

Social Impact Measurement Use Among Canadian Impact Investors

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ACRONYMS

| | |
|--------------|---|
| ESG | Environmental, Social and Governance |
| GIIRS | Global Impact Investing Rating System |
| GJ | Gigajoules |
| HRSDC | Human Resources and Skills Development Canada |
| IRIS | Impact Reporting and Investment Standards |
| LEED | Leadership in Energy and Environmental Design |
| LP | Limited Partnership |
| SRI | Socially Responsible Investing |

EXECUTIVE SUMMARY

1.0 Project Context

This document reports on the activities and results of the project, “Social Impact Measurement Use Among Canadian Impact Investors”, funded by the Community Development and Partnerships Directorate, Human Resources and Skills Development Canada (HRSDC). The purpose of this project is to identify needs and priorities for Canadian impact investors as they relate to social impact measurement.

2.0 Overview of Impact Investing

In Canada and internationally, there is a growing movement towards the creation of social, environmental and economic value in addition to financial returns. A diverse group of actors including individual and institutional investors, ventures, non-profit organizations and government are coalescing around the concept of impact investing.

Impact investments are “investments intended to create positive impact beyond financial returns” (O’Donohue et al., 2010).

Impact investors are *intentional* in their efforts to generate both social and/or environmental outcomes and a range of financial returns, from return of principal to above-market returns, to the investor.

Just as a variety of financial indicators help investors to assess potentially profitable opportunities, inform investment decisions, and allow for monitoring of their investments, those seeking to generate non-financial returns use non-financial indicators to

inform their investment decisions. These indicators, what are generally termed ‘social metrics’, are often used to analyze and monitor the social or environmental outcomes or impact of a project, venture, or organization.

In order to deploy capital, investors must have confidence that their investments will generate the financial and social returns they have targeted. In spite of growing interest in impact measurement, there remains a great deal of confusion amongst investors due to fragmentation in the approaches and tools used to measure impact.

This report aims to identify needs and priorities for Canadian impact investors as they relate to social impact measurement. The key objectives were to determine:

- The extent to which Canadian impact investors are knowledgeable about social impact metrics;
- The extent to which Canadian impact investors rely on social impact metrics to make investment decisions;
- The kinds or variety of specific applications or tools that Canadian impact investors use;
- Whether a framework exists that would: a) reduce barriers for greater investment from social finance investors; b) coalesce social finance investors in the field of social impact measurement; and c) include information on ‘lessons learned’ and ‘failures’, to demonstrate the legitimacy and genuineness of evaluation; and,
- An understanding of what Canadian impact investors and potential impact investors need to see regarding the social impact of an enterprise before choosing to invest.

This report also identifies opportunities for HRSDC’s Community Development and Partnership Directorate to develop policy options and present strategic guidance to senior management on issues that have implications for the development of the impact investment marketplace in Canada.

3.0 Methodology

The methodology consists of targeted primary and secondary data collection. This included a comprehensive literature review of key publications on the relationship between investors and social metrics and twenty-two key informant interviews with investors who have experience in impact investing and/or potential interest in the area.

Readers are cautioned that the findings from key informant interviews should be considered anecdotal as the project's sample size does not justify any broad conclusions about the perspectives of Canadian impact investors as a whole.

4.0 Results

Who are Impact Investors?

As in the traditional investment universe, impact investors vary in the nature of their motivations, assets, risk and return expectations, and social impact objectives. Most investors have both financial and impact goals that they seek to balance through their investment decisions.

Why Metrics Matter

Investors use social impact metrics for a variety of purposes and these purposes influence the ways that investors use them.

Measurement Principles, Approaches and Tools

There is no silver bullet when it comes to social impact metrics, there are only approaches that are well suited for use in a particular context.

Metrics Types

Investors must account for a variety of factors when choosing between several different types of metrics.

Key informants indicated a preference for outcome and impact

measurements, yet very few are able to collect this information and instead rely on outputs.

Scale of Analysis

Investors differ on the scale of analysis they use when monitoring social metrics – ranging from the investment level, to the portfolio level, to both. At the investment level, metrics are collected only as they pertain to a single investment. At the portfolio level, metrics are collected from all of an investor's investments to capture the overall impact of an investor's activities. Most informants were able to monitor metrics at the investment level, while a few key informants measure metrics at the portfolio level. Less than half of informants monitor metrics at both the portfolio and individual levels, due to the challenge of capturing the sector-specific nature of impacts at the portfolio level.

Principles, Approaches and Tools

Key informants noted that their measurement principles, approaches and tools vary by investment, by sector, by size and by asset class. Frameworks used include Theories of Change, GIIRS, IRIS, ESG Screens, Social Return on Investment, Cost Benefit Analysis, Sustainable Livelihoods and Case Studies.

Limitations

Investors are keenly aware of the limitations and challenges of existing measurement frameworks. These include comparability, standardization, and cumbersomeness. Amongst investors, there is a desire for comparability and consistency in measurement. More than half of key informants indicated that they, or their ventures on their behalf, use a customized/proprietary measurement system. Most key informants felt that existing standardized metrics frameworks do not meet their needs, due to the nature and diversity of their investments. Customization has resulted in a diversity of measurement methods which have contributed to investor confusion in the field of measurement.

When Investors Use Social Metrics

As discussed, investors use metrics at different times and for different purposes throughout the investment lifecycle.



Value Definition

By definition, an impact investor's investment decisions are guided by an intention to have a positive social or environmental impact. One tool that is commonly used by investors during this phase is a theory of change. A theory of change is a map that describes the "process of planned social change, from the assumptions that guide its design to the long-term goals it seeks to achieve" (Community Foundations of Canada, 2012). While the literature suggests a strong role for theories of change in the investment process, our key informants lacked consensus on its value.

Due Diligence

Most key informants use social impact metrics in the due diligence or investment screening phase, though these metrics are used in different ways depending on the type of investor. Social metrics can serve as risk mitigation tools, commonly achieved through the use of environmental, social and governance (ESG) screens. Metrics can also help investors to capture the long-term value inherent in many impact investments.

Many of the key informants had strongly defined investment themes or parameters, such as the social economy, clean tech, and environmental consumer products. Key impact metrics allow investors to screen potential investments to make sure they fit with their investment focus and expertise.

While many investors favour quantitative data, several investors noted the importance of qualitative factors in their decision making.

The use or lack of use of social metrics can make or break an investment decision at the due diligence phase. Many key informants had previously chosen not to invest in an organization because it was unable to prove its social impact.

While key informants take the social impact of their investments seriously, they also stressed the importance of being flexible, particularly for early stage ventures that have not yet developed a track record.

Monitoring

Once the due diligence process is complete and an investment has been made, investors monitor their investments to ensure that their financial and social objectives are being met. Investors will continue to monitor social metrics up until an exit from an investment, though they differ in terms of how frequently they measure and face challenges in accessing data. Many key informants argued that metrics should be an intrinsic part of both the management of the organization and the monitoring of progress. Investors face several challenges related to data acquisition in the monitoring phase.

Reporting

When an investment is completed, metrics help investors to "understand the value achieved" by quantifying or describing the change brought about by an investment (Robertson, 2012). Metrics are also helpful to investors who report on this value to their stakeholders. Accountability and marketing are key drivers for reporting on impact, while attribution remains a challenge.

Challenges

Costs of Social Measurement

Investors want to see demonstrable evidence that investments made in the measurement of an organization's impact will be useful and cost-effective in the development of the venture (Golden et al., 2010). With limited resources available, many investors are reluctant to divert resources from operations to measurement. Some investors noted that they pick organizations that already view measurement as a key part of their business.

Use of Third Party Metrics Service Providers

Third party metrics service providers are one option for investors seeking to measure impact and add credibility to their findings. Some investors choose to collect and manage social impact data in house, while others leave measurement to the venture.

Competing Priorities

Investors face many competing priorities for their time and resources. Many of the key informants downplayed the role that social metrics play in their operations and in their ability to achieve their social and financial objectives. Investors expressed particular concern about having their investees divert attention from operations to conduct measurement.

5.0 Recommendations

While investor perspectives on metrics are highly individualized, a few themes have emerged around key areas for the future development of the field of measurement. Recommendations have been categorized by target group.

For Investors

1. **Collaborate with other investors on due diligence**
2. **Share sector-based strategies for metrics**
3. **Clarify why metrics matter**

For HRSDC and Other Government Agencies

1. **Support collaboration between stakeholders related to metrics**
2. **Support ventures as they strengthen their financial and social reporting**
3. **Create incentives for investors and ventures to work together on social impact measurement**
4. **Encourage the creation of policy/regulation that advances social impact measurement**
5. **Encourage the use of non-financial indicators in government procurement and reporting**
6. **Pursue further research to understand whether the findings of this report are reflective of the broader Canadian investment community.**
7. **Enhance understanding of investment structures that incentivize the alignment of financial and social returns**
8. **Develop an understanding of the use of social metrics in social impact bonds**
9. **Develop an understanding of ventures' use of social metrics**
10. **Explore the use of social metrics and how they differ by investor type**
11. **Explore the use of social metrics by foundations, specifically differentiated by impact first and finance first**

6.0 Conclusion and Next Steps

Impact investing continues to build momentum as new capital is placed in ventures that generate both financial returns and social impact. As the field grows, it is anticipated that the role of social metrics will also grow, helping both investors and ventures to define value, make decisions that yield the greatest financial and social value, monitor progress and report to their stakeholders. Investors will continue to face issues of cost and competing priorities until measurement is more fully integrated into the operations of social ventures. To facilitate this process, this report has provided a number of recommendations to investors and government that could reduce upfront costs through enhanced collaboration, understanding, and support. Follow up research could enhance the applicability of the findings of this report to the broader Canadian impact investment community, as well as exploring potential applications for different types of investors and investment vehicles.

**SOCIAL IMPACT
MEASUREMENT
AMONG CANADIAN
IMPACT INVESTORS**

SOCIAL IMPACT MEASUREMENT

1.0 Project Context

This document reports on the activities and results of the project, “Social Impact Measurement Use Among Canadian Impact Investors”, funded by the Community Development and Partnerships Directorate, Human Resources and Skills Development Canada (HRSDC).

The project aims to identify needs and priorities for Canadian impact investors as they relate to social impact measurement.

The key objectives of the project are to determine:

- The extent to which Canadian impact investors are knowledgeable about social impact metrics;
- The extent to which Canadian impact investors rely on social impact metrics to make investment decisions;
- The kinds or variety of specific applications or tools that Canadian impact investors use;
- Whether a framework exists that would: a) reduce barriers for greater investment from social finance investors; b) coalesce social finance investors in the field of social impact measurement; and c) include information on ‘lessons learned’ and ‘failures’, to demonstrate the legitimacy and genuineness of evaluation; and,
- An understanding of what Canadian impact investors and potential impact investors need to see regarding the social impact of an enterprise before choosing to invest.

This report also identifies opportunities for the Community Development and Partnerships Directorate to develop policy options and present strategic guidance to senior management on issues that have implications for the development of the impact investment marketplace in Canada. Additionally, it will serve as a foundation to support further work in this area by suggesting next steps for project stakeholders. This report is designed to be useful to both impact investors and government officials in providing a general overview of social metrics, how they are used, and what can be done to support their development.

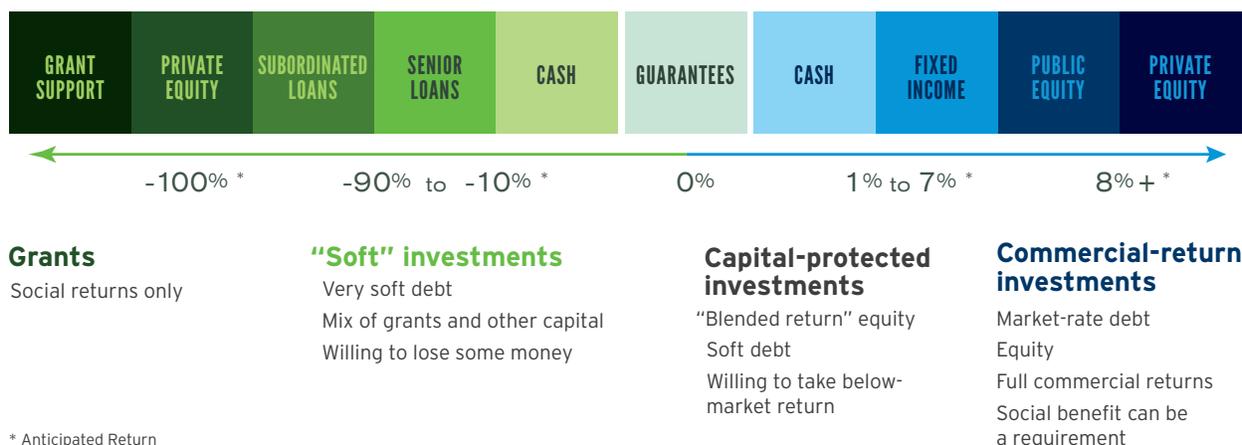
2.0 Overview of Impact Investing

In Canada and internationally, there is a growing movement towards the creation of social, environmental and economic value in addition to financial returns. A diverse group of actors including individual and institutional investors, ventures, non-profit organizations and government are supporting the development of concepts, tools and models that

social metrics can be just as important and relevant as financial indicators, given the intentional nature of impact investments to generate positive social and environmental outcomes.

