

# BRIDGESPAN'S PERSPECTIVE ON IMPACT INVESTING

March 2019

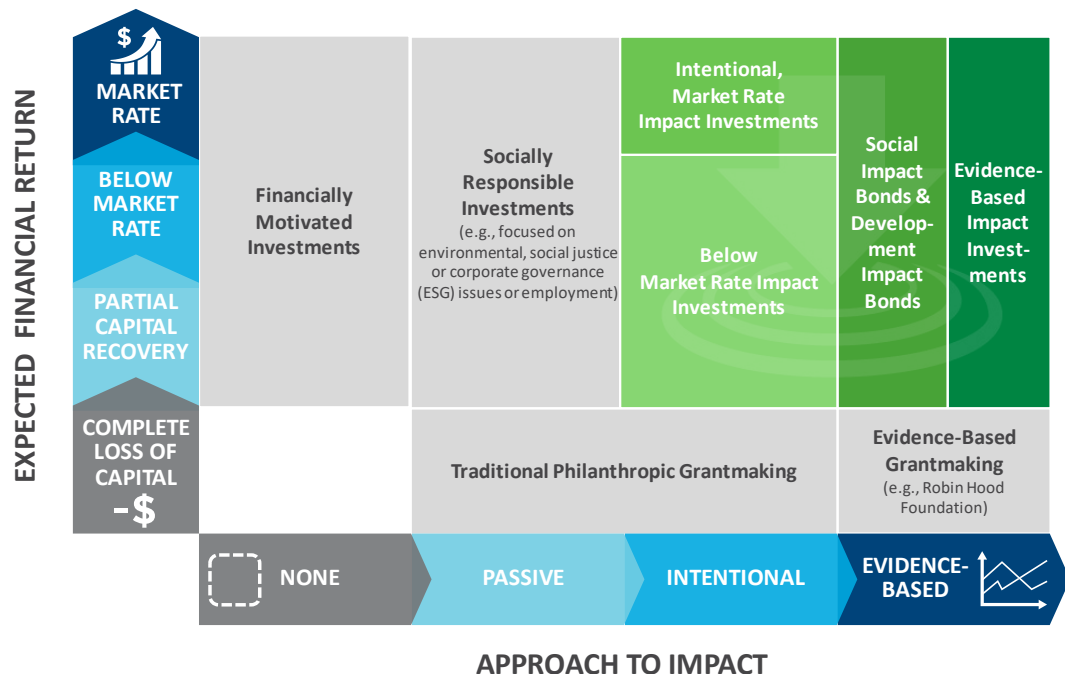
Impact investing is not only increasingly important to the social sector but to The Bridgespan Group's work. Today, many of our philanthropic clients are structured as LLCs, and they are looking at their impact and the available tools to achieve that impact in a new way. At the same time, institutional investors are searching for rigor as the focus on impact increases. This brief provides an overview of our evolving perspective on impact investing.

## What is impact investing?

Impact investing refers to investment in companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. In some form, and under a variety of names (e.g., community development financial institutions, microfinance, etc.), the idea has been around for quite a while. Some of the best known types of impact investing are foundation-sponsored program-related investments—which may include loans, loan guarantees, or equity investments—and social impact bonds—also known as pay-for-success contracts. The Global Impact Investing Network's 2017 annual survey estimates that there are \$114 billion in impact investments across the globe, with about 40 percent of those in North America and the rest widely dispersed across other regions.

Impact investing is important because solving our biggest social problems will require private capital. Some of the highest-impact social advances of the past century—the green revolution in agriculture, the development and delivery of life-saving vaccines—involved significant private capital, alongside government and philanthropic funds.

Both sides of the impact investing equation—expected financial returns and the approach to impact—can vary. The following figure shows the interaction between the range of expected financial returns and differing approaches to impact.



