

Catalytic Capital Training Module 3: “Implement”

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Capital Consortium



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Special thanks to Amy Brakeman and Greg Neichin for their contribution

Catalytic Capital Series

01

Inspire

What catalytic capital is and why you should consider it in your portfolio

02

Inform

How to deploy catalytic capital, roles, uses, and case studies

03

Implement

How to set your portfolio up for catalytic capital, structure, analytical questions, and implementation

Overview

1

Family Office Implementation: Ceniarth

2

Individual Implementation: Amy Brakeman

3

Integrating Catalytic Capital in your Investment Policy Statement

4

Assessing the Need for Catalytic Capital

5

Resources

+

Conclusion

DISCLAIMER

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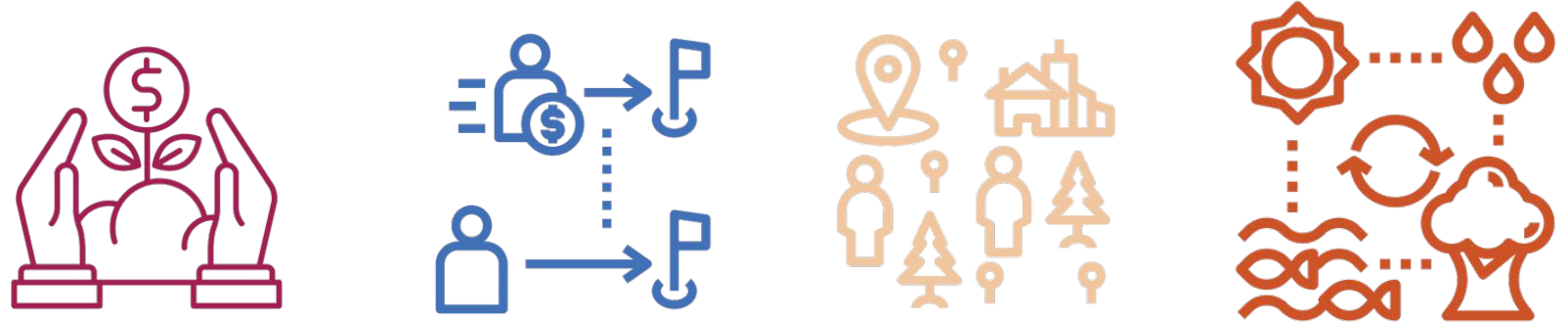
Who we are

We are a global community of high net-worth individuals, family offices and foundations from more than 25 countries who are active impact investors.

We curate a global community, enable peer-sharing, provide educational resources, and offer investment opportunities for our members, who use Toniic to amplify their impact.

Catalytic Capital

Catalytic capital is a subset of impact investing that enables impact that market rate capital cannot achieve, due to capital gaps



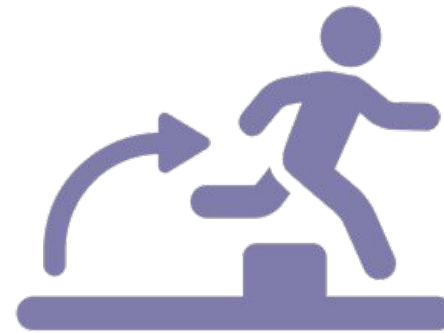
investments that accept
disproportionate risk *and/or* lower returns
relative to a conventional investment, in order to
generate positive impact
and/or enable third-party investment
that otherwise would not be possible

HNI and Family Offices role in catalytic capital

In 2021, Toniic received a grant from the Catalytic Capital Consortium (C3) to increase the knowledge, awareness, and use of catalytic capital among HNIs and FOs. Overall Toniic worked with over 90 investors to investigate:



Attitudes and motivations



Overcoming barriers

Structuring a portfolio for catalytic capital

Catalytic investments considered a sub-portfolio or “asset class” with different return and impact expectations than commercial investments.

