

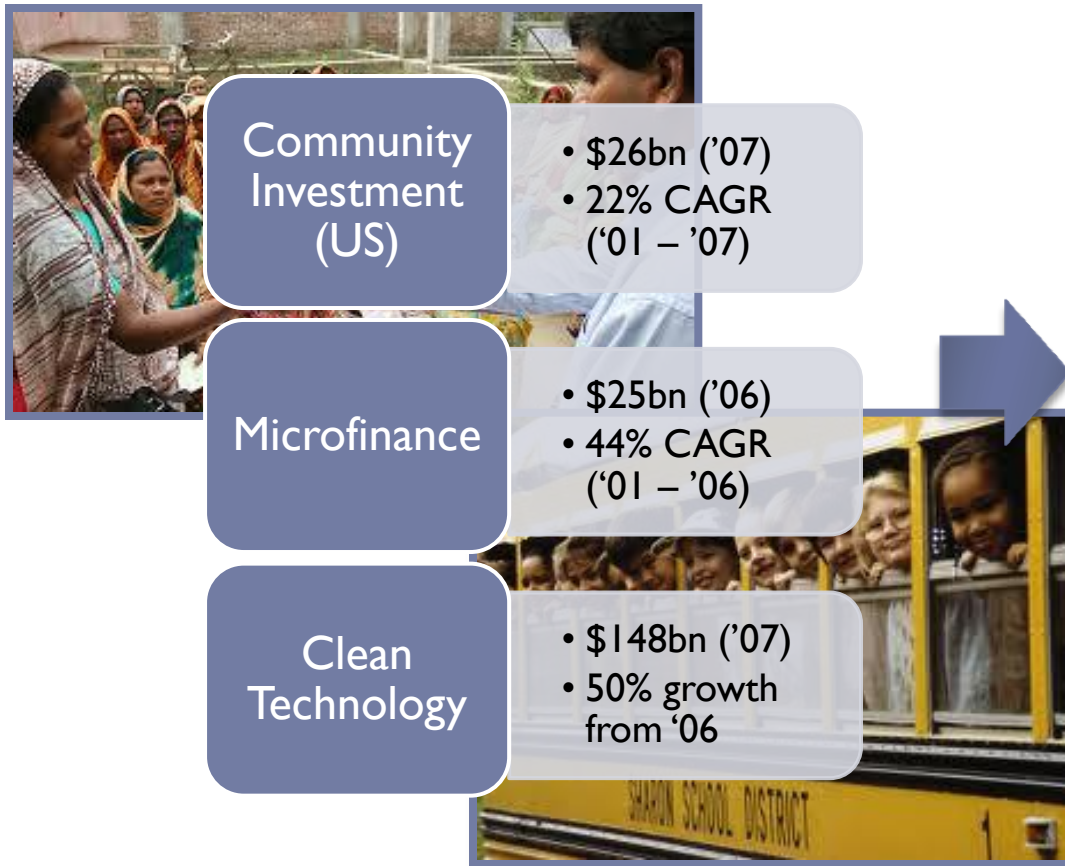


Innovation in Impact Investing: The Use of Impact Shares in the Energy Industry

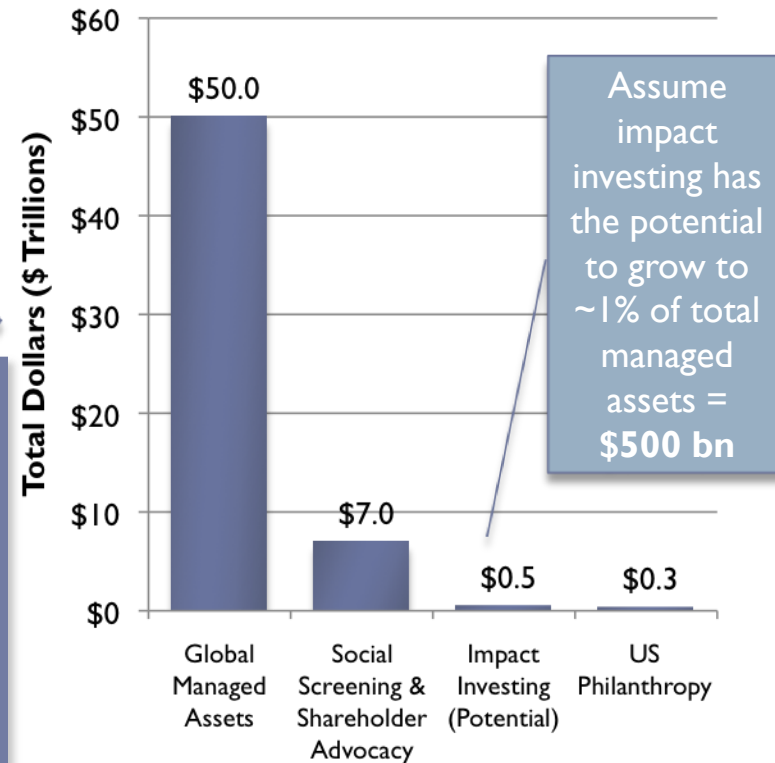
Team B2

Impact Investing Potential Market Size

Current



Potential



Impact investing has the potential to reach \$500bn

Impact Investing

Current Challenges

Lack of Efficient Intermediation

- High search and transaction costs
- Fragmented demand and supply
- Complex deals
- Lack of understanding of risk

Lack of Enabling Infrastructure

- Historical bifurcation between philanthropy (impact) and investment (financial returns)
- Lack of metrics

Lack of Opportunities

- Lack of large investment opportunities that satisfy both impact and required rate of financial return

Our mission: develop a tool to solve many of the fundamental challenges of impact investing

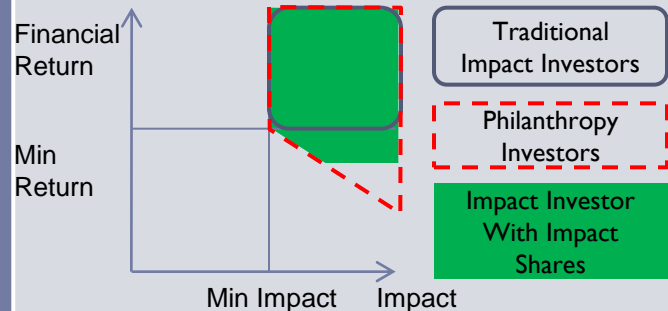
Energy Impact Investing Fund Objectives

Differentiating Goals

Increase impact accountability

- Set impact objectives
- Create incentives to drive impact achievement
- Monitor and control impact

Expand investment universe



Solution

Impact Shares:
separation of financial returns and impact

Unique tool to fundamentally change the landscape of impact investing

Impact Shares

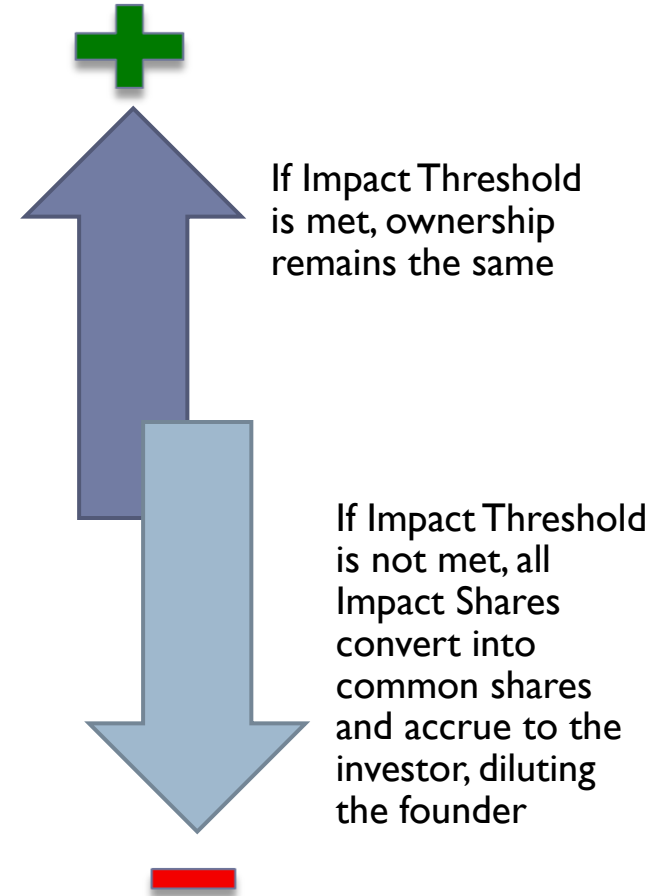
The Concept

What are Impact Shares?

- A class of equity instrument that reflects the impact value of a project
- Similar to common shares which reflect the economic value of a project
- Impact valuation based on gap between pure financial valuation and total required capital

How do Impact Shares work?

- Impact investors invest in both common shares and Impact Shares
- Investors can hold both types of shares or sell Impact Shares to organizations that value impact more (e.g. philanthropists)
- Impact Threshold defined contractually between founder and impact investor



Seamless way to integrate and separate financial and impact returns

Case Study: West Africa Rural Electrification¹

Illustrative Investment Opportunity

Investment Scope

- Rural electrification of off grid villages in West Africa
- Majority of population currently uses fuel wood and kerosene to meet energy needs

Technologies

- Proposed investment opportunity involves grid connections and individual solar kits to provide electricity and heat

Financing²

- Investment upfront cost: \$20 million
- Founder equity: \$5 million
- Financing need: \$5 million equity, \$10 million debt



1. Illustrative example based on similar projects that have been developed in this region.
2. Values have been created solely for illustrative purposes; see further explanation on slide 9.