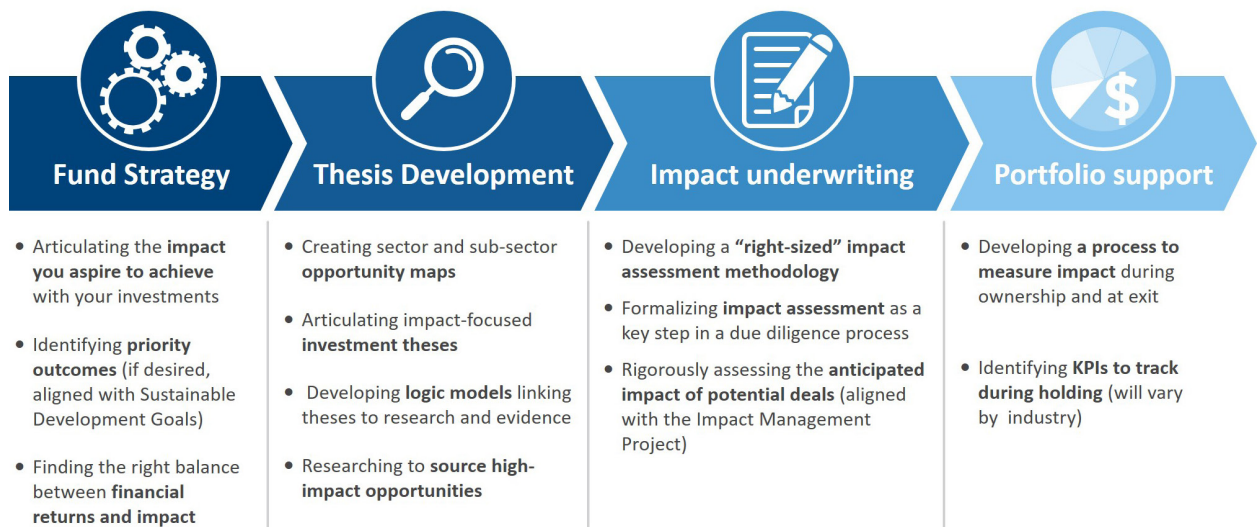
Expected financial returns for impact investors can range from market rate to partial loss of capital. As for impact, the approach can range from passive (social impact is an aim, but not the primary aim, and investors do not hold themselves accountable for it) to intentional (the investor actively attempts to solve a social or environmental problem, basing decisions on judgment and intuition) to evidence-based (decisions based on demonstrated evidence of impact).

## How Bridgespan can help

The Bridgespan Group is a global nonprofit organization that collaborates with mission-driven leaders, organizations, philanthropists, and investors to break cycles of poverty and dramatically improve the quality of life for those in need.

Our impact investing work focuses on bringing right-sized rigor to the impact that investors seek. We help clients decide if and how impact investing fits into their strategy. For those where it does, we develop fund impact strategies, support development of high-impact investment theses, and embed impact assessment through diligence, underwriting, and ownership.

### Bridgespan's range of potential services:



Our recent work in impact investing includes:

- **The Rise Fund:** We worked to create a rigorous assessment model that uses independent third-party research to measure social and environmental impact throughout the investment cycle, from underwriting to exit, and today we rigorously quantify the potential impact of each deal
- **Scott Cook and Signe Ostby:** We helped to identify high-impact areas aligned with the investor's interests and values, how to structure their philanthropy to achieve the greatest possible social impact, and today we help manage and grow that portfolio
- **Bain Capital:** We helped identify categories of investment that could positively affect social and environmental issues, and designed a process for evaluating and screening potential investments
- **Kresge Foundation's Innovative Capital Team:** We worked to identify opportunities in the nonprofit capital markets for Kresge to become a field leader, and identified what specific capital instruments they might use
- **US National Advisory Board on Impact Investing** (now the US Impact Investing Alliance): We identified a set of compelling opportunities for US policymakers on impact investing and helped advance the global policy discussion

## Bridgespan Case Studies

### The Rise Fund



TPG is one of the largest private equity firms in the world. The Rise Fund, a \$2 billion dollar global impact fund, was launched by TPG in 2016. The fund involves a partnership with Elevar Equity, an investor that has backed 24 companies in seven countries.