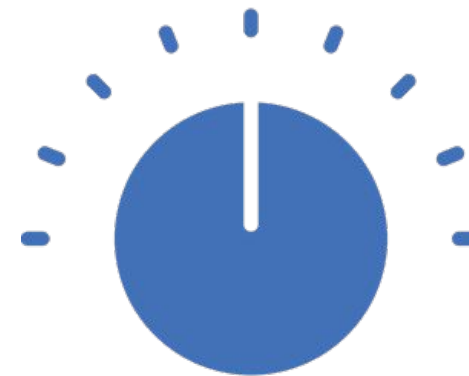
Segregate a catalytic portfolio

Investors create a sub portfolio allocation of capital that does not need to generate commercial returns.



Gradually integrate catalytic investments

Start adding catalytic investments to a commercial portfolio, and then “tune the dial” on the overall financial risk/return profile of their portfolio and evolving constraints.



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Lesson 1: Investor Case Study 1: Ceniarth



CeniARTH Case Study

Greg Neichin, Managing Director

October 2022

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Lesson 2: Investor Case Study 2: Amy Brakeman



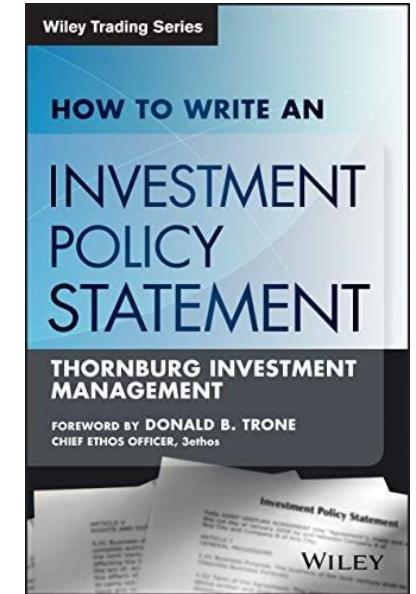
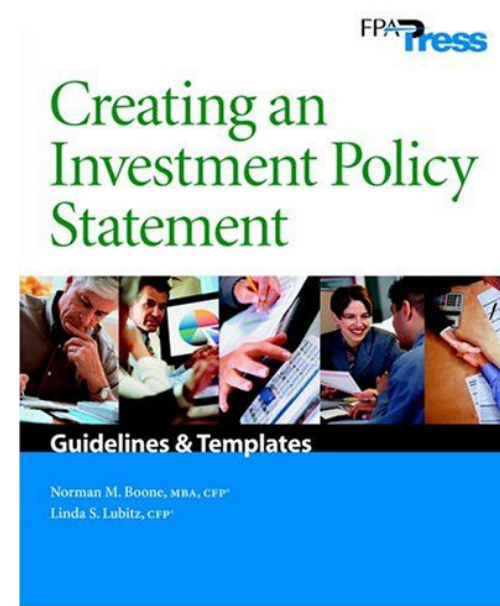
Amy Brakeman - Umsizi Fund

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Lesson 3: Integrating Catalytic Capital in your Investment Policy Statement

Integrating Catalytic Capital in your Investment Policy Statement (IPS)

An IPS outlines how, when, and where to invest so you can reach your financial and impact goals.

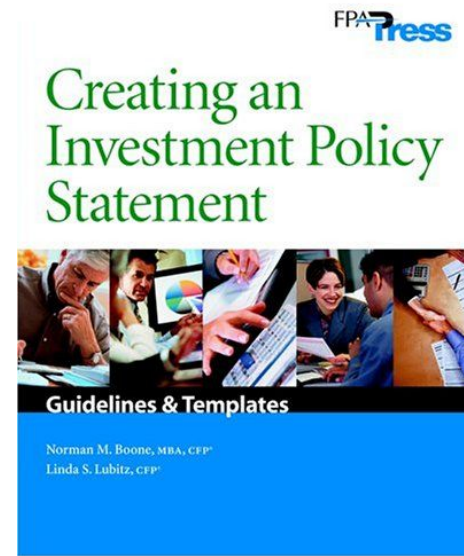


Applying Mission Focus to Your Investment Policy Statement through ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INVESTING

JUNE 2017



Integrating Catalytic Capital in your Investment Policy Statement (IPS)



Objectives

Asset allocation and investment strategies

Responsibilities

Evaluation

Investment Policy Statement: **Objectives**

Potential topics:

- Scope of Policy
- Vision/Mission/Values Statement
- Investment Philosophy
- Investment Goals
- Definitions of each investment strategy
- DEI Statement

Investment Policy Statement: **Objectives**

Defining what
you mean by
Catalytic

Mission/Vision/
Investment
Thesis

Portfolio Goals

Provide a clear definition of the different components of the portfolio, e.g.

