DECISION POINTS

Exploring key choices for building an impact investing practice

August 14, 2018
Thank you for joining us today!

Please note:
• All participants are already muted upon entry to the webinar session.
• Use the “chat” function to submit questions or concerns during the broadcast.
• Please use computer audio rather than phone.
• We’ll share a recording after the webinar.
The Global Impact Investing Network

The GIIN’s mission is to increase the scale and effectiveness of impact investing.

Membership

TRAINING

IRIS & Impact Measurement and Management

Research

@theGIIN

www.thegiin.org
Agenda

Welcome  |  Giselle Leung, GIIN Managing Director
Research presentation  |  Hannah Dithrich, GIIN Research Associate
Investor perspectives  |  
  Caroline Vance, Director of Sustainable Investments at DWS
  Neeraj Aggarwal, Program Director at Michael & Susan Dell Foundation
  Daniel Izzo, Co-founder at Vox Capital

Questions & answers
Welcome!

Giselle Leung
Managing Director
Global Impact Investing Network
The Roadmap for the Future of Impact Investing

Six Categories of Action

1. Identity
2. Behavior and Expectations
3. Products
4. Tools and Services
5. Education and Training
6. Policy and Regulation

https://roadmap.thegiin.org/
Research presentation

Hannah Dithrich
Research Associate
Global Impact Investing Network
Featuring data from 229 impact investor organizations
Most impact investors made their first impact investment in the past decade

Source: 2018 GIIN Annual Impact Investor Survey; n = 229
There are many types of impact investors

- Fund managers
- Foundations
- Banks
- Family offices
- Pension funds & insurance companies

Source: 2018 GIIN Annual Impact Investor Survey
Survey respondents are based around the world

Source: 2018 GIIN Annual Impact Investor Survey, n = 229 (excluding six respondents with no single headquarters location)
Investors have many reasons for doing impact investing

Percent of respondents noting each reason as ‘very important’

- It is central to our mission to intentionally pursue impact through our investments. 91%
- They are part of our commitment as a responsible investor. 89%
- They are an efficient way to meet our impact goals. 73%
- We are responding to client demand. 46%
- They provide an opportunity to gain exposure to growing sectors and geographies. 34%
- They are financially attractive relative to other investment opportunities. 31%
- They offer diversification to our broader portfolio. 22%
- We do so to meet regulatory demands. 9%

Source: 2018 GIIN Annual Impact Investor Survey; n=216 – 102
Three key questions:

1. What type(s) of impact do I seek?
2. What are my financial return expectations?
3. How do I allocate my assets?
1 | Impact Themes
Impact investors target social and environmental objectives

Primary impact objectives

- Both: 6%
- Social: 54%
- Environmental: 40%

Source: 2018 GIIN Annual Impact Investor Survey; n=229
76% of respondents either currently track investments to the SDGs or plan to do so soon.
Investors target a range of impact themes

Percent of respondents targeting each impact theme

- Decent work and economic growth: 60%
- Good health and well-being: 44%
- Quality education: 39%
- Affordable and clean energy: 39%
- No poverty: 31%
- Sustainable cities and communities: 31%
- Industry, innovation, and infrastructure: 27%
- Responsible consumption and production: 26%
- Reduced inequalities: 23%
- Clean water and sanitation: 23%
- Climate action: 22%
- Gender equality: 19%
- Zero hunger: 13%
- Life on land: 11%
- Partnerships for sustainable development: 8%
- Peace, justice, and strong institutions: 7%
- Life below water: 4%
- Other: 22%

Source: The State of Impact Measurement & Management Practice; n=124
Three-quarters of investors set impact targets

Percent of respondents setting impact targets

- **48%**: We set impact targets for all of our investments
- **28%**: We set impact targets for some of our investments
- **24%**: We do not set impact targets

Source: 2018 GIIN Annual Impact Investor Survey; n=229
Impact measurement and management is a hallmark of impact investing

Ways in which investors measure their impact

- Through proprietary metrics and/or frameworks that are not aligned to any external frameworks or methodologies: 69%
- Through qualitative information: 66%
- Through metrics that are aligned with IRIS: 59%
- Through standard frameworks and assessments such as GIIRS, GRI, SASB, IMP, etc.: 41%
- We do not measure social/environmental performance: 1%

Source: 2018 GIIN Annual Impact Investor Survey; n=229
2 | Target financial returns
Impact investors pursue a range of financial returns

