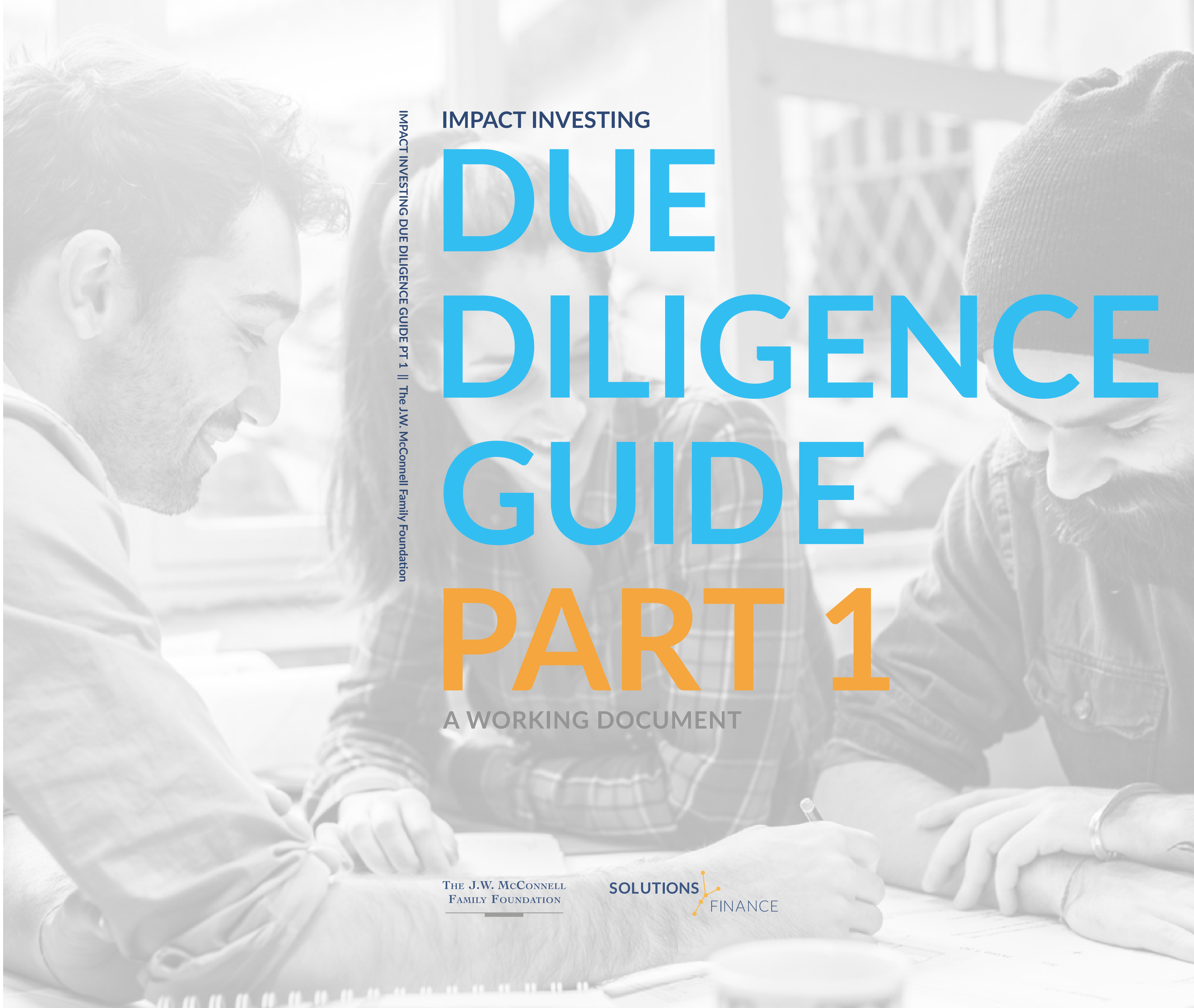

IMPACT INVESTING DUE DILIGENCE GUIDE PT 1 || The J.W. McConnell Family Foundation

IMPACT INVESTING

DUE DILIGENCE GUIDE PART 1

A WORKING DOCUMENT

The J.W. McConnell Family Foundation

SOLUTIONS FINANCE

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About this publication:

This guide is based on the Foundation's internal due-diligence process and it offers a framework to assess impact and financial risk and return of potential investment opportunities. The expected added value is in how to incorporate impact and strategic fit dimensions when assessing investment opportunities with an impact investor lens. It should be noted that the shared list of questions is not exhaustive and readers should refer to other manuals for more comprehensive financial due-diligence and analysis of different asset classes. It can be considered a work in progress as the market continues to evolve and we continue to learn about new developments in impact investing.

The authors would like to thank Samer Abughannam for his review and feedback during the construction of this guide.

PREFACE

About impact investing at The J.W. McConnell Family Foundation

The J.W. McConnell Family Foundation is involved in several activities with the goal of expanding the field of social finance in Canada. The Foundation is also applying specific investment instruments that complement its granting philosophy. One way in which the Foundation is carrying out this integrated approach is through impact investing. Impact investments are investments that intentionally create positive societal impact in addition to generating financial return[1]. The Foundation invests for impact in two ways.

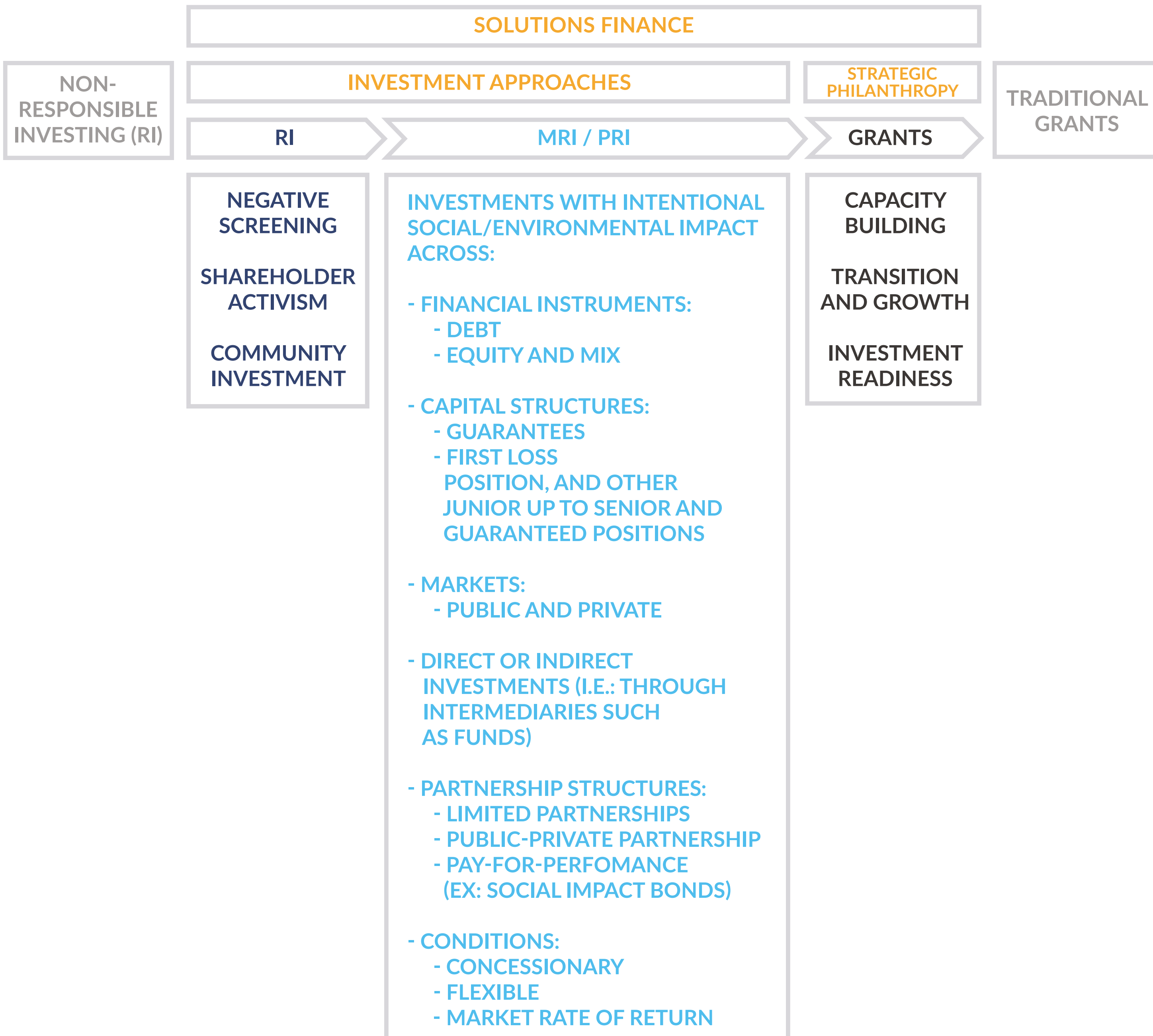
1 Mission-related investments (MRIs) are investments that are in line with the Foundation's mission and that have an expectation of market or above-market financial returns.

2 Program-related investments (PRIs) are investments that further the Foundation's specific program objectives and that have a tolerance for below-market financial returns.

In 2012, the Foundation developed an impact investing policy that would enable it to advance its mission of engaging Canadians in building a more innovative, inclusive, sustainable and resilient society. The portfolio that the Foundation seeks to build and maintain is made up of investments across asset classes and across the range of domains in which it executes its mission.

The portfolio management tools that the Foundation has developed were created to enable this diverse approach to investing. It is important to note that some of the questions and considerations presented in this Due Diligence Guide might not be relevant for investors who are building more targeted funds or who work in one domain instead of many.

The Due Diligence Guide is divided into two parts. This document, Part 1, covers the general methodology and provides a set of due diligence questions that may be raised when assessing impact investing opportunities, which includes a non-exhaustive set of questions for due-diligence of traditional investments.



Part 2, covers in more depth the analysis and scoring system that the Foundation uses to build and assess individual risk-and-return profiles of potential impact investments.

For the purpose of this guide, the Foundation may also be referred to as “the investor.”

[1]. This definition is adapted from the Global Impact Investing Network’s definition, 2010.

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AN INTRO-DUCTION

The J.W. McConnell Family Foundation has developed a set of management tools dedicated to its impact investing practices.

