Early Stage Investments
Investing for Impact
The ImPact is a membership network of family enterprises (family offices, foundations, and businesses) that are committed to making investments with measurable social impact. The ImPact provides families with the knowledge and network they need to make more impact investments more effectively, and uses sophisticated technology for data aggregation, analysis, and reporting to shift the narrative of impact investing from one of inputs (dollars committed) to outcomes (impact created). Our purpose is to improve the probability and pace of solving social problems by increasing the flow of capital to investments generating measurable social impact.
EARLY-STAGE IMPACT INVESTING
A PRIMER FOR FAMILIES

Early-stage impact investments can be a powerful tool for scaling businesses that are designed to make money and have measurable social impact. Though investments in mission-driven startups are risky, they can generate extraordinary financial returns while enabling innovative businesses to address critical social and environmental problems.

Early-stage impact investing can help preserve a family’s sense of collective purpose and cultivate entrepreneurial spirit across multiple generations. The tangibility, excitement, and mission clarity of early-stage impact investments often appeal to younger family members and can help engage them in the management of family assets.

The purpose of this primer is to explore the different early-stage impact investing strategies families use to achieve their overall impact and financial objectives. This document is intended to be explanatory and not a source of investment advice.

Key Characteristics

Early-stage impact investing encompasses a diverse set of opportunities across sectors, geographies, impact strategies, and financial return profiles. How families invest within these categories depends on their specific financial and impact objectives and the needs and constraints of their asset-holding entities. Despite the diversity of the field, there are several characteristics that most early-stage impact investments share:

High Risk and High Expected Return (Financial and Impact): Successful startups can generate extraordinary financial returns to their investors and create measurable, scalable social impact. But this success is usually hard-earned. Early-stage investors provide capital to businesses that are developing new products and services or testing new business models. These businesses may be operating in new markets and have unproven leadership teams. Many early-stage companies are not yet profitable and may not even generate revenue. They are often taking on well-established and well-financed competitors.

Startups must fight for their lives, and it is a fight that most do not win. According to one popularly cited statistic, 90 percent of startups fail. Investors must assume this risk of failure when they make their investment. According to one Harvard Business School study, 75 percent of startup companies fail to return investors’ capital; and, according to a Kauffman Foundation study, most venture capital funds do not outperform basic public equity indexes.

For committed early-stage impact investors, the possibility of outsized financial return and impact at scale compensate for the high risk of investment. Some impact investors (e.g. family foundations) may not target “venture type” financial returns from their investments; instead, they view the extraordinary impact potential of their investees as justifying the risk of investment.

Opportunity for Direct Engagement with Entrepreneurs: Where appropriate, investors may work closely with their early-stage investees, providing strategic guidance that helps companies to grow and to scale impact. Families may get engaged in the governance of a young company or a fund by taking a seat on a company’s board
For committed early-stage impact investors, the possibility of outsized financial return and impact at scale compensate for the high risk of investment.

Principal Motivations for Early-Stage Impact Investing

We see three key motivations that drive families to make early-stage impact investments:

**Values Alignment**

Families are empowered buyers in the early-stage investment market, able to patiently and carefully select the startups or venture funds in which they invest. Impact-focused families can choose to invest in only those companies or funds whose missions, operations, and impact strategies precisely align with their own family values, and use the influence and proximity of their ownership stake to ensure their investees stay true to their mission and impact strategy as they mature.

**Social and Environmental Impact Drive Long-term Outperformance**

Companies that address the most complex challenges of our time—generating clean energy to meet global demand, producing food sustainably in a changing climate, providing high-quality education to every person—could generate massive financial returns to their investors as they scale their businesses within multi-trillion dollar global industries.