Target financial returns

- Risk adjusted, market-rate returns
- Below-market-rate returns: closer to market rate
- Below-market-rate returns: closer to capital preservation

Source: 2018 GIIN Annual Impact Investor Survey; n=229
Gross returns vary by asset class, geography, and target returns

Reported gross returns

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<thead>
<tr>
<th></th>
<th>DM</th>
<th>EM</th>
<th>DM</th>
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<th>DM</th>
<th>EM</th>
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</thead>
<tbody>
<tr>
<td>Market Rate</td>
<td>1.9%</td>
<td>8.2%</td>
<td>4.0%</td>
<td>6.1%</td>
<td>17.0%</td>
<td>17.6%</td>
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<tr>
<td>Below Market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7.0%</td>
<td>8.4%</td>
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<tr>
<td>Debt</td>
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<tr>
<td>Equity</td>
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</table>

Note: n = 10 – 34; showing gross returns. Error bars indicate standard deviation.
Source: 2018 GIIN Annual Impact Investor Survey
Most investors are satisfied with their impact and financial performance expectations

Performance relative to expectations

- Impact performance:
  - Underperforming: 3%
  - In line: 82%
  - Outperforming: 15%

- Financial performance:
  - Underperforming: 9%
  - In line: 76%
  - Outperforming: 15%

Source: 2018 GIIN Annual Impact Investor Survey; n=216 and 2018
3 | Asset allocations
Respondents manage over USD 228 billion in impact investing assets
Investors allocate capital across the world

Percent of total USD 228 billion AUM

Source: 2018 GIIN Annual Impact Investor Survey

n=226; map excludes 5% of AUM allocated to ‘other’.
Investors also target a wide range of sectors

Percent of total USD 228 billion AUM

- Fin services (excl. microfinance): 19%
- Energy: 14%
- Microfinance: 9%
- Housing: 8%
- Food & ag: 6%
- Infrastructure: 5%
- Healthcare: 5%
- WASH: 4%
- Education: 4%
- Manufacturing: 3%
- Conservation: 3%
- ICT: 3%
- Arts & culture: 0%
- Other: 16%

Impact investments are made across asset classes

Percent of total USD 228 billion AUM

- Private debt: 41%
- Private equity: 18%
- Public equity: 14%
- Real assets: 9%
- Public debt: 6%
- Deposits & cash equivalents: 3%
- Equity-like debt: 3%
- Other: 7%

Three key choices:

1. What type(s) of impact do I seek?
2. What are my financial return expectations?
3. How do I allocate my assets?
Meet our panelists

Caroline Vance
DWS
Director of Sustainable Investments

Neeraj Aggarwal
Michael & Susan Dell Foundation
Program Director

Daniel Izzo
Vox Capital
Co-Founder
Dedicated SI team and ESG strategy coordinator for real estate/infrastructure asset classes

Sustainable Investments Team
— Led by Andrew Pidden, Sustainable Investments focuses on private equity strategies within a general theme of sustainability.
— Sustainable Investments has over 30 team members in 7 cities worldwide managing fund strategies across the financial inclusion, clean energy/energy efficiency, agricultural trade, and health sectors.

ESG Strategy Coordinator
— Led by Jessica Elengical, who works with dedicated resources in each of the real assets business to carry out our ESG programs
— Overall ESG Strategy is to preserve and enhance risk-adjusted returns and strengthen investment.¹

Dedicated ESG Partners – responsible for firmwide ESG research and governance

Source: DWS, as of September 2017.
¹ There is no guarantee that investment objectives will be achieved.
## Spectrum of capital and investment categories

<table>
<thead>
<tr>
<th>Focus</th>
<th>Traditional</th>
<th>Responsible</th>
<th>Sustainable</th>
<th>Impact/thematic</th>
<th>Impact-first</th>
<th>Philanthropy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competitive returns</strong></td>
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<tr>
<td><strong>ESG risk management</strong></td>
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<tr>
<td><strong>Sustainable Investment opportunities</strong></td>
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<tr>
<td><strong>Higher-impact solutions</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Focus</td>
<td>Limited or no focus on ESG factors of underlying investments</td>
<td>Focus on ESG risks ranging from negative screening of harmful products to a wide consideration and integration of ESG factors in investment decisions</td>
<td>Focus on positive environmental and social outcomes, through investment selection, portfolio management, and investment committee engagement.</td>
<td>Focus on one or a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns</td>
<td>Focus on one or a cluster of issue areas where social or environmental need requires financial trade-off</td>
<td>Focus on one or a cluster of issue areas where social or environmental need requires 100% financial trade-off</td>
</tr>
</tbody>
</table>

**ESG based DWS Solutions**

- **Finance-only**
- **The New Paradigm**
- **Impact-only**

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- There is not just ONE definition for ESG, as strategies range from largely return-focused ESG risk management to pure philanthropy.
- DWS offers the full spectrum of ESG, including sustainable investments and social impact investment products, spanning private as well as public funds.
- Our in-house proprietary investment capability and several decades of experience is a key differentiator among our competition.

