



## POSITION PAPER

IMPACT INVESTING: A NEW ASSET CLASS OR  
A SOCIETAL REFOCUS OF VENTURE CAPITAL?

# Impact Investing: a new asset class or a societal refocus of Venture Capital?<sup>1</sup>

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## Abstract

The paper discusses, for the first time ever, impact investing as a refocus of venture capital on societal impact enterprises. After an overview of the different definitions given to impact investing and a conceptualisation of its investment targets, the paper analyses the similarities and differences between impact investing and traditional venture capital and discusses the reasons for public support to the development of the impact investing market, as governments have typically done for venture capital over the last decades, and presents the Social Impact Accelerator initiative launched by the European Investment Fund (EIF). Finally, the paper discusses the case of an impact investing fund, Oltre Venture, which is one of the first funds in Europe to have received the commitment of the EIF.

## 1. Introduction

Impact investing is the current trend and it is garnering an increasing attention from society, Institutions and businesses. From one side, actually, contemporary society is looking at impact investing as a new paradigm to cope with the economic crisis and the curtailed public budgets and answer to the more and more diversified needs of its citizens. From the other side, private investors are searching for new investment opportunities to channel the enormous liquidity available. Globally, indeed, private wealth has never been so high: in 2013 total global financial assets grew to \$ 225 trillion, tripling the world's GDP (McKinsey Global Institute 2014), even if only 22% of them is represented by equity investments, whose CAGR in the period 2007 – 2012 was -5,5%; high net worth individuals (hereafter HNWI) financial wealth reached the peak of \$ 52.6 trillion worldwide in 2014, of which 13,5% is invested in alternative

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<sup>1</sup> This position paper is adapted from the chapter "Impact Investing: a new asset class or a societal refocus of Venture Capital?" that will be published in Caselli, S., Corbetta, G., & Vecchi, V., (2015, forthcoming). *Public Private Partnerships for infrastructure and enterprise funding. Principles, Practices and Perspectives*. Palgrave Macmillan, USA.

assets, with a increase by 3,4% from 2013 (Capgemini 2014). It is also important to notice that driving social impact is important for 92% of HNWI's; this trend is lead by younger investors (under 40 years) and by those located in emerging markets.

Impact investing is also ranking high in the policy agenda of governments and international organizations. In 2013 the G8 established a dedicated taskforce and also the World Economic Forum launched an initiative to shed the light on this new phenomenon. The European Union, through the European Investment Fund (EIF), which is the European Investment Bank Group's specialist risk capital arm, launched the Social Impact Accelerator (SIA) initiative to foster the development of an European market for impact investing. Also global financial institutions, like J.P. Morgan and Credit Suisse have been the main promoters of this new investment approach. In 2008, in the wake of the financial crisis, these organizations alongside the Rockefeller Foundation launched the Global Impact Investing Network (GIIN), which in 2014 groups almost 200 members<sup>2</sup>.

According to the annual investors survey conducted by the GIIN, the total amount globally committed to impact investing in 2013 was \$ 10.6 billion, mainly invested (68%) through private equity and debt (The GIIN 2014). Forecast for the coming years shows double digit growth rates.

Impact investing is increasingly adopting the same investment models of traditional venture capital and private equity industry to answer to unserved, or under-served, social needs. Likewise venture capital, impact investing is aimed at financing and nurturing companies at an early stage of development. However, the focus is not on hi-tech sectors but mainly on enterprises able to cope with social and environmental challenges through innovative and entrepreneurial driven solutions. However, so far impact investing has been mainly perceived as a new investment approach, a way to attract and channel more resources into social ventures. Instead, in our opinion, it might be seen as a societal refocus of venture capital, which may help sustaining the generation of social innovation, exactly as venture capital typically has done for technological innovation so far.

Therefore, the aim of this position paper is to analyse, for the first time ever, impact investing in this perspective. After an overview of the different definitions given to impact investing and a conceptualisation of its investment targets, the paper analyses the similarities and differences between impact investing and traditional

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<sup>2</sup> Members as at November 2014; data available at <http://www.thegiin.org/cgi-bin/iowa/network/members/index.html>

venture capital and discusses the reasons for public support to the development of the impact investing market, as governments have typically done for venture capital over the last decades, and presents the Social Impact Accelerator initiative launched by the EIF. Finally, the paper discusses the case of an impact investing fund, Oltre Venture, which is relevant for different reasons. Firstly, it is one of the first two funds that, as of now, has received a commitment by the EIF. Secondly, it is useful to understand the boundaries between impact investing and other forms of social investing, as it has come across three development steps, from a pure foundation to a pure impact investing fund, passing through investments in hybrid organizations<sup>3</sup> by applying a venture philanthropy approach<sup>4</sup>. Finally, the challenges faced by Oltre Venture in the fundraising activity allow to discuss the profile and expectations of investors and their sceptical approach towards impact investing due to the investment blended value nature and the still conflicting relation between social and financial return.

## 2. Impact Investing

The term “impact investing” was coined by Rockefeller Foundation in 2007 referring to “a worldwide industry for investing for social and environmental impact” (Rockefeller Foundation 2012). Since then, many institutions, practitioners and scholars provide their own definition of impact investing, as summarized in Table 1.