**Using Business to Address Specific Social and Environmental Challenges**

Mission-driven startups can develop innovative and scalable interventions for big social and environmental problems. Early-stage impact investors provide critical support to entrepreneurs as they design, produce, and distribute at scale new problem-solving technologies, or develop

Long Time Horizon and Lack of Liquidity:

Building a business takes time. In many cases, early-stage investors wait until a company is sold or goes public to generate financial return on their investment. Most conventional venture capitalists expect to exit their investments within five to ten years. Some early-stage impact investors may extend their returns horizon beyond a five- to ten-year period, recognizing that mission-driven enterprises experimenting with innovative business models or serving nascent markets may require "patient capital" to succeed.

Maturing Track Record:

Conventional venture capital has a long and varied track record. While a select number of funds have generated consistently high risk-adjusted returns, most venture capital funds have not met the return expectations of their investors. Today, impact-focused venture capital is a small (but growing) segment of the broader early-stage investment market, and there is limited historical data on the financial returns of impact venture capital funds.

The preliminary data that does exist, though, is encouraging. In 2015, Cambridge Associates and the Global Impact Investing Network (GIIN) published an analysis of the financial returns of 51 impact-focused venture capital and private equity funds. The study found the overall returns of the impact investment funds were comparable to those of conventional funds—outperforming in certain vintage years, and underperforming in others. The study also found that impact funds with less than $100 million under management were the best-performing cohort of funds in the study, outperforming even large conventional venture capital and private equity funds—a particularly compelling finding given that most impact funds in the market today are smaller than $100 million.
innovative business models that enable the provision of essential services to people, businesses, or communities that were previously unreachable. Mindful of the inherent risks of venture capital, families may find that early-stage impact investing can offer extraordinary "bang for the buck" as they deploy capital to address problems about which they are passionate.

**Investment Strategies**

Families can invest in early-stage, mission-driven businesses directly or through funds and other types of intermediaries. The approach(es) a family takes may depend on its operating expertise, desired degree of company-level engagement, or its entity (e.g. family office, foundation, or operating business) and portfolio-level constraints.

**Direct Investments in Mission-Aligned Businesses**

Families that invest directly into companies (i.e. without the intermediation of a fund) control precisely which companies receive their investment and can work closely with high-potential entrepreneurs to create social and financial value. Investing early in a company's life cycle gives families the greatest influence over that company's trajectory. In addition to financial upside and the possibility of impact at scale, direct impact investments can create invaluable "experiential returns" for a family, perpetuating or reinvigorating a family's entrepreneurial legacy and creating opportunities for deep learning within a new industry or market.

Early-stage direct investing can be highly demanding work for families, requiring extensive engagement at many points throughout the investment life cycle, including: sourcing prospects, conducting due diligence, monitoring investments, raising additional capital, and managing exits. Beyond financial support, young companies often need investors who can provide technical assistance, business-building relationships, and executive mentorship.

To capture the full financial upside of their early-stage direct investments, families must be prepared to make repeated follow-on investments into their investee companies, either to avoid dilution of their ownership stake as companies grow or to help companies survive rough patches in their development. Investors must plan ahead to have cash available for follow-on investment and steel themselves for the vicissitudes of the startup life cycle.

For an early-stage investor in a company, the anticipated end of a startup's life cycle is a successful "exit" from the investment. Families may independently exit a direct investment by selling their ownership stake in a company to other investors or cash out when a company is acquired by a competitor (or a fund) or goes public.

Early-stage direct investing is highly risky; to manage this risk, experienced investors maintain a portfolio of investments with some measure of diversification. This means that families may need to manage multiple intensive engagements with investees simultaneously. When making direct impact investments, it is important for families to consider the diversification and liquidity requirements of their portfolio(s) as well as their desired level of engagement with investees.

**Investing in Mission-Driven Businesses Through an Intermediary**

Impact venture capital funds can offer families expertly-curated portfolios of direct investments, with fund investors benefitting from fund managers’ sector or market-specific expertise and relational networks. Investing through a fund can help diversify a family’s investments, offering broader exposure across sectors,
The Catalytic Role of Impact Investors

In certain sectors and geographies, high-potential impact enterprises are testing unproven business models and operating in nascent markets; these factors can increase companies’ early-stage capital requirements and perceived risk to investors. Funding gaps develop and persist in segments of the early-stage investment market where investors perceive risk-reward dynamics to be misaligned.

