobey, Westler, and Weber (2012) explain that portfolio theory cannot be applied uniformly across all Impact Investments, as there is largely no consistent metrics across sectors of Impact Investing and therefore social risk assessment is very tough to include in the theory. In order to use portfolio theory, it is necessary to collect a large amount of data on Impact Investing firms, their investments and performance, and analyse their performance across benchmarks in the portfolio, at sector level and at firm level. The need for all of this data to assess the social risk has negative effects of increased transaction costs per

investment, as well as further capital allocation being misguided by incomplete data (Geobey, Westler, and Weber, 2012).

VanCity Credit Union in Vancouver is an example of a business that has an active portfolio of Impact Investments in many different types of sectors across its own metropolitan area. They make higher risk investments along with low risk ones in certain sectors in order to garner more information for their next set of Impact Investments, thus increasing their dataset and therefore increasing the efficacy of their portfolio theory social risk assessment (Geobey, Westler, and Weber, 2012). Interestingly, VanCity Credit Union has a network effect which creates a positive consequence on their own business. By investing in their surrounding metropolitan area, they increase the access to finance for many Vancouverites who in turn use this money to address a social need. The end effect is there are more citizens of Vancouver who become customers of VanCity as their social and environmental outcomes change as a result of the initial investment.

3.4. Future Research Agenda from the Literature Review

There are three important blocks outlined for Impact Investment to focus its future research:

1. Institutional Environment & Stakeholders
2. Impact investors and investee social enterprises
3. Outcomes and the inter-relationships between these three blocks

(Agrawal & Hockerts, 2019)

3.4.1. Institutional Environment & Stakeholders

3.4.1.1 *National Infrastructure*

One area of future research that is necessary to be able to evaluate the risks/rewards of Impact Investments is the study of risk as a function of location, entrepreneurial ecosystem, and concentration of social enterprises (Agrawal & Hockerts, 2019). There is a paradox in emerging economies whereby the lack of healthcare, insurance, and banking result in greater opportunity for social entrepreneurship, but it is also hard to make an Impact Investment due to the associated risk of not having this infrastructure in place. This issue needs further exploration in Impact

Investing because many promising looking opportunities may be risky undertakings in reality. As suggested by Agrawal & Hockerts (2019), using institutional theory and logic, research would go far in studying the effect that governments, stakeholders, and institutions have on Impact Investment policies. This research could then be used to help the practice of investing in developing economies.

3.4.1.2. Stakeholders

As discussed above, there are many different stakeholders in Impact Investment with the primary stakeholders being Governments, Financial Institutions, Social Investors and Social Ventures (Rizzi, Pellegrini, and Battaglia, 2018). Each of these stakeholders, while having the same objective, might have different ideas of how this objective is to be achieved or why this objective needs to be achieved. This draws up the need for further research into stakeholders and Impact Investments specifically looking at the relationships between the different stakeholders, the power dynamics and influence on decision making between the stakeholders, and who influences performance, both social and financial (Agrawal & Hockerts, 2019). Further research to be carried out should explore the power centres of Impact Investments and the processes, regulations and managerial templates of Impact Investment firms when dealing with the different stakeholders. There is necessity to better understand how stakeholders influence the outcomes of Impact Investment and under what conditions and what stage of the timeline this occurs.

3.4.2. Actors and actions

3.4.2.1. Due diligence

As referred to above, Impact Investing has many stakeholders but none that hold such an importance over the success of Impact Investing as a whole than the social ventures (Huybrechts and Nicholls, 2013). This results in a costly and time-consuming process for the impact investors when choosing the right social venture organisation in which to invest (O'Flynn and Barnett, 2017). The impact investor needs to understand all of the risks involved at the investee level, both socially and financially before they invest (Agrawal & Hockerts, 2019). Unlike venture capital which has stricter investment cut-off criteria, Impact Investment can have emotion and empathy in the investment process. Therefore, new conceptual frameworks or adapted theories need to

be explored for Impact Investments. This will help in the understanding of performance and processes of Impact Investing (Agrawal & Hockerts, 2019).

3.4.3. Inter-Organisational Relationship

The Impact Investment and Reporting Standards (IRIS+) developed by the GIIN create metrics for the Impact Investment industry with the investee organisation as the prime unit of analysis (Jackson, 2013). This standard allows for investors to invest in investee organisations more freely as they can forgo the labour-intensive process of benchmarking organisations among social and financial metrics (O'Flynn and Barnett, 2017). However, current research doesn't have a lot of insight into the investee organisation, talking mostly about investors and the potential rather than the investee organisations themselves (Agrawal & Hockerts, 2019). Hockstadter and Scheck's 2014 review outlines three differing schools of thought regarding the structure of the investee organisation, ranging from investor intention to create social value, to investment in investee organisations with social mission primacy. Therefore, in order to consolidate schools of thought, there needs to be more research on the relationship between the investor and the investee social enterprise in order to understand more about Impact Investment outcomes (Agrawal & Hockerts, 2019). Using real data of real interactions between investees and investors could be useful to develop theoretical concepts, and learn more about the relationship and how the two parties can best maximise the social and financial return on investment.

3.4.4. Outcome and Measurement

One of the prevailing calls for further research among a lot of research papers on Impact Investment is its measurement of the social outcomes. One of the main reasons why Impact Investments are not as liquid as traditional investments is the variability in measurement of the social outcomes. They are difficult to measure and on top of this, they are hard to authenticate (Ormiston and Seymour 2011).

It is important for impact investors to be able to quantitatively measure the social outcomes in accordance with the initial social reason for investment (Agrawal & Hockerts, 2019). They should then be able to measure and validate the outcomes with the factors set out initially. More research is needed to provide practitioners with more recommendations on how to compare and benchmark different Impact Measurements in different contexts.

Although the IRIS standards aim to reduce transaction costs and improve liquidity in Impact Investments (Jackson, 2013), there still are certain sectors which struggle to transform social action into measurable results, such as education and microfinance, due to the time gap between capital employed and real social impact created (Agrawal & Hockerts, 2019). Further research is needed to create easier methods for time-consuming social returns to be measured and bring down its inherent costs.

Impact Measurement has been underplayed in the past by the initial intentions of the investment because of the cost considerations, which are high per transaction, and the administrative burden that is placed on the investee to measure the social return on investment (O'Flynn and Barnett, 2017). Agrawal & Hockerts (2019) highlight that Sinzer and Sopact are two enterprises that collect data and measure performances which help to reduce the cost per transaction, the measurement of impact, and the publishing costs of Impact Investment. They highlight that it is necessary to use these sorts of mediums to take out a lot of the time consuming and costly research pre-investment and the measurement during investment. Further research on these sorts of medium aggregation businesses, that help to reduce costs and time per investments, can meaningfully legitimise the performance of Impact Investment measurement and portfolio performance.

Chapter Two: Outcome and Measurement: A Review of Methodologies to Assess Social Impact

In this Chapter of the thesis, one of the further research points, outcome, and Impact Measurement, is expanded upon. Existing literature is explored to place Impact Measurement Methodologies in the current Impact Investment ecosystem, and show how they are used and by whom. So & Staskevicius (2015) and O’Flynn and Barnett (2017) are two influential methodology reviews along with other peer-reviewed papers from 2010-2020 which are developed in the upcoming chapter.

Firstly, the Impact Measurement backdrop is set out, it’s history, the inherent paradox, as well as it’s advantages. Next, the criteria and the cycle process are expanded upon before the existing Impact Measurement methodologies are introduced to the paper. Finally, the need for analysts to interpret the data is highlighted and an example of social impact discount model is presented as a possible solution to long-term patient capital projects.

4.1. Measurement, Monitoring and Evaluation

Funnily, the Impact Investment world decided to use the word “measurement” to describe the process of assessing results of the investment. This is in contrast to most other social assessment fields where the terms “monitor and evaluate” are usually used for this process (Reisman and Olazabal, 2016). This development of vernacular specific to a certain industry is not uncommon, but slight differences can develop between different terms, in this case “monitoring and evaluation” and “measurement”.

“Monitoring is typically employed to track progress toward goals and can involve a range of measures, including inputs, activities, outputs, and short-term outcomes.”

(Reisman and Olazabal, 2016, p. 11).

There is also a significant overlap between performance management and measurement with monitoring. Evaluation addresses outcomes and outputs as well as processes undertaken. The view of the end beneficiary is considered, and context and systemic factors are considered.

Reisman and Olazabal (2016) considered standards and performance monitoring as monitoring equivalents and rigorous outcome and Impact Measurement and market systems analysis as more of an evaluative equivalent.

4.2. Impact Paradox

Impact Investing is reliant on measurement of its results in order to support the claims of social or environmental return. Social return measurement alongside financial measurement is what makes Impact Investing stand out in comparison to other forms of socially responsible investment and philanthropy. It helps to make the industry credible; it helps to differentiate itself in a muddled spectrum of investing and as a result, it is helping the industry to grow even further (O'Flynn and Barnett, 2017). But, one of the biggest paradoxes in Impact Investing for years was that Impact Measurement was low down the list of challenges for industry practitioners when listing industry challenges for growth (JP Morgan, GIIN, 2016). This may have been as a result of the cost per transaction, the work required to accurately measure the impact, or a presumption that impact was occurring without measurement (O'Flynn and Barnett, 2017).

Another problem associated with this phenomenon, and which might be a cause of it, is the long-term impact effect. Stakeholders in an Impact Investment have often moved on years after the investment was placed in an investee organisation. As a result, output metrics (jobs created, meals received, or homes created etc.) are focused upon rather than other more lasting effects and outcomes (the social effects of having a job, the effect of good health, or the effect of having a home) (O'Flynn and Barnett, 2017). This led to academics wondering whether or not impact investors really had the necessary demand and the access to resources to measure impact correctly. O'Flynn and Barnett (2017) highlight that if this paradox is not addressed, it would be damaging to the Impact Investment industry because inaccuracy in real results could damage the rate of growth of the industry.

Although there are still valid questions around the cost and resources needed to measure impact, this paradox has since developed further to where Impact Measurement is now seen as one of the most important factors for industry growth in Impact Investing (GIIN,2020).

According to O’Flynn and Barnett’s assumption, this shows that the Impact Investment industry is addressing that of which is most important to its own success. For years, there was only a small percentage of research going into Impact Measurement, but looking at the trend of the annual survey, it can be deduced that measurement has been highlighted as a necessity for the Impact Investment industry and practitioners are now following suit in this endeavour.

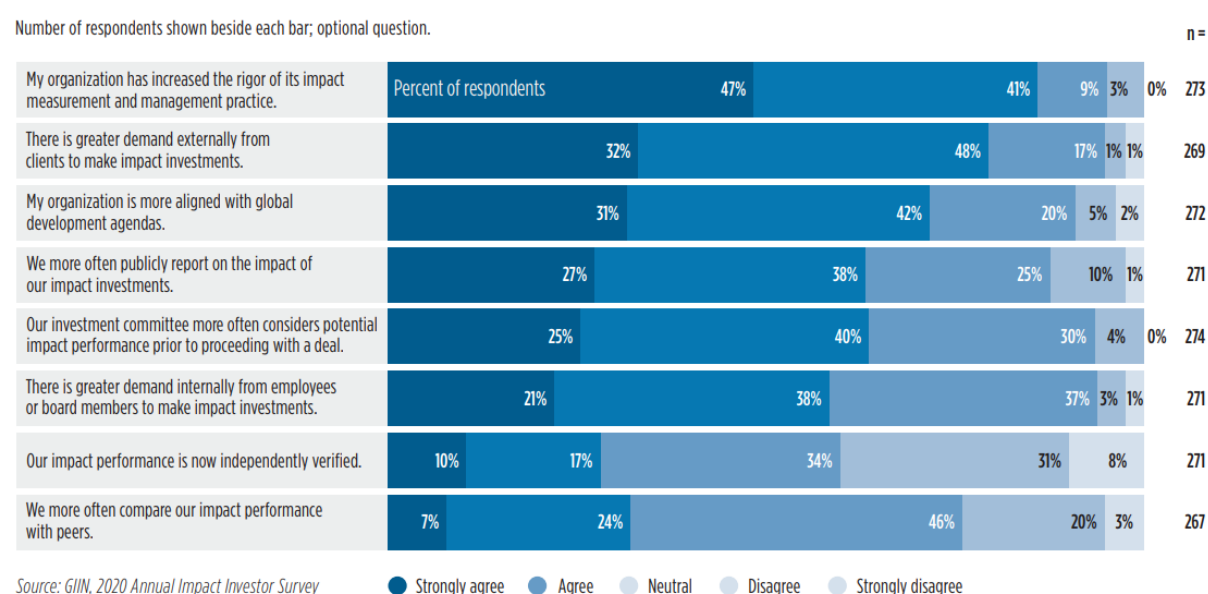


Figure 2: Changes in Impact Measurement practice and demand compared to when impact investors first started making Impact Investors (GIIN, 2020)

4.3. Advantages of Impact Measurement

There are numerous benefits associated with the acceptance and implementation of Impact Measurement:

1. Developing a norm of quality that can improve liquidity of the investments.
2. It will help fund managers to differentiate themselves by showing that they are able to deliver higher social value benchmarked against other funds.

3. In-depth assessments can bolster the credibility of existing systems in place for measuring social impact which will reduce the social risk affecting an investor's reputation.
4. There will be better portfolio management as investors and investees can learn from the market how to deliver the best social and financial returns possible, and the trade-offs that are necessary to achieve these returns.

(O'Flynn and Barnett, 2017)

4.4. Four Phases of Impact Investment



Figure 3: Four phases of Impact Investment (So & Staskevicius, 2015)

So & Staskevicius conducted a large-scale study into measuring the “impact” in Impact Investing in 2015. Their results showed that there are four main cyclical objectives that frame the Impact Investment measurement process:

4.4.1. Estimating Impact

In the first stage of the investment process, stakeholders such as the investor, fund manager, and investee organisation are all motivated by the potential impact that they can make on the social issue that they are looking to resolve or improve. As part of the due diligence process that is undertaken before the investment is made, the Impact Investment fund will estimate the

potential impact that it may create (So & Staskevicius, 2015). This understanding helps the investor to prioritise and place the funds with the correct organisation to make their desired impact. This is further expanded upon in Chapter Three where our interviewees are asked to describe their due diligence measurement processes.

4.4.2. Planning Impact

During the initial phases of Impact Investment between investor and investee, they will negotiate the impact they are looking to make and importantly, how they are going to measure the impact (So & Staskevicius, 2015). This can take the form of many different methodologies as discussed further in this chapter.

4.4.3. Monitoring Impact

Throughout the life cycle of the investment, there are often check-ins and periodical reviews to make sure that the investments are having the desired effect and social impact. Certain impact methodologies allow for this monitoring of progress and together with the financial impact updates, this allows impact investors to make sure they are on track (So & Staskevicius, 2015).

4.4.4. Evaluating Impact

When the investment cycle ends, investors want to finish up with their results, both financial and social. This final evaluation of impact is often where an investor can determine success of the entire investment (So & Staskevicius, 2015). Finally, these results will be reported to investors in the last step of the chain.

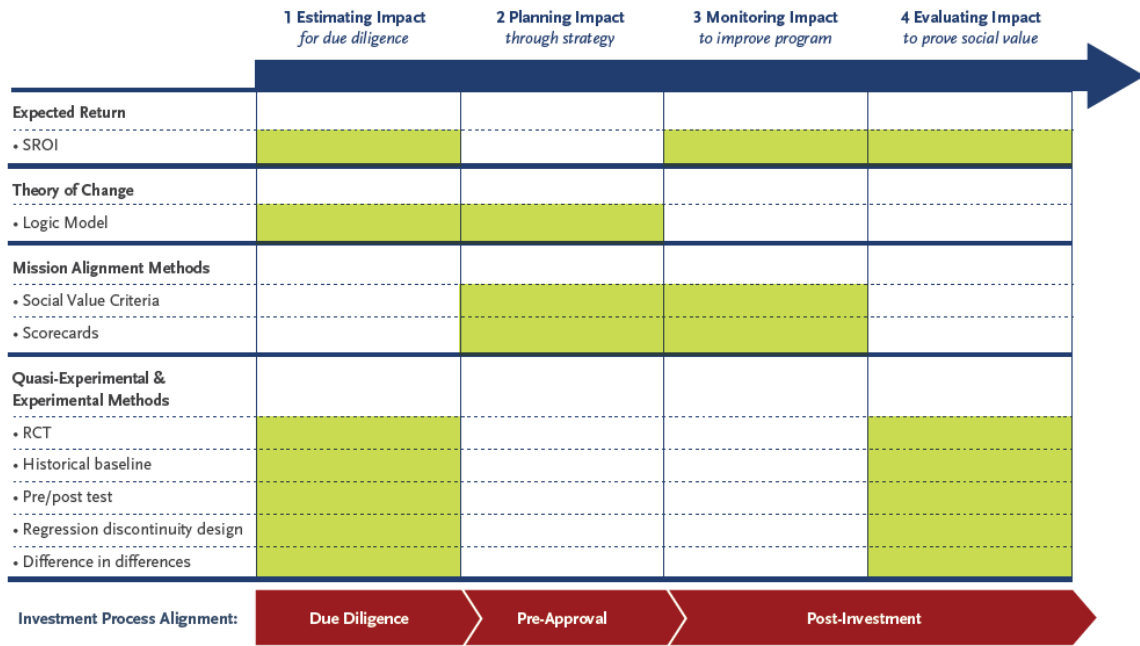


Figure 4: Map of Measurement Methodologies to Measurement Objectives (So & Staskevicius, 2015)

4.5. Criteria for assessing social impact

Flynn and Barnett (2017) outlined five key criteria that help in the understanding and assessment of the social side of Impact Investments:

1. Impact
2. Differential Impact
3. Plausible Causality
4. Aggregation
5. Accountability

4.5.1. Impact

“The extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects.”

(OECD/DAC Network, 2019)

Traditionally, Impact Measurement is split into two parts, due diligence setting out the objectives and targets before the investment, and the measurement of the progress throughout the life term of the investment (O’Flynn and Barnett, 2017). The impact that is measured is the original objective of the investors balanced with the capacity of the investors to carry out the measurement. Normally, the impact that is measured is the social or environmental objectives of the stakeholders that are involved in the investment. The investee and the fund manager typically agree on the metrics and targets to be monitored over the course of the investment at the start of the measurement process. During the measurement course, information on the targets and objectives reached is reported back to the investor on a regular basis.

One of the downfalls of impact is that it is often measured via the outputs of the investment rather than the outcome (Brest and Born, 2013). This can be seen in the example: impact output would be the number of meals served by a social organisation, but the outcome would be the improvement in levels of health of those that receive the meals.

4.5.2. Differential Impact

One of the problems identified by O’Flynn and Barnett (2017) is that impact is typically measured in an aggregate format whereby the impact is averaged across different socioeconomic groups rather than explored on a group-by-group basis. Most actions to improve social impact results in those who improve their situation and those who don’t or even their situation becomes worse. A full impact analysis should consider these winners and losers and provide reasoning.

4.5.3. Plausible Causality

From the outset there is a social cause or need for Impact Investment to solve the social or environmental challenge. Reasoning whether the Impact Investment in fact caused the desired change is much harder than just determining that the desired outcome has been achieved. Developmental evaluation can often have a theory of change which is used to guide the resources, both financial and non-financial, on how to achieve the desired impact which could be more widely used in Impact Investing (O’Flynn and Barnett, 2017). The most important aspect of plausible causality is trying to determine whether or not, or by how much, the investment has contributed to solving the desired social outcome.

4.5.4. Aggregation

As described earlier in this thesis, there are different levels of Impact Investment, from institutional level to individual level. This results in wide-ranging stakeholders who are concerned about different aspects of an Impact Investment. Fund-level stakeholders are more concerned about the aggregated impact of their portfolio of investments rather than at an individual Impact Investment level. Impact Measurement should be able to provide data to all stakeholders involved, portfolio to individual level (O’Flynn and Barnett, 2017).

“If we want social capital markets to fund the social sector effectively, we need to use social impact data effectively when making investment decisions. And investment decision-making almost always requires that we compare social impact data across locations, programs, or organizations. This is difficult because contexts, missions, definitions, measurement approaches, and values differ. It’s always apples to oranges, and this “comparison

problem” not only affects good decision-making, but also our ability to report on impact at the investment portfolio level.”

(Ruff and Olsen, 2016, p. 1)

4.5.5. Accountability

Unlike other forms of social reform from philanthropy or public office, most of the accountability of impact in Impact Investments lies with the investor (O’Flynn and Barnett, 2017). O’Flynn and Barnett suggest that when considering Impact Measurement, all stakeholders should be consulted in order to minimise risk. The demonstration of this accountability to other stakeholders is through regular reports on targets made and targets missed.

4.6. Methodologies for Assessing Social Impact

Despite the need for more aligned and uniform measurement across the Impact Investment measurement field, there has been an increasing number of methodologies to assess Impact Measurement developing (Reisman and Olazabal, 2016). This section builds on O’Flynn and Barnett’s (2017) “Review of Methodologies to Assess Social Impact” as well as So & Staskevicius’ (2015) “Measuring the “impact” in Impact Investing” to highlight the breadth of Impact Measurement methodologies that are available and the categories upon which they fall under.

4.6.1. Consumer and Perception Surveys

Consumer and Perception Surveys have the ability to show the changes or benefits to the economy, society, culture, public policy or services, health, the environment, or quality of life (O’Flynn and Barnett, 2017). One of the main advantages of surveys is that data can be filtered out to show the differential impact on different sectors of society. One of the difficulties with surveys is making sure that there is no bias from the consumers being surveyed. Another is making sure that the target groups are the right groups to be surveyed so that there are marginalised viewpoints being reported. So & Staskevicius (2015) call this tracking and monitoring part of the process through consumer perception surveys the “Theory of Change” and “Impact Model”. A logic model is an unassuming and valuable framework to establish an investee’s path to social impact (So & Staskevicius, 2015). The logic model is very helpful to establish the right KPIs to be

measured. The output measures make sure that the investee organisation is on track to deliver the types of impact that they had intended on during the inception of investment.

	Inputs	Activities	Outputs	Outcomes	Impacts
Definition	Resources (capital, human) invested in the activity	Concrete actions of the investee	Tangible products from the activity	Changes resulting from the activity	Broader change occurring in communities or systems resulting from the activity
Application / example indicators	\$, number of people, etc.	Development and implementation of programs, building new infrastructure, etc.	Measurable actions or conditions that assess progress against specific operational activities, e.g. Number of people reached, items sold	Measurable actions or conditions that demonstrate progress towards specific outcomes, e.g. increased access to education	Effects on broader target population, e.g. sustained drop in poverty, increase in literacy rates



Figure 5: Logic Model Framework (So & Staskevicius, 2015)

One of the downfalls of consumer and perception surveys is its inability to address plausible causality properly (O’Flynn and Barnett, 2017). The survey can capture change over the course of the lifetime of the investment in those that are most affected, but the results are hard to assign as a direct result of the investment.

One of the main advantages of consumer and perception surveys is that it is not self-evaluative. Therefore, fund managers are able to compare and contrast findings in different investments more easily as there is limited personal bias. This is also great in terms of accountability as the stakeholders in society that are feeling the impact, or lack of impact, are the ones that are evaluating the performance of the investment (O’Flynn and Barnett, 2017).

4.6.1.1. Example: Acumen Lean Data Approach

Acumen was founded on the basis of “patient capital” to bridge the gap with market scale and efficiency and the social impact of philanthropy (Acumen | About Acumen, 2021).

“Patient capital has a high tolerance for risk, has long time horizons, is flexible to meet the needs of entrepreneurs, and is unwilling to sacrifice the needs of end customers for the sake of shareholders”

(Acumen | Patient Capital, 2021).

Acumen launched “Lean Data” to develop a system to fully centre the voice of those impacted at the heart of the investment (Acumen | Lean Data, 2021). Acumen targets social enterprises that don’t have the resources to be investing in measurement techniques that are costly and time-consuming but are still looking for high-quality measurement results. They try to measure outcomes rather than outputs. In finding out these outcomes, mapping the theory of change is key to how Acumen understands the depth dimension of their impact (So & Staskevicius, 2015).

The consumer survey approach is employed over SMS, phone calls, and voice messaging. This is a rather inexpensive method of collecting data (O’Flynn and Barnett, 2017). It is a rather effective way to carry out consumer perception surveys as the social enterprise can use any of the metrics that they wish, and consumers can easily respond. It allows for a good sample size to be gathered over a short amount of time. But it is hard to identify the correct indicators through Acumen’s logic model to assess the correct levels of outcome (So & Staskevicius, 2015).

This method has a trade-off between differential impact and aggregation of results (O’Flynn and Barnett, 2017), of which differential impact is weighed more heavily. One of the key constraints of Acumen’s “Lean Data” approach is the possibility of technology being a resource that the poorest percentage of the impact doesn’t reach, or the proper education of how to use the tech is not there.

4.6.2. Monetisation Approaches

A monetisation approach assigns monetary value to the desired impacts of an Impact Investment and then accounts for these impacts in a method that resembles standard accounting technique. The social or environmental outcomes have a monetary value, be they envisioned from the outset or an unforeseen accidental. Social Return on Investment (SROI) is the most commonly known and widely used monetisation approach (O’Flynn and Barnett, 2017).

The most important outcome of a monetisation approach is the one number at the end which is supposed to tell the net impact of an investment over the lifetime of the investment. This figure allows for the aggregation of all of the investments in the portfolio to determine those that are performing.

O'Flynn and Barnett (2017, p. 17) outline that although one number approaches are good for comparing and contrasting investments, there is a downside that it "can both detract meaning and nuance from the analysis by losing all contextual differences". Differential impacts are not as easily recognised in the aggregated performance of a portfolio.

One of the sticking points of a monetisation approach is the value attribution process. Each of the stakeholders will value different outcomes differently so determining a scoring approach where everyone agrees on assigned values for certain outcomes is difficult (O'Flynn and Barnett, 2017).

4.6.2.1. Example: Social Return on Investment (SROI)

SROI acts as a framework for the measurement of social impact in Impact Investing (O'Flynn and Barnett, 2017). It was developed from a mixture of social accounting and cost benefit analysis (So & Staskevicius, 2015). It measures the change in ways that are relevant to the people or

organisations that experience or contribute to it, assigning monetary values to represent social, environmental, and economic outcomes (Social Return on Investments, 2021). Guided by a set of SROI principles (Appendix 1), the framework works as a monetisation tool which places value on the inputs of an intervention, evidencing outcomes and calculating a present value of impact in a unit. The output is a ratio of the value of the outcomes of the Impact Investment divided by the level of initial investment.

Although SROI is a useful tool for Impact Measurement it does have pitfalls. For instance, each Impact Investment has different contextual factors and to arrive at one ratio to aggregate and benchmark all Impact Investments is inevitably open to misrepresentation and inaccuracy. Also, So & Staskevicius (2015) highlight “the risk of making comparisons that unfairly penalize interventions that work with the most challenging problems and populations” because aggregation is not favourable to Impact Investments that do not produce immediate and large results.

SROI has two forms that can be taken, there is evaluative SROI, which is used after the cycle of Impact Investment is complete, and forecast SROI, which is particularly helpful in the planning investment side of the cycle as it allows for estimates of impact to be made (figure 4,5; So & Staskevicius, 2015).

