

YOUR TIME IS NOW!

The tools you need.
The relationships
you build. The
change you make.

Philanthropy

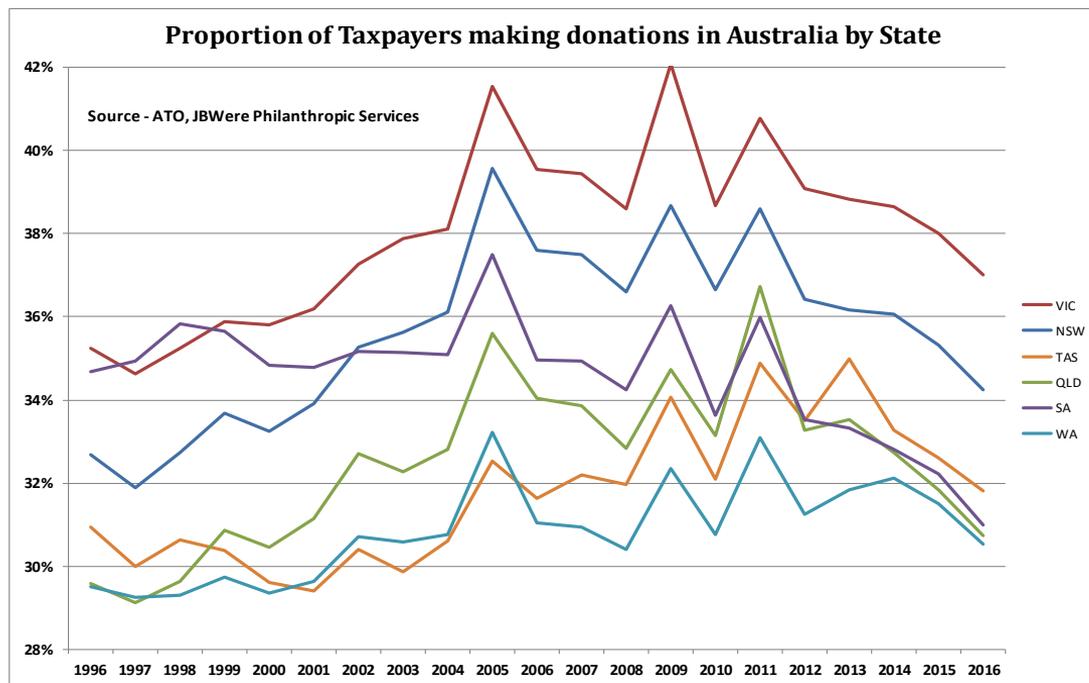
UNDERSTANDING THE IMPACT OF DISRUPTION
ON FUTURE FUNDING MODELS

Christopher Thorn AM
Partner, EY

What does it mean for you as a fund raiser?