Pioneering impact investors play a critical role in filling these gaps. They may do so because they believe that conventional investors misunderstand the risk-return profile of certain investments or because they believe that the potential impact of an investment justifies taking additional risk or sacrificing some financial return. Specifically, impact investors can help fill critical early-stage funding gaps in three ways:

· Providing “seed” or “anchor” funding to first-time entrepreneurs or fund managers to help them attract other investors and build a track record. Investment from a well-respected family can send a powerful signal to other investors, reducing the perceived risk of a given investment.

Venture Capital Financing

Typically, several consecutive rounds of funding are needed to support a young company’s growth. In the very early stages, company founders, friends and family, and “angel” investors provide “seed” capital to fund the germination of an idea, the establishment of a business, and the initial development of a product or service. Once the company’s business model is in place and its products or services are available, several rounds of growth funding are needed for product commercialization and expansion into new markets. These growth funding stages are often referred to as Series A, B, C, etc. and may be provided by venture capital funds and larger firms as the company matures.

Venture capitalists often specialize in investing in certain financing rounds, as each round is usually tied to a specific phase of a company’s growth. Each funding stage carries a different risk profile—generally, very early-stage investments are the riskiest and, as the company matures and the product is fully commercial, the level of risk decreases.

While the number of impact venture capital funds is growing, families may find a lack of dedicated impact fund managers in certain sectors and geographies. In this case, pioneering families can play a critical ecosystem-building role by founding or seeding new impact funds.
• Intentionally seeking concessionary financial return on investments in sectors or geographies where risk-adjusted rates of return are not possible or desirable without compromising social impact (e.g. funding new cooperative businesses or low-profit companies that provide services to the extremely poor).

• Taking a high-risk or concessionary position within a company’s or fund’s “capital stack” in order to mitigate investment risk and increase financial upside for other investors. An investor whose primary motivation is social impact could take a “first loss” equity position in a company to insulate other investors from downside risk if the investment performs poorly. They may also cap their potential profits in order to increase financial upside for investors seeking commercial risk-adjusted returns.5

Overview of Impact Considerations
Mission-driven companies exist to solve a specific problem for a specific market. Impact measurement in its simplest form should be the measurement of a company’s efficacy in solving its target problem and serving its target market.

Impact Measurement
Impact investors should work with their investees to establish impact measurement frameworks that include periodic, qualitative reports and quantitative assessments of certain impact metrics. Impact data should be useful for a company and its investors—it is a measure of company quality and a strong indicator of company value. Tracking many impact metrics can be an administrative burden for a small company, so investors may want to focus on metrics that double as key performance indicators for the business’s basic operations.

There are several impact measurement methodologies commonly used by impact enterprises and their investors. Two impact measurement methodologies used by ImPact members are:

• Impact Reporting and Investment Standards (IRIS): IRIS is a catalogue of impact metrics categorized by sector and designed to standardize impact measurement among comparable enterprises.

Program-Related Investments (PRIs) Overview
Family philanthropies can be an important source of catalytic concessionary capital in the early-stage impact investment market. USA grant-making foundations are required by the Internal Revenue Service (IRS) to distribute 5 percent of their investment assets annually for charitable purposes. As part of this annual mandatory payout, USA-based foundations can make equity and debt program-related investments (PRIs) in companies and funds so long as an investment meets three requirements determined by the IRS:

• The primary purpose of the investment is to accomplish one or more of the foundation’s exempt purposes.

• Production of income or appreciation of property is not a significant purpose.

• Influencing legislation or taking part in political campaigns on behalf of candidates is not purpose of the investment.