Figure 2 describes the way the social ventures create non-financial value and where this value can be measured. It also defines several different types of social metrics: inputs, outputs, outcomes and impact. Inputs

Figure 1: The Spectrum of Impact Investment



take social, environmental, economic and financial value into account. Many of these actors are coalescing around the concept of impact investing.

Impact investments are “investments intended to create positive impact beyond financial returns” (O’Donohue et al., 2010).

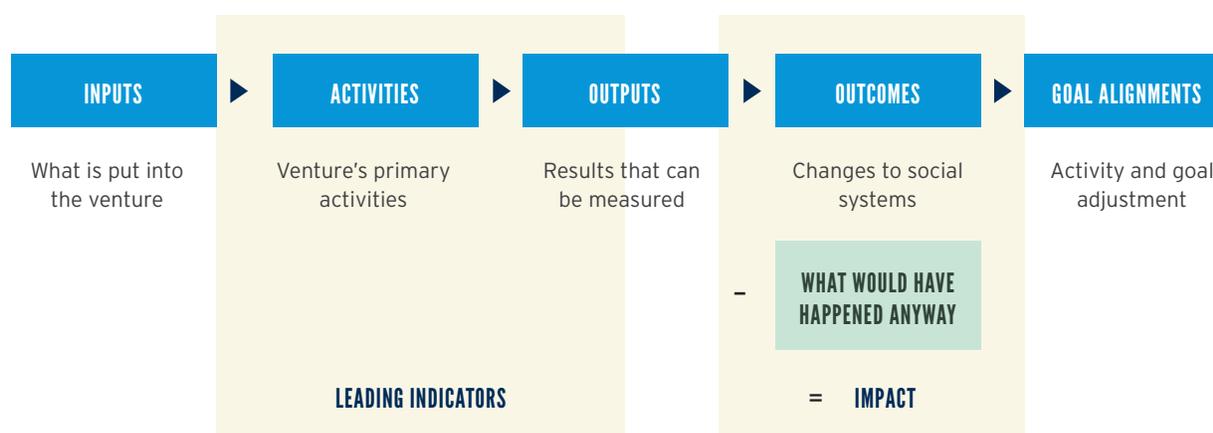
Impact investors are intentional in their efforts to generate both social and/or environmental outcomes and a range of financial returns, from return of principal to above-market returns, to the investor (see Figure 1).

Just as a variety of financial indicators help investors to assess potentially profitable opportunities, inform investment decisions, and allow for monitoring take of their investments, those seeking to generate non-financial returns use non-financial indicators to inform their investment decisions. These indicators, what are generally termed ‘social metrics’, are often used to analyze and monitor the social or environmental outcomes or impact of a project, venture, or organization. Depending on the investor’s needs,

are measures of the resources required to operate a venture (e.g. staff time). Outputs are measures of a venture’s activities and operations (e.g. number of workshops offered). Outcomes are measures of specific changes in attitudes, behaviours, knowledge, skills, status of level of function that result from a venture’s activities (e.g. increases in income levels). Impacts are measures of the difference between the outcome created by a venture’s activities and the outcome that would have occurred without the venture (e.g. home ownership) (Clark et al., 2004).

In order to deploy capital, investors must have confidence that their investments will generate the financial and social returns they have targeted. In spite of growing interest in impact measurement, there remains a great deal of confusion amongst investors. One of the main challenges is fragmentation in the approaches and tools to measure impact, which has resulted in a lack of consistency and transparency in how impact is captured and communicated. Globally, the Impact Reporting and Investment Standards (IRIS) and the Global Impact Investing Rating System (GIIRS) have gained visibility in recent years. At the same time, a host of smaller, decentralized initiatives continue to exist.

Figure 2: Impact Value Chain



Source: Clark, C., W. Rosenzweig, D. Long and S. Olsen (2004). Double Bottom Line Project Report: Assessing Social Impact In Double Bottom Line Ventures. Methods Catalog. Available at http://www.community-wealth.org/_pdfs/articles-publications/social/paper-rosenzweig.pdf

- The kinds or variety of specific applications or tools that Canadian impact investors use;
- Whether a framework exists that would: a) reduce barriers for greater investment from social finance investors; b) coalesce social finance investors in the field of social impact measurement; and c) include information on 'lessons learned' and 'failures', to demonstrate the legitimacy and genuineness of evaluation; and,
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This report also identifies opportunities for HRSDC's Community Development and Partnership Directorate to develop policy options and present strategic guidance to senior management on issues that have implications for the development of the impact investment marketplace in Canada. Additionally, it will serve as a foundation to support further work in this area by suggesting next steps for project stakeholders. This report is designed to be useful to both impact investors and government officials.

3.0 Methodology

The methodology consists of targeted primary and secondary data collection. This approach was designed to yield an overall assessment of the importance of social metrics for investors, as well as an identification of specific needs and priorities. Drawing on prior experience and expertise on social metrics, a comprehensive literature review was conducted and further contextualized by key informant interviews.

3.1 Literature Review

A comprehensive literature review was undertaken between September 10th and September 21st, 2012. The review targeted key publications on the relationship between investors and social metrics. A full list of documents consulted can be found in the Sources section of this document.

Consistent with the focus of HRSDC, the review focused on Canadian materials wherever possible. Recognizing that other jurisdictions have made important progress on the use of social metrics, the project team also drew on international sources where key best practices were identified. Publications were selected on the basis of recommendations from HRSDC as well as our own knowledge of relevant literature on best practices, lessons learned and recommendations related to the use of social metrics.

3.2 Key Informant Interviews

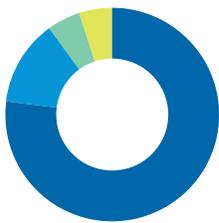
A series of key informant interviews were conducted between October 8th and November 16th to identify specific needs and priorities of investors with regards to social metrics.

Forty-six Canadian investors were considered as potential key informants; these individuals were identified as having existing experience in impact investing and/or potential interest in the area. These individuals were identified through a combination of approaches: reaching out to key investor networks, contacting social impact professionals, and tapping into the project team's substantial networks. Of the thirty-three investors that were contacted, twenty-two participated in key informant interviews. Key informants represented a range of geographical areas and reflected a diversity of preferences with regards to financial and social returns as reflected in the figures below.

Development of Questionnaire: To guide key informant interviews, the project team developed a questionnaire which attempted to surface investors' perspectives on the use of social metrics, as well as key challenges and opportunities. The questionnaire is included in Appendix A.

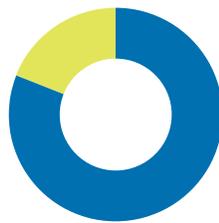
Interview Process: A member of the project team contacted potential key informants via email to explain the nature of the project and to request their participation. A copy of this email is included in Appendix A. Interview questions were sent in advance to interviewees. Semi-structured interviews were conducted via phone and lasted between 30-60 minutes.

Analysis of Findings: Members of the project team made detailed notes during each of their interviews. After each interview, key themes and findings were identified as they related to the objectives of the project. Once all interviews were completed, the project team met to share and synthesize key findings and conclusions.



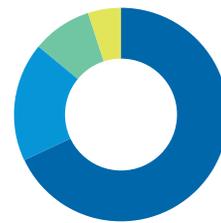
Key Informants by Investor Type

| | |
|-------------------|-----------|
| Institutional: | 17 |
| Service Provider: | 3 |
| Government: | 1 |
| Individual: | 1 |



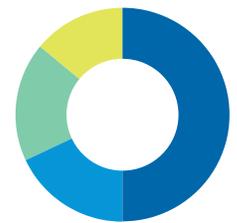
Key Informants by Experience with Impact Investment

| | |
|---------------|-----------|
| Has made: | 18 |
| Has not made: | 4 |



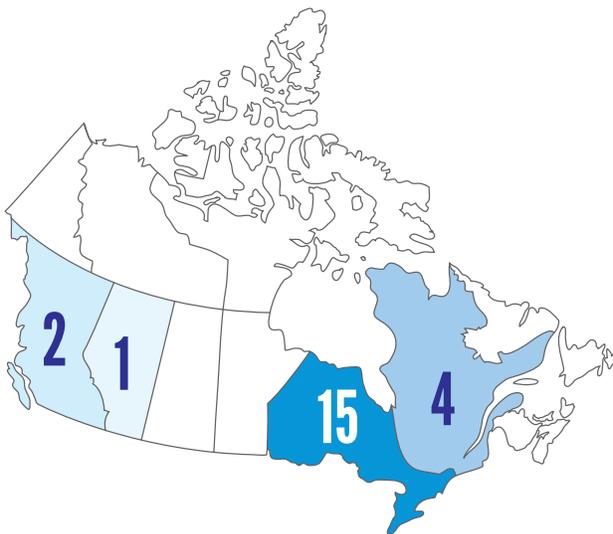
Key Informants by Years of Experience in Impact Investing

| | |
|------------|-----------|
| Not at all | 4 |
| 0-2 years | 2 |
| 2-5 years | 1 |
| 5+ years | 15 |

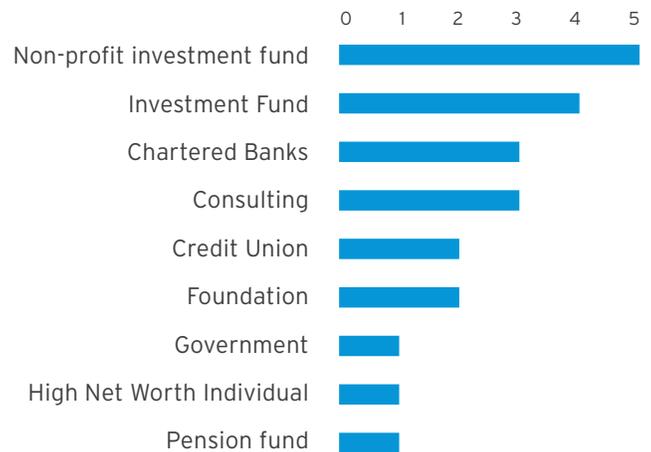


Key Informants by Percentage of Total Funds in Impact Investments

| | |
|------------------------|-----------|
| 0-10% | 3 |
| 91-100% | 11 |
| Not an Impact Investor | 4 |
| Unknown | 4 |

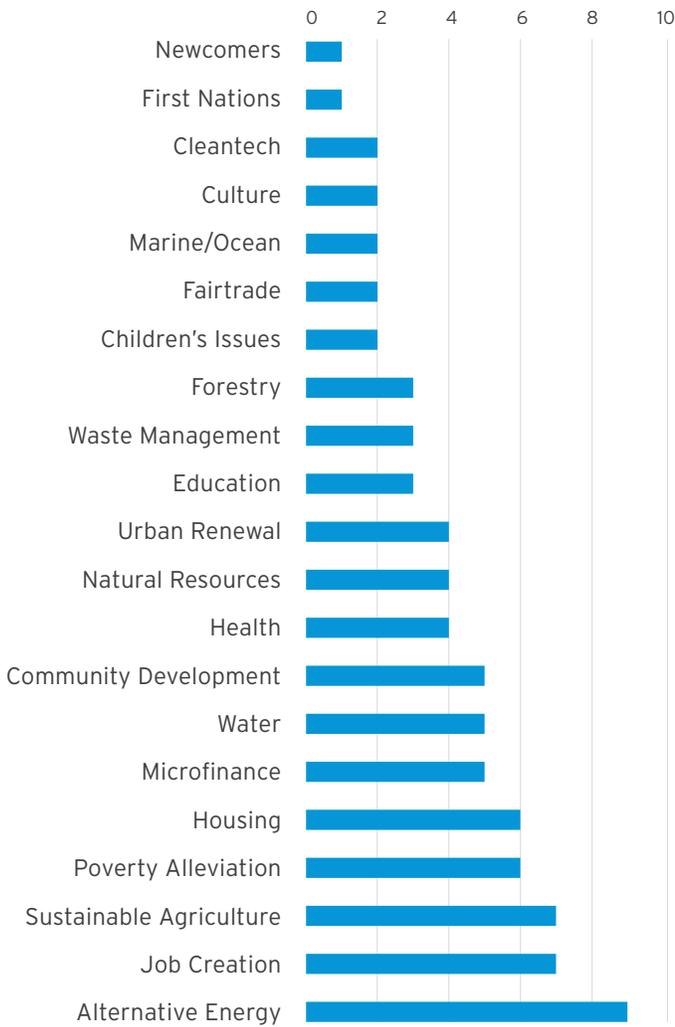


Geographic Distribution of Key Informants

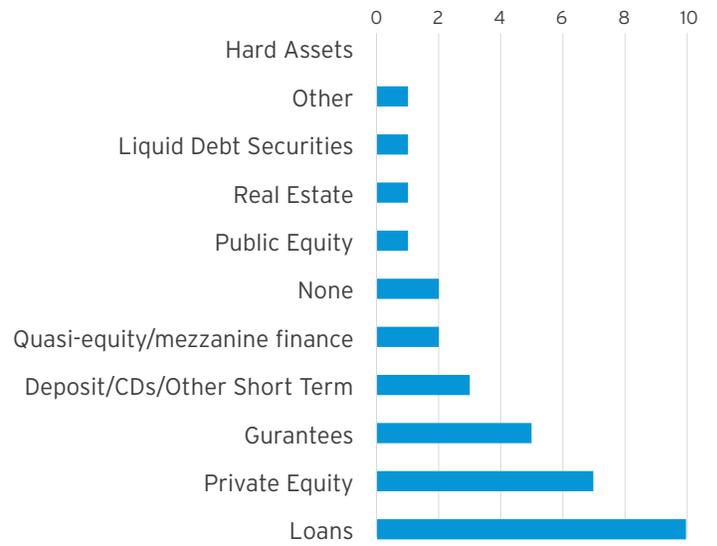


Key Informants by Organization

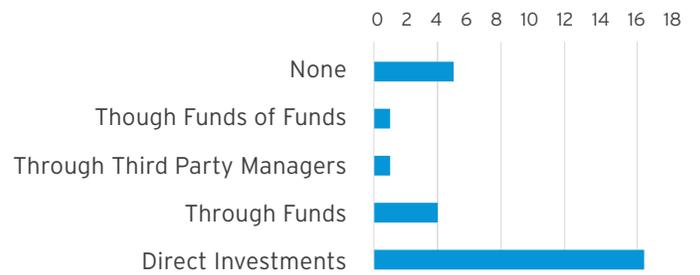
Key Informants by Impact Investment Focus