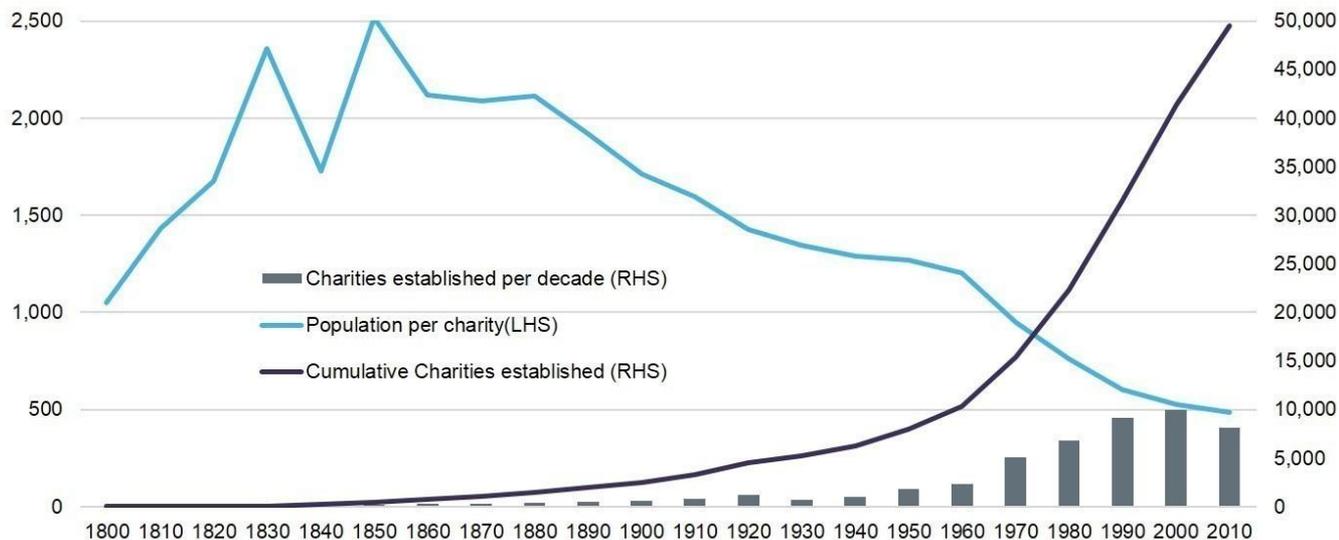
HOUSTON, WE HAVE A PROBLEM

Declining numbers of people making a donation



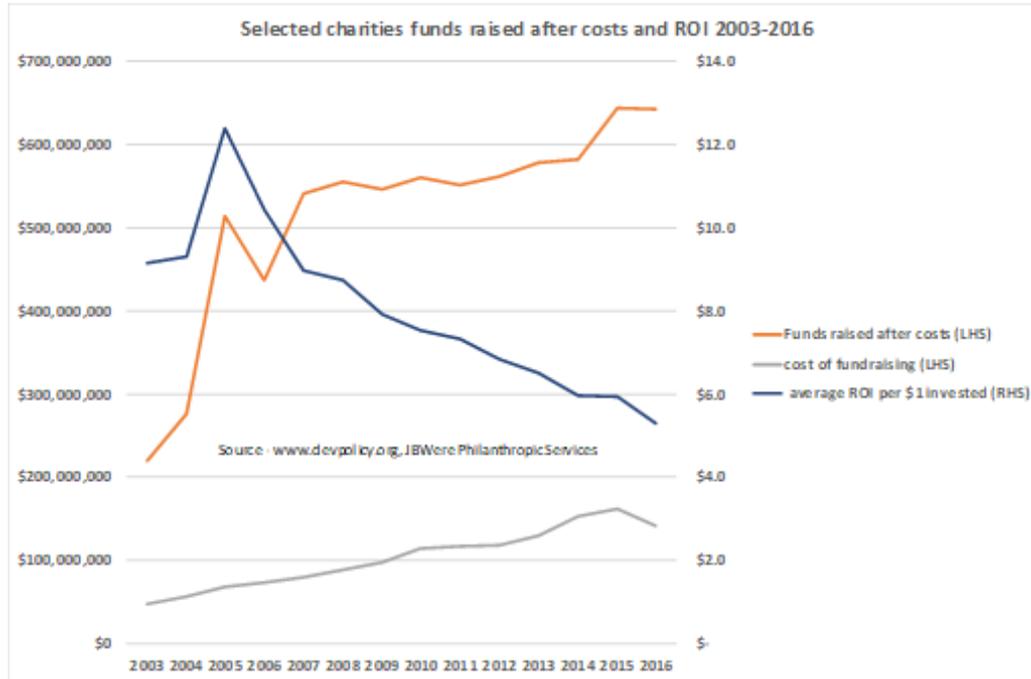
HOUSTON, WE HAVE A PROBLEM

Too many NGOs chasing too few dollars



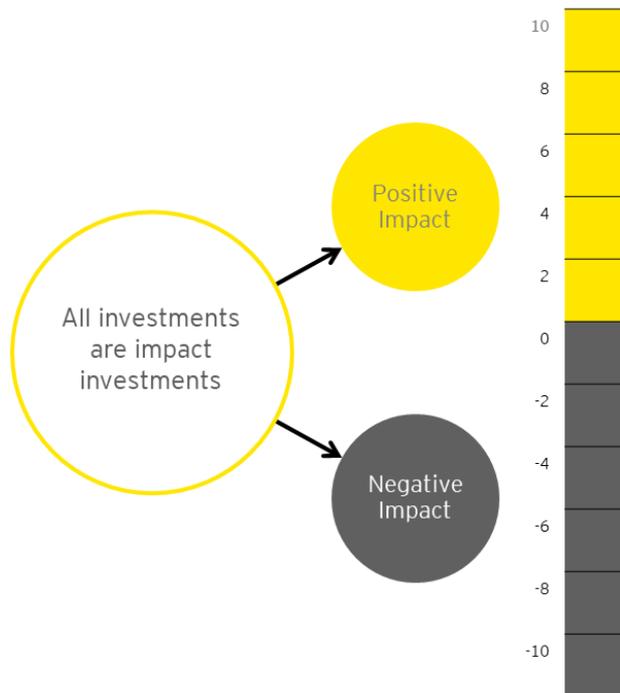
HOUSTON, WE HAVE A PROBLEM

...which leads to reduced financial sustainability



Emergence of Impact Investment

We are entering a world where every investment is considered an impact investment, with either a positive or negative effect. Impact investing presents the opportunity to diversify and blend different forms of investor and investment.