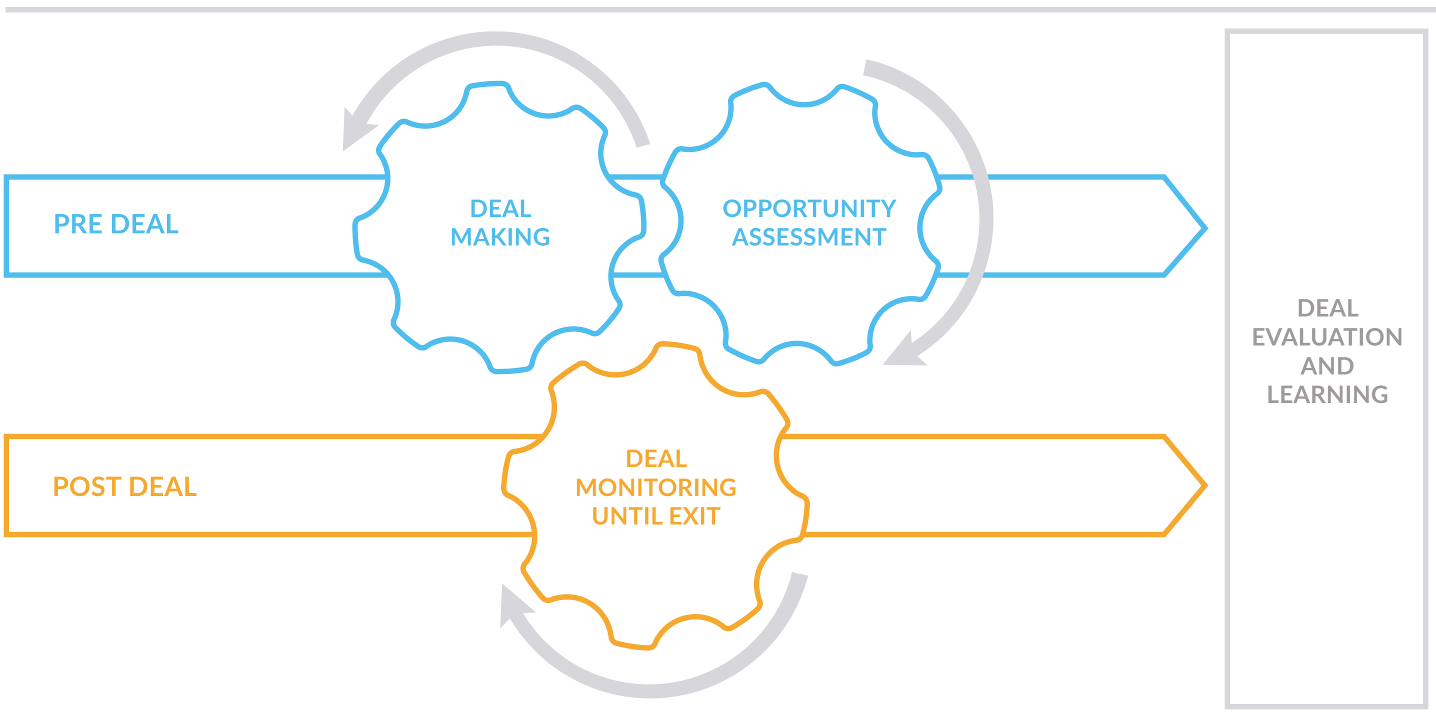
This set of tools present the Foundation's approach to the practice of impact investing.

This Due Diligence Guide is an add-on to the handbook. It provides a more detailed overview of the methodology behind the management of the Foundation's impact investing portfolio, and particularly of how investment opportunities are currently assessed.

Accordingly, this section is broken down as follows.

- Who is the guide for?
- Methodology
- Building a deal profile
- Deal profile
- The framework

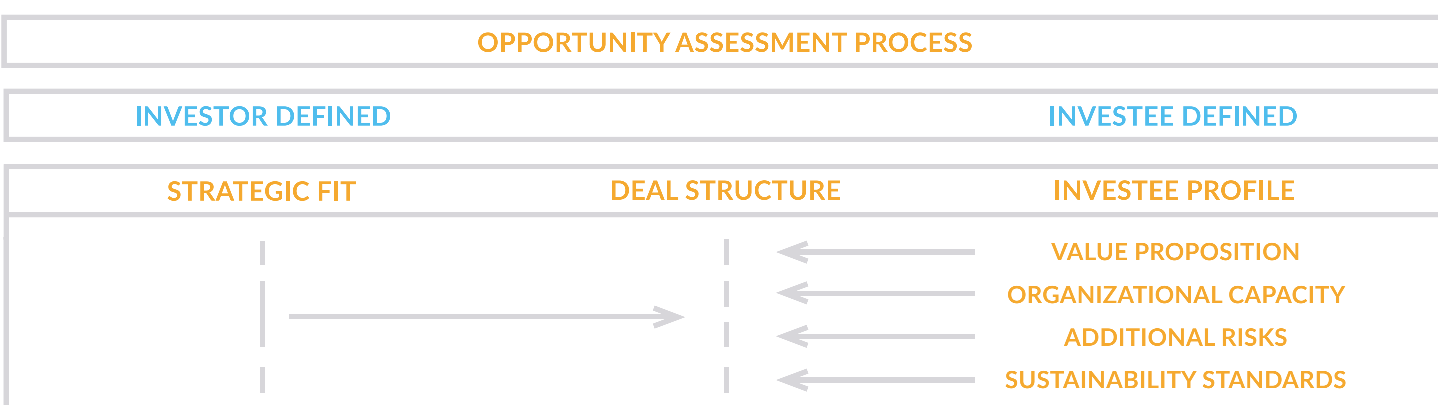
Opportunity assessment is the first of three consecutive stages of the standard investment management process for each investment as depicted in the following graph.



WHO IS THIS GUIDE FOR?

The Due Diligence Guide was created for impact investing analysts in charge of building and assessing risk-and-return profiles of investment opportunities with the goal of informing decision-making.

By helping them to gather and analyze quality information, the opportunity assessment process provides analysts with the elements necessary for evaluating the extent to which a particular deal would allow an organization to meet its impact objectives and fiduciary duties.



Part 1 of the Due Diligence Guide presents a framework of generic questions that will guide the due diligence process.

The framework is made up of six sections that aim to grasp the full scope and value proposition of an investment opportunity.

Each of these sections serves to answer the following six questions.

1 Strategic fit:
How well would the investment opportunity help advance the investor's mission?

2 Value proposition:
How relevant is the value proposition in the specified domain?

3 Organizational capacity:
How does the potential investee organization plan to achieve its objectives and does it have the resources it needs to do so?

4 Additional risks:
Are there other risks that would adversely impact the investment's ability to deliver financial or social returns?

5 Sustainability standards:
Notwithstanding the proposed value proposition, does the potential investee organization meet standards of social, environmental, and governance performance, with accountability and transparency?

6 Deal structure:
Is the deal structure appropriate for the unique circumstances of the potential investee organization and of the investor?

The Foundation aims to provide in a flexible and easy-to-use framework a set of questions that should be considered when conducting a sound assessment of any impact investing deal opportunities.

The framework has been developed internally, building upon the existing rich literature on impact investing from the charitable, finance, social finance and business sectors, as well as on the Foundation's own experiences. Some of the questions gathered in this guide have been reproduced or adapted from sources listed in the references at the end of this document.

METHODOLOGY

The framework offers a flexible checklist of generic questions from which an analyst can pick and choose those queries that are most relevant to a particular investment opportunity. The checklist is intended to guide the analyst, who is responsible for raising more specific and contextual questions as needed for each case under review.[2] Questions that are specific to indirect investment through fund structures are highlighted in blue.

The analyst's investigation is not a one-to-one dialogue with only the potential investee organization's management team. Rather, the investigation will require accessing a range of resources and holding conversations with all relevant stakeholders to uncover the answers to the questions. These stakeholders may include past and current beneficiaries or clients, community stakeholders, partners and other investors, as well as sector or industry actors like field experts.

The analyst should keep the following concepts and questions in mind at all times.

- Every question is an opportunity to become informed on (1) the value of the investment proposition and (2) the potential investee organization's capacity.

- What is the potential investee organization's level of intentionality behind its impact generation? It is important to make sure that the investment's implicitgoal is to answer a societal challenge while also generating financial returns. The societal impact should not just be a byproduct of the transaction.

- What is the opportunity cost of engaging in the deal— that is, what are the benefits the investor could receive by committing the proposed investment resources to an alternative opportunity or activity?

- Each question should be asked using a basic SWOTapproach, identifying the Strengths, Weaknesses, Opportunities and Threats of the potential deal in order to embrace the full profile of the investment proposition and keep track of all of its dimensions. Risk identification and the consideration of risk evolution over time are essential parts of the due diligence process. Even in the best conditions, a variety of elements are required for investment success.

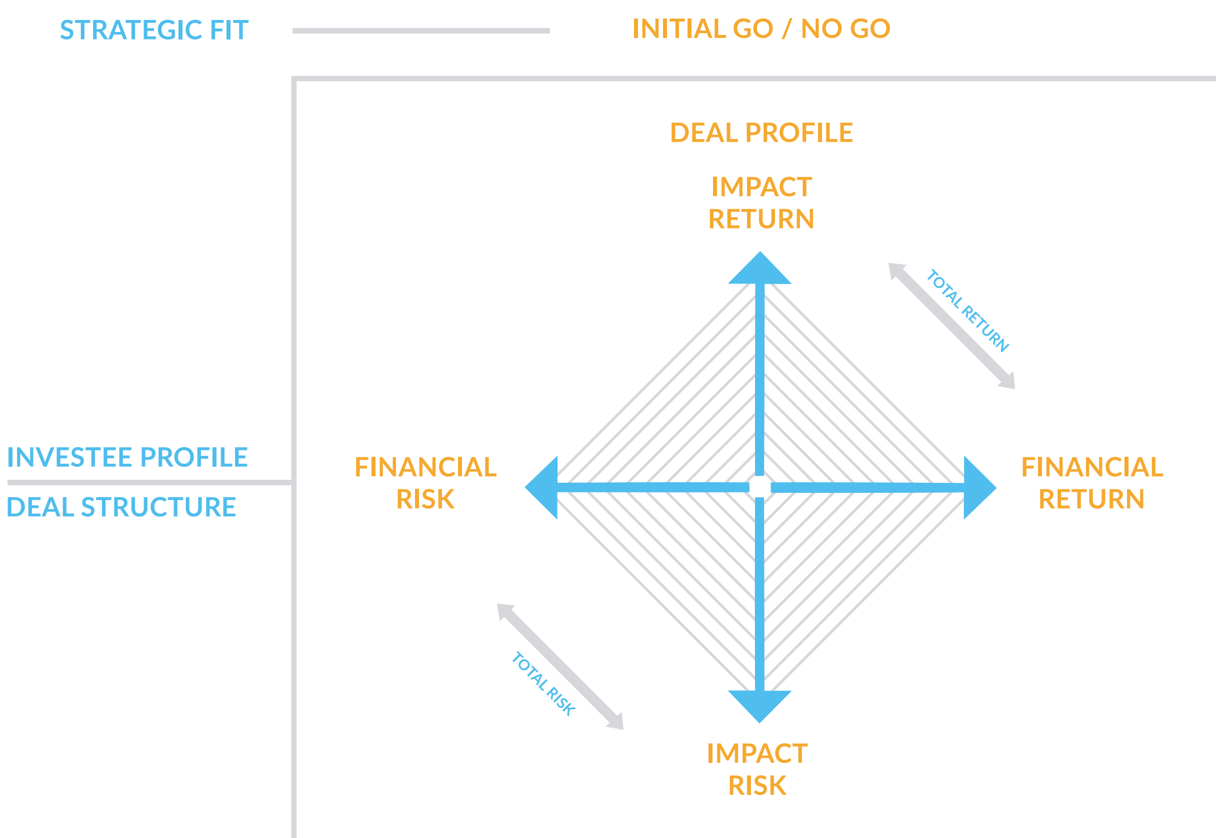
- What are the sustainability and growth perspectives of the investment?

- In line with the Foundation's approach to social innovation and systems' transformation, the investment is assessed through active dialogue with the investee, seeking to maximize blended value[3] creation.

Text in BLUE refers questions specific to indirect investments.

BUILDING A DEAL PROFILE

At the end of the investigation, the analyst should have gathered enough information to translate the answers into a score and to weigh each section on four dimensions — financial risk, financial return, impact risk and impact return — generating a deal profile. The strategic fit section determines the initial Go/No-Go Test for the investment opportunity. Subsequently, the opportunity is assessed on the other five sections and the results are used to build a deal profile.



What follows is an introduction to how the Foundation builds deal profiles along these four dimensions. Part 2 of the guide covers these aspects in detail.

[2] This is the first version of the framework and the Foundation team uses it in a reflective manner, learning from and nurturing it while it is applied to various investment opportunities, and generating additional considerations to support more complete and robust analyses.

