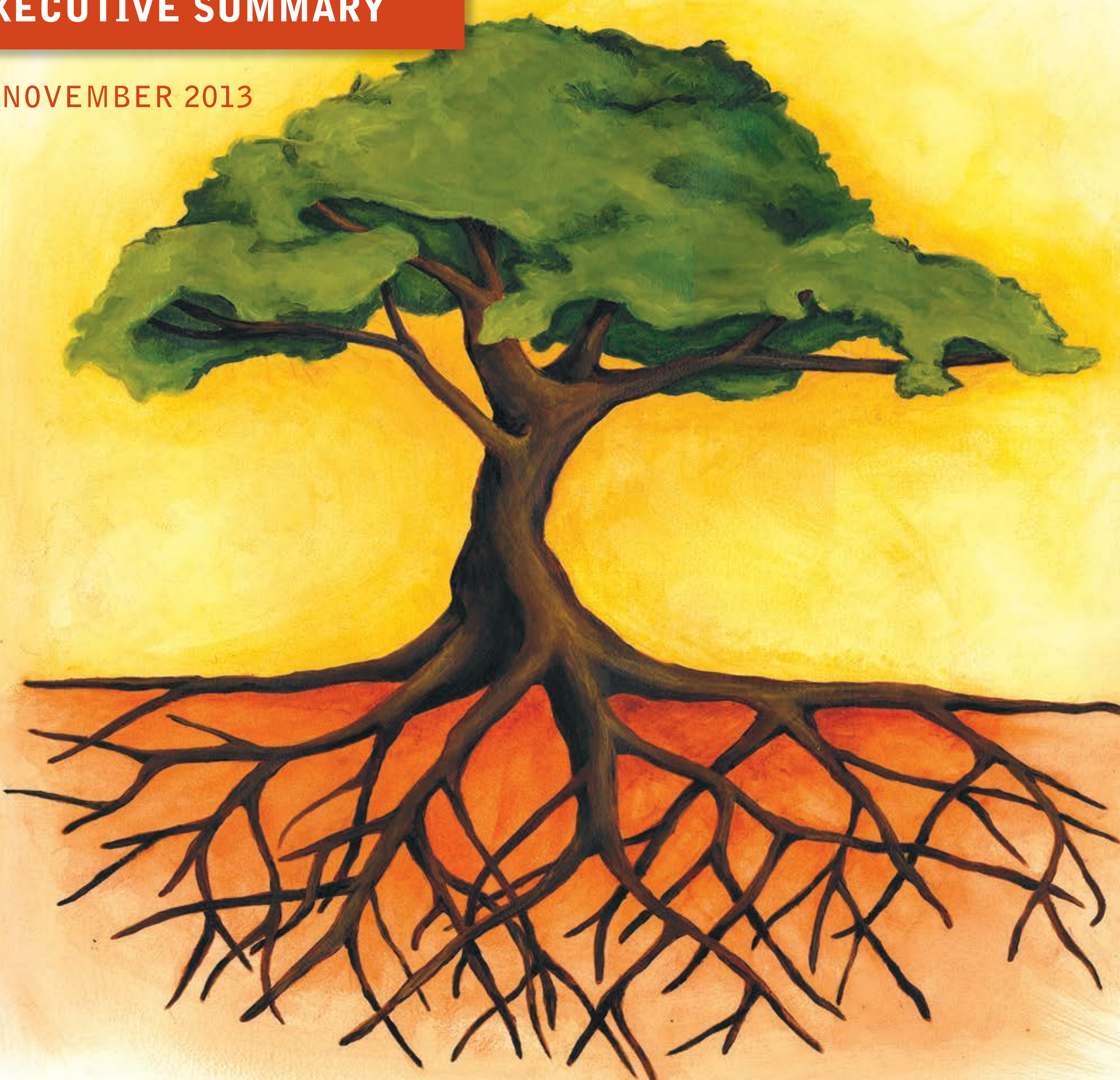
IMPACT INVESTING 2.0

***THE WAY FORWARD** – Insight from 12 Outstanding Funds*

EXECUTIVE SUMMARY

NOVEMBER 2013



INSIGHT AT PACIFIC COMMUNITY VENTURES

DUKE THE FUQUA SCHOOL OF BUSINESS CASE CENTER FOR THE ADVANCEMENT OF SOCIAL ENTREPRENEURSHIP

IMPACTASSETS

THANK YOU you to all of our partners and colleagues who have provided extraordinary support to our work over the past two years: our funders and expert advisory group; the hosts of our four project convenings; our staff and students; and the hundreds of interview subjects we spoke with from the funds highlighted in this report, their investors, and their investees. A more detailed acknowledgement appears in the back of this executive summary and in our full report, available online. We are deeply indebted to all of those who contributed so much to this effort. The views expressed in this research are those of the authors alone – as are the errors and omissions.

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FOREWORD

Impact investing continues to capture the world's imagination. In the past few years, we've seen the industry endorsed by some of our biggest financial institutions, taken up by G8 leaders, and receive repeated coverage in major newspapers.