This requires an understanding and an ability to identify, measure and value impact:

- ▶ What defines a +10 effect?
- ▶ What defines a -10 effect?



Social Finance – Impact Investing

“The investment of funds in an organisation with the deliberate intention that those funds will help to secure a clear, positive and measurable public benefit, while also generating a financial return”

- ▶ A Means to an End
- ▶ The achievement of the Mission of the Organisation

Emergence of Impact Measurement

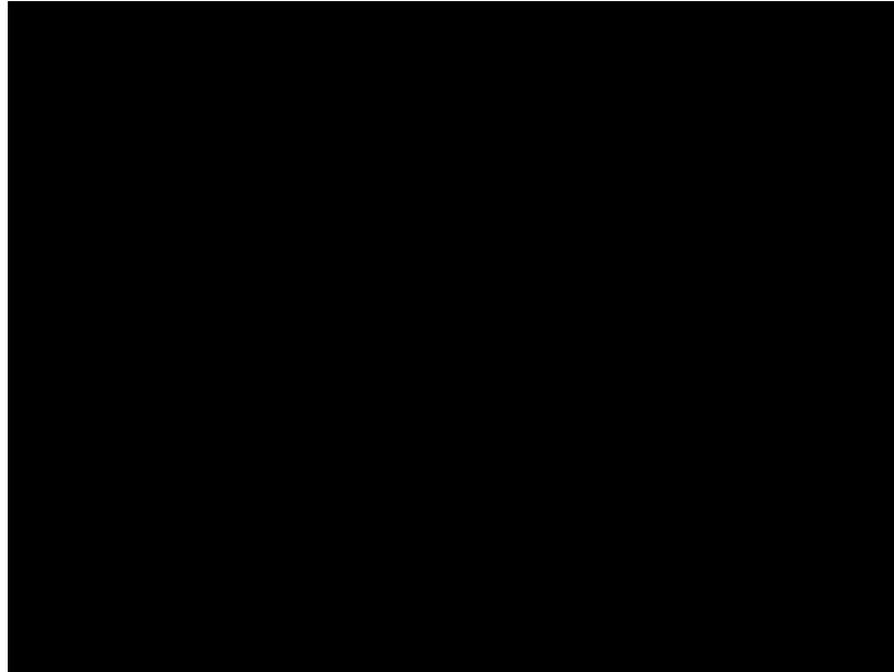


“ ...the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile.”