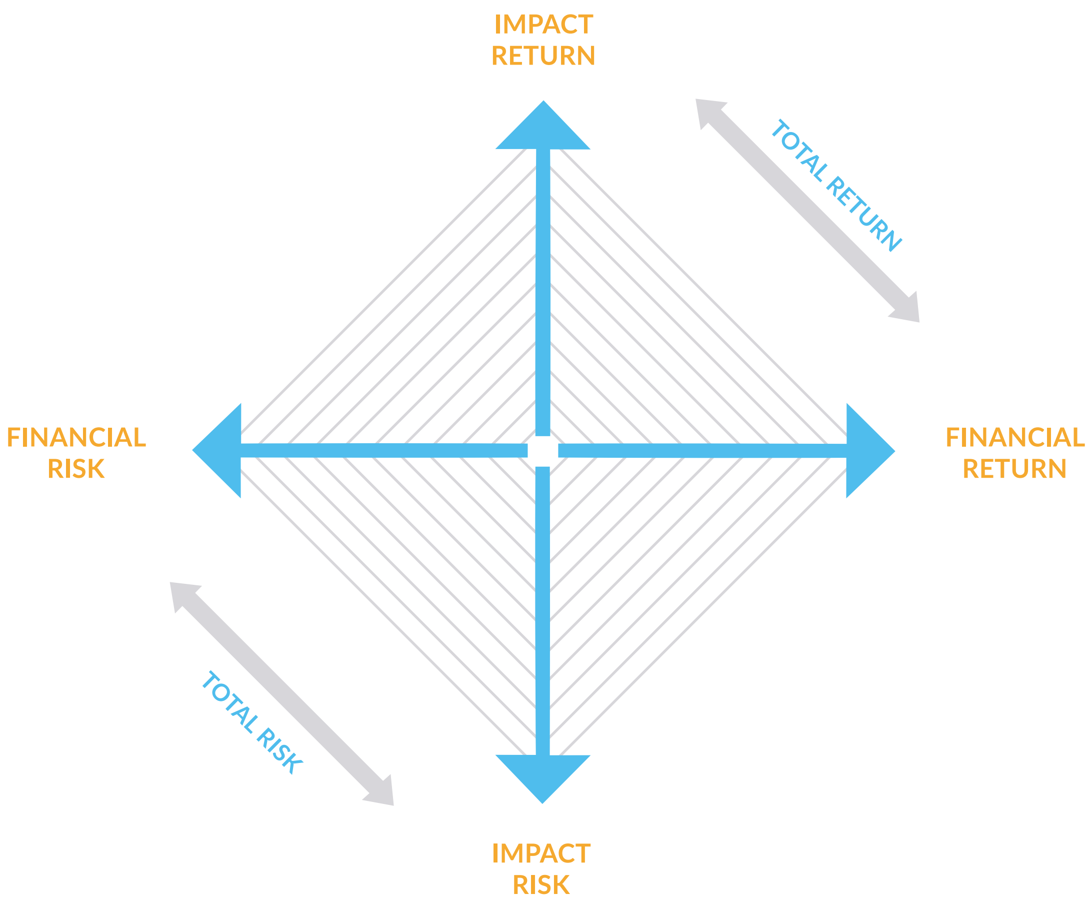
[3] Blended Value is the notion that "all organizations, whether for-profit or not, create value that consists of economic, social and environmental value components—and that investors (whether market- rate, charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organizations" (Glossary of Blended Value). For more information on blended value, visit www.blendedvalue.org

DEAL PROFILIING

In order to fully capture the risk-and-return profile of an impact investment, the addition of the impact dimension is required on both the return and risk axes. The Foundation has chosen to represent each dimension separately because, although they may overlap, they are not always related.

A FOUR DIMENSION DEAL PROFILE

IMPACT INVESTMENT DEAL PROFILE



IMPACT RETURN

Impact return captures a qualitative score of the impact that will be generated by the deal. The score on this dimension combines the appraisal of the value proposition with the organization's capacity to deliver on that proposition, the scope of the impact, and its potential for scale.

IMPACT RISK

Impact risk relates to the potential threats to execution and the possibility that the impact might not be realized. It is derived from risk assessments in various categories, including value proposition and organizational capacity, among others. Importantly, this score also considers the possibility of mission drift[4].Unlike traditional financial risk-and-return analyses, there is no established correlation between impact risk and expected impact return.

FINANCIAL RETURN

Financial return captures the expected financial return on the capital invested.

FINANCIAL RISK

Financial risk captures the uncertainty of the financial return and the potential for financial loss.

[4] Mission drift is the term given when a nonprofit (or other type of entity) either finds that it has moved away from the organization's mission; or the organization consciously moves into a new direction from its mission statement (Spencer, 2009).4

How does creating deal profiles and undertaking due diligence inform subsequent investment stages?

If the investment opportunity fits with the Foundation's risk-and-return profile, the outputs from this first stage of investigation and analysis will inform subsequent stages as follows.

DEAL MAKING:

In the deal-making stage, contractual agreements are defined to maximize returns and minimize risks with a sustainability perspective, based on the deal specificities identified during the opportunity assessment stage. The due diligence outputs inform the definition of key performance indicators to monitor and evaluate critical risk evolution and mitigation actions, as well as offer contextualization to define pre-investment performance targets.

DEAL MANAGEMENT:

The deal management stage occurs post-investment. This is when the investment is active and must be monitored until exit. The due diligence outputs define the initial monitoring components. This, in turn, allows for the systematic gathering of the data that is required to report on progress, achievements and the investee organization's business case on a continuous basis. Over the life of the investment, the analyst uses the same framework to analyze progression and reports. The investment's risk-and-return profile may evolve accordingly, and this tracking and analysis over time allows for deal evaluation and learning.

DEAL EVALUATION AND LEARNING:

Using the framework to analyze and assess the progress, achievements and weaknesses of the investment over its lifespan will ensure consistent evaluation of risks and returns, allowing, in turn, for optimization actions. The framework is built in such a way that all deals can be represented using the same risk-and-return profile methodology, enabling the analyst to consider performance at the portfolio level, as well as to conduct more in-depth performance comparisons where applicable.

THE FRAMEWORK

The framework's sections are broken down as illustrated.

Text in BLUE refers questions specific to indirect investments.


OPPORTUNITY ASSESSMENT PROCESS
INVESTOR DEFINED
INVESTEE DEFINED
STRATEGIC FIT
DEAL STRUCTURE
INVESTEE PROFILE
VALUE PROPOSITION
ORGANIZATIONAL CAPACITY
ADDITIONAL RISKS
SUSTAINABILITY STANDARDS
ALIGNMENT FIT
BEST INVESTEE TEST
BEST INVESTOR TEST
BEST OPPORTUNITY TEST
INVESTING POLICY FIT
FUNDS DESTINATION
OPPORTUNITY ASSESSMENT
FUNDRAISING
REGULATORY REQUIREMENTS
DEAL FEATURES:
- COMPENSATION STRUCTURE
- MITIGATION TOOLS
VALUE PROPOSITION
NEED AND OPPORTUNITY
PROPOSED SOLUTION RELEVANCE
SECTOR / MARKET ANALYSIS
BUSINESS MODEL FOR IMPACT
ROOTEDNESS
ORGANIZATION FIT
ORGANIZATIONAL CAPACITY
STRATEGY
ORGANIZATION STRUCTURE
OPERATIONS MANAGEMENT
PARTNERSHIP STRATEGY
MARKETING STRATEGY
FINANCIAL ANALYSIS
HUMAN RESOURCES
IMPACT PERFORMANCE MANAGEMENT
SUSTAINABILITY STANDARDS
ENVIRONMENT
GOVERNANCE
WORKERS
COMMUNITY
ADDITIONAL RISKS
ENGAGEMENT
GOVERNANCE
RESPONSIBILTY RISK
REPUTATIONAL RISK
COUNTRY RISK / SECTOR RISK
POLICY RISK AND LEGAL RISK
RELATED MATTERS
CONTRACTUAL ISSUES

STRATEGIC FIT

How well does the investment opportunity help advance the investor's mission?

The purpose of this section is to assess how a particular investment opportunity might advance an investor's mission and add value to its impact investing activities. This section will also help to assess: the relative benefits of using different resources and instruments for engagement; the added value for the potential investee organization; the impact of the investor's participation in the deal; and whether the investment opportunity is the one most capable of delivering the foreseen impact and financial returns. [5]

Accordingly, this section is broken down as follows.

- Alignment fit
- Best investee test
- Best investor test
- Best opportunity test
- Investment policy fit

[5]. At this point, the Foundation is developing its reference road map and has broadly defined its financial and impact risk profiles by asset classes and sectors.

ALIGNMENT FIT

Assess the match between the investor's mission and goals and the investment opportunity's impact proposition.

- How pertinent is the investment opportunity relative to the investor's mission, strategy, programs and priorities?
- Do the potential investee organization's objectives align with those of the investor? Each party's objectives and the potential trade-offs should be mapped and evaluated.
- What are the organization's values and do they align with the values of the investor?

BEST INVESTEE TEST

Assess how the investment opportunity will contribute to achieving the investor's specific program or domain objectives, or how it will otherwise add value.

- What is the investment opportunity's potential to advance the investor's objectives?
- Does the investment opportunity have the potential to create a new approach that would contribute to achieving the investor's objectives?
- What synergies exist between the investment opportunity and the investor's existing portfolios? Would the investment scale, accelerate, support or reinforce other investments in the investor's grant or investment portfolios?
    - Would the investment add to the investor's scope of intervention?
    - Would it be a new way of engaging stakeholders?
    - Would it create more knowledge about the investor's mission area(s)?
    - To what extent would the investment generate knowledge that would be useful for other program areas?
    - To what degree would the investment help connect the program area to value-added relationships?
    - What is the potential knowledge gain? Would the investment bring about solutions or help to develop the know-how required to enhance performance in future investments?
- How critical is the role of the potential investee organization in creating the desired change?
- Is the investment proposition unique? Would it enable undertaking a project that would otherwise not exist?
- Would the investment have a systemic impact?
    - Would the impact of the potential investment be isolated? Would it be replicable?
    - Is this a game-changing opportunity? Is it an opportunity to support the emergence of a new model, influence other players, leverage money from new types of providers or potentially change the landscape of systems, sectors or markets?

BEST INVESTOR TEST

Assess the role and value of the investor as an impact investor by evaluating the potential of its financial and non-financial support to guarantee the success of the potential investee organization. What tools can the investor use to support, improve and scale the organization's work?

- What will the investor's financial participation enable the potential investee organization to achieve, and how critical is its participation to the organization's success?
    - Is the organization facing challenges when it comes to fundraising? If so, what are the reasons behind these challenges?
    - At what stage of development is the organization? Is it at the proving capital, development capital or growth capital stage? And what capital providers are available in the marketplace for such needs?

Text in BLUE refers questions specific to indirect investments.

    - Would an investment enable the organization to seize larger-scale and/or time-sensitive opportunities that would not otherwise be possible?
    - Would an investment enable the organization to access additional capital that would not otherwise be available?
    - Would an investment diversify the organization's sources of capital?
    - Is the proposed investment a new form of capital for the organization?
    - Would an investment remove stress on the organization — for example, would it serve as bridge capital?
    - Would the proposed investment make a substantial improvement to the organization's financial position?
    - Would an investment de-risk the organization (whether the risk is perceived or real)?
    - How much additional capital would the investor's participation enable the organization to leverage?
    - Would the investor be the first investor to make a commitment?
    - How critical is the financial participation of the investor to the success of the investment?

- How critical is the non-financial participation of the investor to the success of the investment?

    - Can the investor offer the organization access to additional know-how, such as innovation experience, monitoring services, financial expertise and advice, or offer access to workshops and/or research groups?
    - Can the investor offer the organization access to a broader network of shareholders across the community, including in the financial and business sectors? Or can the investor provide access to stakeholders who will help the organization advance its impact objectives?
    - Does the investor have an interest in assuming a service-oriented role in support of the organization, including anticipating its needs and finding ways to support and connect it with others?

- Would traditional investors engage in this deal under the same conditions? If yes, would they offer the same non-financial added value?

- Is there an opportunity or need for additional investment resources, such as a grant for external monitoring or for in-depth, on-the-ground evaluation and measurement support?

[6].This question is strongly linked to the J.W. McConnell Family Foundation's mission to engage Canadians in building a more innovative, inclusive, sustainable and resilient society.

Text in BLUE refers questions specific to indirect investments.

BEST OPPORTUNITY TEST

Assess the rationale for deploying the investor's impact investment assets, as opposed to other resources it has in hand, if any.