But for every pioneer blazing a path forward in impact investing, there are many others waiting at the sidelines. They have indicated they need more robust data about the field's track record. Equally if not more important, they are waiting for a clear vision of what success looks like. What reasonable combinations of social and financial returns can be expected in diverse segments of the industry?

It is for this reason that Impact Investing 2.0 represents a major step forward for the industry. The twelve funds profiled herein work in vastly different sectors, from microfinance in India to sustainable property in the UK, and have accordingly pursued very different investment strategies and approaches to social impact. Their success across such a broad set of parameters offers many lessons for the industry and beyond.

Omidyar Network is proud to be an investor in many of these leading funds—including Elevar, Bridges, MicroVest, and SEAF—and a partner in field-building with many of the others. Nine years and 630 plus million dollars in to our own journey, we look at these case studies as an opportunity to understand best practices for impact investing funds, and the ways in which these practices may differ from (and, indeed, be similar to) mainstream investing.

For skeptics that claim no one can serve two masters — financial success and social impact — these cases are a clear signal of the diversity of paths towards high performance in impact investing. And they are but the tip of the spear. We are confident that in the coming years, many more pioneering impact funds will mature and inspire us with their successful track records. The idea that it is possible to combine financial return and social impact will come to be regarded as common sense. And in so doing, we will have unlocked the potential of an important tool that can help solve some of our most intractable problems.

Matt Bannick, Managing Partner
Paula Goldman, Senior Director of Knowledge and Advocacy
Omidyar Network

"THE RESEARCH REVEALS A SOPHISTICATED MARKETPLACE THAT IS MUCH LESS HAPHAZARD THAN MANY THINK AND A PATHWAY OF PRACTICE AND EXPERTISE OTHERS MAY WANT TO EMULATE."

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ABOUT THE RESEARCH

THE GOAL. The Impact Investor Project was established in 2012 as a two-year research partnership between InSight at Pacific Community Ventures, CASE at Duke University, and ImpactAssets. The goal was simple: supplant the guesswork and conjecture in impact investing with solid evidence of high performance and, in the process, expose the concrete practices of outstanding funds[1] for use as the foundation for a more sophisticated and successful market. An initial report on our project goals was published in March 2012.[2]

OUR SCOPE. Starting with a list of 350 funds internationally – including many from the community finance, microfinance, and international development sectors that have anchored impact investing – we asked investors in these vehicles which of them had "exceptional performance," defined as meeting or exceeding the financial and social returns they had promised. In other words, which funds had proven they were successful impact investors to their key stakeholders, regardless of geography, asset class, and blended return objective. Around 30 funds met our criteria, which is described below. From these, we selected 12 to study in detail, representing a diversity of objectives, geography, impact focus, and background. A second report on lessons from our investor interviews was published in October 2012.[3]

OUR PROCESS. Under strict confidentiality agreements, we made sure the funds fit our criteria: an explicit impact objective; a minimum of five years of operation; demonstrable, realized financial return; and a clear and shareable system of accountability for their impact objectives. We then undertook a 360-degree interview process that included the funds' key principals and staff, and selected investors and investees. We also conducted a thorough desk review of agreements, presentations, and reports.

WHAT WE ASKED. Our objective was to try to understand, in each case, what factors led to a fund's success. A sample of the questions we asked include: What were the fund's origins? Who were its early champions? What other partners joined along the way and why? What missteps did the fund managers make and how did they correct them? At what does the fund excel? What differentiates the fund from its peers?

12 RICH STORIES. In conjunction with this report, we are releasing 12 fund case studies online over the next three months, through February 2014. Each case study provides thorough context for the notion of performance by impact investing funds as well as insight into world-class learning organizations that have course-corrected carefully throughout their lifespan.

CROSS-CUTTING THEMES. Taken together, the case studies disclose a magnitude of private impact investing fund data never before shared publicly. By applying strict criteria during our fund selection process, and delving into the funds with a consistent research methodology, we have revealed a cross-section of high-performing impact investment funds and, just as importantly, a set of shared attributes that are unique to this generation of fund creation, management, and harvest (from 1981 through 2013).

A PATHWAY FOR FUTURE PRACTICE. What follows is a synthesis of fundamental cross-cutting themes. The research reveals a sophisticated marketplace that is much less haphazard than many think and a pathway of practice and expertise others may want to emulate. As previously stated, two initial publications were released in March and October of 2012. Each of our research initiative's reports, including this one, will be available at www.pacificcommunityventures.org/impinv2 together with the supporting case studies and videos from our convenings and other events. This report is designed to be a resource for the broad community interested in the future of impact investing, but especially for practitioners: fund managers, investors, entrepreneurs, policymakers, and advisors who are creating and managing new and existing funds, and striving to achieve successful social and financial performance. The full report details how the 12 featured impact investing funds have implemented common practices. This executive summary outlines a new taxonomy for some of the approaches they have taken within each theme, and offers a set of recommendations to inform the work of others.