**Table 1: Impact Investing definitions**

Author	Institution	Definition
<b>Freireich and Fulton (2009)</b>	The Monitor Institute with support of Rockefeller Foundation	<i>Actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor</i>

<sup>3</sup> Hybrid organizations are those that reach a condition of economic and financial sustainability thanks to a combination of resources, in part non-refundable grants (from philanthropists or the public sector) and in part loans or equity, at market or non market interest rates. They are often referred as social purpose organization (SPO), whose primary purpose is to create social value rather than shareholder value (EVPA 2014).

<sup>4</sup> Venture philanthropy is an approach that includes both the use of debt and equity instruments and grants and it is characterized by high-engagement, tailored financing, multi-year support, non-financial support (such as capacity building and managerial skills), involvement of networks, organizational capacity-building and impact measurement (EVPA 2014).

<b>Donohoe and Bugg-levine (2010)</b>	J.P. Morgan	<i>Investments intended to create positive impact beyond financial return</i>
<b>The Parthenon Group (2010)</b>	Report commissioned by Bridges Venture & GIIN	<i>Actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor</i>
<b>Grabenwarter and Liechtenstein (2011)</b>	IESE University	<i>Any profit-seeking investment activity that intentionally generates measurable benefits for society</i>
<b>Brown and Swersky (2012)</b>	Boston Consulting Group for Big Society Capital	<i>The provision of finance to organisations with the explicit expectation of a social, as well as financial, return</i>
<b>Credit Suisse (2012)</b>	Credit Suisse	<i>Investments made with the primary intention of creating a measurable social impact, with the potential for some financial upside. The investment may face some risk of financial downside, but no deliberate aim of consuming capital as with a charitable donation</i>
<b>Brest and Born (2013)</b>	Stanford University and Hewlett Foundation	<i>Actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market</i>
<b>World Economic Forum (2013)</b>	World Economic Forum	<i>An investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured</i>
<b>The Global Impact Investing Network (GIIN)</b>	GIIN	<i>Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return</i>
<b>Rodin and Brandenburg (2014)</b>	Rockefeller Foundation	<i>A middle way between philanthropy and pure financial investment. A means of using capital to drive financial value and social environmental impact simultaneously.</i>

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Source: (Vecchi, Cusumano, and Brusoni 2014)

According to the aforementioned definitions and daily practice, three are the main distinguishing features of impact investing (Brest and Born 2013; Rodin and Brandenburg 2014):

Intentionality of social and/or environmental impacts, that makes the difference from a pure financial investment;

Additionality, which means that the investment must increase the quantity or quality of the social or environmental outcome beyond what would otherwise have occurred in case of a traditional investment;

Generation of financial returns that marks the difference with a philanthropic approach.

The generation of financial returns alongside environmental and social impact raises the question of the existence of a trade-off between social and financial returns and the dichotomy between profit versus not for profit. This idea suggests that social impact is always at the expense of financial return but this is not true, at least in impact investing, where the positive correlation between the social value to be achieved and the financial sustainability of the underlying business model is prerequisite of any investment decision (Grabenwarter and Liechtenstein 2011). This very relevant issue in the current debate is going to be further analyzed in the following section.

### *2.1. The target of impact investing: societal impact enterprises*

To capture the target of impact investing and to understand the differences with other types of investments, it may be useful to refer to the concept of merit goods (Musgrave 1959), defined as commodities whose consumption generates positive externalities on individuals and society but many of them do not have the ability and willingness to pay (Musgrave 1987). Musgrave (1987) deemed merit goods desirable *“where evaluation of a good... derives not simply from the norm of consumer sovereignty but involves an alternative norm.”* Examples typically include the delivery of health services to improve quality of life and reduce morbidity, subsidized housing and education.

Governments have traditionally funded and incentivized the consumption of these goods, providing free of charge or underpriced services. Also the non-profit sector has supplied social impact services to those people that could not afford to buy them. However, governments on one hand are more and more budget constrained and traditional not-for-profit organizations on the other lack access to capital in order to build a sufficient scale to address social and environmental challenges they are facing.

The result is a sub-optimal provision of merit goods, which eventually results in a gap of value generated for society.

In order to bridge this gap and provide an answer to the more and more diversified needs of contemporary society new methods for advancing social innovation are required and Impact investing is one of them.

Impact investing indeed aims at building innovative and scalable business models, that can create economic and social value through innovation in products, services and processes. These innovations are “catalytic innovations” for creating systemic social change through scaling and replication, offering products and services that are simpler and less costly than existing alternatives (Christensen et al. 2006). Thanks to social innovations, merit goods may thus be transformed into private goods, for which end-users are able and willing to pay. This is the essential prerequisite that allows creating social impact with financial profit within organizations that can be defined *societal impact enterprises*, which are in the end the investment targets of impact investing and mainly operate in segments traditionally or potentially served by Governments and public authorities.