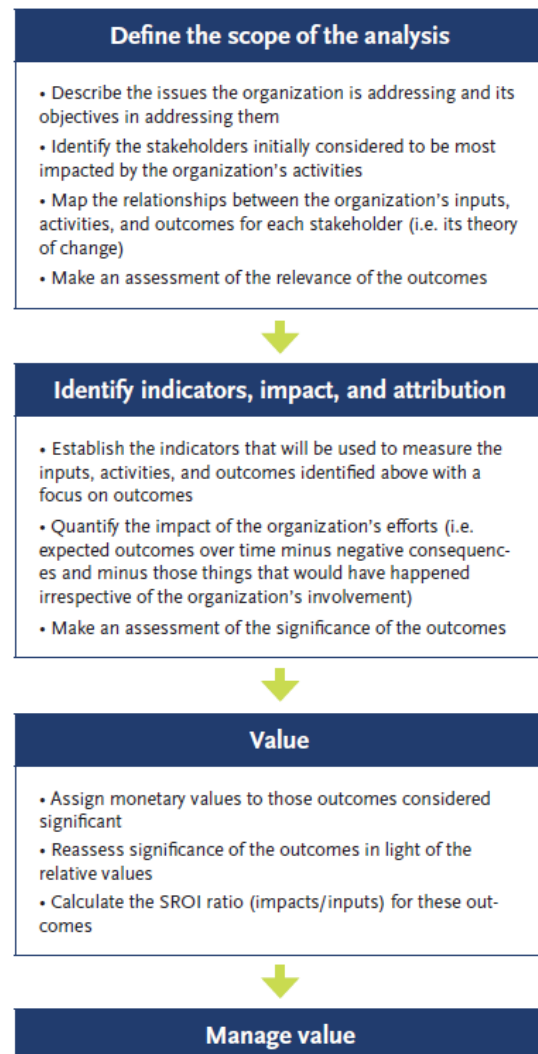


Figure 6: Steps in SROI process (So & Staskevicius, 2015)

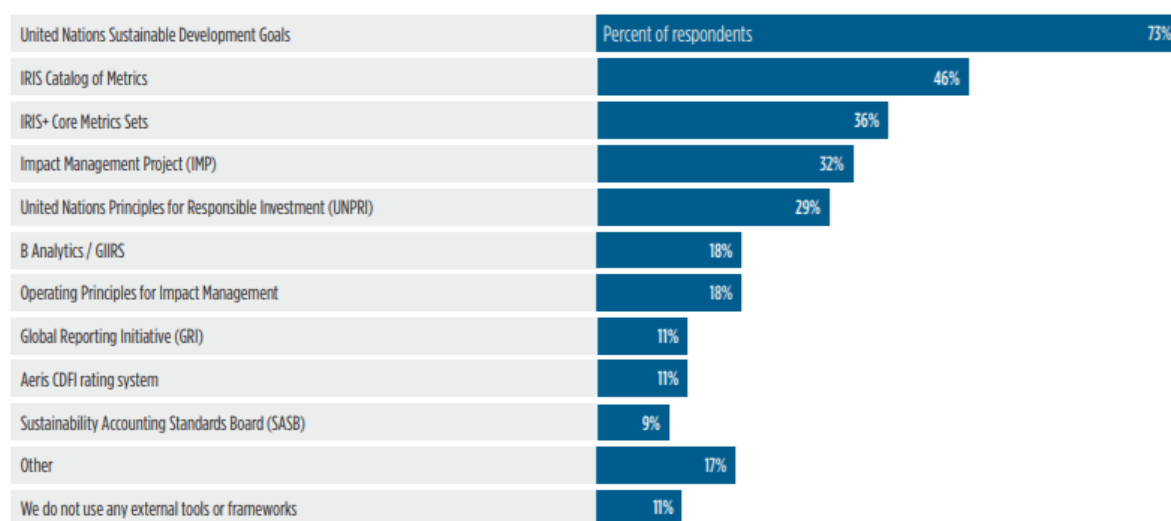
4.6.3. Scorecards, Indicators and Ratings

Scorecards, indicators, and ratings are a good way of determining if investments have met the outputs that were expected at the conception of the investment. However, one of the problems lies in that sentence, they measure outputs rather than outcomes (O'Flynn and Barnett, 2017). Outputs are a necessary measurement to take, but ultimately, they do not cover the extent of the social impact (Fruchterman, 2016). Another downfall lies in the fact that often the KPI measures are predetermined at the due diligence stage and therefore a causal chain has been predetermined rather than actually measuring what has occurred after the investment. This can have the undesired effect of improperly measuring differential impact if care is not taken. As success in the ratings is pre-defined, the actual success of the project may not be properly measured but rather just the pre-defined indicators for the scorecard of the project.

Although there are pitfalls of scorecards, indicators and metrics as outlined above, one of the fantastic aspects is the possibility to aggregate the scorecard for an investment and therefore a portfolio (O'Flynn and Barnett, 2017). Another is the fact that they make certain processes immediately accountable from the day of investment conception. On top of this, the fact that the techniques can be used widespread means that they can be assessed as credible because the system is recognised and respected (O'Flynn and Barnett, 2017).

4.6.3.1. Rating Systems, Certifications, and Metrics

n = 294; respondents could select multiple answer options.



Note: 'Other' includes various external tools and frameworks, both broad and sector-specific, including the Impact Multiple of Money, CERISE-SPI4, SPI4-Alinus, GRESB, TruCost, HIPSO, Lean Data's 60 Decibels, Progress out of Poverty Index, GOGLA, IPAR, and MESIS. Some respondents also described general frameworks such as theory of change or logic frameworks as well as various proprietary measurement and management systems.

Source: GIIN, 2020 Annual Impact Investor Survey

Figure 7: Overall use of tools, frameworks, and systems (GIIN, 2020)

In the past decade plus, there has been a great progression in the development of standards, ratings and certifications that help to determine the social progressiveness of investee organisations and their ability to deliver on social impact in Impact Investments (O'Flynn and Barnett, 2017). These standards, systems, and certifications (listed below) have allowed the market to signal their demand for organisations that have a social mission beyond just the financial return of a traditional investment (O'Flynn and Barnett, 2017). Before these approaches were available, transaction costs were much higher per investment because impact investors would have had to compare and contrast potential investee organisations using their own research and internal metrics.

1. Impact Reporting and Investment Standards (IRIS+)
2. The Global Impact Investing Rating System (GIIRS)
3. The Sustainability Accounting Standards Board (SASB)
4. B-Corp Certification
5. Proposed Approaches to Social Impact Measurement
6. The Guide to Social Return on Investment Analysis

However, these systems are not without their critics. O’Flynn and Barnett (2017) point out that these systems are lauded for their managerial usefulness but that they are not reliable public accountability measurements because they can be perceived as complex and difficult to understand. Brest and Born (2013) criticise IRIS and GIIRS for measuring outputs rather than rating the social value of the outputs.

“...suppose that an impact investor believes that jobs in business enterprises can reduce poverty in BoP populations. IRIS and GIIRS can measure how many people an organisation employs but not the social value of those jobs.”

(Brest and Born, 2013, p. 6)

The success of an Impact Investment is based on a lot of chain effects from the initial positive social impact (O’Flynn and Barnett, 2017). All of these wider contextual effects do not fall under the scope of the systems that are available currently (and may never due to the cost and time needed to measure full social impact). Although it may be nearly impossible to measure all of the effects of an Impact Investment, these effects that are not measured in the current systems could play a pivotal role in the success of an Impact Investment (O’Flynn and Barnett, 2017).

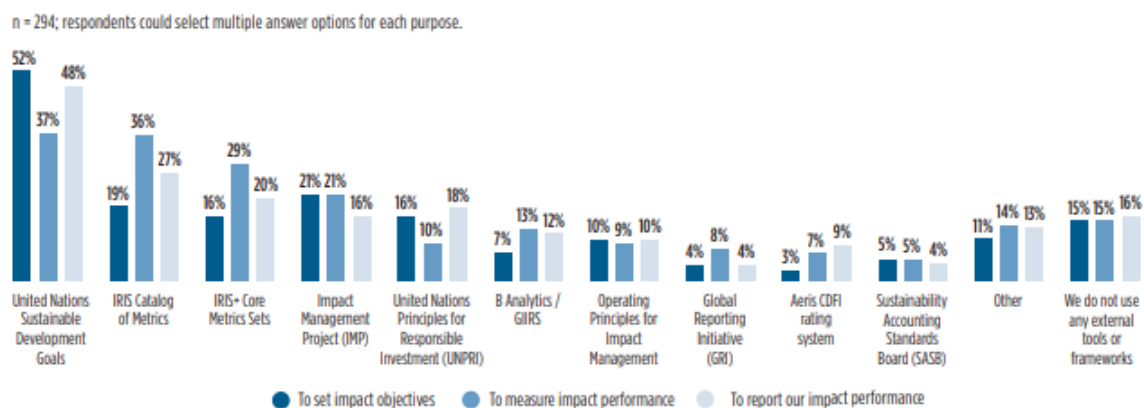


Figure 8: Annual Impact Investor Survey on use of Standards (GIIN, 2020)

4.6.3.1.1. Example: Impact Reporting and Investment Standards (IRIS+)

“IRIS+ makes it easier for investors to translate their impact intentions into real impact results. It is the generally accepted system for impact investors to measure, manage, and optimize their impact.”

(Global Impact Investing Network, 2018)

IRIS+ was created with the intention of setting out a number of metrics upon which investors could benchmark and compare their investments within their portfolio, and against other impact funds (Reisman and Olazabal, 2016).

IRIS+ consists of hundreds of metrics that standardise performance across different social, environmental, and financial axes, which allows for benchmarking across different types of Impact Investments (Reisman and Olazabal, 2016). IRIS+ metrics are what guides The Global Impact Investing Rating System (GIIRS). To distinguish between IRIS+ and GIIRS - IRIS+ are what financial standards are to the accounting world, and GIIRS is a rating agency that provides social and environmental performance ratings of companies and funds using analogous to S&P credit risk rating (Kroeger and Weber, 2016).

Standardisation of metrics of evaluation has a flip side whereby the approach is driven too much by the investor and not enough by the social enterprise (Reeder and Colantonio, 2013). A mixture of having standards for the industry, at the top level and setting impact and flexible measurement at a localised level, is expected to result in norms in approach across the industry.

IRIS+ allows for investors to see the net impact across their portfolio of investments. On top of this, and very importantly, IRIS+ accounts for the negative effects of the social enterprise and not just the upside (Brest and Born, 2013). This becomes apparent when aspects such as carbon pollution are assessed even if the main objective was a social goal rather than environmental. It goes to show that actions affect different aspects of society, even ones that are perceived to be taken for positive reasons.

4.6.3.1.1.1. IRIS+ Challenges

As outlined above, as with most metrics systems, IRIS+ is liable to measure outputs rather than the outcomes of Social Investments. This results in inaccuracies because the long-term outcome is unmeasured.

“While IRIS lays an important foundation for assessing outcomes, other method options extend measurement practice beyond these standardized metrics.”

(Reisman and Olazabal, 2016, p. 12).

Another challenging aspect of IRIS+ is measuring different metrics across different industries and relating them back into comparable measures (Reisman and Olazabal, 2016). GIIN has taken measures in 2018 to improve these metrics to become more comparable (Global Impact Investing Network, 2018).

4.6.4. Qualitative Tools

Qualitative tools are usually paired with another form of Impact Measurement. It is an important asset to implement alongside a form of measurement that doesn't measure the differential impact because it can be highlighted by undertaking interviews across the different segments of the population (O'Flynn and Barnett, 2017). One of the downsides of qualitative tools is that they ask participants to assess their own perception of impact rather than measuring a definitive outcome. This perception can change greatly from subject to subject rather than having a clear quantitative and objective outcome. The more qualitative interviews are carried out, the more these subjective perceptions can diminish.

Aggregation is another problem associated with qualitative tools. It is a much better tool at investment level than at portfolio level because it is hard to scale up through aggregation (O'Flynn and Barnett, 2017). This is because each investment has its own context, and results cannot be easily and accurately aggregated across these contexts.

One of the great strengths of qualitative interviews is receiving the direct word of mouth of those effected by the investment which can pick up on nuances and tones that would be otherwise missed by other forms of measurement.

4.6.4.1. Example: Qualitative Impact Protocol (QUIP)

“The QUIP provides a straightforward and cost-effective mechanism to ask intended beneficiaries about significant drivers of change in their lives, and to analyse and present the data collected. The approach is designed to help organisations to assess, learn from and demonstrate the social impact of their work.”

(About QUIP, 2021)

QUIP is a system created in the hope of removing bias from qualitative information (O’Flynn and Barnett, 2017). It was created on the basis that quantitative analysis alone would not be sufficient to show the full effect of social impact (About QUIP, 2021). It uses a process where the interviewers and interviewees are unaware of the information being evaluated to address any bias. QUIP is specifically good for targeting causality as one of the criteria of Impact Measurement. Researchers specifically look to induce cause-and-effect statements from the interviewees and look to see what elements are due to the social project.

QUIP is more for smaller sample sizes due to the resources needed to carry out qualitative interviews. Due to the smaller sample sizes, this too raises the question of validity (O’Flynn and Barnett, 2017). But it is specifically good at targeting causal chains that haven’t been identified or validated pre-investment.

4.6.5. Statistical tools and Counterfactuals

Statistical tools are experimental designs to evaluate impact and are most commonly seen in publicly funded Randomised Control Trials (RCTs) (O’Flynn and Barnett, 2017). These are often seen as the gold standard of evaluation techniques (So & Staskevicius, 2015). It is based on the fact that there is a control group where the exact impact can be seen and comparing this control group with the impacted group. This leads to a situation where a counterfactual explanation can be given to the Impact Investment: if the investment hadn’t occurred in Y, the social results wouldn’t have occurred in X. RCTS capture additionality of the investment because the changes can be seen in the comparison to the control group (O’Flynn and Barnett, 2017). They usually take place after-the-fact and try to answer the question: “What would the situation have been if the program or intervention had not taken place?” (So & Staskevicius, 2015, p. 36)

Puttick and Ludlow (2012) recommend the use of RCTS when a high level of accuracy is required. RCTs are more expensive, less flexible and are under more ethical scrutinization due to the use of a control group whose lives might not improve during the period of investment compared to the progression of others.

Experimental and quasi-experimental methods prove the additional effects of an investment and promote the accountability of the fund managers (O’Flynn and Barnett, 2017). Quasi-experimental methods use a different counterfactual to a control group that is used in experimental methods such as a historical baseline. Appendix 2 outlines So & Staskevicius’ example on quasi-experimental methods and their application (2015).

“For impact investors, applying experimental or quasi- experimental evaluations to their investments’ interventions can help demonstrate the evidence of positive social outcomes, and ultimately influence government policy to allow the intervention to be adopted by programs such as SIF.”

(So & Staskevicius, 2015)

A downside of these techniques is the lack of input from those receiving the effects of the Impact Investment. There is no opportunity to voice concerns or to discuss the undesired impacts of the investment. O’Flynn and Barnett (2017) recommend that these techniques are used for larger, one-off projects such as addressing the impact of social impact bonds.

4.6.5.1. Example: New York State reduction in prisoner reoffence rate

This randomised control trial looked at a control group and an “impacted” group to see if they could get reoffending rates to be reduced within three years of release from prison (O’Flynn and Barnett, 2017). This social impact bond worked with a job centre to provide ex-offenders with skills for the workplace and life outside of prison. This is a social impact bond that pays when two metrics are successful:

1. The number of employed ex-offenders goes up by 5 percent
2. The average person’s incarceration goes down by 36.8 days

Social Impact Bonds that are pay-for-success increase the accountability of independent evaluation and pushes those involved to meet the necessary output. These metrics were selected by the stakeholders based on a set of criteria:

1. The extent to which meaningful improve of the lives of individuals is achieved
2. Alignment with the intervention's theory of change
3. Relationship to public sector savings and other benefits
4. Whether it is captured in existing state administrative data systems
5. Degree that the outcome of the metric can be affected by the intervention

(So & Staskevicius, 2015)

4.7. The Need for Analysts to Interpret Social Impact Data

The market is best served when each organization can measure its social impact in the way that is most meaningful and insightful to its aim and operations . . . [It is possible to] achieve comparability by focusing on the analytical skills needed to compare social impacts without mandating a rigid set of required metrics. The premise is that efficient capital markets demand analysts who are capable of interpreting and comparing apples and oranges.

Why? Because they understand fruit.

(Ruff & Olsen, 2016, para. 3)

From the interviews carried out below, it is shown that there are different methodologies of measurement that are implemented across different sets of measurement goals. For example, those looking to measure one-off, long-term outcomes are much more likely to use counterfactuals and qualitative methods to ensure they have covered differential impact, and that the impact occurring is as a result of the investment made (causality). On the other hand, shorter term investments are looking to use more standardised measurement techniques to deliver comparable and aggregated information. Impact investors are looking for a golden set of rules and standards that cross borders and organisations. For a set of standards to truly work, it must find the balance between the metrics that impact investors want (uniformity) and the casual assessments that evaluators need for specific project measurements (Ruff and Olsen, 2018). However, fixed metrics haven't got sufficient relevance to most Impact Investments and tailoring

of Impact Measurement is necessary to attain the true results (Ruff and Olsen, 2018). The binding factor to varying measurement methodologies isn't a uniform methodology for all to follow, but rather analysts who can interpret this data and make informed comparisons between Impact Measurements. Ruff and Olsen (2018) propose a three-part Impact Measurement standard that:

1. Harnesses operational data to enable causal inferences,
2. Uses constructs with "bounded flexibility," and
3. Engages a cadre of impact analysts capable of interpreting reports.

4.7.1. Harnesses operational data to enable causal inferences

Normal operational data that is collected in the course of running everyday business, or conducting a program, can be used to plot out a reasonable impact story. This somewhat alleviates the need for RCTs and counterfactuals to have perfected results. It could be anything from the number of employees contracted to the number of items sold. If these employees are from disadvantaged backgrounds or the goods sold are going to a certain demographic, the operational data can be used to track and monitor progress. The big advantage of harnessing operational data is that it is much cheaper than using measurement collection techniques and it is continuous from start to finish.

The pitfall is interpreting operational data incorrectly by not accounting for causal mechanisms, alternative explanations, and theory. This is why evaluators who can interpret this data is key to unlocking operational data.

4.7.2. Uses Constructs with "Bounded Flexibility"

This approach is a happy middle ground from no comparability between Impact Investments and complete one metric comparability. The bounded approach allows for a set of options in measurement but not ridiculous and irresponsible approaches. Bounded flexibility can use the UN SDGs as an indicator. For example, poverty is defined differently across different countries, but it is possible for the number of people in poverty to be aggregated across the world using different definitions (Ruff and Olsen, 2018). This can be applied across a lot of SDGs and gives Impact

Measurement a chance to have uniform constructs with bounded flexibility. Analysts who can interpret this data are still needed to make sense of the data to compare and contrast between investments.

“This approach creates comparability by focusing on the commonality of the construct itself rather than on differences in the indicators used to define and measure it. Any given construct ... can be defined, counted, and measured in many ways. Using bounded flexibility, organizations choose the definitions, counts, and measures that are most relevant to them from a prescribed (bounded) set of options.”

(Ruff and Olsen, 2018)

4.7.3. Engages a cadre of impact analysts capable of interpreting reports

Analysts will be the key to unlocking bounded flexibility. They are able to tell us the scale of impact and compare it at an individual investment level and at a portfolio level. Impact investors seek the ability to compare size and extent of impact evaluation so that other investments in other sectors can be ranked on the same scale (Ruff and Olsen, 2018). Analysts that can interpret reports gives the impact investors an opportunity to create impact from their objectives. For example, those who want to create impact on education might have different rankings than those who wish to reduce CO₂ emissions. The analyst is the perspective generator that allows investments to be compared from an objective perspective.

4.8. Discounted Social Impact During Due Diligence

One of the biggest problems for the business world, and more specifically, Impact Investing, is how to estimate the value today of a social impact that is made in the future. O’Flynn and Barnett (2017) highlighted that private equity and venture capital funds with 3-5-year horizons can’t account for an impact that is made 20 years from now, however significant the impact may be. Chris Addy et al. (2019) presented their social return on investment technique in the Winter 2019 Harvard Business Review and it is relevant to this thesis as a technique that could account for longer-term impact.

The problem highlighted is that there is no accepted way of forecasting social return like there is financial return. On top of this, using past results is not very useful for Impact Investments because many of the social enterprises are less than a decade old and cannot provide universally accepted indicators for future expected return.

4.8.1. The Impact Multiple of Money

Rise Fund together with Bridgespan have developed a future focused way of measuring impact before investment: The Impact Multiple of Money (IMM) (Addy et al., 2019). It is explained below step by step:

4.8.1.1. Assess the Relevance and Scale

It is important firstly to assess is the project relevant to the theory of change of the fund. If it is a fund looking to address homelessness, an environmental social enterprise might have no relevance to the fund. Secondly, it is important to assess the scale of the impact that the social enterprise can reach. This is quantified both through the number of people that the improvement can reach but also the improvement that can be achieved in each case.

4.8.1.2. Identify Target Social or Environmental Outcomes

The second step is to identify the targeted social and environmental outcomes that the fund wishes to achieve and then to further make sure that these outcomes are realistic, achievable, and measurable. There are many social science reports that can guide this phase and estimate a company's potential impact.

4.8.1.3. Estimate the Economic Value of These Outcomes to Society

Once the outcomes have been identified at Step 2, it is now important to translate these outcomes into economic terms with "anchor studies". Recent studies and counterfactuals can often be sourced in the estimation of value to society of the desired outcome that the fund wishes to have. This can then be used to multiply the number of people reached by the depth of the impact that can be achieved (Addy et al., 2019).

4.8.1.4. Adjust for Risks

There is a risk associated with building a theory of change off of an “anchor study” to prove its effectiveness. Therefore, it is necessary to produce a multiple factor of risk that is multiplied by Step 3 on the basis of the quality and the relevance of the research. This is done “...by calculating an “impact realization” index... values [are assigned] to six risk categories and [are] totalled to arrive at an impact-probability score on a 100-point scale.” (Addy et al., 2019, p. 9). Establishing a link between anchor studies and outcomes comes with assumptions, and the greater the amount of assumptions, the greater the effect of the risk multiplier.

The following are the risk factors to be calculated in the 100-point index:

1. The quality of the anchor study ~ 30 points
2. How directly is it linked to the social enterprise ~ 30 points
3. Does the study’s social environment correspond to the project’s? ~ 10 points
4. Are the populations of the study and the project in the same country income bracket as determined by the World Bank? ~ 10 points
5. How closely do the activities in the study correspond to what the project provides? ~ 10 points
6. Is there a risk that once a product or service is purchased, it will not be used as intended? ~ 10 points

4.8.1.5 Estimate Terminal Value

This is an estimation of the business’s social worth after an explicit forecast investment period. First, it is important to start at the impact to be realised in the last year of the investment, and multiply that by the probability that the social impact will be achieved and will continue undiminished for a period of time after the investment. Companies with high probabilities on both counts get a discount rate of 5% and those with low probabilities get a discount rate closer to 25%.

4.8.1.6. Calculate Social Return on Every Dollar Spent

The final step in calculating an IMM is taking the estimated value of a social or environmental benefit and divide it by the total investment made. The great advantage of using such a monetisation method is that the aggregation across the portfolio can now take place to see which investments could provide a higher social return on investment than others, thus prioritising the social improvements in value to the world.

Chapter Three: Exploring Methodologies of Impact Measurement for Future Development

5.1. Context

From the research carried out on existing literature in Chapter One and Chapter Two of this thesis, it became clear that there is a gap that isn't currently fully addressed in the literature: The issue of time in social impact, how long before returns are expected in social impact? What is the method of measuring this impact to be realised into the future? This time gap is a factor in the due diligence process when Impact Investments are conceptualised. Certain companies are not able to deliver social return in the prescribed fund length, not through a lack of need but rather a prescribed financial investment goal from the investors or the fund itself. This long-term impact effect can result in stakeholders in an Impact Investment have often moved on years after the investment was placed in an investee organisation. As a result, output metrics (jobs created, meals received, or homes created etc.) are focused upon rather than other more lasting effects and outcomes (the social effects of having a job, the effect of good health, or the effect of having a home) (O'Flynn and Barnett, 2017).

"...impact of an investment can occur many years after the investment was made, and after investors and key individuals have moved on. As a result, greater attention has mostly been placed on the 'output' level through metrics, ratings and certification, rather than 'social outcomes' – for example, the difference between counting jobs created, and looking at the social effects of those jobs on employees, their households and communities"

(O'Flynn and Barnett, 2017)

The gap from injection of funds to social impact is also a factor to consider in the measurement process when the impact is being measured via outputs rather than social outcomes and social impact. Certain Impact Investments in certain projects simply don't have the time available to invest and wait the necessary time for full lasting Impact Measurement to occur and be measured, either because the financial return aspect would be too low at that stage, or the time taken would

be too long. This can be seen in sectors such as in education and healthcare. Therefore, the determinants of how long a project must run before the return of the Social Investment is realised is a point of further research.

5.1.1. Research Questions

5.1.1.1. Impact Investing Definition

From the literature review, it has been shown that the impact investing field has seen a muddling of the definition of the core concept. It is important at the start of this research to define what Impact Investing is in the eyes of the interviewees. From there, the analysis of the further questions below can be more significant because the interviewee organisation's skew towards financial or social impact of the funds are apparent.

The key question raised by the Impact Paradox in section 4.1. is: Do impact investors see Impact Measurement as a defining characteristic of Impact Investing?

5.1.1.2. Due Diligence Impact Measurement

One of the main questions that came out as a result of the research is what method of measurement are impact funds using during the due diligence process to calculate potential social return on investment alongside the usual potential financial return on investment? Are they using a discounted social impact return method as described in section 4.8.? Moreover, how long are these funds looking to invest their capital in social enterprises in order for the social impact to be achieved? When is the return on social impact expected?

Further to the above there are subsets of questions that are raised as a result of the research: Are impact funds prioritising short-term social impact over longer term projects even if the social need is greater in the latter? How do those social enterprises, who expect to see social return in the longer-term, access financing that is needed to resolve these problems?

5.1.1.3. In-Investment Impact Measurement

The Impact Measurement process has been highlighted in section 4 above as very fragmented and working on many different levels: individual level, company level, and portfolio level. Looking

at a portfolio fund level, during Impact Measurement, how are Impact Investments measured when the return of the social impact is a long time from investment to resolution? What measurement methodologies are most popular to address long gaps between investment and impact?

In addition to the questions above, some subsets have emerged: How do Impact Funds report their findings to stakeholders involved in the measurement process? What are assets that might help them in the future?

5.1.4. Covid-19 Context

As the world appears to start its descent from the peak of the Covid-19 crisis, how do Impact Fund managers see the current outlook of the industry? What are the challenges that the industry leaders foresee moving forward?

5.1.2. Research Objectives

As a result of asking the questions above, this research hopes to highlight the most popular methodologies to measure Impact Investment during the due diligence and investment process on funds that invest in impact that will occur long- term in the future.