- Build a "but/for" argument for why this deal should be an investment and not a grant, or vice versa. Where applicable, justify how and why a mix of a grant and an investment or a convertible grant might apply to the deal.
- Would the investment, when compared with another equivalent one, contribute the greatest degree of impact that aligns with both the investor's and the organization's missions?
- Is the proposed investment an opportunity to generate impact in a priority domain?

INVESTMENT POLICY FIT

Assess how the deal would fit within the investor's established investment policy guidelines.

- Fit
  - How does the deal fit within the investor's risk profiles by asset class and sector?
  - What is the structure of the investment? Is it ideally suited to achieving an appropriate risk-adjusted rate of return while also promoting the investor's impact objectives? What are the alternatives?
  - Consider the deal's ability to offer sufficient or appropriate diversification to mitigate risk.
- Alternatives and benchmarks
  - Assess the most comparable investment opportunities, including:
    - Capital demand and supply;
    - The quality of the fund manager universe;
    - Entry and exit prices
    - The future development potential of the sub-segment.
- Allocation policy
  - Does the investment fall outside of the investor's currently established asset allocation targets?
  - If so, has appropriate analysis been conducted to evaluate a change of targets?
  - Has this change of targets been accepted and adopted under the investor's investment policy guidelines?

INVESTEE PROFILE

This section is organized around the following categories.

Value Proposition

Need and opportunity

Proposed solution relevance

Sector and market analysis

Business model for impact

Rootedness

Organization fit

Organizational Strategy

Strategy

Organizational structure

Operation management

Partnering strategy

Marketing strategy

Financial planning

Human resources

Impact performance management

Additional Risks

Engagement

Governance

Responsibility risk

Reputational risk

Country and sector risks

Policy risk

Legal and related matters

Contractual issues

Sustainability Standards

Sustainability Standards

VALUE PROPOSITION

How relevant is the value proposition in the specified domain?

The purpose of this section is to enable analysis of the potential investee organization's impact proposition and business model.

By looking at the proposed theory of change and analyzing the context in which the potential investee organization operates, the analyst will evaluate whether the proposed solutions and activities are effective means of delivering the desired outputs and impacts.

It is important to also assess the economic logic of the proposition with a focus on sustainability (both economic and impact delivery), as well as on growth potential. By understanding the organization's business model, the analyst can determine the risk of mission drift, which will lead in turn to the identification of mitigating actions.

This section is organized as followed.

- Need and opportunity
- Proposed solution relevance
- Sector and market analysis
- Business model for impact
- Rootedness
- Organization fit

Text in BLUE refers questions specific to indirect investments.

NEED AND OPPORTUNITY

Assess the impact area and ecosystem within which the investment opportunity is located and assess the rationale behind the choice to answer specific needs.

- Target segments (beneficiaries or customers)
    - For whom is the potential investee organization creating value? Who are its target beneficiaries or customers, and what is the targeted population profile?
    - In the case of a fund: What are the fund's investee profile and investment criteria? Consider the following areas.
        - Sector of activities/impact domain
        - Legal status of the targeted underlying investees
        - Stage of growth
        - Revenue/income data
        - Type of capital need (such as seed funding, growth capital, etc.)
        - Geographic coverage
- What are the beneficiaries' or customers' problem statements and context dynamics analyses?
    - What is the rationale for the organization's choice of target population?
    - What are the vulnerabilities of the target beneficiaries or customers?
    - What are the beneficiaries' or customers' problems and/or needs, and what are the opportunities to solve and/or satisfy them? Identify systemic and structural gaps.
    - How are these needs valued and calculated? Provide data and statistics to clearly document them (and assess data quality).

- With regard to the problem and opportunity that the organization represents, what are the current conditions and barriers for change?

- Have other factors and the surrounding environmental effects been identified and, if so, what impact do they have?

- Are these local, regional or national priorities?

- With regard to the sector/industry, what is the ecosystem of the organization and its stakeholders? Consider the channels, partners, suppliers, competitors, policies and regulations, as well as the array of operational, financial, community and locally based factors that could impact the activities of the organization and its stakeholders.

    - What are the dynamics of this sector/industry?

    - What changes have happened or are currently happening in the sector/industry, and how were they brought about?

    - What solutions are available today?

    - Who else works in the field and how do they do so?

    - Why hasn't the problem been solved by others?

    - What are some intervention gaps?

PROPOSED SOLUTION RELEVANCE

How does the potential investee organization's proposed solution work? How will it deliver social impact, solve beneficiaries' or customers' problems and/or satisfy their needs? Why is it such a great idea?

o The proposed solution and its impact relevance

- Focus on the nature of the problem and its context.

    - Which of the beneficiaries' or customers' problems or needs is the potential investee organization trying to address?

    - What is the size of the problem compared with other issues the beneficiaries or customers face? What is the problem's impact?

    - Describe the problem or need's interaction with other problems or needs, and explain the strategic choice of addressing that given problem or need (including the root cause, interactions and feedback loops on other problems or needs).

    - Explain the scope of the issue, the scope of the market it represents (if relevant) and the dynamics around it.

    - Is the problem or need fragmented?

    - What is the pace of change?

    - Is the problem or need a long-term issue?

    - Are communities aware of the issue? Is the problem or need well known and understood? Is it a preoccupation?

- Theory of change

    - What product or service does the potential investee organization deliver?

    - With regard to process impact, how is the organization's proposed solution provided through its operations?

- What value is delivered to the organization's beneficiaries or customers, and what change does it create?
- What are the organization's vision and mission? How does the proposed solution advance the mission and generate change? Identify and describe the impact drivers and the context in which change happens.
- What assumptions have been made?
- What are the organization's current barriers?
- What quantitative and qualitative evidence support the proposed solution?
- What activities are being proposed and what output or outcomes do they deliver?
- Which outcomes are direct and which are secondary, tertiary, etc.?
- Have the preconditions to ensure sustainable and long-term change been identified?
- Could the organization's efforts be accelerated? If so, how?
- What are the duration, timeline and targets of the intervention? Justify each (in terms of frequency, intensity and timeline).
- When and how are the organization's products or services delivered?
- What change does the targeted population or stakeholder group anticipate experiencing?
- What are the targeted population's goals and expectations of success?

- Quality of the solution
  - Does the proposed solution address the root cause of the problem in question?
  - Does the proposed solution capture the non-linearity of the problem (when relevant)?
  - What is the magnitude of the effect that the proposed solution might have?
  - What would the impact generated mean to the organization's stakeholders? Assess feedback from beneficiaries or customers.
  - Are the outcomes a result of the organization's work — that is, will the results be attributed to the organization? Make a case for how critical the organization is in creating the desired change. Use backward mapping, if possible.
- Access
  - Can the target group of beneficiaries or customers access the product or service?
  - Can the target group — be it a geographic, cultural or other group, but not a financial group — easily access the offer? Is it a low-threshold offer?
  - How sustainable is the proposed solution delivery?
  - Is the intended change sustainable?

o The proposed solution and its impact relevance, in the case of a fund:

- Impact-generation activities [7]
  - How does the fund's deal-flow strategy align with its impact thesis?
  - How do the fund's demands — such as type of capital, deal size, investment stage, etc. — relate to its potential for creating impact?
  - Does the fund work with any non-governmental organizations, technical assistance providers or other impact investors for deal sourcing?
  - At what point in the fund's screening process are impact considerations included?
  - Does the fund's investment process include

[7]. The first eight questions in this section are extracted or adapted from "Assessing Impact Strategy: A Discussion Guide" an online guide developed by ImpactBase to aid investors and advisors seeking impact information from fund managers and supplemental data available via ImpactBase. The Global Impact Investing Network launched ImpactBase in February 2011 in response to industry needs to address market fragmentation. ImpactBase is a comprehensive online directory of global impact investment funds designed as an early search tool for impact investors. http://www.impactbase.org/discussion-guide; http://www.impactbase.org/

any minimum eligibility thresholds or criteria for social and environmental performance of prospective portfolio companies or properties?

- Provide an example of an investment that just missed the investment criteria due to social and/ or environmental impact considerations.
- Is the fund's financial return target the same for all investments relative to social and environmental impact potential?
- How does the fund determine financial return targets across different social and environmental investments?
- What value is delivered to the organization's investees, and what change does it create?
- What are the financial and non-monetary services offered to investees?
- Do the managers engage in active versus passive management and what are the value-added features in terms of impact?
- Is the fund's ability to provide capacity-building or technical assistance to its portfolio companies a critical success factor? If so, how is this assistance provided?
- What is the fund's road map to exit?

• Assess how the fund's pipeline organizations will create change.

- What change do the fund's portfolio clients anticipate creating?
- What are their goals and expectations of success?
- What market — that is, what beneficiaries or customers — are the fund's portfolio clients targeting? What is the market's potential?
- Social benefit business models [8]
- Name a few examples of portfolio companies in which the fund would invest (if available) and indicate how those companies create positive impact.
- Describe the common and general impacts that are pursued by those portfolio companies, if possible.
- Does the fund invest in companies that serve, employ or are led by representatives of an underserved population?
- Does the fund invest in companies, properties or commodities whose products create direct social and environmental benefits?
- Does the fund invest in companies with business models explicitly designed to create social and environmental benefits?

o Potential of the solution: Sustainability and opportunity

• What is the potential of the potential investee organization's proposed solution, given the depth of the problem or need? Will the problem be solved or the need be satisfied?

• What is the potential of the proposed solution in terms of the number of beneficiaries or customers it will affect? What are the scope and potential reach of the solution?

• Unintended consequences

- How would secondary stockholders be affected positively or negatively?
- How would the environment be impacted?
- What effect would there be on other projects that are currently underway?
- What would the impact be on the overall development of the territory or sector?
- Would there be any economic spinoff — that is, are there any potential secondary economic effects?

- Are there additional opportunities or next steps?
- Does the organization conduct discussions about how it might change the way its entire sector provides solutions and/or does business?
- What is the relevance of the impact for growth and/or replication? Does it fulfil basic needs, contextual needs or temporary needs?
- Does the impact counter some form of market failure?
- What does the proposed solution and its impact represent for the issue and the sector? Is it an enabler or an accelerator? Would it have a catalytic effect, accelerating other changes?
- Does the proposed solution — whether it is a business model, a new product or service or an innovative deal structure — aim to change the system? Is it a pioneering innovation — that is, is it a new or disruptive response to a need? Would the solution catalyze new capital, initiatives or audiences to tackle social and environmental problems?
- Would the proposed solution change the context of the problem or need in a significant way at the market or sector levels? How would systems be affected?
- Is the solution scalable?

SECTOR AND MARKET ANALYSIS

Assess the attractiveness of the targeted market, sector or industry, as well as its fit with the proposed solution. In the case of a fund, assess the market at both the fund level and the pipeline level. Assess the market that the fund or the potential investee organization is targeting and the products and services it delivers.

o Market target and acceptance

- What is the market for the potential investee organization's proposed solution?
- What are the consumer habits and needs of that market?
- Is there proof of market demand for the proposed solution or of an entry opportunity?
- How are the market and market demand evaluated? Does thorough market research support the organization's financial assumptions, revenue model and valuation? Has the data been cross-checked?

o Context/market dynamics

- Does the organization have in-depth knowledge and understanding of the market or field it intends to interact with? Does it understand the community dynamics?
- Who are the end users, key influencers, shareholders, channel players and other stakeholders in the market, field or community?
- Describe the relevant market conditions, industry forces, operating environments and institutional profiles. Are they stable?
- Why is this a good time to enter the market?
- Check the fit of the organization's proposed solution with the ecosystem of the sector or industry and with all players involved (such as channel players, partners, suppliers, competitors, policy-makers and regulators). Determine the array of operational, financial, community and local factors that may impact the organization's activities.

o Other solution providers: Competition and sector fit

- How are competitors or other players satisfying the same type of needs as the potential investee organization? How are they delivering their products or services?
- Determine the basis of any competition. Is the organization competing on price, service, technology or distribution?