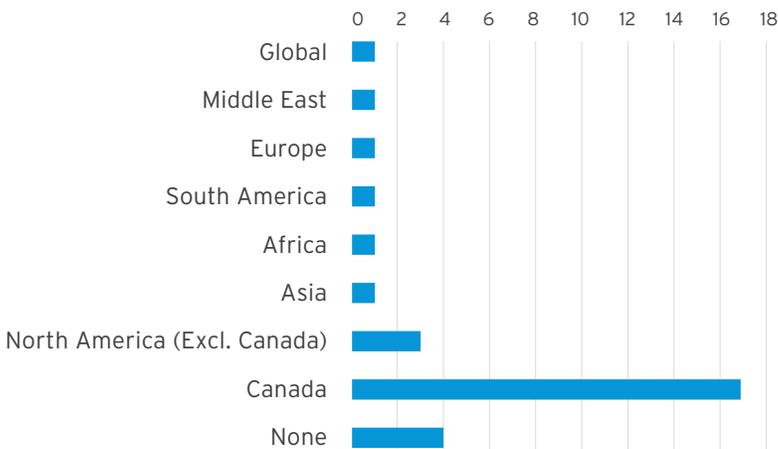
Key Informants by Type of Securities



Key Informants by Directness of Impact Investments



Key Informants by Geography of Investment



3.3 Limitations

While this methodology was designed to deliver robust results, it is important to acknowledge and account for some of its potential limitations.

Inconsistency around language: The sector continues to face challenges with language, where terms that are often used interchangeably are in fact not. There can also be misunderstandings of what terms represent or not, given the nascent nature of social finance in Canada. The project team attempted to address this by providing clear and concise explanations of all terms used¹.

Bias towards active impact investors: Since interviewees were targeted based on their current or prospective work with social metrics, it is very likely that they were disproportionately well-versed in social metrics relative to other investors. Even though this report was intentionally targeting this segment, it may result in the perception of higher clarity and sophistication of social metrics than is representative of a broader range of investors. As such, we have included appropriate introductory context and additional references in the report for those less familiar with this topic.

International measurement challenges:

There are a variety of persistent measurement challenges at the international level that affect Canadian investors.

For example, the standardization versus customization of measurement approaches, and shared versus proprietary frameworks. While this report attempts to describe how selected Canadian investors are interpreting these challenges, it is not the purpose of this report to resolve them.

International jurisdictions have made more progress than Canada: While HRSDC has expressed a preference for Canadian sources and perspectives, in many cases, international actors are working at the forefront of measurement issues. As a result, many of the most current best practices, lessons, and recommendations will come from an international context, and may not have been tested in Canada yet. Our team has incorporated examples from across the globe into our deliverables, but note that many practices have yet to be adapted for use in Canada.

¹For definitions used, please see Appendix A: Questionnaire

4.0 Results

This section presents the key findings from key informant interviews and literature review. It is divided in the following ways:

- **Section 4.1** explores who impact investors are;
- **Section 4.2** outlines why social metrics matter to them;
- **Section 4.3** presents the measurement principles, tools and approaches used;
- **Section 4.4** discusses the stages of the investment process when investors use metrics;
- **Section 4.5** discusses the challenges of measurement; and,
- **Section 4.6** outlines the competing priorities investors face.

Readers are cautioned that the findings from key informant interviews should be considered anecdotal as the project's sample size does not justify any broad conclusions about the perspectives of Canadian impact investors as a whole.

4.1 Who are Impact Investors?

As in the traditional investment universe, impact investors vary in the nature of their motivations, assets, risk and return expectations, and social impact objectives. In this section, the different types of impact investors are presented.

Characteristics of Finance First and Impact First Investors

| Finance First | Impact First |
|--|--|
| - Seek to optimize financial returns | - Seek to optimize social or environmental impact |
| - Minimum requirement for social or environmental impact | - Minimum requirement for financial returns |
| E.g. Banks, pension funds, development finance funds | E.g. Foundations, family offices, impact investing funds |

A key distinction must be made between the motivations of financial-first and impact-first investors. "Financial first investors seek to optimize financial returns, with a minimum requirement for social or environmental impact. They are generally commercial investors searching for subsectors that offer a market rate of return but yield some social good"

(Thornley and Dailey, 2010). Banks, pension funds, and development finance funds tend to be classified as finance-first (E.T. Jackson and Associates, 2012). "Impact-first investors seek to optimize social or environmental performance while maintaining a floor for financial returns. They accept a range of returns, from principal-only to market rate, and seek social good as a primary objective" (Thornley et al., 2010). Foundations, family offices and impact investing funds tend to be classified as impact-first (E.T. Jackson and Associates, 2012).

Most investors have both financial and impact goals that they seek to balance through their investment decisions.

Of the key informants, four identified as finance-first investors, eleven identified as impact first investors and six identified as balancing impact and finance goals.

While not the focus of this report, it should be noted that ventures themselves also engage in impact measurement. Ventures use measurement "to determine if they are making a difference, to market to customers/stakeholders, to secure or maintain funding and to improve the services or products they deliver and their organizational processes" (Golden, Hewitt and McBane, 2010).

4.2 Why Metrics Matter

Investors use social impact metrics for a variety of purposes. The way investors use metrics differs substantially based on the purpose for which they are using them. "For some impact investing actors, social measurement is important to prove impact. Others believe that improving the nature of the venture should be the priority of assessment" (E.T. Jackson and Associates, 2012). As Thornley and Dailey (2010) suggest, "understanding investor preferences and behaviors is critical to more effectively measuring performance." In this section, the importance of metrics to different types of investors is explored.

While "impact-first funders ... will generally require more sophisticated social or environmental measurement tools to really quantify the degree of impact from their funding ... Investors seeking blended financial and social/ environmental impact returns will generally use outcome measures that are defined by a social purpose business, specific to its social mission and its execution plan, in reporting to their investors" (Golden et al., 2010). According to Golden

et al. (2010), “investors who are primarily motivated by financial returns or investment-first investors in the social capital market require impact measurements that are simple and easy for the average investor to understand.”

These different ends mean that investors use metrics in different ways. “Each investor - be it a bank, a public sector pension fund, an insurance company, a foundation, or a faith-based organization - places a different value on nonfinancial return. Further, their investments in different sectors reflect their various missions and visions (such as investments in job creation, support for emerging domestic markets, or construction of affordable housing). These differences are a significant barrier to any attempt to distill the interests, preferences, and aspirations of all investors into a single industry-wide nonfinancial performance measurement practice” (Thornley et al., 2010). The diversity of investor preferences is reflected in the “proliferation of nonfinancial performance measurement tools and practices” (Thornley et al., 2010).

At the field level, social metrics are essential to support the development of social finance tools and investment vehicles (Wisener and Anderson, 2010) and to attract capital (Golden et al., 2010; Thornley et al., 2010).

As will be discussed in the following sections, key informants indicated that they use metrics in many different ways for many different purposes throughout the investment lifecycle.

4.3 Measurement Principles, Approaches and Tools

There is no silver bullet when it comes to social impact metrics. Indeed as E.T. Jackson and Associates (2012) point out “...the ongoing market-building phase of impact investing will likely continue to be characterized by numerous impact assessment initiatives operating in parallel, sometimes in conflict and sometimes in cooperation.” Current literature urges interested parties to shift to an “investor-centered perspective [rather than using] particular metrics as the focal point of innovation ... a more complete understanding of investor preferences will lead to a more robust regime of measurement” (Thornley et al., 2010).

The “right” approach to measurement, it follows, is defined by an investors’ risk tolerance, desired financial return, sector of investment, geography, and the quality of information the investor requires (Olsen

and Galimidi, 2008). In this section, the different principles, approaches and tools investors use in measurement are explored.

4.3.1 Metrics Types

Investors have a variety of factors to consider when deciding what types of metrics to use. While they may prefer to measure outcomes and impacts, they may opt to primarily use output metrics and to use outcomes and impact metrics only where strictly necessary.

While informants favour outcome and impact measurements, very few are able to collect this information.

All of the informants who collect social metrics indicated that outputs are the easiest to collect and standardize. As one service provider said, “Many companies coming into this field may not have thought about measurement before. They may never have measured outcomes. We need to make metrics credible, accessible and verifiable but it is unrealistic to expect companies to jump into outcome measurement right away.”

Investors want to get beyond outputs but outcomes are proving to be a difficult hurdle to tackle. As one foundation program officer said, “I’m starting to think that I don’t even want to focus on outcomes. We should talk about it and be aware at the theory of change level but not at the measurement level. It’s complex and even if you find an appropriate metric, there is so much analysis and work that needs to go into proving that a certain percentage of the outcome is related to my intervention.” This approach is reflected in some of the major measurement initiatives, such as GIIRS and IRIS, which only reflect output metrics. Moving forward, investors may choose to adopt outcome metrics where they are strategically advantageous, rather than aim to measure these indicators across the board. For example, if an outcome metric is essential to securing funding, customers or community support for a venture. Where outcome metrics are resource-intensive or not essential to a venture’s success, investors expressed a preference to work with output data that is easier to obtain.

4.3.2 Scale of Analysis

Key informants differ on the scale of analysis they use when monitoring social metrics - ranging from the investment level, to the portfolio level, to both. At the investment level, metrics are collected only as they pertain to an investment in a single venture. At

the portfolio level, metrics are collected from all of an investor's investments to capture the overall impact of an investor's activities.

Most informants were able to monitor metrics at the investment level. This scale allows them to recognize and account for the differences in impact, region, size, and focus of each of their investments. For example, an investor at a private investment fund focused on sustainable agriculture said, "Our companies are so diverse that we need to measure at the investment level to capture their non-financial value."

A few key informants measure metrics at the portfolio level. This level of measurement allows investors to capture the impact of all of their investing activities, rather than just that of one investment. To do so, they identify a set of core indicators that are common to each of their investments. One metrics service provider justified this decision by saying, "While there is variation among industries, there is some commonality between all of the companies in our universe that we can report on at the portfolio level."

Less than half of informants monitor metrics at both the portfolio and individual levels, due to the challenge of capturing the sector-specific nature of impacts at the portfolio level. As one investor said, "Each of our companies is too diverse. Measurements at the portfolio level wouldn't have any real value." In this manner, an investor chooses a scale of analysis which reflects his or her priorities and focus areas.

4.3.3 Principles, Approaches and Tools

Key informants were asked what principles, approaches and tools they use in their measurement. Informants noted that their approaches vary by investment, by sector, by size and by asset class. The following table summarizes their feedback on the strengths and weaknesses of each framework. A more thorough analysis of measurement frameworks is included in Appendix B. A sample GIIRS assessment is included in Appendix C.

Table 2: Measurement Frameworks used by Key Informants²

| TOOL | DESCRIPTION | USED BY | USED FOR | LIMITATIONS |
|-------------------------|---|--|---|---|
| Theory of Change | A map that describes the "process of planned social change, from the assumptions that guide its design to the long-term goals it seeks to achieve" (Community Foundations of Canada, 2012). Its focus is on activities and outputs. | <ul style="list-style-type: none"> • Foundations • Non-profit Investment Funds • Ventures | <ul style="list-style-type: none"> • Clarifying social objectives • Determining appropriate metrics • Identifying long term direction of an organization | <ul style="list-style-type: none"> • Captures only anecdotal evidence |
| GIIRS | GIIRS Ratings & Analytics represents a set of third-party assessments of the social and environmental impact of both companies and funds. GIIRS assesses companies as well as funds and their portfolio companies on four performance areas: governance, workers, community and environment | <ul style="list-style-type: none"> • Ventures • Investment Funds | <ul style="list-style-type: none"> • Benchmarking with other investment opportunities • Improving transparency • Improve a venture's operations | <ul style="list-style-type: none"> • Not suitable for non-profits • Long survey |

² This table is intended to capture the comments of key informants on specific measurement frameworks. It is not intended to be representative of the entire sector's perspective on these frameworks.

TOOL**DESCRIPTION****USED BY****USED FOR****LIMITATIONS****IRIS**

IRIS provides a standardized taxonomy and a set of consistent definitions for social, environmental and financial performance. IRIS is intended to co-exist with the Global Impact Investing Rating System, in order to provide a common language for output indicators.