Robert F. Kennedy

University of Kansas, March 18, 1968

Emergence of Impact Measurement

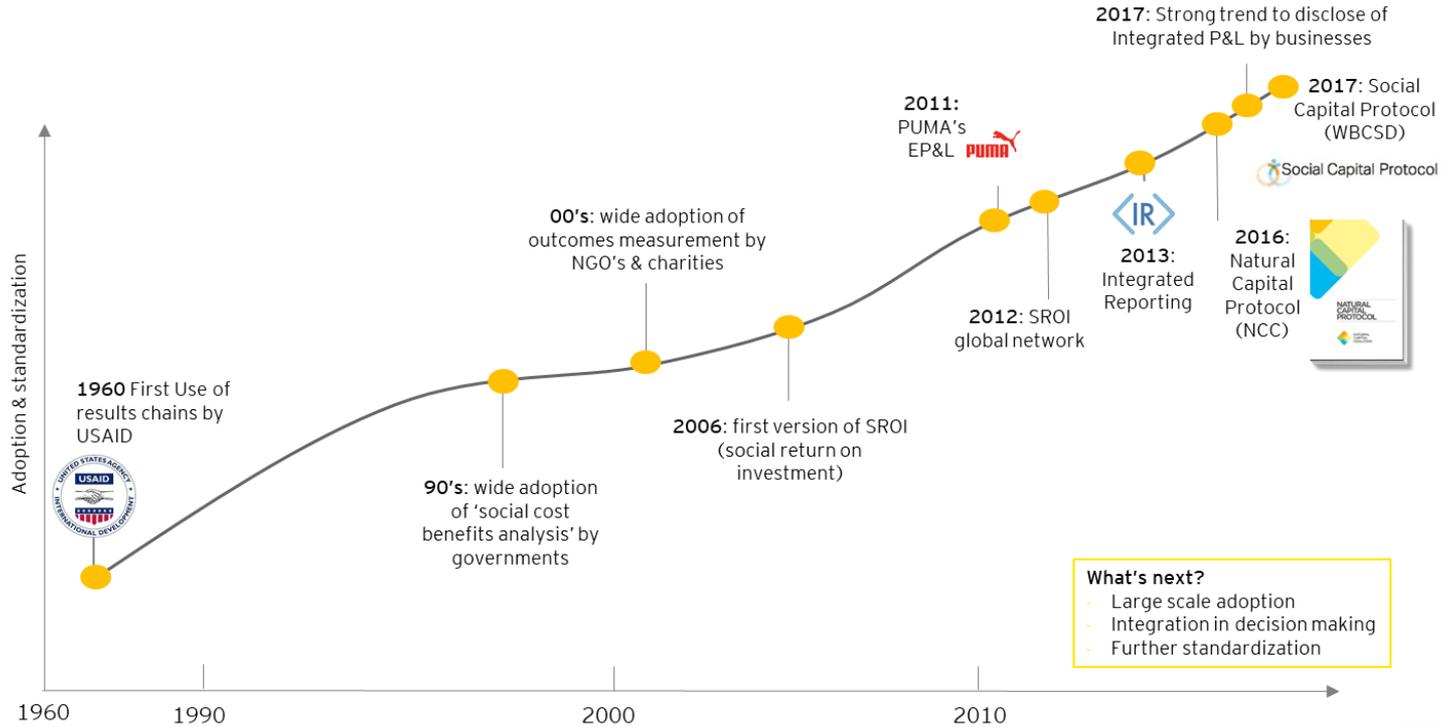


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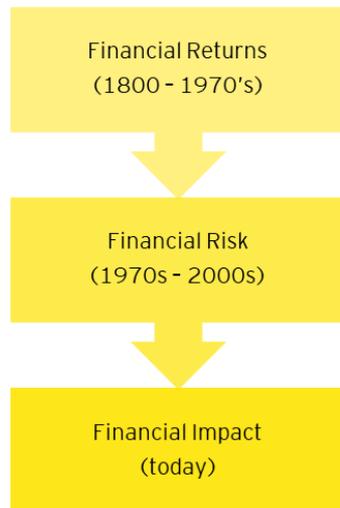
Emergence of Impact Measurement



Maturation of Capital Markets

CAPITAL MARKETS

“The way we measure financial performance has changed”