5.1.3. Methodology

The results below from the research was carried out by conducting six semi-structured interviews from industry practitioners, five Impact Investment fund managers and one fund consultant. The transcripts were then analysed for common themes (section 6) in Impact Measurement. Taking a mono approach (one source of data – semi-structured interviews) followed by analysis, this research was carried out using an interview guide followed by an analysis using an excel sheet to gather quotations on similar themes to highlight commonalities and distinctions between different fund managers and industry stakeholders (Saunders, Lewis, and Thornhill, 2009).

5.1.4. Limitations of Methodology

The biggest constriction to this methodology is that mono approach doesn't allow for triangulation of results using different research methods such as would happen in mixed-method design approach. With more time available and resources in this approach, it would have been better to have a qualitative survey to further refine the interviewees to just impact fund managers with a certain level of experience with long-term Impact Investments. Unfortunately this was not possible, especially during Covid-19 with limited social interactions with others.

Another limitation to the methodology of the research is the limited number of interviews undertaken due to the timing and resources constraints. As a point of further research, it would be necessary to carry out the same interview with 5-10 more impact fund managers in order to validate the results as statistically significant.

5.2. Qualitative Interviews

The qualitative interviews were carried out via video call over the course of three weeks. Five different fund managers, and a fund consultant to an Impact Investment fund were picked out and interviewed to get a varied and differentiating sample of impact investors. A quick breakdown of their companies and backgrounds are given in this section:

5.2.1. Kai Chen (KC) – True North

Kai Chen is one of the founders of True North, an Impact Investment fund from Canada. The fund is famous for investing in PPE Equipment for the Canadian market, becoming the third biggest supplier at the start of the Covid-19 pandemic (Moules, 2020). The business was a start-up and has taken off in 2020.

True North is an Impact Investment fund from Canada that lies towards the full financial market returns side of Impact Investing (see figure 7). They believe that they can deliver impact and full market rate financial returns simultaneously (Chen, 2021). They are fully committed to Impact Measurement and employ a ROI model that quantifies measurement into a single letter that can be aggregated and compared.

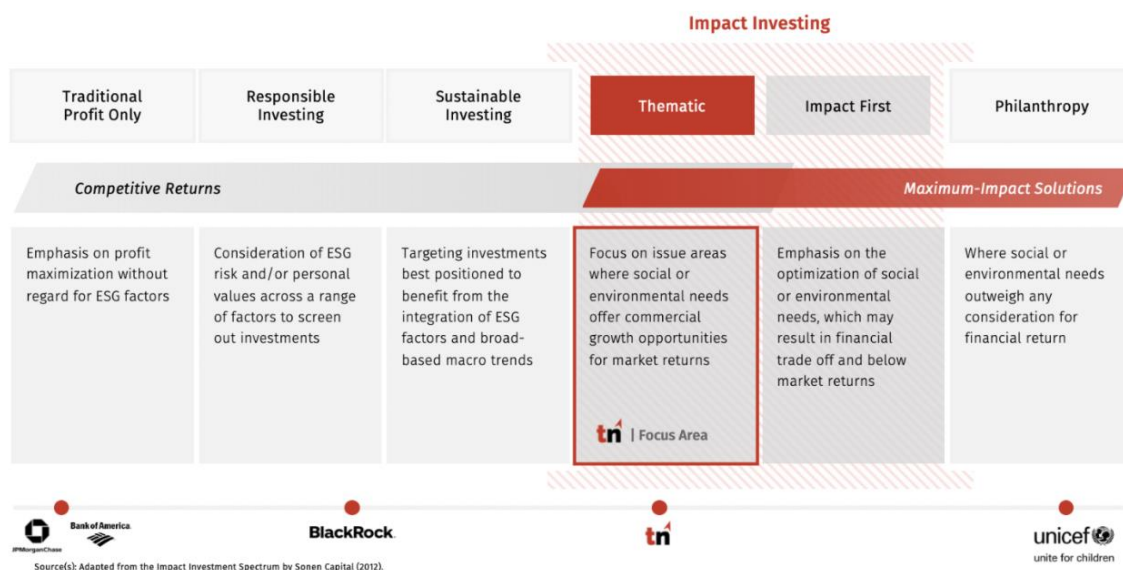


Figure 9: True North on the Investment Spectrum (Chen, 2021)

5.2.2. Patrick Somerhausen (PS) – Funds for Good

Patrick Somerhausen is the Co-CEO of Funds for Good, an Impact Investment outfit that develop socially responsible investment (SRI) funds that use 50% of their profits from these SRI funds to provide capital to impact investment projects with lower than market rate returns. Funds For Good give interest free loans to unemployed people who are looking to kick-start entrepreneurship endeavours. The company looks to recoup this finance in order to recycle it back into the social projects.

“The social project aims at tackling inequalities and poverty by helping unemployed people to integrate in a sustainable way through entrepreneurship.”

(Funds For Good, 2021)

5.2.3. Guillaume Boury (GB) – Telos Impact

Guillaume Boury is an Impact Investing associate at Telos Impact. They are a financial company that has a mission to make serious social and environmental impact. They do this through two streams: Venture Philanthropy and Impact Investing. Their Impact Investing side looks to maximise their social and financial returns though deploying their assets that provide significant impact and answers to the world’s challenges (Telos Impact | Impact Investing, 2021).

5.2.4. Mart Vos (MV) – Eko Investments

Mart Vos is the founder of Eko Investments, a B2C investment fund product that only invests in sustainable and impactful publicly listed companies. They were founded on the principle that Impact Investing should be more accessible for the end consumer and the product that they offer end consumers is an easy-to-use interface, where they can decide their risk appetite among sustainable options in public equities. Social and environmental impact is coupled with financial return in this strategy.

5.2.5. Małgorzata Filipowska (MF) – Simpact VC

Małgorzata Filipowska is an investment associate at Simpact Venture Capital, who are the first Impact Investing venture capital fund in Poland. They are focused on building tech-driven start-ups who have a strong social purpose and a business case. The process of investing is inherently impactful for Simpact who also look to recoup market rate interest returns.

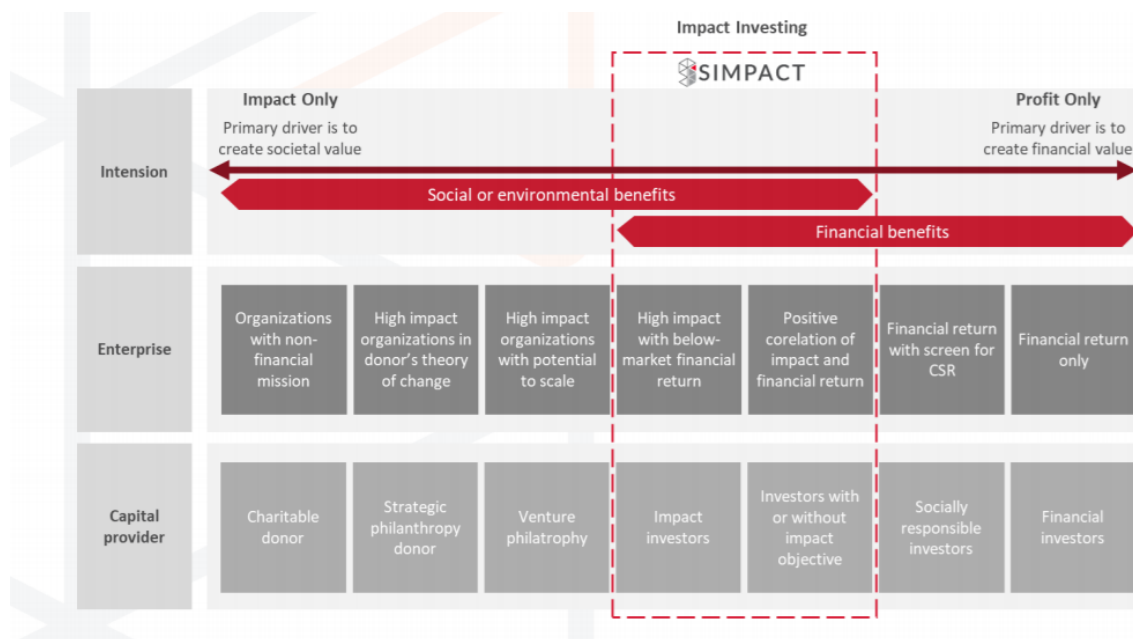


Figure 10: Simpact Impact Investing Spectrum (Simpact VC, 2020)

5.2.6. Sarah Finegan – ESG Fund Consultant

Sarah Finegan is currently working for a venture capital fund in Berlin called Antler but during her last project she was consulting for a venture capital fund named Middle Game Ventures where

she consulted on an ESG FinTech fund. Here, she consulted on setting up a screen to assess companies for future impact and financial returns. She then ranked them as part of the scope of her consulting project, but she did not take part in the investment process nor the measurement of impact during the life of the investments.

5.3. Impact Measurement Methodology

5.3.1. True North

At True North, they take a rating system on onboarding to assess the impact and the potential impact of a company for their venture capital fund. Before a company is onboarded into the fund, they are assessed for “completeness of vision, ability to execute, and impact return on investment” (Chen, 2021). This gives a letter scoring that must be over a certain level, ex. B+, before it will be assessed further for the fund. The impact ROI is the metric that is pivotal to how Chen’s fund is grown and develops. This approach lends from both a monetisation approach and a ratings approach as all of the impact information is funnelled into one score. However, it is not a full monetisation approach as this score is lettered and therefore not fully comparable with the financial returns. They also use an internal rating system rather than an external one such as IRIS+. Although their approach to measurement isn’t fully directed by impact standards, they take inspiration from TPG Rise Fund’s Impact Measurement methodology (Chen, Appendix 3).

“So, if I need to reach the investor directly, I need to come ... with an incredibly simple to the point, quantification of impact”

(Kai Chen – Appendix 3)

The potential impact return on investment is calculated by discounting future potential impact over time. True North first assess the relevance and the scale of the potential product/service/project that they are looking to invest. They ask how big the reach will be and then how much of an impact will it have. Secondly, they identify target social or environmental outcomes and they test to see if it is achievable through the investment. Thirdly, they estimate the economic value of this outcome to society as a whole. Fourthly, they look for risks in the process and the validity of their assumptions in Steps 1-3 and adjust with an index accordingly. By multiplying the risk factor by the estimated economic value, they arrive at a terminal value figure and they discount this back by a factor of the probability of occurrence and lasting impact, usually

ranging from 5% to 25%, to a figure that they include today. Finally, by dividing the principal by the estimated social return they get a figure for the social return on investment. Together with completeness of vision, ability to execute and this potential social return on investment, they are given a letter rating and a decision of investment is made/declined depending on the threshold on the fund.

5.3.2. Funds for Good

Funds for Good uses a semi-scorecard technique for the assessment of their impact. Although impact is at the heart of this business, just like others, where they differ is in the reinvestment of publicly listed profits in order to maximise their impact. By developing a number of KPIs directly related to their theory of change, the output is a scorecard for the company highly related to this secondary activity. Their theory of change is that by giving funds to those who could be entrepreneurs, if they have the financing, will either create businesses or the entrepreneurs will receive enough experience to make it onto the labour market, thus helping the world (Appendix 4). Therefore, their primary KPI is number of jobs created and some of their secondary KPIs are the percentage of successful endeavours and the number of women employed as a result of their investments.

During the Due Diligence process when they are deciding upon who should receive their resources, both time and money, they assess the ideas on a case-by-case level. They have a few KPIs that they look to hit, and they involve emotion and locality into their process.

5.3.3. Telos Impact

Telos Impact also use a similar technique to Funds for Good during the Impact Measurement process. Where the measurement differs is actually what is being measured. Funds for Good are measuring the direct impacts that they are making on their social mission to have more people in the job market, whereas Telos Impact works more traditionally, tailoring the impact to certain funds that investors want to make, e.g. Water saved, or CO2 saved. They choose the relevant KPIs for this type of impact (Appendix 5). Interestingly, they also look to measure their differential impact by accounting for negative externalities. Guillaume Boury emphasised in the interview (appendix 5) the importance of staying lean in the measurement approach and picking a few KPIs to work from and conveying these to the investor, just as you would convey financial impact.

But when it comes down to putting that on paper and tracking it and reporting it, we try to keep it quite light. I think like I've mentioned that we don't really go further than that with [a] social return on investment model..."

(Guillaume Boury – Appendix 5)

5.3.4. Eko Investments

Eko Investments takes a similar approach to Funds for Good and Telos Impact. Mart tries to align his customers with a fund that is united to the purpose of their impact. Currently his fund is environmentally focused and looks at two key measures: CO₂ saved and Kilowatt Hours saved. The methodology of collecting this information is through scrawling his publicly funded companies' quarterly reports for this information, aggregating this across the portfolio and then splitting this by the portion of the portfolio that each investor holds. This aligns each investor to a certain amount of CO₂ saved. Then, Mart goes one step further and translates this measurement into everyday metrics, such as number of cars taken off the road equivalents or number of charges of a phone, so that the investor has a quantifiable impact as a take home. This approach is once again similar to a scorecard approach as there are a few key KPIs matched with the financial return.

"So, I work very hard- Eko really try to account to that... every stock that can be in your portfolio will be in your portfolio [with] at least 70% of the revenue comes from a sustainable mean."

(Mart Vos – Appendix 6)

5.3.5. Simpect VC

Simpect VC uses a very interesting combination of measurement methodologies to guide their Impact Measurement process. Firstly, they have a clear theory of change from which everything is guided: "Simpect's mission is to foster development and increase quality of life by scaling up tech innovation which solve the most pressing social and environmental problems in a financially sustainable way." (Simpect, 2020, p. 5). They have three main goals which derive from this theory of change: enhancing human living standards, social cohesion and economic stability, and protecting nature and species.

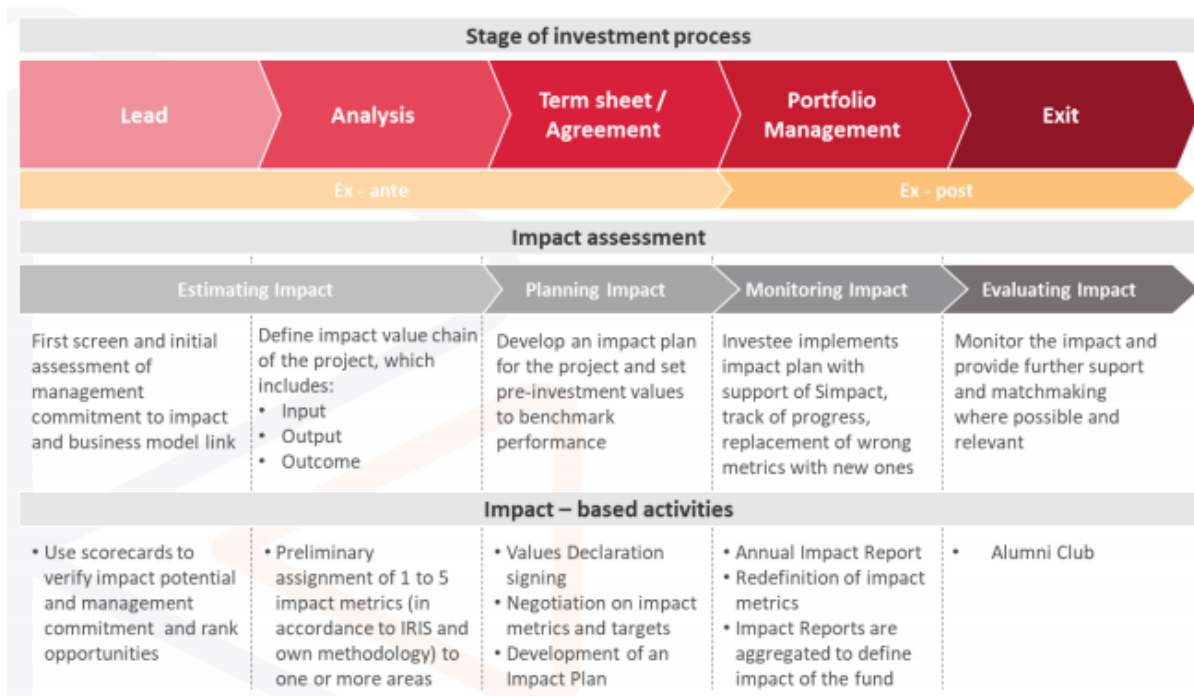


Figure 11: Sim pact's Impact Process (Sim pact, 2020)

Sim pact uses full scorecard methodology to rate the companies that are prospective investments and then ranks these in order of impact. During the planning stages, they identify input-output-outcome series which allows the theory of change to be quantified through a KPI. Sim pact also uses IRIS+ standards to guide the metrics which they choose, and some are standardised across the portfolio and others are tailored to the company and the specific impact they are looking to make. Their method of collecting measurement is through their companies who must provide quarterly impact reports to be validated by Sim pact.

This all must be caveated by the fact that Impact Measurement is a secondary activity according to Małgorzata (Appendix 7). Their primary purpose is financial returns and then social impact comes secondary, unlike the other funds above.

“So, we just want them to do good, to build the business and we believe that the business has an impact, positive impact on the social or the environment.”

(Małgorzata Filipowska – Appendix 7)

Company	Social	Environmental
True North	Economic Value of the Impact Created	Tonnes of CO2 saved
Funds For Good	Number of jobs created	N/A
Telos Impact	Impact KPIs at company level	Impact KPIs at company level
Eko Investments	N/A	Tonnes of CO2 saved, Kilowatt Hours saved
Simpact	IRIS+ Metrics at portfolio and company level	IRIS+ Metrics at portfolio and company level

Figure 12: Typical Impact KPIs

5.3.6. Middle Game Ventures

The data for Middle Game Ventures is purely from a Due Diligence perspective and therefore isn't included in Figure 12. From the work that Sarah carried out, it can be seen that Middle Game Ventures use a screening process when they are deciding in which companies to invest in order to make the most impact. Sarah was able to screen from Crunchbase all of the companies that were working for positive social or environmental goals in the FinTech world and also newer companies that were between seed investment and series B and had a FinTech B2B business model. From the 1500 companies that were left, they ranked them into buckets of investment opportunities they should make immediately, investment opportunities that they should make in the near future and investment opportunities to watch out for. They carried this ranking out through analytical skills company by company from what was left from the initial screen. They were assessed for financial return on investment and social return on investment using a discount model. This process was weighted more heavily towards financial return as the impact side was believed to be captured inside the screen.

“It was a lot of manual checking of individual companies looking at CSR policies, looking at where they were in Crunchbase, what their team was, the strength of their team as well. So, looking for, different data points across a number of similar companies.”

(Sarah Finegan – Appendix 8)

Methodology	True North	Funds For Good	Telos Impact	Eko Investments	Simpact	Middle Game
Consumer & Perception Surveys						
Monetisation Approach	✓					✓
Scorecards	✓	✓	✓	✓	✓	✓
Indicators					✓	
Ratings	✓	✓	✓	✓	✓	✓
Qualitative Tools						
Statistical Tools and Counterfactuals						

Figure 13: Methodologies of Impact Measurement

6. Results

6.1. Impact Investment Definition

One of the results of the in-depth semi-structured interviews is the huge amount of variation in forms that Impact Investment can take as exemplified by the breath of financial instruments used by interviewees. Just as Agrawal & Hockerts (2019) and Hochstadter and Scheck (2014) before them had outlined, the varying range in the definition of Impact Investing is one of the reasons that practitioners and academics can muddle the concept. All of the participants of the interviews were asked to give their definition of Impact Investing and the breath of the Impact Investment spectrum was apparent.

KC sees Impact Investment as a spectrum from full financial returns with no social aspect to philanthropy. Impact Investment for him is a choice along this spectrum with varying financial returns from full market returns to solely capital return. In their fund, True North, they look for market returns on their Venture Capital and Public Equities arms while maximising their impact throughout the process. GB, also sees the Impact Investing on a spectrum, falling off from traditional investment to philanthropy with Impact Investment being the final step in socially responsible investment before you come to venture philanthropy. The returns still range up to market returns but there is a clear separation between ESG and Impact Investing because ESG is involved in negative screening.

Mart Vos brought a slightly different slant on the Impact Investment. He sees it more to do with intentionality of investment in companies that are good for the world. Less on a spectrum and more to do with the intentions of the investor to make an impact. If you are seeking both financial return and social impact, it is a qualification of an impact investor in his eyes.

“Impact Investing ... is when you make the decision where you're putting your money based on, it doesn't only have to be impact, but at least partly on, what companies- what are these companies doing? And, ... how is my money helping there?”

(Mart Vos – Appendix 6)

MF shares this view with MV, that the Impact Investing is much more about the intentionality to address social problems, and where MF differentiates her view from the rest, it is apparent that seeking financial returns is a primary objective and not a dual objective like the others.

“... we want to invest in start-ups that have some impact, and you know, that change the world for better ... But we also want to provide...their return on investment and it's still a priority”

(Małgorzata Filipowska – Appendix 7)

PS sees the work of Funds for Good as inherently impactful. Not only are the SRI funds that Funds for Good are investing in providing a certain level of impact to the greater world, on top of this, they are investing their time and resources into the unemployed to provide impact on this side. Impact Investing, then, is their combined activities in the business and is more of a mindset than a process. They want to achieve impact, and the vehicle to get there is through investments and resource allocation.

“We consider impact more as the social impact we generate thanks to our activity.”

(Patrick Somerhausen – Appendix 4)

The GIIN defines impact investors as having four core characteristics to define themselves as impact investors: intentionality of investment, financial returns, a range of asset classes, as well as Impact Measurement of which all of the interviewees satisfied the criteria. However, there is differences between their definitions of Impact Investment and their means to achieve it. This confirms that Impact Investing is a rather complex investment ethos that transcends the usual barriers of venture capital, private equity, and public trading, but rather the range of asset classes and the intentionality to do good are defining characteristics. The investment technique is unique to the investor but the intentionality, financial returns, and the Impact Measurement are what groups these investors together. Interestingly, none of the investors referred to Impact Measurement when asked for their definition of Impact Investing.

6.2. Due Diligence Impact Measurement

One of the research objectives was to see how Impact Investment funds account for longer term return on social or environmental impact, that which could occur in the investment of healthcare, education amongst other sectors and needs patient capital. Difficult to quantify, longer term projects are often left to philanthropic endeavours rather than Impact Investment (Kai Chen, Appendix 3). From the interviewees, there were some findings that were quite interesting when it came to the due diligence process. KC does not look towards longer term project; the due diligence process rules out the projects which cannot make investments with projected financial and social returns outside of five years (Appendix 3).

“So I have a much harder time to convince investors to let me lock up their money for 10 to 12 years, which is typical for funds nowadays”

(Kai Chen – Appendix 3)

MF also has a time horizon where they look to exit the company when it has reached a certain size and certainly before any IPOs (Appendix 7). They invest in early-stage start-ups who need funding for proof of concept, and then look to offload these companies once they have developed and there is interest from larger private equity funds. This has the unintended consequence of ruling out longer-term investments as the capital is not patient enough to wait for returns coming further down the road. However, their initial investment ethos is to invest in those companies that are going to have a good social impact, so they have the ability to offload these companies before realising the social impact.

Just like KC and MF, SF ruled out any projects when she was doing her consulting work for Middle Game Venture capital that were unable to exit after a certain period of time and growth within the companies. The assessment of the impact was carried out dually through an initial screen for ESG and a qualitative assessment from the available information.

GB at Telos Impact has a similar experience to KC, but rather than ruling out longer term Impact Investments in the due diligence process, it is more related to the investors impact goals. If there is a certain project that his investors want to take on, Telos can build a fund to address it but the

nature of longer term returns are generally very patient capital which is not easy to find and the interim results are not easy to measure.

“if we had a real strong...opinion on the fact that [a] solution can bring some [impact], even though it's not really measurable... we would still be able to invest. It's just going to make our work more difficult when it comes to finding the KPIs and being able to make sure that we're on the right track after even one year or two years.”

(Guillaume Boury – Appendix 5)

PS has a much easier time with longer term investments. This is largely due to the importance of the purpose of the company. They use their own profits from SRI funds to create maximal social impact with potential entrepreneurs, and this allows them to be more patient with their capital and to look more long-term on projects. Their investors require social return, but the achievement is through their profits from the company rather than the social return from the employment of their funds in SRI funds. However, in terms of the success rate, this is measured after two years of the company being active which is a constraint.

“We look at the success rate after two years of these companies, or the fact that the people are back in the labour markets. So, the aim is really to have people back on the labour market. And so, if they stop their company [when] they find another job, we consider this as okay, as a success.”

(Patrick Somerhausen – Appendix 4)

MV, having an environmentally focused fund made up of publicly traded companies, can provide much longer-term horizon projections. Publicly traded equities are much more liquid which allows for longer term projections from Mart but also allows for longer term capital if this is the intention of the investor.

“So, over the next 20 years, we think your financials are going to go up, and we think your impact [is] going to be this big. The idea for when people actually invest, it's just a live ticker that just updates [with your live impact].

(Mart Vos – Appendix 6)

The conclusions that can be drawn from the interviews is that longer term investments require investor intentionality. The initial investor who seeks out the fund has to have the specific long-term target in their minds before investment and the product may have to be tailored to this investor. With the constructs that we have in the current financial world: venture capital, private equity and publicly traded funds, the succession plan of companies does not account for impact but is more financially motivated by returns. It can be concluded that the impact investor would have very patient capital and be socially motivated to take the risk of a longer-term investment with returns that might not be seen for years to come. It is also necessary to have some different makeup of companies rather than the traditional constructs in order for Impact Funds to be set up to succeed long-term.

Name	Type Of Impact Organisation	Financial Returns	Exit Strategy
True North	Public Equity Fund and Venture Capital Fund	Market Rate	5 years + 3 extendable
Funds For Good	1/2 SRI Fund and 1/2 Financial Institution	Market rate on SRI Funds. Capital return on Impact Fund	No exit on the Impact Fund, loans to be recouped
Telos Impact	Early-Stage Private Equity Fund	Market Rate	6-7 years
Eko Investments	Public Equities Fund	Market Rate	Up to the investor
Simpact VC	Venture Capital Fund	Market Rate	3-4 years
Middle Game Ventures	Venture Capital Fund	Market Rate	Prescribed amount of years

Figure 14: Type of Impact Organisation, Financial Returns, and Exit Strategy

6.3. In-Investment Impact Measurement

One of the key objectives of this thesis was to find out how do impact funds account for impact that will occur in the future as a result of actions already taken in investing in social enterprises. Is it through outputs that will act as a guide for possible impact returns? Is it through a control group that will show differential impact? Is it through discounting of the potential impact in the future?

From the interviews carried out, what became clear is that long-term impact is not something that is thought of at first for the impact funds interviewed. MF of Simpect for example: although Simpect looks to invest in companies that are going to have projected positive impact, their decision to buy and sell these companies is still based off of a financial premise. They are first a venture capital fund and secondly Impact Investors.

“So, for the next four years in this fund that we are upgrading right now, we are planning to do exits. And so of course we have been thinking mostly at the financial, financial aspects, not the impact aspect. Impact is already included in what they do.”

