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SPTF Webinar:
Investor's Perspective on Pricing Transparency

April 25, 2016

Grassroots looks at returns on *impact* investing as having three components

1. The first wave of private investment in impact funds and companies has an important ***industry building function***, with first mover costs.
2. The *impact* investment proposition needs to specify what ***non-financial value is created for which stakeholders***.
3. The ***financial returns*** of *impact* investments can only be interpreted in the context of these two other components

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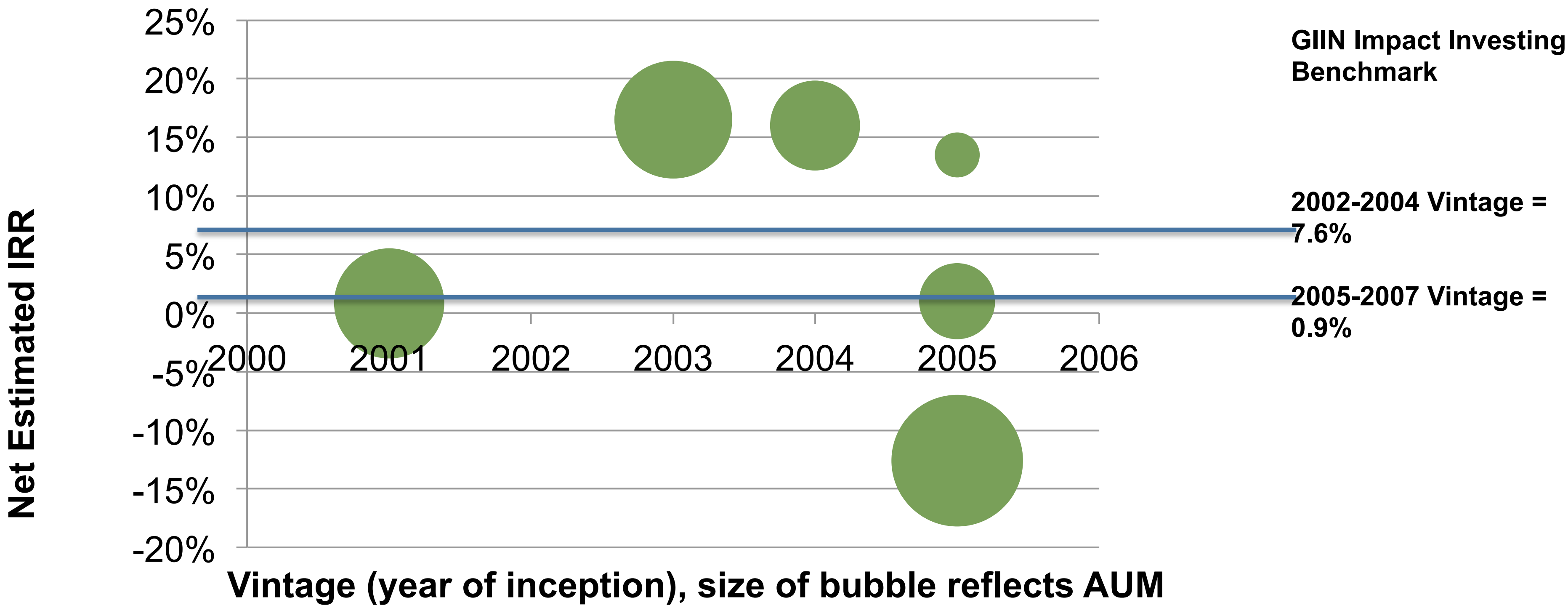
How is Grassroots transparent about pricing?

1. Communicate “total cost” / “return expectations” to potential portfolio companies early in process – during due diligence, term sheets/ investment documents
2. Communicate expected company-level and fund-level returns in all three dimensions to LPs quarterly or annually
3. Promote effort to publicize more realistic return expectations to LPs, asset owners and the industry – share data to create dialogue, benchmarks

Microfinance financial returns: Fund level performance

1. First vintage: nine microfinance equity funds 2001 - 2005
2. Four liquidated; two extended under duress; three partial liquidation
3. Returns of ~3% (weighted by capital commitments) for six fully or mostly realized; consistent with GIIN *realized* returns.



