



BEYOND DIRECT DEALS

How Fund Investing adds to your Impact Portfolio

Written by Impact Investors for Impact Investors

Pymwymic Field Building Center
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INTRODUCTION

As the oldest European platform of impact investors, *Pymwymic, the Put Your Money Where Your Meaning Is Community*, has had the privilege to see the evolution of impact investing from its very beginning to where we stand today. When we, as investors, began our journey over two decades ago, what we were doing was not yet called impact investing. There was no infrastructure and no one from whom to learn. It was just us on a mission to make a difference with the wealth for which we felt responsible. So we invested directly into companies that focus on people, planet and profit.

The field of impact investing has greatly developed since we took our first steps. We are still drawn to the personal engagement of direct deals. However, we also see the opportunities of enlarging our impact and spreading risk across all asset classes.

We would like to take a step back to reflect on our journey and share our experiences. What have we learnt from doing direct deals? What opportunities exist beyond direct investing? And, specifically, how can investing through funds offer a compelling additional value to an impact portfolio?

Warmly, The Pymwymic Community

FOREWORD ONE INVESTOR'S STORY

"Before Pymwymic introduced me to impact investing, my wealth was fully managed by my financial advisors. When I realised I could actually use my wealth to make a difference, I suddenly had a reason to understand what was going on. However, moving into impact investing was a whole new world and I depended on the knowledge and learnings of other - more experienced - impact investors. Now, two years later, I have learnt a great deal.

Myself, I really wanted to be personally engaged, so I invested both directly into an impact venture as well as in an impact fund. The direct investment has given me tremendous satisfaction – it still does – but it has also been hard work. My professional background and network was in a completely different sector, as a result I had to learn along the way. Fund investing has been a more straightforward approach. It allowed me to spread my risk and expand my impact. Fund investing might be an easier ride for somebody who is just getting started.

When I started my journey into impact investing, the stories of other investors greatly helped me to find my way. This report has collected these stories for your benefit. I strongly believe that we as a community can help each other by sharing our experiences. I hope this report supports your journey into impact investing. It is well worth it. Are you ready to put your money where your meaning is?"

Myleen Verstraete,
Family Principal.

READ THIS REPORT IF...

... you are exploring the terrains of impact investing

... you are curious to understand impact investing beyond doing direct deals

... you want to understand how fund investing adds value to your impact portfolio

DIRECT DEALS

To understand the whole spectrum of impact investing we will begin where we did two decades ago: with direct deals. When impact investing first started, direct investment in early stage companies was basically our only option. Today, we can invest across all asset classes. However, we still recognize the importance and fulfilment of doing direct deals. Here are our reasons.

Making a difference

Most investors are drawn to be personally engaged in the companies in which they invest. We are driven to make a difference and want to be part of realising lasting social or environmental impact. We want to feel it, see it and influence it.

"One of our key investment criteria is that we want to be catalytic."

Robert Boogaard

"The great thing about making direct investments is the feeling of connection. Over 20 years, I've probably invested in about 35 entrepreneurs creating new companies. I know the risk. But I also know these entrepreneurs are directly working on issues important to me." Frank van Beuningen, Founder Pymwymic, Family Principal.

"When I made my first direct investment it took over my entire life. I wanted to understand everything, read every article I could find about the company's industry, learned to understand all the key drivers and how we could make a difference. It was very intense and fulfilling at the same time." Myleen Verstraete.

"I have allowed myself to have some 'play' money to do what I really like to do. I decided to figure out what is really close to my heart, what am I passionate about. To me, that is investing in Africa and alternative energy." Impact investor.

Having an entrepreneurial spirit

Especially if you have experience in the family business or have built a company of your own, you want to be active and use your knowledge, network and expertise to help the companies. Impact enterprises are often trying to change the rules of business as usual, such as ensuring fair pay, creating better working conditions, producing safe and healthy products, or offering services to those in need. Knowing how to build and grow a company, can then be a great advantage.

"I like doing direct deals most. I want to be involved and actually add value with my personal background, experience and network. I aim to have about 10 to 15 investments – both direct and through funds – and build my own portfolio with diverse spread in terms of geography, sector, etc." Rein Goedkoop, impact investor.

"One of our key investment criteria is that we want to be catalytic. Therefore we choose to invest in companies where we can really add value; something that fits our background and where we can bring, but also further build knowledge, experience and network." Robert Boogaard.