Market Rate versus Catalytic

Investment Policy Statement: **Objectives**

Defining what
you mean by
Catalytic

Mission/Vision &
Investment
Thesis

Portfolio Goals

Mission and Vision that will
serve as a guiding principle.

Investment Policy Statement: **Objectives**

Defining what
you mean by
Catalytic

Mission/Vision/
Investment
Thesis

Portfolio Goals

Financial Goals:

- Risk Tolerance
- Targeted financial returns
- Time Horizon/ Liquidity

Impact Goals:

- Mission/Vision Alignment
- SDG Focus

Example:

“... high-impact investments ... justify a lower-than-market-rate financial return or a higher risk profile”.

Investment

Policy

Statement:

**Asset allocation
and investment
strategies**

Asset allocation guidelines are often driven by liquidity needs, risk tolerances, and suitability.

Some topics include:

- Investment Guidelines (Inclusionary, Exclusionary, Due Diligence)
- Transition Plan

Investment Policy

Statement:

**Asset allocation
and investment
strategies**

Asset Allocation Strategies

Is there a
transition plan?

Is catalytic capital invested
across all asset classes in your
entire portfolio?

Investment Policy

Statement:

**Asset allocation
and investment
strategies**

Asset Allocation Strategies

Is there a
transition plan?

Developing a catalytic capital transition plan, if there is one.

What is your 'current plan' and 'future plan'?

Investment Policy Statement: **Responsibilities**

Roles

Fiduciary Duty

- Who is responsible for determining, executing and monitoring the results.
- Describing the process for engaging and discharging external advisers.
- Describing the roles and responsibilities of boards and staff.
- Describing the process for reviewing and updating the IPS.

Investment Policy Statement: **Responsibilities**

Roles

Fiduciary Duty

Fiduciary Duty includes duty to the Vision/Mission expressed in Objectives

Catalytic investments made within the parameters of this IPS are within Fiduciary Duty

Example excerpt:

" ... fiduciary responsibility ... must include integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike."

Investment Policy Statement: **Evaluation**

Impact Reporting

Public Sharing

Impact reporting expectations

Investment Policy Statement: **Evaluation**

Impact Reporting

Public Sharing

What will you share externally?

Example excerpt:

“We seek to leverage our work through collaborative investing, co-investment, syndication, and knowledge-sharing. To that end, when legally permitted, [organisation will] share information on investment opportunities, portfolio performance, and market conditions with like-minded investors.”

Next steps

Create your own IPS based on the 4 sections shared or review your current IPS to see if your catalytic capital investment strategy is included in them

Browse through some of the IPSs available online or that are shared by Tonic members

If you're interested, you can read more about my report - linked in the Resource Guide:

https://bit.ly/catalytic_resources

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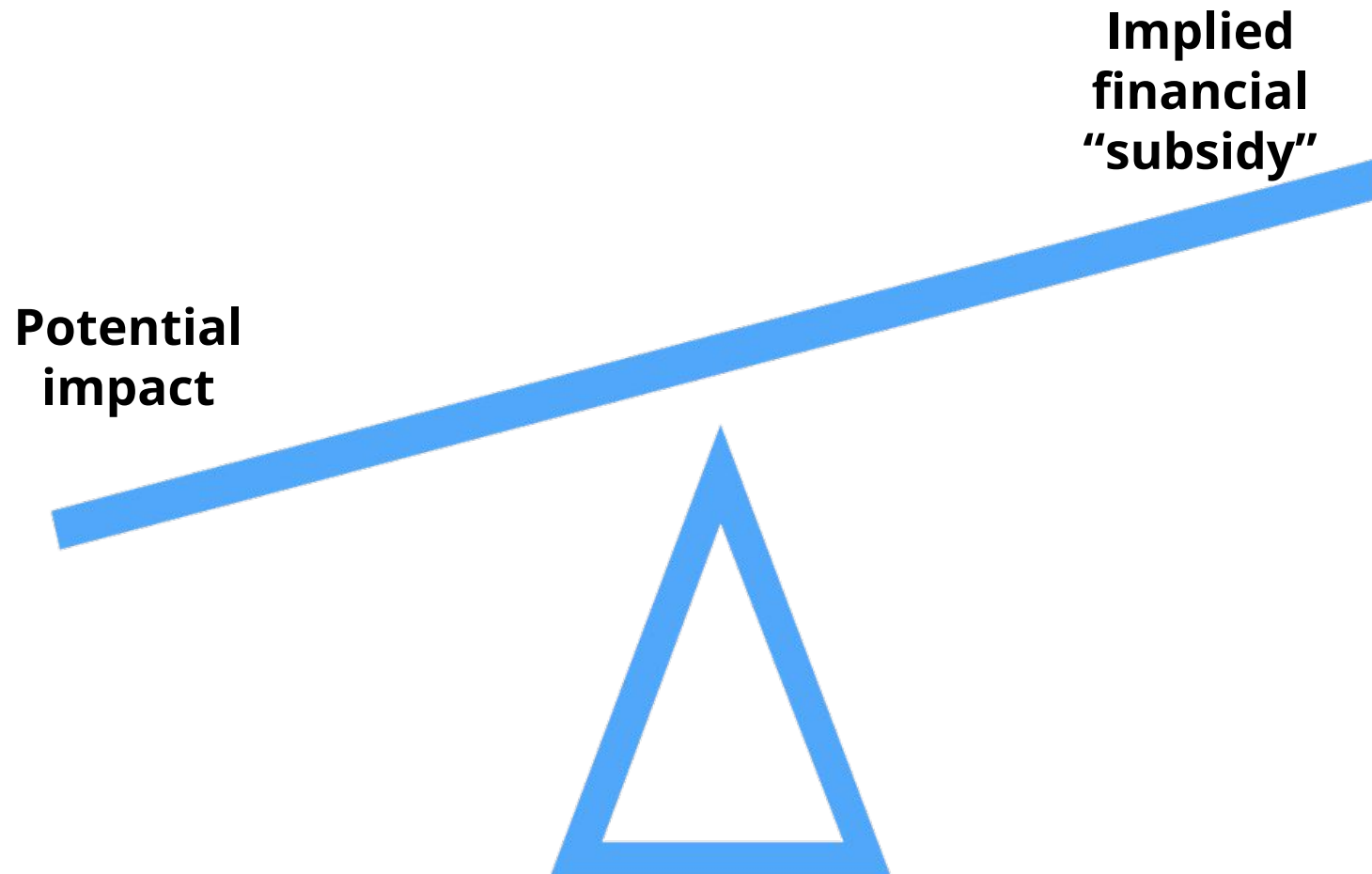
Lesson 4: Assessing the Need for Catalytic Capital

Catalytic Investment Decision Model

Helps to
evaluate the appropriateness
of providing catalytic capital
in a particular investment.