PRIs do not have to seek explicitly concessionary financial returns; an early-stage equity investment in a high-risk, high-impact business may ultimately generate high financial returns to a foundation, yet also clearly satisfy the above requirements.6
Five thousand organizations utilize IRIS metrics to assess their impact. The Global Impact Investing Network (GIIN) maintains the IRIS catalogue.

- Global Impact Investing Rating System (GIIRS): GIIRS provides comparable ratings of social and environmental impact for companies and investment funds. GIIRS is an initiative of the nonprofit B Lab, and it assesses the impact of participants’ business models as well as their operational impact (e.g. employment practices, leadership diversity, etc.).

Some Impact members have deemed it more appropriate to develop customized impact metrics for specific investments in addition to, or in place of, metrics sourced from standardized catalogues.

Integrating impact management into the core operations of a company early in its life cycle increases the likelihood that a company preserves its mission and impact as it grows and, potentially, is acquired. There are several other ways for investors to “lock in” or enhance the social impact of their investees through legally binding agreements or governance structures:

- Companies can be legally registered as Benefit Corporations or Low Profit Limited Liability Companies in the United States or as Community Interest Companies in the United Kingdom. These corporate forms enable or require companies to maintain their social mission and act in the interests of their non-financial stakeholders.

- Companies and funds can go through impact certification processes, such as B Corps, that enable the tracking and reporting of their impact regardless of their ownership.

- Entrepreneurs and investors can enshrine a company’s impact strategy and objectives in legally binding agreements. These can be especially helpful when impact investors have a minority stake in a business and lack decision-making power as the company brings on new investors or pursues an exit.

- To align the interests of impact investors and fund managers, some funds link part of their General Partner’s financial compensation to their impact targets. For example, the management of Vox Capital, a Brazilian venture capital fund, receives its full 20 percent carried interest only if the fund meets its measured social impact targets in addition to its financial return targets. If the fund’s investments do not achieve the minimum expected social impact level, the fund manager receives only half of its intended carried interest.

**Going Forward**

Several trends may drive the growth in opportunities across sectors and geographies for early-stage impact investors:

- **Mission-driven startups will attract top workforce talent.** Millennials, who now make up the largest segment of the workforce in the United States, want to work for mission-driven businesses and are also drawn to entrepreneurship. According to the 2016 Deloitte Millennial Survey, millennials seek employers who share their values. According to the same survey, 87 percent of millennials believe the success of a business should be measured by more than just profit. A recent Bentley University study of millennials found that nearly two-thirds of those surveyed intend to start a business at some point in their career.

- **Technology and maturing entrepreneurial ecosystems will allow social businesses to operate with greater cost efficiency and effectiveness.** Technology platforms and emergent, impact-focused entrepreneurial ecosystems—university programs,
Conscious consumers will continue to drive higher demand for socially responsible companies. According to a recent Nielsen study, 66 percent of global consumers are willing to pay more for sustainable brands, up from 55 percent the year before. Investors and entrepreneurs may start to see more opportunities for acquisition by larger consumer goods companies that increasingly care about the power of social impact to attract and retain customers and talent.

Impact-oriented entrepreneurs’ ability to design and deliver services to underserved communities will continue to grow. The proliferation of certain technologies (e.g. smartphones) enables businesses to access previously inaccessible consumers as well as gain insight into their consumer behavior. In particular, innovative companies are working to provide affordable products in healthcare, financial services, education, housing, and more to middle- and lower-middle class income populations across the African continent, Southeast Asia, and Latin America.