Filling the need for mission-aligned capital

Impact enterprises often shy away from traditional investors. These mission-driven companies fear that too much focus on financial returns will force them to sacrifice on impact. Consequently, they look for aligned investors with more patient capital, who believe in what they want to achieve in this world.

Also, private individuals or families often provide first capital to early enterprises which struggle for funding from institutional investors.¹ Institutional investors are usually more risk averse: they seek more mature businesses and larger deal sizes. As Pymwymic, we see a constant demand for growth capital. The willingness of private investors to step into mission driven companies when few other investors are willing to do so, is crucial to the development of the impact ecosystem.

"Direct deals are critical to the field of impact. If we are not willing to provide our capital and support to these entrepreneurs, then who will? If we shy away from investing in these riskier companies today, there will be no mature companies to invest in tomorrow." Myleen Verstraete.

"I have very consciously chosen to invest in opportunities that others find too risky. I have safeguarded my wealth under professional management and use this money to really make a difference." Impact investor.



LESSONS FROM OTHER INVESTORS

We dove in headfirst and were determined to make a difference. We still are. But we have also learnt a great deal along the way.²

1. Do not get carried away by the idea

The idea of making a difference drives us into impact investing. However, this should not keep us from scrutinising the financial and impact potential of an investment. We need a great idea, a viable business model and an excellent team of professionals to execute. Make sure you are able to ask the right questions when going through term sheets, financial models, assessing management or evaluating impact durability.

“The basics of impact investing are not that different from normal investing: make sure that the product is good, check whether management is sound, check co-investors and decide on how much money you want to allocate.” Stephen Brenninkmeijer, Founder Willows Investments, Principal.

“We stepped into our first impact investment because we were truly excited about the idea. Having a background in the industry, we were excited to get involved. Unfortunately, our enthusiasm kept us from doing thorough due diligence. The actual impact of the company turned out to be very small and we ended up writing the whole investment off due to poor financial performance.” Family Principal.

“It is easy to understand why so many people get excited by doing direct deals: the outlook of making such a beautiful impact is very tempting. The risks that are attached are then greatly underestimated.” Robert Boogaard.

“The basics of impact investing are not that different from normal investing.”
Stephen Brenninkmeijer

2. Be prepared to invest your time

It is a common mistake to underestimate the time and effort it takes to do direct deals. This holds true for both the due diligence during acquisition, as well as for managing the investment when you are a shareholder. Especially in early stage companies, you can expect information flow and governance to be underdeveloped. This increases your workload as an investor to understand what is really going on in the company. And then there is always some kind of crisis that needs to be solved. Often by you.

“It is very common to hugely underestimate the amount of time it takes to manage your investments. Count on things going differently than planned about 80% of the time. And all these matters will require your attention.” Robert Boogaard.

“I like to be on the premises for a couple of days. One cannot keep up appearances on a daily basis, so spending some time there allows us to move beyond the fancy PowerPoints. We are long-term investors, who do not just flip investments in a three- to five-year time frame. A couple of days of research is then well worth the effort.” Family Principal.

3. Check alignment with your co-investors

As investors, we need to be sure we are on the same page as our co-investors. Get to know them: how serious are they about the impact objectives? Are they willing to make tough decisions? Do you have the same expectations in terms of returns and investment horizon? Especially if you are an equity investor, you have a say in making the toughest and most important strategic decisions of the company. The smaller your relative stake in the company, the more important these questions are. Make sure you understand both the formal governance as well as all the social dynamics influencing your control over the investment.

“We thought we were on the same page with our co-investors. We had agreed to always act as one towards the entrepreneur. But when the company got into trouble we found out our co-investor had made arrangements with the entrepreneur without consulting us beforehand.” Family Principal.

4. Listen to your gut feeling

And then there is the element of intuition. When investing in growing companies with largely unproven business models, we are highly dependent on the founder and management team. Our ability to judge their character is essential. How open are they to outside advice? Is it a one-(wo)man show or does the company have a strong team? Especially now that impact investing has become increasingly popular, there are bound to be incidents of mission drift, whether intentional or not. If your gut is telling you there is something wrong, be sure to act upon it.

“Looking back, from the very beginning there were signs that there was something going on. We had dinners in expensive restaurants, the figures presented kept changing and we always had to chase them to receive promised documentation. A few weeks into our investment the fraud was exposed and we figured out the company was really not as green as it had presented itself to us.” Family Principal.