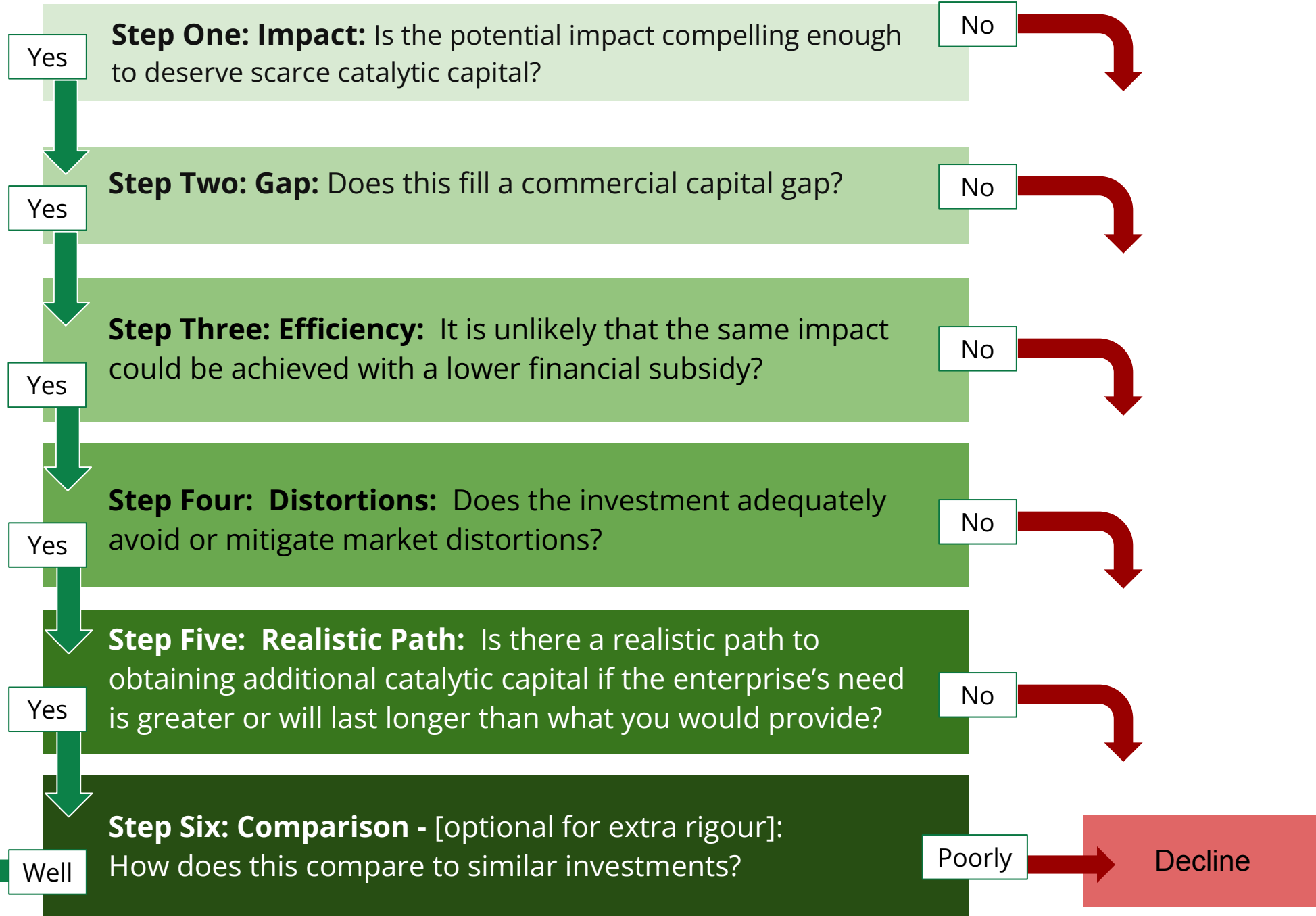
Which investments deserve scarce catalytic capital?

Goal of the Model





Catalytic Investment Decision Model



SANERGY



Example

Sanergy provides toilets in slums, then upcycles the waste.

Step 1: Impact

Is the potential impact compelling enough to deserve scarce catalytic capital?

Yes
↓

No
↘ Decline

Does the investment promise **significantly greater impact** than a market rate investment?

Build



578,034
Residents served
per day

Collect



17,000
Tons of waste
removed in 2022

Treat & Convert



30%
Increase in
crop yields

Step 2: Gap

Would the investment help fill a commercial capital gap?

Yes
↓


No
↘ Decline

- Reach underserved populations or geographies
- De-risk novel products, services, or financing models
- Provide a track record or adequate scale for a new solution or a new team
- Support a capital intensive business model or high transaction-cost investment
- Address historical biases in capital allocation

Step 3: Efficiency

Is it unlikely the impact could be achieved with a lower financial subsidy?