[1] We use the term "funds" to refer to all of our case study subjects as a group. We consider funds to be discrete pools of capital, often time bound, and aggregating third-party capital for the purpose primarily of making direct investments in enterprises and projects. Where there are exceptions – Accion Texas, Business Partners Limited, Calvert Foundation, and the W.K. Kellogg Foundation – we focus on aspects that are analogous to the fund approach.

[2] "The Need for Evidence and Engagement." http://www.pacificcommunityventures.org/reports-and-publications/the-impact-investor-best-practices-in-impact-investing/

[3] "A Market Emerges: The Six Dynamics of Impact Investing." http://www.pacificcommunityventures.org/reports-and-publications/the-impact-investor-a-market-emerges-the-six-dynamics-of-impact-investing/

THE 12 FUNDS

1 ELEVAR EQUITY
San Francisco, CA
Seattle, WA
Bangalore, India
Unitus Equity Fund; Elevar Equity II
Equity funds supporting essential BOP services
$94,000,000 (combined)

2 RSF SOCIAL FINANCE
San Francisco, CA
RSF Social Investment Fund
Social enterprise loan fund
$101,000,000[4]

3 HUNTINGTON CAPITAL
San Diego, CA
Huntington Capital Fund II, LP
Mezzanine debt fund
$78,000,000

4 ACCION TEXAS, INC.
San Antonio, TX
Community Development Financial Institution providing microloans
$29,782,042[5]

5 THE W.K. KELLOGG FOUNDATION
Battle Creek, MI
Mission Driven Investing
Diversified strategy including a portfolio of direct investments
$100,000,000

6 DEUTSCHE BANK
New York, NY
Global Commercial Microfinance Consortium 1
Structured microfinance fund
$80,600,000

7 CALVERT FOUNDATION
Washington, DC
Community Investment Note
Registered security available to retail investors channeling capital to community and micro finance
$230,000,000[6]

8 MICROVEST
Bethesda, MD
MicroVest I, LP
Hybrid low-income financial institution fund
$48,500,000

9 BRIDGES VENTURES
London, UK
Sustainable Growth Funds I and II
Equity funds targeting high growth, high impact businesses
$ 184,575,000[7]

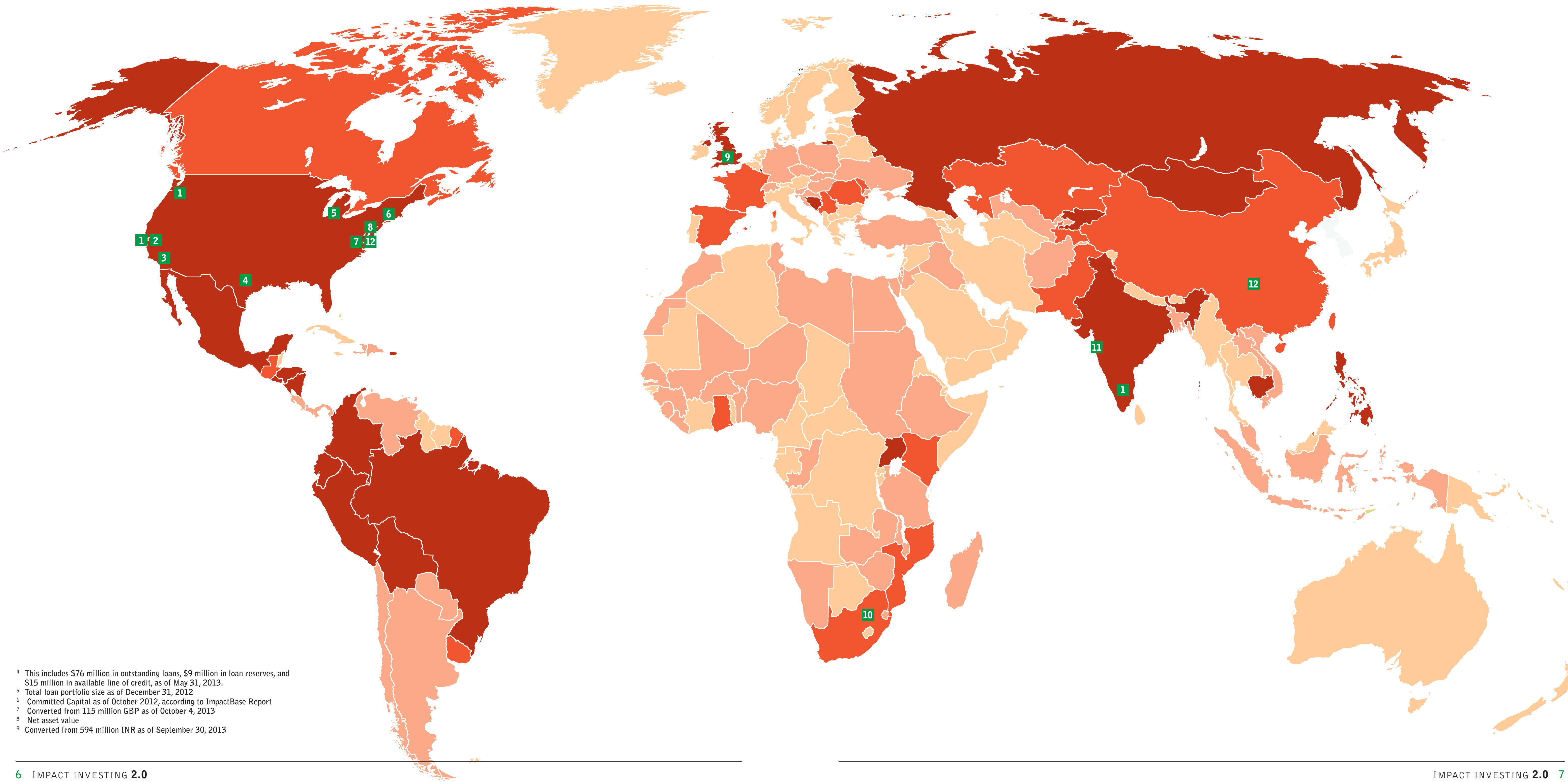
10 BUSINESS PARTNERS LIMITED
Johannesburg, South Africa
Southern African SME Risk Finance Fund
Equity and debt fund targeting small and medium size enterprises
$331,300,000[8]

