Impact Investing: An Investor's Perspective

DISCUSSION PAPER

REYNDERS, MCVEIGH CAPITAL MANAGEMENT, LLC

Every investment decision carries weight, both in the form of economic outcomes and the influence that dollars have on our ecosystem as a whole. Private impact investing puts a rigorous focus on both sides of that equation, allowing investors to prioritize social or environmental change within a sound financial structure. As models evolve, there are opportunities to better shape how investments drive impact, how vehicles generate measurable results, and how capital is recycled to extend impact.

To be clear, impact investing is not philanthropy. Those who drive capital into private vehicles designed to address specific issues should separate those strategies: Philanthropy is an important tool to support change through charitable contributions, while impact investing carries risk, has potential for financial returns, and in an ideal world, allows investors and funded entities to grow together. In many cases, integrated capital from philanthropic and investment pockets is necessary to move the needle on complex social and environmental challenges.

This perspective is a natural evolution of socially responsible investing (SRI) and the practice of aligning portfolios with personal values. When placed in the context of an overall portfolio that includes a balance of public market equities and fixed income vehicles, impact investing provides greater depth to the investment pool. The integrated approach boils down to intentionality: By being purposeful in the way financial assets are deployed, investors open the door to personalized, localized, value-aligned investments.

MODELING IMPACT AND POTENTIAL RETURNS

Intentionality is a core component of the equation for Reynders, McVeigh Capital Management's impact investing and SRI approaches. The practice relies on identifying solutions to systemic issues and designing financial models based on sound investment fundamentals. In this way, the capital deployed goes beyond "supporting a cause." It is put to work in replicable, scalable models that are geared for reliable returns that might be social, environmental, and financial.

Through this thoughtful, intentional design, the possibilities for impact expand exponentially. When reliable, competitive returns are part of the picture, these investments can be used as fixed income components of a balanced portfolio, providing regular liquidity at lower risk and the option to recycle capital into impact solutions in perpetuity.

While impact investing isn't necessarily new, there has been a sizable increase in interest over the years. In 2020, it grew an astonishing 42.4% — from $502 billion to $715 billion in assets under management industry-wide.[1] As the drive continues to direct dollars to vehicles that make a difference in the world, a growing number of asset owners and managers are turning toward this option. Investors are optimistic overall about the potential for impact investing to further increase in scale and efficiency in the future.

Creating those impactful models should incorporate all the hallmarks of sound traditional investing. **At Reynders, McVeigh, we've supported a range of vehicles that set the stage for positive impact.**

SUNWEALTH: DEMOCRATIZING SOLAR AND BOOSTING UNDERSERVED COMMUNITIES

Sunwealth® stands as a prime example of a financial model designed to reward underserved communities, advance the energy transition, and meet fixed income needs for investment portfolios.

A public benefit corporation, Sunwealth is a clean energy investment firm on a mission. Built on an innovative, tech-driven approach, Sunwealth partners with educational institutions, municipal buildings, nonprofits, and other organizations to provide the upfront funding and back-end administration for solar projects. By bringing renewable energy solutions to those who would not normally have access to them, the company promotes solar justice, reduces carbon emissions, creates local jobs, and provides energy savings to participating customers.

Our team worked with Sunwealth in its early days to construct a model that would support its social goals and improve on the offering to investors. Instead of pursuing growth project by project, we reconfigured the financial opportunity into a pooled investment approach. The Solar Fund aggregated high-performing, community-based projects into pools that help spread risk and stabilize returns.