The improved quality and quantity of impact data will generate an increasingly robust set of best practices for social impact investors. In turn, this will enable investors to compare more effectively companies and funds against larger datasets in order to select opportunities that best suit their financial and impact objectives.

incubators, accelerators, angel investor networks, etc.—make it increasingly easy for entrepreneurs anywhere in the world to build scalable businesses, attract talent, and raise capital.
APPENDIX A:
Investment Strategies Case Studies

CASE STUDY A:
DIRECT INVESTMENT IN A MISSION-DRIVEN BUSINESS
Investor: Blue Haven Initiative

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**BHI Overview:** Blue Haven Initiative (BHI), founded in 2012, is a single-family office managed by Ian Simmons, his wife Liesel Pritzker Simmons, and their team. The firm is committed to aligning 100 percent of its investments for positive social and environmental impact. BHI's investments are diversified across asset classes and geographies, and its direct investing portfolio exists within a broader private equity allocation. BHI has an in-house team dedicated to sourcing direct investments, conducting due diligence, and managing the direct investment portfolio over time.

**Direct Investment Strategy Overview:** BHI's direct investment strategy is focused on helping entrepreneurs build businesses in nascent and evolving markets that are off the radar for most USA-based venture capital investors. It has allocated approximately $50 million for investments in early-stage, innovative businesses that improve standards of living, create economic opportunity, and deliver products and services efficiently. Target sectors include education, energy, financial services, healthcare, and select business services. In particular, BHI looks for businesses that think beyond traditional infrastructure to deliver products and services more efficiently to underserved communities.

BHI's geographic focus is Sub-Saharan Africa, a region the team believes is underserved by mainstream capital markets but provides opportunities for substantial

“Finding and engaging high-caliber entrepreneurs is hard work. We have a dedicated in-house team to do that. We feel that this kind of high-touch engagement is required to achieve our dual goals of commercial rates of financial return as well as maximum social and environmental impact.”

Ian Simmons and Liesel Pritzker Simmons
impact and financial returns. BHI is building deep expertise within this market while remaining open to investing in other regions around the world.

BHI seeks commercial financial returns on its direct investment portfolio and expects to generate returns on each individual investment within five to seven years. Depending on the company, the most common options for investment exit are strategic acquisition of the company or sale of BHI’s investment stake to other investors or the company’s management.

BHI focuses on investing in enterprises with product-based impact strategies, meaning the impact their investees create is directly embedded into their business models. Given this focus on business model alignment, it typically uses impact metrics that also serve as key performance indicators of their investees’ core operations.

Investee Company Overview and Investment Rationale: In late 2015, BHI invested in Umati Capital Ltd., a specialized finance company that provides supply chain financing to small- and medium-sized enterprises (SMEs) in the East African agribusiness sector.

Agriculture remains one of the most under-financed sectors of the East African economy, hindering economic growth, job creation, food security, and food price stability. Umati was founded to address this financing gap, providing agricultural SMEs with access to capital that can be used to fill gaps in their cash flows. Specifically, Umati’s invoice-discounting investment products provide short-term credit to SMEs that lack traditional collateral, and its technology-driven solution allows borrowers to access credit without expensive trips to bank branches.

Sourcing and Due Diligence: BHI leverages experienced partners and on-the-ground intelligence to seek out promising companies in its target geographies. One of its partners is Accion Venture Lab, an experienced seed-stage investment fund. As Umati began to raise its Series A round of funding, Accion introduced the company to BHI. BHI performed independent due diligence, visiting the Umati team in Nairobi, speaking with customers, reviewing company financials, and doing a general review of the supply chain finance ecosystem in East Africa. During that process, BHI leveraged its relationships in Nairobi and elsewhere in East Africa to understand the competitive environment and the potential for follow-on funding from other local investors.