(Małgorzata Filipowska – Appendix 7)

This holds true for KC of True North as well. For his social impact on the social side of True North (the Venture Capital side), he looks to exit businesses after five years. GB finds a similar story at Telos Impact although he interestingly caveats that if the interest was there for a 20-year fund, they would create it. When asked how he would then measure such a fund, GB responded:

“It’s just going to make our work more difficult when it comes to finding the KPIs and being able to make sure that we’re on the right track after even one year or two years.”

(Guillaume Boury – Appendix 5)

What this shows is that setting interim targets of KPIs that are indicative of the theory of change’s outcome is how some Impact Funds measure interim impact on long term projects. Others, like Simpect VC, look to use standard metrics at portfolio level and localised metrics at company level. What is interesting about all of those fund managers that were interviewed is that they all look to measure on just a couple of key indicators for their funds and they all rely on the companies in which they invest to supply them with this data, apart from during the due diligence phase as described above.

Very interestingly, when it comes to environmental impact, funds seem to be able to provide much easier insight into long-term returns. Both MV of Eko Investments and KC of True North use public equities to address environmental challenges. They are able to predict the reduction in CO₂

by forecasting the impact of the public companies into which they have invested. MV expands on how he conveys this to his investors before they invest:

*“[Eko] tries to actually make you fund your portfolio. So... over the next 20 years, we think your financials are going to go up, and we think your impact sales are going to be like **this big**”*

(Mart Vos – Appendix 6)

6.4. Covid-19 Context

As Patrick Somerhausen says, nobody has a “crystal ball” and can predict the future when it comes to Covid and the impact that it will have on the Impact Investing field (Appendix 4). But indications can be found from the analysis of asking for fund manager’s perception of the results of Impact Investing. The purpose of this section is to find out where industry experts’ impressions are focused either negatively/positively as a result of the economic downturn due to the Covid-19 pandemic. The GIIN found that there are five key insights for impact investors to evaluate as a result of Covid-19:

1. The severity and urgency of certain social and environmental needs are intensifying
2. Impact investors face acute needs with their own portfolios
3. Impact investors have capital available to support priority sectors
4. Emerging markets risk disproportionate capital shortages
5. Deploying capital effectively in the current climate requires innovation and efficiency.

(Global Impact Investing Network, 2020)

Areas such as healthcare innovation, tele healthcare, and short-term financing are all losers of the pandemic and Impact Investing is well placed to direct funds towards the necessary companies to overcome this crisis (Global Impact Investing Network, 2020). In the annual survey of impact investors by GIIN (see Figure 13), there was an expectation for capital to still be available for reinvestment into impact funds in 2021 but there was more security in the impact funds of those in developed countries than developing countries.

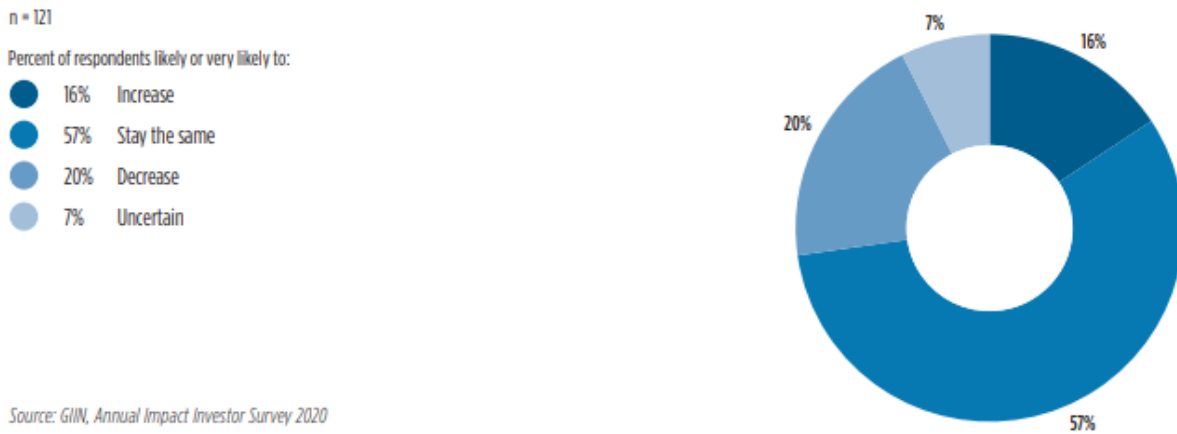


Figure 15: Changes expected to investment activity (GIIN, 2020)

The overwhelming impression of all of those who were interviewed as part of this research is that Covid-19 will have a lasting positive impression on Impact Investing. PS, KC, MF, and GB all refer to the future prospects of Impact Investing as positive as a result of Covid-19. KC has seen the most active venture capital year on record (Appendix 3). He also pointed out that mostly established funds are seeing this uptick in good fortunes as a result of investors wanting to do good but take less risk on with newer investment funds.

PS further reiterates this opinion (Appendix 4). He has seen an initial slowdown of the acceleration of his company's uptake in funds, but he expects to see middle and long-term growth because of people becoming more conscious about their environmental impact. GB confirms this position, he has seen an incredible acceleration in interest in Impact Investing, likely due to the Covid-19 crisis. PS goes further to say that the positioning of his firm as a credibly ethical impact company will be appreciated by investors moving forward as a position with integrity and what the world needs. He also believes that the positioning he has within an ethical marketplace is likely to become more crowded as the demand for ethical funds becomes greater, but he welcomes this competition as a necessity for the world. Further, he goes on to explain that SRI funds are less risky during a crisis because there is less risk of an unethical situation that can arise from child labour, environmental pollution or another damaging situation that will ruin the reputation of the company.

"I think in the middle and long term, there [will be] a positive impact, because the people will, I hope, be more sensible or attracted by sustainable investment products..."

(Patrick Somerhausen, Appendix 4)

GB reiterates PS's and KC's sentiment of accelerated movement towards Impact Investing due to the pandemic (Appendix 5). He says that Covid-19 will leave Impact Investing at a minimum on an equal playing field to what its trajectory for growth was in the past. There is more profitability in sustainable investing because there is an overall trend towards more sustainable products from consumers, according to Guillaume. He says that it makes sense for even the most financial led organisations to invest in sustainability because it is an attractive investment.

"I'd say, at minimum, it will, be I mean, it will be equal or positive due to COVID"

(Guillaume Boury - Appendix 5)

MF has already seen an uptick in interest in Impact Investment in venture capital since the turn of the year as Sim pact search for more funding. She hasn't quantified the relationship between Covid and the interest in Impact Investing, but she goes further than any of the other investors to directly associate Covid and the rise in interest.

"So, ... we see a lot of interest, especially in...clean energy and green energy, and they asked for health tech, that's the most two interesting factors. So, we see a lot of interest in impact, because of COVID."

(Małgorzata Filipowska – Appendix 7)

Theme	Summary of key findings
Impact Investing Ideology	Impact Measurement is still not engrained in Impact Fund practitioners as a defining characteristic of Impact Investing.
Due Diligence Impact Measurement	Impact Funds are limited by the type of traditional fund makeup they have (e.g. private equity, venture capital) as they look to exit investments in a prescribed time frame that is based on financial returns rather than impact returns.
In-Investment Impact Measurement	There is no industry wide methodology used to measure long-term Impact. The interviewees used a mixture of output KPIs from their theory of change and standards to measure their Impact.
Covid-19 Context	Impact Fund managers are as a whole positive about the effect that Covid-19 will have on the industry. They expect to see greater capital influx and higher investor engagement as a result of the pandemic

Figure 16: Summary of Key Findings

7. Discussion

From the results above, what is clear is that Impact Investing is still not completely uniform in nature. There isn't one set of financial instruments or one timeline that can capture Impact Investing. Further, there still is not one definition that everyone in the industry is agreed to and sticks to. What is uniform for the impact investing stakeholders, that were interviewed, is that they all see Impact Investing as a different concept, away from ESG negative screening and a subset of SRI Investing. This has moved on from the 2012-2016 rhetoric which was busy clarifying this distinction (Roundy, Holzhauser, and Dai, 2017). It is interesting to see that none of the investors referred to the most accepted core characteristics of Impact Investing from the GIIN, which lists four key aspects: intentionality, financial return, a range of asset classes and Impact Measurement. From the way that the interviewee structures are set up, venture capital, private equity and public equities, what is clear is that three of the four qualifiers are more important to all of our interviewees: financial return, range of asset classes and the intentionality to do good. This is not a surprising result as section 4.1. on the Impact Paradox shows that there is still an underlying afterthought for impact measurement rather than a proactive involvement. As Impact Measurement is one of the four core characteristics of Impact Investing, it is clear that there is still some lag on the importance of Impact Measurement in industry practitioners. Impact Measurement is still not engrained in Impact Fund practitioners as a defining characteristic of Impact Investing but rather a necessary add-on.

One of the conclusions that can be drawn from the research carried out with the six interviewees is that the constructs that we have in existence are constraining for social enterprises. Four out of the six companies looked to exit their companies for a financial return after a certain amount of time, irrespective of the social impact development during that time. This shows that the usual venture capital, private equity structures that we have in place, are not patient for social enterprises. PS's Funds for Good is a fitting example of patient capital that is willing to wait and see the social return to the end. MV's Eko Investments allows their investors to disinvest in real time because of the use of public equities. The conclusion that can be drawn from this is that the makeup of impact funds might need to be made up of more patient capital for certain sectors in order for certain social problems and environmental challenges to be resolved.

It is also a question of investor intentionality. If the initial investor wants to solve a social or environmental need that will take a longer-term solution, there are fund managers who will make the necessary fund. The Due Diligence process can then use discounted social return to calculate a figure for the expected rate of return per dollar invested to make the opportunities more relatable to today and for aggregation to occur across the portfolio just like KC achieves at True North.

All of the companies use some kind of scorecard and rating system along with their theory of change in order to assess the companies into which they invest. What this shows is that companies are more inclined to have a couple of key KPIs that they wish to hit that are necessary in order to achieve their objectives. It is also clear that standards, such as IRIS+ are not uniformly applied across Impact Measurement like accounting standards are applied across financial reports.

Another key takeaway from the research is that for long-term Impact Measurement to occur, it is essential to set out a few KPIs that, upon meeting them in yearly reviews, indicate that the theory of change is on track for validation. Although, a key limitation to these KPIs that measure outputs is that the outcome is not definitely going to happen, even when the KPIs are met.

As GB and KC pointed out, the problem is not in the measurement of these funds, it is the wish and desire for investors to invest in such projects where they will only see a return of capital and impact after a longer term. Therefore, an investor with patient capital who doesn't require market returns is required, and they are not as common as the market rate investors, naturally.

Overall, our interviewees see a definite positive outcome due to the Covid-19 pandemic for Impact Investing. All of the interviewees think that they will see an uptake in Impact Investing interest and capital as a result of the pandemic. This is a fantastic result for a world that will need this much needed capital to solve the deepening environmental and exacerbated social problems created as a result of the health crisis. For existing impact funds, the future is bright because investors are more inclined to invest with them to lower their risk (Chen, Appendix 3). Another point that PS develops is the importance of positioning the impact funds as incredibly ethical will be very important for picking up the new capital that becomes available as a result of the increased interest in Impact Investing.

7.1. Limitations of the Research

7.1.1. Issues with Sample and Selection

The sample of 5 fund managers and 1 fund consultant is a good indicator of trends in the Impact Investing world but it is not a fair reflection of the total population of Impact Fund Consultants. They had a good global spread of one Irish, three Belgians, one Canadian and one Polish but this is still skewed towards Impact Funds in the developed world. As the study was limited in resources and network, it is suggested that further studies would have a larger breath of impact fund managers across many different Impact Funds from both developed and developing countries in order to truly reflect the makeup of Impact Fund managers in the world (Saunders, Lewis, and Thornhill, 2009).

7.1.2. Insufficient sample size

To expand upon this research, it is necessary to have a larger sample size. This study has six interviewees which is a good indicator of trends but a further study with 15-20 fund Managers is needed in order to validate these results for it to be statistically significant. The limitations during Covid made it difficult to reach out and perform interviews.

7.1.3. Lack of previous research studies on the topic

O'Flynn and Barnett (2017) identified the problem of long-term impact and how properly to measure it. Since then, there hasn't been many studies on the topic and not enough research done to identify the best ways to measure Impact that will occur into the future and discount it back to the present. Addy et al. (2019) make a good effort to describe their method in the HBR but more research is needed to validate their method of measurement.

7.1.4. Methods/instruments/techniques used to collect the data

The mono approach of one method of primary research is a limited approach. It would be better to bring in several sources of primary research to triangulate the results in order to validate the results. It would be better to use a multiple method and use more than one data collection technique and analysis procedure to answer the research question. This would have been best

used in this study by coupling the semi structured interviews with quantitative data analysis from a questionnaire. This study did not have enough time or resources to conduct a multiple method.

7.1.5. Limited access to data

Due to the limitations of the Covid-19 pandemic, during the duration of this study, it was impossible to access the library and some relevant material outside of online university libraries and Google Scholar. One particular book that would have helped in this study is Routledge's Handbook on Social Finance which is a very important piece for the Impact Investing market.

7.1.6. Avenues of New Research

Due to the broad and indicative nature of this study, there are a few avenues of further research from the findings. Firstly, a larger study is needed to validate the conclusions on the results of the Covid-19 pandemic for the Impact Investing market. GIIN have recently release a qualitative study "The Impact Investing market in the Covid-19 context" which does much to validate the results.

Secondly, a larger study is needed to find the average number of years that an Impact Fund is looking to invest in a company before realising any gains. It is an important insight that is needed in order to be able to suggest which forms of funds are best for investing in long-term impact projects that require patient capital.

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Appendix

Appendix 1 - 7 SROI Principles

The seven SROI principles are:

1. Involve stakeholders.
2. Understand what changes.
3. Value the things that matter.
4. Only include what is material.
5. Do not over-claim.
6. Be transparent.
7. Verify the result.

Appendix 2 - Examples of Quasi-Experimental Methods

Comparison method	Activities	Outputs
<p>Historical baseline: Comparison to past outcomes for a similar population using historical data.</p>	<p>For adolescents at the edge of care, a benchmark is generated by reviewing historical case files over a selected time period. Characteristics such as age, needs, and mental health status are reviewed, and adolescents who would have been suitable for the intervention are selected into the comparison group.</p>	<ul style="list-style-type: none"> • Historical benchmarks require a reasonably stable population with a consistent level of outcomes over a number of years. • This approach is most suitable for outcomes that are not significantly influenced by broader socio-economic trends and external factors.
<p>Pre/post: Comparison of intervention group before the intervention and after it has concluded. The “pre” baseline wave serves as a control group.</p>	<p>A group of marginalized women receive an intervention designed to increase their employability. The group is measured for their employment rate before and after the intervention.</p>	<ul style="list-style-type: none"> • This approach assumes that change was caused by the intervention, and is unable to account for external factors that may have also contributed to the change. • While the extent of change to the specific population is measured, it does not reveal why conclusively.
<p>Regression discontinuity design: Comparison with outcomes of those just below or just above intervention eligibility thresholds. This methodology is based on the premise that the difference between candidates who just miss and just make a threshold are negligible, and thus comparison of their outcomes post-intervention reveals the impact of the intervention.</p>	<p>An intervention is targeted towards students who scored below 50% on a diagnostic test. The evaluation framework may be based on comparison of the post-intervention outcomes of students who scored just above 50% with those of the students who scored just under 50% pre-intervention.</p>	<ul style="list-style-type: none"> • This may incentivize service providers to focus their efforts on those closest to the threshold, even if those are not the clients that require the most effort. • This methodology is only applicable in interventions where the characteristics of those just above or just below the threshold are negligible.
<p>Difference in differences comparison: Comparison with a similar population – one that is not offered the new intervention, but which is receiving another “treatment as usual”. Both groups receive pre-and-post assessments, and the difference between those assessments is used to determine impact of the new intervention.</p>	<p>Two prisons have historically shown very similar recidivism trends. One prison is receiving the intervention, while the other is receiving treatment as usual during that timeframe. The difference in recidivism before and after the intervention is calculated for the treated population. The difference for the same timeframe is also calculated for the treatment as usual population. The difference of these differences reveals the impact of the intervention.</p>	<ul style="list-style-type: none"> • The treatment as usual group must be a good representation of what would have happened to the treatment group, in the absence of the intervention.

Appendix 3 - Kai Chen

Zoom interview with Kai Chen, Partner and Fund Manager of True North.

[00:00:39] [Start of Transcript]

Conor Ryan: So, basically, I'm doing this Cems thesis, right? I'm doing it on Impact Investment, and specifically the measurements of like, the social impact. So, first of all, it'd be great if you can tell me like, who you are, like your company and your role. And then we can talk like further on, like, Impact Investment and on measurement, if that's okay?

Kai Chen: Yeah, for sure. Have you looked me up? Have you watched our website?

Conor Ryan: Yeah, I had a look at True North. It looks great.

Kai Chen: Yeah, so yeah, I'm the founder of 'True North'. 'True North' before used to just be sort of like an investment vehicle for some wealthy Canadian family-friends of mine, right? So, this for the past, you know it's been a thing since about 2017. It was just an investment vehicle to make personal family investments. Really, through an automatic start as an impact Fund, the beginning of- the beginning of last year, we had a really big deal with the Canadian government, it was about \$100 billion worth of N 95 masks. So overnight, it made us the third largest PPE supplier to Canada, which is ridiculous, because at the time was me doing this part time and my two first investors, also retired. Eh, and then I tapped-- we tapped the supply chain and one of our portfolio companies who had a supply chain in China, and that really enabled us to get-- to buy PPE from day one, so that was how we got our- really made our- made our mark, made the news as it were. But we've always wanted to do Impact Investments, it just we never quite thought we'd get there so quickly, right? So, we made a bit of money, starting to reinvest it, eh realised, we like doing this. So, I'm going back to market now for a fund of 30 million US to raise this money to deploy more. So that's- that's 'True North' in a nutshell. I'm the Fund Manager, so I see- oversee strategy, and then did the operations and putting the products. Yeah, ask me a question.

Conor: For you, what is Impact Investing? If you were to describe it, in your own words, what would you say?

Kai: Yeah, so there's a whole spectrum, right? You got the people who, on the far left who greenwash, who say that the more impact stuff. You have the people in the far right, who are like UNICEF, the charities. Just one step to the left of far right, you probably have impact first investments which generate about zero to 2% return financially, but do really good quantifiable good, you know? Eh, there's like live, save tons of CO2, reduce stuff like that. I'm a little bit further left of that. So, I do thematic investments, I need to still return close to market. So, my funds target is about 16%. Okay, so that's still very competitive compared to traditional venture

products. But for me, what's important is the-- there has to be intrinsic alignment between impact and financial performance of all the portfolio companies. So, it means that every additional unit of output has to also bring an additional benefit of good to the world, right?

Kai: Impact is not the sort of something that they offset or do at the side that has to be integrated into the success of that company. But because, you know, ESG is very diverse. I've got two products. I've got public equities for the 'E'. And I've got a venture fund focused on health and wellness, for the 'S', okay. Governance, I haven't quite figured out yet though. Because, let's focus on a venture fund. It's so diverse, what is in fact, because all the outputs of the companies are different, right?

Kai: So, our first investment in the venture fund, they make feminine health care products, and it's- everything's biodegradable, it's compostable, eh, in clinical trials, it's very-- it's much, much healthier for women, it uses the highest quality organic cotton, the go to market models a little bit different. So, they're a B Corp. So, you know, of period care companies, this is probably one of the better ones. And they can measure impact by sort of, eh, customers served in a year, right?

Kai: That's how we measure on that side. But the next company- we have another company where they- they do, essentially a mental health app, but they diagnose early AI- early onset Alzheimer's through an app and an audio sample. That is a very different metric, right? So that's going to be like number of early diagnoses and then how do you quantify the impact one to the other? So, it differs depending on what, the company does. Yeah.

Conor: Do you have an overriding like method of measurement? Do you have a KPI that you have at the end of a certain amount of years that you want to hit, to say that it was successful? -let's say you reach your social impact?

Kai: Yeah. This might be on the website. I don't- I'm not sure. We def-- I think we wrote an article about this. So, we take great inspiration from TPG Rise's funds, how they quantify impact.

Kai: Okay. So, em, I think to do impact, investing properly, impact cannot be secondary to fund management, it has to be integrated, just like for the good companies to do it, it's integrated, right? It has to make my business stronger, not just be an additional thing I have to do. So, what that means for fund managers, I need to integrate it into my deal flow such that it moves quicker and better. So, I've broken it down into sort of subjective, and- a-a-and sorry, em, qualitative and quantitative metrics. The qualitative, we have an onboarding form. And so, a lot of venture funds have onboarding forms, right, to really sort through the crap that they receive but we have one that's impact focused. At the end of this, you are submitting the form to us, they put it into a calculator and outcomes, a score, it's a letter score for how good on just a high level of impact that we think you are. We use that letter score, you know, F through A+, to decide yay or nay, should we do due diligence with-- you can have another conversation with you. So, you know, for

100 companies who fill out this form, we might only have conversations with, let's say, 15, or 20, which is normal, right?

Kai: With the 15 or 20 that I meet, and I'll meet with the CEOs often and the founders, and we'll have a good conversation, I might choose to say due diligence on you know, a hand- three or four. Okay? On the three or four we do diligence- due diligence for we get access to their books, we get access to their sort of the- their forecasts for production we want to figure out ultimately, what is the impact for dollar investing? Okay?

Kai: And we choose this metric consciously, as an investor facing metric, because I think the biggest problem in the industry today is there is a huge disconnect between people who report impact, and the people who are decision makers.

Kai: In high-net-worth individuals, family offices do not care. Eh, a lot- 99% of the stuff out there is way too dense for them. Eh, I'll give you a better illustration on my public equity side, it's a new product that I've launched this year, we're getting great responses, because and it's- it's- it's not publicly, we've only just launched friends and families. Okay, so that we haven't published much on it. We're going to publish in the coming weeks about it. I have- I have a trading algorithm trends only in ESG companies, which is not that-- that's not that sophisticated. The returns pretty good, the return on the years 22% so far has a Q1, which-

Kai: -is very competitive. But what my investors really liked about it is I can tell them, when they're onboarded to me how many tonnes of CO2 better their portfolio is going to do with us than they did. So, for instance, just if they had 10 million invested in- in energy companies, so they told me which ones, I will reinvest 10 million in energy companies, once they give me their money, and beca-- I partner with S&P to do this, S&P is about-- it has a great carbon intensity product, and nobody- nobody uses it. But with this carbon intensity product, I can figure out what was the carbon footprint of your portfolio versus what it is now. And it's-- I represented in tons of CO2 saved per quarter of some number of cars taken off the road. Investors get a huge kick out of that.

Conor: I can imagine.

Kai: Given that- given that to them, they they've never seen impact, in such a way that they recognise, that's the sweet spot. That's- that's sort of the level of impact I care about. And that makes my fun stronger. It's not just another reporting thing that I have to do.

Conor: In terms of like the tonnes of CO2 saved, you'll report this like year by year, or your reported going in when they make their invest- investment? Like when you say after year one you will have saved X number of tons of CO2, year two, Y.

Kai: Yeah, we do it- we do it on onboarding we. We do it on onboarding, we also do it per quarter. And we're finding now because we've just-we've just started to run it for a couple quarters or for just two quarters now. Right?

Kai: Investors were having some conversations that are really interesting. They're like, "Hi, can you build me a portfolio that does better on CO2?" Like yes, but I-I-I'm not sure if this is-- I'm not sure if the return is going to be as high. Like, "that's okay. I can- I can accept a little bit, if you show me how much better on CO2 I can be". That's super cool. And that's where every impact fund hopes to get to, right? But I think very few have actually gotten there, because they've never seen such a direct correlation between what is impact? And what is sort of the- the return. And now, I've got, I've got sort of knobs I can turn with the investor in mind. And, of course, I'm a business and the fund manager, I'm going to charge them a heck of a lot for a custom portfolio, obviously [chuckles]

Kai: Em, but they seem to- they seem to like that. So that's my sweet spot right now.

Conor: In the due diligence process, is there certain kind of projects that you'll say, well, the impact will take too long if I invest in this, like it's going to take too long before the impact is realised, em, and so you'll exclude it in the due diligence process?

Conor: Yeah, so I'm looking kind of like at the due diligence process here. So, like, em, is there like, you know, em, like certain- certain companies that you won't invest in because like, it will take too long for like the social impact to be realised, let's say like, it's like in education or something. And you'll say, well, the social impact won't be realised for like, 10 plus years, so it's not worth my while to invest. Is this something that comes into your thought in the due diligence process? Or is it just the financial return and decide?

Kai: Yeah, the timeframe is not a problem that-- that particular example you have is not going to be one that I encounter, because the timeframe on- on my fund is five years, five plus, plus three extendible. So, I have a very short time horizon fund. Eh, this is a conscious choice. Em, impact already is a fairly new and risky topic, because it's new, right? So I have a much harder time to convince investors to let me lock up their money for 10 to 12 years, which is typical for funds nowadays. And then, hey, let's do it for five years, I'm not gonna promise you six retur-- 6X, multiple, I'm gonna promise you three- three to three and a half is what we've projected, can you accept that investor? Like, generally, they're okay with it, it makes sense because no one's gonna know where the impact, you know, ESG's assets class is gonna be five years from now, right? So, my time horizon shorter. Time horizon on the impact is not necessarily something I consider consequently.

Kai: Also, you have to consider what stage a company the investor invests in. I invest in late A, early B, and then the letter staging's not often perfect, what's more important to me is this

company is about 12 to-- six to 12 months from having sales which means that they probably have a product today that's fairly well developed, that's definitely through all the regularly regulatory requirements, right?

Kai: And that's probably had some testing already. And that means they- they've already raised probably five to 10 million, that means their valuations already probably at 30 million. Okay, so if I give them 3 million, I want a 10% stake and I want to see that the board, right? Em, because I have those requirements, sort of the time lag to impact is not a concern of mine, because the companies are going to be very soon having a product in the for service in the market. So, I'm not sure if that answered your question-

Kai: -but it's a roundabout, roundabout way the same, yeah.

Conor: Yeah, it does indeed. And then, like in terms of like reporting the impact back to your investors, like, after you've invested in a company, like- like- what is- like, let me phrase this correctly, like what is like the way that you report it back, is it through, like, outcomes or outputs, like, or just through KPIs? Like how does it go back to the investor to say, like, you're in, your, your social impact was this, you know, after the five years?

Kai: Yeah, you're raising the right question. So, I can't tell you what it looks like after five years, my funds not that old.

Kai: [chuckles] Yeah, we've just started mocking up the report now, and I have an early draft I think I can share with you, if you- if you write me an email, the chances of me doing this are much higher. Em, but I'll show you, we've just mocked up what the quarterly report is going to look like. And it shows a bit-- actually, this one's focused on environment. So, it'll show you what we want to show in terms of financial return, but then also, eh, the impact return-- they're on the same page. Okay? If you think about the investor relations experience, most of these people are much- way wealthier than I. But they're probably way removed from actually touching their money, having a hand on the decision, right? They probably tell somebody and maybe they- that person even tells somebody else, right? [chuckles]

Kai: So, if I need to reach the investor directly, I need to come with a- with an incredibly simple to the point, quantification of impact. So, this example that I saw the other day that I'll send to you, is very simple-- It's a mock up, so the data is not real. But it shows financial performance on the left side, it also showed tons of CO2 saved this quarter on the right side. And there are many, there were many other products that are not yet filled in there. We want to do water savings next, and then waste, eh, in the next quarter. But we'll- we'll get there.

