CASE STUDY

OLTRE VENTURE: THE FIRST ITALIAN IMPACT INVESTMENT FUND

Oltre Venture: the first Italian Impact Investment fund

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The Origins

Oltre Venture is one of the first Impact Investment fund in Europe, founded by Luciano Balbo back in 2006.

Mr. Balbo has been a private equity entrepreneur since 1983. In 1988 he co-founded BS Private Equity and in 2000 Magenta Investimenti, playing as pioneer in the Italian Private Equity and Venture Capital industry and contributing to its birth and first development.

The formal beginning of the Private Equity Industry in Italy, in fact, can be dated back to mid-80s and, notably, in 1986 when AIFI – the Italian Association of Venture Capital and Private Equity – was established (Banca d'Italia, 2009).

In 2002, Mr. Balbo switched from Private Equity to Venture Philanthropy and founded Fondazione Oltre, which, since its foundation, supported continuously and proactively not for profit organizations and helped them with their strategic development.

In particular, Fondazione Oltre supported:

- ✓ Comitato Inquilini (support for young people in a difficult neighbourhood of Milan);
- ✓ CGM (important network of social cooperatives);
- ✓ Cooperativa La Meridiana (active in the elder care business);
- ✓ Yoni (local low cost healthcare service);
- ✓ La Cordata (social housing).

In January 2004, Mr. Balbo along with some friends and venture philanthropists (Stephen Dawson, Michiel de Haan, Doug Miller and Serge Raicher) formally launched the European Venture Philanthropy Association (EVPA) to promote Venture Philanthropy in Europe.

Later, in the same year, Mr. Lorenzo Allevi, now the managing director of Oltre Venture, joined Fondazione Oltre.

Thanks to the activity done through Fondazione Oltre, Balbo and Allevi gained a deep understanding of different charity and social business models and forged strong relationships and a reputational network within the Italian social sector.

With this strong background, in 2006 Mr Balbo decided to raise a new innovative investment fund, Oltre Venture. Even this time he acted as pioneer: Oltre Venture actually was the first example of Impact Investing in Italy, founded a year ahead of 2007, when the term "Impact Investing" was first coined at Rockefeller's Bellagio Centre (Rodin & Brandenburg, 2014).

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 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 prove that Impact Investing could be an opportunity to channel into new and sustainable businesses the enormous liquidity available in Europe and worldwide.

Globally, indeed, private wealth has never been so high: in 2013 the High Net Worth Individuals (HNWIs) reached an overall wealth of 52.6 trillion US$ and expanded by nearly 2 million individuals (Capgemini, 2014). In Italy, HNWIs grew by 15.6% in 2013 compared to 2012, reaching the peak of 203,200 individuals. See **Annex 1 – HNWI trend worldwide**.

“When Oltre Venture was established, Mr. Balbo says, the overall wealth of Italian families was about 8.2 trillion Euro. Five times more than the national GDP and the 20% of it was liquid (cash and cash equivalent investments) and concentrated in 1.5 million of families. However, philanthropy was a tiny segment in Italy, weighting less than 0.5% of GDP. On the contrary, the not for profit sector had always been characterized by a vibrant dynamism, deeply rooted in local communities and therefore with a great capacity of understanding social needs”. See **Annex 2 – Not for Profit Sector in Italy**.

At the time of Oltre Venture launch, investments 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 Euro, 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 Euro from 22 equity investors, mostly HNWIs, corporate partners and foundations.

“The size certainly didn’t allow sustaining an average management fee of 2-3%, Mr. Balbo says, and therefore I decided to cover personally the majority of management expenses. Oltre Venture I was one of the first Impact Investing experiment in Europe and certainly the first in Italy and, even if the aim was to fund promising financially free standing business ideas, the fund actually was deeply rooted in a philanthropic mindset, especially from the side of my investors”.

Oltre Venture I focused on 3 main investments, representing 66% of the total portfolio: PerMicro spa, Sharing srl and Società e Salute Srl. See **Annex 5– Oltre Venture Fund I**.

These three are all to be considered success cases, although two of them (Permicro and Ivrea24) have never had a foreseeable upside since inception. They are nevertheless the 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 have raised further € 7.5 million equity). Società e Salute is the fund’s star investment and 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.