5. Be realistic about risk

Doing direct investments in early or growth stage companies - whether they have an impact objective or not - is relatively risky. Traditional venture capital investors invest in roughly one out of every forty opportunities they are offered and half of their investments end up going out of business.³ While the scale of impact investing is likely to be smaller, success rates are not likely to be very different. After all, impact investors might even be inclined to pick deals with above average risk profiles. We want to work on the most ‘wicked’ of problems, often in emerging countries with higher risks such as an unstable political environment or absence of regular infrastructure. Should you choose to invest, have a realistic expectation about risk and do not get demoralised if a couple of your direct deals fall through.

“Just like normal investing, you need approximately ten direct deals to get a decent return.” Robert Boogaard.

“You are investing patient capital.”
Myleen Verstraete



6. Build a strategy

Some impact investors started with impact investing by doing a few small deals to gain experience. They learned by doing and organically found their focus. Others had a predefined strategy, which evolved while they gained experience. Either way, you want to be making conscious investment decisions considering factors such as what impact do you want to make, what is your risk appetite and how involved do you want to be?

“I saw hundreds of deals. The most important question I needed to answer, and every impact investor needs to answer is: what problems do I choose to help solve? No one can do it all. For me, it is water and restoring the environment, healthy agriculture. If you know what that is for you, that’s where you put your money.” Frank van Beuningen.

“After I sold my company, people approached me on a regular basis, asking me to invest in their initiative. For that reason, I decided I needed some kind of strategy, some criteria to base my decisions on.” Former entrepreneur, impact investor.

“It is easy to get distracted with all that’s going on. Before you know it, you’re doing heaps of things at the same time. Generally, you simply cannot manage a large number of direct investments all by yourself. It is wiser to build your expertise and network in a certain domain, so that your overall impact becomes larger.” Robert Boogaard.

BEYOND DIRECT DEALS

Full Portfolio Investing

In the past, impact investing has mistakenly been labelled as a separate asset class. Impact investing was new and the infrastructure to support impact driven instruments was non-existent. Today, the field of impact investing has developed far beyond direct private equity / venture capital (PE/VC) deals. There is a full spectrum

of financial instruments across all asset classes, each with its own return expectations, degree of risk, level of liquidity and impact dimension. Financial instruments now exist to support the different stages of development of a company (early stage to mature). Just as the industry has matured, so have investor choices. Investors – impact and traditional – need a well-diversified portfolio of investments in terms of sector, region, asset class, etc.

We see more and more investors practicing full portfolio impact investing, i.e. investing across all asset classes.⁵ A leading group of families and High Net Worth Individuals is taking the lead in this move towards full portfolio impact investing and has committed to move 100% of their capital - approximately \$4.5 billion - to positive impact.⁶ Box 1 gives an overview of asset classes, their differences and examples. Within each asset class it is possible to invest directly into the asset, or invest through funds.

“We are moving all our assets to where they create maximum impact.”
Robert Boogaard

“When we started in 1994, doing direct deals was the only thing you could do – and the early efforts helped to create the impact field. Now, there are dozens of impact incubators for early stage, and hundreds more solid companies looking for first-round financing. But there comes a point where an investor just doesn’t have the time to manage so many direct investments. Investing in funds helps my capital to have focus, and also ensures that there are fulltime managers helping the companies develop. In addition to several funds, over time, Margaret and I have increased the impact intention of our portfolio through most asset classes.” Frank van Beuningen.

“Recently we decided to strive towards 100% impact. This means that we are moving all our assets to where they create maximum impact. We will focus more on those asset classes where we have knowledge and experience.” Robert Boogaard.