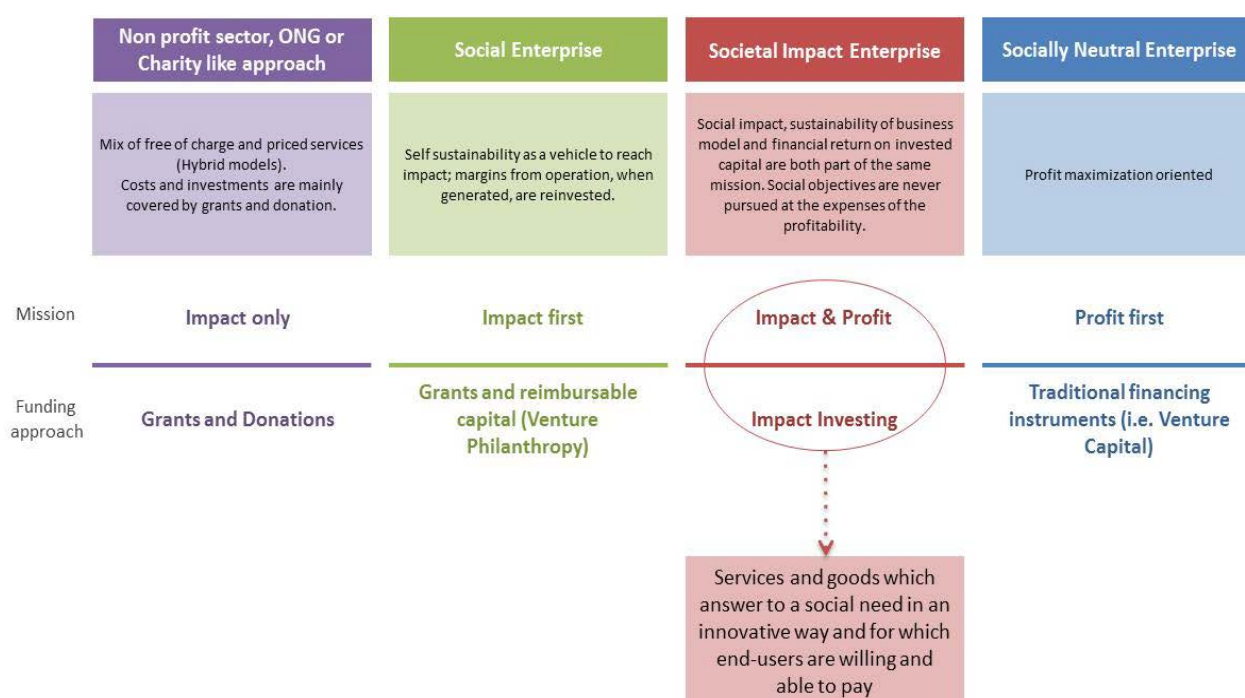
For *societal impact enterprises* the impact and the financial return on invested capital are both part of the same business mission and thus the social objectives are never pursued at the expenses of the profitability, as it happens in traditional businesses. Differently, *social enterprises* and *charities* put the impact at first and the financial sustainability and organizational resilience are mainly vehicles for better pursuing the social mission. Therefore, the measurement of social impact generated is less important for impact investing: if *societal impact enterprises* are able to generate the impact, thus serving a certain demand and pursuing their mission, then they will be profitable. Hence, a sustainable profitability, which also means fuelling investments to sustain the scaling up, can play as an indirect measure of societal impact. On the contrary, for *social enterprises* the impact measurement is essential to counterbalance the absence of other traditional performance measures and also to win the game of philanthropic – based funding attraction.

*Social enterprises* are in fact typical targets for venture philanthropy investments, whose approach includes both the use of reimbursable capital and grants, which are provided alongside multi-year non-financial support. Despite philanthropy and venture philanthropy are vital segment of impact financing, they cannot be part of a broader asset allocation strategy as they cannot reach scale through return-driven

growth of assets, which is instead the aim of impact investing (Grabenwarter and Liechtenstein 2011).

To better address these differences, Figure 1 shows a continuum where different types of organization are settled on the basis of the predominance of their mission, social or profit oriented. The figure highlights also the financing forms that are dominant in each segment of the continuum.

**Figure 1: The enterprise continuum and the target of impact investing**



Source: SDA Bocconi Impact Investing Lab, *Our Approach to Impact Investing*, available at [www.sdabocconi.it/impact](http://www.sdabocconi.it/impact)