- Investment Funds

- Increasing comparability
- Increasing standardization

- Doesn't measure outcomes or impact
- Not applicable to projects outside the Global South

ESG Screens

ESG Screens are environmental, social and governance criteria which are used to filter out companies and sectors that are considered harmful to people, communities and the environment from an investor's portfolio or to include companies with leading environmental, social and governance track records.

- Consultants
- Pension Funds

- As a proxy for sustainable management
- Suited to a socially responsible investing (SRI) approach

- Doesn't measure outputs, outcome or impact

Social Return on Investment (SROI)

A set of guidelines for the measurement of non-financial impact per investment. SROI involves the calculation of "social cash flows" for outcomes describable in monetary terms, and a net present value calculation of these to arrive at a return on investment (ROI) ratio.

- Chartered Banks

- High level analysis
- Filtering investment opportunities

- Labour intensive
- Aggregated figures mask assumptions and errors
- Difficult to access geographically appropriate proxy information
- Difficult to prove attribution

Cost Benefit Analysis

An analysis in which the costs and social impacts of an investment are expressed in monetary terms and then assessed according to net present value, the benefit-cost ratio or the internal rate of return.

- Government

- Payment by results contracts

- Doesn't capture any indirect non-financial impacts

| TOOL | DESCRIPTION | USED BY | USED FOR | LIMITATIONS |
|--------------------------------|---|---|---|---|
| Sustainable Livelihoods | Sustainable Livelihoods is an asset mapping process which measures the specific financial, social, personal, physical and human assets an individual or community may have. The framework then helps to identify what assets must be built through the intervention and re-assess these assets to measure progress towards poverty reduction. | <ul style="list-style-type: none"> • Non-Profit Investment Funds | <ul style="list-style-type: none"> • Capturing the complexity of employment issues | <ul style="list-style-type: none"> • Not easily comparable |
| Case Studies | A description of the inputs, activities, outputs, outcomes and impacts of an intervention. | <ul style="list-style-type: none"> • Investment Funds | <ul style="list-style-type: none"> • Communicating to stakeholders • Conveying impact in a simple way • Capturing broader community level impact | <ul style="list-style-type: none"> • Not a precise measure of impact |

4.3.4 Limitations

Investors are keenly aware of the limitations and challenges of existing measurement frameworks. These include comparability, standardization, and cumbersomeness.

4.3.4.1 Comparability and Standardization

Amongst investors, there is a desire for comparability and consistency in measurement. "In business, we have established generally accepted principles of accounting and an international legal infrastructure to help manage the reporting of financial returns. A comparable standard for social impact accounting does not yet exist" (Clark et al., 2004), though GIIRS and IRIS are one such attempt. Confusion exists around the language used by different actors in the field of impact investing (Clark et al., 2004; Thornley et al., 2004) as well as the vastly different measurement systems required to reflect the impact potential of a diversity of products and investment opportunities (Thornley et al., 2010).

More than half of key informants indicated that they, or their ventures on their behalf, use a customized/proprietary measurement system. Investors choose to

use customized measurement approaches for several reasons. First, as stated earlier, investor preferences differ significantly meaning that they may seek to measure very different indicators than their peers. Most key informants felt that existing standardized metrics frameworks do not meet their needs, due to the nature and diversity of their investments. As one investor put it, "We are supportive of the idea [of a social metrics framework] but have not seen anything that makes sense for us." Many of the informants indicated that they are currently in the process of developing or improving their measurement framework. As investors develop track records and experience in the field, they will continue to adapt their tools and approaches.

Customization has resulted in a diversity of measurement methods which have contributed to investor confusion in the field of measurement. According to Thornley and Dailey (2010), "investors feel overwhelmed or misinformed by the lack of consensus around what constitutes a robust or actionable methodology."

In the face of this challenge, investors differ on the proper course of action. Some view this lack of comparability as a shortcoming of existing metrics

standards. Others fear that increased standardization of metrics would result in a “cookie cutter” approach of minimal utility.

4.3.4.2 Other Limitations

With regards to existing measurement frameworks, investors find many of these tools cumbersome. As one investor put it, “We have yet to see something broad enough and smartly enough designed to take the end result seriously.”

As one foundation program officer identified, “There is a misperception that there is one number that we can use for every activity we do that would be slightly adapted depending on context. This is impossible.”

design to the long-term goals it seeks to achieve” (Community Foundations of Canada, 2012). It explains how stakeholders and their actions can influence a system to produce a set of short term and long-term results. In addition to clarifying how activities lead to outputs and outcomes, a theory of change articulates assumptions about the process through which change will occur.

As impact investors are intentionally trying to generate impact with their investments, a theory of change can be useful in describing the various inputs that go into an investment and how they interact to deliver financial and social returns. Some investors use a theory of change as a first step in understanding the vision, aims and motivations that influence investment decision making and therefore, the indicators that they will want measure.



This challenge can be alleviated to a certain degree through greater education around the uses and limitations of measurement.

4.4 When Investors Use Social Metrics

Investors use metrics at different times and for different purposes throughout the investment lifecycle. In this section, we explore the stages of the investment lifecycle and how metrics are used at each stage.

4.4.1 Value Definition

By definition, an impact investor’s investment decisions are guided by an intention to have a positive social or environmental impact. In order to make investment decisions that fit their values, investors must first clarify their social and environmental impact objectives, the factors and stakeholders that influence these objectives, and the possible avenues for achieving these objectives.

One tool that is commonly used by investors during this phase is a theory of change. A theory of change is a map that describes the “process of planned social change, from the assumptions that guide its

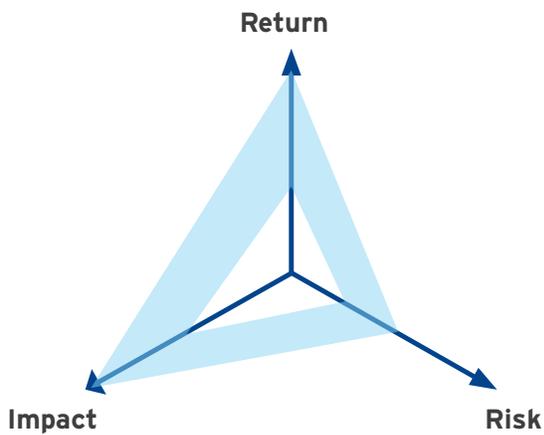
While the literature suggests a strong role for theories of change in the investment process, our key informants lacked consensus on its value. Of our key informants, half had developed a theory of change. Most of these individuals were from foundations and non-profit investment funds. These individuals said that the theory of change had helped to clarify the goals of their investments, to shape the long-term trajectory of their organization and to achieve buy-in from partners.

Financial-first investors, such as those representing investment funds, chartered banks, high net worth individuals and government, were less likely to have developed a theory of change. These individuals identified theories of change as being imprecise, not very pragmatic or not suitable for their purpose.

4.4.2 Due Diligence

Most key informants use social impact metrics in the due diligence or investment screening phase, though these metrics are used in different ways depending on the type of investor. Institutional investors tend to use metrics to screen out unwanted sectors or organizations, reduce risk and capture long-term

value. Investors making direct investments tend to use social metrics to vet high impact opportunities and identify alignment with investment parameters.



Source: JP Morgan (2012). *A Portfolio Approach to Impact Investment*.

Where modern portfolio theory identifies risk and return as the two key factors to manage, impact investors build on this framework to incorporate impact as a portfolio consideration.

Risk reduction is a key role for metrics in the due diligence phase. Investors who have a lower bar for social due diligence may be willing to take on more risk by investing in ventures whose impact has not been fully captured. Conversely, investors who are looking to reduce risk may use a more formal measurement system, such as GIIRS or IRIS. For institutional investors, risk screening is commonly achieved through the use of environmental, social and governance (ESG) screens.

Metrics can help investors to capture the long-term value inherent in many impact investments. E.T. Jackson and Associates (2012) notes “many investors are recognizing the limitations of their financial return models when they fail to take into account

longer-term drivers of economic and societal value creation. Instead, the impact-motivated practices of these investments can be seen to deliver long-term value, rendering this a source of strength, rather than of vulnerability. This also applies to institutional capital whose trustees and managers are under increasing pressure to take a long-term, multi-faceted view in their investment decisions.” Consequently, these investors use social metrics to ensure that this value is captured in their decision-making, often by integrating ESG factors into their analysis (Roy, 2012).

Key impact metrics allow investors to “screen potential investments to make sure they fit with their investment focus and expertise. Impact metrics are used at this early stage of engagement to ensure the fit exists” (Golden et al., 2010).

Many of the key informants had strongly defined investment themes or parameters, such as the social economy, clean tech, and environmental consumer products. All of the key informants identified the importance of fit with these parameters as a key criterion for the selection of an investment opportunity.

Metrics are useful in helping an investor to determine the extent to which a particular investment helps them to achieve an identified social or environmental impact priority.

Investors vary in the formats in which they request due diligence from ventures. These include impact reports, case studies, theories of change, and IRIS compliant impact data and outputs. Sometimes, this data is inputted into a standardized quantitative rating system, such as GIIRS, to allow for comparability between investment opportunities. Investors are very mindful of the time and resource costs of data collection and are therefore supportive of creating synergies by using metrics already collected by a venture or which are easy for a venture to collect.

Investors noted that their due diligence requirements differ by sector, though they regularly have a mix of quantitative and qualitative metrics. Some commonly mentioned sector-specific metrics have been included in section 4.3.3.

While many investors favour quantitative data, several investors noted the importance of qualitative factors in their decision making. These “intangible metrics” signify a good impact investment but can’t necessarily be quantified. Even as the field of measurement develops, these factors are likely to continue to be measurable only in qualitative form. For example, a compelling concept or narrative of social impact has huge value for many investors, particularly high net worth individuals and venture capital funds. As one high net worth investor said, “I only select companies where the meaningful impact is an obvious part of their commercial offering. It’s so obvious that you don’t have to measure it.” Another example is the quality of the entrepreneur, often a key factor in investment decision making yet difficult to quantify. In many cases, investors are investing as much in the entrepreneur as they are in the investment itself. Investors assess this factor through relationship development, experience and trustworthiness. One investor compared the impact investing market to old style bank loans - based on networks, relationships and trust.

In other circumstances, the use or lack of use of social metrics can make or break an investment decision at the due diligence phase. Many key informants had previously chosen not to invest in an organization because it was unable to prove its social impact. For example, a representative of a private equity investment fund said, “We have turned down numerous promising opportunities, even going to the length of doing an on-site (and costly) due diligence trip and killing the deal because we weren’t convinced the fund manager understood the importance of ESG value add.” Consequently, for investors with defined impact objectives, metrics are an inherent part of the evaluation of investment options.

While key informants take the social impact of their investments seriously, they also stressed the importance of being flexible, particularly for early stage ventures that have not yet developed a track record. Informants felt that flexibility in the standard of measurement was important to ensure that these ventures were able to get off the ground. In the early stages of a company, investors were willing to trade certainty in social metrics for long term financial performance. This approach tends to shift as ventures mature or as investors acquire stakeholders with more stringent measurement needs.

4.4.3 Monitoring

Once the due diligence process is complete and an investment has been made, investors monitor their investments to ensure that their financial and social

objectives are being met. “Following the investment, [social metrics are] used as a management tool to track commitment to mission, investor returns, and funder assurance” (Golden et al., 2010). An investor can use this information to help an investment to pivot if they see that a financial or social dimension of the business is not being met. Investors will continue to monitor social metrics up until an exit from an investment. Investors differ in terms of how frequently they measure and face challenges in accessing data.

Many of the key informants monitor metrics on an ongoing basis and argue that metrics should be an intrinsic part of both the management of the organization and the monitoring of progress. As one investor put it, “we agree with our partners at the beginning of the investment process on the outcomes we are going to measure and we stick to them.” This approach favours measurements that do not require the use of additional significant time or resources, are already being measured by the venture or are applicable across several investments.

Metrics can also be integrated into the monitoring process at regular intervals. Key informants were heavily divided on the frequency of monitoring, in part attributable to the diversity of organizations and stakeholders they represent. Some examine metrics at the investment decision making phase only, while others have such close relationships with the ventures they invest in that they don’t monitor metrics on a regular basis. Others measure on a monthly, quarterly or annual basis due to ease of implementation, the presence of third party standards and the ability to capture changes over these intervals. For example, one informant stated that “There isn’t much change on the IRIS metric performance quarter to quarter. The fund managers who work with the companies to supply this data want to reduce the bureaucracy and increase the premise for dialogue on ESG performance.”

Investors face several challenges related to data acquisition in the monitoring phase. Ventures may not disclose information due to privacy concerns. It can be particularly challenging to collect consistent data for interventions that address vulnerable or marginalized populations, for example monitoring health outcomes of an intervention for individuals with physical disabilities. In the case of a new intervention, it can be difficult to choose metrics that accurately capture impact. For example, it may be impossible to measure the impact of a new environmental technology that enables secondary interventions to achieve greenhouse gas reductions but that does

not reduce emissions by itself. Measurement in this scenario requires assumptions about the adoption of the device and its interactions with secondary interventions.

