

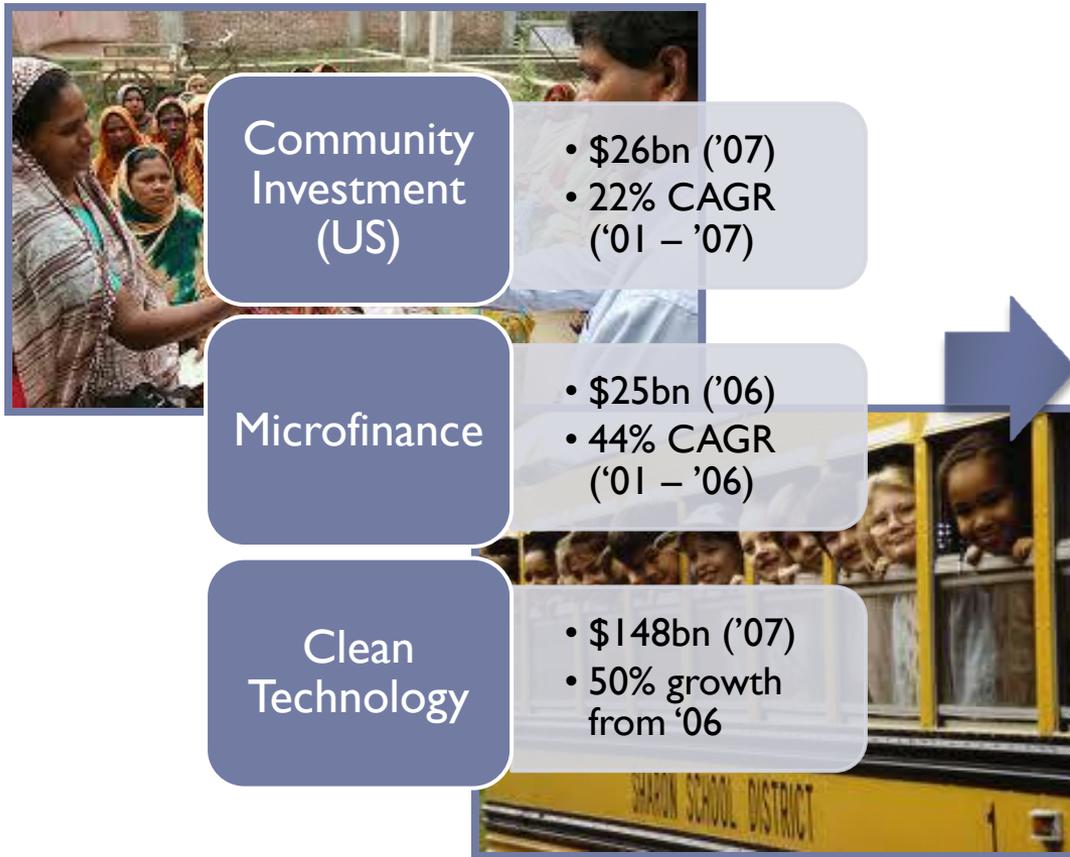


# Innovation in Impact Investing: The Use of Impact Shares in the Energy Industry

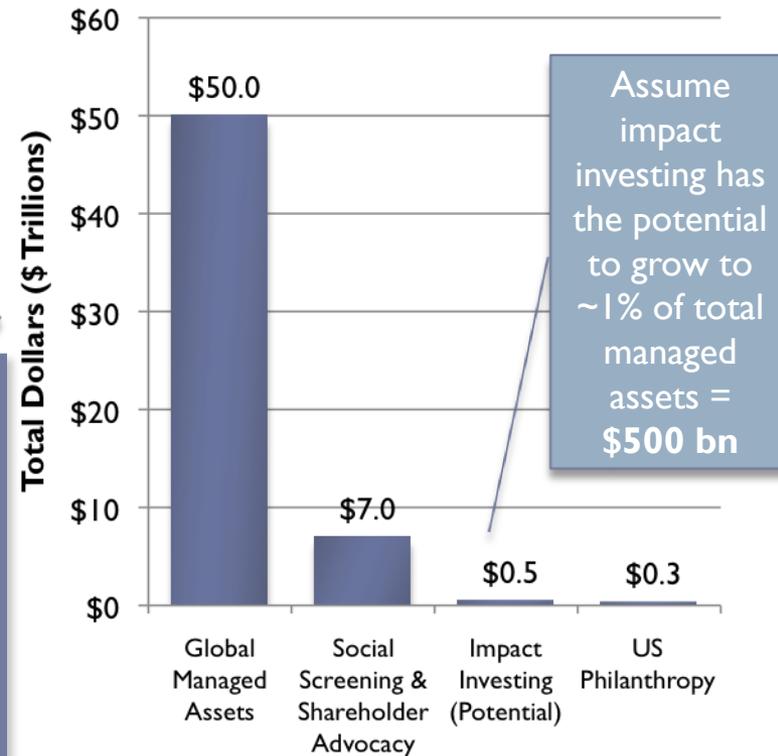
Team B2

# Impact Investing Potential Market Size

## Current



## Potential



Impact investing has the potential to reach \$500bn

# Impact Investing

## Current Challenges

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### Lack of Efficient Intermediation

- High search and transaction costs
- Fragmented demand and supply
- Complex deals
- Lack of understanding of risk

### Lack of Enabling Infrastructure

- Historical bifurcation between philanthropy (impact) and investment (financial returns)
- Lack of metrics

### Lack of Opportunities

- Lack of large investment opportunities that satisfy both impact and required rate of financial return

Our mission: develop a tool to solve many of the fundamental challenges of impact investing

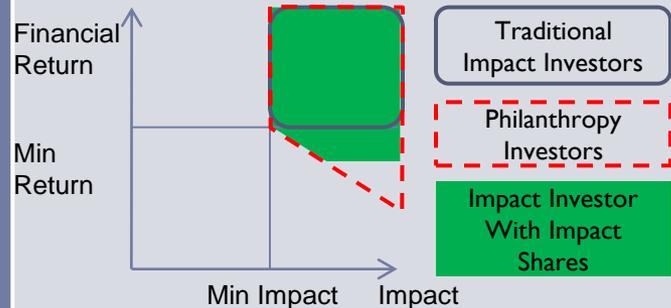
# Energy Impact Investing Fund Objectives

## Differentiating Goals

Increase impact accountability

- Set impact objectives
- Create incentives to drive impact achievement
- Monitor and control impact