11 AAVISHKAAR
Mumbai, India
India Micro Venture Capital Fund (AIMVCF)
Equity fund targeting early-stage rural enterprises
$9,428,270[9]

12 SEAF
Washington, DC
Chengdu, China
Sichuan SME Investment Fund, LLC
Equity fund targeting small and medium sized enterprises
$22,512,500

TOTAL FUND ASSETS: $1,309,697,812

RECIPIENT MARKETS
- 3+ FUNDS INVESTING
- 2 FUNDS INVESTING
- 1 FUND INVESTING
- 0 FUNDS INVESTING



[4] This includes $76 million in outstanding loans, $9 million in loan reserves, and $15 million in available line of credit, as of May 31, 2013.
[5] Total loan portfolio size as of December 31, 2012
[6] Committed Capital as of October 2012, according to ImpactBase Report
[7] Converted from 115 million GBP as of October 4, 2013
[8] Net asset value
[9] Converted from 594 million INR as of September 30, 2013

FOUR COMMON PRACTICES

IMPACT INVESTING 2.0

From its origins in socially responsible investing, community finance, microfinance, and international development, impact investing has emerged as a distinct practice. This has warranted the creation of new field-level infrastructure, like the Global Impact Investing Network and Impact Investing Policy Collaborative, and motivated volumes of excellent research adding tremendous depth to the conversation among practitioners, even when it points to different conclusions. For example, new work continues to fuel debates over whether impact investing is a separate asset class and what it means to invest with true impact. [10]

All this has played out in the first, 1.0 era of the market's emergence – where "observation" has necessarily trumped "evidence." As we found in our research, very few dedicated impact investing funds have track records of financial and social performance longer than five years. With scant data to point to, mainstream commentators have been quick to discount impact investing as either new or unintelligible in the 1.0 era. And it is true that impact investing is relatively unconventional by design. In an effort to generate multifaceted financial and social returns, impact investors expertly blend capital market tools, investor motivations, and professional disciplines from the private, public and social sectors.

Observation has been sufficient in the 1.0 era to align key stakeholders, drive product development, and foment demand from new capital providers like high net worth individuals, private foundations, and even commercial institutions. Make no mistake, investors are eager to proactively align their portfolios with their values.[11] But observation is no longer enough. The market has not been growing as fast as many practitioners had hoped, in part because the larger wealth advisors and institutional investors on which growth depends are demanding a level of product and performance specificity that only time and experience can provide.

In other words, it is time for the new 2.0 era to begin, shifting our emphasis from the "why" of impact investing to the "how," with a solid footing in the experiences of funds with veritable track records of successful financial and social performance across geographies, investment strategies, and impact objectives. And, judging by the 12 outstanding funds featured in this research, we believe that the 2.0 era of impact investing has arrived.

Financially, the returns generated by the group range from debt funds which promise single digit returns (and have never lost their investors a dollar), to equity funds delivering above a 20 percent net IRR, and a high-performing portfolio of direct foundation investments with two exits. Socially, the impacts are as rich as the investment theses that can be imagined. These funds are helping the poor, connecting the disconnected, promoting health, developing housing and improving education.

What the 12 funds demonstrate is that, while inherently diverse in its application, impact investing is in fact a cohesive discipline. With decades of practice to draw upon, there is no need to speculate on what impact investing might be or debate whether it is possible for investors to receive financial returns along with social and/or environmental impacts. This level of doubt was warranted in the 1.0 era, but the 12 funds we studied prove the opposite.