Yes



No


Are there less subsidized alternatives that could create the same impact?

Step 4: Distortions

Does the investment adequately avoid or mitigate market distortions?

Yes



No


Might this investment distort the market by displacing existing commercial players providing the same goods or services to the same population?

Step 5: Realistic Path

Is there a realistic path to obtaining additional catalytic capital if the enterprise's need is greater or will last longer than what you would provide?

Yes


No



Can you define progress milestones that would enable you to withdraw your catalytic capital investment and enable a transition to commercial capital at a later stage?

Step 6

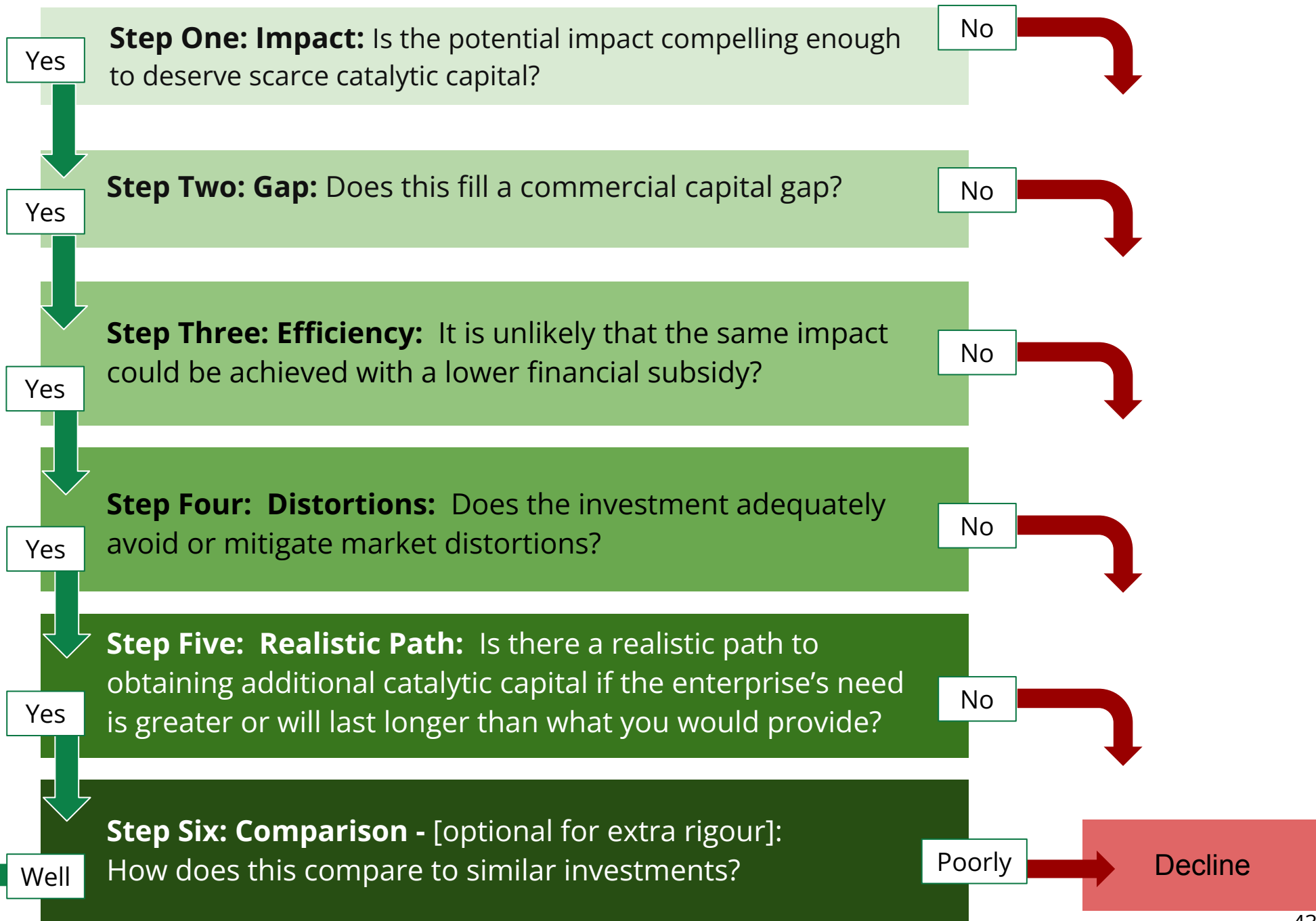
[optional for extra rigour]:

How does this compare to similar investments?