Expand investment universe



## Solution

**Impact Shares:**  
separation of financial returns and impact

Unique tool to fundamentally change the landscape of impact investing

# Impact Shares

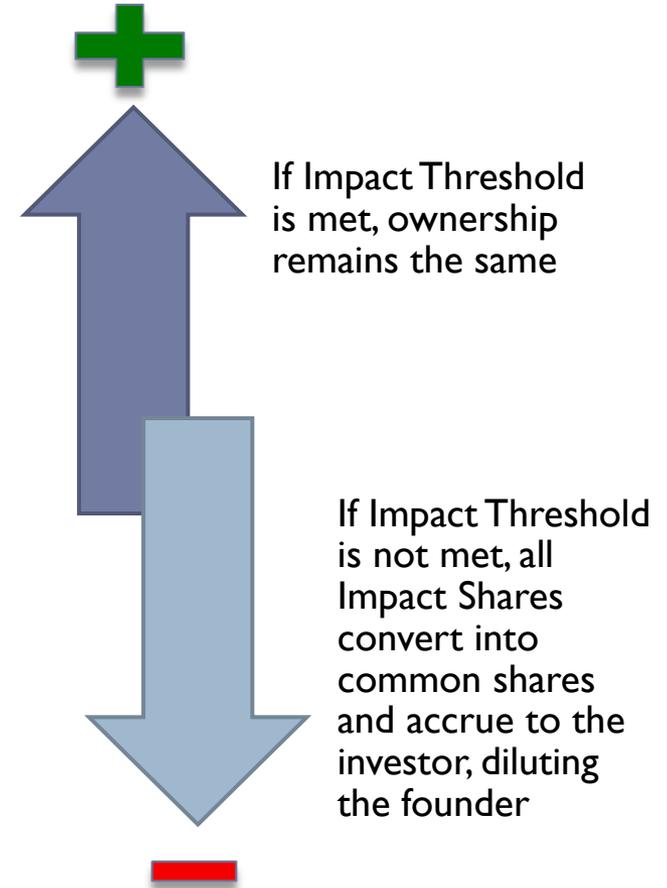
## The Concept

### What are Impact Shares?

- A class of equity instrument that reflects the impact value of a project
- Similar to common shares which reflect the economic value of a project
- Impact valuation based on gap between pure financial valuation and total required capital

### How do Impact Shares work?

- Impact investors invest in both common shares and Impact Shares
- Investors can hold both types of shares or sell Impact Shares to organizations that value impact more (e.g. philanthropists)
- Impact Threshold defined contractually between founder and impact investor



Seamless way to integrate and separate financial and impact returns

# Case Study: West Africa Rural Electrification<sup>1</sup>

## Illustrative Investment Opportunity

### Investment Scope

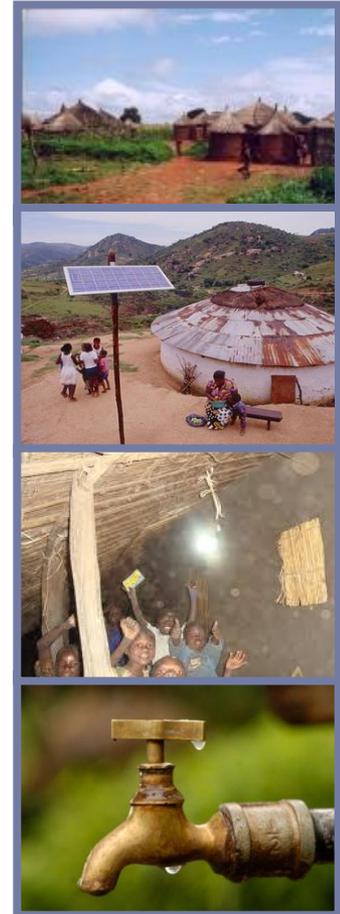
- Rural electrification of off grid villages in West Africa
- Majority of population currently uses fuel wood and kerosene to meet energy needs

### Technologies

- Proposed investment opportunity involves grid connections and individual solar kits to provide electricity and heat

### Financing<sup>2</sup>

- Investment upfront cost: \$20 million
- Founder equity: \$5 million
- Financing need: \$5 million equity, \$10 million debt



1. Illustrative example based on similar projects that have been developed in this region.  
2. Values have been created solely for illustrative purposes; see further explanation on slide 9.

# Case Study: West Africa Rural Electrification

## Illustrative Impact

### Impact

### Metrics<sup>1</sup>

#### Economic



- Enhance economic productivity through use of electricity
- Support new business growth

- kWh generated
- number of households and businesses electrified

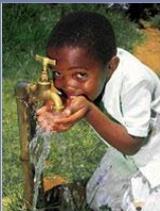
#### Environmental



- Improvement in air quality through replacement of wood chips fire stoves and kerosene lamps

- CO2 equivalent avoided (e.g. from reduction of kerosene lamp usage)

#### Social



- Improved delivery of social services (e.g. water systems, health clinics and schools)
- Increased access to lighting and communication devices (e.g., cell phones, computers)

- Number of schools (students) and health clinics (patients) affected

1. Metric examples are not exhaustive but illustrative. Actual values are avoided as metrics are dependent on project specific factors such as location, usage patterns etc.