[8]. The questions in this section are extracted or adapted from "Assessing Impact Strategy: A Discussion Guide," by ImpactBase, a comprehensive online directory of global impact investment funds designed as an early search tool for impact investors. http://www.impactbase.org/discussion-guide.

- Assess competitive pressure.
- Could competitors be potential partners? Is there any potential for complementary actions or collaboration?
- Are there competitors that are operating in the same sector, but that are not directly attempting to deliver impact?
- How are competitors' businesses prospering? What value are they adding compared to the organization's current offerings?
- What are the competitors' customer segments?
- What are the competitors' market positions and related strengths, weaknesses, opportunities and threats, as perceived in the marketplace?

• Look at general volumes and prices of the target market for comparative purposes.

• Look at the revenues of other solution providers. Consider any trends.

• Review industry margins.

• Make a list of five to 10 of the organization's largest competitors, outlining their distinguishing features, market share, financial health, strengths and weaknesses, expectations of growth or change, and the organization's relationship with them.

• Undertake a top-down assessment of the investment segment, including other potential investment opportunities and propositions in the same segment and their impact delivery potential.

• What are the barriers to entry?

• Does the organization have a competitive strategy, such as unique know-how, network effects, long-term contracts, learning curve benefits or the ability to capture a key distribution channel?

BUSINESS MODEL FOR IMPACT

Assess the potential investee organization's business formula in terms of financial and impact sustainability and growth.

o Business formula

• Describe the potential investee organization's business formula, including both financial and impact aspects.

• Does the organization have a concrete revenue model? Who gets paid and how? Who pays and what are the implications in terms of business and impact?

• Describe the organization's revenue streams and their profitability.

• Does the organization's business formula create economic value for both the organization and its beneficiaries or customers?

• Is the organization's business formula a proven business model?

• Break down the value creation components in the organizational track records and/or projections. For example, for a fund, analyze the holding periods of investments and value the evolution of a sample of individual deals.

• Is the proposed solution useful and effective (or will it be)?

• How are beneficiaries or customers responding to the proposed solution? Is there a current backlog of beneficiaries, customers or suppliers (if any), or is there potential for a backlog?

• Review the organization's historical performance data, including the generated blended returns to date and as compared with stated objectives.

• Describe the organization's key successes and failures with regard to realizing social and environmental impact, as well as financial returns. How have these past results shaped the organization's strategies and philosophies? [9]

- Has the organization been involved in other impact initiatives? Consider the mother organization's other programs and track records, expertise, networks, etc.

- Review the organization's business model incentives for more financial and impact returns.

o Impact generation model

- Identify the organization's impact generation model and its consequences on performance, including its:

  - business model (how do impact returns and financial returns creation dynamics align with each other)

  - social impact pattern (linear or non-linear); and

  - impact nature (the nature of impact over time).

- What is the sustainability of the impact creation? Consider the possibilities of the response becoming obsolete or the underlying problem evolving or changing over time.

o Trade-off mitigation

- Identify any trade-offs between financial, operational, social and environmental factors.

- In the case of a trade-off model, how strong is the risk on impact generation?

  - What is the opportunity cost of impact? What would revenues be if impact was not forgone?

  - To what extent do the operational needs of the organization threaten the generation of impact?

- What policies have been implemented to manage potential trade-offs between financial returns and social and environmental impact? [10]

- Is impact embedded in the organization's business model? Or is it a byproduct of the deal or a result of intentional policies?

o Sustainability and opportunity

- Is the organization's solution delivery proposition sustainable? This will also depend on the timeline for impact realization and the capacity to track beneficiaries or customers, etc.

- Are there any external business environment conditions or macro socio-economic factors that have affected or might affect the organization's ability to create impact?

- Articulate the steps needed to achieve the organization's vision. Outline actions and outcomes.

- Is there any potential for scalability and/or growth? Assess plans according to how impact is created.

9. This question is extracted or adapted from "Assessing Impact Strategy: A Discussion Guide", by ImpactBase, a comprehensive online directory of global impact investment funds designed as an early search tool for impact investors. http://www.impactbase.org/discussion-guide.
10. This question is extracted or adapted from "Assessing Impact Strategy: A Discussion Guide", by ImpactBase, a comprehensive online directory of global impact investment funds designed as an early search tool for impact investors. http://www.impactbase.org/discussion-guide.

ROOTEDNESS

Assess the extent to which the potential investee organization is part of a network and its social fabric. Assess whether the organization's community and sector recognize its mission. Assess the organization's relational capital.

- Are there volunteers involved in the potential investee organization's activities?
- How is the organization's impact perceived by the people in the community and by the institutions and agencies that are affected by its mission?
- Are local partners and community members interested in the organization and its mission, and do they support it? [11]
- Does the organization allow its clients or users to become invested in its founding principles (such as its background, mission, objectives and operations) and in its democratic mechanism? [12]
- How is the organization's team perceived?
- Is community consultation part of the organization's processes?
- How can the organization count on the driving forces in the community?
- Are members of the organization's board of directors active on other boards?
- With regard to social mobilization, do the products or services developed by the organization correspond to choices made in a collective entrepreneurial process? [13]
- Does the organization have support from other organizations?
- With regard to sector rootedness, is the organization part of a network of people who are working toward a similar vision?

ORGANIZATION FIT

Investigate the broader mandate and intentionality of the potential investee organization in order to evaluate how it is aligned with the value proposition under consideration.

- Value proposition
  - What is the potential investee organization's mandate?
  - What is its theory of change?
- Vision
  - What is the organization's vision? Is impact investing relevant for this vision?
- Business formula
  - What is the organization's larger

11. This question has been extracted from the “Guide d’analyse des entreprises d’économie sociale / Guide for Analysis of Social Economy Enterprises,” Réseau d’Investissement Social du Québec. http://www.fonds-risq.qc.ca/?module=document&action=get&uid=1014
12. This question has been extracted from the “Guide d’analyse des entreprises d’économie sociale / Guide for Analysis of Social Economy Enterprises,” Réseau d’Investissement Social du Québec. http://www.fonds-risq.qc.ca/?module=document&action=get&uid=1014
13. ibid

ORGANIZATIONAL CAPACITY

How does the potential investee organization plan to reach its objectives and does it have the resources it needs to achieve them?

This section could be called the "Viability Section." The business formula is analyzed in other sections (see the Deal Structure section on page 54 and the Value Proposition section on page 18), and this section will enable the assessment of the business plan and business resources required to deliver on it.

Using historical data and projections, the analyst will investigate the processes and policies that the potential investee organization has in place in order to deliver on its mission The analyst will also look at the current practices by which the organization implements its policies. This section enables the analyst to assess the organization's health from operational, financial and human resource perspectives, applying the lens of mission effectiveness, organizational capacity and efficiency. The analysis will offer a meaningful overview of the management team's planning and projecting abilities.

The section is organized as follows.

- Strategy
- Organizational structure
- Operation management
- Partnering strategy
- Marketing strategy
- Financial planning
- Human resources
- Impact performance management

STRATEGY

Assess the potential investee organization's business strategy and strategic planning processes.

- Strategic planning
  - Organizational identity
    - Vision: Has the potential investee organization clearly articulated its view of what its business will be like and what external impact it will have on markets and its industry in the next three to 20 years?
    - Mission: Has the organization documented the central reason why it is in business and what it aims to achieve?
    - Values: Has the organization articulated a set of operating rules or guidelines to regulate the behaviours and actions of its members?
  - Planning
    - Has the organization satisfactorily identified the unique combination of capabilities that enables it to create exceptional beneficiary or customer value and distinguishes it from its competitors? Has the organization developed a platform for building similar capabilities in the future?
    - Has the organization clearly set major goals and specific objectives?
    - What is the organization's strategic plan? Is there an official document to inform compliance with the plan?
    - Does the organization have insights into strategy and decision-making? For example, does it have a business contraction plan, where applicable?
    - How quickly can the organization's strategic plan be implemented?
    - Is there an alternative plan if the organization's current assumptions do not hold — that is, if there is no market response or if its cash needs change?

- How transparent is the organization's management about its strategy?

- What are the organization's key priorities? Does it have an official plan or timeline?

- What key development initiatives has the organization undertaken so far?

- Business strategic features

  - What are the organization's key drivers of success? Identify key business elements that deliver the proposed value, including the expertise (such as technical, technological, financial and administrative expertise), processes and resources required.

  - Are there any risks linked to the organization's activities?

  - Does the organization have a choice of investors?

  - What is the scale of the organization's activities and proposed solutions?

  - In what volumes does the organization deliver its solutions?

  - What is the organization's potential growth and reach? And what are the strategy and plan for this growth?

  - Is there a plan to deploy capital? To what extent could this be a challenge?

- Business strategic features specific to funds

  - What percentage of the current assets under management is dedicated to impact investing?

  - Are there any categories that determine asset allocation, such as impact theme, beneficiary population demographics or geography?

  - Is the percentage of funds dedicated to impact investing expected to change in the future? How will decisions to increase or decrease that percentage be made?

  - What are the fund manager's current and future priorities (for example, asset growth, an increase or improvement in staffing, etc.)?

    - How does the fund intend to fulfil these priorities and who is responsible for implementation?

    - How are these priorities related to the fund's social and environmental missions?

  - What is the fund's overall investment strategy? What are its holdings selection criteria?

  - With regard to investment strategy risk, what is the investment discipline toward risk elements?

  - What is the expected risk of the portfolio?

  - What is the rationale behind the fund's investment stages and what financial instruments are used?

  - How many portfolio companies does the fund target? Determine the expected and/or current number.

  - What is the stake in portfolio companies? Determine the expected and/or current stake range.

  - What is the quality of the current pipeline, in terms of finances and impact?

  - Is there fund diversification?

  - Is there a sourcing strategy?

  - Is the strategy consistent with opportunity, uncertainty, team and exit?

  - Is a socially responsible investment policy applied to the investee screen?

  - Are there formal lines of reporting from the decision-makers to the stakeholders?

  - Are there any restrictions on investments into the fund?

- Are there any restrictions on the investments made by the fund?

o Products and services delivered by a fund to portfolio companies

- Deal offer to fund's portfolio companies
  - Investment term
  - Investment instruments: Asset category /asset class
  - Price: Interest and fees
  - Interest rate method
  - Financing terms: Principal and interest cash flows agenda
  - Ownership and control powers
  - Are there any methods to reward portfolio companies for setting up or achieving social returns?
- Exit alternatives (in a fund)
  - What are the planned exit options with the portfolio companies? Review the fund's negotiating power.
  - Are there any alternative exit options for social entrepreneurs who wish to maintain long-term control of their companies?
- Services provided in a deal offer/contribution for adding value
  - With regard to participation in the portfolio companies' success, what advice and guidance modalities are there?
  - What resources are used (for example, time commitments, oversight through board roles, etc.)?
  - What other services and influence over portfolio companies are there (for example, capacity building, protection against mission drift, etc.)?

o Impact and income planning

- Historical and projected sales and growth rates
  - List the potential investee organization's byproducts and services.
  - Are there any recurring revenues?
- Estimate the organization's quantitative social impact (prevision) and describe its short-term plans and vision.
- Describe the economic assumptions underlying the projections (different scenarios based on price and market fluctuations).
- What are the major growth drivers and prospects?
- What is the predictability of the business?
- Who are the organization's major beneficiaries or customers?
- What would happen if sales projections were not achieved?
- In addition to developing strategies, does the organization also develop action plans to implement those strategies?
- With regard to participative development, are the organization's strategic plan and its associated action plans developed in a group setting with key team members in attendance?
- What is the development stage of the business?
- Newness, stage of the business (life cycle): According to its stage of development, is the organization likely to become less risky over time in terms of both financial viability and impact generation?

ORGANIZATIONAL STRUCTURE

Assess the potential investee organization's ability to deliver on its strategy.

- Review the key business processes and functions required to implement the potential investee organization's strategy.

- Review the organizational structure and job descriptions. Determine who does what.