Case Study: West Africa Rural Electrification

Illustrative Impact

Impact

Metrics¹

Economic



- Enhance economic productivity through use of electricity
- Support new business growth

- kWh generated
- number of households and businesses electrified

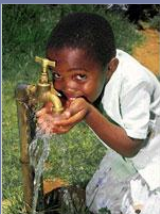
Environmental



- Improvement in air quality through replacement of wood chips fire stoves and kerosene lamps

- CO2 equivalent avoided (e.g. from reduction of kerosene lamp usage)

Social



- Improved delivery of social services (e.g. water systems, health clinics and schools)
- Increased access to lighting and communication devices (e.g., cell phones, computers)

- Number of schools (students) and health clinics (patients) affected

1. Metric examples are not exhaustive but illustrative. Actual values are avoided as metrics are dependent on project specific factors such as location, usage patterns etc.

Case Study: West Africa Rural Electrification

Role of Impact investing Fund

Funding gap



- Financial return too low to attract “financial first” investors
- Investment funding need too large for “impact first” philanthropists
- Need for investors that value both types of returns in this investment

Role of Fund



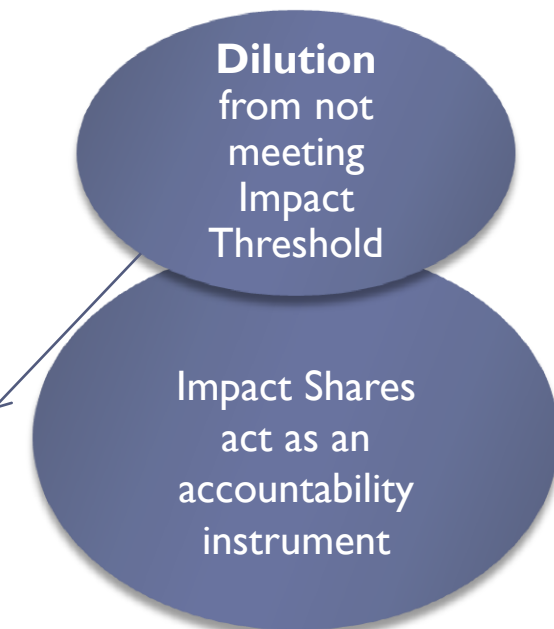
- Impact Shares will act as a bridge
- Financial return is adjusted for the investment’s impact
- Impact achievement is enforced through the Impact Shares
- Ability to sell Impact Shares can further supplement risk-adjusted financial return

Case Study: West Africa Rural Electrification

Impact Shares Mechanics

- Equity will be divided between common and Impact Shares
- If the Impact Threshold¹ is met, ownership does not change
- If Impact Threshold is not met, Impact Shares convert to common shares and the founder is diluted
- Additional potential to sell Impact Shares to third-party (e.g. philanthropist)

	If Impact Threshold met		If Impact Threshold unmet	
	\$	%	\$	%
Common Shares	8		8	
Impact investor	4	50%	5	62.5%
Founder	4	50%	3	37.5%
Impact Shares	2		0	
Impact investor	1	50%	0	0%
Founder	1	50%	0	0%
Total Value	10		8	