FOUR PRACTICES COMMON TO 12 OUTSTANDING IMPACT INVESTING FUNDS

Outstanding impact investing funds undertake many practices common to all asset managers; they carefully nurture their brand, leverage all of the relationships at their disposal, are often headed or backed by singularly reputable or experienced individuals and institutions, demonstrate exceptional financial discipline, are models of operational excellence and transparency, and work relentlessly to support the growth of their investees. The 12 case studies that accompany this report offer unparalleled insights into the concrete steps that proven impact investors have taken to deliver exceptional financial and social performance, many of which are consistent with mainstream investment practice.

Above and beyond the attributes shared with successful traditional investors, however, there are four qualities that are distinct to impact investing and anchor our analysis of the commonalities between all 12 funds highlighted in this report. These four elements are the foundation of successful impact investing:

1. Policy Symbiosis
2. Catalytic Capital
3. Multilingual Leadership
4. Mission First and Last

[10] See World Economic Forum (http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf), JP Morgan (http://www.jpmorgan.com/directdoc/impact_investments_nov2010.pdf), and Stanford Social Innovation Review (http://www.ssireview.org/articles/entry/impact_investing)

[11] http://www.gatewaystoimpact.org/images/gatewaystoimpact.pdf

1 POLICY SYMBIOSIS

While many people believe that the most successful capital market is one in which government is least involved, our 12 funds prove that impact investing is grounded in deep cross-sector partnership that benefits from the government's engagement. In fact the public sector is ubiquitous in impact investing at all levels of government, consistent with its strong interest in maximizing social and environmental benefits to society, and the promise that impact investing can deliver these benefits at scale.

Many of our funds actively maintain relationships with government, either seeking direct investment from public entities or leveraging other policy incentives. And the relationship is not one-sided. The funds also use their experience in the field to influence the creation of more enabling and supportive public policy environments. All 12 funds we reviewed demonstrated an approach to Policy Symbiosis consistent with the following five, non-exclusive categories:

CATAGORY	DESCRIPTION	EXAMPLE
FOUNDATIONAL	The origins of the fund/firm are deeply rooted in a partnership with government, above and beyond the provision of any financial or other assistance.	**Business Partners Limited** was created as a partnership between the South African government, a leading philanthropic family, and some of the country's largest corporations.
FINANCIAL	Government entities are direct investors in the fund.	In addition to a foundational role in helping to form **Bridges Ventures,** the UK government provided a 1:1 investment match for every pound raised in the £40 million Sustainable Growth Fund I.
REGULATORY	Government regulations directly and heavily influence the structure, operations, and investments in/of the fund.	**Huntington Capital's** second fund received investment from institutions motivated by both the U.S. Community Reinvestment Act and California state-level regulations.
ADVOCACY-DRIVEN	The fund works directly with government to influence the broader, systemic policy environment in which it and its investees operate.	**Aavishkaar** has been a key player in the formation of the Indian Impact Investor Council (IIIC), which seeks to create voluntary guidelines to avoid potential crises, and the government response they demand, similar to what occurred in the Indian microfinance industry in 2008.
OPPORTUNISTIC	The fund makes a dedicated effort to identify and leverage the discrete, non-systemic opportunities for government to support the success of portfolio companies, as do many traditional investors.	**SEAF's** managers in Sichuan, China work closely with local and regional governments, and have leveraged their relationships and knowledge of government processes and priorities to help portfolio companies obtain permits and approvals as well as take advantage of policy-driven incentives.

FUND RECOMMENDATIONS

1. Be aware of policies that apply to you.

Governments may be more helpful than you realize. Are there public funds (for your fund or your investees) that you can access? Are there tax credits, regulations, certifications, or procurement policies that might be beneficial?

2. Cultivate relationships. Be part of the conversation.

Develop an understanding of the policymakers that have an interest in your market sector, or impact investing more broadly. Build relationships with them either directly or through a membership or advocacy organization. Become a constituent that the government looks to for expertise.

3. Invite policymakers to the table fully, but appropriately.

Treat the relationship with government as a real partnership. Share your thinking with policymakers and invite public officials into field-level networks and conversations, even as you acknowledge and manage the risks in policy symbiosis. Public officials are exposed to political downside, which may limit their capacity for direct engagement.

2 CATALYTIC CAPITAL

The concept of Catalytic Capital is relatively intuitive: one set of investments triggers additional capital that may not have otherwise been available to a fund, enterprise, sector or geography, thereby generating exponential social or environmental value. We know that investors providing capital for strategic in addition to financial reasons have been critical to the development of impact investing; however, we did not expect Catalytic Capital to have been so prevalent. As it happens, every one of the 12 funds benefitted from, or deploys, Catalytic Capital.

Catalytic Capital in the form of grants, guarantees, or concessionary or cornerstone investments may have the potential to negatively distort markets, particularly at the investee level. However at the fund level, our 12 case studies show Catalytic Capital has been nothing short of transformative, unlocking billions of dollars of non-catalytic investments. Our research provides insight into the real ways that Catalytic Capital has been instrumental, from providing early funding to driving reputational benefits.