- How many employees does the organization have supporting management businesses in total? How many employees does it have supporting each business function? If the organization or its affiliates maintain multiple offices, how are employees distributed geographically?[14]

- Does the organization understand the differences between voluntary organizations and corporate, profit-making bodies? If the sector is not of interest to the firm, it is unlikely that any special requirements will be recognized.

- Assess the clear division of roles and responsibilities, including approvals, supervision, performance reviews and management functions.

- In the case of a fund

    - Determine the number of staff involved in investment management, research and administration.

    - Are there investment managers who manage the organization's funds? How many other funds do they currently manage and what is the value of the assets?

    - Provide details about who would be making investment decisions and whether they would be available to report directly to the organization's trustees.

    - Review the turnover of the organization's fund managers and administrators over the last three years.

- Corporate structure

    - Is the organization's corporate structure complex? Can it be simplified?

    - Does the organization's corporate structure fit with its business model?

    - Does the corporate structure allow for growth?

    - How many existing shareholders are there?

    - Does the organization's corporate structure allow for a liquidity event and/or return on investment?

OPERATION MANAGEMENT

Assess operation planning, including the efficiency and effectiveness of current processes and the procedures and controls currently in place.

- Resources

    - What resources are needed by the potential investee organization and are they clearly identified?

    - What are the organization's resource streams?

    - What equipment and maintenance are required?

    - What are the organization's manufacturing procedures and controls?

    - Is this a stable market? Are the costs of goods sold stable?

- Process mapping and planning

    - What are the potential investee organization's processes and are they clearly defined?

    - Does the organization have a clear and detailed delivery plan to meet its projection objectives?

        - Is the plan complete?

Text in BLUE refers questions specific to indirect investments.

- Is it viable?
- Is it sustainable?

- What are the organization's distribution channels?
- How will its products or services be delivered?
- Which distribution channels are the most effective?
- Through which channel do (or will) customers want to be reached?
- Does the organization have an operating plan or, if it is an early-stage organization, at least an outline of one?
- What is the organization's production capacity? What are its corresponding timelines and milestones?
- If production capacity is maximized, what would be the effect on impact costs and blended returns?

o Capacity

- Assess the jump in a fixed-cost timeline.
- Are the potential investee organization's production and margin assumptions feasible?
- To date, has the capacity and operations management stayed consistent with plans?

o Fund operation management

- Review the weighted risk. What is the organization's definition of risk and what are the techniques used to quantify it?
- Review the organization's risk-weighted approval process.
- Review the organization's investment selections, as well as internal approval and decision-making processes.
- Research the organization's capacity and methodology (for example, pipeline building as it relates to impact performance).
- What research is undertaken by the organization (including social and environmental)? Is the research done effectively?
- Visit the organization on-site.
- Review the organization's loan default procedure.
- Does the organization adhere to client and house guideline policies?
- How regularly are reports and valuations provided, and what information do they contain?
- Review the organization's cash disbursements.
- With regard to investment decisions, what is the ratio of deals screened to deals invested in?
- Is an exit planned at the time of the investment?
- In the case where the fund has an active management strategy: what are the intervention plans in companies (e.g., time, resources, commitments and value-added generation plan)?
- Assess the existing pipeline under review.

o Consider the following indicators

- Expected number of investments at a time
- Expected range of investment size
- Exit options
- Target gross portfolio return
- Fund assets under management ($)
- Fund term (justify if longer than industry average)

- In case of equity: participation cap
- In case of equity: planned harvest time
- Number of submitted applications and average size of the financing demand
- Number of applications under review awaiting regulatory approval and financial checks, and the average size of financing

PARTNERING STRATEGY

Assess the potential investee organization's partnership developments and sector relationships.

o Network and partnership building and maintenance

- What is the potential investee organization's partnering strategy to enhance value creation?
- What is the organization's capacity to engage partners?
- Does the organization diversify risk across partners?

o Key partnerships

- Assess the roles that partners and networks play in the mission of the potential investee organization.
- What resources or services do the organization's partners and networks provide?
- Are there any risks related to partner organizations whose activities are part of the conditions for change (on both the impact and financial levels)? Are the assumptions around them valid?
- How many financial partners is the organization involved with?
- Does the organization exchange services with or receive donations from its economic partners?
- In the case of a fund can deals be sourced from trusted contacts (for example, from other fund entrepreneurs who the general partner has invested in before, or from lawyers, accountants, etc.)?

MARKETING STRATEGY

Assess the potential investee organization's marketing strategy. What are the organization's marketing goals and plans?

o Product

- Obtain an in-depth description of the products or services delivered by the potential investee organization (any features that have not been described already in its value proposition).

o Market positioning

- Does the organization have a clear assessment of the market area that it is covering
- Is the growth of the target market well identified?
- Is the target market large enough to support substantial growth and/or valuation?
- Does the organization's product or service play on cost leadership or answer a market need in a way that its competitors' products or services do not?
- Establish the organization's principal avenues for generating new business.
- Describe the evolution and/or byproducts of the current business model.
- Describe the speed and nature of technological change with regard to the organization's product or service.
- What is the timing for new products or product enhancements?

- What is unique about the organization's product or service?
- Why is this a good time to enter the market?
- Is the organization focused on appropriate market development, or is it trying to do too much at one time?
- If the organization has already introduced its product to the market, how many current and potential beneficiaries or customers does it have?

o Price

- What are the organization's sales strategy and target details (such as pricing strategy, market share target and detail positioning)?
- Compare industry and company policies (see "Context/market dynamics" on page 23).
- Cross-market data and marketing mix
  - Discuss market target strategy.
  - Review the sensitivity of market assumptions to economic risks (such as business climate and capital markets).
  - Probe for any regulatory issues with regard to the organization's product or service.

o Promotion

- Describe the organization's marketing programs.
- Assess the organization's sales force.
- What is the cost of attracting a new beneficiary or customer (according to the organization's business model)?
- Can the organization provide numerical proof that marketing efforts are or will be working?
- Why is this a good time to enter the market?
- Is the organization focused on appropriate market development, or is it trying to do too much at one time?
- If the organization has already introduced its product to the market, how many current and potential beneficiaries or customers does it have?
- Determine the organization's ability to implement its marketing plan with current and projected budgets. Use examples of recent marketing, product, public relations and media information on the organization.
- Customer information
  - List any strategic relationships with customers and suppliers.
  - Provide a brief description of any significant relationships that were severed within the last two years.

o Distribution

- Where are the organization's clients and how are they reached?
- What is the cost of the network?
- What should the organization's relationships with its beneficiaries or customers be like?
- Does the organization have commitments from clients that they will buy into or participate in the deal?
- With regard to the distribution plan, what is the organization's plan for crossing the market chasm, obtaining the first reference customers, securing the first 500,000 users, etc.?

FINANCIAL PLANNING

Assess the financial aspects of the potential investee organization's business plan and validate its economic model, including financial sustainability, cost structure, capital efficiency and planning capacity. Identify the best available benchmark to use as a reference to assess the deal. In the case of a fund, if information is already available on past, current or prospective deals, perform the same analysis at the pipeline level.

- Data request
  - Income statements, balance sheets, cash flows and notes
    - Review the potential investee organization's annual and quarterly financial information for the past three years (where applicable).
    - Review the organization's overall financial model with detailed projections through Year 3 and also perform a sensitivity analysis. Ask for multiple scenarios with variations on key assumptions. Assess both best- and worst-case scenarios.
    - Review the planned versus actual results (where available).
  - With regard to the organization's income statement, break down the sales and gross profits by product type, customer, channel and geography.
  - Check the organization's balance sheet for:
    - an accounts receivable aging schedule (where applicable);
    - a list of all stockholders;
    - a summary of all debt instruments/bank lines with key terms and conditions; and
    - off-balance-sheet liabilities.
    - Conduct a customer check (when applicable).
- General
  - Financial reporting standards
    - Are the organization's financial documents developed according to generally accepted accounting principles?
    - In the case of fund does the potential investee organization currently comply with — or will it be complying with — the Global Investment Performance Standards?
    - What are the organization's reporting practices? Does it have a reporting agenda?
  - Assess management of financials and validate projections.
    - Has the organization completed one-, two- and three-year financial projections?
    - Discuss any financial assumptions the organization has made.
    - Compare the organization's financial performance with industry performance, considering capital structure, self-sufficiency and liquidity.
    - Explore the differences between the organization's financial plans and its actual financial performance.
  - Has the organization used an outside, independent accounting firm to compile, review and audit its financials?
  - Ask for a summary of the organization's current federal, state and foreign tax positions, including any net operating loss carry-forwards.
  - Discuss the organization's general accounting policies (such as revenue recognition).
- Financial performance: With regard to income statements (both historic and planned), undertake ratio and trend analyses of the organization's revenue-

generating activities and assess its capacity to generate revenue to cover operating expenses.

- Do a cost breakdown by products and/or activities. What is the unit cost of impact and the dollar return?
- Undertake margin and break-even analyses.
- What are the organization's staff salaries and fixed costs? Assess growth steps as they relate to fixed costs.
- Is the organization self-financing?
- Are the assumptions that are made in the organization's financial projections reasonable? Review the sales cycle (if realistic), as well as the rate of growth, pricing, multiple revenue streams and costs.
- Are the organization's revenues realistic? Are milestones achievable? Can they be clearly spelled out?
- What is the organization's plan for meeting its projected targets?
- Review historical evidence from comparable organizations, deals and industries.
- If the organization relies on subsidies, to what extent is the success of the venture correlated with relevant elements of public spending? Ask for financing plans/agreements with donors and assess any related risks.

o Financial condition: Assess financial planning to cover the need for investment and working capital (asset renewal and debt coverage).

- What is the organization's plan for meeting its projected targets?
- What is the organization's capital structure
    - Determine the organization's external financing arrangement assumption.
    - Determine its real and projected assets, liabilities and net worth.
    - Obtain an explanation of projected capital expenditures, depreciation and working capital arrangements.
    - With regard to capital requirements, if a second raise is needed, will there be enough revenue to attract investors? Ask for the schedule of financing history for equity and debt (including dates, investors, dollar investments and percentage ownership).
    - Consider any "skin in the game" — that is, team members' money, family funding, etc.).
    - What is the quality of the organization's assets? Are illiquid assets properly valued?
    - Talk with current debt holders. Review the debt schedule and assess the current state of compliance, terms of debt and likelihood for capital sufficiency in the future.
- Review past crisis management responses.
- In the case of a company, is its valuation aligned with its current stage of development and market potential?

o Cash management

- Assess the organization's solvency — that is, its liquidity management.
- What is the working capital required to grow at the projected rate?
- Complete a thorough cash-flow analysis. With regard to cash-flow timing, is the money sufficient? Assess payable and receivable financing agreements.

- When will the organization achieve a positive cash flow? What cash requirements will it take to get there?
- Determine the organization's ability to meet its financial obligations, including development. Assess short- and long-term solvency.
- Has the organization already received funding? If so, how much?
- What is the follow-on funding requirement agenda? What are its sources of funding?
- Has the organization properly anticipated future needs, and is it already working on them?
- Review the use of non-invested cash.

HUMAN RESOURCES

Assess the potential investee organization's team. Who are the leaders in the organization? What are their professional backgrounds? Are they well trained and do they have the experience required to deliver on the organization's strategy?

o Team requirements

- List the skills and experience required to succeed, and assess the potential investee organization's team members against them.
- List the key core competencies of the team.

o Organizational leadership

- Has the organization been involved in other impact initiatives? See the mother organization's other programs and track records, expertise, networks, etc.

o Team leadership

- List the background and credentials of each of the organization's key team members. Do they have the necessary skills and experience?
  - Is their experience relevant?
  - Are they first-time managers? Is it their first time working in impact delivery?
  - Do they have experience in a market or a capability that is relevant to the project under review?
- With regard to experience relevance, do team members have any previous experience in impact investing?
- What is the organization's cumulative leadership experience in investing?[15]
- What is the cumulative impact experience of the organization's top three leaders?[16]
- Consider the team's multi-sector experience. What is their experience across private, public and/or philanthropic sectors?
- In the case of a fund review the team's track record. Do they have a good track record growing a similar-stage organization with successful exits?
- Track the team's record in both the short and long term. Ask for a detailed portfolio analysis of all past investments made by the fund manager. Interact with the fund manager to assess and clarify his or her value contribution to past and future investments.
- Make reference calls to key portfolio company stakeholders (both past and present) to verify impressions of the fund manager and to confirm his or her contributions to value creation and investment sourcing.
- Talk to the person who will actually manage your account, and not just to a salesperson.
- Assess the quality of the team's aggregated networks (for advice, access to potential customers or acquirers, etc.).
- Perform a legal background check.