Best Practice: Working Closely with the Venture

A private equity investor we spoke with works closely with the companies in which they invest. They usually assume a board seat after investing in a company; this allows them to develop a strong working relationship with their investees. They are often privy to and help to influence operational decisions and outputs. In this capacity, the investor provides more than just capital; they provide ongoing mentorship and support to their investees.

4.4.4 Reporting

When an investment is completed, metrics helps investors to “understand the value achieved” by quantifying or describing the change brought about by an investment (Robertson, 2012). Metrics are also helpful to investors who report on this value to their stakeholders. Accountability and marketing are key drivers for reporting on impact, while attribution remains a challenge.

Investors choose to use social metrics increase their level of accountability on non-financial performance. Many investors are accountable to a variety of stakeholders who are interested in their social impact. Nonprofit investment funds report to foundations, government and donors. Private equity funds and venture capital funds report to limited partnerships (LPs), which include high net worth individuals. Chartered banks report to their shareholders. Credit unions and pension funds report to their members. Foundations report to their Boards. Depending on the number and level of engagement of their stakeholders, investors may have varying levels of accountability as reflected by their monitoring and reporting schedules and the level of emphasis they place on social metrics. In order to be accountable, investors seek metrics that are credible - “sufficiently rigorous and thorough to provide measures that are credible to relevant third parties” (Clark et al., 2004) and validated - “the process of demonstrating that the measures are accurate indicators of the desired outcome” (Clark et al., 2004). What investors consider a credible metric differs depending on the individual. That said, a number of commonly used metrics are identified by sector in section 4.3.3.

Beyond accountability, many informants also recognized the marketing value of social metrics, and may decide to enhance their reporting as they build a track record. These investors stressed the importance of identifying their audience. “If we tell our investors that we invested x dollars and saved y GJ of energy, does that really resonate with them? We need to think through who the audience is for these measures and right size them, as opposed to picking something off the shelf.” Metrics, when selected for the appropriate audience, can help to build a constituency of supporters and potential customers.

While accountability may drive the use of measurement, “most community impact investors are simply not required to report nonfinancial returns, reducing the likelihood that they will devote time and resources to measurement, and reducing their demand for tools and practices” (Thornley et al., 2010). According to Thornley and Dailey (2010), “few impact investors surveyed include nonfinancial performance in annual reports. Any measures reported are usually published separately or only on the investor’s website.”

This sentiment was shared by informants with limited stakeholders, including high net worth individuals, foundations, and non-profit investment funds.

Investors who do not report on their social metrics are facing increasing pressure to do so. The few informants who do not report to their stakeholders represented high net worth individuals, credit unions and foundations - organizations that may not have as stringent accountability requirements to their stakeholders on social outcomes as other investors. These individuals identified a lack of requirement to do so and a lack of capacity as their rationale. At the same time, an informant representing a pension fund noted an increase in requests for more specific impact information from their stakeholders, “Investor awareness and demand for social metrics has been increasing. They are responding to social metrics but I’m not sure whether this is due to moral or financial motivations.”

Investors find it challenging to attribute, capture and report on the full range of outcomes related to their intervention. One non-profit investment fund manager gave the example of a previous project that had created five jobs in a rural village, “We know what the salary is for five jobs. We know that these people are going to consume, that a portion of their salary will be revenue for others, and that some of this money will be saved/invested. What we don’t know is what the spinoff impact of each of these decisions will look like.” Investors who engage with more than one plitting attribution between those partners. Investors have not developed robust solutions to these issues;

instead, they opt to capture their impact as best they can given the challenges associated with attribution, capturing and reporting.

Best Practice: Participatory Framework Design

A foundation program officer we spoke with has created a participatory metrics framework design processes to get buy-in from the stakeholders they work with on a sustainable agriculture investment. As a group, they created a theory of change and impact map where each organization was able to identify their own metrics and then cluster these measures into domain areas such as the economy, health, the environment, and policy. The result was a wish list of over 200 indicators that was subsequently winnowed down based on ease of measurement and comparability across organizations. Working with a third party metrics expert, the foundation is drafting a taxonomy of metrics which will be validated against other frameworks and databases. Participants were pleased with the outcome as they will be asked to monitor information which many already have access to. The session also generated enhanced buy-in as the indicators selected are meaningful to the target communities.

4.4.5 Ongoing Measurement

In rare cases, investors will continue to monitor social impact metrics after an investment has concluded. They are able to do this because of a strong relationship with an investee and the established infrastructure around measurement. This is an opportunity for investors to capture more of the long-term value they were able to create through their involvement.

4.5 Challenges

4.5.1 Costs of Social Measurement

Measurement is an expensive and resource-intensive process, particularly for investors for whom non-financial performance measurement may not be a core competency (Thornley et al., 2010). Investors want to see demonstrable evidence that investments made in the measurement of an organization's impact will be useful and cost-effective in the development of the venture (Golden et al., 2010). "For many investors, the costs outweigh the benefits of both measuring and reporting nonfinancial returns" (Thornley et

al., 2010). In this section, we explore the cost of social measurement and how investors address this challenge.

With limited resources available, many investors are reluctant to divert resources from operations to measurement.

As one investor put it, "It's a tradeoff. Do we put money towards measuring or towards keeping a venture afloat?"

Building the capacity to measure and report on impact, whether internally or externally, is expensive. While the costs of measurement can be high, many informants indicated that they have not encountered situations with investees where they have had to subsidize costs.

Some investors noted that they pick organizations that already view measurement as a key part of their business. As one informant put it, "[Measurement] is not an "additional" cost. The businesses must measure results in order to succeed commercially and the social value piece is an integral part of their commercial offering. It is part of their unique selling proposition, not an add-on, so the business must incorporate this information into its sales presentations."

Others noted they are open to subsidizing measurement as needed. Depending on the type of investment, this subsidy could either take the form of a budget line item, a grant, or in-kind service provision. Key informants indicated that they were more likely to subsidize these costs if they were investing in a non-profit organization, because of their revenue constraints, or if there was a particular need for strong reliable data in order to increase sales.

Best Practice: Incentivizing Measurement

A non-profit investor we spoke with is providing incentives to their organizations to measure their impact by tying the terms of their investment to social performance. The investor developed a measurement approach to monitor the progress of the businesses they work with in achieving employment improvements for the disadvantaged. The investor monitors performance indicators including the number of hires, the percentage of staff sourced through community channels, career progression and duration of employment. The investor then revises the interest rates of the loans they make on the basis of these metrics.

4.5.2 Use of Third Party Metrics Service Providers

Third party metrics service providers are one option for investors seeking to measure impact, though as Thornley et al. (2010) note, there is an underdeveloped infrastructure of actors to support investors in conducting and verifying measurement. There is a growing network of third party metrics service providers; examples include Purpose Capital, Sustainalytics, Impact Strategies, and Addenda Capital.

Several key informants use a third party metrics services provider to add credibility to the findings and address their own lack of capacity and/or expertise. As one informant said, "It's important that we have a third party evaluator so that loan recipients do not feel their responses threaten their loan status. Validation is also important for credibility so that our audience knows that a third party conducted the evaluation and not the investor/firm itself." In some cases, third party service providers can help to alleviate the pressure that measurement may place on entrepreneurs or investors.

Collecting and managing social impact data in house is a popular option amongst investors, particularly those with limited resources or a customized approach to measurement. Others will leave measurement to the investee and emphasize the importance of using data that is already collected wherever possible.

4.6 Competing Priorities

Investors face many competing priorities for their time and resources. Many of the key informants downplayed the role that social metrics play in their operations and in their ability to achieve their social and financial objectives. In this section, we explore these competing priorities and how investors prioritize measurement.

Generally, our key informants understood the value of metrics; some have even supported larger measurement initiatives, such as GIIIRS, to enhance the development of the field.

At the same time, many key informants, including high net worth individuals and private investment funds, question whether measurement ought to be prioritized over other goals such as running and operating a successful business or building awareness around impact investment as a whole.

Investors expressed particular concern about having their investees conduct measurement. One high net worth investor spoke to the various priorities that ventures must juggle, "[m]anaging the company, building the team, excelling in customer service, creating incredible products, managing operating and financial systems - these, in my mind are much more difficult [than measurement] and should be the venture's primary focus in the early years. The social value is created and maximized by a well run, financially stable, growing business that is, at its core, tackling a social problem and creating employment and wealth generation opportunities for its beneficiaries." An informant representing a credit union noted that standardized measurement frameworks can place an undue burden on ventures: "Is that the best use of ventures' time, money and capital? We need to be very careful around what we ask for. We have a responsibility to use that data and not just collect it because it fits somebody's framework."

While investors worry that "[a focus on metrics] may have the unintended consequence of slowing the sector down", they are not letting these concerns stop them from placing capital. Instead, they are using metrics where they are helpful or necessary to obtain stakeholder buy-in but not abandoning an investment opportunity if metrics are not feasible to collect.

Best Practice: Values-Based Investing

A high net worth individual we spoke with was pursuing a values-based approach to impact investments. "I don't find [measurement] too challenging. I tend to focus on selecting companies that at their core have a clearly defined social benefit, then help them grow and succeed. This in turn leads to increased social benefits, which are not so hard to measure if you use metrics that are easily tracked." This investor seeks companies with a social mission that is integral to their business proposition and then chooses metrics that are integrated into its operations.

5.0 Recommendations

While investor perspectives on metrics are highly individualized, a few themes have emerged around key areas for the future development of the field of measurement. We have categorized our recommendations by target group.

For Investors

1. Collaborate with other investors on due diligence

Investors understand the challenges and limitations of existing measurement frameworks and recognize that they cannot individually address these challenges. As one service provider expressed, “We need some key metrics that many institutions can agree on within sectors.” Several investors expressed a willingness to partner with other organizations to work through some of these challenges. Investors could collaborate with their peers to carry out due diligence.

This collaboration is already happening to a certain extent, though it may not be reaching the players that we spoke with. In the US, Toniic, an investor-led network, carries out due diligence and syndication on behalf of its members, who include RSF Social Finance, KL Felicitas Foundation, and the Grassroots Business Fund. By working together and developing common standards where possible, impact investors could reduce the costs of measurement and develop harmonized metrics to enable greater comparability within a sector.

2. Share sector-based strategies for metrics

Investors could reduce the burden on ventures and achieve comparability between investments within a sector by developing shared sector-based metrics strategies. Investors are cognizant of the limitations of “one size fits all” measurement approaches that attempt to capture impact across all sectors. By convening around sector-specific metrics, investors could improve the efficiency and applicability of measurement for their investments. A few organizations have convened sector-specific stakeholders to identify shared metrics, specifically around sustainable agriculture and food. As well, IRIS offers a range of sector-specific metrics that may be helpful to investors. A broad range of organizations, including ventures and intermediaries, could be involved in the development of these strategies, to ensure stakeholder buy in.

3. Clarify why metrics matter

Investors could clarify their intentions for using metrics and understand at what stages of the investment lifecycle they could be used, to what sectors they could be applied, and what they could be expected to yield. Clarity around the purpose of measurement improves matches between investees and investors, provides an impetus for collaboration and reduces confusion in the sector.

For HRSDC and Other Government Agencies

There is a great deal of discussion about the role of government in facilitating the use of social metrics. Some investors favour an interventionist role for government through the restructuring of regulations and policy that will require the use of social metrics. Others favour a facilitator role for government, in which agencies provide incentives for investors and ventures to conduct and use social metrics. The following recommendations provide a framework within which government could support the use of social metrics.

- 1. Support collaboration between stakeholders related to metrics.**
Government could support collaboration between investors to develop a common set of sector-specific metrics and to collaborate on due diligence efforts. This could be achieved in part by facilitating the efforts of third party metrics service providers who could reduce investors' cost and capacity concerns. These intermediaries play an important role in ensuring quality collection, use and reporting of data as well as standardizing sector-specific metrics. They also could create efficiencies in measurement that could help to reduce the costs and capacity issues that investors identified as a barrier to using social metrics in their due diligence and monitoring processes. It may also be achieved through the development of standardized metrics or capacity by a government agency.
- 2. Support ventures as they strengthen their financial and social reporting.**
Government could support organizations as they develop and strengthen measurement systems. Through granting, training, convening and sharing of best practices, government could assist these organizations as they develop an understanding of what investors seek in terms of financial and social metrics and create robust measurement systems. Small grants to these organizations could assist with the upfront costs of creating measurement systems.
- 3. Create incentives for investors and ventures to work together on social impact measurement.** Investors and ventures needs with regards to metrics do not always match, yet there are mutual benefits that accrue when these parties work together. Government could facilitate this collaboration by issuing small grants for investors to help build the measurement capacity of ventures.
- 4. Encourage the creation of policy/regulation that advances social impact measurement.** While investors should not be forced to conduct measurement, there is an opportunity for government to develop policy/regulation that creates an incentive to measure. Several jurisdictions have developed such tools - including Nova Scotia's Community Interest Companies, British Columbia's Community Contribution Companies, and the U.S.'s Benefit Corporations, which codify the social mission of profit-seeking firms in a way that justifies the collection of social metrics. Similarly, the UK government has supported the development of an Investment and Contract Readiness fund to support social ventures as they prepare to access new investment and compete for public service contracts that require proof of social impact. By affirming social impact as a key component of a venture, government could create incentives for both ventures and investors to measure their impact.
- 5. Encourage the use of non-financial indicators in government procurement and reporting.** Government could influence the use of measurement by investors and ventures by increasing non-financial indicator requirements in procurement and project reporting. As a large purchaser of goods and services, the Government has a great deal of power to shape measurement practices and to support the creation of measurement systems for the investors and ventures it

works with. HRSDC could play a role in helping other departments to establish and manage these requirements.