CATAGORY	DESCRIPTION	EXAMPLE
SUSTAINING	Some segments of impact investing require ongoing grants or concessionary investments, particularly where market failure is endemic.	**Accion Texas** receives half of its $14 million operating budget for making high-impact microloans from grants—a proportion that is shrinking but will likely never reach zero.
SEEDING	Making one of the first investments in a fund is often essential to initial operations, and can help develop a track record necessary for attracting other capital.	**Deutsche Bank's** Microfinance Consortium was made possible by a grant from the Department for International Development in the UK, which provided operating income during fund creation, and additional security to other investors.
RISK REDUCING	Several financial instruments as well as tiered fund structures can reduce financial risk for investors in both funds and companies.	**RSF Social Finance** is becoming adept at using an "integrated" approach in its lending, tapping philanthropic capital, at the margins, to make more borrowers eligible for RSF financing.
SIGNALING	If an LP is particularly large, reputable, or sophisticated, investing in a fund can improve the recipient's perceived credibility and visibility to other investors.	**Elevar Equity's** first fund received an early program–related investment from the Omidyar Network, which also introduced Elevar to numerous other investors.

FUND RECOMMENDATIONS

1. Re-conceptualize the motivations of investors.

Enlarge your notion of the catalytic investor. There is a wide range of motivating factors for individuals and institutions that want to engage in impact investing. Catalytic Capital does not have to be philanthropic and can be financially motivated.

2. Target and partner with investors who are mission- and strategy-aligned.

Find the right anchor investors. Realize that a large portion of your LPs will have strategic, and not just financial, reasons for investing. Without clear alignment, investors will lose faith when markets or performance temporarily falter.

3. Be a catalyst in your own right.

Think about others you want to invest alongside and the strategic value of having them in the deal. Is there a role for your capital in anchoring the delivery of non-financial value in different deals, or in making a contribution with other investors?

4. Create peer groups of structural innovators.

Deep experience in structuring products and blending catalytic and commercial capital is at the crux of impact investing. This core skill set—including a deep understanding of a variety of financial tools, capital providers, and product uses—should be identified, nurtured, and proliferated through an intentional process of network and knowledge development.

3 MULTILINGUAL LEADERSHIP

Those responsible for making investments must execute with unshakable financial discipline, but successful fund leadership is about more than simply effective money management. The founders and leaders of the 12 funds in this study often had experience in multiple essential areas: finance/business, policy, and impact/philanthropy.

Multilingual Leadership takes this notion a step further and indicates the institutionalization of a fund's ability to move seamlessly among diverse stakeholders and audiences. Taken as a whole, each fund team exhibited fluency in the vocabularies, networks, and unwritten norms of the private, public and nonprofit sectors. Rather than emphasize the "how" in Multilingual Leadership, however, we focus on the "why." We found that the presence of Multilingual Leadership was especially important in influencing four stages of fund development, detailed in the chart below.

CATAGORY	DESCRIPTION	EXAMPLE
CREATION	Experience working in industries other than finance enables fund managers to think beyond traditional business models, introducing innovative approaches to fund management practice.	The nontraditional background of Vineet Rai, Managing Director of **Aavishkaar,** allowed him to modify the traditional venture capital model and attract a socially-motivated team, helping him operate cost-effectively in rural India.
CAPITAL DEVELOPMENT	The ability to speak the language of different sectors facilitates engagement with a wide range of prospective funders, including government entities, commercial institutions, and philanthropic organizations.	Gil Crawford, CEO of **MicroVest,** came from a diverse career with several international development and finance institutions, including the IFC, Red Cross, and Chase Bank. This experience enabled him to effectively build trust with, and raise capital from, a wide range of investors.
PRE-DEVELOPMENT	Experience across sectors provides fund managers with insight into the dynamics of various types of enterprises, as well as the range of tools necessary to help them flourish, contributing to strategy setting, screening, and investee diligence.	Nazeem Martin, CEO of **Business Partners Limited (BPL),** worked previously as Deputy Director-General of Public Works in South Africa. A desire to fuel SME growth and economic development at the macro level permeates BPL and manifests in its outreach to, and screening of, prospective investees.
ACCOUNTABILITY	Experience across sectors enables management to track performance more rigorously and communicate financial and impact results more effectively.	**Calvert Foundation** is already – and increasingly – linking its performance and reporting to the more focused values and impact preferences of its thousands of investors; a process made possible by Calvert's deep connections to the social sector.

FUND RECOMMENDATIONS

1. Recognize that you will need other kinds of expertise.

Every fund will need to tackle a multitude of issues and develop a range of relationships, all from different perspectives.

2. Leverage strong foundations into strong teams.

Most successful funds have a strong foundation: original backers and leaders with unmatched reputations and relationships. However, this is not always sustainable as the fund grows. Funds should cultivate and embrace their own team of Multilingual Leaders and multilingual strategies and processes.