“Oltre Venture I portfolio combined investments with different profiles, Mr. Balbo says. PerMicro is for example a hybrid investment. Actually, BNL bank, which supports PerMicro through its CSR budget, provides the funding at an interest rate lower than the market, and this makes PerMicro business model sustainable. For this reason, this investment is barely replicable and it can be considered a typical social mission related investment. On the contrary, Società e Salute is as a financially free standing investment, fully replicable. Therefore, it is certainly a reference case for the fund raising of Oltre Venture II, where the European Investment Fund (EIF) invested 10 million Euro as anchor investor. The EIF asked only for financially free standing investments like Società e Salute, with a risk adjusted IRR between 3%-5%. This clearly excludes hybrid investments, with collateral and roots into CSR and traditional Venture Philanthropy, from the scope of pure Impact Investing initiatives".

Lorenzo Allevi, managing director of Oltre Venture, underlines the main lessons learnt from Oltre Venture I: "Applying the Venture Capital model to the social sector and thinking of it as an industry has proved to be a successful approach. However, the market for social innovation is still unexplored in Italy: there are still few innovative and ambitious investment opportunities and many of them require complete strategic and management changes.

Non-profit organizations generally do not have suitable mindset to develop sustainable economic activities. Nevertheless, some people from the non-profit sector can be attracted to our initiatives and bring important contributions. For this reason, Oltre Venture needs to work with an hands-on approach. Thanks to our ability to develop successful social business models, we have been experiencing an increased interest towards our ideas and business models and more companies and highly-talented people are looking at us and are willing to invest and participate in these new initiatives".

Oltre Venture Fund II

With the experience gathered with Oltre Venture I, Balbo and Allevi decided to launch Oltre Venture II, which is one of the first funds to have received the EIF investment, thanks to the Social Impact Accelerator (SIA) initiative. See **Annex 6 – The Social Impact Accelerator**.

The target size of Fund II will be between 20 and 25 million Euro, of which 10 million Euro invested by EIF-SIA. The fund will have a duration of 10 years, extendible to 13, and an investment period of 5 years. The management fee will be 2,5% in the first 4 years, gradually reducing to 1,5% of invested capital from the sixth year.

The fund will invest 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 will be between 500.000 and 3 million Euro.

"Oltre Venture II, says Mr. Balbo, will have a lower risk compared to Oltre Venture I, which made pioneer investments. The new fund, thanks to the higher size and therefore tickets, will be able to finance social enterprises at early-stage, when they mostly need capital to support a step-up in capabilities, thus contributing to bridge the financing gap between start-up and scaling phase, which affects most social businesses in their development (see **Annex 7 – The Strategic Financing Gap**).

On the contrary, Oltre Venture I made almost small seed-stage investments. For example, we couldn't invest in a very high-potential social enterprise, which developed an online job matching portal for people with disabilities, despite its clear social impact and the promising financial figures. They were seeking 1 million Euro investment, which was a too large ticket for us, and which they finally received from a traditional VC fund.

Despite the lower risk, the exit may be challenging for Oltre II. Some investments may be of interest to industrial partners and trade buyers. Another possible exit strategy will be share redemption."

Oltre Venture II fund raising process is still ongoing. Despite the commitment of EIF, private investors are demonstrating to be suspicious towards Impact Investing.

"Things are rapidly changing, Mr. Balbo says, but impact investing is still a small niche: many investors and analysts are not able to position impact investments in their portfolio strategies and sometimes this class of investments doesn't fit with internal risk-assessment procedures, making the investment decision longer if not barely impossible.

This was clear to me during the secondo fund raising. If institutional investors do not have a dedicated portion of resources deliberately allocated on impact investing, therefore with precise procedures to be used to assess investments and to approve them, it is extremely hard to get money from them. The same is for banking foundations, a relevant potential source of funding for social business in Italy. In this case legal barriers still exist (see **Annex 8 – Italian Banking Foundations**).

One fund invested 1 million Euro in Oltre Venture II because it wants to approach impact investing, but also because there is a long-term friendship between me and the founder and however the investment is still perceived as CSR.

Also, when I approached public companies and banks, it was hard to convince CEOs. Once, the CEO of a big international bank told me that he prefers traditional CSR to Impact Investing, because if the CSR policy doesn't generate any relevant impact it is however considered an effort to make good. On the contrary, if the investment in Oltre Venture, thus a proper investment, doesn't reach the target IRR, despite the impact generated, it may be considered a wrong investment and therefore it could negatively affect the image of the company.

Also private foundations are hard to convince, because they may ask 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 managerial processes and investment decisions.