Impact: BHI’s impact metrics for Umati include:

- Number of SME clients
- Percent of SME clients with loans outstanding
- Volume of SME finance provided (USD)
- Increases in clients’ procurement volume and/or revenue

Engagement: BHI believes its primary value-add as an investor is its extensive network and experience in structuring early-stage debt and equity investments in Sub-Saharan Africa, both of which are essential to supporting Umati and other investees as they raise new rounds of financing. The family office serves as a board member for Umati and is on its credit risk committee.
CASE STUDY B:
INVESTING IN MISSION-DRIVEN BUSINESSES THROUGH AN INTERMEDIARY
Investor: Tyden Ventures

CITY LIGHT CAPITAL

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Tyden Ventures Overview: Tyden Ventures is a four-generation, Michigan-based, single-family office led by Tom Groos, a second-generation family member. The family’s wealth was built over several generations through operating multiple industrial businesses, including The Viking Corporation, a major producer of fire protection systems. Tyden Ventures maintains a diversified asset allocation, with about 60 percent of its total assets invested for impact.

Tom Groos and City Light Capital:
Following a liquidity event in one of the family companies, Tom decided it was time for a career change. He had spent 24 years growing the family’s industrial businesses in Michigan, and he wanted to use his business experience to help entrepreneurs grow mission-driven companies that work towards solving big social and environmental challenges.

Tom made his first personal impact investment in 2006: an early-stage equity investment in ShotSpotter, a USA-based startup focused on reducing gun-related crime. Josh Cohen, an early-stage impact investor managing a fund called City Light Capital (CLC), introduced Tom to the deal. To Tom, ShotSpotter resembled a young and growing version of Viking—a company whose mission is to keep people, places, and property safe. After investing in ShotSpotter, Tom decided to partner with Josh to scale CLC. In 2008, CLC raised a $25 million fund backed by individuals and family offices, including Tyden Ventures. CLC is now raising a third fund, which Tyden has also invested in.

Some family members were initially drawn to the idea of developing an internally-managed, direct investment portfolio,

“Our impact investments are a unifying force for our family. As we steadily diversify from our legacy companies, our early-stage impact investments are becoming the new heart and soul of our family’s investment strategy.”

Tom Groos
given the family’s strong background in owning, operating, and growing businesses. The family settled on the fund investment in CLC after considering the labor- and resource-intensity of diligencing and managing direct investments. The fund’s market-rate return profile and impact thesis were consistent with the family’s own financial and impact objectives, and Tom’s direct participation as a partner with the fund offered the family extraordinary proximity to the fund’s management and investee entrepreneurs.

**CLC’s Investment Strategy:** CLC’s mission is to invest in companies that build stronger communities and help the people within them. CLC invests in three sectors: education, safety and security, and energy and resource efficiency. This three-pronged focus provides the fund with additional diversification and is based on the partners’ specific areas of expertise, impact interests, and belief that these sectors are synergistic. CLC targets Series A-round financing to companies with annual revenues of more than $1 million and valuations of less than $25 million. CLC has a five to eight year timeline for its individual investments.

**Sample Fund Investments:**
- **2U:** Partners with universities to bring top-tier degree programs online
- **StraighterLine:** Offers low-cost, accredited college courses online to reduce overall college costs for students
- **Koru:** Connects recent college graduates with high-quality employment opportunities
- **OhmConnect:** Enables homeowners to get paid for reducing power consumption in periods of peak energy demand

**Engagement with Investee Companies:** CLC provides operational and business development support to its investees based on its partners’ sector expertise and operating experience. The fund’s partners focus on supporting companies with strategic guidance and industry contacts. Tom is on the board of directors of several portfolio companies, drawing on his extensive operational experience leading his family’s industrial companies.

**Financial Objectives:** CLC intends to generate market-rate financial returns for its investors, competitive with conventional venture capital. CLC’s second fund invested in seven companies and produced 18.4 percent net IRR to investors, and a 2.2x multiple on invested capital (as of year-end 2015).

**Impact:** CLC has a product-based impact strategy—the fund invests in businesses whose core products and services directly create social or environmental benefit. CLC believes that this creates a direct and mutually reinforcing relationship between a company’s impact and its financial performance. During investment negotiations with its portfolio companies, CLC agrees on the impact metrics entrepreneurs will report annually in addition to their regular financial reporting.
companies have compelling and investable ideas and operations but are not yet viable for commercial investment.