3. Be open to growth and transformation.

Expertise is not immutable. The innovative nature of impact investing means that funds will need to continue evaluating and adding expertise. If a fund does not have the right kind of Multilingual Leadership, it should find ways to fill those gaps.

4. Train the next generation of leaders to be multilingual.

Multilingual Leadership is rarely intrinsic. Different perspectives must be nurtured through training and experience. The impact investing community should encourage leaders interested in the field to diversify their education and career paths.

4 MISSION FIRST&LAST

While a defining piece of conventional wisdom in the 1.0 era has been that investors approach impact investing through either a financial-first or impact-first lens, this is rarely the case. In reality, funds put financial and social objectives on an equal footing by establishing a clearly embedded strategy and structure for achieving mission prior to investment, enabling a clear financial priority during deployment.

Knowing early and explicitly that impact is in a fund's DNA, all parties (investors, investees and the fund itself) are able to move forward with the investment disciplines akin to any other financial transaction, confident that mission drift is unlikely. Towards the end of the investment, the focus of funds returns to the impact achieved according to a stated mission. Mission First and Last demonstrates that, in practice, every fund combines explicit impact intention with operational accountability to impact, and suggests that it is time to retire our dichotomous financial-first or impact-first thinking. A fund can embed its commitment to mission in a number of ways, outlined below.

CATAGORY	DESCRIPTION	EXAMPLE
STRUCTURAL	Mission is locked into the DNA of the fund through an external designation, registration, or special-purpose corporate form. The performance of a fund is assumed to be consistent with this structure. Accountability is by design.	The **W.K.Kellogg Foundation** Mission Driven Investments program policy statement ties portfolio allocation directly to the foundation's mission of supporting vulnerable children through specific target allocations in core program areas and priority geographies.
STRATEGIC	Mission is embedded in an investment strategy that targets certain enterprises or populations, often with defined attributes, that are generally understood to have embedded impacts, lessening the depth of required accountability.	**The RSF Social Enterprise Lending Program** offers mortgage loans, construction loans, and working capital lines of credit to both nonprofit and for-profit social enterprises that meet stringent criteria.
INVESTOR-DRIVEN	These funds are created in close collaboration with LPs, for whom the fund is meeting a very specific mission objective. Demonstrating impact against this objective is an important element of accountability.	**SEAF's Sichuan SME Investment Fund** answered a clear need for two key investor groups: a U.S. insurance company eager to demonstrate its support for Chinese enterprise, and DFIs committed to capitalizing small business development in China.
THEMATIC	Mission is embedded in an investment strategy targeted to sectors with the potential for social/ environmental impact, though the sector may include other non-impact investments. Accountability relates to demonstrating that investments within these sectors have been impactful.	**The Bridges Ventures Sustainable Growth Funds I and II** focus on a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns, including in health, education and consumer products.

FUND RECOMMENDATIONS

1. Lock in mission.

The mission of a fund should highlight the intentional social or environmental impacts it seeks to create and its commitment to doing so through investment. This mission should be embedded early, explicitly, and unequivocally, whether through structure or strategy.

2. Align accountability with mission.

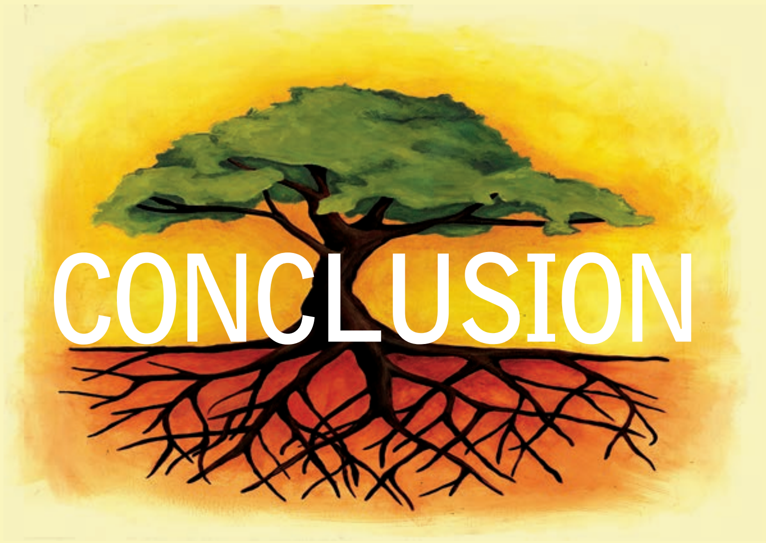
A commitment to transparency and rigorous impact reporting are essential for all funds. However, the resources devoted to demonstrating impact should be proportional to the fund's clear accountabilities. On the one hand, the market does not expect or value any more impact tracking and reporting than necessary. On the other, funds that do not meet investors' expectations for demonstrating impact will be sidelined.

3. Track mission-direct metrics, strengthening feedback loops.

Fund design is paramount. The right metrics should allow you and your investors to clearly understand if fund performance is consistent with mission and not just provide superfluous numbers that look robust, but do not measure relevant outcomes.