### 3. Impact Investing: the new frontier of venture capital for societal impact enterprises

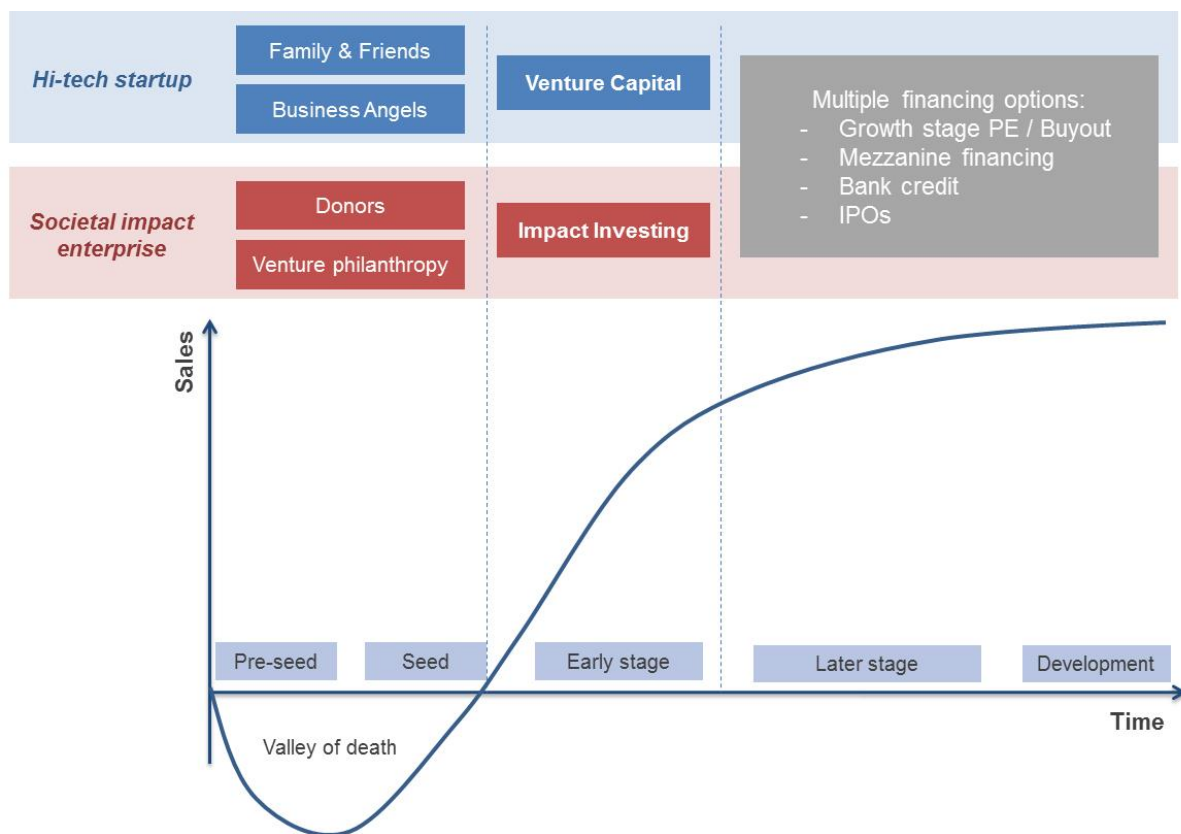
Likewise venture capital, impact investing is aimed at financing and nurturing companies at an early stage of development, when they mostly need equity capital to validate and scale their business model. But since the risk embedded in seed ventures is high, as well as the appraisal and monitoring costs, which are fixed regardless of the size of the deal, startups, both in the social and high tech space, face significant difficulties in accessing finance, which is generally known as “equity gap” (Mason 2009;



HM Treasury 2003; Karsai 2004). In traditional enterprises ecosystem, business angels and resources from the entrepreneur's family and friends usually cover the segment of seed financing, thus creating a deal flow for venture capital investors and reducing the risk behind their investment. In impact investing segment, given the newness of this investment approach, the equity gap is even more relevant but philanthropy and venture philanthropy resources may play an important role in supporting the creation of new innovative business models, playing the same role of family and friends for venture capital.

Figure 2 shows the development stage of a company, from the (pre) seed to the expansion, where the exit of venture capitals and impact investing funds can be pursued through different approaches, like for example by selling the shares to private equity funds or company entrepreneur or management.

**Figure 2: Impact investing, venture capital and early stage financing**



Source: Authors' elaboration

The application of private equity and venture capital financial models to impact investing is confirmed by GIIN figures, according to which 34% of the total capital globally available are dedicated to private equity investment (GIIN 2014). And, furthermore, this is confirmed not only from the investors' side but also from the fund managers' side, since a consistent proportion of impact investing fund managers have a background in traditional private equity or venture capital sector. For example, Bridges Ventures, pioneer impact investing firm in the UK, with more than £ 460 million of assets under management, was co-founded in 2002 by a venture capital entrepreneur and it is now headed by two managers, who both have cumulated experience in managing investment funds: the former at HSBC and Prisco Capital Group, and the latter at 3i<sup>5</sup>. Another fund, Impact Ventures UK, was launched in 2013 by Berenberg Investment Bank and it is led by the head of the Bank's UK clients<sup>6</sup>. In France, a managing director of Credit Suisse Asset Management launched PhiTrust Partenaires in 2003 and then, in 2012, PhiTrust Impact Investors, the branch dedicated to investments able to combine social and financial returns<sup>7</sup>. In Germany, the Social Venture Fund was launched in 2010 by three experienced entrepreneurs and was joined by another managing partner who had previously held the position of investment manager at Wellington Partners Venture Capital<sup>8</sup>. The case of Oltre Venture in Italy, which is analyzed in depth later in this paper, provides further evidences on the fund managers' shift from traditional venture capital space to impact investing, since the founder, as well as all other members of the team, have an extensive entrepreneurial and investment background.

Impact investing thus seems to be an attractive domain for venture capital market players, looking for new investment opportunities beyond double digit expected and rarely gained returns in hi-tech markets. Actually, looking at the return history of venture capital as an asset class, the average financial returns to investors have not been as high as expected especially in Europe where the market is smaller<sup>9</sup> and less developed than in the US. Therefore, impact investing can represent a new market for investors, where the lower risk profile of social innovation compared to the risk associated with technological innovation will be able to deliver more stable financial

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<sup>5</sup> Information available on firm's website <http://www.bridgesventures.com/>

<sup>6</sup> <http://www.impactventuresuk.com/>

<sup>7</sup> <http://www.phitrustimpactinvestors.com/index.php>

<sup>8</sup> <http://www.socialventurefund.com/eng/home/>

<sup>9</sup> Private equity and venture capital investments represented the 0,27% of GDP in Europe in 2013 (EVCA 2014).

returns in the long-term. Table 2 shows the average net return (IRR) earned by investors during different time horizons (1, 3, 5 and 10 years) and compares the performance in Europe and US of two main segments of the private equity industry. The segment venture includes investments at an early and therefore riskier stage of a firm's development, while buyouts refers to acquisitions of mature and profitable firms.