- Carry out an intentionality check. What are the motivations and values of the organization's management team and key staff members? What drives them to engage in this proposition?
- What is the team's mindset? What is their appetite for fulfilling their stated mission?
- Assess honesty and leadership ability.
- Assess intelligence. Does the team have the brainpower required to switch strategies as necessary?
- Does the team possess good judgment, based on evidence from past or current decision-making?
- Assess team strength in terms of who has previously worked together. How long have team members worked together? What were the results of previous team endeavours?
- Assess team strength in terms of personnel turnover. [17]
- What has been the frequency of turnover at the presidency level and in other key positions?
- What are the organization's collective decision-making modes for major issues? [18]
- What are the organization's supervisory structures (such as management committees)? [19]
- With regard to core competency management, does the organization actively manage competencies as assets? Does it provide special rewards for desired competencies? Does it provide adequate training to ensure that competencies remain current?

o Board of directors

- What is the philosophy of the organization's board of directors? Determine whether the composition of the board of directors promotes[20]
  - the pooling of complementary types of expertise;
  - meetings and discussions with various regional stakeholders;
  - connections with the organization's ethics and protection of its mission; and
  - the ability to support and supervise the organization's manager.
- Review the board structure and its level of engagement.
- How are board members compensated?
- Is there a sufficient number of outside directors on the board?
- Is management open to discussion and suggestions for improvement?
- What other organizations are the members of the board of directors connected to?'

o Board of advisors

- Does the organization have a board of advisors? If so, who is on the board?
- Does the board of advisors actively participate in the organization's development?
- How are advisors compensated?
- What other organizations are the members of the board of advisors connected to?

15. This indicator has been extracted from the framework that ImpactAssets uses to showcase impact investors. http://www.impactassets.org/
16. ibid
17. These questions have been extracted or adapted from the "Model Due Diligence Questionnaire for Hedge Fund Investors", prepared and published by Managed Funds Association (MFA) in consultation with hedge fund members of MFA and outside groups representing hedge fund investors. http://www.managedfunds.org/wp-content/uploads/2011/06/Due-Dilligence-Questionnaire.pdf
18. ibid
19. ibid
20. ibid

IMPACT PERFORMANCE MANAGEMENT

Assess the potential investee organization's capacity for measurement and transparency, as well as its willingness to demonstrate impact results.

- Measurement system relevance and impact performance management
    - How does the potential investee organization define its impact?
    - Is the organization's impact measurable?
    - How is success defined and tracked?
    - How is performance measured?
    - What software or system is used for reporting?
    - Are there appropriate indicators, metrics and measurements in place to consistently measure and demonstrate impact (success) in relation to the organization's stated purpose and overarching theory of change?
    - What are the formal lines of reporting from the organization's decision-makers to its stakeholders?
    - Review the relevance and efficiency of the organization's measurement processes and retrofit actions to the use of data (if applicable).
    - Is the organization's data collection reliable?
    - In the case of a fund, does the fund utilize any third-party social and environmental rating systems at the fund or portfolio level?
    - What is the influence of external factors on output, outcomes and impact measures?
    - How does the organization define targets in its business plan?
- Is the organization likely to be transparent about impact?
- Is accountability aligned with the organization's mission? [21]
- Does the organization allow performance assessment? [22]
- Do the metrics incentivize performance? [23]
- Does the measurement serve feedback loops for social performance? [24]
- Do the metrics measure progress according to stage of growth? [25]
- Is the Is the measurement useful to the organization?
- Is the measurement meaningful to end beneficiaries?
- What metrics drive the organization in the way needed for investors?
- With regard to stakeholder alignment, do the investors and the organization agree on metrics? If not, why not?
- When does an investor need to realize, see or verify the impact he or she intends to create? Define the relevant reporting period (including short- and long-term indicators).
- What are the social reporting requirements from financing recipients (for example, impact definition and scoring)?
- Are performance indicators in line with the impact generation model?
- Do mechanisms exist for incorporating learning that could necessitate changing the existing measurements in the organization?
- What are the targets for planning, measuring and improving performance?

Text in BLUE refers questions specific to indirect investments.

- How are results verified? What are the organization's remedial methods?
- Is there any use made of benchmarks?
- Assess whether targets are easy to jointly achieve or not, and assess the relevance of planning.
- Does a third-party entity validate measurement systems and performance statements?
- In the case of a fund:
  - What are the social and financial reporting requirements from the fund's portfolio companies (such as social and environmental scorecards)?
  - What is the fund's post-investment approach to working with portfolio companies in order to improve social and environmental impact? 26
  - What policies and expectations affect the actions of the fund management team and limited partners in the case of poor impact performance from its investments? 27
  - How do the fund's control strategy and minority/majority share policies align with its impact thesis?

o Measurement and reporting risk

- Given the challenges and difficulties in measuring social and environmental impact, assess the organization's exposure to inaccurate assessment of impact. [28]

o Commitment to deliver impact outcomes

- Review the measurement, monitoring, evaluation and related reporting systems currently in place and assess the organization's commitment to measuring results and being transparent about them.
- If no reporting system is currently in place, is the organization committed to providing evidence of future achievements in a regular and transparent way? Would the organization agree to be assessed by the Global Impact Investing Rating System (if applicable)?
- Will input from investors be accepted in the development and/or improvement of social impact measurement and reporting standards?

[21]. This question has been extracted or adapted from "Impact Investing 2.0.: The Way Forward – Insight from 12 Outstanding Funds" by Cathy Clark et al. and published by Pacific Community Ventures, ImpactAssets and Duke University's Fuqua School of Business, 2013. http://www.pacificcommunityventures.org/impinv2/
[22]. ibid
[22]. ibid
[23]. ibid
[23]. ibid
[25]. ibid
[26]. This question is extracted or adapted from "Assessing Impact Strategy: A Discussion Guide", by ImpactBase, a comprehensive online directory of global impact investment funds designed as an early search tool for impact investors. http://www.impactbase.org/discussion-guide.
[27]. ibid
[28]. This question has been adapted from "ImpactAssets Issue Brief #2: Risk, return and impact: Understanding Diversification and Performance Within an Impact Investing Portfolio", an ImpactAssets issue brief exploring critical concepts in impact investing. By Jed Emerson, Executive V.P. for Strategic Development, http://www.impactassets.org/files/downloads/ImpactAssetsIssueBriefs_2.pdf

ADDITIONAL RISKS

Are there other types of risks that would adversely impact the investment's capacity to deliver financial or social return?

This section enables the analyst to evaluate internal risks (that is, risks that are taking place within the potential investee organization), as well as external risks (those risks that are taking place outside of the organization), that were not covered in the previous sections because they are not intrinsic to the deal or to the underlying business model and business plan proposition.

Internal risks such as engagement and governance, and external risks such as political, legal and contractual risks, could also materialize into mission drift and conflicts. This assessment is important as it enables the analyst to identify the governance and contractual obligations that would mitigate identified risks.

The section is organized as follows.

- Engagement
- Governance
- Responsibility risk
- Reputational risk
- Country and sector risks
- Policy risk
- Legal and related matters
- Contractual issues

ENGAGEMENT

Assess the potential investee organization's engagement in creating change and its potential for mission drift based on the nature of its activities, its policies regarding use of profits and its team.

- Ambition for creating change
    - Is the potential investee organization's social value proposition central and/or relevant to its business model and its mission?
    - How is the mission locked into the DNA of the organization (for example, via external designation, registration, special purpose corporate form, etc.)?
    - Is impact generation central to the organization's own success?
    - How proactive and engaged is the organization in meeting the social needs of the market it serves? Are there any additional opportunities at hand to act further toward its mission, and how does it position itself (in terms of services, lower costs, etc.)?
    - Does the selection of the organization's impact's beneficiaries align with the most pressing issues to be addressed?
    - Are the selected stakeholders the best ones for ensuring effective delivery of the proposed solution?
    - With regard to diversity, have the beneficiaries who are the hardest to reach and deal with been taken into account?
    - Has the organization been involved in other impact initiatives? See the mother organization's other programs and track records, expertise, networks, etc.
- Use of profits
    - Is there assurance that the organization's use of profits and assets will be in line with its mission?

- Is there an explicit policy regarding the use of profits? Are there limits to what can be distributed to shareholders or executives?

- Are the organization's assets locked (for social purpose or repayment) if things do not work out?

o Team

- What are the motivations of the organization's founders (and of the team in general) in moving the deal forward?

- What are the form and level of personal commitment to the impact mission by the investment principals and/or the organization's founders?

- How much personal capital has the investment principals and/or organization's founders committed to the investment?

- What are the founders' share allocations? Are their stakes large enough to motivate them to succeed, but not so large as to enable them to ignore the board and other advisors?

GOVERNANCE

Assess how the potential investee organization's governance structure promotes its social mission and protects against mission drift and mismanagement.

o Governance structure and mission control

- Is the potential investee organization's mission embedded in its governance structures and governing documents?

- Does the organization have a governance structure that supports the organization and its generation of impact?

o Board of directors

- Who is on the board of directors?

- Is there a sufficient number of outside directors?

- How are board members compensated?

o Management [29]

- Does the organization manage separate accounts? If so, describe them.

- In the case of a fund, what are the aggregate assets under the management of the investment manager? Provide a description of the major investment vehicles managed by the investment manager.

o Service providers [30]

- Is the organization audited? In the case of a fund who audits the investment vehicles man aged by the organization?

- Does the auditor have an affiliation or a business relationship with the organization or with any of its affiliates outside of the audit relationship itself?

- Has the organization or any of its affiliates retained the auditor or any of the auditor's affiliates for other engagements, such as consulting services, financial statement

RESPONSIBILTY RISK

Assess the identification and mitigation actions that are in place to minimize risks related to the potential investee organization's participation in the deal.

o Would the investor or members of the investor organization play an active role in the invest ment opportunity and how?

o If so, would questions of self-dealing arise and how would the contractual agreements set clear responsibilities and boundaries?

o Would the potential investment be realized in conjunction with a grant and would it involve any non-financial resources or participation from the investor organization, such as its team's time and expertise?

- Should the management of the potential investment be externalized by the investor organization?

- Assess accounting and fiscal compliance.

REPUTATIONAL RISK

Assess the potential investee organization's reputation. Anticipate any reputational risks regarding the investor's involvement in the opportunity and the sector it relates to.

- How well does the investor understand the investment and/or investment strategy?

- What is the current nature and length of the investor's relationship with the potential investee organization? Document the investor's personal and direct understanding of the investment opportunity.

- Has the investor made site visits to the organization? Include any relevant information that relays how well the investor knows the organization and its key activities.

- Have other investors recognized the deal opportunity as an impact investment?

- Do other respected partners of the investor have relationships or experience with the potential investee organization and its investment opportunities? Obtain any peer or trust partner's knowledge about the organization and the investment.

- What is the organization's reputation? Request references.

- Does the organization work in a controversial sector? Could the investor's participation in the deal and its support of the organization's activities become a source of controversy in any way?

- Would supporting the organization's activities be misaligned with any of the investor's other initiatives (such as other investments, or grants in the case of a grant provider)?

COUNTRY AND SECTOR RISKS

Assess any potential risks linked to the country where the deal will be realized, as well as the risks related with the sector.

- Are there any risks associated with the country's financial condition that would impact the local economy and the success of the deal opportunity? If so, how can they be minimized?

- What are the risks of the economic sector in which the deal opportunity operates? How can they be minimized?