Yes


No


Catalytic Investment Decision Model



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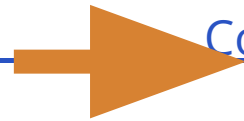
Lesson 5: Resources for Catalytic Capital Investors

Foundational Knowledge Resources

Access these resources here: https://bit.ly/catalytic_resources

Pushing the boundaries on the return continuum

[Across the Returns](#)
2016, Omidyar Network

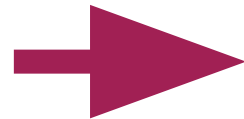


[Categorises](#) the expected financial return of its investments, ranging from market-rate investments, catalytic capital and grants.

Market level impact with pioneering new models, industry infrastructure, influencing policy.

Catalytic Capital foundational knowledge

[Catalytic Capital: Unlocking more investment and impact](#)
2019, Tidelive



Foundational knowledge and introduces the main gaps addressed by catalytic capital, forms, and stages

[C3 FAQ document](#)
2022, Catalytic Capital Consortium



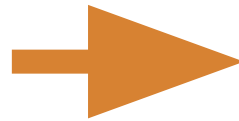
Practitioner's point of view, describes the role and use of catalytic capital by multiple investor types

Practitioner Content

Access these resources here: https://bit.ly/catalytic_resources

Guidance notes:

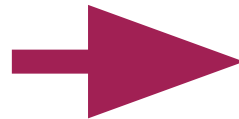
[Advancing Practice in Catalytic Capital Guidance Note 1—The Seeding Role](#) 2022, Catalytic Capital Consortium, Courageous Capital Advisors, and FSG



Implementation challenges and success strategies in the seeding role of catalytic capital.

Case Studies:

[MacArthur Foundation website](#) and [Catalytic Capital at Work](#)



Comprehensive list on website ranging from housing, education, renewables and conservation

[Convergence Capital](#)

Blended finance resources and case studies

Stay up to date on industry developments:

[Catalytic capital archive in ImpactAlpha](#)



Stay updated on the deals, people and strategies for using patient, risk-tolerant, concessionary and flexible

Database of Asset Managers

Access these resources here: https://bit.ly/catalytic_resources

[by Prime Coalition](#)