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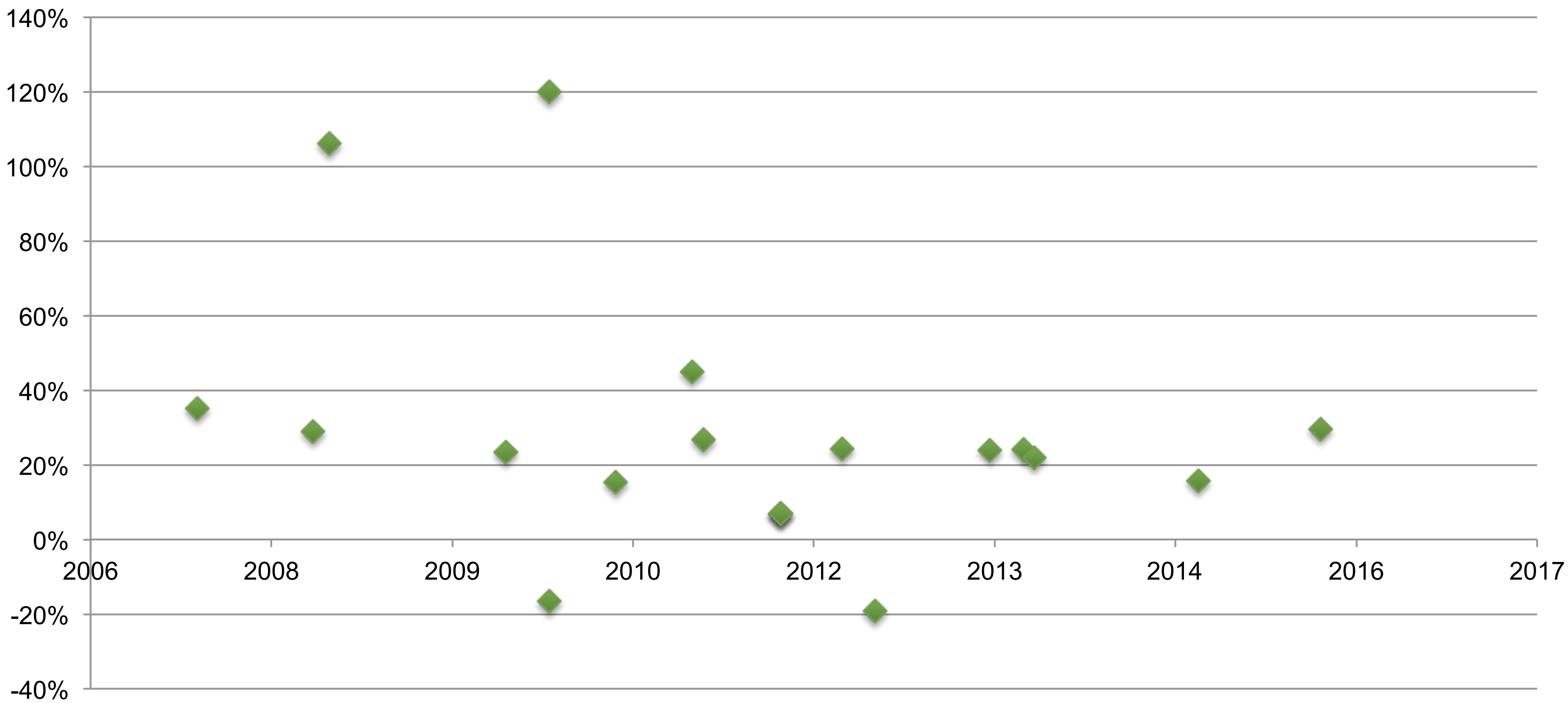
Equity portfolio: realized MFI investments

Individual MFIs' performance strong: most exits between 15-25% IRR



Of 33 MFIs invested, 19 exits from 17 MFIs; 5 MFIs written off

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Transparency: Fund-level vs Company-level

1. Higher level of scrutiny and reporting at company-level
2. Funds do not have to be regulated as financial institutions
3. While more impact fund managers are providing more realistic profit expectations, equity fund expectations are still generally at 20-25%+, which can mean 40%+ ROE at company level

-> ***Mismatch!***

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How can First Mover features affect returns?

- Sub scale funds and managers
- High leakage structures
- Untested products / geographies
- First time managers: company and fund
- Political / regulatory risk
- Absorptive capacity / capital supply mismatch
- Manager / fund systems / HR resources
- “Generalist” manager skill sets, lack of specialization

  ✧ *Have these risks and costs entirely disappeared in microfinance? Impact investing more generally?*

What value is being created for whom?

Value created	For whom
Financial	*Shareholders / Lenders*
Income / assets	Clients and families
Environment / Climate	Local / global communities
Gender	Employees
Resilience	Depositors
Economic justice	Suppliers
Youth employment	
Food security	

So how do we position investment vehicles more transparently to investors and investees?

- An impact investing return target must incorporate all three dimensions: *sector maturity*, targeted *non-financial value / beneficiaries* and realized *financial returns*
- *Temper "market rate" targets in light of realized financial returns*
- *Inform investors of all three dimensions to ensure a good fit*
- *Work towards a better balance between investor appetite with the demand for impact capital*

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