**Investor Company Overview:** In 2013 and 2014, SIF made an early-stage PRI investment of $500,000 in Kinara Capital, a Bangalore, India based company that provides financial services to small- and medium-sized enterprises (SMEs). In India, there is a $60 billion credit gap for SMEs. Local banks are reluctant to lend to SMEs due to the perceived high risk of such businesses, especially those that lack collateral or track record (many of Kinara’s clients are first-generation entrepreneurs). Yet, these businesses generate roughly 40 percent of employment in India and are a major driver of economic growth.

Hardika Shah, the founder of Kinara, believed that filling the SME finance gap in India could be both highly profitable.
and highly impactful. Kinara developed a low-cost supply chain financing model that offers credit products such as short-term working capital loans and receivables discounting. The company’s loan portfolio includes a variety of small-scale manufacturers producing auto parts, electrical components, kitchen appliances, food products, agricultural equipment, and packaging products.

**PRI Rationale:** In its due diligence, SIF determined that Kinara was a high-potential impact enterprise, but nearly all commercial-oriented investors considered the business too risky for investment at the time. SIF’s investment provided Kinara with the capital it needed to build a track record by providing more loans, growing its operational resources, and expanding its team. SIF’s investment also sent a signal to the market about Kinara’s investability and helped lower the perceived investment risk to other investors. As a result, in 2015, Kinara received a majority equity investment from Shriram City Union Finance Ltd., one of India’s premier financial services companies. This round of funding was followed by a multi-year debt arrangement with Shriram. Partnership with Shriram gives Kinara access to market-competitive debt, allowing the company to expand its operations and its impact.

**Impact:** Lending to small businesses has a direct social impact on the success of the entrepreneurs, their employees, and on the local economies as a whole through job creation and income acceleration. Kinara tracks and reports several impact metrics to its investors, including:

- New jobs created by enterprises
- Increase in business income in enterprises
- Increase in entrepreneur’s income

To date, the company deployed nearly $3 million to 774 SMEs and generated over 1,000 jobs, increasing entrepreneur income by 50 percent while maintaining a repayment rate of 99.75 percent.
APPENDIX B

Glossary

**Alternative Investments**: Investments that are not publicly traded stocks, bonds, or cash. Most alternative investments are only available to accredited or institutional investors. Common examples include hedge funds, commodities, venture capital, and infrastructure projects.

**Angel Investor**: An investor who provides capital for startups at very early stages (seed financing round). Angel investors typically help entrepreneurs with advice and contacts.

**Benefit Corporation**: A new class of corporation that voluntarily meets different standards of corporate purpose, accountability, and transparency. Benefit Corporations: 1) have a corporate purpose to create a material positive impact on society and the environment; 2) are required to consider the impact of their decisions not only on shareholders but also on workers, community, and the environment; and 3) are required to make available to the public, except in Delaware, an annual benefit report that assesses their overall social and environmental performance against a third-party standard.

**B Corp**: Certification provided to companies by the nonprofit B Lab that shows that the company meets rigorous standards of social and environmental performance, accountability, and transparency.

**Capital Stack**: The combination of every type of funding invested in a company, fund, or project. Typically, a capital stack is composed of layers of equity and debt funding—each layer characterized by a different risk-return profile and priority of payment or liability.

**Carried Interest**: The share of fund profits that managers (GPs) of a private investment fund receive as compensation additional to their management fee. In a typical compensation structure, managers are entitled to carried interest after fund investors (LPs) receive back the total value of their contributed capital plus a minimum annual return or “hurdle rate.”

**Community Interest Companies (CIC)**: A legal form introduced in the United Kingdom for for-profit companies that use their assets and profits for public good. It is a similar type of legal structure to that of Low-Profit Limited Liability Company in the United States.

**Due Diligence**: A process of investigation of a potential investment (a company or a fund manager) before committing capital.