The results are powerful. From 2014 through 2021, Sunwealth has:

- Financed 500+ projects totaling over 26 MW of installed capacity
- Created 900+ lifetime job years for local solar developers and installers
- Generated close to $42 million in lifetime savings for power purchasers, or $0.48 for every dollar invested
- Provided more than $69 million in revenue for local solar developers and installers
- Reduced lifetime carbon by 600,000+ metric tons[2]

[1] https://knowledge.wharton.upenn.edu/article/growth-impact-investing-depends-data/

[2] sunwealth.com/our-results

FOUNDERS FIRST: GROWING DIVERSE FOUNDER-LED BUSINESSES

Founders First Capital Partners was formed to support businesses led by women, people of color, military veterans, and businesses in low-to-moderate income areas. These business owners struggle to overcome the pronounced wealth gap that exists between traditional white America and underrepresented demographics — and that will not change without a concerted, multifaceted effort that provides solid economic footing. Consider that less than 2% of investment capital is allocated to women- and minority-owned businesses, and even when these companies fight through that issue, they expand at a fraction of the pace that other companies experience.

Founders First is part of the effort to empower these businesses with the stability they need to grow long term. Through training, access to business networks, and funding opportunities, portfolio companies are given the fuel they need to succeed. That enables them to bring high-wage jobs to their communities and generate wealth that supports the greater economic engine.

The fulcrum of the Founders First financial model is revenue-based financing (RBF), a proven approach that has been used for decades across a variety of sectors. It serves as a blend between bank debt and venture capital, allowing investors to lend money in return for a percentage of revenues until the initial loan amount and repayment cap are paid off. Business founders retain equity and investors can count on a reliable return.

Founders First has also developed the technologies and funding models that enable the programs to be introduced across a wide range of communities and geographies. This type of widely replicable model creates the potential to drive significant and compounding social and financial impact through strong businesses that historically have not had access to capital.

WINDSAIL: SPURRING INNOVATION IN THE ENERGY SECTOR

A leading provider of growth capital to companies advancing energy innovation and sustainability, WindSail's unique investment approach provides companies with flexible financing solutions that facilitate growth while minimizing dilution.

WindSail's investments seek to promote a cleaner, more energy- and resource-efficient economy and to enable the mitigation of climate change by advancing the United Nation' Sustainable Development Goals. By providing capital to underserved market segments and helping emerging companies achieve scale and impact, WindSail is committed to delivering strong risk-adjusted returns in a rapidly growing market.

With their senior position in the capital stack, they have a lower threshold to be supportive of portfolio companies, often bridging to strategic acquisition, which allows them to continue to have an impact and benefit stakeholders.

Impact areas include clean water and sanitation; affordable and clean energy, industry, innovation, and infrastructure; sustainable cities and communities; responsible consumption and communities; and climate action.

To keep capital working for sustainable businesses around the country and to take fundraising pressure off the WindSail team, Reynders, McVeigh created an evergreen fund structure that gives clients the ability to keep rolling their committed capital into new WindSail loans until they decide that they want the capital returned. Many investors prefer a structure that provides interest payments quarterly and allows for easy reinvestment over other venture and private equity models that provide no regular liquidity and are closed after 8, 10, or 12 years.

SOPHISTICATED, THOUGHTFUL OPPORTUNITIES

The key to impact investing is to view the landscape through a more holistic lens than the finance industry has traditionally employed. There are models like the above that are engineered to be scalable, powerful solutions that play an important role in the portfolio. There are also lower risk, well-insulated models led by Community Development Financial Institutions (CDFI) that focus on lending opportunities in narrower geographic areas, and more ambitious, higher risk vehicles that are more akin to venture capital.

Building out a range of opportunities provides more flexibility for investors to participate directly in positive social change without sacrificing financial fundamentals. **In fact, it is crucial to consider the underpinnings of all investments with thoughtful exploration and analysis.** Whether for public market or private impact investments, the value of the opportunity must be measured against the strength of management, transparency of reporting, stability of core financials, and the potential to preserve capital and generate real returns.

Impact investing is a natural part of the sustainable investing ecosystem, and just one of several ways to affect change: traditional equity portfolios bolstered by environmental, social, and governance research; thematic selections in key industries such as energy and water; and shareholder advocacy initiatives that hold public company management accountable.

Putting all these pieces together presents investors with a complement of vehicles to pursue compounded double returns. Their financial goals remain the highest priority, and their personal goals are satisfied with measurable, meaningful outcomes. Simply put, the more we invest with a thoughtful approach, the greater the impact we can have.