

## **I. Fund Structure**

The fund will be a \$50mm pool of capital mandated to make investments that range from \$500,000 to \$5mm. The fund will charge a management fee of 3% (higher than traditional PE and impact investor fees of 1 – 2% due to cost of social impact audit, described below) and an incentive fee of 10% (lower than traditional incentive fee of 20 – 25% to compensate for higher management fee). The fund will attract long-term focused investors who desire social and commercial returns and are willing to commit capital for 10 years. Examples include insurance companies and pension funds, which require longer term assets to match their liabilities, bank social impact funds, foundation PRIs and high net worth individuals. This vehicle will enable these stakeholders to achieve sufficient social and financial returns and diversification.

## **II. Investment Universe**

The fund is focused on (i) energy efficiency (e.g. appliances, smart grid technology, and industrial technologies), (ii) pollution prevention (e.g. clean coal, factory refurbishment), (iii) clean energy sources (e.g. wind, solar, biofuels) and (iv) access to energy (e.g. independent sources and grid connection for remote areas, solar lighting and other products designed for bottom of the pyramid consumption). Energy investments can achieve significant social impact such as reduction in fossil fuel reliance, CO<sub>2</sub> emissions and climate change impacts; contribution to energy diversification and creation of new sectors to fuel employment and GDP growth.

While the fund will invest in limited developed world opportunities, it will focus on the developing world, where large opportunities exist (e.g. \$2.1bn access to energy opportunity).

The fund will focus on investment opportunities that currently lack funding sources. Two specific examples include growth stage energy companies and small scale energy projects. While many sources of funding exist for early stage start-ups and mature public companies, a gap exists in the growth capital arena. Similarly, public sources exist to fund large scale energy projects, but funding for smaller scale projects is limited and generally resides in small pools of capital.

## **III. Investment Asset Classes**

This fund will invest primarily in private equity, private debt and physical assets. The charter will allow investment in all other asset classes solely for hedging specific large risks.

## **IV. Deal Sourcing and Due Diligence Process**

We will create a network of impact investment funds to pool sourcing and analysis of co-investment opportunities. This will facilitate access to larger deals and spread due diligence costs among multiple parties. We will evaluate the management team, financial forecasts, competitive positioning and each investee's capacity to achieve social and environmental impact.

## **V. Financial Objectives**

We are willing to sacrifice a portion of traditional target private equity returns to achieve social impact. We target a financial return of 10% on average throughout the portfolio and require a positive return on each individual investment. Additionally, we propose to benchmark fund performance to a GIIN index whenever one becomes available. The fund would need to exceed this benchmark at minimum to qualify for the incentive fee.

## **VI. Social Impact Measurement**

The environmental and social impact will be measured at the investment level and reported annually. For each investment, the report will contain (i) all applicable metrics in the IRIS reporting standard, (ii) a comparison between the investment impact outcome and the status quo prior to the investment or the outcome in the best alternative option to the investment, (iii) the financing structure of the investment and (iv) the fund's stake in this structure and a description of the impact equity shares. This impact report will be audited by a reputable auditing firm.

## **VII. Risk Management**

*Impact Risk* - We will closely monitor impact metrics and seek an annual audit to avoid the reputational risk involved in failing to achieve significant impact through our investments. Furthermore, upon investment in companies or projects which yield below-market expected returns but significant social or environmental returns, we will create "impact equity shares". These shares serve to guarantee that specific impact targets for an investment will be reached. If an investment fails to meet its target impact, the impact equity shares will be converted into ordinary shares, incentivizing management to achieve the targets to avoid dilution. The amount of impact equity shares will be commensurate with the investment's shortfall to market returns.

*Currency Risk* – The fund will aim to diversify currency exposure similarly to a global equity portfolio. Should the investments be concentrated in a specific region, we will enter into currency swaps denominated in the most liquid currency of the region.

*Country Risk* – A political crisis in a region where the fund is invested presents volatility and potential downside. We will consider entering into the most liquid sovereign CDS contracts in the region, if available and fairly priced. Political uncertainty can also present upside (e.g. international community agreement on a global climate change protocol).

*Company Risk* – Each investment will be exposed to traditional fundamental and credit risk. The fund will engage in thorough due diligence prior to investment to mitigate this risk.

*Liquidity Risk* – Given the nature of private debt and equity investments, the fund is expected to be illiquid, justifying the longer lock-up period.