4. Ensure financial discipline in investment.

Mission should be embedded such that the core investment phase of a fund's lifecycle (diligence, negotiation, and execution) can be implemented with the utmost financial discipline, utilizing the same processes, analytical methods, and deal terms of any mainstream investor.



CONCLUSION

Our work these past two years has been grounded in a singular conviction: that what we collectively know about impact investing must move from a level of broad reflection and thought to an understanding based upon methodical research and actual practice. We refer to this in shorthand as moving from Impact Investing 1.0 to Impact Investing 2.0.

While it is popular to state that impact investing is "new" or an aberration from the norm, investors have long sought to use the power of capital to attain various social and environmental ends. Our 12 case studies tell part of this story and speak to the collective wisdom of the decisions that have directed resources into some funds, firms, and financing instruments, and not into others. In the broadest sense, the research offers proof of an evolution from incidental to intentional impact.

There are four central practices present in outstanding funds generating both financial performance and social/environmental impacts: Policy Symbiosis, Catalytic Capital, Multilingual Leadership, and Mission First and Last.

When taken together, the four themes help explain why building scale is a gradual and deliberate endeavor:

- Funds take the time to build teams with multi-sector experiences, approaches and skill sets;
- They become familiar with policy and spend energy cultivating mutually beneficial relationships with philanthropists as well as governmental actors;
- They are less masters of the universe than they are both masters of collaboration (soft skills) and financial structuring (hard skills); and
- They recognize and act on their accountability to multiple stakeholders

LOOKING AHEAD

The developmental approach to this research requires us to be careful about our generalizations, and not claim them as universal too soon. Given that impact investing will continue to grow and evolve, there are other fundamental questions we should consider in years to come, including:

- Which of these four trends will still be true 10 or 20 years from now? What percentage of the market will be closely tied to policy and Catalytic Capital?
- Will Multilingual Leadership get easier as more talent enters the field? Or will the field become more specialized and the experience sets more distinct?
- Will Mission First and Last be strengthened by infrastructure which makes it easier for managers to implement rather than invent?

Even as we seek answers, it is important to keep in mind that change is a constant, with individual players moving toward evolving definitions of success. And for that reason, we are pleased to celebrate the arrival of the 2.0 era in impact investing: a core set of successful practices taken from illuminating, real-world examples of investors, funds, entrepreneurs and beneficiaries doing well and doing good together.

ACKNOWLEDGEMENTS

We would like to acknowledge the numerous partners and colleagues who have provided extraordinary support to our work over the past two years. There are literally hundreds of them and they have taken several key roles.

We must first call out our *funders* without whom this work would not have been possible. Special thanks to Paula Goldman and Rosita Najmi of Omidyar Network, Annie Chen of RS Group, Tracy Kartye of the Annie E. Casey Foundation, Tony Berkley of the W.K. Kellogg Foundation, Asad Mahmood of Deutsche Bank, and Kate Starr of the Heron Foundation, for their engagement with us and within their organizations to build support for this work, and for their innovative work in the market as leading impact investors in their own right.

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ABOUT THE AUTHORS

PCV InSight

Pacific Community Ventures' impact evaluation and research practice (InSight, www.pacificcommunityventures.org/research) provides information and analysis to investors and policymakers with the goal of driving capital to underserved markets. InSight's work has provided the basis for national policy initiatives, including the White House Impact Economy Forum. In addition, InSight has been asked by the UK Cabinet Office to work alongside the World Economic Forum to lead the Global Learning Exchange, an outcome of the 2013 G8 summit in Northern Ireland. InSight's evaluation team supports clients including the $250 billion California Public Employees Retirement System, Citi and The Annie E Casey Foundation, and in 2012 assessed the social and economic impacts of over $25 billion of institutional investments, across asset classes.

CASE at Duke

The Center for the Advancement of Social Entrepreneurship (CASE, www.caseatduke.org) is an award-winning research and education center based at Duke University's Fuqua School of Business, working to promote the entrepreneurial pursuit of social impact through the thoughtful adaptation of business expertise. The CASE i3 Initiative on Impact Investing (www.casei3.org) was the first comprehensive program at a top global business school to blend academic rigor with practical knowledge in the emerging field of impact investing. CASE i3's strategies are to engage MBA students, support practitioners, and develop a research community for the field. In its first two years, it has educated over 850 MBA students about impact investing, formed partnerships with over 65 global practitioner groups and worked with 22 researchers at 12 universities.

ImpactAssets

ImpactAssets (www.impactassets.org) is a non-profit financial services group offering investors access to information and knowledge regarding the Impact Opportunity as well as participation in impact investment vehicles. IA manages one of the nation's leading Donor Advised Funds, allowing philanthropists at all levels access to impact investments supporting community development finance, affordable housing and other areas of interest to investors. The IA-50 provides individuals new to the field a general overview of leading impact investment firms across various thematic areas. In 2011, IA first introduced Impact Investing Issue Briefs, which explore various questions of interest to high net worth individuals and their clients.

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