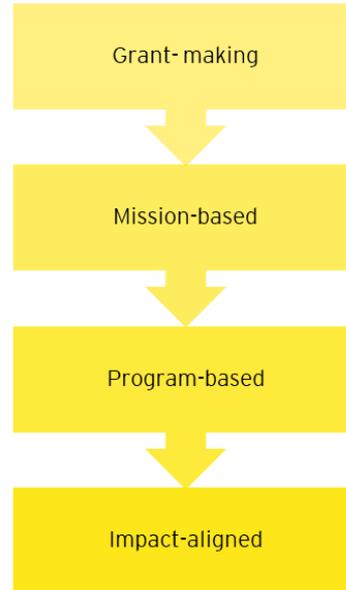


Evolution of (philanthropic) capital markets

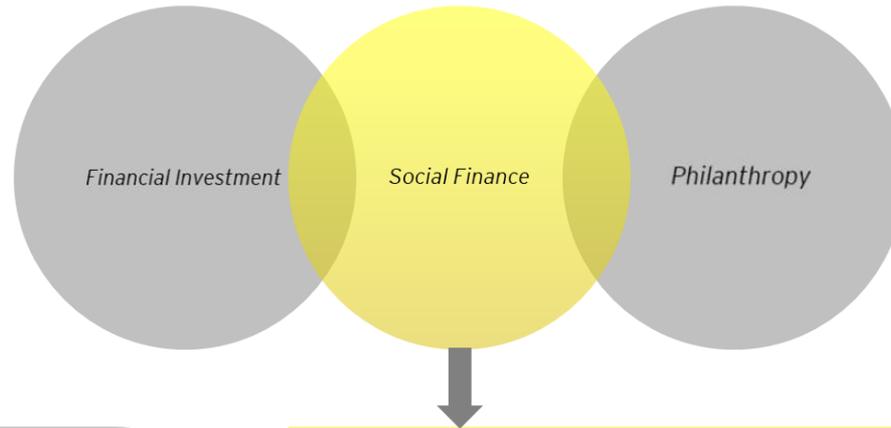
“In the 21st century we will see the third distinguishing criteria of how entities report their performance...”

PHILANTHROPIC CAPITAL MARKETS

“The NFP/ NGO sector is at a tipping point, and impact investment is driving sophistication/ maturity of sector...”



Maturation of Capital Markets



This doesn't mean grants are redundant - they are still essential!



The Menu of Mechanisms in Social Finance

1. Reserves
2. Loans - from Banks or Foundations or Individuals
3. Guarantees - from Foundations or Individuals
4. Charity Bonds
5. Social Impact Bonds
6. Community Shares, Community Land Trusts, Crowdfunding
7. Equity or Quasi-Equity
8. Philanthropic Funds 'leveraging' commercial funds

The Evolution of Capital Market Participants

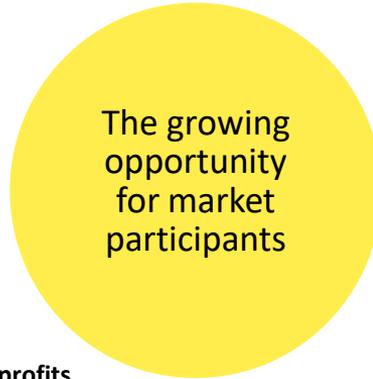
“By examining the way companies, government, NFPs and investors have aligned interests, it is possible to explore and observe how impactful outcomes can be created...”



Corporate



Government



The growing
opportunity
for market
participants

Convergence of Sectors



Not-for-profits

“...through the interplay of Impact Investment, Inclusive with the goal of driving greater, long term societal value”



Investors

Impact Measurement,

Capital Markets Disruption – The perfect storm?

- Divergence of interests of the various sectors in their pursuit of value creation.

Separation of owner-manager



- Historically low interest rates, leading to inflated valuations of traditional asset across all classes

Global Financial Crisis (GFC)



- The shape of value has changed: globally, the majority of market value is now defined as 'intangible value'

Evolution of the way we measure financial performance



- Disruptive forces are causing organisations to reassess their strategies, priorities and reason for being.

Opportunity for innovation



“Within the low return environment, there are huge pools of liquidity looking for returns...”

What does it mean for you as a fund raiser?