Evolution of fund investing

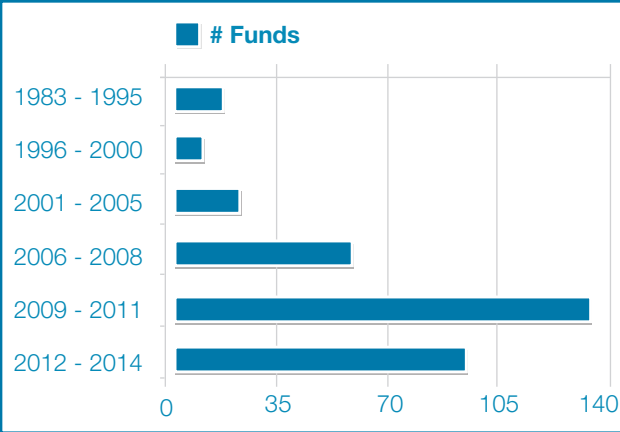
The market of impact investing through funds has grown rapidly over the past few years. *“Triodos Investment Management has been offering impact investing through funds for over 25 years,”* says Marilou van Golstein Brouwers, Chair of the Management Board of Triodos Investment Management. *“We’ve seen this market grow rapidly, which is something we consider as a positive development. It offers more and more investors the opportunity to actively – and relatively easy – invest their money with impact, while also spreading their risk by diversifying across regions, sectors, strategies and impact themes.”* While there are a few early pioneers, most impact funds are relatively young. According to both ImpactBase⁷ and Cambridge Associates⁸, there has been strong growth of funds after 2005 (see graphs 1 & 2). The relative maturity of impact funds is important to understand when assessing funds for potential investments.

While you can invest in impact funds of many different asset classes, the remainder of this report focuses on private equity and debt funds.

Box 1: A Quick Recap on Different Asset Classes⁴

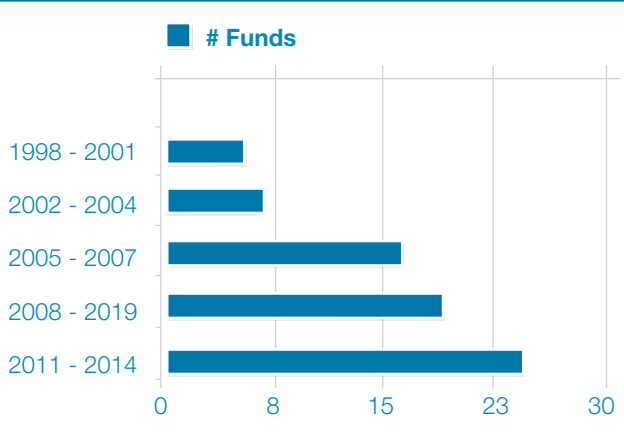
Asset Class	Risk / Return	Investment Examples	
		Directly in assets	In funds
Cash and cash equivalents	Low	Deposit savings to a sustainable bank	
Public debt	Low	Buy a climate bond	Invest in Triodos Groenfonds
Public equity	Medium	Buy a Vestas stock	Invest in Triodos Pioneer Fund
Private debt	Medium	Supply a loan to a sustainable fishery	Invest in eco.business Fund or other funds advised by Finance in Motion
Real assets	Medium	Acquire land for Manitoba Farms	Invest in Bridges Fund Management
Hybrid instruments	Medium	Acquire a Social Impact Bond	Invest in responsibility Global Microfinance Fund
Private equity	High	Take a share in SnappCar	Invest in Pymwymic Healthy Ecosystems Impact Fund

Graph 1: Fund growth by inception year (all asset classes)



Source: ImpactBase Snapshot, An Analysis of 300+ impact investing funds (2015), ImpactBase.

Graph 2: Fund growth by vintage year (PE/VC)



Source: PE/VC Impact Investing Index & Benchmark Statistics, March 2017 (2017). Cambridge Associates.



WHY FUND INVESTING MAKES SENSE

When you invest in a fund, your capital is pooled with that of a group of other investors. A professional team of fund managers takes care of deal origination, due diligence and managing the investment. For these services, you pay a management fee. These are the reasons to consider fund investing as a critical part of your impact portfolio:



1. Learn as you go

Fund investing can be a very attractive option to get your feet wet as you can learn from the expertise of fund managers. Even with sufficient time on your hands, investing in general can be complex, especially when you are new to (impact) investing. For example: What happens if a company goes south? How do you measure impact? What are your rights if you run into fraud?

“Especially if you are new to (impact) investing, funds are a great way to start. I would advise novice investors to begin with fund investing to get to know how it works and then expand to direct deals once you’ve gained some experience.” Robert Boogaard.

“When I did my first fund investment, it was really about learning from more experienced investors. As I had an observer role I could voice my opinion, but mostly, I was there to listen and learn.” Stephen Brenninkmeijer.