**Source:** Bridges Ventures & DWS and GIIN (Global Impact Investing Network)
Cornerstones of DWS’ SI strategy
Combining assets, investors and partners in innovative structures

Broad range of asset classes to achieve different social and environmental objectives

- Financial Inclusion/Microfinance
- Social Enterprise (agriculture, health, and energy)
- Clean Technology/Renewable Energy

Sustainable investment opportunities with attractive risk-return profile

- Mainstream investors (Pension Funds, Insurers)
- Socially Oriented Institutions (e.g. Foundations, Churches)
- Family Offices

Increasing the impact by leveraging public sector/philanthropic money

- World Bank, IFC
- KfW, DEG, GTZ
- EU, EIB
- Asian Development Bank, Inter-American Development Bank
- Development Finance Institutions (DFIs)

Innovative and thoughtful structures for appropriate risk allocation to different investor classes

- Private debt & equity structures:
  - Separately Managed Accounts
  - Funds
  - Securitizations

(1) For Illustrative purpose only.
Not all DWS products and services are offered in all jurisdictions and availability is subject to local regulatory restrictions and requirements. Subject to applicable laws and internal policies and procedures.
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IMPACT INVESTING AT MSDF
Our mission:

TRANSFORMING THE LIVES OF CHILDREN LIVING IN URBAN POVERTY THROUGH BETTER EDUCATION, HEALTH AND FAMILY ECONOMIC STABILITY

- FOUNDED IN 1999 BY DELL INC. CEO MICHAEL DELL AND HIS WIFE SUSAN
- GLOBAL COMMITMENTS: USD $1.5B as of December 31, 2017
- GLOBAL ANNUAL COMMITMENTS: US$115M – 120M per year
## Impact investing portfolio overview

### At a Glance

### Balance Sheet (Net Payments)

Payments net of 6.7M of Capital Returns

<table>
<thead>
<tr>
<th></th>
<th>Net Payment</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>42.9M</td>
<td>78%</td>
</tr>
<tr>
<td>Ed-Fi/DDE</td>
<td>11.0M</td>
<td>20%</td>
</tr>
<tr>
<td>US (excl. Ed-Fi/DDE)</td>
<td>0.7M</td>
<td>1%</td>
</tr>
<tr>
<td>Foundation Giving</td>
<td>0.6M</td>
<td>1%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>55.2M</td>
<td>100%</td>
</tr>
</tbody>
</table>

Adjustments not made for write downs.

### Commitments

Exits reflect closed projects in G2 (full exits); Partial exits included in Active

<table>
<thead>
<tr>
<th></th>
<th># of Orgs</th>
<th>Payment Amount USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>39</td>
<td>70.9M</td>
</tr>
<tr>
<td>Exited</td>
<td>5</td>
<td>5.3M</td>
</tr>
<tr>
<td>Grand Total</td>
<td>43</td>
<td>76.3M</td>
</tr>
</tbody>
</table>
Portfolio growing steadily since 2006

In 4.5 years since 2013, have made 28 investments and deployed $58M

Seven years to make fifteen investments and deploy $17M capital
Focused giving and focused geographies

Sustainable transformation for vulnerable children living in urban poverty.
Organizational attributes supporting impact investing

**STRATEGY**
Adherence to a well-defined, long-term programmatic strategy that puts mission first and is strongly connected to investment decisions.

**CONTEXT**
Flexibility to meet unique operational and regulatory factors found across various markets and geographies.

**RESOURCES**
Access to financial resources to deploy innovative funding tools.
Organizational attributes supporting impact investing

**Infrastructure**

Establishment of an impact investing support function and requirement of high-level skill sets across the organization.

**Process**

Use of internal tools and oversight functions to rigorously monitor and evaluate impact investments.