1

Acknowledge that disruption is changing how donors give, resulting in significant changes in giving patterns

2

Tax-deductible giving from traditional mass market philanthropy is seeing meaningful declines

3

Funds are increasingly flowing where alignment is identified and outcomes are measured

4

Larger donors are more focused and looking for engagement with a broader range of diversified “investment” options to choose from

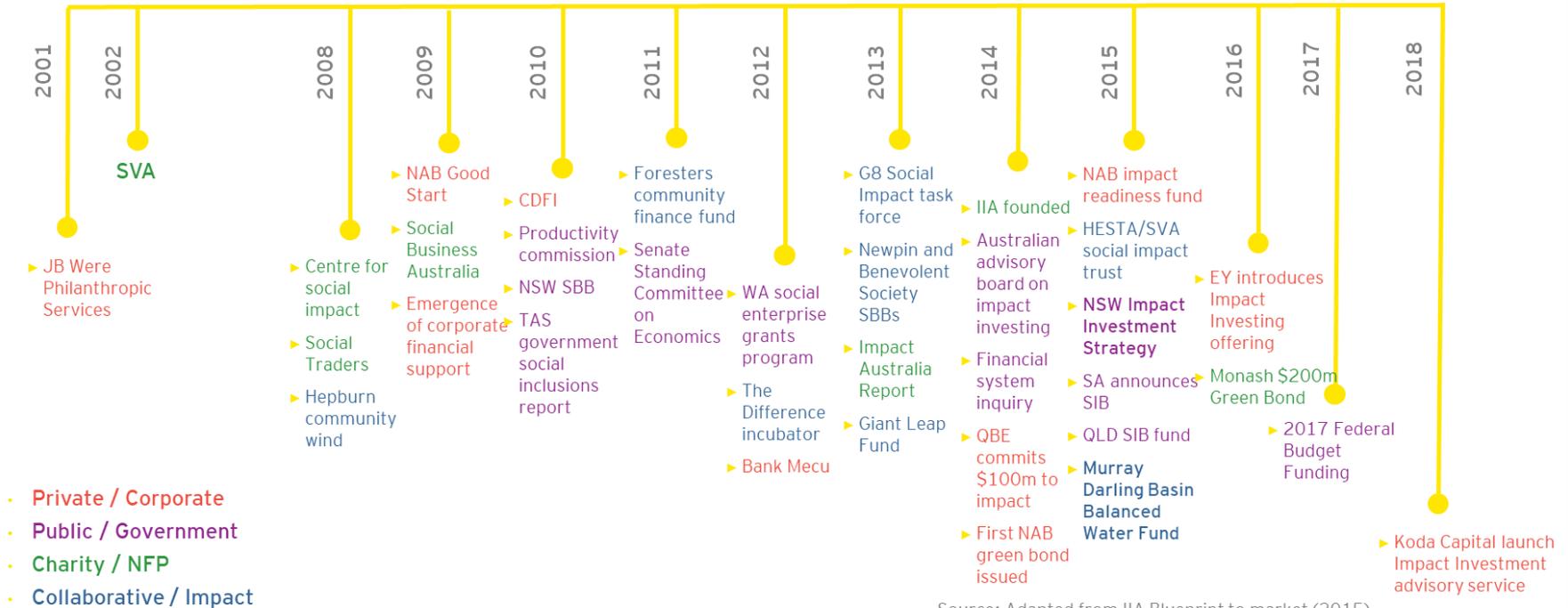
Investors have a range of strategies to contribute to impact

Spectrum of financing options for the social economy

Philanthropic grants	Impact first investor		Blended value investment	Financial first investor		Public markets <ul style="list-style-type: none"> ▶ Mezzanine ▶ Private equity ▶ Venture capital ▶ Listed equity ▶ Debt
	Seek to optimize impact with a floor for financial returns; often give up financial return			Seek to optimize financial return with a floor for impact; often seek subsectors with market-rate return		
	No internet loans	Low/ no return equity		Commercial debt returns	Equity market returns	

Source: Monitor Institute report "Investing for Social & Environmental Impact" (January 2009)

The Australian experience over 18 years



Source: Adapted from IIA Blueprint to market (2015)

The changing shape of value



- Access to capital and impact investment: investors are rewarding those who provide credible outcomes data on how they have not only considered sustainability risks but are actively growing their true value by strengthening human and natural resources underpinning their markets.
- Shifts in short-term to long-term: it is no longer plausible to leave a gap between short-term commercial decision-making and the wider impacts on society (or externalities that are created).
- The shape of value has changed: globally, the majority of market value is now defined as “intangible value,” corporate reporting (as distinct from social and international development sectors who have long appreciated the importance of measuring complex intangible value) needs to catch up and review many of their traditional metrics to prove to investors that they are resilient organisations with a purposeful proposition.