2. Diversify your impact portfolio

If you are only doing direct deals and want to spread your risk, you need a rather substantial portfolio of investments. By then, the time you need to spend managing your investments becomes a full-time job and can require a broad range of professional skills. Investing through funds spreads your risk, without demanding as much of your time and attention as do direct investments. Diversification is achieved both within a fund (e.g. difference in region, sector, business model) as well as between funds (e.g. different teams with different strategic focus and track record).

“The small investment simply takes so much of your time. Both in terms of due diligence and management. It is difficult to make it financially worthwhile if you cannot focus on your specific area of expertise.” Family Principal.

“This is how it works for us: we do only a few direct deals to which we commit larger amounts of capital. We really spend time managing these investments. And then we diversify the rest of our portfolio to funds and other asset classes to decrease our risk.” Robert Boogaard.

“I wanted to sit at the table and learn from those who have done it all before.”
Stephen Brenninkmeijer



3. Realise more impact through scale

Funds can direct larger amounts of capital towards a specific impact objective (e.g. giving people access to clean energy); with scale, they are more likely to be able to bring about system changes (e.g. build value chains for solar solutions). Pooling capital in a fund can help an entire sector or ecosystem. *“To reach greater impact, our funds traditionally partner with local financial institutions in emerging markets,”* says Sylvia Wisniwski, Managing Director at Finance in Motion, advisor to the eco.business Fund. *“These intermediaries make it possible to reach a variety of target groups, such as small businesses, agricultural producers, and households. We work with them to enter into new market segments, such as sustainable agriculture, and are thereby able to achieve systemic change.”*

“The sheer size of a fund means that you can achieve more than you could by yourself. A fund serves as a lever to realise impact towards a common goal while the money is being managed by a professional team.” Rein Goedkoop.



4. Part of a greater network

Joining an impact fund often also means joining a platform of like-minded individuals; you will become part of a group of Limited Partners (LPs). You are likely to meet other investor groups, such as development finance institutions (DFIs), institutional investors (e.g. banks or pension funds), or foundations. Exchanging ideas, best practices, dilemmas and learnings is often very much welcomed and appreciated in the impact investing community.

“We are all searching for the best way to put our meaning to work. It can feel like your investment amplifies its impact in the right fund.”
Frank van Beuningen

“With well-managed impact funds, you tend to meet like-minded investors. We can share our interest in the field, challenges, questions. We are all searching for the best way to put our meaning to work. It can feel like your investment amplifies its impact in the right fund.” Frank van Beuningen.

“We continuously look to improve our knowledge. Learning from other investors and sharing ideas is therefore key for us to being able to refine our own strategy.” Robert Boogaard.

“Investing in Bridges Social Entrepreneurs Fund really helped me get a foothold in the UK. I wanted to build my impact network there and investing through the fund helped me get started.” Stephen Brenninkmeijer.



5. Lower transaction costs

Funds work for multiple investors. This creates economies of scale for costs of both due diligence and managing the investment. In contrast, when deal size is small, transaction costs grow.



6. Access to deals

As an individual investor, access to (high-quality) deals can be a challenge. You have a smaller professional network and your investments are typically smaller, leaving you with opportunities mostly in early stage companies. Dedicated investor platforms serve as a matchmaking platform to increase access to deals. Due to specialisation and a larger capital base, funds can often place larger ticket sizes and attract a stronger pipeline of companies than a solo player. In addition, fund managers often have offices or partner organisations in various countries. This is especially helpful if you want to invest beyond your own region and particularly helpful when investing in emerging markets.

“We stepped into the fund because they have a very strong presence in Africa, where investments take place. They are present with local teams who understand the specific dynamics of the region.”
Family Principal.

“One of our reasons for joining both Pymwymic and Toniic is deal flow. Not only does it give us access to more deal flow, but also often access to quality due diligence and sometimes the opportunity to make direct investments by co-investing in fund investees.” Robert Boogaard.

