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Collaborating For Impact

Session Notes

Session: Bridging the Funding Gap, (June 9, 2:00pm)

Session Reporter: Josephine Ng

Moderator: Peter Witton, Director & Co-founder, Anthem Asia

Speakers:

- Clarissa Loh, Senior Director, UOB Venture Management
- Susli Lie, Head of Investments, YCAB Foundation
- Ding Li, Vice-President, Non-Profit Incubator
- Jack Knellinger, Principal, Co-founder, Capria

Key Takeaways:

- The definition for patient capital defers from organisation and country. It is also dependent on the limitation of the fund life, "whose" capital is being used and what type of investment is being done. As an example, China is only 3 years, whereas YCAB Foundation is typically 5-10 years.
- When in co-investing, different reporting requirements can lead to sloppy, inconsistent execution of project. Hence it is important to have at most 2-3 likeminded investors who are align in their goals.

Clarissa Loh

- UOB takes part in both conventional and impact investing
- Seeks to understand the motivations of the entrepreneur in starting the venture or business, the business model, and scalability – more so than in traditional deals. Equally focused on impact generation and financial return on investment.
- Internally, investments are classified as traditional or impact through strict criteria and methods like guidelines and questionnaires. When in doubt, seeks advice from the fund's impact advisory board which comprises experienced professionals in various fields. It assesses whether the concept will work, its sustainability, and whether the founders' intentions are genuine.
- Projects are selected based on an evaluation of general investability and impact assessment. Investability includes: 1) strength of management team, 2) robustness of business model, whether it can be scaled, how long it will take, and 3) exit potential. Six key risk factors to increase success rate: management, market, execution, barriers to entry, financial, and regulatory risks – will not invest in any deal with more than two high risk factors. On the impact side, prefer deals where income generation ability rather than consumption ability is improved as the business scales.
- Although most deals are outside Singapore, investments go into an Singapore holding vehicle. Singapore's regulations are relatively friendly for fund managers. There is trouble structuring deals in other countries because of lack of sophistication in terms of how they want to set up. Companies have to be correctly structured from the start if they want to be listed in the future. Frustration on both sides: investors because company takes too long, company because the money is not going in.
- Need something meaningful for investors but not to burden investees with too much reporting because they don't have much resources. Suggest that early on, find out metrics that can be tracked that are also useful to both that they agree on. Also, make use of qualitative interviews.

Susli Lie

- YCAB is a much smaller organisation and relative newcomer in the impact investing landscape. Fills the gap between the post-angel and pre-institutional investment rounds, making smaller investments that range from USD50,000 – 500,000. Faces difficulty in terms of size and readiness.
- Meets with entrepreneurs with a track record, who are still quite new but not in the ideation stage. Conversations are intimate; YCAB has no problems with surfacing deals. It invests in the potential of

the team: where they are going and their potential to solve an issue.

- For fund creation, authorities are moving towards an open regulatory environment but trickle down regulation like taxation is still catching up. One way around it is private equity. In terms of getting co-investors, we face restrictions like negative investment and having to operate in a convertible note environment.
- We help with capacity building but are upfront with limitations in technical expertise. This is where co-investors can come in, bring in other organisations who might not be investors but are good with the local network (domestic expertise). Foreign investors can help with export expertise. Provide bespoke services.
- Collaboration required for it to happen as it may be too expensive to complete alone. For YCAB, had one funded by Oxfam and used the funded report as baseline. It was much more comprehensive than anything we could've done on our own.

Ding Li

- Non-Profit Incubator (NPI) initially incubated charities/professional NGOs, until the end of 2007 when it started to include community-based organisations to stimulate Chinese volunteerism. Many incubated NGOs turned themselves into social enterprises in the end.
- NGO type of impact investing only started 12 months ago. Deal size is around USD200,000 – 500,000. Currently funds soft loans with signed agreements, until soft loans can be turned into equity.
- NPI does not fund ideas, only social enterprises with very good products and signs of a proven business model. Does a lot of outreach to assess potential social impact in terms of financial returns and how it is achieved. If gross margin is less than 30%, business is deemed unviable.
- No regulation about social enterprises in China in the foreseeable future, but it doesn't affect potential investments. Chinese policy is very tightly controlled in terms of international funding even for purely commercial purposes, hence quite impossible for international NGOs with no local partners. Important to have collaboration across Asia.
- People in China don't want to support projects done by NGOs, hence NGOs have to find their own survival strategy and develop some product or service for self-sustainability. Other NGOs might make use of crowdfunding, e.g. via smartphones or online campaigns.

Jack Knellinger

- Believes in advancing next generation of impact fund managers through 1) providing strategic guidance and direct feedback, e.g. fund documents, marketing strategies, etc., 2) LP positions, 3) connection into global networks.
- Capria actively identifies impact fund managers to join network. Looks out for: what's motivating the team, why they launched impact fund and built the firm, whether there is alignment on for-profit and impact DNA, competitive returns on the financial front. Considers track record, investing experience, and potential to operate at scale.
- Fund is evaluated on the impact side through three dimensions: need for the capital in the market, development of ecosystem, ultimate end-users of the products and services.
- Governments with interesting programmes can drive early-stage investing environment and get ecosystem going. Bad thing is that many can secure essentially free capital; not sure how many will be still standing in a few years.
- We work with managers at the front end of the business to come up with impact projections, similar to financial projections, and focus on aligning with metrics that are core to the business.