- Are there any risks associated with the country's political decisions about the deal opportunity? If so, how can they be minimized?

POLICY RISK

Assess how policy changes could impact the investment deal and the underlying activities of the investment.

- Are there any policies or regulations that are crucial to or limit the work of the potential investee? If so, how are they being addressed?

- Are there any anticipated changes in relevant policies or regulations that would affect the investee and its works? Assess proposed mitigating actions.

[29]. These questions have been extracted or adapted from the "Model Due Diligence Questionnaire for Hedge Fund Investors", prepared and published by Managed Funds Association (MFA) in consultation with hedge fund members of MFA and outside groups representing hedge fund investors. http://www.managedfunds.org/wp-content/uploads/2011/06/Due-Dilligence-Questionnaire.pdf
[30]. ibid

Text in BLUE refers questions specific to indirect investments.

LEGAL AND RELATED MATTERS

Assess whether the investor and the potential investee organization comply with their legal requirements.

- Do the investor and the potential investee organization have all of the permits and licenses required to participate in the proposed deal?
- Has the investor explored the broader legal considerations related to all stakeholders and addressed any concerns?
- Have the investor or the organization been involved in any litigation or been threatened with litigation?
- Are there any pending lawsuits against the organization or initiated by the organization?
    - Describe the environmental and employee safety issues and liabilities.
    - List the material patents, copy-rights, licenses and trademarks
    - Summarize the organization's insurance coverage and any material exposures.

CONTRACTUAL ISSUES

Assess the various components of the contracts and how they impact the investor's interests.

- Consider the following issues.
    - Key man (a contract provision covers a departure of all key team principals)
    - No-fault termination
    - Legal counsel
    - Auditor
    - Risk warnings

SUSTAINABILITY STANDARDS

Notwithstanding the proposed value proposition, does the potential investee organization meet standards of social, environmental, and governance performance, with accountability and transparency? Using existing environmental, social and governance (ESG) analysis frameworks, assess whether the potential investee organization's sustainability standards and practices meet the investor's sustainability standards.

SUSTAINABILITY STANDARDS

- Does the potential investee organization hold sustainability practice certifications or follow sustainability standards? If so which ones? How does the organization perform in complying with them?

- Are there any defined sustainability practices in management and administration, such as carbon-offset programs, low-impact community practices or other clear efforts to integrate sustainability into practices? [31]

- What is the organization's impact-focused governance structure? Describe the use of profits for impact activities. [32]

- In the case of a fund:

  - Does it require, encourage or engage its portfolio companies to hold sustainability practice certifications or to follow sustainability standards?

  - Is sustainability standards assessment an intrinsic part of its investment selection process?

[31]. This question has been adapted from "ImpactAssets Issue Brief #4: The Metrics Challenge: Assessing 'Impact Capacity' at the Firm Level," by Jed Emerson and Sarah Williams. http://www.impactassets.org/files/downloads/ImpactAssets_IssueBriefs_4.pdf
[32]. ibid

DEAL STRUCTURE

Is the deal structure appropriate for the unique circumstances of the potential investee organization and of the investor?

The purpose of this section is to describe the proposed financial product and the deal structure it is embedded in, and assess the featured investment thesis. To ensure that the deal is tailored to the interests of all participants, the section aims to clarify the product underlying mechanisms and technicities, as well as the intentions of all parties concerned and the terms of the agreement between them.

The answers to the following questions should be used to understand the financial product and determine whether the deal structure is appropriate, as well as to determine the position the investor should take in the deal according to its sense of balance between identified risks and returns, and its desired level of monetary commitment. It then can be adapted and negotiated accordingly.

The assessment in this section also enables the analyst to identify the deal development stage and attractiveness, informs the deal profile - which instruct how it would fit into the investor's current portfolio -, clarifies the regulatory requirements around the deal, and, where applicable, whether the investor should take advantage of its capacity to offer concessionary terms to the potential investee organization.

Accordingly, this section is broken down as follows.

- Fund destination
- Opportunity assessment
- Fundraising
- Regulatory considerations

FUND DESTINATION

Assess the use of the funds.

- o What are the potential investee organization's plans for the use of the funds? For example: will the funds be used to finance operations, and how? Will the fund be used to finance capital expenditures, and what are the assets involved and their productive use?
- o Does the use of funds make sense for the current circumstances of the investee organization?
- o Does the use of funds comply with the investor's mandate?

OPPORTUNITY ASSESSMENT

Assess the product financial and impact characteristics, and the structure it is embedded in, in order to determine the investment risk-and-return profile and assess how risks and returns are balanced. Assess whether this opportunity would be a sound investment and determine the best position to adopt in the deal.

- o Deal features
    - Investment thesis
        - Broadly, what are the mechanisms and the assumptions behind return generation expectations and investors repayment?
        - What return is the investee organization proposing for each offering?
        - What are the exit scenarios?
        - What risk profile is being advanced by the organization?
        - What does the potential investee's track record – as well as similar investments – tell?
    - Asset Class: In which asset class does the investment fall and what are its characteristics?
    - Investment vehicle
        - What kind of financial product is on offer?
        - In the case of a fund: What are the investment objectives and criteria? What financial products and services are offered to the fund's clients?
        - Is it a closed-end or open-end fund, and why? What is the minimum and maximum level of assets under management for the fund's investment thesis to hold?
    - Position in the deal
        - What are the positions available in the deal? What are the conditions offered to investors? What do they mean in terms of risks, returns, ownership, and potential asset claims and recourse? What do they mean in terms of impact value creation and leverage? Consider the investment value from the perspective of all of the players.
        - With regard to defining appropriate stakes in a deal, what are the rationales behind the amounts? What do they mean in terms of impact value creation and scale? In the case of a fund, assess participations both at the investor and at the fund level? How does it affect control over the investments and added value?
        - Leverage: Will funding be leveraged and how does it affect credit risk and control over the investment? In the case of a fund, consider the fund level and the fund's pipeline level.
    - Return and repayment schedule
        - Capital call agenda: What is the plan for capital calls and how will capital be used once it has been contributed to the partnership?
        - Return distribution plan: Who gets what, why, and when?

Text in BLUE refers questions specific to indirect investments.

- Repayment sources: What are the designated cash streams for repayment? What alternative repayment sources, if any, are engaged?

- Liquidity

  - What is the length of the contract?

  - Can the investor sell its position? When and under what conditions? How would it affect the investment value?

o Compensation structure in funds

- Fees structure and other costs

  - What are the various fees involved in the investment opportunity, such as advisory/ director fees, monitoring fees, syndication fees, asset management fees, performance fees, etc.? How do they compare to similar investment proposals?

  - Performance fee conditions

    - With regard to an at-liquidity event, what are the carry fee (% of return) and the hurdle rate (minimum threshold of returns for the carry)?

    - Are there any returns to the general partner before the hurdle rate?

  - Is there a clawback provision – that is, does the limited partner have a right to reclaim a portion of the general partner's carried interest if losses from later investments cause the general manager to withhold too much carried interest?

  - Are there any annual bonuses planned?

- Total cost

  - What are the commissions and initial charges? Are there any additional charges? Ask for a full pro-formal example of the fees the potential investee organization would expect to charge in a full year.

  - What is the overall profitability of the transaction, including all incurred and potential costs, such as accounting expenditures, legal expenditures, loan costs and interests?

- Performance incentives

  - Is the compensation and return agreement likely to drive certain behaviours in the potential investee organization? Are these behaviours desirable?

  - What are the embedded impact-based incentives?

  - Does the deal structure provide appropriate incentives — such as attractive pricing or other incentives to get involved in the deal — to all parties involved, including key people, staff, investors, etc.? Are there incentives to make the deal perform better?

  - Does the fund's compensation structure reflect its impact objectives?

    - What motivates the members of the management team to work at this fund?

    - How, if at all, are managing partners' compensation packages influenced by the social and environmental performance of the portfolio?

    - How does the management team's compensation compare to the compensation of teams working in the traditional investment market? In the case of venture capital or private equity funds, do social and environmental results influence the carry calculation?

    - What are the founders' share allocations? Are their stakes large enough to motivate them to succeed, but not so large as to enable them to ignore the organization's board of directors and advisors, and other advisors?

- Organization-level risk-and-return profile in the deal (for non-fund investment structure)
  - What is the level of expected returns or savings at the organization level?
  - With regard to ownership loss, what is the dilution level of ownership? How does it affect power distribution?
  - With regard to involvement in the deal, what is the investee organization's financial participation in the deal — that is, what is its "skin in the game"?
- Exit options and risks
  - When impact investment alternatives are smaller, less established and more specialized than conventional investments, impact investment fund managers face greater challenges in realizing investment returns, whether through liquidity events to strategic buyers or through initial public offerings in public stock markets. How will this impact exit options and risks?
  - Mission sustainability: If the exit is made through the sale of holdings, will any consideration be given to the new owner's mission? Is there a route toward repayment of capital and interest, while also ensuring that the organization's mission is sustained and carried into the future? This will depend on the financial instrument and whether it is equity you can resell to whomever you choose or a loan on which you have no intervention right.
- Impact considerations
  - Are there any alternative exit options for entrepreneurs who wish to maintain long-term control of their companies?
  - What is the link between the exit of the deal and impact generation?
  - What are the potential trade-offs?

o Other deal features

- Deal advantages for investors
  - What types of advantages and flexibility does the deal structure offer to the investor and to other investors involved?
- Investor's choice
  - Does the potential investee organization understand the differences between voluntary organizations and corporate, profit-making bodies? Why and to what extent is the sector of interest to the organization? Is this reflected in the deal structure?
- Concessionary capital risk
  - What is the potential investee organization's reliance on grants or other type of subsidies, such as subordinate investments from concessionary funders? What do these subsidies support?
  - Is this added complexity likely to yield better results or to fail to materialize at necessary levels? Does it create market distortion? Is it a productive practice in terms of long-term economic value creation?
- Subsidy risk
  - If the organization's business model relies on some form of public funding, to what extent is the success of the investment correlated with public spending policies? Assess the related risks.
  - If the organization's business model relies on grants to cover operation costs, are there any financing plans or agreement contracts with donors? Assess the related risks
- Mitigation tools
  - Does the deal structure itself help manage uncertainties?

- Is the deal secured in any way, such as through collateral, guarantee, loan-loss insurance contracts, subsidies, etc.?

- How is risk distributed among investors? What are the shares held by the top three investors?

- With regard to an intervention right, are there any advisory rights or is there a common resolution right?

- With regard to a default scenario, what is the recourse in the event of default or bankruptcy? Is the recourse limited (with access to a limited number of assets) or general (with access to all of the assets of the potential investee organization)?

- Does the deal structure provide and/or ensure appropriate governance of the organization?

- Overarching strategy

  - For a fund: Are there plans to build a Fund 2 with income (follow-on funding)? What protection measures are in place for Fund 1 investors?

  - For other types of organizations: What is the potential investee organization's larger financing plan, and will it impact the deal under assessment?

FUNDRAISING

Assess the feasibility of the development of the deal and whether it is investment ready.

o What are the potential investee organization's fundraising needs and what are its fundraising plans?

  - What are the organization's fundraising targets and timeline?
  - What types of organizations are targeted?
  - Are there constraints on raising and investing capital, or on closing the deal?

o How many organizations have made commitments so far?

  - Who are the organizations committed to the deal? Why? And under what conditions?
  - What is the average commitment level to date?

REGULATORY REQUIREMENTS

Assess how the deal structure aligns with legal, tax, and other applicable requirements.

o According to whether the investment will be done as a mission-related Investment or as a program-related investment, what legal requirements apply? Assess which investment form best serves the investment opportunity and the investor.

o What is the legal structure of the investment vehicle?

o What key legal and regulatory requirements are required to close the deal?

[33]. The questions in this section are extracted or adapted from "ImpactAssets Issue Brief #2: Risk, Return and Impact: Understanding Diversification and Performance Within an Impact Investing Portfolio," by Jed Emerson. http://www.impactassets.org/files/downloads/ ImpactAssets_IssueBriefs_2.pdf

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