**Culture**

Commitment to opportunity, innovation, and collaboration to guide problem-solving.
Mission framework to evaluate potential investments

Will the investment unlock an opportunity for a service or product that provides utility to a beneficiary population with the ability to pay?

Is the investee delivering measurable impact to the target segment and can the quality of this impact be maintained and/or improved with scale?

Will the opportunity expand the reach of the product or service as a result of both the foundation's investment and the leveraging of traditional investors?

Will the investee arrive at a financially sustainable model, thereby increasing the likelihood of the investee's long-term success, through a strong focus on financial and operational metrics?
Mission framework to evaluate potential investments

Would the opportunity, and related additionality, be realized without the foundation’s investment?

Does the investee have the appropriate leadership capacity and commitment to manage the investment and enforce strong corporate governance principles?

Are there follow on investment opportunities and is there an acceptable timetable estimated for the repayment of capital and any expected return?
Evaluating potential for a market-based solution

**PHILANTHROPIC SOLUTION**
- Beneficiary
  - Product/impact fit
  - Funder diversification
  - Potential to empower beneficiaries to become customers
- Grant

**MARKET-BASED SOLUTION**
- Customer
  - Product/market
  - Unit economics
  - Financial sustainability
- Debt/equity financing

**NO SOLUTION**
- Disinterested Customer/Beneficiary
  - Market research required

**CATALYTIC SOLUTION**
- Potential Customer
  - Test product/market
  - Usage/engagement metrics
- Pay for success/blended finance
Further resources

WWW.MSDF.ORG/IMPACTINVESTING
TIMELINE

- **2009**: VOX Capital is founded
- **2012**: 1st VC fund launched (USD 40 mm)
- **2015**: 10 portfolio companies on fund 1
- **2016**: 2nd VC fund launched (target: USD 30 mm)
- **2017**: 5th year in a role as one of the IA50
  - HBS business case
- **2018**: 1st successful impact investing exit in Brazil with Tem
BRAZIL

- One of the 10 largest economies in the World
- Consistently ranked amongst the 15 most unequal countries (Gini Index)
- Strong private sector
- 112 million people living under USD 9/day

- Strong opportunity for business models trying to solve real social issues
INVESTMENT THESIS

- Fostering the local human potential
- Increasing well being and quality of life
- Developing new models for financial inclusion
HISTORICAL PIPELINE

1776 ideas
820 meetings
41 in-depth due diligence analysis
22 portfolio companies

3% internacional
80%
9%
5%
3%
0%

27% 31% 11% 31%
Health Education Financial Services Other
SOURCES

- Sectorial Events
- Incubators
- Other funds
- Team's Network
- Active Origination
- Passive Origination
Submit your questions via the ‘chat’ function

Caroline Vance  
DWS  
Director of Sustainable Investments

Neeraj Aggarwal  
Michael & Susan Dell Foundation  
Program Director

Daniel Izzo  
Vox Capital  
Co-Founder
Audience questions submitted & answers (1 of 2)

Thank you to all who submitted questions. Below are some frequently asked questions and answers/resources.

Question: Are there any in-depth data/research on how impact investors are addressing the SDGs?

- In 2016, the GIIN published case studies about how investors aligned their strategies to the SDGs. This September, we’ll publish additional cases on how investors are launching new products to channel capital to specific SDGs.
- The GIIN is upgrading IRIS to include the SDGs as an entry point for asset managers and owners to align impact metrics to the SDGs at the target level. See this webinar for information on how investors are integrating the SDGs into their impact measurement and management practice.
Question: What is the overall participation of retail/non-institutional investors in impact investment?

• In the 2018 Annual Impact Investor Survey, 25% of fund managers manage capital from retail investors, accounting for 11% of their total impact investing capital.
• Page 34 in the Annual Survey profiles notable developments in retail investing for impact over the last year, profiling several recently launched products. However, more work is needed to develop impact investing products for retail investors.

Question: How do impact investors structure exits?

• The GIIN published Lasting Impact: The Need for Responsible Exits, showing data from over 30 investors’ approaches to responsible exits, and four case studies on impact investing exits.
Join us at the GIIN Investor Forum

October 30 – 31, 2018
Paris

https://thegiin.org/news-and-events/
Thank You

Visit www.thegiin.org to access a recording of this session and other GIIN resources, and sign-up to receive the GIIN’s newsletter.

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@AmitKBouri

Questions? Email Hannah Dithrich hdithrich@thegiin.org