**Exit**: Liquidation of holdings by an investor, usually by selling an asset to convert it into cash.

**General Partner (GP)**: In the context of private investment funds, GPs are investment professionals that raise and manage the investment activities of a private equity or venture capital fund. GPs have responsibility for use of fund assets and are usually legally liable for the actions of a fund. GPs are typically compensated with regular management fees (most often a fixed percentage of assets committed to the fund) and a fixed percentage of the fund’s profits (carried interest).

**L3C or Low-Profit Limited Liability Company**: A legal form of business entity in certain USA states for businesses whose primary purpose is the creation of social benefit and not the generation of profit. The L3C structure is specifically designed to facilitate investment in for-profit companies by private foundations.

**Limited Partner (LP)**: In the context of private investment funds, LPs are investors in a fund who do not have active responsibility for management of the funds assets. LPs receive income and capital gains from the fund but have no legal or financial liability beyond their contribution to the fund.

**Liquidity**: The measure that shows how quickly an investment can be bought or sold with little or no impact on price. Cash is the most liquid asset, followed by publicly traded stocks and bonds. Private investments are less liquid than publicly traded assets because they are harder to sell.

**Pledge Fund**: A special type of a fund in which members work toward a specific investment goal by making contributions jointly over a period of time. Many angel investors invest in early-stage companies through pledge funds.

**Risk**: The chance that an investment’s financial return will be different than what was expected. Risk includes the possibility of losing some or all of the value of the original investment.

**Venture Capital**: Money provided by investors to startups and small businesses with expected long-term growth potential.
**Endnotes:**


2. For more information, refer to a summary of the Harvard Business School study at: http://www.wsj.com/articles/SB10000872396390443720204578004980476429190; the Kauffman Foundation study is summarized here: https://hbr.org/2013/05/six-myths-about-venture-capitalists.

3. According to Cambridge Associates, the average annual venture capital return in the United States over a 10-year period ending September 30, 2015, was 10.89 percent as compared to 7.55 percent for the S&P 500, a return premium that does not sufficiently compensate for the much greater risk involved in VC investing versus public equity. To learn more about this research, visit http://www.cambridgeassociates.com/our-insights/research/u-s-venture-capital-2015-q3; the findings of a report assessing the Kauffman Foundation’s experience investing in nearly 100 venture capital funds over 20 years show that only a small group of top-performing firms do generate “venture rates of return”; to learn more about the study, visit http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2012/05/we_have_met_the_enemy_and_he_is_us.pdf.

4. This analysis only included funds with declared social impact objectives (e.g. economic development, employment, and education), and not funds with environmental objectives (e.g. cleantech funds). To learn more about the study, visit http://www.cambridgeassociates.com/our-insights/research/introducing-the-impact-investing-benchmark.

5. To learn more about some of the structures used by risk-reducing first-loss capital investors, refer to the GIIN’s 2013 Issue Brief on First-Loss Capital at https://thegiin.org/assets/documents/pub/CatalyticFirstLossCapital.pdf.


**Acknowledgments**

The ImPact would like to thank the following individuals for their generous contributions:

**Lead Authors:** Sam Bonsey, Marina Leytes, and Ariella Rotenberg

**With support from The ImPact Board Members:**
Abigail Noble, The ImPact
Josh Cohen, Tyden Ventures
Tom Groos, Tyden Ventures
Liesel Pritzker Simmons, Blue Haven Initiative
Justin Rockefeller, Rockefeller Brothers Fund

The ImPact is especially grateful to the following individuals for their contributions to the case studies in this primer:

Jim Sorenson, Sorenson Impact Foundation
Patrick Mullen, Sorenson Impact Foundation
Melanie Wells, Wells Narrative Group

**Early-Stage Impact Investing** is the third in our 2016 series of ImPact Asset Class Primers. These primers build off of Impact Investing: Frameworks for Families, released in January, 2016.