6. **Pursue further research to understand whether the findings of this report are reflective of the broader Canadian investment community.** Given this report's small sample size and its focus on active impact investors, it is not yet clear whether its findings are indicative of impact investors more broadly. Similarly, these findings cannot be extrapolated to represent Canadian investors as a whole. HRSDC could pursue further development of the questions explored in this report – either by expanding the sample size or broadening the key informant focus to include mainstream investors.
7. **Enhance understanding of investment structures that incentivize the alignment of financial and social returns.** Investors recognize the value of social metrics, yet this value is not always reflected in the incentive structures of investment management. HRSDC could support research into fund structures that incentivize the alignment of financial and social returns. By tying compensation or returns to social and environmental performance, an impact-based incentive structure raises an investors' financial stake in the non-financial performance of their funds.
8. **Develop an understanding of the use of social metrics in social impact bonds.** Though they were not mentioned in any of the key informant interviews, there is growing interest in the use of social impact bonds to incentivize the achievement of social outcomes. As this impact investment vehicle matures and is applied to the Canadian context, greater attention will need to be paid to the appropriate use of social metrics with social impact bonds. HRSDC could develop a primer on the use of social metrics with social impact bonds, drawing on the experience of current social impact bond pilots active across the country. The primer could survey institutional and individual investors as to their needs with regards to social metrics were they to invest in such a vehicle.
9. **Develop an understanding of ventures' use of social metrics.** Investors' requirements with regards to social metrics are increasingly understood. However, the use of social metrics by ventures is no less important yet less understood. HRSDC could support further research into ventures' use of social metrics, specifically looking to identify how ventures address tradeoffs between financial and social returns at the enterprise level.
10. **Explore the use of social metrics and how they differ by investor type.** This report has explored the use of social metrics by a sample of impact investors with some differentiation between investor types. These differences could be further explored through additional investigation of the use of social metrics by high net worth individuals, foundations, non-profit investment funds, private equity funds, and pension funds. This would provide a more nuanced view of the use of social metrics by investor type.
11. **Explore the use of social metrics by foundations, specifically differentiated by impact first and finance first.** In many jurisdictions, foundations are leading impact investors and pioneers in the field of social measurement. HRSDC could help to capture the important work being done by foundations in this area through profiles of foundations that have expressed an interest in impact investing and those that are actively involved in the space and using social metrics.

6.0 Conclusion and Next Steps

Impact investing continues to build momentum as new capital is placed in ventures that generate both financial returns and social impact. As the field grows, it is anticipated that the role of social metrics will also grow, helping both investors and ventures to define value, make decisions that yield the greatest financial and social value, monitor progress and report to their stakeholders. Investors will continue to face issues of cost and competing priorities until measurement is more fully integrated into the operations of social ventures. To facilitate this process, this report has provided a number of recommendations to investors and government that could reduce upfront costs through enhanced collaboration, understanding, and support. Follow up research could enhance the applicability of the findings of this report to the broader Canadian impact investment community, as well as exploring potential applications for different types of investors and investment vehicles.

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APPENDIX A

Potential Key Informant Introduction Email and Questionnaire

Sample Email

Dear X:

Venture Deli has been contracted by Human Resources and Skills Development Canada (HRSDC) to conduct key informant interviews for the purpose of identifying the views, needs and priorities of social finance investors with regards to social impact measurement. I will be conducting this interview on behalf of HRSDC.

We have selected you as a leader in the field of impact investment. We are very keen to gain your insight on these issues and hope that you might be able to participate in a brief interview.

In this interview, we would like your views on the importance of social metrics in individual transactions; the use of social metrics across the portfolio; and the challenges and opportunities related to social metrics. Your participation is voluntary and neither your responses nor your refusal to participate will affect your dealings with HRSDC. The information you provide is collected under the authority of the Department of Human Resources and Skills Development Act and will be administered in accordance with the provisions of the Privacy Act and other applicable laws. Your comments will be summarized in a report and no comments will be attributed to any individual in any reports resulting from this study. We will aggregate responses so that responses of specific individuals cannot be identified. The interview will last approximately 30-60 minutes.

The information you provide may be shared with federal departments, provincial and/or territorial governments, and/or non-governmental third parties for the purpose of increasing the understanding of the needs of social finance investors regarding the social impact of an enterprise; as well as for policy analysis, research and/or evaluation purposes.

The information you provide may be used and/or disclosed for policy analysis, research and/or evaluation purposes. In order to conduct these activities, various sources of information under the custody and control of HRSDC may be linked. However, these additional uses and/or disclosures of your personal information will never result in an administrative decision being made about you.

Your personal information is administered in accordance with the Department of Human Resources and Skills Development Act and the Privacy Act. You have the right to the protection of, and access to, your personal information, which is described in Personal Information Bank(s) PSU 042. If you would like to obtain a copy of the report or other information pertaining to this study, you can send a request to HRSDC pursuant to the Access to Information Act. When making a request please refer to the questionnaire title "Social Impact Measurement Among Social Finance Investors".

Instructions for obtaining this information are outlined in the government publication entitled *Info Source*, which is available at the following web site address: <http://www.infosource.gc.ca> *Info Source* may also be accessed on-line at any Service Canada Centre."

Your comments will be summarized in a report on the use of social metrics amongst Canadian investors and will support the creation of a guidebook to assist other investors in the use of metrics.

Please let me know if you might be able to participate and if so, what phone number and time would be best to reach you at.

Many thanks,

X

Questionnaire

The project team developed a questionnaire to guide key informant interviews. These questions helped key informants to identify their needs and priorities related to social impact measurement.

Recognizing that investors have limited time to participate in key informant interviews, some of our conversations were condensed. Where this was the case, our interviews focused on *Importance of Metrics (individual transactions)* and *Use of Metrics (across the portfolio)*.

Pre-Interview Demographics

1. In what province are you located?
2. Are you an individual investor or an institutional investor?
3. What type of investor are you?
 - a) Chartered Bank, b) Credit Union, c) Other Commercial Lending, d) Investment Bank, e) Investment Fund, f) Pension Fund, g) Venture Capital/Private Equity, h) Insurance Company, i) Professional Services (e.g. Accounting or Legal) , j) Financial Management, K) Consulting
4. How would you describe your investment style?
 - a) Impact-first investor, b) Finance-first investor² c) Balancing impact and financial returns
5. Have you made impact investments before³?
 - a) Yes, b) No

If so, in which sectors?

 - a) Job creation, b) Microfinance, c) Alternative energy, d) Education, e) Health, f) Poverty alleviation, g) Sustainable agriculture, h) Housing, i) Children's issues, j) Fair trade, k) Water, l) Waste management, m) Community development, n) Marine/ocean, o) Natural resources, p) Forestry, q) Urban renewal, r) Other, s) None
6. What geographic areas have you made impact investments in?
 - a) Asia, b) Africa, c) Canada, d) North America (excluding Canada) , e) South America, f) Europe, g) Middle East, h) Other, i) None
7. What types of impact securities have you invested in?
 - a) Private equity, b) Loans, c) Quasi-equity/mezzanine finance, d) Deposits/CDs/other short term investments, e) Guarantees, f) Hard assets, g) Public equity, h) Real estate, i) Liquid debt securities, j) Other, k) None
8. Were your previous impact investments through:
 - a) Direct investment, b) Through funds, c) Through third party managers, d) Through funds of funds, e) Other
9. What percentage of the total funds you manage are invested in impact investments?
 - a) 0-10%, b) 10-25%, c) 26-50%, d) 51-75%, e) 76-90%, f) 91-100%
10. How long have you been an impact investor?
 - a) Not an impact investor, b) 0-2 years, c) 2-5 years, d) 5+ years

2 Seek to optimize financial returns with a floor for expected social / environmental impact; Search for investments that offer market-rate returns while yielding some social / environmental good; Investors bound by fiduciary duties set out in their mission statement or governed by their legal status may be required to be Financial-First Investors; Forecasted return and risk should not be influenced by expected social / environmental impact

3 We will use the definition of impact investments used by JP Morgan and the GIIN from their 2010 report: "investments intended to create positive impact beyond financial returns"

Importance of Metrics (individual transactions)

1. What role do social impact metrics play in your investment decision process? At what stage(s)?
2. Do you distinguish between the different type of metrics - outputs, outcomes, impact?
3. Do you use a theory of change⁴ in crafting your investment strategy?
4. Do you ask for evidence of (proposed or actual) social outcomes as part of your due diligence process? If so, what type of information do you request and in what format?
5. What are the implications if organizations fail to deliver on their stated social outcomes? What happens if they exceed them?
6. Would you choose not to invest in an organization if they were not able to demonstrate their ability to generate their stated social outcomes?
7. Have you, or would you be willing to pay the additional costs of social measurement for the organizations you invest in?

Use of Metrics (across the portfolio)

1. Do you monitor metrics only at the individual investment level or only at the portfolio level, or both?
Is there commonality between the metrics used at each level?
2. Do you do all your monitoring and analysis of social metrics in-house, or do you use a 3rd party manager?
3. What is the frequency of monitoring? What is the rationale for this interval? Are you concerned about the day-to-day operations of the organizations you invest in or primarily with results?
4. What specific principles, approaches or tools have you used? In what context have you used them?
5. Do your principles, approaches or tools vary by asset class/sector/organization/size of investment? If so, how?
6. How do you report on the social impact of your investments? Who is the primary audience of your social impact reporting?

Challenges and Opportunities Related to Metrics

1. What other measurement tools and resources are you aware of? Why have you not chosen to use them?
1. What are your challenges related to using social impact measurement?
2. What would be beneficial to increase your use of social impact metrics?

Where there is no “one size fits all” solution for social impact metrics, there is likely a right approach for each investor. The fit of this approach is influenced by an investor’s risk tolerance, desired financial return, sector of investment, geography, quality of information required and a number of other factors.

The following typology provides a snapshot of some of the measurement methodologies available to investors and seeks to identify the appropriate investor profile for their use.

⁴ A theory of change is a tool for developing solutions to complex social problems. It explains how stakeholders and their actions can influence a system to produce a set of short term and long term results. A TOC articulates assumptions about the process through which change will occur.

APPENDIX B

Social Impact Measurement Frameworks

Process Methods

Process methods monitor the efficiency and effectiveness of outputs, variables or indicators. “Outputs can then be evaluated by the extent to which they correlate with or cause desired social outcomes” (Clark et al., 2004).

Impact Methods

Impact methods “are tools that relate outputs and outcomes, and attempt to prove incremental outcomes relative to the next best alternative” (Clark et al., 2004). Impact methods that measure outputs tend to be more common than those that measure outcomes. However, outcome measurement is highly desirable for determining the social value created by an investment (Wisener and Anderson, 2010).

Monetization Methods

Monetization methods seek to monetize outcomes or impact by assigning a dollar value to them. As Wisener et al. (2010) explain, “The advantage of this method is that it enables organizations to develop benefit-cost ratios and makes comparison between programs easier”.

The following table summarizes some of the most common measurement frameworks used by impact investors. Each measurement framework is contextualized with an example of its use and a link to further information. Open frameworks are those that are publicly accessible for use by any investor. Proprietary frameworks are those that are owned by a specific investor/organization and not available for use by others.