Conor: And it'll come out in some kind of score card, like, it'll just be financial. And then, like CO2 saved on the- in a kind of KPI, like on the right-hand side?

Kai: Yeah.

Conor: Okay, nice.

Kai: Indeed. I'll send it to you. You know, there's lots of ways to do this, right. So, it's not clear to describe. I'll send it to you. Please remind me.

Conor: And then-- so if-- like, this will be, like the environment's side, like, and then like, have you figured out like how you'll report like on other sides? Like on, I don't know, like jobs created or something like this, will this also be reported? Or is it just going to be purely environmental fund?

Kai: No, we want to do that as well, on the social side. I have two teams, I've got the public equities folks who, who are more technical and their traders by bankers by background and they do and they figured out what sort of report they want. The venture fund sides not quite figured it out yet. And they're still very busy doing the due diligence and the raise right now, so they haven't had a chance to figure that out. But it is envisioned, of course, we'll have a similar version for the social impact as well.

Conor: It's great. I mean, you've answered like, kind of like that-- you got through a lot in 20 minutes. [chuckles] Thanks very much Kai.

Kai: Yeah, no worries. So em, yeah, you answer very interesting topic, okay. Because anyone who knows anything about ESG investing, realises that the reporting of it is a huge problem. I'll say it like this, in my opinion, it's a problem, because the incentives were not yet aligned. Okay? The people who really care that a company does a lot of impact, is actually not often the time nothing I hold in the first place, [unintelligible 00:17:15], right? And also, then it just became a greater regulatory burden for asset managers. And it just became another additional thing they had to do. You have to, in my opinion, use it as a strength and really incorporate it deeply in your business like we expect our companies to, and then you might be able to do something cool with it. And we're not-- I don't think the industry is mature enough to have realise that just yet. And if I'm ever successful doing this, I'll let you know that we were right. But I think that's the problem. And we're going to solve it this way. The critique, of course, is, you know, you're going to get the environmentalists and the social justice and peace folks out there who say, "Okay, you've got one number, let's try to quantify, you know, 10s of 1000s of human lives impacted, what are you doing? Like, where's the- where's the data resolution there?" Where- where-- And that's very fair, you know, because I have to aggregate the data on a higher level, I lose the fidelity of it. Em, but that's a choice. And I choose this because ultimately, my fund has to grow. And if I can grow in the long term, I will have greater impact, even if I'm perhaps not reporting as accurately or as descriptively as I could. To be frank, I don't think there's much value in providing any more than what my investors need.

Conor: Yeah, no that's a, that's really interesting, because, like, one of the things that, like, of some methodologies of measurement is that, some are much more specific and the they're much more specific, and-- but you've less aggregation, so it's less comparable across different portfolios. And then, as you said, if you have more top line, it's easier to like, aggregate it and then also compare it for your investors, they can compare across their portfolio and see, which is having a larger impact. If that makes sense? [chuckles]

Kai: Yeah, I know- I know what you mean. It's an interesting space, it's gonna change drastically in the next five years when we're still in it. I'm just curious which way it's gonna go.

Kai: I hope it's not towards the-- you know, got lots of interesting things happening nowadays in particular because of the pandemic and there's greater social unrest in the United States. In my-- it is my dream and strong- sincerest belief in 20 years, it's gonna be just the normal way of doing business. You know, you won't have an impact fund, it'll just be a fund. Right? And sustainability won't be a special topic, it'll just be another topic like finance or operations.

Conor: Yeah. It'll be ingrained in strategy.

Kai: Yeah ex-- indeed. I don't know if we'll get there in five years, but that's the dream.

Conor: That's great.

Kai: What else can I do for you?

Conor: If I could just ask you one more question. I'd be interested to know what you think, COVID, is it going to accelerate Impact Investment? Or if it's going to - you're going to see adverse effects where people like want to keep their money in safe investments?

Kai: Oh, no, no, absolutely. Absolutely. So go look at the- some of the papers that are just come out. *PitchBook* on Tuesday, I think had a really good report on this. Yeah, the VC activity in the past year was, I think, some of the highest on record. And my team has done research on this and I'll send you our- maybe our which deck would have, I'll se-- remind me I have a deck or a slide that has ESG asset class being the highest scoring asset class in the period of- think of like, last half year of 2020, or something like that. And it was like, significantly- like 60% higher than the previous year. So, it's-- that's not an accident. Investors are listening. And the funny thing is, when you and I think of invest- who- when you- when I say investor to you, who do you picture? What- Just give me, what do you see? What are they wearing? Where do they sit? Where do they live?

Conor: All wealthy man in America. This- That's what I see. [chuckles]

Kai: Okay. Very good. Where do they live?

Conor: Florida. Yeah.

Kai: Okay, very good. That's- that's a pretty good answer. And most folks would say something like, I don't know, a guy in a suit with a tie in New York, probably. Actually, that's true. But that's one type of investor, there's a whole bunch of money that votes while listening to the news. And this money sits in Florida, in Oklahoma, in Nebraska in the middle of- in the middle of the US, and hundreds of billions sitting there, trillions. But they vote with where the news goes, right? And you see it, you see it in the performance. [unintelligible 00:21:53] last year was by far the best year for ESG investments, sustainability investments, generally. And this year, so far, we've had the most active VC year on record. So, em yeah you definitely see it. In-- at least for stuff like us, it's for the better. Now, the report also said most funds getting the money are more established funds, and that's sort of like an illustration of the flight of risk. Right?

Kai: Right, one second.

Conor: Okay.

Kai: All right I'm back with you. Yeah, it's [unintelligible 00:22:31] risk, right. So, you know lots of things I'm stable, they'd rather go with a VC fund that's been around for a couple of years, doesn't help people like me starting new funds, but you know, what can you do?

Conor: Yeah. But I mean, if you become established in these two years, you can be out of the game, come two years' time.

Kai: That's the dream.

Conor: Yeah.

Kai: Other questions?

Conor: Yeah. Like, let's, let's say like you, right, I don't know-- Like, because you're- because your investment fund is five years, right? Let's say in the future, if you had an investment fund that was 10 years, like how would you, you know-- like, what- what would your method of measurement? How would it change for like investments, for longer term investments? Because this is what I'm trying to kind of figure out is where, there's long gaps, like how do people measure from like, years zero to year 10? Let's say you invest in education in India, like, how does your method of measurement change? You know, because you might not see the results of those kids like, or a company, an education company until 10 years' time when those kids have graduated?

Kai: Yeah, so you're speaking about a very particular investor, very particular type of product as well. When you- when-- you're thinking of, I think what I would call sort of like first generation impact funds, this is- these are impact first companies. Indeed, would looking for 10- and 12-year horizons. Your investors don't necessarily expect market return. So, they're okay with zero to 2%, which is what impact fund sort of had the rep for many, many years. Those funds, indeed, spent a whole lot of time on figuring out what are the important things to measure and how do they communicate that out? I can't speak with a lot of experience on that type of stuff. I know that they can carry quite a bit higher burden on reporting because their product is not financial, your product is impact. I have to have both, because I want to grow the fund. They just have to not lose all their money at once.

Conor: Yeah, just give it back to them, basically.

Kai: Yeah, indeed.

Conor: Yeah. No, that's even a good insight. Like I know that's a- it's an awkward question because it's not your field- it's not exactly what you're doing, but it's a good insight for me. Kai, I think I've come to the end really of my questions. I'm sure I'll have more questions. If I could like, message you on *Facebook*, it's okay? And you can like DM back, if there's further questions. But this was really great. And I'm really appreciative.

Kai: Yeah, no problem, no problem. I've brought-- you should speak to one of my- one of my teammates, her name's Sophia. I brought her on board a couple months ago because she- she- she works for Expo Dubai, but she also sort of set up a measurement framework for how the Dubai funds, I forget which one in particular, sees impact. So, she, from an impact framework and reporting perspective is much more of an expert than I am, which is why I hired her. But she would be a great person to speak to. She's just on holidays next week, I think for maybe a week and a half, maybe two weeks, but I don't know when your report is due. But you should remind me in an email, write to me in an email, I will introduce you to her and you should speak with her.

Conor: That would be great. That'd be fantastic.

[00:25:58] [END OF AUDIO]

Appendix 4 - Patrick Somerhausen

Zoom interview with Patrick Somerhausen, CEO of Funds for Good Scale-up Fund in Belgium.

[00:04:14] [Start of Transcript]

Conor Ryan: Okay, so I'll just introduce kind of what I'm doing, why I want to talk to you, and then, like some topics we can talk about. So basically, I'm doing my thesis, like when you were the guest lecture in class is what I'm doing the thesis for this Master's, and I'm doing on Impact Investments measurement techniques. So, so far, I've just been looking at literature, doing some interviews with academics, and looking at the current outlook, what's going on in impacts investment measurement. And now, I'm kind of looking also at what's going to happen in the next few years, because obviously we've got an economic crisis, that's going to follow the health crisis, and it looks like it's going to come pretty soon. So, this is just a general conversation on the topic. It's interesting to get- so far, I've got academic viewpoints, and now it could be interesting to see more professional side of things. And so yeah, 30 minutes, 45 minutes, maybe it takes less, you know, it shouldn't take too long. And then I'll just take a look at like measurement techniques as well. And maybe I can develop some insights from funds for good. Just shoot questions and answers. Is it okay, if it's recorded the?

Patrick Somerhausen: No, no, no problem.

Conor Ryan: Okay, thank you.

Patrick Somerhausen: Okay. But maybe what's interesting at the start is to define what impact is because if I'm looking at what we are doing, we have a business, which is a financial business. We develop and we distribute investment funds that are SRI. So, based on ESG criteria on top of the financial criteria, so in that way, can be considered as Impact Investing. Also, we have, for instance, a Clean Tech Fund, which is purely focused on the companies that are helping address the environmental problem through the better resources. So, this is-- what you have to do to define what is impact?

We consider impact more as the social impact we generate thanks to our activity. Measurements going to be different, which we'll talk about the social impact of our business model, meaning that we, we share a part of our own revenues to help work with people and to social entrepreneurs to develop their business. So, this is one task we do. And then you're the, probably the Impact Measurement on the side of the listed investment projects that we have. Between those two, there is a whole range of social impact funds, I would say- or impact firms that are not listed, that are probably more- certainly more impactful than the listed firms. And this, therefore, I will not be able to give you that much insight as we just we start a new project, which is going to be not listed in based impact, but it's not launched yet. I can refer you to different existing funds, and you can look the way they present their impact.

So, the one I know, I'm the Board of Director of Scale-up Fund. So, Scale-up Fund is-- I will talk to you about the Belgian ones that I know, again, you can ever look at this. So, Scale-up Fund is an interesting one. Change from [unintelligible 00:08:10] is a Belgian actor, social, Social Finance sector, and they launched change, which is their investment fund- Impact Investment fund. We have SI two. SI two has been launched by the family cohorts, distributor retailer [inaudible 00:08:28]. So mainly, yeah, that those are three [inaudible 00:08:34] example of

private equity funds that are initiated by private companies. And then **[inaudible 00:08:42]** I mean, alter equity in France. I mean, you have **[inaudible 00:08:51]**. I encourage you to have a look at their website and see how they report their impact, which of course, depending on the objective they have as a source data plan, for instance, is really focusing on sustainable food. So, from the retail to the producer, and they will have KPIs of impact that are totally linked with their- their objective of impact.

Conor Ryan: Would you be able to maybe explain how like, how funds for good works? Just for- so that I have the proper understanding of exactly how it works. Because I know they're using the profits from the SRI funds to give it to, like, zero interest loans to people that need it, right?

Patrick Somerhausen: Yeah, but we don't use them, the return of the funds. We use the management fee of the fund. Management fee is the way professional finance company is remunerated for income are coming from the management fee to depends on the assets under management that we have. And like every fund, we have management fees that they in line with the market, it's about a person or incident, is a bit less than that for the institutional investor, it's a bit more than that for retail. But generally, it's about 1% and the 1%, as we don't manage the funds ourselves, we take an external manager, and we give them a mandate to replicate a flagship from the DF with SRI constraint that we redefined, okay? So, we, we earn the 1%, we give a bit to the manager, and the rest is for us. And those are our incomes and we give 50% of our profits, but who is a minimum of 10% of the revenues. So, we give at this stage more 10% of the revenues, we should switch to the profit in the coming years, as the profit is going to be higher at this stage as we make more or less- yeah, not so much profit or not. Let's say, to keep it simple, we make no profit, we don't lose anything, but we don't win anything because we are investing in the structure in the company. And so, we are breakeven, since- for five years, and we keep on being breakeven because we invest a lot in the company. But that means that we give 10% of the revenues. In two or three years, we should give more than that. In actually we give a bit more, because we have deals with distributors, like dutiable with the volume them, which then allows us to give more, but **[unintelligible 00:11:27]**.

So that's the model, the model is saying, okay, the idea of funds, so when you say we'd build a company, no matter what she's doing, doesn't have to be in finance, we could sell, I don't know, watches or furniture or whatever. We do it in a decent way. Of course, we do it ethically. Would we sell cars, we would sell electric cars, of course [chuckles]. But then by doing this, we make a business and the business allows us to have revenues, the revenues are used to, to helps to add workless people. So, we define the mission- In a way, the mission of funds for **[unintelligible 00:12:06]** as a total is the mission of the impact site. So, we need to grow, we want to grow a business and to show that we can grow a business by- while sharing about a for revenues, because it's a disadvantage in a way. But on the other way it gives means more means and what we are doing and want to show that if we do this, we can grow faster than the others. So, it's not that we growing super-fast. But launching something in the financial sector is super slow. So, I will add the impression that we were going very slowly. But it seems that we're going faster than the others. So, it's okay, we were about to meet our objectives.

Conor Ryan: And so, like your- the impact that you make is made from the profits from the management fees. But how do you measure the impacts that you're making? Okay, obviously, you get like- they pay back their interest free loans. But how do you measure, like in a non-financial side of things, the impact that you've made? Or do you measure or?

Patrick Somerhausen: Yeah, we measure it, of course. Well, [unintelligible 00:13:19] we still have to keep on developing this. But the first measure we do is to see how much people we helped to launch a company. That's easy. We say, okay, well, at this stage, we have 300 and something entrepreneurs to work less people to launch a company. We look at the success rate after two years of these companies, or the fact that the people are back in the labour markets. So, the aim is really to have people back on the labour market. And so, if they- they stop their company with they find another job, we consider this as okay as a success. Because those people, thanks to their entrepreneurial adventure, they were able to learn more and get a network again and get a job. But ideally, they would keep on doing their business. That's the best we think.

So, we will look at the creation, the viability of the project, and then the number of jobs created. So, when a person is launching a company and creates two or three, four extra jobs, we also come this in our KPIs. And we look at the total amount that we gave to her to her philanthropy vehicle. So, it's a we call it a [unintelligible 00:14:46]. Let's say we're like non-profit to a non-profit. So, we count the amount that we give per year. So, we see if it's raising or not in the total. We look what we used. So, like how much loans of honour, were we able to do? What is the average amount that we were lending? What is the leverage that we- we succeeded to get from microfinance institution to [inaudible 00:15:15] equity loans is that, so it's what makes a total amount of financing for the project.

We measure the number of women; we really strongly believe that [unintelligible 00:15:31] of women to become entrepreneurs is very important. I can refer you to Muhammad Yunus books. He started in Bangladesh, he invented microfinance with a woman, poor woman in Bangladesh. And we believe that it's an important way for less favourite woman, that most of the time alone with kids to, to get a decent life and to work, because when they have kids, and they have the colour of the skin, or the CV, which doesn't always allow them to get a job, they can create something. And the idea of unison is to say that everybody could be an entrepreneur. At this stage, I was not really convinced by this. But in a way, I think that deeply every human is, could be an entrepreneur, and then the culture we have around us pushes or looking for a normal job or become entrepreneur, the culture and, or feelings, of course, but I think that it's in the gene of the people to be able to be entrepreneur. And if you're poor, and you have access to the labour market, your willingness to have a decent life, and your energy can allow you to become an entrepreneur. So, we do that. And so basically, it's all about the financing and the number of companies that were created in the fact that our woman or not, the fact that it's a- it's a social project. So, if inside the intrapreneur project, there is a social or environmental dimension measure these two.

Conor: And what kind of percentage is social? And what's environmental? You know what I mean? Like, do you have projects that are purely environmental, or is it a bit of both?

Patrick Somerhausen: No, we have that. It's about 20% of the total project we finance. But we will try to increase this by no focusing also on the social projects that are not launched by a person, which is worth less. So, we have two different targets. And you can be in the target one, target two or in between, because there are people in target one that are launching also social or environmental project. So that's, that's the main measurement we do about the- this activity of loans of honour, let's say, and we see which sector, which geographies or which region. And then we try to also do coaching and offer free coaching, free expertise to the entrepreneurs.

And so that's also something we need to measure properly that we didn't try to see the amount of active coach the percentage of project that our coach that benefits from free expertise or expertise like a lawyer or a marketer that entrepreneur for certain mission controls like for one time, it's a one-time job. Like okay, your legal problem we offer you the top one lawyer in our network will offer you the job so it's not just one day and you pay the rest of you don't pay anything and they manage to help you.

So, this is something also we put in place we try to open our network with it's pretty difficult to measure this. So, we'll try to measure the amount of turnover we bring to the entrepreneurs but sometimes we buy them products, sometime we buy them products for our clients are we we're we say that we give wish to our clients to buy their products and put them in contacts. Like for instance, if you have someone working as a caterer, you can bank like Deutsche Bank, you say our client we propose them to use this caterer to for their internal events and they do it. In their 1000s of examples of that, so we have energy in time to try to make them succeed to opening the network. We communicate a lot around them too. So, this is something where- it's the notion of this part of our, of our impact. So, at this stage, we, we have a count of the amount of coach that are on boarded and trained to be coached among a number of experts, number of dimensions, number of days and hours of work of the volunteers. We have a credit Committee, which is based on volunteers, we will try to measure the number of files the analysed per year. And so basically, that's it. So, it's not rocket science, it's quite intuitive, but it's a good way for us to commission.

Conor: Do you have like - So you said the job market is like the final result, not metric, you know, job market or entrepreneurship, like businesses created - Like, a lot of the metrics you have are during the process, you know, like how many reach outs you have. Do you focus more on during the process metrics, rather than, you know, the final metrics at the end? Do you understand my question?

Patrick: I'm not sure. Yeah. You mean that, that the- someone is serving a job after two years, then it's a final objective, but it's not on the short term. That's what you mean, or?

Conor: Yeah, like, you know, how many people reach it's just during the process, it doesn't mean necessarily the most success? Do you focus more on the process metrics rather than the final result metrics?

Patrick: Yeah. Yeah. That's true. I mean, we are probably more focusing on the process, which is probably not good. Indeed, it's probably on the sh-- Yeah. At this stage, why is it like this? It's also because we are quite-- we started this, the impact story. So, at the start, we were just giving to NGOs. But we started our own social project from in 2013, by September 2013. So, it's, it's hard, but it's quite new. We didn't have enough entrepreneurs sign ins at the start. It was like 10, 15, 20 per year, and then it became to be 30, and 40, and 50, and so on, and so on. But so, we don't have enough [inaudible 00:22:37]. And if you want to in statistics, if you help 10 people it's really difficult to the conclusion. And as we need like, three years, we [unintelligible 00:22:54] so we loan- we give them the money, we make a loan, then the repayment is going to help you're only at the minimum after three years. So sometimes it's four from than five years. So, you can see we started to [unintelligible 00:23:09] people, and it was increasing the- we need more time to make really good measurements, statistical measurements.

But we keep in mind, the fact that the thing- the main objective is that the people are succeeding with their business, and if they do not succeed in the funded job, fair enough. Good, good for them, we're happy for them, if they're happy in their job. But main objective remains to- we help them in succeeding in their business and try to give them the- as much help as possible in terms of financing at the start and of coaching, trainings, network and so on for the rest. So, basically, we- our focus is to say how can we act better to make them succeed. So, it means that we have to look at the figures like did the people- because we do not coach everyone, they need to be open for this. So, some of the entrepreneurs will coach some not. And so, if we have a broad sample of entrepreneurs and enough data, we can try to make some link between the coaching and the success of the company, also try to see- because in terms of sectors it's going to be difficult because of the crisis.

Now also, we have to be very careful in the conclusion we will take and we will start now to also make a kind of satisfaction studies from the entrepreneurs and from the coach, so that they both evaluate the job of coaching or expertise they did or that they were benefiting from. So that's one thing, but it's pretty different than the Impact Measurement on the financial part. I think- I found on the investment funds. So basically, there is no huge invention there in terms of reporting, it's more we focus on- our mission is to help those people to, to become entrepreneurs not to launch a company. For the target one, people that are workless. And so, if they become after that are not workless anymore, great. It's, it remains a success. If they are still entrepreneurs, even better. And then the others, the target two which our social entrepreneurs, then the aim is really, that the company is succeeding. So, we will measure the evolution of the turnover, the creation of jobs, the growth, the impact also, but that's- we're too young on that to be able to measure the impact of [inaudible 00:26:01]. So that's more something you will get from the Social Investment funds, like Scale-up Fund, and others.

Conor: And just looking into the future. Okay, so it looks like there's an economic crisis that's going to follow the health crisis at the moment. I guess it's going to affect funds for going on a lot of aspects. One, there probably be more people looking for funds. I mean, there's always more entrepreneurship, when there's a crisis. And then two, maybe it's harder to get the money in, I'm not sure, maybe it will be easier, people will be more likely to invest in SRI Funds, I'm not sure. What do you think could be the changes for you coming in the next couple of months, like due to a recession that looks likely for at least the eurozone anyway?

Patrick: Um, I don't have a crystal ball. But at this stage, the crisis affected us a little bit in terms of business in a way that we were growing very fast, and that we're growing slowly, slower. Just, yeah, during the crisis, because also the stock markets went down, so assets went down a little bit. When you get a lot of events, wonderful new partnership with big banks, and so on, that we're starting, and so of course, the crisis put it a bit of slowing down on everything. So that was a bit frustrating for us, because we were about to really explode, I would say, [unintelligible 00:27:44] double every year, the business. But we're still growing this year, we started the year with 280 million on the management end of December, and we are at 350/360. So, it's still- it's not doubling probably at the end of the year. But we'll we will certainly reach the threshold and go further than the 400 million which makes us almost in line with the business plan. And then probably there will be your- if the stock markets are going up again, then we could increase also the volume we have under management.

So, we'll say for funds for good as a company, on the short term, a little bit of slowing down in terms of growth, but no real impact. I think in the middle and long term, there was a positive impact, because the people will, I hope, people will be more sensible or attracted by sustainable investment products, I think is the sense of their history. We started quite early on that field in 2011. The investors were not ready probably, so we were explaining that you should watch out in what they invest and everything. We were not the only one but we were the few one that were saying this, and as we have a positioning which is really ethical because we started this company just to make any social impact, I think we are credible and appreciated more and more. So, my opinion's that we're going to still be growing but others will probably do something likely as we are doing and I hope it's going to happen but the big players the JP Morgan, the BlackRock, the big banks, they do things but as a total they don't care. I mean they just at this stage just look at just much more and more money. So, I hope they're going to move to with the things can be difficult.

Conor: Okay. Do you think that people- you know sometimes in times of crisis they will just want to- say a safe bet? Do you think that could affect people investing in SRI or Impact Investments because they want the safe bet? And the safe bet in the past- or the past bets were not SRI, you know, when they put it in government bonds or whatever, they would just leave it there because it was easy, and it was safe?

Patrick: For me, it's not linked to SRI. I mean, you can have your different asset class or you can invest in risky projects, or non-risky projects, and they can be in SRI or not SRI. What were- what was demonstrated in the last years, there were a lot of studies trying to see what SRI as a negative impact on the return of an investment, which is no proof, that's not the case. So, there are lots of different players. And it's GIIN that McKinsey did this.

Conor: Do you think customer perceptions are still that way? I know, I read those studies, too. But do you still think people, investors, they still make the right decision to put it into SRI or do you think that could change?

Patrick: No, no, no. But we of course, we have to convince them. And the role of the intermediary is the bankers, the brokers is really important. You have to explain them, that you can reassure the client saying that this choice is not making- putting more risk. And even in the studies, we show that the SRI funds are a bit more resilient during the crisis. It's because if you invest in a company, which is obviously not doing corruption, or child labour, or whatever, at one time, they will get a problem, and then the stock will go down because of that can happen. It's pretty difficult to get back then what you've lost. So basically, there is no more risk in that the contrary, there's probably less risk.

No, during crisis, I agree with what you say the priority of the people remains, what's going to happen with my money, okay. But nevertheless, they can on top of that, had means to this, because I think the people that really- it's not that they don't care, they don't really know what's made with their money. When you take an investment fund, and you go to a person's investing in it and say, do you know where you invested in? Most of people don't. And so, if you go deep in there and said, "did you know that you were financing the tobacco industry? Or a company doing this? And this and this?" No, they don't know, and they don't want their money to do this. And the few people I think, would say, "you know what, I have good return, I don't care at all." Can happen some minority, those people. Another minority are the people really

saying "I want my money to do good", is also a minority, and the majority of the people they said, "Yeah, I want that my money is growing, but I will not do anything for it". They are humans and more- or more the people are more and more in looking or searching for meaning and responsibility in the consumption with the good to buy, buy food, buy, buy products, or invest and the impact they can have thanks to the invest is even bigger than as a consumer. So, it's not going to be easy. It's a sense of history.

Like, the European Union is pushing for this. So that they settled up this label, fund these rules to become SRI that were translated country by country. In Belgium, we had the word sustainability label, in France, you have under the French national label and you have that in all the countries. But there is a minimum number of rules to say, okay, this is considered us sustainable, responsible investment. If it's not that, that it's not good anymore. And so, the objective also by giving this- by this legislation, is that they switch 180 billion euro of investment from non-SRI to SRI every year. That's the aim to allow to finance also ecologic transition from an energy transition. So, you have, you have a lot of- I think there is no choice. It's not as- it is going to happen. It's already happening. And it's, I think the crisis will not have as an effect to slow that. I want to- I think that's the feeling I think the opposite. But we'd be spectacularly probably not as we would like, as I would love but it's going to, it's going to go in this direction. I'm sure it.

Conor: Yeah, I think my- I don't know if you know, Crystal Dumas? She's involved in-

Patrick: Yeah.

Conor: Yeah. She said something similar. She was hoping that- yeah, she said she doesn't know for sure, but she thinks that it could accelerate the process. And it could actually be for the good. But she also made the point that there's a lot of people who say, this is the, this crisis is the great equalizer. I know it's balancing people. Then she said, it's actually the opposite. It's the, you know, the rich people are more healthy, because they have the money to pay for things. And then the poor people are paying for their health and they're dying, because they don't have the money.