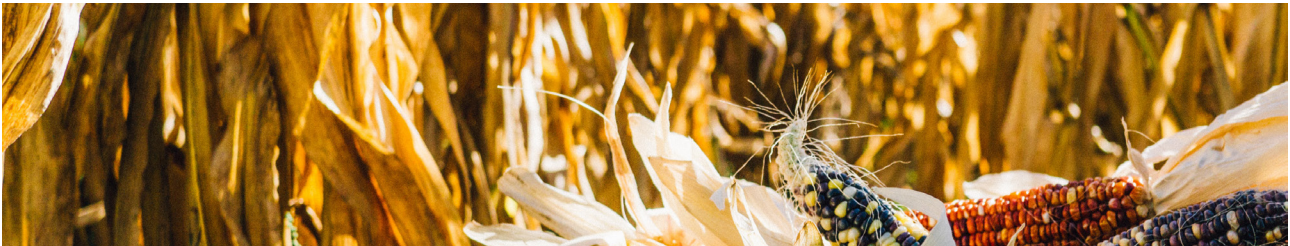
“A fund organized through a cooperative structure could be like a family office for small investors.”
Rein Goedkoop

“A fund organized through a cooperative structure could be like a family office for small investors. If it is set up well, has a good track record and an established name in the market, you will have a higher quality deal flow than you can achieve as an individual investor. Plus interaction with the active community members will raise the overall quality of your investments.” Rein Goedkoop.



7. Access to blended financing structures

As an investor, you might come across investment opportunities that are just right in terms of impact focus, but do not match your risk tolerance. Some impact funds offer blended structures, through which you can pool capital from various investors with different risk profiles towards one goal (see eco.business Fund on page 13 or other funds advised by Finance in Motion). Blended finance can come in many forms, for example by blending market-rate investments with with technical assistance⁹, by offering guarantees, or by creating layered capital structures offering different risk-return options. Blended structures optimise the match between funding supply and demand, enlarging the potential for impact. As these structures are both more complex and require multiple investors, you are more likely to find them in funds.



New fund models emerging

As a fund investor, you typically have less direct contact with (and influence over) the company. However, most impact investors are eager to be involved. For this reason, new funds models are emerging, which offer opportunities for greater involvement. Funds can be structured to have strong co-investor rights, investment decision power or require strong involvement from the investor community (see page 12 Pymwymic Healthy Ecosystems Fund for an example of the latter).

Box 2: The major differences between direct versus fund investing¹⁰

DIRECT		FUND
Very high Direct interaction and close involvement with the business	INVOLVEMENT	Low to medium Depending on the specific structure of the fund
High Often greater ability to steer the course of the company on major strategic topics (depending on ticket size and financial instrument - equity or debt)	DECISION POWER	Low to medium Depending on the specific structure of the fund and size of your investment
Very high Support by professional investment team and/or investment in training is well recommended	REQUIRED EXPERTISE	Low Opportunity to learn from professional team of fund managers
Significant and recurring No scale advantages. However, some platforms offer to pool and share costs	DUE DILIGENCE COSTS	Low to medium Costs lower (scale advantages) and paid upfront
Self-originated Large personal network required and/or through investor platform	ACCESS TO DEALS	Network Depends on professional network of fund manager



Pymwymic Healthy Ecosystems Fund

The Pymwymic Healthy Ecosystems Fund is a closed-end fund with the Pymwymic Coop as the cornerstone investor. This first fund invests in disruptive and innovative impact companies that seek to conserve and restore our ecosystems: soil and water restoration, the food and fibre supply chain or circular economies. Target sectors are: agriculture and food systems, aquaculture, forestry, water and sanitation, eco-tourism and waste management.

Geography Europe, with global scaling potential	Target size €30 million	Company focus Early and growth stage
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What is special? The fund specifically targets early to growth phase companies, directly addressing the funding gap in the impact field. In addition, management remuneration is directly tied to impact realisation and the Pymwymic Coop provides access to a broad network of experienced investors. The investment cooperative is a tight community of mission-aligned investors with 20+ years of experience in the impact investing field which own and steer the investment holding company. The cooperative provides a strong involvement (e.g. in due diligence) and unique learning opportunity.



Triodos Organic Growth Fund

Triodos Organic Growth Fund offers investors the opportunity to participate in the expanding sustainable lifestyle and organic consumer sector in Europe. The fund takes significant minority or majority equity stakes in mature, privately owned sustainable consumer businesses and delivers positive social and environmental impact by contributing to the long-term development of these values-driven companies.

