Impact Investing – an emerging Asset Class

FEB 15, 2019
Impact Investing

Definition – Investments made with an objective to generate positive social & environmental impact besides financial return – Triple bottom line.

Other similar terms – Conscious Capitalism, Sustainable Investment, Ethical investment

Few Impact Sectors – Sustainable Agriculture, Financial inclusion, Affordable Education, Affordable Healthcare, Clean/Renewable Energy...
Impact Investing

Impact investing - Uses a proactive approach to invest in businesses that create positive impact. Doing good and doing well
- Uses the soft touch of grant making and the rigor of conventional investing

Basis -
- Opportunity to fill the gap- Inability of Govt. to come up with adequate welfare measures
- Growing awareness about the importance of sustainability, inclusion, clean energy....
- Diversification of sectors – microfinance crisis and successful exits seen in the sector feed capital for other sectors

The Sustainable Development Goals also known as “Global Goals” help in focussing on potential areas for Impact investments
Impact Chain

**Inputs**
- Investments in a MFI
- Loans disbursed to clients
- Assistance provided & Tech.

**Activity**
- Borrowers received loans used
- Those for business/child’s education

**Output**
- Borrower’s income level increased,
- Child sent to school

**Outcome**
- Quality of life improved
- Child’s education standards improved

**Impact**
Impact Investing Vs ESG Investing

ESG Investing - ESG refers to the environmental, social and governance practices of an investment that may have a material impact on the performance of that investment.

While there is an overlay of social consciousness, the main objective of ESG evaluation remains financial performance.

The table below lists common ESG factors that are considered

<table>
<thead>
<tr>
<th>Social</th>
<th>Governance</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human rights</td>
<td>Quality of management</td>
<td>Energy consumption</td>
</tr>
<tr>
<td>Child and forced labour</td>
<td>Board independence</td>
<td>Pollution</td>
</tr>
<tr>
<td>Community engagement</td>
<td>Conflicts of interest</td>
<td>Climate change</td>
</tr>
<tr>
<td>Health and safety</td>
<td>Executive compensation</td>
<td>Waste production</td>
</tr>
<tr>
<td>Stakeholder relations</td>
<td>Transparency &amp; disclosure</td>
<td>Natural resource preservation</td>
</tr>
<tr>
<td>Employee relations</td>
<td>Shareholder rights</td>
<td>Animal welfare</td>
</tr>
</tbody>
</table>

Sources – Investopedia
Impact Investing Vs SRI Investing

Socially Responsible Investments (SRI) – Socially responsible investing goes one step further than ESG by actively eliminating or selecting investments according to specific ethical guidelines.

SRI uses ESG factors to apply negative or positive screens on the investment universe. For example, an investor may wish to avoid any mutual fund or exchange-traded fund (ETF) that invests in companies engaged in firearms production because he/she holds anti-conflict beliefs.

Other negative SRI screens include:

- Alcohol, tobacco and other addictive substances
- Gambling
- Production of weapons and defense tools
- Terrorism affiliations
- Human rights and labor violations
- Environmental damage

In impact investment, social and environmental considerations are not lenses for rejection of opportunities; they are front and centre in the decision-making criteria for investors.

Sources – Investopedia
Indian Impact Investors space

- **DFIs**
  - ADB, IFC, OPIC – Min ticket sizes upwards of USD 15 million
  - NABARD, SIDBI - Max ticket sizes of USD 2-5 million

- **Funds**
  - Caspian, Lok, Avishkar, Omnivore, Aspada – varied ticket sizes based on Fund’s philosophy – mostly between $1 million - $10 million

- **Family Offices**
  - Aarin Capital (Mohandas Pai), Ajay Piramal SFO, Catamaran Ventures (Narayana Murthy), Premji Invest, RNT Associates (Ratan Tata)

- **Foundations**
  - Ford Foundation, Shell Foundation, MSDF, Rockefeller Foundation, Rabobank Foundation, Raintree Foundation

- **GoI**
  - Startup Funds – BIRAC,DST, Science For Equity Empowerment and Development (SEED), Trade related Entrepreneurship Assistance and Development (TREAD):

- **Incubators**
  - a-idea, CIIE-IIMA, Khosla Labs, Villgro

- **Angel Investors & HNI**

- **Insurance Companies**
Caspian is a 14 year old organization and a pioneer in impact investing in India.

We invest in enterprises that address the problems of access and efficiency in business ecosystems that have positive social or environmental impact.