# Case Study: West Africa Rural Electrification

## Role of Impact investing Fund

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### Funding gap



- Financial return too low to attract “financial first” investors
- Investment funding need too large for “impact first” philanthropists
- Need for investors that value both types of returns in this investment

### Role of Fund



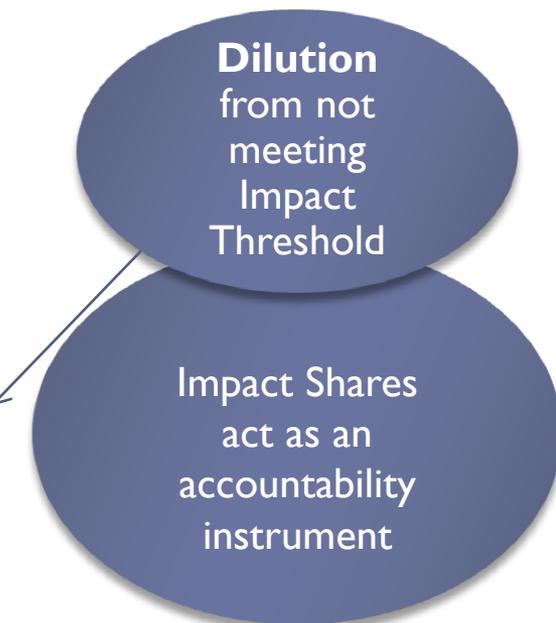
- Impact Shares will act as a bridge
- Financial return is adjusted for the investment’s impact
- Impact achievement is enforced through the Impact Shares
- Ability to sell Impact Shares can further supplement risk-adjusted financial return

# Case Study: West Africa Rural Electrification

## Impact Shares Mechanics

- Equity will be divided between common and Impact Shares
- If the Impact Threshold<sup>1</sup> is met, ownership does not change
- If Impact Threshold is not met, Impact Shares convert to common shares and the founder is diluted
- Additional potential to sell Impact Shares to third-party (e.g. philanthropist)

	If Impact Threshold met		If Impact Threshold unmet	
	\$	%	\$	%
<b>Common Shares</b>	<b>8</b>		<b>8</b>	
Impact investor	4	50%	5	62.5%
Founder	4	50%	<b>3</b>	<b>37.5%</b>
<b>Impact Shares</b>	<b>2</b>		<b>0</b>	
Impact investor	1	50%	0	0%
Founder	1	50%	0	0%
<b>Total Value</b>	<b>10</b>		<b>8</b>	