Geography Europe	Target size €150 million	Company focus Growth and succession capital for leading later-stage companies
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What is special? With this fund, Triodos Investment Management is pioneering a new model for impact investing: mission-aligned private equity with a long-term focus, not driven by exits. This is crucial for the further expansion of the fast-growing sector for organic food and sustainable consumer products in Europe, as the companies in this sector seek capital without being disadvantaged by short-term focussed investors.



eco.business Fund

The eco.business Fund is an open-ended debt fund intent on supporting the promotion of business and consumption practices that contribute to biodiversity conservation, the sustainable use of natural resources, climate change mitigation and adaptation to its impacts. Financing is either provided directly to local businesses that apply sustainable practices or through local financial institutions with the capacity to reach the eco.business Fund’s target group (i.e. local enterprises engaged in business activities related to the fund’s environmental goals).

Geography Latin America	Target size \$250 million (2018)	Company focus Mainly local financial institutions or businesses that require growth capital
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What is special? Like other funds advised by Finance in Motion, the eco.business Fund is structured as a public-private partnership and based on a multiple tier capital structure with participation of public investors, development finance institutions, private qualified investors and institutional investors. In addition, final beneficiaries and local financial institutions can count on high impact technical assistance provided by the eco.business Development Facility, which works hand-in-hand with the fund.





A FEW THINGS TO KEEP IN MIND ABOUT FUNDS

When investing in a fund you are placing your capital in the hands of the fund managers for a set period of time. As an investor, you need to be convinced of the fund's investment strategy and the team's ability to execute its plans. To be able to evaluate impact funds, it is important to understand how they can be different from traditional funds. Below are a few things to keep in mind.¹¹

- While there are significant differences between funds, impact funds are generally still **smaller** in size than traditional, older funds.¹² In case fund size is small, management fees might not be able to cover all expenses; these funds may rely on additional grants or are part of larger financial institutions.¹³
- Average **management fees** for impact funds are generally **higher** than traditional funds.¹⁴ This can be explained by both the smaller average size of impact funds, as well as the additional effort required for impact measurement.¹⁵
- In the impact field, it is more common to find **first-time funds**¹⁶ (the fund has a new strategy that has not yet been executed by this manager before) or even first-time teams (individuals of the team have not worked with each other before), than in the traditional scene.¹⁷ While this is not the case for all funds, first-time funds often address this lack of track record by installing a strong advisory board or by leveraging the expertise of their community (see Pymwymic Healthy Ecosystems Fund on page 12).
- Specifically for PE/VC funds:
 - Impact funds intend to offer patient capital that does not force sale of a company at an unnatural phase of its life cycle. Therefore impact funds are more often designed to have a **longer lifespan** than traditional funds.¹⁸ For this reason, some funds are even able to offer open-ended (evergreen) constructions, allowing your investment to grow with the company (see Triodos Organic Growth Fund on page 12).
 - **Carried interest**¹⁹ and **General Partner commitment**²⁰ may also differ: carried interest and hurdle rates are often lower or even non-existent and General Partner commitment may not be present at all. These terms serve as incentives for the fund manager to realise financial returns, but are often considered to be too strong financially focused. The most recent trend is to include environmental and social metrics into the carry structure to include an incentive with the balance between impact and financial returns (see Pymwymic Healthy Ecosystem Fund on page 12).²¹
- Impact funds sometimes complement their investment activities with **technical assistance**, offering support in business development or capacity building, which reduces risks and increases outreach and impact (see eco.business Fund or other funds advised by Finance in Motion on page 13).²²
- Last but not least, despite the preconception, most impact funds target - and realise - **market rate returns**.²³



CONCLUDING REMARKS

Over the past two decades, a lot has happened in the field of impact investing. We began with a belief of merging people, planet and profit and were willing to take a risk. Our beliefs have not changed along the way, but we certainly have gained a great deal of experience. While sometimes we had to learn the hard way, we would not have wanted to miss a single step. It is still a gift to be able to be the fuel for the next generation of impact companies and contribute to a better world.

We hope our stories ease your journey into this inspiring world called impact investing. We hope we have been able to demonstrate how it has become possible to make mission-aligned investments across all asset classes and specifically what the added value of fund investing is within an impact portfolio.

"I do not regret a single investment I made. Each one made a contribution to a positive future. Some were big winners. Some went wrong, and it was painful. But I learned from every one, we had fun, and always ultimately I came out positive. Maybe not always financially, but in terms of social or environmental gain, we always managed to take a step forward." Frank van Beuningen, Founder Pymwymic, Family Principal.

Our dream is to leave this world in a better condition than it was given to us. Will you join us?