We seek to utilize our understanding of early stage enterprises that operate in this sphere and bring our capital and expertise to improving the outreach and viability of their businesses.

In addition, Caspian runs market and ecosystem development initiatives in critical sectors.

We have a multi-sector focus including financial inclusion (microfinance, small business financing, housing finance), food & agribusiness, clean energy, education, healthcare, last mile banking and affordable housing.

**About Caspian**
Caspian is a Certified B Corporation.

We are the first Indian investment management firm to be a Certified B Corporation.

One of the first fund managers in the world to receive a Global Impact Investing Rating System (GIIRS) Impact Rating, thus becoming one of the first GIIRS Pioneer Fund Managers in 2010.

# Caspian Funds

### More than INR 10 Bn of Assets Under Management

<table>
<thead>
<tr>
<th>Fund</th>
<th>Vintage</th>
<th>Fund Size</th>
<th>Fund Focus</th>
<th>Number of Equity Investments</th>
<th>Status</th>
<th>Additional Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bellwether Microfinance Fund (Bellwether)</td>
<td>2005</td>
<td>~USD 20 mn</td>
<td>Microfinance</td>
<td>12</td>
<td>Closed</td>
<td>First domestic equity fund for Microfinance; First investor in some of today’s market leaders (Ujjivan, Janalakshmi); incubated start-ups in underserved regions (Sonata and Arohan)</td>
</tr>
<tr>
<td>India Financial Inclusion Fund (IFIF)</td>
<td>2008</td>
<td>~USD 90 mn</td>
<td>Microfinance, Affordable Housing, SME financing, Financial Inclusion Enablers</td>
<td>12</td>
<td>Portfolio management/Exit mode</td>
<td>Pioneering investor in affordable housing; made the first private investment in the country in a micro mortgage provider (MHFC); Recent multi-bagger exits in Equitas, Janalakshmi, Ujjivan and Aptus.</td>
</tr>
<tr>
<td>Caspian Impact Investments (CII)</td>
<td>2013</td>
<td>INR 4 Bn (Sep, 2018)</td>
<td>Multi-sector</td>
<td>12</td>
<td>Active (no fixed term)</td>
<td>Currently active: Cumulatively, INR 9.8 Bn disbursed across 106 clients (Sep, 2018)</td>
</tr>
<tr>
<td>Caspian SME Impact Fund</td>
<td>2017</td>
<td>~USD 50 mn</td>
<td>Food &amp; Agri, SME Finance, Clean Energy and other sectors</td>
<td>12</td>
<td>Active</td>
<td></td>
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</table>

**16 equity exits till date, including two IPOs.**

14 years of track record in setting up and operating investment equity & debt vehicles that deliver both financial value and development impact.
Caspian Investors & Partners

Strong support from a diversified group of development focussed financial institutions and investors.
Impact Assets Under Management - Sector/Theme wise

AUM by Sector

- Fin Services: 25%
- Energy: 19%
- Microfinance: 14%
- Housing: 9%
- Food & Ag: 8%
- Infrastructure: 6%
- Healthcare: 5%
- Wash: 5%
- Education: 4%
- Others: 4%
- Remaining: 9%

Sources – 2018 GIIN Annual Impact Investor Survey
Investors Type and Source of Capital - Global

Impact Investor - Org Type
- Fund Manager - For Profit
- Fund Manager - Not for Profit
- Foundation
- Bank/Diversified FI
- Family office
- Pension/Insurance company
- DFI
- Others

Source of Capital
- Pension/Insurance...
- Banks / Diversified Fis
- Family office / HNIs
- Retail Investors
- DFIs
- Foundation
- Endowments
- Fund of Funds
- Sovereign Wealth Funds
- Others

Sources – 2018 GIIN Annual Impact Investor Survey
Performance of Impact Investing Industry-Global

Capital Raised ($ bn)

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<tr>
<td></td>
<td>3.5</td>
<td>2.8</td>
<td>4.7</td>
<td>6.7</td>
<td>11.1</td>
<td>18.7</td>
<td>22.5</td>
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Assets Under Management ($ bn)

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<tbody>
<tr>
<td></td>
<td>36</td>
<td>46</td>
<td>60</td>
<td>77.4</td>
<td>114</td>
<td>228.1</td>
<td></td>
</tr>
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</table>

Survey Respondants

<table>
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<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>99</td>
<td>125</td>
<td>146</td>
<td>157</td>
<td>209</td>
<td>226</td>
</tr>
</tbody>
</table>

AUM of impact investors grew at 13% compound annual growth rate (CAGR) between 2013 to 2017

Source – GIIN annual survey 2013 -2018
Indian Impact investors have made $5.2 bn investments between 2010-2016, reflecting CAGR growth of 14%.