Patrick: I mean, it's a crisis and it's a social crisis, also, and we really have a problem. So, we need to fix this, because otherwise, it's- there are more and more people that are not feeling good. Like you're doing the movement in France as she has shown there. But you see that almost everywhere. So, we need to have a better repitition of the revenues and the value we create as a world. And so, I'd say, hey, people in the world have more, are richer than 3 billion others that's poorest? I mean, it's just nonsense. What will they do with this money? Nothing interesting. That's for sure. It's not wasted. It's- there's a problem we have. I think, from my perspective, there's no discussion that there is a problem. The things that we have, and certain forces that are fighting against the change, like lobbies of big companies, you look at the whole, you can already call it the whole economy. Look at what's happened with cars, the car industry. They didn't want to go to electric cars, they took as much time as possible to, to not do it. And until they were really forced to go, otherwise they would lose their market. They will not like pioneer. Absolutely not because they were trying to have more financial return on the production line. They had Western engines. So, they didn't want. It's just not their priority at all.

So, let's now talk about the petrol industry. But so, in the lobby, and what's happening again, with what Trump does, I don't know if you've heard recently, he wanted to make a law to diminish the weight of socially responsible investment. So, he said, "I want to make a law against this, because it puts in danger, the savings of the people". So, starting from something totally true, totally not true, to totally false. And you want to make a law about this to limit the amount of egos against the sense of this [unintelligible 00:38:11] crazy when they do. So, there are still some forces in the world and people and lobby. Why does he do this? Because all his friends are the big boss of the petrol companies that are excluded from those investments and then they get him back.

Conor: That was for like, public funds? Or was-

Patrick: He made a tweet on this and made a tweet on this saying that he was about to be distributed. There were articles on this and find it. But it's really- goes beyond what you can imagine as stupidity when he goes, he goes always beyond the [unintelligible 00:38:48]. It's difficult to understand where, where this guy's going to stop. But hopefully, is just one guy. I mean, he's the president of the United States, but in the United States of not everyone is- does agree with him. Yeah, it's to show that the switch has to happen. And we have to make it as quick as possible. And some of the people are trying to push in the right directions and there are people are trying to push in the other direction. But the defiance has a role to play SRI is going in the right direction in the fact that the temporary act like this shows that you would prefer that it would not happen. And so, it shows it's a good thing.

Conor: Yeah, I know what you mean. It's crazy. I won't hold you too much longer, but I just thought like maybe two more questions. So maybe this doesn't play a role with your funds for good, but maybe it plays role more in SRI side. So, the SDGs, they've become an important part of like- well, both Impact Investments and SRI investments depending on where you are an Impact Investments scale. So, do they play a big role for you in funds for good and in your SRI investments? And do you think they'll become even more important going forward?

Patrick: This has been a big role for us. But you're right, this is going to be the common analysis [unintelligible 00:38:11] grid for all the, I think all the impact funds or, SRI funds. And in that way, it brings a common language for everyone. And I mean, the way they will built, I fully agree with the SDGs. I mean, they did a good resume of what are the challenges of the world. So, I think the huge and great job that the United Nation did there. And it brings a common language. So, it's more- it's not that it's going to be a help for me to define my strategy as a company. But to measure to explain to the other person what we are achieving, or trying to do, to put it in line with those objectives, it's interesting. But I see this more as a measurement tool, or as an explanation tool, than really, me as a tool to define my strategy.

Conor: So, it's more for the customer than the company? It's more- for you like it's more of an explanation tool? I don't mean the goal itself, I just mean, the way to tell it is through the SDGs.

Patrick: And for big company can be a way to explain things to their workers. I mean, the people from the company. It's important for a large listed company, they could make a strategy, which is labour. But as a non-company like mine, very small, we start to say, okay, there is a problem there. We're trying to solve in the social problem. We do it the best way we can. And then we see, oh yeah, this problem is of course linked, because the job of the new donation was quite

complete. It is linked to this and this and this social human good. But I didn't start saying, okay, there are 17 Social Development Goals, I will try to work on this one. I think you have a feeling that you say, okay, would you be, I don't know, feminist and say, I want to help the female in the world and you don't start from the SDG, it's a cause that is important for you and then you would choose a way to do this. And it's going to be linked then with the SDGs. But because it's **[unintelligible 00:42:43]** it's true, it's a good, it's good to have objectives for the world. So, it's a good way for instance, to say, is this decision compliant with that? So, would a government take a decision? The SDGs is it is a good way to say okay, is it in compliance with the SDGs, or will the company take a big decision? Or- I think it's can be can help to evaluate the decision or strategy and orientation.

Conor: Do you see any other global frameworks that help in such a way? Or would you think SDGs will be the one in the future that everyone will look to?

Patrick: I think it's the one, from what I see. Probably the most general one. No, maybe there's something different, which, which is also interesting is the veto, if you're worried about what is the name in English?

Conor: You can say it in French.

Patrick: No, no, but it's a, I would say, I mean, in Task Force for climate change, and disclosure climate change task force, something like this. I will, I will send it to you. But it's like, very **[unintelligible 00:44:08]**. It's em- the financial world worries about the fact that some part of our economy would disappear in the future, need to disappear in the future. Like take the example- classical example or petrol industry. So, there are- the evaluation of the value of those companies made based on the stock of oil they can exploit. That there's a way we can make the valuation of such a company. And the fact is that we will not be able to exploit all this oil. If we exploit all the oil, there is no world anymore, because we will not be able to live in this- in a world where we have burned all the petroleum **[inaudible 00:44:58]**. So, they say, in that way, would- it's not really being activist or believe that we need to change the world, you're saying it has to change. And so it is going to be an impact, and we have to watch out for this because it's good that petrol companies switch to sustainable energies. But we will help them to do this. Because if certainly we change everything, and all of a sudden, we go bankrupt. And so, they more try to say like, let's make things happening good- on a good rhythm, but with no shock, always, no huge problem. They say, for instance, that because the water level will rise, will have a lot of impact on business that are not assessed yet. So, they want to assess the risk, which is a risk, it's not a risk, it's going to happen, with a problem linked to a climate change. And it's mostly climate change and climate change will have an impact on all different types of business, but the financial market and the economy. It's not that it's not a word, they don't take that into account. And so, they need to take that into account. And so, taking this new account, what do you do? We say, okay, you know, what, petrol you see, you, you don't have any value anymore. This is probably going too far. And they don't want to do that. But they want to initiate the change and to explain that if they don't do that, that effectively that there was a there will be a market going down very deeply from this industry, and so on and so on. So, it's- that's been initiated by Bloomberg. Yeah, him and others. So no, no stupid guys and no philanthropic guys, neither. Just realistic ones. And so, let's see the TFCF. That's the time of Task Force for climate change is closed or something, TFCF? TFCF, we'll find out what- so it's not Impact Measurement, but it's a measurement of the negative impact in a way. **[chuckles]**.

Conor: Yeah. I mean, it's also one of the things that's interesting in Impact Measurement is the negative impact, because lots of people are measuring just their positive outcomes, but sometimes it's not always. There's two sides of it, you know.

Patrick: Yeah, of course, they have the negative impact that you have to accept.

Conor: Yeah, yeah. Okay, Patrick I think- it was great chat, I really appreciate it.

Patrick: You're welcome.

Conor: Thanks for taking the time. I know you're a busy man.

Patrick: No problem.

[00:47:54] [END OF AUDIO]

Appendix 5 - Guillaume Boury

Zoom interview with Guillaume Boury, Investment Senior Associate for *Telos Impact* in Belgium.

[00:00:48] [Start of Transcript]

Conor Ryan: So basically, I'm doing a thesis on Impact Investing with LSM master management, and as part of it, I'm looking at Impact Measurement, specifically on impacts investment funds, and how impactful investment companies are measuring their social impact or their environmental impact. So that's basically why I reached out to you. I had a look at *Telos Impact*, It looks great. But it would be great to hear, you know, what is Impact Investing for you first, and then what you do at Telos, and then we can go further?

Guillaume Boury: Yeah, sure. So, I think there's different definitions, and you know, within the- how I see things within the field of impact, it goes from, well- in just investments in general, it goes from sort of really non-impact, just normal investment, where you just try to maximize the profits. And then if you move toward impact, you'll have sort of soft impact, investing, like ESG investing. And even in between that you have, just like [inaudible 00:02:12] criteria, avoiding certain sectors like alcohol, cigarettes, stuff like that. Moving to ESG, that's rather just trying to have to cherry pick companies that have some strong ESG DNA. So that's, for me is kind of- all of this is would be soft, Impact Investing. And then if you move down the scale, for me, Impact Investing is rather, really trying to find in the core business of the company you want to invest in a solution, social solution or environmental solution. So, a very strong correlation between the business, its market and the impact that you're trying to have as an investor. And I want to- that's how I see things, like you can differentiate just normal ESG investing, which is, you know, you could invest in- typical ESG funds would typically have, like *Unilever* in their portfolio, or *Danone* a French company, because they have- they're both very large companies, with probably a very high environmental impact, negative one, because of the plastics they use and for Denon the dairies has quite some bad press around. Just how carbon intensive those sectors are. But still, they have a vision towards more sustainability. And so that's why you can consider that as a sort of ESG investment because these are companies that want to change things, even though it's not easy. So yeah, so just for jumping to what we do, we were more on the sort of what I call real Impact Investing. Although there's no like negative judgment on- I mean, on ESG investment at

all, but we really want to find companies that are solving problems by their business and their technology.

Conor Ryan: How does the *Telos Impact* work? Is it like a fund that invests in public or in private companies, or where's the money going to make that impact?

Guillaume Boury: Yeah, good question. So, we're- I'd say it's easier to do Impact Investing, as I understand, it in private equity. Because listed companies are- you know some, by definition, large companies and you know-- Yep, I'd say the real impact today lies within impacting- lies within private equity. And that's what we do. We're actually in early-stage PE, so basically like venture capital or late-stage venture capital fund. And we also do a little bit of fund of fund investments. So, we also invest in other Impact Investing funds.

Conor Ryan: Cool. And where do you fit in in all of this? What's your role at *Telos*?

Guillaume Boury: So, we have- *Telos* has like, sort of several mandates with several clients. And each of these clients have their own Impact Investing strategy. Some of them want us to find solutions in plastics, some others in, you know, agriculture, or carbon. And I'm on a fund which has three main sort of impact areas. The first one is food. So, it's new proteins or you know, lower environmental footprint food in general, but also food waste, trying to tackle food waste. The second pillar is water, access to water, and also clean water and sort of tackling micro pollutants and stuff like that. And the third one is plastics, trying to find new materials, new ways of recycling, and circularity models. So yeah, these are the three pillars we focus on in the Fund, which I'm part of. But we're four managing that fund, so I'm- I don't want to call myself an expert, because it's far from being the case. But I've done, you know, I've analysed companies, mostly in the plastics, and in the food space, water is not something I'm super familiar with.

Conor: And so, looking at how you analyse them- like, when you're choosing which companies to invest in, what are you looking for in terms of social return or environmental return? And then on the other side, financial return, what kind of like- do you have targets in terms of the return per year that you're looking to get?

Guillaume: We're basically trying to combine everything all together, which makes our investment mandate quite difficult. So, we would typically target returns that are in line with the market, basically, meaning by the link to the risk we take, and we won't make any compromise there. But at the same time, we will never compromise on the impact thesis, and we will never invest in a company where we have doubts of, you know, external, negative externalities, or potential risks in having a worse impact than what we hope for. So basically, we're just adding a layer of selection criteria to what other funds would be doing.

Conor: What social impacts do they have to be making? Like, do they have to be like saving X amount two litres of water per year? Or do they need to save CO2? How are you figuring out what the social impact is in general?

Guillaume: That's an excellent question. Because in the end, it will depend on the sector. So, I'm just trying to find an example. But it could be that in the water space, we will have one company saving millions of litres of water somewhere and then another company, there would only be saving like a fraction of that. But still, those two investments could make sense, because for the one that is tackling a sort of a lower number of litres, for example, it could be within their sort of sub sector. There- it's a huge proportion. So, we don't look at this from you know, just the sort of threshold, high level threshold quantification, but we look at it from each sub sector, whether company is and trying to see whether in that sub sector they're bringing some solution. So that's one aspect. And then in terms of KPIs for water, there's quantities of water saved, so we try to make sort of calculations on what's the situation today, what is the company bringing and what would be the situation if the company gets more mature and bigger, and what are the savings that we would be **[inaudible 00:10:03]**. It's this kind of same thinking that we apply to all of our pillars. So, for plastics, it will be, you know, tons of plastics **[inaudible 00:10:16]**. And so, we would, for example, for plastic, we'll be looking at the applications they can replace, and see whether it's an application which has a lot of quantities. So, for example, packaging would be one. But if they're only replacing like spoons, they're, you know, the impact thesis would be a bit weaker, because, yeah, it's only a smaller amount of plastics. And for agriculture, it's more related to carbon, I'd say, because of the soil, you know, soil, carbon capture, and finding new proteins is also a way to reduce carbon, but also land use and water. These would be the three-year end goals that we try to measure, but it's very difficult. And, yeah, we basically need to believe in it. And sometimes there's also some, above the business risk that we take, there's sometimes a layer

of impact thesis risk. So, we don't know if that solution will grow, and will actually, in the end, make an impact. So, we have to take that risk as well.

Conor: I guess that's similar to financial risk as well. I mean, you don't know if the company is going to grow. It's a similar risk. So, like, that's going to- on a due diligence, like when you're choosing the impacts. And then if we were to look at reporting more, you know, how do you tell your investors like, what KPIs are you looking into and like, how do you measure them? To tell the investors in your company like 'Oh, we did this this year, or we saved X amount of litres'.

Guillaume: Yes, so, it comes down to, you know, in the analysis process. So before making the investment, we take quite some time, really trying to make sure there's an impact, and as much as possible, we try to measure it. And that comes down to identifying KPIs, indeed. So that's the first sort of work we need to do. And then, you know, given the business plan of the company trying to see, for example, water, we were talking about water, like, how many litres can we hope to save with that solution? And so, we do that before the investment. And we basically put that on paper for our investors when once we need an approval for the investment. So, our investment committee will have to basically give us a green light based on the business aspects, but also based on the impact thesis and sometimes it could be that they find the business attractive, but that they think the solution has too many impact risks, or is not [inaudible 00:13:09] enough. So, I'm not sure if I answered your question there.

Conor: Oh, yeah, it's good. But like in terms of the actual measurements, are you taking the company at their word, like you just say- they tell you how much litres they saved, and that's the what you tell your investors, or is there actually a measurement process between you and the company, where you go out and actually see those were the results?

Guillaume: So, after the investment, we have some sort of Impact Measurement. Today, it's an Excel file. We can talk about that later. But there's a lot of solutions in the market that are evolving. But today, we're a lean team. So, we're listing KPIs and once we are in this sort of investment finalization stage, we discussed those KPIs with the management, and they tell us 'Yeah, this one will be able to measure it, this one, it will be difficult, but we have a proxy' stuff like that- 'Oh, have you thought about that one'. So, we basically work together on a sort of like a set of KPIs. We try to fix some sort of milestones or sort of business impact business plan, saying

by 2025 we'll have saved X number of water. And then they will, as a financial reporting, they will send it back to us each quarter or each year with sort of filled numbers in there and then we're able to communicate that to our investors as well.

Conor: Interesting. That's great. And looking at the different companies, is there different methods of measurements? Do you ever like translate it into like a scorecard? Or do you translate it into like a monetary figure for impact saved, in a monetary figure?

Guillaume: So, I'm a bit familiar with that. But we don't do it here at *Telos*. Yeah, I think you're referring to like, the social return on investment is sort of more. Yes, so we know it. I mean, we've heard about it, but I'm not- I don't actually know how to use it properly. But we don't do it no. You know, there's a huge trade-off between, in general in the Impact Investing world between the resources you have as a team in terms of money and also time of the people in the team, and the sort of the ambition of the Impact Measurement that you want to put in place. For us where rather small team so we, we still want to have a very strong belief that the company is bringing a solution. But when it comes down to putting that on paper and tracking it and reporting it, we try to keep it quite light. I think like I've mentioned that we don't really go further than that with some social return on investment model or stuff like that.

Conor: No, it's interesting, because a common theme is like, everyone wants to have a methodology in place, but Impact Investing doesn't have the resources right now to be measuring everything, every little thing properly. And then in terms of any negative impact, do you ever measure negative externalities as a result of investing in a company? Like, for example, if you invested in reducing plastics, but maybe like the consumption of water goes up or something, you know?

Guillaume: So today, we- the list of KPIs that we identify, we can also put in there some KPIs that we try to sort of minimize, would be the indeed, like negative externalities. So, if we identify in a business model, that for example, they will be saving tons of water, but they will also increase their carbon footprint by that much, then we would probably try both with trying to optimize one and minimize the other. So that's our approach today. Yeah.

Conor: That's great. And then, because I read on the website, right? So, *Telos* does venture philanthropy as well? In terms of long-term projects, does it lie with venture philanthropy, if you're investing in, let's say, education, and you won't see the results for 18 years or 20 years, you know, it would be as someone grows up? Like, where does a lie with long term investments? It's going to be the venture philanthropy side of the business, or do you do Impact Investing that could be like 20 years long.

Guillaume: So, just to make sure we're on the same page. For us venture philanthropy is like, indeed, the other branch of *Telos* and that's just pure, like donations, there's no [inaudible 00:18:50] there. So, they also try to do Impact Measurement as well. But indeed, there's a- in venture philanthropy, there's indeed a sort of long-term aspect because you have a project over five or 10 years. And indeed, you often- in these large projects, you try to sort of do an analysis of your impact after a long number of years. In our case in the investment world, yeah, we need to be- I'm not sure I really, really understood your question. But I'd say that it's true that you have a sort of shorter-term vision.

Conor: Right, that's what, yeah, that's what I'm kind of getting towards. Yeah.

Guillaume: Because our investment horizon is often somewhere around six, seven, 10 years maybe. But at the same time in venture philanthropy, so I'm not an expert in there, but you have some very long-term projects, like more than 10 years, but you also have some sort of three years project as well. So, I'd say there's no, like, there's no major difference between venture philanthropy and Impact Investing in terms of Impact Measurement. Well, I don't- maybe I'm wrong.

Conor: But like, let's say you have an opportunity tomorrow to invest in education business, and you won't see the results for like 20 years, it will be ruled out, right? In due diligence process for you guys, currently, unless you find the right investor?

Guillaume: Say that again.

Conor: Like, let's say there's an opportunity to invest in an education company, and you know you won't see the social return for like 20 years. Like, you guys will probably rule that out, because you need to have the return within X amount of time, would that be correct?

Guillaume: Not necessarily, we- It's not, because we can't really measure it fast that we would, we wouldn't invest in it. And there's a lot of actually, there's a lot of qualitative thinking behind it. And that's what makes it very, very complex. Yeah, you know, we were talking earlier about defining KPIs. But KPIs are sometimes not really good metrics of the real long-term impact that you're trying to have. And it doesn't give the full picture. And there's also a trade off on number of KPIs, you can only have a few. So yeah, it's very complex. So, coming back to your point on education and social return, which is, I would argue, more difficult to measure. Even if we have, well- we would still be able to invest in there if we thought- if we had a real strong, how you say, like opinion on the fact that this solution- this company can bring some solutions, even though it's not really measurable. It's just going to make our work more difficult when it comes to finding the KPIs and being able to make sure that we're on the right track after even one year or two years. And yeah, that's, that's what I would say.

Conor: Very good. I know, it's a hard like- in theory, it's hard, you know, it might not come up in reality. But also, one thing I'm looking at is like, you know, KPIs, you have an output, but like, you know, the outcome could be slightly different than the KPI. And so just in terms of reporting your measurement process- how often do you guys go back to the investor and say, 'Oh, look, we've actually done this this year'- How does it work like that?

Guillaume: So, we have a, we basically have a quarterly report. So, every [inaudible 00:23:14] we report on evolution of the portfolio from both an impact perspective and a financial and business and market aspect. But it depends, it depends on our client. And again, it would depend on the resources of the fund that you will interview. For large funds, I think every three months is the minimum. For smaller structures, you know, it takes time to do all that. So, I would say that, well, for us, it's three months, just to give you a quick answer, but in general in the market, it will depend on the needs of the investors of the resources of the team, stuff like that. And I would say the minimum would be every year, up until maybe every month, but I haven't seen that. Probably every three months is somewhere around the maximum I could see in the market.

It's interesting. That's brilliant. And then just as a kind of last question, I will hold you too long, I know it's your holidays.

Guillaume: No, that's perfectly fine. I've got some time if you want to spend time with me, no worries.

Conor: No, no worries. I'm going towards the end anyway. It's just with COVID, have you seen any trends towards Impact Investing or against Impact Investing? Have you seen any, uptake in interest?

Guillaume: It's very difficult for me to say that it's related to COVID. But there's a strong, there's indeed a strong movement towards more Impact Investing in what I see in the market. I think it just goes hand-in-hand with everybody's, you know- people are more aware of these issues, of environmental issues, and inequalities are increasing across Europe across the US, across the world, I'd say. So, these are all general trends that explain for me why today some more and more investors are trying to invest in a responsible way. It's too difficult to say that it's related to COVID or what part of COVID has had an impact on that? I'd say, at minimum, it will, be I mean, it will be equal or positive due to COVID [inaudible 00:25:55] but it's indeed true that we've talked a lot during COVID about, you know, awareness about these issues. But yeah, difficult to say, you know, what part of it is related to COVID. I think it's more of a general trend in the market that explains why so many impact funds are now being launched. And one other reason there's the awareness about the issues, but it's also it becomes more and more-- I'm moving away a bit from your question-- but it's moving- the trend is mostly explained by the fact that investing in environmental solution is, is promising just in terms of financial returns. If you even don't care about the environment, you know, because if consumers are asking for more environmental products and environmentally friendly products, because the regulation is moving in that way, and because if you ask my own opinion, we won't have any, we don't have the choice, and we need to change the way we [inaudible 00:26:55]. So, it's just a general trend, which makes it an attractive investment, even if you don't really care about, you know, animals and temperatures but that's what explains for me that the large trends in the market.

Conor: It's becoming more profitable to invest in sustainable-

Guillaume: Yeah, for sure.

Conor: Yeah. It's interesting. Anyway, Guillaume that's basically it. It was brilliant talking to you. It's very interesting to see the difference, because I'm interviewing people across Impact Investing, and some people are more towards financial- completely financial side and just touching on ESG really, and then some people have lower returns than market and are touching more towards social impact. Not that they kind of go hand-in-hand, but that's their ethos, you know? So, it's been interesting to talk to you, and thank you.

[00:27:51] [END OF AUDIO]

Appendix 6 - Mart Vos

Zoom interview with Mart Vos, Founder of *Eko Investments*.

[00:00:05] [Start of Transcript]

Conor Ryan: So basically, I'm doing my thesis on Impact Investing, and specifically Impact Measurement, and so I came across your profile because you're SEMS right? And you're involved in Impact Investing. And I took a look at *Eko Investments*. So, my objective is to learn more about the measurement process, like how different companies are measuring, and then to see how they're looking at long term measurements, is there any differences in methodologies? And so, this where you come in. So, be great to start off with what *Eko Investments* is? What you do at *Eko investments*, like who you are, etc.

Mart Vos: Right. So yeah, *Eko* is my start-up, founded it 10 months ago, and it is a B2C wealthtech [unintelligible 00:01:00] platform for people that want to align their investments with their, you know, beliefs, with their values. So, it is still pretty much in stealth mode, I think, it's called stealth because there's something out there, but it's actually quite close to launching an MVP. And the whole idea is to, to make it transparent and simple for people to get into Impact Investing. The biggest issue right now, especially millennials, they do want to- they do want their investments to mean something else and just profit. But, you know, we've all companies that greenwashing their way to attitude to greener image and it's very hard to, to know which one truly make an impact. So, I think one feature of *Eko* is that it quantifies financial returns, but also the sustainable impact. Currently does in two ways, it's in kilograms of CO₂, and kilowatt hours of electricity. And then even within that, there's another translation, because for many people, a kilogram of CO₂ is a- well what does that mean? What is that? So that's being translated to a drive- kilometres in a car, driving whatever, in an average car. And in kilowatt what hours it's charging your phone. So really make that impact understandable. And I think what I really tried to do *Eko* is [unintelligible 00:02:31] there's more, [unintelligible 00:02:34] in Europe, if there's more and more. Yeah, yeah, some ETF, they claim to be very green. But if you actually look into the ETF, it's still like 9% of tech stocks, and, you know, some balancing fossil fuel stuff, even, you know, it's just not the way it should be. So, I work very hard- *Eko* really try to account to that- to every stock that can be in your portfolio will be in your portfolio, at least 70% of the revenue comes from a sustainable

mean. So even if you have a, you know, energy generation company, like a power plant, and all of your company that has power plants, and like 50% of the energy they generate come from coal and 50% from wind, it still would make the 70% threshold.

So, this is basically- and you know, *Eko* goes a little further. What I really want to do is, apart from just being an investment advisor, or like a robo advisor. I want it to be more about like, a community. I think- people that like sustainability are very like-minded. Yeah, they truly have the same interests. So, I think the communication around investing can be completely different. Instead of saying, you know, you own this company, they done whatever they think you free, and the stock price went up, you can say, you know, you own this company, and they have a new technology and solar panels, making them 10% more efficient. So, they're communicating within the narrative, like underneath it. it can be a lot more interesting; I would say. That's *Eko*. And a quick jump, I also set up now a fund, it's more like a *B2B* is more like a hedge fund for actually the same kind of solution. So, it's, again, Impact Investing, but then it's more for family officers and wealthy individuals. So, this is actually under an already existing fund. But- so this is what I'm kind of, let's say doing part-time, but it's both very impact driven.

Conor Ryan: And if we take a step back, what is Impact Investing for you, like you know, because obviously, there's a few- there's a whole spectrum out there. So, it'll be interesting to see what you think Impact Investing is?

Mart Vos: To me- look if you invest your money, you own stocks, you are partly owner of a company. You're bringing in capitals so you own part of the company. And, you know, so there's a certain connection and you can make decisions, like where you want to put your money, in what kind of companies you want to put your money. And Impact Investing for me is when you make the decision where you're putting your money based on, it doesn't only have to be impact, but at least partly on like, what companies- what are these companies doing? And, you know, how is my money helping there? You know, there's many places also any of the sustainable companies out there right now. And it's many very great ideas, I believe, but just capital needs, needs to go to the right places. So, Impact Investing, I think helps it for these innovative companies that making stem services, solutions, products, whatever, to have more capital and to work faster and more efficient towards what they're working on.

Conor Ryan: Yeah. Right. And, where does like *Eko Investments* lie on- Or like, either of your companies, where does it lie on the spectrum? Like, is it impact first or like, finance first, or is it deadpan in the middle? You're looking for at the same amount of returns of both?

Mart Vos: Right. It's been hard, you know, I would say, to me, this space became even more interesting- I thought it was really interesting, but even more interesting when those became profitable. And when impact became the like- I got like the returns that are very on par with any industry standards.

Conor: Yeah.

Mart: I think it's pretty in the middle. It's, it's also because it's a B2C solution, it's hard to convince people, whether there's this, you know, if you're if you have two circles, and one is like pure profit, and one is philanthropy, then I don't want to go either way, you know, you need to find this overlapping middle is where you can convince people that they're not sacrificing any returns, but they are made to be making an impact. So, I wouldn't say it's either left or right for me.