Selected Social Impact Measurement Frameworks

| NAME | TYPE | DESCRIPTION | EXAMPLE | LINK |
|---|-----------------------|--|---|---|
| Theory of Change | Impact - Open | A map that describes the “process of planned social change, from the assumptions that guide its design to the long-term goals it seeks to achieve” (Community Foundations of Canada, 2012). Its focus is on activities and outputs. | The J.W. McConnell Foundation is pioneering the use of “theories of change” in its own strategy and its work with non-profit organizations. “For one large-scale national project, the theory of change approach has been a major vehicle for having conversations with the communities involved in the initiative. It has been a way for communities to report things that are happening on the ground and changes that are emerging. Communities generate a descriptive narrative about what is happening and then there is more thorough interaction to make sense of that story. This is done on an annual basis to express how things are evolving and changing” (Gamble, 2008). | http://www.wkkf.org/knowledge-center/resources/2006/02/WK-Kellogg-Foundation-Logic-Model-Development-Guide.aspx |
| Acumen Fund’s Best Alternative Charitable Option | Process - Open | The Acumen Fund uses the Best Alternative Charitable Option (BACO) model to quantify an investment’s social impact and compare it to the universe of existing charitable options that address that social issue. The BACO calculation conveys the net cost per unit of social impact and helps an investor to compare the tradeoff between grants and investments. | Acumen Fund gave a \$325,000 loan to A to Z Textile Mills in Tanzania - a maker of bednets. Compared to the alternative of a grant to an international NGO to distribute bednets, the investment is 52 times more cost effective. | http://www.acumenfund.org/investments/investment-performance.html |
| Pacific Community Ventures’ (PCV) Social Return Assessment | Process - Proprietary | The system monitors progress on the number and quality of jobs created by PCV’s portfolio companies. It helps the fund target and improve its services to its investees and to a group of companies to which it provides business advisory services. | PCV looks at several key metrics related to the provision of jobs to economically disadvantaged individuals. These include job growth, job quality, average hourly wages, and benefit information (PCV, 2008). | http://www.pacificcommunityventures.org/reports-and-publications/creating-economic-opportunity-in-2008-pcv-social-return-summary/ |
| Social Return on Investment (SROI) | Monetization - Open | A set of guidelines for the measurement of non-financial impact per investment. SROI involves the calculation of “social cash flows” for outcomes describable in monetary terms, and a net present value calculation of these to arrive at a return on investment (ROI) ratio. | The City of Calgary’s Family and Community Support Services (FCSS) undertook a process of identifying indicators of social value creation beginning in 2008. This project eventually expanded to an SROI analysis of the organization’s activities. The FCSS views SROI as an effective tool for project planning, evaluating results and communicating achievement. SROI allows the FCSS to tell the story of their organization’s ability to create value in a compelling way. ¹ | http://www.thesroinetwork.org/sroi-analysis/the-sroi-guide |

| NAME | TYPE | DESCRIPTION | EXAMPLE | LINK |
|--|------------------------------|---|---|---|
| Cost-Benefit Analysis | Monetization - Open | An analysis in which the costs and social impacts of an investment are expressed in monetary terms and then assessed according to one or more of three measures: (1) net present value (the aggregate value of all costs, revenues, and social impacts, discounted to reflect the same accounting period); (2) benefit-cost ratio (the discounted value of revenues and positive impacts divided by discounted value of costs and negative impacts); and (3) internal rate of return (the net value of revenues plus impacts expressed as an annual percentage return on the total costs of the investment (Rosenweig, 2004). | Job Corps is a program based in the US targeting disadvantaged youth. Job Corps undertook cost-benefit analysis to assess the value of the program. Benefits included the estimated value of reduced criminal activity, the value of goods and services produced by Corps members, earnings after leaving the program, higher tax payments, and cost savings associated with not having to use other treatment and training programs. Costs included the costs of running the program and output foregone by participating in the program (Rosenweig, 2004). | http://escholarship.org/uc/item/80n4f1mf |
| Social Capital Partners Socially Adjusted Interest Rate | Monetized - Proprietary | This tool is used to collect data on community hiring. It is customized to each individual organization based on their size and other characteristics. The tool serves as a monitoring mechanism and creates an incentive to achieve social impact while ensuring consistency across the portfolio. | Social Capital Partners uses this monitoring system to adjust interest rates on its loans based on the number of community hires an organization makes. The more community hires, the lower the interest rate. SCP works with the organizations it loans to assess potential community hiring opportunities. On this basis, SCP creates a customized interest rate table with rate reductions tied to achievable community hiring targets. | http://www.socialcapitalpartners.ca/financing/socially-adjusted-interest-rate |
| B Rating System | Process - Pay for Service | The B Lab rating system uses a survey to gauge and improve a company's performance relative to social and environmental standards. The survey evaluates and scores companies based on governance, impact on employees, community, environment, and consumers. The rating is comparable with other B Rated companies. | Some investors look for certified B Corps when seeking investment opportunities. The certification provides investors with third-party assurance that the company will achieve social and environmental impact, will maintain their mission after financing and can command a higher valuation. Kevin Jones of Good Capital, which invested in Better World Books says, "There is so little commonality among social ventures that we have to evaluate investments on an individual basis. But if we know it is a B Corporation, we already know a lot about the company and its values." (B Lab, 2012) | http://www.bcorporation.net |

| NAME | TYPE | DESCRIPTION | EXAMPLE | LINK |
|---|---------------------------|---|---|---|
| Sustainable Livelihoods | | Sustainable Livelihoods is an asset mapping process which measures the specific financial, social, personal, physical and human assets an individual or community may have. The framework then helps to identify what assets must be built through the intervention and re-assess these assets to measure progress towards poverty reduction. | The Toronto Enterprise Fund uses the Sustainable Livelihoods model to assess an individual's existing assets and to measure improvements as a result of the Fund's investment. The Sustainable Livelihoods model reflects the systemic nature of employment and poverty issues. | http://www.sustainable-livelihoods.com/pdf/sustainablelivelihoodsc-1.pdf |
| Endeavor's Impact Assessment Dashboard | Process - Proprietary | A dashboard tool that measures the financial, employment, social and regional impact that Endeavor Entrepreneurs are having on their countries' economies. | Endeavor measures financial employment impact by comparing annual compound growth rates of companies they invest in with that of comparable companies in the World Bank, Enterprise Survey database. Social impact is measured using surveys which ask employees to compare satisfaction compensation and benefits to national averages and previous jobs. | http://www.endeavor.org/impact/assessment |
| Global Impact Investing Rating System (GIIRS) | Process - Pay for Service | GIIRS Ratings & Analytics represents a set of third-party assessments of the social and environmental impact of both companies and funds. Using a series of key performance indicators and guided by the IRIS taxonomy of definitions, the GIIRS assesses companies as well as funds and their portfolio companies on four performance areas: governance, workers, community and environment. | Sarona and Vancity were pioneer investors in GIIRS. GIIRS allows these investors to access verified data, benchmark social and environmental performance of perspective investments against comparable companies and monitor social and environmental impact over an investment's lifecycle. | http://giirs.org/ |
| Impact Reporting and Investment Standards (IRIS) | Process - Pay for Service | IRIS provides a standardized taxonomy and a set of consistent definitions for social, environmental and financial performance. IRIS is intended to co-exist with other measurement initiatives, such as the Global Impact Investing Rating System, in order to provide industry stakeholders with a common language for output indicators (though not outcomes or impacts). | The Grassroots Business Fund began using IRIS to provide some clarity on what to measure and how to measure it. IRIS enabled the Fund to have consistency across its portfolio of investments. As the Grassroots Business Fund already tracked some social and environmental data, their process of adopting IRIS was one of aligning their existing indicators with the IRIS taxonomy. IRIS has helped the Fund to reduce the reporting burden on investees and communicate better with their stakeholders (IRIS, 2012). | http://iris.thegiin.org/materials/interview-grassroots-business-funds-social-impact-coordinator-rafi-menachem |

APPENDIX C

Sample GIIRS Impact Rating

Rating Status: Preliminary Rating



Rating Date: 3/27/2012

Company Name:
Waste A Go Go

★★★

COMPANY RATINGS REPORT

GIIRS ratings are reviewed, rigorous, transparent, comprehensive, and comparable ratings of company impact. GIIRS helps investors make money while solving the world's most challenging problems. GIIRS Driving Capital to Impact



COMPANY RATINGS SUMMARY

| Section Weight | Impact Area | Stars | Total Pts (200 Pts Avail.) |
|----------------|--|-------|---|
| | OVERALL | ★★★ | 98.8 |
| 5.0% | Governance Related to a company's mission, stakeholder engagement, governance structure, controls, and overall transparency | ★★★★ | 7.8 |
| 20.0% | Workers Focuses on how the company treats its workers through compensation, benefits, training, ownership, and work environment. | ★★★★ | 24.9 |
| 22.5% | Community Covers the company's impact on external community stakeholders | ★★ | 19.2 |
| 22.5% | Environment Focuses on indirect and direct environmental impact of the company and its operations | ★★★★★ | 47.0 |
| 30% | Socially & Environmentally Focused Business Models (SEM) Highlight a company's core impact business model, amplifying their positive impact beyond simply high impact business practices | N/A | 21.0 (Points distributed in their relevant impact areas.) |

COMPANY DESCRIPTION

Company Description: Waste A Go Go is Peru's largest manufacturer of bottled lemonade

Company Mission: We believe in the preservation of the environment and strive to reduce waste in all of our product manufacturing.

Sector:
Manufacturing

Primary Market of Operations:
Emerging

Industry Category:
Manufactured Goods

Size (# of Employees):
100

Industry:
Beverages (ISIC 11)

Primary Country of Operations:
Peru

Products & Services:
LemonadeLemonade

Revenue Range:
\$20,000,000 - \$99,999,999

B Corporation?
No

Date Founded:
9/15/2001

Section Weights: Weighting on a particular impact area within the company's assessment. Weights vary based on the companies sector, size, and geography

Stars: Set ranges based on quintiles of GIIRS Pioneers; reset bi-annually (see below for ranges)

| Overall Rating | Overall Points | Impact Stars | GOV Points | WOR Points | COM Points | ENV Points |
|----------------|----------------|--------------|------------|------------|------------|------------|
| GIIRS Rated | 0 to 79 | * | 0-2.9 | 0-17.9 | 0-12.9 | 0-0.9 |
| ★★★ | 80-99.9 | ★★★ | 3-4.9 | 18-20.9 | 12-25.9 | 5-10.9 |
| ★★★★ | 100-124.9 | ★★★★ | 5-6.9 | 21-23.9 | 26-38.9 | 11-24.9 |
| ★★★★★ | 125+ | ★★★★★ | 7-8.9 | 24-28.9 | 39-69.9 | 25-39.9 |
| | | | 9+ | 29+ | 70+ | 40+ |

The material on the ratings report is for informational purposes only, and is not an offer or recommendation to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. GIIRS's opinions and analyses do not address the suitability of any security. GIIRS does not act as a fiduciary or an investment advisor. While GIIRS has obtained information from sources it believes to be reliable, GIIRS does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction.

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Rating Status: Preliminary Rating



Rating Date: 3/27/2012

Company Name:
Waste A Go Go

GIIRS ratings are reviewed, rigorous, transparent, comprehensive, and comparable ratings of company impact. GIIRS helps investors make money while solving the world's most challenging problems. GIIRS Driving Capital to Impact



COMPANY RATINGS REPORT

COMPANY RATINGS DETAIL

| Section Weight | Impact Areas & Subcategories | Points Earned (Out of 200 total) | Benchmarks (Perf. By Quintile - As of 12/31/11) |
|----------------|---|--|---|
| | OVERALL ★★★ | 98.8 | 60-80% |
| 5.0% | Governance ★★★★★ | 7.8 | 60-80% |
| | Corporate Accountability | 5.3 | 60-80% |
| | Transparency | 2.5 | 40-60% |
| | SEM: Mission Lock Governance Structure | 0.0 | --- |
| 20.0% | Workers ★★★★★ | 24.9 | 60-80% |
| | Compensation & Benefits | 16.1 | 40-60% |
| | Worker Ownership | 2.7 | 40-60% |
| | Worker Environment | 5.5 | 80-100% |
| | SEM: Worker Ownership | 0.0 | --- |
| 22.5% | Community ★★ | 19.2 | 20-40% |
| | Community Practices | 19.2 | 60-80% |
| | • Suppliers & Distributors | 7.5 | 80-100% |
| | • Local Involvement | 1.8 | 20-40% |
| | • Diversity | 1.1 | 40-60% |
| | • Job Creation | 2.9 | 40-60% |
| | • Civic Engagement & Giving | 5.8 | 80-100% |
| | SEM: Community Practices | 0.0 | --- |
| | SEM: Socially Oriented Products & Services | 0.0 | --- |
| | SEM: Serve Those in Need | 0.0 | --- |
| 22.5% | Environment ★★★★★ | 47.0 | 80-100% |
| | Environmental Practices | 17.0 | 80-100% |
| | • Land, Office, Plant | 5.5 | 80-100% |
| | • Inputs | 9.8 | 80-100% |
| | • Outputs | 8.0 | 80-100% |
| | • Suppliers, Distributors & Transportation | 2.6 | 80-100% |
| | SEM: Environmental Practices | 21.0 | --- |
| | SEM: Environmental Products & Services | 0.0 | --- |
| 30% | Socially & Environmentally Focused Business Models (SEM) | Points distributed in their relevant impact areas. Each SEM worth up to 30 points. | |

Section Weights: Weighting on a particular impact area within the company's assessment. Weights vary based on the companies sector, size, and geography

Quintiles: Set ranges based on quintiles of GIIRS rated companies rated as of the date indicated. Updated quarterly.

In some cases the subcategory scores (corporate accountability, transparency, etc.) may not add up to the impact areas scores (governance, workers, community, and environment) exactly. The difference in scores is not a scoring error, but rather a result of how the GIIRS assessment handles N/A questions in scoring.

Stars: Set ranges based on quintiles of GIIRS Pioneers; reset bi-annually (see below for ranges)

| Overall Rating | Overall Points | Impact Stars | GOV Points | WOR Points | COM Points | ENV Points |
|----------------|----------------|--------------|------------|------------|------------|------------|
| GIIRS Rated | 0 to 79 | ★ | 0-2.9 | 0-17.9 | 0-12.9 | 0-0.9 |
| ★★★ | 80-99.9 | ★★★ | 3-4.9 | 18-20.9 | 12-25.9 | 5-10.9 |
| ★★★★ | 100-124.9 | ★★★★ | 5-6.9 | 21-23.9 | 26-38.9 | 11-24.9 |
| ★★★★★ | 125+ | ★★★★★ | 7-8.9 | 24-28.9 | 39-69.9 | 25-39.9 |
| | | | 9+ | 29+ | 70+ | 40+ |

The material on the ratings report is for informational purposes only, and is not an offer or recommendation to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. GIIRS's opinions and analyses do not address the suitability of any security. GIIRS does not act as a fiduciary or an investment advisor. While GIIRS has obtained information from sources it believes to be reliable, GIIRS does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction.