Please add any organization or investment product that you suspect might tackle any one or more of the intermediary roles described on the "intermediary roles" tab. There are no bad ideas and we'd love to include them in our survey during Fall 2022 to learn more about their work!					Contact Information			
Intermediary Org Name	Added to this database by	Date added to database	Intermediary org website	Org Description	Name (First, Last)	Title/Role	E-Mail Address	LinkedIn
Aligned Climate Capital	Lacey Johnson (Prime C3 Fellow)	5/31/2022	Link	Aligned invests in the people, companies, and real assets that are decarbonizing the global economy and its infrastructure. We believe this is an opportunity to generate strong financial returns, while also achieving meaningful environmental and social impact. Aligned executes multiple investment strategies across venture capital, distributed solar generation, and climate infrastructure to achieve strong returns and real impact.	Nneka Kibuule	Principal	Nneka@alignedclimatecapital.com	https://www.linkedin.com/in/nneka-kibuule/
Instiglio	Lacey Johnson (Prime C3 Fellow)	5/31/2022	Link	We aim to catalyze more effective public and development spending by pushing the frontiers of innovative financing, experimenting with new approaches, and sharing the expertise, design frameworks, and other insights and lessons we acquire every day. a non-profit impact bond and results-based financing intermediary organization	Sebastian Chaskel	Associate Partner	sebastian.chaskel@instiglio.org	https://www.linkedin.com/in/sebastian-chaskel/
Paladium Impact capital	Lacey Johnson (Prime C3 Fellow)	5/31/2022	Link	Impact investing focuses on both developed and developing economies, each with its unique set of challenges. We aim to bridge the gap between aid and impact investments specific to emerging markets. We facilitate the flow of capital into impact investment opportunities by capitalising on Palladium's global footprint, and unique visibility and expertise across numerous development projects, emerging markets, and sectors.	Preeth Gowdar		preeth.gowdar@thepalladiumgroup.com	https://www.linkedin.com/in/preeth-gowdar-7011201/
Private Infrastructure Development Group	Lacey Johnson (Prime C3 Fellow)	5/31/2022	Link	The Private Infrastructure Development Group ('PIDG') is a multi donor funded innovative infrastructure development and finance organisation, delivering pioneering, sustainable and affordable infrastructure in the poorest and most fragile countries throughout sub-Saharan Africa and south and south-east Asia	Marco Serena	Group Head of Sustainable Development Impact		https://www.linkedin.com/in/marco-serena-826aa956/
Cardano Development	Lacey Johnson (Prime C3 Fellow)	5/31/2022	Link	Cardano Development is an incubator and fund manager that streamlines capital through partnerships to establish and bring to scale pioneering financial risk management solutions.	Fleur Henderson	Senior Project Director	f.henderson@cardano.org	https://www.linkedin.com/in/%F0%9F%8C%8D-fleur-henderso-n-0a58242/

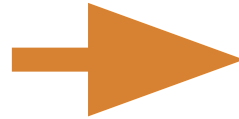
Alternatives Exit Strategies

Access these resources here: https://bit.ly/catalytic_resources



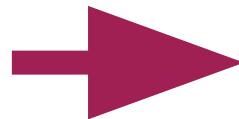
Investment instruments suitable for catalytic investments with uncertain exit strategies

[Revenue Based Financing](#)



Multiple of the revenues to repay an investment until a certain multiple or time period is reached

[Other Alternative Exits](#)



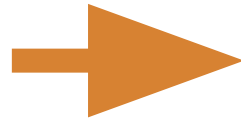
Use multiple mechanisms to facilitate exit strategies and tend to align repayment with company performance

Stakeholder Governance Structures

Access these resources here: https://bit.ly/catalytic_resources

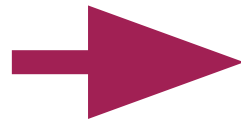


[Board Representation](#)



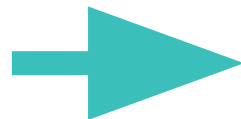
Gives a voice and decision power to beneficiaries groups, can be done with new share class

[Alternative Legal Entities](#)



Protect managers for not maximizing shareholders' returns

[Social Purpose Covenants](#)



Restrict the proceeds of a loan so that a company cannot deviate from its mission

[Stock Transfer Restrictions](#)



Prevent a company from having its shares sold to non aligned buyers

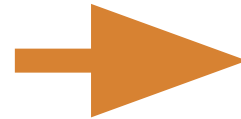
Financial Incentives for Additional Impact

Access these resources here: https://bit.ly/catalytic_resources



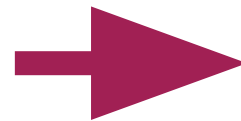
These financial incentives “buy” additional impact

[Reduction of Interest Rate](#)



Interest rate is lowered upon achievement of certain impact metrics

[Share Redemptions](#)



Investors renounces to some shares (redemption) upon achievement of certain impact metrics

[Carried Interest Aligned with Impact Outcomes](#)



The Fund managers anchors their returns to certain impact metrics

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Conclusion





Returning to the WHY

- To demonstrate that **certain kinds of impact are worth paying for**
- **To lead** more hesitant investors **by example**
- To use our money to build a **joyous and purposeful life**
- By investing primarily to **help others**

If not us, who?

If not now, when?

Thank you



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