Environmental Economics – Three-dimensional capital



“Not a single bee has ever sent you an invoice and that is part of the problem – because most of what comes to us from nature is free, because it is not invoiced, because it is not priced, because it is not traded in markets, we tend to ignore it.”

Pavan Sukhdev

Pavan Sukhdev

Former Special Advisor & Head of UNEP's Green Economy Initiative

The Murray Darling Basin Balanced Water Fund



Financial returns

- 30% growth since 1 January 2018
- Attractive long-term value appreciation (13% p.a. since inception)
- Yield from the lease of Water Entitlements and the sale of Water Allocations



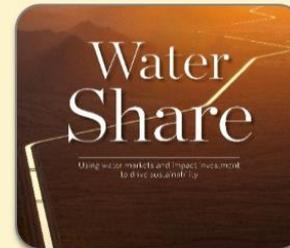
Environmental & Social returns

- Leasing of Water Entitlements maintains availability of majority of water for Irrigation
- Restoration of threatened wetlands and wetlands of cultural significance to Aboriginal groups



Leading counterparties

- Kilter Rural
- Murray Darling Wetlands Working Group
- Nature Conservancy Australia
- The Nature Conservancy



Market dynamics

- World's largest and most sophisticated water market
- Asset-backed investment with low correlation to equity and fixed income markets
- Exposure to high-value agriculture with limited commodity risk

DC Water Environmental Impact Bond

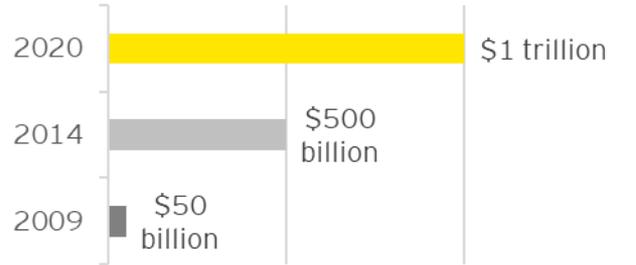


“ [DC Water]’s ability to offload the downside risk to investors like Calvert Foundation was important so they were able to test this promising but unproven approach. ”

	Year 1	Year 2	Year 3	Year 4	Year 5
Financial flows	\$25M principal issued				\$25M principal repaid
	Interest payments @ 3.43%				
	If Green infrastructure Outperforms: Additional \$3.3M payment Performs as expected: No additional payment Underperforms: \$3.3M claw back from investors				
Core project work (DC Water)	Flow meters inserted to develop baseline	Green infrastructure implemented (i.e., sites identified, interventions constructed)		Flow meters reinserted to measure impact	Evaluation validated to trigger payments
	If Green infrastructure Outperforms: Accelerate scale/deployment Performs as expected: Continue original plan with confidence Underperforms: Scale back and deploy grey infrastructure instead				

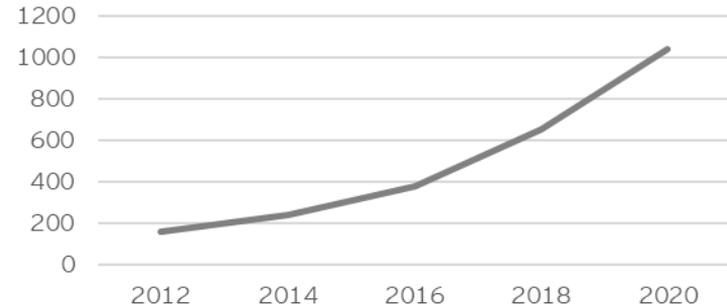
Impact Investment Data

Growth of impact investments



Source: TriLinc Global Impact Fund

Underserved Stakeholders (millions)



Source: Global Steering Group for Impact Investment

- ▶ 67% of millennials believe their investment decisions are a way to express their social, political, or environmental values
- ▶ Over the next 40 years, baby boomers will transfer \$41 trillion of assets to millennials

**THANK
YOU!**