Rating Status: Preliminary Rating



Rating Date: 3/27/2012

Company Name:
Waste A Go Go

GIIRS ratings are reviewed, rigorous, transparent, comprehensive, and comparable ratings of company impact. GIIRS helps investors make money while solving the world's most challenging problems. GIIRS Driving Capital to Impact



COMPANY RATINGS REPORT

BENCHMARKING

The charts on this page show the company's performance vs. three benchmark groups (company vs. market, market & sector, and market & size). Data is displayed for the company's overall performance and performance by impact area (governance, workers, community, and environment).

Market: Emerging

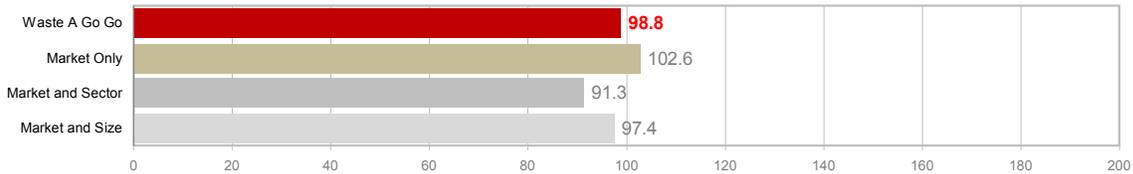
Sector: Manufacturing

Size (# of Emps): 50-249

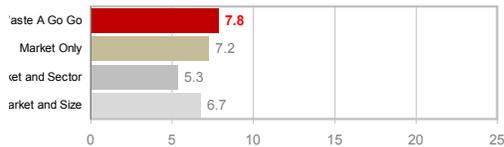
Waste A Go Go
Market (All) 129 companies

Market and Sector: 41 companies
Market and Size: 41 companies

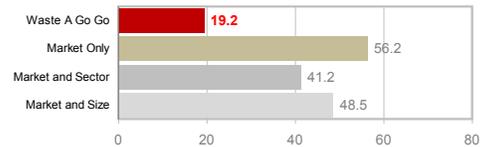
OVERALL RATING



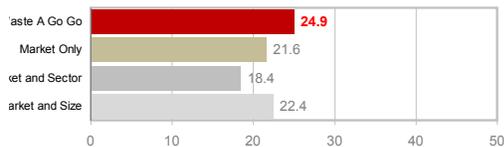
Governance



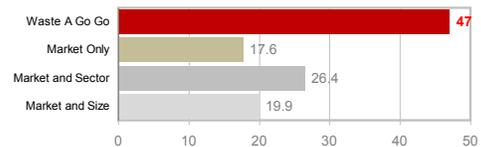
Community



Employees



Environment



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DISCLOSURE QUESTIONNAIRE

The disclosure questionnaire features questions focused on issues typically covered by negative screens. The disclosure questionnaire is not included in a company's rating, but the information from the questionnaire is provided on a company's rating report as context for interested investors.

| Industries & Products | Yes | No | Practices | True | False |
|---|-----|----|---|------|-------|
| Any product or activity deemed illegal under host country laws or regulations or international conventions and agreements | | √ | Company formally registered in accordance with domestic regulations | √ | |
| Alcohol (excluding beer and wine) | | √ | Company facilities are not located adjacent to or in sensitive ecosystems | √ | |
| Commercial logging and logging equipment | | √ | No animal testing conducted | √ | |
| Drift net fishing in the marine environment using nets in excess of 2.5 km in length | | √ | Company provides clean drinking water to employees at all times | √ | |
| Firearms, weapons or munitions | | √ | Company workers, company contractors, company subcontractors or day-workers are paid minimum wage or above | √ | |
| Genetically modified organisms | | √ | Company keeps a signed contract of employment with each worker | √ | |
| Mining | | √ | Company or company supplier does not employ workers under the age of 15 (or other minimum work age covered by the International Labour Organization Convention No. 138) and company keeps personnel records that include evidence of the date of birth of each | √ | |
| Nuclear Power | | √ | Overtime work for hourly workers is voluntary (not compulsory) | √ | |
| Fossil fuel-based oil or coal utility | | √ | Company provides payslips or equivalent to all workers to clearly show how wages are calculated and any deductions made | √ | |
| Ozone depleting substances subject to international phase-out | | √ | Company or company suppliers do not use any workers who are prisoners | √ | |
| Persistent organic pollutants (POPS) that are banned or scheduled to be phased out of production | | √ | Company allows workers to freely associate and to bargain collectively for the terms of one's employment | √ | |
| Pesticides/herbicides subject to international phase-out or bans | | √ | Company allows workers to freely leave the site during non-working hours or at the end of their shift (including workers who live on site) | √ | |
| Pharmaceuticals subject to international phase-outs or bans | | √ | Company does not keep workers' original Id Cards/Passports | √ | |
| Payday lending | | √ | | | |
| Pornography | | √ | Outcomes | True | False |
| Radioactive materials | | √ | Company has not had an operational or on-the-job fatality | √ | |
| Tobacco | | √ | Company site has not experienced any accidental discharges to air, land or water of hazardous substances | √ | |
| Unbonded asbestos fibers | | √ | No construction nor operation of company facility has resulted in the relocation of any individuals or households near your facility | √ | |
| Wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) | | √ | No material recalls due to quality control issues | √ | |
| | | | No material litigation against company | √ | |
| Penalties, Fines & Sanctions | Yes | No | | | |
| Animal welfare | | √ | | | |
| Diversity and equal opportunity | | √ | | | |
| Employee safety or workplace conditions | | √ | | | |
| Environmental issues | | √ | | | |
| Financial reporting | | √ | | | |
| Geographic operations or international affairs | | √ | | | |
| Labor issues (internal and supply chain) | | √ | | | |
| Marketing | | √ | | | |
| Political contributions | | √ | | | |
| Product safety | | √ | | | |
| Taxes | | √ | | | |

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Rating Status: Preliminary Rating



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COMPANY RATINGS REPORT

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MANAGEMENT

Jane Smith, Sustainability Director
John Doe, President

CONTACT DETAILS

| | |
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| Contact Email: | Contact Phone: |
| john@wasteagogo.com | (555) 555-5555 |
| Web Address: | Address: |
| www.wasteagogo.com | 123 Waste Street Trujillo, La Libertad |

FINANCIAL INFORMATION

| | |
|---|------------------------------------|
| Projected Capital Raised in Upcoming FY | Current Investors: |
| \$1,000,000.00 | Self-funded; Institutional Capital |

FROM THE MANAGEMENT

Waste A Go Go is a proud manufacturer of the best lemonade in Peru. We strive to be a triple bottom line company focusing on people, profit, and planet. We actively integrate these principles into the core of our company by supporting our local community, providing a healthy work environment, and conserving the environment.

We are leading the way in Peru to be a sustainable beverage manufacturing company.

*The Management Letter on this page is provided directly by the Fund and has not been validated by GIIRS.

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Understanding the Global Impact Investing Rating System (GIIRS)

GIIRS provides an independent judgment of social and environmental impact for both companies and investment funds using a ratings scale of 1 to 5 stars. Through a broad spectrum of questions regarding impact models, practices, policies and achievements, the system is designed to be applicable to a wide range of industries and business models. Also, like impact investing, GIIRS sets itself apart from socially responsible investment ratings, which typically focus on negative screens, as GIIRS ratings recognize only positive impact generated by a company or fund.

Ratings System Overview

The GIIRS assessment and ratings are:

- **Transparent:** Criteria and weightings for each impact area, subcategory and individual question within the assessment are fully transparent.
- **Independently Governed:** Overseen by independent Standards Advisory Council of experts, practitioners, investors and thought leaders.
- **Dynamic:** A new version of the survey is developed every two years.

Unique characteristics:

- **Comprehensive:** Recognizing multiple social impact models as well as >100 multi-stakeholder practices and policies of a sustainable enterprise.
- **Comparable:** Allow investors to compare and aggregate ratings of various company geographies, sectors, and sizes in the same portfolio. Specifically tailored questions and weightings applied in a consistent framework ensure both relevancy and comparability. There are twelve company tracks in domestic markets and sixteen tracks in emerging markets.
- **Adaptable:** Incorporate industry addenda focused on products and services of companies within specific industries. Based on market demand, currently offer financial services addenda for both developed and emerging markets and a building addendum for developed markets. Additional addenda for other industries will be added over time.
- **Positive Impact Focus:** GIIRS ratings focus on the performance generated by a company or fund, rather than on negative screens
- **Appropriate for Private Companies:** Questions tailored for small and medium sized enterprises
- **For Assessment & Improvement:** Companies can use the GIIRS Assessment to both get a GIIRS rating and as a tool to manage their performance overtime

GIIRS

ASSESSMENT STRUCTURE

I. Social Enterprise Models

Specific models designed to create social and/ or environmental impact through company products or services, target customers, value chain, ownership or operations.

II. Practices

Impactful practices, policies and achievements.

- Governance
- Workers
- Community
- Environment

III. Disclosure Questionnaire

Unweighted disclosures to investors of potentially sensitive issues.

The Verification Process

GIIRS utilizes a three level verification process to ensure accuracy and validity of ratings information. All ratings and reports will be classified by GIIRS according to the level of review undertaken.

Level 1: Assessment Review

Companies engage in a 1-2 hour call with GIIRS staff to review answers, clarify questions and definitions, and ensure proper inputs for calculations.

- Ratings Classification: **Preliminary**
- Reviewed By: **GIIRS**

Level 2: Documentation Review

Companies are required to provide documentation to support responses to certain questions deemed material by GIIRS. A review of the selected documents will be executed with the assistance of a third-party.

- Ratings Classification: **Reviewed**
- Reviewed By: **3rd Party Services Provider**

Level 3: On-Site Review

Each year 10% of the prior year's GIIRS-rated companies will be selected by GIIRS for an on-site review. An on-site review includes a facilities tour, employee interviews and assessment of additional supporting documentation.

- Ratings Classification: **On-Site Reviewed**
- Reviewed By: **3rd Party Services Provider**

Deloitte & Touche LLP has been retained as the preferred provider of document and on-site review services to assist GIIRS in its validation and rating process. In certain instances, GIIRS or another third-party will conduct documentation and on-site reviews.

The material on the ratings report is for informational purposes only, and is not an offer or recommendation to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. GIIRS's opinions and analyses do not address the suitability of any security. GIIRS does not act as a fiduciary or an investment advisor. While GIIRS has obtained information from sources it believes to be reliable, GIIRS does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction.

APPENDIX D

Glossary

ESG an investment approach that considers environmental, social and governance (ESG) factors when making investment decisions.

Exit the point at which an investor sells his or her stake in a venture to realize his or her gains

Family Offices a private company that manages investments and trusts for a single wealthy family

Global Impact Investing Rating System (GIIRS) a system that assess the social and environmental impact of companies and funds using a range of approaches

Impact Reporting and Investment Standards (IRIS) a set of standardized metrics that can be used to describe an organization's social, environmental and financial performance

Social ventures organizations, whether for-profit or not-for-profit that adopt entrepreneurial practices to achieve a social or environmental objective

ABOUT VENTURE DELI

Venture Deli helps to grow and capitalize companies that matter to the world. Our work with ventures focuses on enhancing their investment readiness for a successful capital raise. We help these businesses to refine their business models, assess and monitor their social impact, and strengthen their operational capabilities and management teams.

Through our Purpose Capital division, we facilitate the development of impact investment strategies for high net worth investors, family offices, foundations, and financial institutions. We work with these investors to align their social impact objectives with their investment strategies, on individual transactions or across their portfolios. This includes offering approaches to measure and report on social value creation. We also help our clients to design

and implement impact investment fund structures, including development of a pipeline of “investment ready” opportunities. Our team provides advisory services across a range of sectors, regions, and asset classes.

A proud B Corp based in Toronto, our recent projects include Canadian and international surveys on impact investing and social finance, and consulting and advisory support to leading Canadian financial institutions and foundations. The firm retains a commitment to sector building, including teaching social entrepreneurship courses at Canada’s leading business (Schulich School of Business, York University) and engineering (University of Toronto) schools.

ABOUT PURPOSE CAPITAL

Purpose Capital develops growth and investment strategies that matter to the world. Our clients operate and invest with purpose.

Purpose Capital works with both world-class organizations and the investors and advisors who support them to develop and deploy customized strategies that balance financial, social and environmental concerns spanning sectors, asset classes, cultures and regulatory jurisdictions.

We support leading US and Canadian financial institutions, foundations and families to integrate impact considerations across their portfolios.

We also design and implement social impact measurement systems, and conduct proprietary and public research on key market trends, issues,

and opportunities around impact investing. Our recent publications analyze the opportunities and challenges around social finance in Canada and internationally, and how leading impact investors are addressing them in practice.

Our team brings breadth and depth of experience spanning capital markets, private equity investing, venture development, and public policy. We work with sector-leading, purpose-driven ventures to design and execute strategic initiatives, and with investors to develop a pipeline of investment opportunities, and assist in vetting and structuring deals that align financial and social return expectations, and provide customized support to investors and investees throughout the investment lifecycle.



Venture Deli is a Certified B Corporation. Unlike traditional corporations, Certified B Corporations are legally required to consider the impact of their decisions on the long-term interests of their employees, suppliers, community, consumers, and the environment.

Purpose Capital

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