During the Oltre Venture II fund raising I collected also some funny considerations about target IRR. I've always based my strategy on transparent and realistic figures, rooted in the average trends of the European Venture Capital market. Some potential investors, however, suggested me to stack the deck and inflate expected IRR in order to help them to take the investment decision (see **Annex 9 – Trends in European Private Equity Industry**)".

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, that are more and more unable to meet the diversified needs of contemporary society, especially in Europe where public budgets are very curtailed and Governments need to make their expenditures more sustainable. This does not mean working against the government, but, where possible, together with it through Public-Private Partnership, in order to help it, under risk-sharing and performance based contracts, to leverage its under-used assets or to manage more efficiently public resources (see **Annex 10 - Business Government Relations & Impact Investing**).

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Annex 1 – HNWI trend worldwide

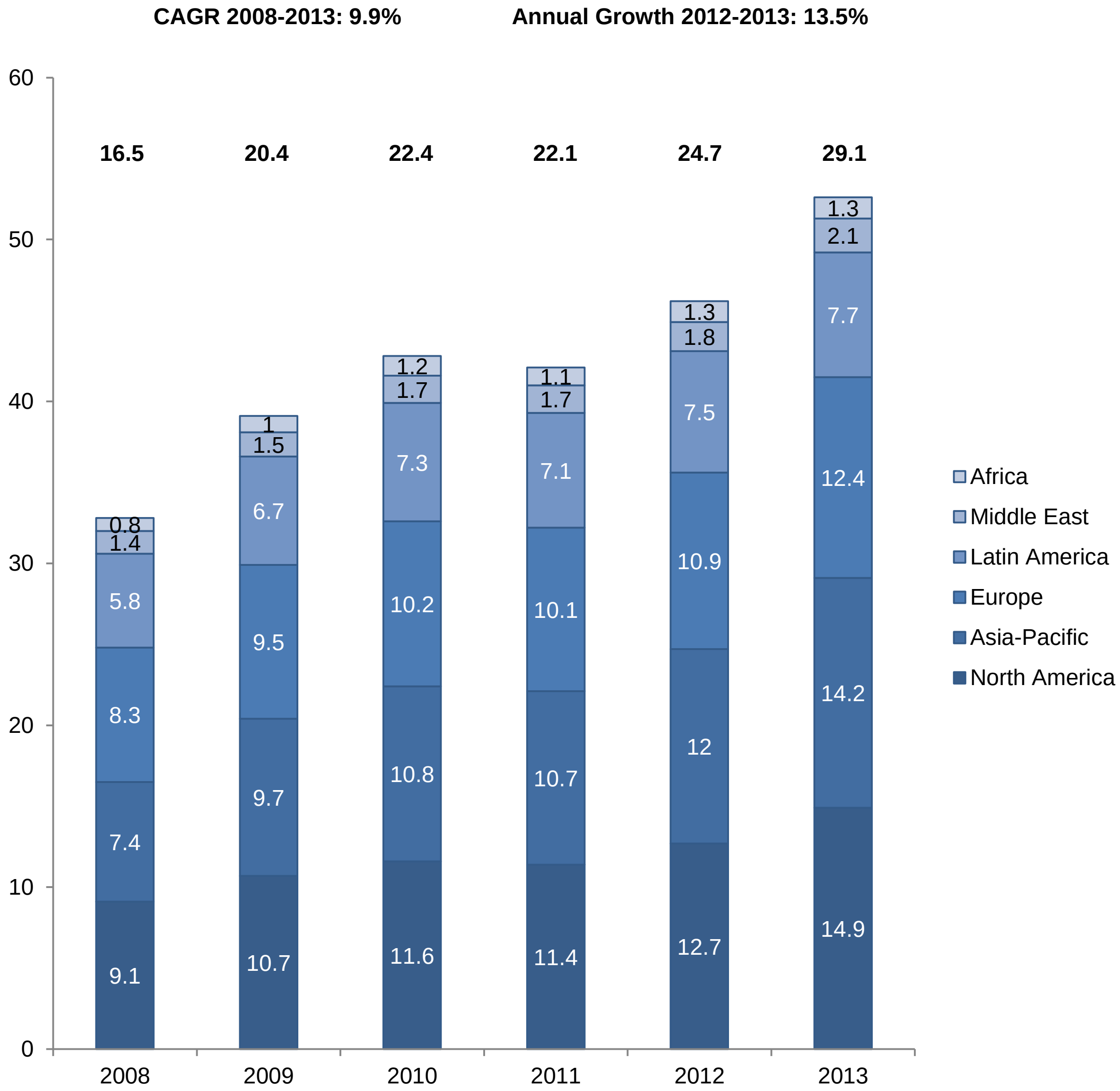
According to Capgemini (2014), in 2013 nearly 2 million individuals joined the global HNWI population, which grew 15% to reach nearly **14 million**. HNWI's wealth levels reached second consecutive high of **$ 52.6 trillion**.