**Table 2: Horizon IRRs to 31.12.2013 for Europe and the US (funds formed 1980-2013)**

Fund Stage	Region	1-year IRR	3-year IRR	5-year IRR	10-year IRR
Venture	Europe	2.45	2.31	1.32	0.84
	US	14.87	4.35	5.86	5.03
Buyout	Europe	13.04	7.59	9.63	10.46
	US	19.62	11.46	13.52	9.64
All private equity	Europe	11.80	6.12	7.88	8.44
	US	17.79	9.92	12.1	8.91

Source: Thomson Reuters and EVCA

#### 4. Supporting the Impact Investment development in Europe: the EIF's Social Impact Accelerator

The quest for a “smart” growth, based on innovation and not relying on raw accumulation (Baumol, Litan, and Schramm 2007), has been pushing Governments, especially those in mature economies, to look at the enablers of creativity and innovation. Venture capital – thanks to its ability to detect new ventures, its direct involvement in the management of the enterprises funded – is widely recognized as a form of financial intermediation that can be a catalyst for innovation, enhancing the generation of new innovative firms and the capitalization of R&D activities<sup>10</sup> (Florida and Kenney 1988; Hood 2000; Kortum and Lerner 2000; Lerner and Watson 2008). Therefore, over the last decades, Governments have supported the development of the venture capital market through direct and indirect measures, involving the demand side (enterprises) or the supply side (funds) (European Investment Bank 2001). Among them the creation of public or public – private venture capital funds or Fund of Funds,

<sup>10</sup> Private equity and venture capital is thought to account by now up to 12% of industrial innovation in Europe (Popov and Roosenboom 2009).

which then invest in other VC fund, has been quite common (Mason 2009). At European level, the development of the Venture Capital is mainly pursued through the European Investment Fund (EIF), which is a Fund of Fund created by the European Investment Bank (EIB), whose mission is to be “*provider of risk finance to benefit of small and medium-sized enterprises across Europe*”.

Established in 1994 as a public – private partnership between EIB, the European Commission and a number of European public and private financial institutions, since 2001<sup>11</sup> EIF has been the leading investor in venture and growth capital funds in Europe. Acting as a pari-passu anchor investor<sup>12</sup>, EIF has provided equity resources to 521 vehicles since its inception<sup>13</sup>, backing emerging and established VC teams, as well as co-investing with business angels and family offices and addressing the need for financing of technology companies.

As social innovation has emerged as an outstanding paradigm to provide new solutions and instruments to cope with the economic crisis and other social problems which affect communities globally (Mulgan et al. 2007), the European Union included it as a target in its new strategic plan, Europe 2020 Strategy (European Commission 2010). Since impact investing may help to sustain the generation of social innovation, as venture capital typically has done for technological innovation, in 2013 EIF has launched the Social Impact Accelerator (SIA) to co-invest in impact investment funds.

Through SIA, EIF’s objective is to become the reference point for impact investing at European level and build up the existing market infrastructure in such a way that this emerging asset class is placed on a path to long-term sustainability (European Investment Fund 2014).

Leaded by the impact investing expert Uli Grabenwarter<sup>14</sup>, SIA is set up as a fund of funds with an initial amount of €52 million, which will provide equity financing to

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<sup>11</sup> In 2001 the EIF was transformed into the Europe’s largest venture capital investor with an injection of more than 2 billion euro (European Investment Fund 2002).

<sup>12</sup> An anchor investor is typically the first investor in any round, that provides subsequent investors a degree of confidence. The pari-passu rule requires that all the investors, including EIF, share exactly the same upside and downside risks and rewards and holding the same level of subordination, and exiting from the eligible beneficiary on the same terms and at the same time. Furthermore, EIF may not participate in funds where funding from non-market-oriented investors exceeds 50% of the fund’s total funding.

<sup>13</sup> EIF’s equity investments since inception as at November 2014; data available at [http://www.eif.org/what\\_we\\_do/equity/deals/index.htm](http://www.eif.org/what_we_do/equity/deals/index.htm)

<sup>14</sup> Uli conducted a 20-month research project on impact investing in collaboration with IESE University of Navarra in Barcelona and the Family Office Circle Foundation based in Switzerland (Grabenwarter and Liechtenstein 2011).

funds in the social impact segment, which strategically target *commercially viable social enterprise* across Europe<sup>15</sup>. *Commercially viable social enterprises*, or societal impact enterprises as defined in this paper, offer services and goods which answer to a social need in an innovative way and for which customers are willing and able to pay.

Beyond simple financial return targets, the social impact funds backed by EIF are required to pursue explicit social impact investment targets at the level of their portfolio companies. However, the target risk adjusted IRR required by EIF is between 3% and 5%, thus clearly excluding hybrid investments from the scope of SIA.