Conor: Yeah. No, it's interesting, because I've had previous interviews, like where people are talking about Impact Investing, but really, it's a financial return that the end, consumer's getting and I don't know if they're really interested in the impact. So, it's interesting to see the spectrum, like you can go right across to like 0% returns to right up to you know- But you can obviously have returns that are in line with the market as well, that also have an impact on, you're engaged in both. Anyway-

Mart: No but that is- you know, and I think this makes- you know, I think more and more companies going towards the middle, right? You know, the last five years, you've seen many companies pretending to be green, while only caring about profits. So yeah, let's just say greenwashing. And now, we seeing more and more companies going towards the middle. And it's mainly driven by impact becoming profitable. And I always say this, as well, to the people I work with, I think, I- my sister works for an NGO, has been work for an NGO for four years in South Africa. I think this is truly good. You know, there's no profit, nothing is only doing good, I think I'm not there. I'd like- I like when a business become successful and profitable, and make money out of it, you know, I like that. But I like to do that in a sustainable way. So, it became for me, this

opportunity became a lot more interesting, like this field became even more interesting when it became truly profitable.

Conor: It's interesting. And just like, looking at your two funds, if I understand well, you choose companies to invest in, right? And so like, how do you choose your companies based on an impact perspective? Like, how are you deciding oh that company has enough social impact I'm going to invest there. And like, is it over a range of years? Or is it a certain amount of return that you're looking for?

Mart: Right. So, first of all, I'm only looking at this at this moment at environmental impact, not as much as social impact. Social impact is even harder to measure. And environmental impact is quite- it's not easy, but it's quantifiable anyway.

Conor: I think it's been slightly neglected by Impact Investment. Is- Impact Investment is definitely skewed towards social from what I found. It's not balanced between social and environmental. I don't know what you think, maybe it's different?

Mart: Well, I think it's, I think it's hard. Normally people- when people talk about Impact Investing, they always talk about different things. But I think the social thing came first. I think environmental is making its way there. For me environmental is just a lot, you know, I would say just a lot easier to quantify. I still have no idea how to quantify social impact. And I think for this thing to work, you need to quantify it, because else you could just- you're just one of all the other companies just making claims based on nothing. Anyway, so how do I like pick companies? So right like, it's like, it's a- it's a big filter or like funnel. On top, this just, whatever, the 50,000 companies- publicly traded companies in the world, probably they're more I actually don't know. Then from there, I normally- I've, I've built a few algorithms that can filter quite well, financial performance. So, you filter first for financial performance, they need to meet certain amount of like, thresholds. Long term volatility [unintelligible 00:11:23], long term trends, short term volatility, short term trends, etc. A few technical things. Then from whatever 50,000, there's five thousand remaining that are potential. And any 5000, you're going to be looking for, you know, what are companies with a sustainable fishing, at least you know, they communicate sustainability, or that that will be 25% nowadays, and then within 25%- and that is actually quite time consuming, because at one point, you cannot automate this anymore, you will just have to

go company by company, seeing what their actual impact is, and right now companies publishing more and more what- how much energy- how much CO2 they saved or whatever. But I look very specifically at what sense of the revenue came from sustainable mean. Because yeah, you can still say, we saved- like a shell, for example, can say we saved 5000 tonnes of CO2 because we're producing less oil, and they've saved it, but not really. So, I think we're looking at the revenue that was actually a good indicator of really- yeah, really, how much do you really care about the topic of sustainability?

Conor: Do they have to meet a certain- like they had to be reducing CO2 by X amount, or they had to be doing something, or is it just judged case by case?

Mart: So that's one- So it's a little bit judged case by case. But if- as long as they get like more than 70% of their revenue, from like, 100%, stable mean, that would be a hard, that would be a hard cut there. Everything above it- and then there's obviously some companies that are very hard to judge, that are a little bit in the middle. For example, there's companies that make- whatever the oil supply chain or the gas supply chain, they make it more efficient. So, I was like, energy saving technology, I would say. So, they make like new gas turbines that are 20% more efficient. They're still working with gas, but you know, they reduce the amount we need by 20%. This is still sustainable, to one extent if it's sustainable, so it's hard and I'm also still struggling with this. There needs to be a better framework to really be able to judge company by company so there's no, there's no grey area. I think, so far we're very strict. So only the universe of companies that people can get like a portfolio from is 150 companies now. Ideally, you want a little bit more but I do yeah- very strict. So, most of the companies are really in solar, wind, electric driving, you know some plant-based foods, some, some- Yeah what else, like clean water, circular economy, this is the kind of the categories.

Conor: And are all the- they're all public based, your fund? Like it's all public companies, or it's private as well that you'd invest in?

Mart: Public, yeah, it's all public.

Conor: Yeah, makes sense. And so then, in terms of measurement, like looking at what- how you're reporting measurement and how you quantify it to your investors. How is it at the

moment? You said CO2 before as well, but how are you reporting this back to the people who invested in the fund?

Mart: Right. So, there's two things, right? From the BTC side, it's a lot more playful. People- and I can actually, maybe it's best if I can show you something. Can I share? I can share, oh no I cannot share?

Conor: Yeah, go for it.

Mart: Um, so actually, you can see my screen now?

Conor: Mm-hmm. Cool.

Mart: So, the idea is really to have them in portal. And in a portal, you have- this is still developing, but you have your companies, you have a little bit of like, inside in what your companies are, you even who they are, you have small picture of- you know I'm investing in whatever **[unintelligible 00:16:07]**. But like if it projects and have a constant- and this is a projection, but like the portal will look a little bit similar to when you're actually already funded your account, that you just have a live meter of how much CO2 you saved, and how much CO2 you all save, and then again, like the translation of driving kilometres. So yeah-

Conor: How do you come to this figure? It's based off like-

Mart: Oh right, so yeah, this is- I think what we need to do is we need to work with a more like a data provider. But right now, what we've been doing is, we look at how much CO2 a company saved. So, we have these 150 companies that are in a universe of stocks, right? So, one company says, you know, we have saved 2000 kilograms of CO2 last year. Then we're looking at how much every customer owns of- you know, if one customer or one client owns one stock, and there's like 1000 of stocks in total, this person owns 0.1% of the company. And then so 0.1% of the impact comes from you. This is the logic, this is the logic around it. What works quite well actually, the only thing is that it's a lot of manual work, but you literally have to go through every impact report or like annual report, *environmental report*, whatever they're called, to see how much impact they make, and they still report it themselves. I think there are certain rules to it, you cannot just

say we will create this much impact if you didn't, and there's some other things that we're checking. But right now. It's only looking how much does a- this customer own? And how much impact that the company make and make a calculation from there.

Conor: And, the fund is like it's a projection of how many years into the future? How long into the future does it look like? That make sense?

Mart: So, the idea is to- with the, with- you just saw like a projection. So, it just shows- you know, this is actually the step before you actually invest, it makes your portfolio, it tries to actually make you fund your portfolio. So, they say, look, you know, over the next 20 years, we think your financials are going to go up, and we think your impact sales are going to be like this big. The idea for when people actually invest, it's just a live ticker that just updates. So, like so far, from the moment you started till now, you have saved this much kilograms of CO2. And it's quite linear. You know, a smallest company's now do really weird things. It's quite linear, maybe it will goes a little bit exponential as companies grow, make more impact. So that's, that's how communicated and from the *B2B* side, you communicate a lot more traditionally. So traditionally, when you have like funds, you know, there's a family office and you give them- every quarter, you will give them a report. This is you know, this is your return, this is your social measures about risk, like sharp, but you know, whatever, from the *B2B* side we want to really change that as well. We want to really have one-page financial returns, one page impact. So, really, it's like another dimension, not just talk about it, and say you know you're [unintelligible 00:20:00] is green, but also make quantifiable and really add the dimension. And this is the nice thing about impact, right? Especially Impact Investing, is that when you have a green portfolio, your impact is always in the green. So, your impact is always positive, even if your portfolio is going down a little bit- there's some, whatever going on, then you're still, [chuckles] you're still, you're still making positive impacts. So just adding this dimension to make it also a little bit more of a positive story.

Conor: It's really good. I think the way you've done it on the portfolio as well, where you can see the projection is a nice, nice idea, very quantifiable, very measurable.

Mart: Thanks.

Conor: Now, let me see. Yeah, so in the future, okay, you're measuring CO2 now, but let's say, in five years' time, when you've been able to develop everything, what will be the other metrics that you're looking to evaluate on? Will it just be CO2- because I had one fund manager and he says he just wants one figure, and then you can break down from there like CO2. But are you looking to have a spectrum of measurements? Or how is it going to work?

Mart: I think I'm actually thinking of a spectrum. And this is also because you can translate everything back to CO2, but it makes it a little bit less correct, what's a right way to put it but I guess so. So, the six categories that you know, you can invest in with *Eko* is clean water, circle economy, transportation for the future, energy saving tech, renewable energy, plant-based foods. And these are the main six drivers of sustainability right now. And then plant based food is not really a driver, but all the others are I think the biggest, the biggest drivers. You can't- can translate them all into CO2, but I- what I want to do is have a measure for gallons of, like whatever litres of clean water produced, CO2 saved, and then yeah, kilowatt hours electricity produced. And still, you know, it's a little bit ambiguous, I would say because one kilowatt hour of electricity produced also, you could also say, saved a certain amount of CO2, because it's not, you know, being produced from a fossil fuel source. And that is true, I think that this is what makes it a little bit complex. But I think it's still a better way to do it, then just translate everything back to CO2. Especially, for example, clean water, you cannot really- it's really hard to translate that back. You could say, you know, you can probably make something up, right, you can say, this is normally how it's done right now, and people say well 10 billion litres of clean water, that is- you know, if you, if you would have to use other technologies or [unintelligible 00:23:26] or whatever is that the right verb?

Conor: What did you say? Sell a nice?

Mart: No, no, it's like this uh, when you, when you cook the salt out of water?

Conor: Ah, desalinate, yeah.

Mart: Yeah. You know, you can still translate that. So, if it would have to be salinated then, you know, it would this much electricity or this much energy, and this would like equal this much CO2. So, producing this much clean water from like filtering the water, whatever, is this much in CO2.

But you know, there's already so many steps that obviously, more steps to you through, the less accurate your answer is. I'm thinking about these three measures. And you could also have a fourth one what is then, it's tons of recycled materials, for example. But also, you know, this is balance, right? If you want one measure, because it's very simple. But people also want a very accurate measure. One measure is not very simple- oh, yeah it is very simple but it's not very accurate. If you have 12 measures it's not simple at all, you don't understand anything of it, but it's very accurate. So, I think you need to find the middle ground now. Thinking three measurements, and that's still simple enough to really understand the impacts and accurate enough for people to really believe it.

Conor: I think it's, yeah, it's the- trying to find a happy medium is the tough bit.

Mart: Yeah. Yeah.

Conor: And then in terms of like, how would you frame this? Like, if you were to look at SDGs and stuff, would you be communicating to your customers, you know, like, oh, based on- you know, SDGs are everywhere in SEMs and it's all about putting this in a framework- look, I did this SDG, number five. Will you be looking towards this like to have in a universal framework kind of where they can compare it across like maybe a different portfolio? Or how- or would you just stick to the four measures? Or three? [chuckles]

Mart: Right. This is actually something I need to work on a little bit more. I think it would be very good to have a- and then it needs to be complete framework, it needs to be a framework for how you, how you assess companies, and based on how you assess them, there's also a next part of the framework is like what comes out of it, and how you measure it. I think, as I said, I think it's very important to make such a framework simple and as accurate as possible. I don't really have- I don't really have it right now. I'm also thinking we're equals right now. I think it's pretty good. But know there's a lot of room for improvement. This is really where a lot of companies are looking at right now is how to- yeah, you know, I've seen really good frameworks, how to quantify impact. But you know, if you have half an hour to really understand it, and it's probably good, but this is, this is not going to convince a B2C customer, saying, "hey, this is a framework we make, you know, it's in the next six pages, good luck". This is not, this is not going to work. So, it's- I know- I think- and I'm actually working on right now is a part of the Eko side should be how do we measure-

how do we quantify impact? How do we measure impact? So far, I've been really using that 70% renewable, sustainable means. So-

Conor: Yeah, but it's not a- it's a spec- Like, it's another- the way you measure is up to each company. And it's like, some people like to stick to a framework that's been there that's in the past, or what some people that, you know, go on their own way and create that one metric or three metrics, that really is more measurable for the end user.

Mart: Well, I think, you know- you have the traditional ESG scores, right? What my opinion is, it's not very accurate, it didn't work at all. If you look at ESG scores, and like think *Shell* has a better score than *Tesla*, then that's strange. It's, you know, you cannot, you cannot explain that. So, you know, I- if there were, if there will be- I don't necessarily want to make up the framework myself. And if there's, there is a good framework out there, I happily, happily use it.

Conor: You have things like, SROI like, Social Return On Investment, it breaks it down into like a monetary figure. And then you can balance it with your, with your financial figure. But it's a choice, I guess, for each company to make. But it's interesting to see like, how companies go down. And that's kind of like, where my research is, is like seeing which way each company quantifies their impact. And then relays that message to their investor.

Mart: Right, what kind of examples have you seen?

Conor: Mostly, so far, it's been like you more, more single figure, something that we can- that can be measured easily I can be conveyed to the investors in your fund. And then- but you have like- there's, you know GIIN, like Global Impact Investment Network, they have another framework, it's called *Iris*, *Iris Plus*. There they have certain metrics and then you can- but it's more for like this stage of the company, and then the company gives rates themselves on the Iris network, and then that's- all your companies rate themselves, and then it's- you have like one rating. But it's confusing. [chuckles]

Mart: Yeah but no I think I'm following a little bit.

Conor: So, it's like aggregated across all your companies they have like- they're assessed on an *Iris* network. And then you aggregate that number and you have like one kind of quantifiable measurement. But that means nothing to your investors. You know, that means more to you than-

Mart: Right. Yeah, exactly.

Conor: Yeah, you still have to convey that to your investors.

Mart: Sure. Well, what- So, you know, you've been looking at this for quite some time. You know, what would you advise like me, for example, what I can look at?

Conor: I think the track you're on- this is not really my purpose- but I think the track you're on is correct, it's more important for people to be making a social impact. And if that is through, like having one measurement, or three or four measurements that they can understand it's, this is the way to go. Because at the end of the day, they're making that social impact. Obviously, the measurement part is part of like making the whole, Impact Investing like market and total. Unless that's correct, then it's not really verifiable, that the whole thing is where-

Mart: Yeah, yeah-

Conor: It's, it's up to everyone's-

Mart: But I think it's pretty cool research. This is something I dove into, but it's just- it's such a- I'm sure that in the next 10 years, it's going to- something's going to happen in the space, because everyone is looking for it now. There's so many companies that want to do something with impact, and so many struggle to exactly the same point was like, and now we know we're doing something good, we believe. But we want, you know, we want to show this in an understandable figure. I think yeah [chuckles]- what makes it even harder is that they've done so many other players that don't do something good but they still want to quantify it in a figure [chuckles]. Right?

Conor: Yeah. It's on company website, it's like- they have the easy, understandable metrics but probably it's not been measured correctly, or it's you know-

Mart: Right. Right. And you know sometimes it is measured correctly, but it's just a really bad measurement. Because there's no standardization. There's nothing- people don't really know what you're looking for. Exactly what I said, when Shell says, you know, we save this much CO₂, then, you know, then it's probably true, because they've, they've ruined the world a little less than they did last year. But that's, that's not- Yeah, well, even you can argue that that is also good impact, and it probably is good. But it's not- it's like I'm stealing all your stuff and I'm slowly giving it away- or back to you. You know I'm slowly giving it back. You know, that's less of an impact if someone is making impact from the start. So, there's so much to it. And I saw frameworks and we're talking about like handprints and footprints. What's also quite interesting, but also then- yeah, like the footprint is how bad you are and a handprint is how good you are. The footprint is, you know I'm- And that is also not really- it's also confusing, because obviously, the best you can get is CO₂ neutral, pretty much. And if you- and everything we're trying to do is trying to get to more towards like CO₂ neutral. Like you can see- we see to a positive. So, this is like what the handprint is. But yeah, I've seen frameworks like this as well, but it just takes a little bit too long to explain to people. People say, "well, if my footprint is zero, that's good, right? Like, why do I need a handprint then, you know, I'm already doing the best I can". I can easily explain oh, no, you can also do even better than that. But this is also almost paradoxical. So, I've seen many nice attempts but yeah, I'm super interested if you, if you see or hear about anything else, then-

Conor: I can forward you on, like on LinkedIn or whatever or email, I'll forward you what I- there's some interesting papers, and some of them work more like at company level, like you know, measuring the impact of the company itself. But then you have to figure out like how to quantify that backup and aggregate all your companies you know? Well, yeah, I can send you-

Mart: It's really cool. It's really cool, really cool research.

Conor: Hopefully, it's taking me long enough. So- [chuckles]

Mart: [chuckles] How far are you?

Conor: Pretty far this is- I'm going to the end now. So, I've done all my- you know, all the literature review, then looking at like measurements, specifically. And then I was looking at long term

measurement, how long-term investments are measured. And now I'm just getting some interviews, and then get some results.

Mart: Is this useful, this interview?

Conor: Yeah, well, it's all useful. Also, it's interesting because I asked everyone to see what Impact Investing is at the start and it's interesting to see what everyone thinks Impact Investing is. Because there's like- people forget that from like 0% returns to like standard returns that there's so much in between and people think Impact Investing is just one thing, but it's really like a massive spectrum.

Mart: Yeah, yeah, yeah. This is where it all starts, right? Is the definition of a word.

Conor: Yeah. And without a definition, that's the same across an industry, you have people that go like this-

Mart: Yeah. Is there anything else you haven't asked me that is relevant?

Conor: I think- well, yeah, how often actually does your measurement process take place? Like, are you updating just based on quarter or on year?

Mart: On year, year actually. This is also something that needs to change a little bit, of course, you can think of, and it's most likely not happening, but you know, there's a company that is, you know, they're doing a solar panels, and they're opening a petroleum refinery [chuckles] on the second of January, but now you've done everything on the first of January. So, you know, it's very- it's most likely not going to happen, but also when people- when companies open other plants, or like, like sustainable plants that increase the impact. Right now, because it's such a manual process, still, really looking at annual reports, doing it once a year. So far, because *Eko* has only been around for 10 months, I've only done it once. But it was a lot of work. And this is also something-

Conor: I was going to say there must be some amount of man hours just to get through all of those reports.

Mart: Right. This is not something that I want to do again. At the end of the day, right now there's 150 companies what I think is nice, I think I want to go towards like 300 because you can just create- probably, sometimes portfolios with a little bit better balanced. 150 is still a little bit small. So, I wanna, I want to go towards like, 300 and if you get to go for 300, yeah, annual reports [chuckles], then that's, that's a lot of work. So ideally, some standardization, you know- there's, there's many, now sustainable data providers for API's. But it's also nice, but- you know this is also- it's almost hard to explain to your customers saying, where are you getting your data from, and you just point to someone else. It's kind of nice for me, but I don't know how people like that.

Conor: Yeah, no, it's, it's interesting. One of the articles I can send to you is like, this girl's findings, she's Stanford, and she said, like, what they- what we don't need is like, measurable- what we need is more analysts that are able to read company reports, rather than, more quantifiable term- like impact, it's like, we need people to be able to understand the reports and then report it back to us. I can send you this, it's interesting.

Mart: Yeah please, if you have, yeah, if you have any, any articles or anything based on this conversation that you think I should read then please, by all means. This is an area that I also look at a lot, and now I kind of let it go a little bit, because, you know, there's so much to do. But, um, this is definitely interesting. And I think you're right, I think maybe this is also the, maybe this is also the case that there is a certain amount of man hours that you need to do in order to just, yeah to just make this process work. And maybe next year, I can hire two interns to do it for me, and maybe that's a little bit nicer [chuckles]. But um, I think, you know, I, I've been programming a lot and like most of *Eko* I programmed myself, done a lot with also trying to understand texts from like web scraping. And this is so, it is so complex, because like any other reports are also not standardized. They're also not written in a certain way that is, they all have the same structure. No, there's so much freedom in that, that it's almost completely impossible to write a technology to just get to the right point. And you know, you can probably get it with like 90% accuracy. So now if you don't know, then don't know which one is the 90% [chuckles] and which one is the 10% right. So, maybe that's actually I thought about it still writing someone have a programme for it. You can do it for 90% accurate. And then- yeah, I'm saying 90%, maybe 60%, maybe it's 40%.

Conor: Even if it saves 60% of your time, I mean, it would be worth it.

Mart: Yeah, but then you've to think about just kind of creating, or making the web scrapers or crawlers, making it look for certain words. And like the things you need to do obviously, is, you need to know how much the quantifiable impact is, how much investors they have, etc. Anyway, this is something that I've been trying to figure out a little bit but I kind of let it go as well [chuckles].

Conor: But it's like, it's part of Impact Investing, the measurement part is often like the last part that you think of, but really, it's quite important. But, it's interesting. Okay Mart, it's been brilliant. Thanks so much for all your time. I really appreciate it.

Mart: Yeah, no worries. I wish all the best. Send me anything that you think I'd find interesting and let me know what comes out of it, I'd be interested to see the results.

Conor: Cool.

[00:41:21] [END OF AUDIO]

Appendix 7 - Małgorzata Filipowska

Zoom interview with Małgorzata Filipowska, Sim pact Impact Investing.

[00:00:11] [Start of Transcript]

Małgorzata Filipowska: So basically, *Sim pact*, a VC fund, it's the first Impact Investing VC fund in Poland, and I believe was one of the first in Central and Eastern Europe. And it was established in 2017. And I joined the team, actually, at the end of last year. My previous experience includes working for a corporate venture capital of one of the Polish banks. So, I joined the *Sim pact* at the end of 2020. And let me maybe tell you a bit about the investment for policy and the fund itself. So, I'm not sure if you're aware, but on the Polish market, it's very, very popular that funds use the government, government our money. So, we have, four or three governmental programs, that are some kind of funds of funds. So, they give money to venture capital funds. And for example, 80% of the whole amount of money in the fund is coming from the government and 20% are the private investors. So basically, that's why the VC market in Poland is booming, because there is like a lot of money more than I believe, two or 3 billion euros are invested in the market. And so basically, a *Sim pact* used one of the first of those programs, it's called '*Bridge Alpha*', and it's a program that it's designed by a Polish Centre of Research and Development. And basically, they chose, I don't know, a- up to 15 funds, I believe. And that was that are some kind of operator on the Polish market, and *Sim pact* is one of them. So basically, some of the investment criteria are designed to be aligned with those that you know, the program- with the program rules. So, the Centre of Research and Development needs to accept our investments, and there's an investment committee with people hired by the National Centre of Research and Development, and they need to accept our investments. So, it's not fully independent. And that's because the monitor coming from the government, so you know, everything must be aligned with the policy. And *Sim pact* already did 20 investments, we don't have all of the portfolio companies on the website yet, just because we are redesigning the website, and the new one will be published at the end of the month, so we didn't update it. But it's about 20 companies. And the plan is to make 25 investment, investments and close the fund. And I can tell you that the next time that we are launching right now will be with the European Investment Fund. So, we'll be starting the next Impact Investing fund at the beginning of 2022.

And yeah, so maybe a little bit about the investment policy. So, I told you already that all of the investments needs to be accepted by the National Centre of Research and Development. And so, we have two or three partners- the team is not, not huge. We have seven people in the fund, two associate, one lawyer, preventer branch partners, and product managers, some people are even like, you know, part time in the found and part time on different projects, because we also cooperate with one foundation that supports Ukrainian start-ups in the Polish market. In general, it's, it's seven people. So basically, what we do like of course, like every venture capital we sell source for, for start-ups, and most of the start-ups are coming from our network. Approximately 70% of the investments are, are from the, from our network, some of them are from the events. But you know, it's really difficult to find like right start-ups during the event, especially in like an Impact Investing career. And what we need to do to invest in start-up, we need to check if there are aligned with all of those rules that are, you know, that Polish National Centre of Research and Developments, you know, applies. So, there must be at least one person from the team that is polish, just one person in the team. It doesn't need to be a

founder, just any person in the team. And it needs to have an impact factor. But the Impact Factor is measured, like you know, it's very light criteria. I mean, like it's big that it must be, I don't know, like green energy and something like that. Of course, most of our companies are green-tech, health-tech, and so on. But we have, for example, a company, it's called *Renderro*, and it's a cloud platform for designers and for movie makers, something like that. Not my portfolio company, so I don't know them very well. But we also had, for example, electronic signature platform. So, it's also impact for us because it reduces their use of paper. So, it doesn't have to be something like, you know, super aligned with, I don't know, associated with charity, or with philanthropy, and so on, just any kind of impact. So, it might be health-tech, it might be agri-tech, so everything that optimises, optimise, for example, farming, industry, and so on. So, it's understood very, very broadly. What we don't invest in like, we are not investing, for example, in fin-techs, and insur-techs. But not because you can't find an impact factor there, but because the competition of the market - on the market is too large. So, like, *Simpact* wants to have an investment from, like, especially Fin-tech funds, not, not from Impact Investing funds. So that's, that's how the process looks. And we have such a, such a start-up, we need to go to that committee with the National Centre of Research and Development, and the start-up needs to be accepted. And the investment ticket, it's up to 1.2 million is what - which is around 300k euros, so it's not a large ticket, but for Polish market, it's enough for start.

So basically, our also our, our, our strategy is to invest in like super early start-ups, so they just have an MVP, and even the investment is divided into two parts. So, we are allowed to give around 50k euros for start-ups just to test their technology. So, we can give them managers for research and development, to for example, check the technology before we invest in. So, so, there is like, I told you about like a large ticket. But of course, large ticket like the larger ticket, the maximum ticket, which is 300k. But there is like a special part of it 50- up to 50 that we can, it's not an investment, it's like, okay, you can take the money, you just need to like write the report, report and give us invoices what to spend the money on. And it's more for us to test if that kind of technology can work. So, and such a face, it's called pre acceleration, and it's lasts up to two or three months. And after this for months, we know if you want to invest in company, or if it doesn't really make sense. And even in this program, and that we are using this program that gave us - provided *Simpact* with money, there is a special amount of money dedicated just for this kind of research. So, we don't need to make investment, we also can check technology. So actually, what we are doing right now, we still have some money for the research left. We are starting to the researchers now in fact we are not going to do an investment because we have only five investments to make out of this fund. So, we are kind of testing the technology for the next founder that we will be opening at the beginning of next year. So, it's not just you know, just a blind investment but, but we can check the founders and so on with 50k euros on the Polish market, you can really build it - build something, either, either a solution or like a prototype of a solution. For example, right now we are checking the technology we have a company that wants to create a new kind of life vests you know, like for swimming? The one that you know, explodes in the water. So right now, we are giving them 50k euros just to build the prototype type and check how it works, for example, in in the swimming pool, and so on. So, if the if it's possible to build what they want to build. And so-

Conor Ryan: And do you guys get equity for that? Or how does it work?

Małgorzata Filipowska: No, it's more - it's understood more like a grant, you know?

Conor Ryan: Okay, yeah.