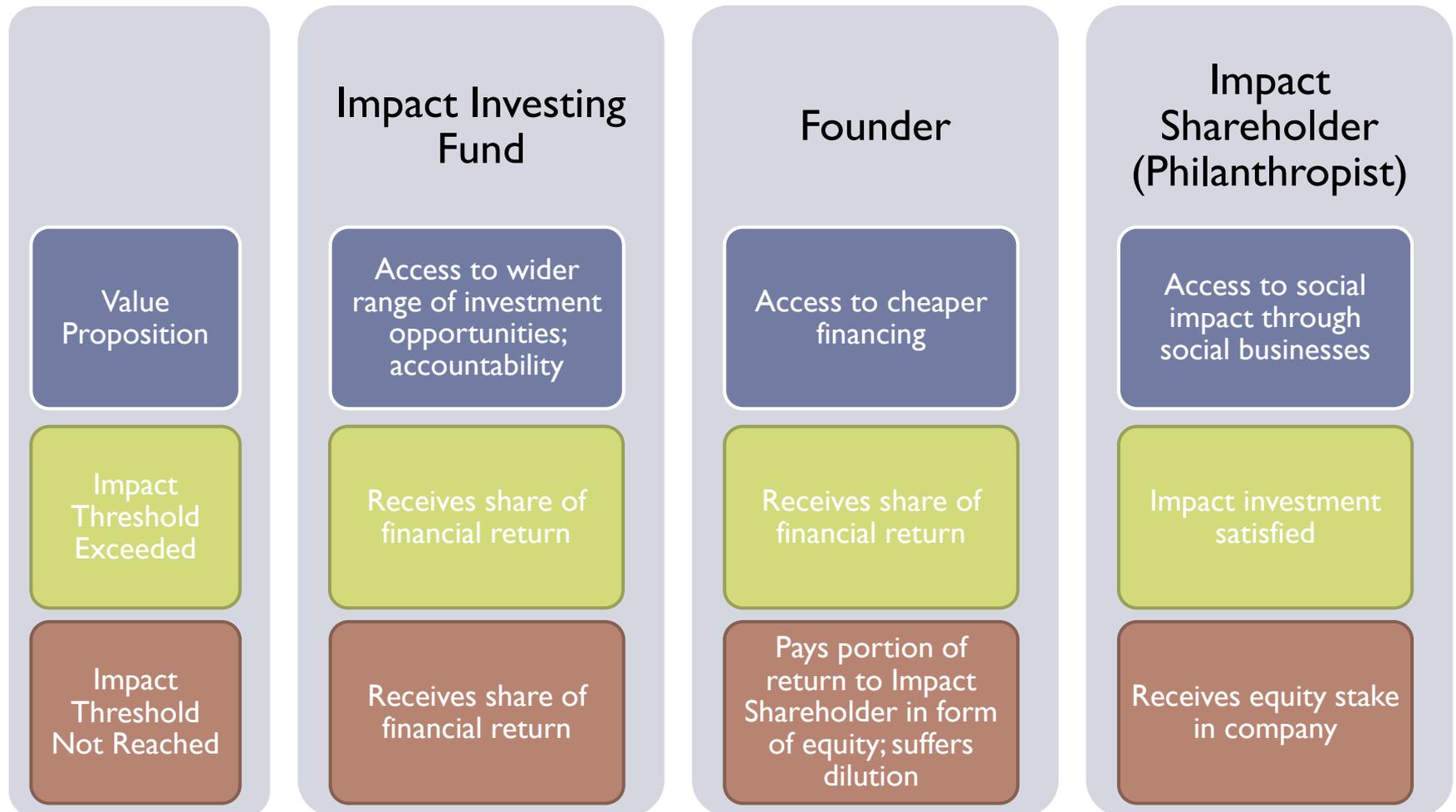


<sup>1</sup> Impact Threshold agreed to in the term sheet. Numbers are simplified for illustrative purposes. In reality, equity share, Impact Shares and the conversion mechanisms would be carefully valued and structured.

# Case Study: West Africa Rural Electrification

## Impact Shares Mechanics

- If we assume that the Impact Investing Fund has sold Impact Shares to Philanthropist



# Impact Shares

## Long-Term Vision

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### Market

- Increased adoption by funds and philanthropists will drive market creation
- Support new business growth in currently underfunded areas

### Market Price of Impact

- Competition among impact investors to sell Impact Shares (downward pricing pressure)
- Competition among philanthropists to buy Impact Shares (upward pricing pressure)
- Supply and demand forces drive equilibrium price

### Efficiency

- Price of Impact Shares relatively predictable and can be used in future deal negotiations by impact investors
- Standardize and quantify various forms of social and environment impact
- Facilitates liquidity in the impact marketplace

# Impact Shares

## Risks & Issues

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Risks	Potential Mitigants
Founder acceptance	<ul style="list-style-type: none"><li>• Access to cheaper financing</li><li>• Selection mechanism: only those aligned with impact mission will accept</li></ul>
Impact Shareholder (Philanthropist) interest	<ul style="list-style-type: none"><li>• Allows philanthropists access to for-profit impact opportunities</li><li>• Development of Impact Share marketplace may facilitate liquidity</li></ul>
Financial investor interest	<ul style="list-style-type: none"><li>• Allows investment in impact businesses without sacrificing financial return through monetization of impact</li></ul>
Pricing of Impact Shares	<ul style="list-style-type: none"><li>• Increased adoption will lead to transparency and accepted pricing mechanism</li></ul>
Impact Share conversion dilution	<ul style="list-style-type: none"><li>• Financial investor will not accept dilution so conversion must come at expense of founder</li></ul>
Illiquidity of Impact Shares and conversion stakes	<ul style="list-style-type: none"><li>• Future development of Impact Share trading platform</li><li>• Structure put option to free philanthropists of equity stakes post-conversion</li></ul>