At the time of writing<sup>16</sup>, EIF has invested in two funds: the German-based Social Venture Fund (see Box 1) and the second fund launched by Oltre Venture in Italy.

### **Box 1: Overview of German-based Social Venture Fund**

#### **The background**

The Social Venture Fund was initiated in Germany by a group of three experienced entrepreneurs. The aim of the founding team was the creation of solutions for positive social change, which is not dependent on traditional donations, but rather on a structured and market-orientated approach. The Social Venture Fund investment target are social enterprises, which have innovative and entrepreneurial driven solutions for urgent social and environmental challenges.

#### **Social Venture Fund I**

Social Venture Fund I was launched as a pioneer impact investing fund in 2010 and received a total commitment of € 7.3 million mainly from wealthy individuals and families, family offices, foundations, asset managers, as well as church and development banks.

The fund investment strategy was to provide expansion capital to sustainable social business, with a geographical focus on German speaking regions and co-investments in developing countries and Eastern Europe with local strategic partners. Fund I made 5 investments with an average ticket size of € 0.5-1 million. Investments are not fully exited but the expected IRR from divestments is 5-6%.

#### **Social Venture Fund II**

Social venture Fund II reached final closing in 2013 with a total fundraising of € 22.5 million. Less than 50% of total commitment was provided by EIF-SIA, the other part came from private investors. Many investors from Fund I gave a commitment to Fund II.

Fund II will target an IRR of 5-6%; average ticket size will be € 0.5-1 million.

Fund II will invest Europe wide in three main areas:

- Alleviation of human suffering, for example the fight against poverty, the support of those who are sick, orphans, those who are socially excluded;
- Work and education, for example innovative education concepts, training of marginal groups and education of teaching staff for the advancement of

<sup>15</sup> For more info, visit [http://www.eif.org/what\\_we\\_do/equity/sia/index.htm](http://www.eif.org/what_we_do/equity/sia/index.htm)

<sup>16</sup> November 2014

structurally weak regions;

- Buildup of lasting means of subsistence, for example renewable energy, energy efficiency, sustainable agriculture, water supply, environmentalism and the protection of species, nutrition and consumer protection issues.

For more info: <http://www.socialventurefund.com/eng/home/>

## 5. Oltre Venture: the first Italian Impact Investment fund

### 5.1. The origins

As written earlier, Oltre Venture is now, at the time of writing, one of the first Impact Investment fund in Europe. It was founded in 2006 by a 20 year-experienced private equity entrepreneur. The root of Oltre Venture dated back in 2002, when its founder launched Oltre Foundation, with the aim of supporting the strategic development of not for profit organizations, such as:

Comitato Inquilini (support for young people in a deprived area of Milan);

CGM (an important network of Italian social cooperatives);

Cooperativa La Meridiana (active in the elder care business);

Yoni (a local low cost healthcare service);

La Cordata (active in the social housing).

In January 2004, Oltre Foundation, alongside other leading European venture philanthropy investors, gave the rise to the European Venture Philanthropy Association (EVPA) to promote the Venture Philanthropy in Europe.

Thanks to the activity done through the foundation, the team of Oltre gained a deep understanding of different charity and social business models and forged strong relationships and a reputational network within the Italian social sector. Therefore, leveraging these resources, Oltre Venture turned in 2006 into a new innovative investment fund, paving the way to what would have been named later “Impact Investing” by the Rockefeller’s Foundation (Rodin and Brandenburg 2014).

### 5.2. Oltre Venture Fund I

One of the first presentations of Oltre Venture, dated 2006, describes the aim of the initiative as follows.

Invest into companies able to become financially free standing, leveraging revenues generated on the market, preferably from private sources, offering solutions different from both traditional private equity and philanthropy and therefore tackling two
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emerging issues:

- The increasing fragilities in the society, even in rich areas, as for example in the North of Italy;
- The entrepreneurial development need widespread in the non profit sector.

Offer to the increasing private wealth an investment opportunity, which for the first time will be able to match the social and the economic return.

Source: Oltre Venture institutional presentation, 2006

Oltre Venture I represented a first attempt to overcome traditional philanthropic approach towards the social sector and has demonstrated that impact investing could be an opportunity to channel into new and sustainable businesses the enormous liquidity available in Europe and worldwide. The investment's targets were: real estate investments for social activities (social housing) and services (healthcare, microcredit, social care) with a mix of greenfield (seed/start-up phase) and brownfield/expansion (investments into already existing social businesses). The fund target size was € 12 million, with a duration of 10 years and an investment period no longer than 4 years. Oltre Venture I reached a total commitment of € 7.5 million from 22 equity investors, mostly HNWIs, entrepreneurs and foundations, who accepted this challenge mainly with a philanthropic mindset.

Due to the small size of the fund, operational expense was covered by the founder and not by the management fee, as it generally happens in traditional fund.

Oltre Venture I focused on 3 main investments, representing 66% of the total portfolio: PerMicro spa, Sharing srl and Società e Salute Srl (See Box 2).