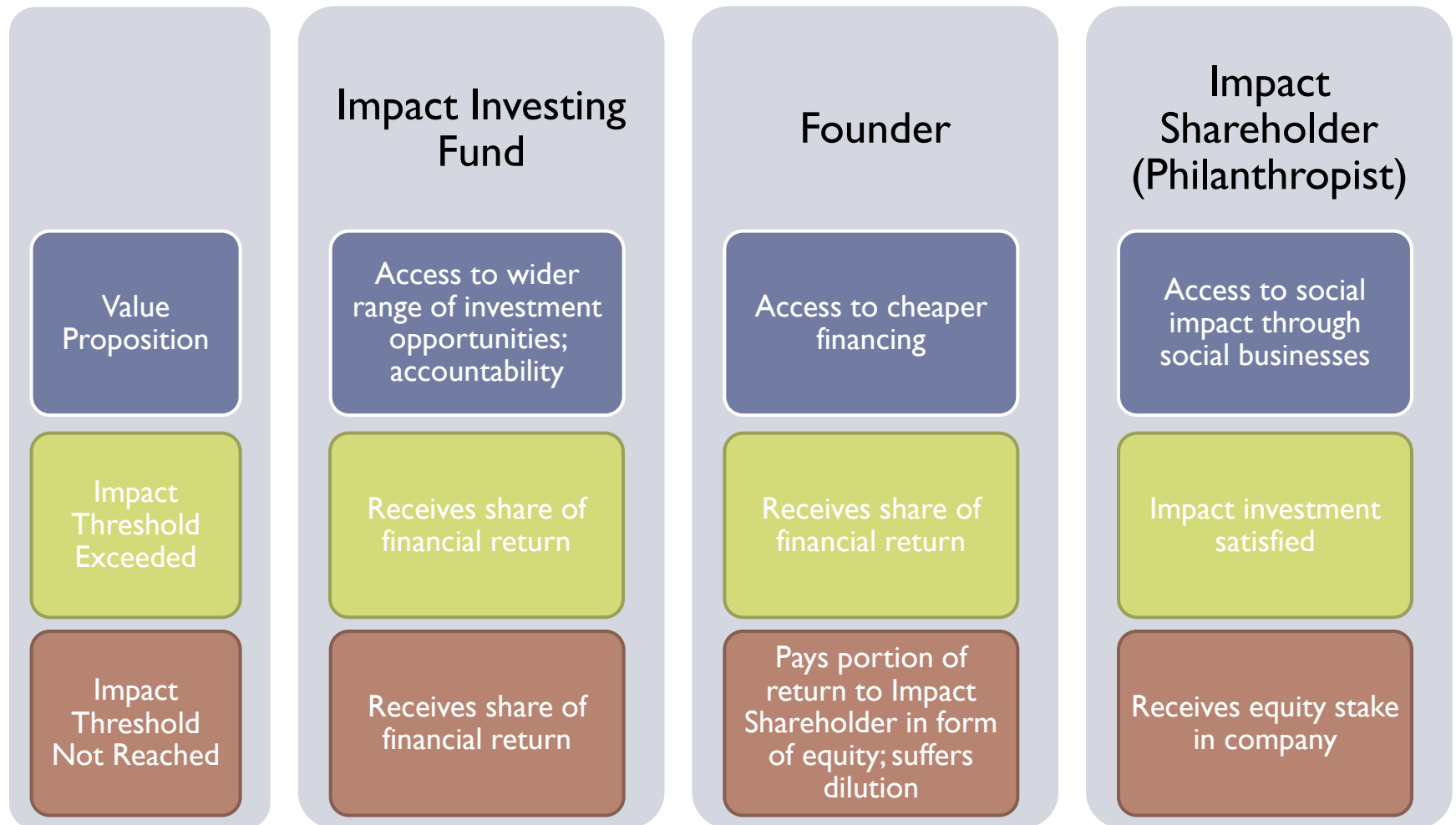


1. Impact Threshold agreed to in the term sheet. Numbers are simplified for illustrative purposes. In reality, equity share, Impact Shares and the conversion mechanisms would be carefully valued and structured.

Case Study: West Africa Rural Electrification

Impact Shares Mechanics

- If we assume that the Impact Investing Fund has sold Impact Shares to Philanthropist



Impact Shares

Long-Term Vision

Market

- Increased adoption by funds and philanthropists will drive market creation
- Support new business growth in currently underfunded areas

Market Price of Impact

- Competition among impact investors to sell Impact Shares (downward pricing pressure)
- Competition among philanthropists to buy Impact Shares (upward pricing pressure)
- Supply and demand forces drive equilibrium price

Efficiency

- Price of Impact Shares relatively predictable and can be used in future deal negotiations by impact investors
- Standardize and quantify various forms of social and environment impact
- Facilitates liquidity in the impact marketplace

Impact Shares

Risks & Issues

Risks	Potential Mitigants
Founder acceptance	<ul style="list-style-type: none">• Access to cheaper financing• Selection mechanism: only those aligned with impact mission will accept
Impact Shareholder (Philanthropist) interest	<ul style="list-style-type: none">• Allows philanthropists access to for-profit impact opportunities• Development of Impact Share marketplace may facilitate liquidity
Financial investor interest	<ul style="list-style-type: none">• Allows investment in impact businesses without sacrificing financial return through monetization of impact
Pricing of Impact Shares	<ul style="list-style-type: none">• Increased adoption will lead to transparency and accepted pricing mechanism
Impact Share conversion dilution	<ul style="list-style-type: none">• Financial investor will not accept dilution so conversion must come at expense of founder
Illiquidity of Impact Shares and conversion stakes	<ul style="list-style-type: none">• Future development of Impact Share trading platform• Structure put option to free philanthropists of equity stakes post-conversion