Warmly,
The Pymwymic Community
October, 2017

IN GRATITUDE

We would like to express our thanks to Triodos Investment Management and Finance in Motion who supported the creation of this report and remain committed partners in our community of Impact Investors. Thank you also to our network of experts, colleagues and friends of Pymwymic – Hadewych Kuiper, Sandra Bergsteijn, Milena Bertram and Franziska Salzer to name but a few - who offered their knowledge and experience to help guide our research and findings.

Special thanks to Myleen Verstraete, Frank van Beuningen, Robert Boogaard, Stephen Brenninkmeijer, Rein Goedkoop and those who prefer to stay anonymous, who shared their specific insights in the development of this report.

Finally, thank you to all the brave change-makers, to our loyal community and all impact investors globally, who consistently act and invest in service to our planet and people.



References

¹ Institutional investors are large organizations such as banks, insurance companies or pension funds which have considerable cash reserves that need to be invested.

² Additional information on avoiding common mistakes can be found in Guide to Impact investing, Managing Wealth for Impact and Profit (2011), J. Balandina Jaquier and Guide to Impact Investing, Catalyzing Wealth for Change (2016), J. Balandina Jaquier.

³ Source: The Startup Failure Rate Among Angel-Funded Companies (2015), D.S. Rose. <http://blog.gust.com/the-startup-failure-rate-among-angel-funded-companies/>

⁴ Sources: Construction of an Impact Portfolio: Total Portfolio Management for Multiple Returns (2015). ImpactAssets; Annual Impact Investor Survey (2017), Global Impact Investing Network; Guide to Impact Investing, Catalyzing Wealth for Change (2016), J. Balandina Jaquier.

⁵ Source: Evolution of an Impact Portfolio: From Implementation to Results (2013), Sonen Capital.

⁶ TONIIC's 100% Impact Network with more than 85 members. Source: <http://www.toniic.com/100-impact-network/>

⁷ ImpactBase is a global online directory of impact investment vehicles powered by the Global Impact Investing Network (GIIN). As of today, ImpactBase counts over 200 private equity or venture capital funds. 92% of the funds in their database were founded after 2005.

⁸ Since 2015, Cambridge Associates publishes a quarterly benchmark based on data compiled from 71 funds formed between 1998 and 2014 and invested with the intent to create positive social impacts.

⁹ Technical assistance is non-financial assistance, such as in the form of sharing information and expertise, instruction, skills training, transmission of working knowledge, or consulting services.

¹⁰ Source: Guide to Impact investing, Managing Wealth for Impact and Profit (2011), J. Balandina Jaquier.

¹¹ See Balandina Jaquier (2016) for a checklist for fund due diligence.

¹² Source: ImpactBase Snapshot, An Analysis of 300+ impact investing funds (2015), ImpactBase.

¹³ Source: Guide to Impact investing, Managing Wealth for Impact and Profit (2011), J. Balandina Jaquier.

¹⁴ It is difficult to compare management fees across individual companies. Funds differ in the extent to which they include all costs in management fees (or charge additional costs along the way).

¹⁵ Source: Guide to Impact investing, Managing Wealth for Impact and Profit (2011), J. Balandina Jaquier.

¹⁶ According to ImpactBase (2015), 12% of funds report having a new fund manager, 32% has fund manager with a track record (but fund does not have a track record), 20% of funds have less than three years of track record and 36% have more than three years of track record.

¹⁷ Source: Guide to Impact investing, Managing Wealth for Impact and Profit (2011), J. Balandina Jaquier.

¹⁸ Source: Private Equity and Impact Investing, A Primer for Families (2016), The ImPact.

¹⁹ If the fund performance is beyond a certain hurdle rate (typically 8%), the fund manager receives a share of the profits (typically 20%) that are beyond this hurdle.

²⁰ The GP commitment is the amount of capital that the fund manager has to invest in a fund (from personal sources) alongside your capital as an investor. For traditional funds this is typically 1%.

²¹ Source: Guide to Impact investing, Managing Wealth for Impact and Profit (2011), J. Balandina Jaquier.

²² Source: Guide to Impact investing, Managing Wealth for Impact and Profit (2011), J. Balandina Jaquier.

²³ Sources: Annual Impact Investor Survey (2017), Global Impact Investing Network; ImpactBase Snapshot, An Analysis of 300+ impact investing funds (2015), ImpactBase; Introducing the Impact Investing Benchmark (2015), Cambridge Associates and the Global Impact Investing Network.

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