Even if they can be considered success cases, two of them (Permicro and Ivrea24) have never had a foreseeable upside since inception, as highlighted in the portfolio snapshot presented in Table 3. However, they are the clear proof of the team's ability to develop and manage new business models and attract further investors through the creation of success stories (i.e. PerMicro has raised further € 7.5 million of equity investment). Società e Salute is the fund's star investment and it is likely to offer positive financial returns that will be able to make up for some capital losses. The first exit was completed in 2012: Ivrea 24 sold the building it owned to the real estate fund Piemonte C.A.S.E., for an amount equal to the original investment.

**Table 3: Oltre Venture I portfolio snapshot**

	Investment (€)	Portfolio Allocation (%)	Realized Divesture (€)	Expected Divesture (€)	Multiple
<b>Social Housing</b>					
Ivrea 24 Abitare Sostenibile spa	1,200,000	16,9%	1,200,000	1,200,000	1.00
Sharing srl	112,000	1,6%	0	112,000	1.00
<b>Elder Care</b>					
Concordia spa	300,000	4,2%	0	300,000	1.00
<b>Microfinance</b>					
PreMicro spa	875,000	12,3%	0	875,000	1.00
MVH	300,000	4,2%	450,000	450,000	1.50
Microventures SA	30,000	0,4%	0	60,000	2.00
Eticredito Banca Etica Adriatica spa	200,000	2,8%	0	200,000	1.00
<b>Health Services</b>					
Società e Salute srl	2,571,012	36,3%	0	3,600,000	1.40
Ambulatorio dentistico Boccaleone	130,000	1,8%	0	50,000	0.38
MediCo S. coop. Sociale a rl	180,000	2,5%	180,277	180,277	1.00
Mitra - Family Dentist srl	150,000	2,1%	0	150,000	1.00
<b>Access to Labour Market</b>					
Personal Energy srl	742,000	10,5%	0	0	0.00
Fraternità Sistemi Scs	300,000	4,2%	0	330,000	1.10
<b>Total</b>	<b>7,090,012</b>	<b>100,0%</b>	<b>1,830,277</b>	<b>7,507,277</b>	<b>1.06</b>

Source: Oltre Venture, 2014

**Box 2: Description of Oltre Venture I three main investments****PerMicro**

PerMicro is the first Italian microcredit experience. Its business model has been recognised and rewarded also at European level (European Microfinance Network). PerMicro set up 12 branches mostly in northern Italy, and thanks to the entrance in its capital structure by BNL Bank (BNP Paribas Group), PerMicro has been receiving debt funding by BNL itself at a lower than market interest rate, as it is backed by the BNL CSR (Corporate Social Responsibility) Plan.

It represents a unique attempt on the Italian territory to combine economical sustainability with the supply of financial inclusion to non-bankable people.

**Sharing**

Sharing has realized in Turin the most important temporary social housing project ever realized in Italy, in partnership with the municipality and other important local associations.

In September 2011, a building was opened to the public, composed by 183 apartments for a total of 470 accommodations destined to different users (students, relatives of in-patients coming from other cities, single mothers with children, young



couples that cannot afford to pay rents at market level).

The company has recently been awarded a tender for the management of two more building complexes in Turin: Cascina Fossata (temporary social housing) and Borgo San Paolo (student housing).

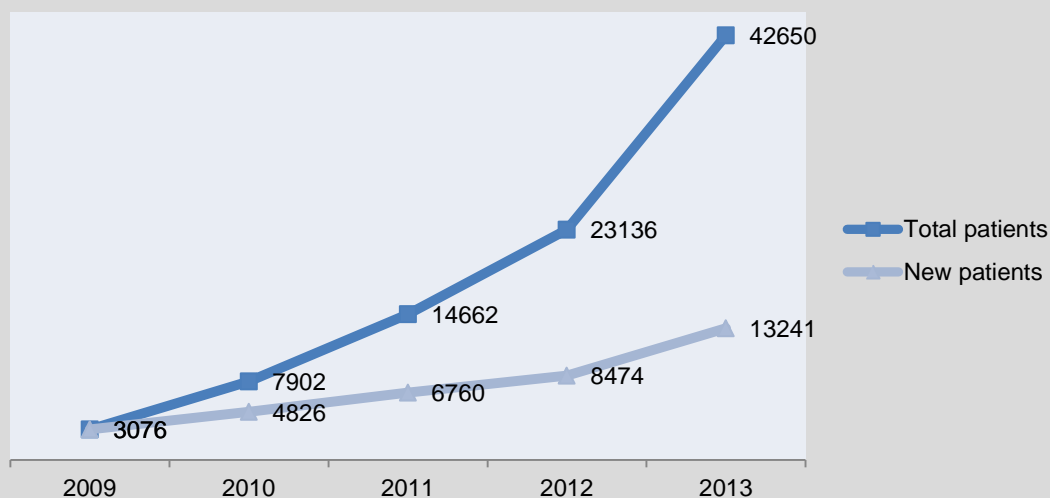
### **Società e Salute**

Società e Salute manages Centro Medico Santagostino (CMS) supplies medical care services in many ambulatory medical areas with excellent quality and at affordable prices. CMS covers the supply gap in the area of health services, which was supposed to be covered by the Italian National Healthcare Service (mostly in the area of dental care and psychological assistance), offering services at prices slightly higher than the public sector, but at a significantly higher quality level and with significantly reduced waiting lists.

CMS offers a new model in which the centre takes care of its patient in an integrated manner, diminishing his/her costs and increasing his/her satisfaction.