Mckinsey estimates Indian impact investment industry to grow at CAGR of 20-25% upto 2025.

High social needs with expected strong growth in social sectors are expected to drive growth.

Sources – IIC, Mckinsey report on Impact Investing in India
Return Expectations

• Impact investing still has a long way to go as investors continue to struggle with preconceived notions and biases of low returns

• About 84% of the investors target market return or near market return. Only 16% of the investors target close to preservation of capital.

• Average returns delivered by impact investors

<table>
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<tr>
<th>Average Returns From Inception</th>
<th>Market Rate</th>
<th>Below Market</th>
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<tbody>
<tr>
<td>Developed Market</td>
<td>17.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Emerging Market</td>
<td>17.60%</td>
<td>8.40%</td>
</tr>
</tbody>
</table>

Sources – 2018 GIIN Annual Impact Investor Survey
Case Study - Equitas

- Vasudevan PN started Equitas Micro Finance Ltd in 2007,
- Driven by the thought of financing low-income people who were underserved by banks, and also those at the bottom of the pyramid, such as slum dwellers and the homeless.
- A veteran in financial sector with about two decades of experience.
- Experience met passion and the idea took off in 2007 with seed funding from old friends MA Alagappan, then executive chairman of the Murugappa Group; M Anandan, Cholamandalam’s former managing director and Manappuram Finance’s Chairman and Managing Director VP Nandakumar.
- In the decade since, the business has grown by leaps and bounds with the early support from impact investors like Caspian, Avishkaar and lateral investments from main stream investors and DFIs including Sequoia, Westbridge, IFC.
- Equitas, in 2010, diversified into a non-banking financial company (NBFC), with interests in housing (Equitas Housing Finance) and vehicle finance (Equitas Finance).
- Now Equitas is a listed Small finance Bank with advances of ~ INR 100 bn, deposit of INR 57 bn, market Cap of INR 39 Bn.
- Impact investing to grow further with more mainstream investors joining it.
  ◦ Avendus launched $1 billion India ESG Fund
  ◦ $1 billion ESG Fund by Ex-Tata Executives & Quantum Advisors launched
  ◦ Several traditional investors, including TPG, BlackRock, and Bain Capital have launched or announced separate units for impact investments.
  ◦ Institutional investors such as Zurich Insurance, the AXA Group, and Australian superannuation fund, HESTA, entered the impact investment arena

- New talent continues to join the sector leading to path breaking innovations in various sectors

- Rigor on impact measurement would increase – could become a distinguishing factor for attracting Funds

- Retail investors would be attracted to the sectors for its on-par market returns coupled with the positive social and environmental
New Fund launches

- In April 2017, Ford Foundation announced that it will commit USD 1 billion of its USD 12 billion endowment to mission-related investments over the next ten years.

- The Michael & Susan Dell Foundation announced in May 2017 that it would add USD 1 billion to its endowment.

- The Global Steering Group for Impact Investment (GSG) developed the India Education Outcomes Fund (IEOF) and the India Impact Fund of Funds (IIFF) in 2017, meeting with stakeholders and initiating fundraising. The funds, officially launching in 2018, each aim to raise USD 1 billion.

- TPG Rise Fund announced in October 2017 that it had raised USD 2 billion, surpassing its target of USD 1.5 billion to reach the maximum amount of outside capital allowed by its investment agreement.

- Zurich Insurance Group announced in November 2017 that it will more than double its commitment to responsible and impact investing from USD 2 billion to USD 5 billion.

Source – GIIN annual survey 2018
Career Opportunities

- In India there are about 50 impact investing firms, each of them having about staff in the range of 5 – 150 employees.

- Expected growth of ~ 20-25% over the next 6 years is expected to provide large opportunities for CFA candidates or members.

- Impact investment firms in addition to finance and investing skills, look for qualities like Empathy for real-world problems & passion for development, Strong appetite for learning new things and willingness to travel to rural areas.
Philanthropic way of giving to charities is no longer the only way to make a difference and impact investing is now seen as a key driver for positive change.

Much more that needs to be done to bridge the funding gap to achieve the SGD's by 2030 and help the world from irreversible consequences.
Thank You!