Małgorzata Filipowska: It's more like a grant, and it's just to design to- just in this program, the 'Bridge Alpha' program that I told you about. It's not like a common practice in the Polish market. But it's kind of a small grant from the National Centre of Research and Development that we are able to give on behalf of the National Centre of Research and Development. So, so we don't take equity. We have IP out of that project. But because we are like investment component and in Polish law, we can't have we can't have IP as an investment fund. So, we- anyway, we transfer after the- when, when the process is done, we are transferring the IP to the company. So, it's kind of, you know, free money for, for start-ups that we are interested in, there's no risk for them and no equity. And it's, it's more like, it's more for us to check the market and to check the solutions if it's going- because, you know, the idea is that it's like, really, the research and development part must be really like, you know, involved in the, in the project. So, that's why we are doing it and that's why the project is designed like that.

Conor Ryan: It's cool. Wow.

Małgorzata: Yeah, the entire investment process takes us, I think, three up to four months and that's maximum if we do [unintelligible 00:10:44] investments, without the [unintelligible 00:10:45] investments. And if we don't do the part, you know, that taking part it's called Proof of Principle, actually, the whole, the whole thing that I just explained to, it's called Proof of Principle. And if we are not doing that, it's it might be even two months. So that the investment process is pretty quick, what is surprising to me, because in the corporate venture capital fund, it lasted around eight or nine months to invest in- to be you know, aligned with all of the policy of the, of the corporations, and here for me super quick. So also, I'm impressed.

Conor: It's nice that you guys are flexible, right?

Małgorzata: Yeah, it's much better and also do co-investments, but only with Polish funds to be honest. And also, we mostly invest in Polish companies, because it's, it's easier for us. Of course, there's a lot of great idea we have run a Lithuanian company in the portfolio. But like from the investment perspective, it's much easier for us to invest in Polish companies, it's still like, you know, like a barrier on the Polish market, that the Polish law is not adjusted to invest in international start-ups. So, it's super long, super complicated, and it costs a lot, especially for the lawyer. So, it's, it's not common on the market to invest in not Polish start-ups.

Conor: Right. Right. That's brilliant, that was a brilliant explanation. It looks fantastic. But just in terms of Impact Investing for you, taking a step back, what is Impact Investing for you? Like, how would you describe it?

Małgorzata: Sure. Just let me, let me open- I just did a presentation about our strategy last week. So just let me open it.

Conor: You're so prepared [laughs].

Małgorzata: It's not like I'm preparing you know; I was just doing because we're still ending the fundraising process for the second Fund. So basically, of course, we want to invest in start-ups that have some impact, and you know, that change the world for better that you can read on the internet. But we also wants to provide, you know, like their return on investment and it's still a priority. So, we believe that actually investing in start-ups is profitable. And it's not just-

it's not a charity, it's not philanthropy, it's actually profitable. And we made- we did a first like this in the fund and with seven- the cash on cash was seven. So, it's, you know, it's not like we are losing money on the, on the start-up. And, of course, in addition to the financial impact, and the results, we wanted to invest in start-ups to generate positive environmental or social impact. But as I told you, it's understood and very broadly, so we have eight categories that we invest in, basically, and it's met-tech, et-Tech, green energy, life quality, we have one 3D printing company because you know, 3D printing, we believe it will you know- just, was the process and will for example, help to build buildings faster, especially in like, third world countries- Agri-tech, sharing the economy because of course, it's super eco and it's, of course- in so solutions, like I don't know, Uber or anything like- you know, what's your?-

Conor: Yeah.

Małgorzata: And green energy. And we are, right now we are quite closely looking at the market of electric cars, but it's still very small in Poland. And because you know, most of our companies start in Poland, and they operate in the Polish market for a year or two. We will look at the market if it's possible to scale, and the market for electric cars in Poland is still super small because it's, it's 20,000 of electric cars, so it's not a lot. So, the market is small.

Conor: Wow, yeah not a lot. Ireland isn't much better, but it's a little bit better than that.

Małgorzata: For sure [laughs]. So, so yeah, so those categories, and of course, financial, social and environmental impact. But we are like looking at the team, if they are able to provide like any kind of, you know, financial return, and we invest in companies for like, you know, three or four years, that's, that's our investment horizon. So, we're looking at companies that are able to generate a profit within those three or four years.

Conor: And so, in terms of measurement, then, how are you guys measuring your social impacts? Or do you measure your social impact? And then how do you portray that to, either the government or to the private investors?

Małgorzata: Honestly, it's very, it's very, like subjective. So, it's not, it's not something that we have fixed, of course, like, during the, during the process, we'll look at if it, if it matters, but it's not something that we have, like a strict scale or measure it within any kind of KPIs and so on. We just tried to, you know, find a good argument for the National Centre of Research and Development, and for our investors that, okay, look, this have impact and because and number of reasons. And it's not like we have, we have some special measures for the next fund we plan to do. But we are still doing research on that, like, what's the best practice on the market? and so on. So, if you have something to advise will be happy, happy to take that advice, but we don't have any, you know, there is no scale. It's like super **[inaudible 00:17:08]**.

Conor: Yeah. And like people- lots of people think that the process of investing is also, is having an impact, right? Because you're putting funds into start-ups who become companies who do good things. But just when you're, when you're reporting back to like, let's say your financial returns, do you report back as well, like, you know, how many jobs created? Or how many litres of CO2 saved? Or is it just purely financial?

Małgorzata: It's-- I would say that it's 80%, financial, 80 or 90% financial, but you know, we had, for example, such a case that we had, we wanted to the right career impact with a company or like foundation named Ashoka. I don't know if you are aware of them?

Conor: No.

Małgorzata: It's this foundation that promotes entrepreneurship among homeless people, for example, and so on. So, it's like a social entrepreneurship. And they're global, they have products, for example, with Citibank with PwC, and so on. So, we wanted to invest in their product. But at the end of the day, it was more than- it was more philanthropy, then, then we are investing because they had great ideas, of course, but it was purely like, you know, philanthropy, and we are a venture capital fund, not like a philanthropy fund. So basically, we needed- we had to say no, to most of the project, which was super sad for us, because we wanted to like personally, we wanted to help, but, but you know, there was no like a business case on the project or business model or any chance for the return on investment, so we had to say no. So, it's, it's more, it's more actually financial. Also, we don't we have also our LPs require the return on investment, right? They don't- didn't put money on the charity, if they wanted to do like a pure philanthropy, they would put money on the, I don't know, any kind of crowdfunding platform, right? But they put their own private money into venture capital funds, so they require return on investment. So, we of course, look at the financial side, it's super important.

Conor: And, and then in terms of due diligence when you're investing into the fund- into the companies, what kind of social impact are you looking for there? Like, I know you talked about before, like the sectors what kind of results are you looking at when you're putting the money into the companies? Is it like, you're looking for something specific out of the company, or you just want them to do good?

Małgorzata: We just want them to do good. So, we are not looking for- we don't- of course, you know, the companies are reporting to us every quarter. So, all they send us reports and so on. And there is no measure for impact in those reports. So, we just want them to do good, to build the business and we believe that the business has an impact, positive impact on the social or the environment. But no, we don't require them, you know, to measure it, or to report it. It's just called impact, but we are not. We are analysing the financial data and not the impact data [inaudible 00:20:48] understood like itself as a company.

Conor: Yeah, the impact is part of the financial, you know- yeah. No, it's, it's interesting, we see sometimes there's some companies maybe that would be more philanthropic, who have like dual scorecards, you know, they'll have a financial scorecard and an impact scorecard, is what they what they release at the end. But you were saying that your new fund is going to have like more of a method of measurement? What's that going to look like? Or do you guys know yet?

Małgorzata: Can you repeat, please?

Conor: Sorry, you said that you have a new fund that's coming? And you said there's going to be a different kind of methodology of measurements, is that correct?

Małgorzata: Yeah, that's correct. But we are still like looking for the measurements of the methodology. And we still don't know, you know, for sure, it will be impact fund. Some of the

measurements, you know, like in European Investment Fund, they have like, a special amount of money for the Impact Investing. So, we will be one of one of those operators. So again, we're using a final fund [inaudible 00:22:00] on the Polish market, but they don't require us to put any impact measures. Of course, it will- the- all of the investments will be accepted by their committee, but they don't, you know, require any kind of measurements to be implied. So again, it's super- it depends on us what we believe in and what we want to invest in and what we believe that has impact. And of course, we need to justify it. But that's justification, it's not like- I'm not aware of any kind of KPIs that we are going to have in that process and I'm into that process. So, either I don't know it yet, or, or they don't exist. But I heard that they have less strict policy, so that their voice is much more loose than the policy that we already have [unintelligible 00:22:49] on the Polish internal one. So, you know, everyone is super happy that it will be not so strict anymore.

Conor: You have a bit of flexibility.

Małgorzata: Yeah, flexibility. And what's interesting, not all of the- not all of the companies needs to have an impact, I believe 80% of the portfolio companies needs to have like impact justified, but not all of them. But right now, all of them, all of our companies need to have an impact. So, it's still probably if we want, we want to have another 25 in the next four years, I think that three or four of them will be like, you know, purely opportunistic.

Conor: And in terms of your exit strategy at moment, do you guys- is it just purely financial as well, like, once you've reached- the company's reach a certain size, you say, okay, now it's time it's profitable, it's time to release the company to another- to somebody else? Or how does it work in terms of impact?

Małgorzata: No, we're just, it's purely financial. So, we don't look at impact we are just looking for, you know, just because we are like a very early-stage fund [unintelligible 00:24:05]. So, we wouldn't do like, you know, IPOs or we don't sell companies to, to cooperate and so on. So, most of our exits, are you know, just, are just to another investor, or larger Polish fund, or European fund as a strategy, we just did one exit already in that digital signature platform that I told you about at the beginning. And it was just another investment made by a larger Polish fund with larger ticket and so on. But right now, we'll be doing more and more exits, because we are just ending the period of investments and going into the period of the investments. So, for the next four years in this fund that we are upgrading right now, we are planning to do exits. And so of course we have been thinking mostly at the financial, financial aspects, not the impact aspect. Impact is already included in what they do.

Conor: That's super interesting. And like, I won't keep you too long, but in terms of COVID and- what have you guys seen in terms-- I know, like 80% of your backers are from the governmental side, but have you seen more interest in people in Impact Investing since COVID has come around? Or have you seen any change?

Małgorzata: Honestly, we did, because our- we are in the fundraising process right now for the second fund. So, as I heard from our partners, it's much easier right now, for like, first of all, the market change itself in Poland and it's growing, you can see at the, at the charts, or in the internal kind of researchers that the market is growing. So of course, more people are interested in venture capital, just because the market is growing itself. But in terms of AP

impact, yes, of course. Right now, it was much- like, first of all, all of the LPs from the previous fund, decided to stay with us. So, they added extra money for the next fund. But we needed more, so we are looking for some more private investors. And they're pretty interested in supporting, you know, impact technologies, especially health tech companies, you have three or four health tech companies in the portfolio. One is, for example, it's super interesting, because they do like prosthetists, you know, like for-

Conor: Oh, yeah, yeah.

Małgorzata: -of arms, and so on. And they started, [unintelligible 00:26:40] someday in American market. So, in general yeah, we see a lot of interest, especially in- and what they asked for, they asked for clean energy and green energy, and they asked for health tech, that's the most two interesting, interesting factors. So, we see a lot of interest in impact, because of COVID. If I can- that, that I would summarize, but it's, you know, we don't measure it, of course, but we can say that, you know, people are coming, asking. And also, our portfolio companies are performing very well during the times of COVID. First of all, because of them, of course, some of them are health tech, and right now, health tech is booming. Also, for example, one of our companies pivoted because of COVID. So, what they were- they were like a company that was measuring temperature of pigs on the farm.

Conor: What? Wow.

Małgorzata: Yeah, to investigate which pig might be sick and may, you know, influenced the whole community of pigs, however, it's called. [laughs] And they decided to use that technology for measuring, you know, body temperature of people. So, they, they pivoted quite quickly, and they started to provide those devices that have, you know in the airports that they measure your temperature with, with this device. So, and of course, this model was much larger, because, you know, the market was much larger than measure temperature of pigs. And of course, in the farming industry, to sell some kind of innovative solutions, it's difficult, and to sell that kind of device that was cheap, and, you know, accurate and was provided very quickly. It was a huge success. We thought that, we thought actually, that we will lose money on that company, and because of the COVID, we earned, are about to earn much more. So-

Conor: That's great. Yeah, but I mean, they were in the right place, right time.

Małgorzata: Yeah, exactly. [chuckles] And we've [unintelligible 00:28:45] people who help them. So-

Conor: That's brilliant. Thank you very much. I think I've come to the end of my questions. It was super interesting. I mean, your fund is really interesting, especially just explaining how it works was super cool. So, thank you very much.

Małgorzata: You're welcome. I'm happy to help.

[00:29:07] [END OF AUDIO]

Appendix 8 – Sarah Finegan

Zoom interview with Sarah Finegan,

[00:02:10] [Start of Transcript]

Conor Ryan: The thesis is about impact investing and specifically, it's about measurement really. So, what I'm looking into is kind of what-- the definition of impact investing is for-- I've done several interviews now, and so I'm kind of comparing and contrasting what people think impact investing is, I'm looking at measurement, measurement techniques and methodologies. I'm looking at specifically long term, like if you have long term- like 20-year project, how you're measuring. And then finally, in a kind of COVID-19 context, where we see it going. But anyway, that's just- it's just a general chat really, just to gauge general impressions really. And so, if you want to introduce yourself and like your relation to impact investing. I know I scoped you out on LinkedIn already, so I have- I know you're studying in Harvard, which is pretty impressive.

Sarah Finegan: I don't know how I slipped through the gaps there. But, yeah, I got in. Imposter syndrome to its highest degree. But, yeah, I guess, in terms of my own background, I guess I've brought experience across finance, increasingly working with early-stage technology companies, and I've now made a move into VC. So, I moved to Berlin to join Antler, they're a global venture capital fund. But actually, what's probably relevant to your work and study, and report will be actually a piece of work that I did just before I joined Antler with Middle Game Ventures. They're probably more growth stage FinTech investor, both operating out of the US and Europe. But they- I've kind of been in contact with the- with the partner and knew the partner out of the US for a couple years. I was always badgering him to like, hire me and he wouldn't but he was like, you can help us do this kind of consultancy project. So, I worked with him for six months to- essentially it was like an ESG focused report, but it probably covers of some of the kind of areas that you covered there, so like impact measurement. I guess trying to diligence and to quantify certain types of early-stage companies. So, I worked with kind of- in two key areas. One was a refresh or reviving this like ESG document that they'd put together and then also looked at a start-up screen with an ESG lens or like an impact lens as well. The lines are kind of blurred. I know ESG is like a sub- a sub topic of the, sorry, ESG is a sub topic of impact investing. I don't have much impact investing experience. I studied it though, and I'm more than happy to kind of try and answer

questions that you may have on the impact investment from theoretical, or what I studied, I'm more than happy to kind of share information on that. But my [inaudible 00:05:30] isn't and doesn't hit on the impact side, on impact investing, so I can't really speak to that. But if you are, if you're willing to kind of speak to like, ESG as a topic, like more than happy to-

Conor Ryan: Yeah. It's definitely- even ESG measurement is definitely relevant here. Because impact investing-- But I better not give you the- I better not say my definition of impact investing for the sake of the interview, but it definitely has a crossover. So, like, if we're just to start, like, what for you is impact investing? If you would say, you know, not a definition, but what it is in your mind?

Sarah Finegan: Yeah, I think there's, there's probably a number ways to think about it. And one way I thinking about it is the timeline of how investing in an investment [inaudible 00:06:29] with an investment lens has progressed three years. So, I think if you dial back the clock and look at how investing on the impact side of things was approached, maybe five or 10 years ago, there was like, there was a lot of negative screening happening. So, these like take out tobacco, tobacco stocks, these take out, like all of the like, you know, polluting, and, you know, stocks that wouldn't be great for the environment and, and of course, social responsibility and all that. And then now, I think it's a lot more active. So actively seeking out alpha in different areas, with an investment lens on. So, what that means is it actually doesn't just, you know, correlate to negative screening, it's a much more involved, I would say, process. I think, in terms of some of the hype, kind of the mindset has shifted as well, I think there's been an enormous marketing effort as well to try and, you know, persuade LPs, or I don't know if you're sort of familiar with like, kind of the kind of fund structure like LPs and GPs, but like, persuading- persuading, you know, LPs limited partners of funds, that there would be returns in certain, you know, opportunities that may not have been looked at favourably in the past. So, both the financial and- a financial return, a favourable financial return, on top of doing good as well. So that's just a ramble. But yeah.

Conor: No, it's all useful, honestly. Like, when I'm- I'm looking at- so like, it kind of came up as part of the thesis that like - like obviously you might not be studying the definitions of impact investing is very subjective. Whereas like, it could be more unified across like- there's lots of people look at it in lots of different ways. But anyway, so to get your view is definitely interesting. So anyway, like in terms of measurement, and I'm conscious that we only have 20 minutes, so I won't take

too long. But like, how in the ESG funds, what were you measuring? And kind of like, what methodologies were you using? Oh sorry, I'm not sure if you said you had a fund but you had a review-

Sarah: So, let me show you actually, what I- I'll give you a sense for how we kind of measured it. So let me show you. I'll show you the screen actually, we can go from there. Share screen. Oh, you need to-

Conor: Yeah.

Sarah: I'll do that the same time- the same- Oh my god, my brain.

Conor: It happens every time I share the screen for me as well. Okay, it should be good now.

Sarah: So cool. Okay. All right. Let me see actually there is-

Conor: How are you finding it in Berlin? Sorry you said Berlin?

Sarah: Yeah, yeah, Berlin. Yeah. Yeah, it's great. I mean, I mean, I've- If you asked me a few years ago, Conor, would I have ever moved to Germany for a job, I would have said no, but it's just a good opportunity. And yeah, it's good. Things are opening up here and it is, like, there's lots of people having like steins. Like the restaurants were open, like last Friday, so definitely emerging. Also, I heard that the winter was absolutely brutal. So, I think people are delighted that it's, it's on the turn.

So, what I'm showing you here is essentially an approach that we took, it's basically the methodology, where we applied a framework to be able to like screen, a lot of companies. So, I guess, from the very outset, like to do- to get like a large data set, we used Crunchbase to get a long list of companies. So those are some of the parameters that we applied to the screen. So, like founding date, from 2010 onwards, the company status **[unintelligible 00:10:57]** to be active, we're looking at like Pre-Seed all the way up to Series B companies, business model needed to be like B2B or B2B2C. And then industry group was ESG. If you were looking at, I would say, a broader data set- so potentially companies operating the invest- impact investment side or indeed funds,

you could apply that kind of offer there [inaudible 00:11:20]. I think, going into a little bit more detail some of the additional measures that we put in our- in column B as well. So, to jump to what came out, and my apologies, this is like a lot of information. But there's like, I think there's like over like 1500 companies, and we went in and- went into individual companies and just made sure that they made sense for the FinTech, FinTech, VC that we were kind of like- that I was providing this work for. So, they were a FinTech- there were FinTech investors. So, I'd had to take out of the ESG related companies that had an impact, but also had a financial services lens as well. So, they were operating in the impact investing side that had a FinTech element. Like those in red, for instance, like that's a healthcare company, that needed to be taken. Green was, you know, CO₂ offsetting, but in- the I think the [inaudible 00:12:23] use case or their end client was a financial services company. So that was perfect FIMO was- that was an excellent example. And then fast forward to finished product. And essentially, what we did was-forget about column B for a second, we- and actually the columns, we kind of ranked all of- or we listed all of the companies, and then based on where they sat, they, you know, were grouped into different buckets. So, this was, you know, Analytics and Decision Tools for ESG investments- my computer's frozen- then there was like Platform and Services Powering ESG, so those were platforms where you could invest in ESG on basically they had like a financial services element to them. And then similarly, for Issuance of New Assets, so these are kind of like tokenization, crypto, etc, etc. And then Financial Inclusion, which we actually omitted at the very end, because it's such an enormous topic, and then Reporting and Compliance. So, in terms of your question of measurement, this is a very, very high-level overview of how we measured impact with individuals- not just impact, but ESG mostly, in the FinTech space, but ranked them per bucket. So, I mean, I don't really have an exact- there's- this is more of an art than a science. And a lot of- I mean, I think in-

Conor: Just.

Sarah: -Sorry, go on.

Conor: Just on what metric are they getting ranked like the- is it just that they fit the criteria and therefore they go in? Or are they getting ranked from like one to 100 on a certain like, you know, impact criteria or like on- is a financial criterion because they met the impact already, so now it's ranked on financial?

Sarah: Yeah, so this would be very specific to the funds that I was working for. So, one meant that they would- they need to be approached immediately, because they were, you know, high quality, they were- they needed fundraising. So, I guess not, I mean, it's not exactly what you're probably after Conor, because this is, you know- if I was to run through, or if I made an investment in education recently, I could be able to run through the different parameters that I- that I would apply on the measurement side for that, but I haven't done that recently. So, I'm just trying to show you something that will be, you know, somewhat similar? To go back to your question, there's a couple of things, it really hinged on a couple of things. So, the availability or you know, the timeliness of investment that they would be seeking right now. So, say some the company that's not round number one, they were like two years off their Pre-Seed round, which means that they were probably right for Seed funding. They had a really, really excellent management team. They like had a lot of positive signals, you know, that allowed us to make that kind of investment decision making or indeed like just approach the company. And then for those that are ranked number three, you know, they, the timing isn't perfect right now. So maybe in like 18 months' time, we would approach them, but again, they sat really well, within- within the space. For- we've actually geographically categorized them as well. So, for kind of one to three, within one of the buckets, they were EU focused, not UK or not US, because that's the- kind of in line with what the- what the fund is investing in. And then similarly, kind of the same approach that we took for the other buckets. I think we- in terms of some of the research that I had to do, it was like a lot of manual checking of individual companies looking at CSR policies, looking at where they were in Crunchbase, like, what their team, like the strength of their team as well. So, looking for, for different [inaudible 00:16:34] data points across like, a number of kind of similar companies. Again, not directly related to what you're asking me.

Conor: No, it actually is. Like about, like, you know, one of the things that probably impact investing is missing is like analysts that can read this information. And because there's lots of unquantifiable information out there, that can't be like written in a number, and like, analysts that can read it and then like rate it basically is something that is apparent, you know. Much like you'd have like acc- like, for accounting standards, you might have like, a base layer of methodology and then you'd have someone who's able to read the reports. But anyway, and just in terms of like, the outlook of the fund, like, were they looking to exit? Like, how many years were they looking to stay in the fund or is-- if that makes sense? Yeah.

Sarah: Yeah, so it's 150 million. Right so they have a couple of funds. The fund one is a growth fund. So, they would be like doing all of this work right now. So, in a few- in say maybe, actually don't want to give too much away, actually.

Conor: Yeah don't. It doesn't have to be too specific.

Sarah: Yeah, no. So, I mean, they're basically doing this research now, this analysis now, so that they can track, like, you know, growing companies that are investable. I think they have the- the fund one is a growth fund, it's a 150 million fund, and they deploy that across different FinTech, mostly in the B2B side, actually, in fact, all on the B2B side. They're opening up that investment thesis slightly to include this potentially later this year or early next year. But if you look at a lot of the FinTech, venture capital funds that operate both in the US and in Europe, they're all looking at ESG. I mean, in fact, the better way to say it is, if you're not looking at this, you know, you're kind of missing, missing the opportunity. What I'm actually trying to dig up- Let me show you the deck that we pulled together because it does talk about- Sorry, just bear with me. Sorry, that's the old one. Let me just search for the new one.

Conor: No bother.

Sarah: Where are you based Conor?

Conor: I'm back in Ireland, so I was actually- I started in Belgium. And then I did- so I did one semester there, I did one semester in Nova in Portugal. And then, I've been- then it was COVID. So now I'm finishing off from Dublin. So, I've been all around the place [chuckles], but I'm coming to the end now. And I actually have started the job with Diageo, not in investing at all in, in marketing.

Sarah: Okay cool, yeah. And what's the plan then? I mean, are you- where are you studying or where are you doing your thesis?

Conor: LSM, in Belgium. So, it's like, Université Catholique de Louvain, and then it's LSM in there.

Sarah: Oh yeah, yeah, yeah. Okay, brilliant.

Conor: But the course is the SEM's course. It's cool. It's like, you can go wherever you want and they'll be doing this kind of similar modules everywhere. You have a few core ones and few elect ones. So you can like- like, I was able to go to Portugal, but I didn't miss out on anything in Belgium, if that makes sense? You know, it's all part of it.

Sarah: Yeah, that's brilliant. No, I remember actually, I was- I remember checking out SEM's, I'm familiar enough with the program. But I think one of the most interesting things about it is the opportunity to study in different locations. I thought that was like the bee's knees.

Conor: One hundred percent. That's, that's probably why I did it [chuckles]. You know, like, it's also good, but it's, you know, the chance to start in Belgium for 800 quid, and then go to Portugal. I felt that imposter syndrome like when I was sitting beside people who were paying like 25 grand for the same course [chuckles].

Sarah: Oh my God, yeah. I was the same actually in- when I was in the US. I mean, I actually- the backstory is that I did my MBA IE, in Madrid, and then went to the US. I actually took an exchange Scholar Program at the Fletcher School, which is in Boston, and then you could cross register with Harvard, so yeah, brilliant.

Conor: Wow, yeah [laughs].

Sarah: Anyway, found this thing, but honestly, I don't know how I got into the impact investing one because it was completely oversubscribed. And I actually ended up doing an interview with the two professors, because there's so much. I think being Irish helps you out when you travel. Alright, this is what- I can't find it locally, but I've just dug it up from my emails. This is what the report looks like. And- so essentially, ran through different trends, but I think for you, what would be interesting is- none of this stuff, but stuff later on, because it talks about, I think measurement. Yeah, so we looked at companies to invest in. I think- yeah, maybe not- overview. Yeah. So, maybe not. I mean, it's been a while since I've done this, by the way. So-

Conor: Yeah, no worries. I won't hold you too long as well. I know you're busy.

Sarah: Yeah, I've got- I'm working for actually my new boss is an ex-McKinsey partner and he's absolutely busting my balls. Oh, my God. I can't believe, I haven't slept in like a few days [laughs].

Conor: Yeah, you'll be working until 4am [laughs].

Sarah: [Laughs] Yeah. Anyway, I- I'm not quite sure what I was going to show you as well in here. But anyway, I don't know if there was any help Conor?

Conor: Yeah. Everything's help and I definitely appreciate that, Sarah.

Sarah: Yeah, yeah, but let me know. I mean, if you have- I know that this is like an interview type situation. But I think if you have more specific questions- and like I totally understand what you're doing. You're trying to be like, really, really diligent and like, not tell me what the thesis is because then I'll like form an opinion, and then, you know, basically run through what I think I should tell you. So, if you have any specific questions after the call, just email me and more than happy to kind of take a look and get back to you.

Conor: Perfect that will be- I'll send on a few emails. Like I was looking more at impact for managers as well, and that's like one section. So, it might be nice to get a view from yourself, a more like academic theoretical perspective.

Sarah: Yeah, yeah definitely. Cool. Awesome. Thanks Conor take care.

Conor: Best of luck in your new job, new place.

Sarah: Thank you. Nice chatting. Bye.

Conor: Bye.

[00:24:23] [END OF AUDIO]