The centre is in constant growth and represents a novelty within the Italian healthcare sector.

**Figure 14.3: Evolution of patients at CMS**



Oltre Venture I portfolio combined investments with different profiles. For example, PerMicro can be regarded as a hybrid investment, since BNL bank supports PerMicro through its CSR budget. For this reason, this investment is barely replicable and it can be considered a typical venture philanthropy investment. On the contrary, Società e Salute is a financially free standing business, fully replicable, which has actually represented the reference case for the fund raising of Oltre Venture Fund II, where the EIF has invested € 10 million.

### 5.3. Oltre Venture Fund II

The target size of Oltre Venture Fund II is between € 20 and 25 million, of which € 10 million invested by EIF-SIA. The fund has a vintage of 10 years, extendible to 13, and an investment period of 5 years. The management fee, to cover operating cost, has been fixed at 3% of the amount of the fund, gradually reducing to 1,5% from the sixth year. The fund invests capital mainly in the form of equity. In addition, also loans and quasi-equity instruments could be used to channel funds into target companies. The equity ticket should be between 500.000 and 3 million Euro.

According to the target risk-adjusted IRR negotiated with EIF, Oltre Venture II will invest:

Where public services can't meet the evolution of population needs, such as in the healthcare, education, professional training and employment, student houses;

Where there is a potential of innovation and an expected growing demand, such as in agriculture and food distribution, tourism, lighter and more flexible residential care for the elderly;

Where the lack of capital hampered the economical and entrepreneurial development, such as in Southern Italy, suburbs of large cities.

Oltre Venture II aims at promoting the development of private services as value for money alternative solutions to publicly funded services, which are more and more unable to meet the diversified needs of contemporary society.

Oltre Venture II will certainly have a lower risk compared to Oltre Venture I, which made pioneer investments. The new fund, thanks to the higher funding available, will be able to finance *societal impact enterprises* at early-stage, as opposed to the first fund, which invested mainly in small seed-stage investments.

However, despite the lower risk, the exit may be challenging for Oltre II. Some investments may be of interest of industrial partners, in other cases shares redemption may be realized by the founder entrepreneurs. Even if Oltre Venture II has received the EIF commitment, private investors have seemed suspicious towards impact investing. Actually, many investors and analysts are not yet able to position impact investments in their portfolio strategies and sometimes this class of investments does not fit with their risk-assessment procedures, making the investment decision longer if not barely impossible. One institution invested for example € 1 million in Oltre Venture II as an experimental investment, but also because there is a long-term friendship between the fund manager and the founder of Oltre and however the investment seems to be still perceived as CSR. Public companies, big private corporates and banks generally

prefers traditional CSR to Impact Investing, because if the CSR investment/project does not generate any relevant impact it can be however considered an effort to make good. On the contrary, if the Impact Investing does not reach the target IRR, despite the impact generated, it may be considered a wrong investment and therefore able to negatively affect the reputation of the manager who took the decision and of the company, especially when it is funded by the budget dedicated to CSR initiatives.

Also private foundations resulted hard to convince, because in some cases they have asked to be involved in the investments decision, thus violating the independence principle of the investment company. Different it is the approach of family businesses, where the family is deeply involved in all the managerial processes and investment decisions of the company.

Interestingly, the fund raising of Oltre Venture II has shown that potential investors seem to prefer inflated target returns that help them to make the investment decision, instead of transparent and realistic expected IRR, rooted in the average trends of the European venture capital market.

## 6. Conclusions

The Oltre Venture case clearly shows that the attraction of stable financial resources to sustain the development and expansion (or scalability) of organizations aimed at tackling some societal needs requires business models capable to reach certain level of financial returns, coherently with the risk embedded.

The pursue of these returns in social sectors requires the focalization on certain societal needs and society's targets, where thanks to different levels and degrees of innovation the cost-effectiveness condition is met and maintained. Only by focusing the investment plan on societal viable enterprises as the Centro Medico Santagostino, Oltre Venture has been able to get the commitment of EIF, which works according to market rules.

Hybrid organizations and the generation of a blended value are not suitable to attract stable financial resources, as the concept of social return remains full of subjective implications, despite any attempt to reach a universally valid system for its measurement.

This does not mean that these hybrid organizations have no space of development, but only that their development and financing must rely on a combination of financial sources, with a significant role for philanthropy and hopefully CSR, through

a venture philanthropy approach, which is beneficial also to build resilient organizations with a narrow local focus but a straightforward orientation to impact generation.

Only thanks to the effort of philanthropy and venture philanthropy it will be possible to find business models suitable to attract the resources of market investors, thus freeing resources to be further invested in the pre-seed stage, where the risk embedded in the experimentation is very high. The role of impact investing is then to sustain the expansion/scalability, through equity but also a hands-on approach. This is exactly, however, what happens in for traditional start ups and actually in this paper we have shown that impact investing can be considered a new frontier for the venture capital industry.

Further evidence based research will be certainly useful to better understand the impact investing and therefore to contribute to its development, as it seems to be a worth approach for the contemporary society, which is desperately looking for ways to reach sustainable and inclusive development. For this reasons it is also important the effort put in place by several Institutions and organizations across the world to sustain the development of an appropriate deal flow of *societal impact enterprises* able to attract funds and to demonstrate that “it is possible” to combine profit and impact for the society.

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