TPG has deep expertise in assessing the potential for maximizing and measuring financial returns. Bridgespan helped Rise develop a parallel process to maximize and measure the impact of their investments in a way that will resonate with their culture. Today, Bridgespan conducts impact due diligence on all Rise fund investments, rigorously quantifying the potential impact of each deal.

Through the engagement we have:

- Conducted research on seven global sectors and developed impact investment theses for each.
- Developed a rigorous process for estimating the impact potential of investments and system for measuring impact during the investment period.
- Built a large, searchable database of impact studies in health, education, food and agriculture, financial services, and other sectors worldwide.
- Advised on an operating model and team structure that would best support the fund's impact mission.
- Engaged with potential limited partners, both private (e.g., high-net-worth individuals) and public (e.g., pension funds), and other leading actors and intermediaries in the field on behalf of The Rise Fund



### Bain Capital

Bain Capital is one of the world's leading private investment firms, with approximately \$75 billion in assets under management and business lines across asset classes, including private equity, debt, and venture capital. In April 2015, Bain Capital hired former Massachusetts Governor Deval Patrick to launch a new business line investing in companies that produce

both financial returns and measurable, intentional social or environmental returns.

Bridgespan partnered with Bain Capital and Bain & Company to develop the strategy for this business line, including:

- Conducting a market and competitor landscape analysis of the impact investing space
- Articulating Bain Capital's differentiated positioning in this space
- Identifying potential impact themes, market sub-sectors, and types of companies that Bain Capital could focus on to impact social and environmental issues
- Designing a process for screening and evaluating potential investments

### Scott Cook and Signe Ostby

Scott Cook, founder and chairman of Intuit, and his wife Signe Ostby came to Bridgespan more than three years ago with a desire to increase the amount of their giving and to give more strategically, while remaining operationally lean. Bridgespan began by supporting Scott and Signe in the development of their strategy: homing in on specific areas of passion (early childhood development, K-12 education, and medical research), and developing criteria for investments and grants in those areas.

Throughout the subsequent three years, Bridgespan has supported them through:

- Strategy setting: Synthesis of areas of interest and regular conversations that consider the overall arc of their philanthropy
- Sourcing: Identification of potential organizations, looking at grant requests
- Due diligence and structuring: In partnership with the couple's family office
- Supporting grantees: Coaching and advising of select grantees and companies
- Annual grant and investment review: Monitoring the portfolio to identify reinvestment and divestment opportunities, learning from experience to identify insights that inform future investments

Today, Scott and Signe have a strong portfolio of grants and investments in their areas of interest, and Bridgespan is helping them manage and continue to grow that portfolio.

## The Kresge Foundation



The 86-year-old Kresge Foundation awards around \$167 million a year throughout the United States. In 2006, the foundation began to make more operating and planning grants. That strategy has further evolved into an Innovative Capital team that offers a wider array of capital investments such as growth capital and program-related investments.

Bridgespan helped Kresge's Innovative Capital team develop its strategic direction, looking at the following questions:

- How can Innovative Capital best support grantee capital needs?
- Where are opportunities in the nonprofit capital markets for Kresge to become a field leader in specific capital instruments?
- What are the particular capital supports required by human services grantees?
- What should be the appropriate relationship between the Innovative Capital team and Kresge's traditional program areas?

## US National Advisory Board on Impact Investing



Participants in the June 2013 Group of Eight (G8) meeting, led by the UK, agreed to establish an international effort to explore the possibilities for impact investing to accelerate economic growth and to address some of society's most important social issues. As part of that effort, the United States formed a National Advisory Board, staffed by Omidyar Network.

Bridgespan supported this group by highlighting key areas of focus for US policymakers for impact investing and by providing counsel to the global policy discussion. Bridgespan was the primary writer and editor of the group's report, collecting and moderating several rounds of detailed feedback from National Advisory Board members, advisers, and external experts. Several key recommendations regarding ERISA, Program Related Investments (PRIs), and endowment investment have been successfully implemented.