HNWIs shifted their focus from wealth preservation to wealth growth in 2012. Overall, HNWI portfolios showed small declines in cash and equities and increases in fixed income and alternative investments.

In Italy, HNWI grew by 15.6% in 2013 compared to 2012, reaching the peak of **203,200 individuals**.

Figure 1 – HNWI Investable Wealth 2008-2013

(US$ Trillion)



Source: Capgemini 2014

Figure 2 - Mechanisms Used by HNWIs to Make a Positive Social Impact, Q1 2014

Source: Capgemini 2014

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Annex 2 – Not for Profit Sector in Italy

As at 31 december 2011 not for profit institutions operating in Italy were 301,191, with a 28% growth compared to 2001.

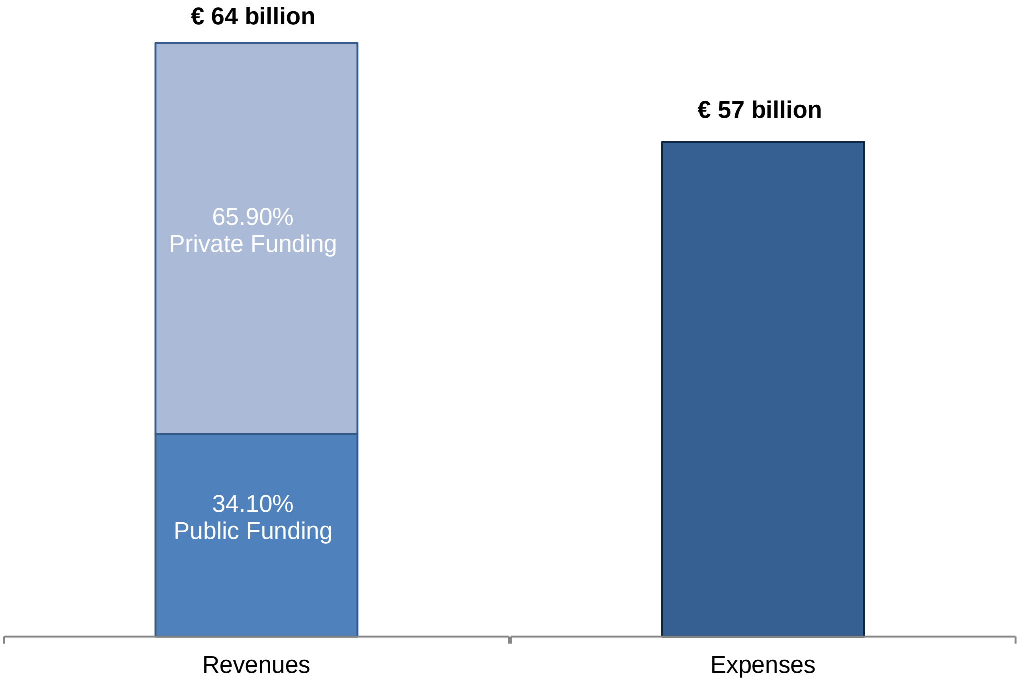
Their revenues represented **4.3% of national GDP**. 65.9% of revenues came from private funding, of which 47.3% from sales.

Table 1– Number of Institutions, Volunteers and Employees in the Not For Profit

	2001	2011	% Growth 2011/2001
Not for Profit Institutions	235,232	301,191	28.0%
Volunteers	3,315,327	4,758,622	43.5%
Employees and external employees	589,048	951,580	61.5%
Temporary employees	3,743	5,544	48.1%

Source: Istat Online Database, 2011

Figure 3 – Revenues and Expenses of Not For Profit Institutions in 2011



Source: Istat Online Database, 2011

Annex 3 – Italian government expenditure

Table 2 – Breakdown of GDP per capita, 2011

€ per capita	Italy	UK	France	Germany
Public expenditure	13,154	14,429	17,119	14,235
- Welfare	7,055	7,303	10,011	9,008
- Interest on debt	1,254	903	805	804
- Other public expenditure	4,845	6,224	6,303	4,423
Private expenditure	12,846	13371	13,481	17,465
GDP per capita	26,000	27,800	30,600	31,700

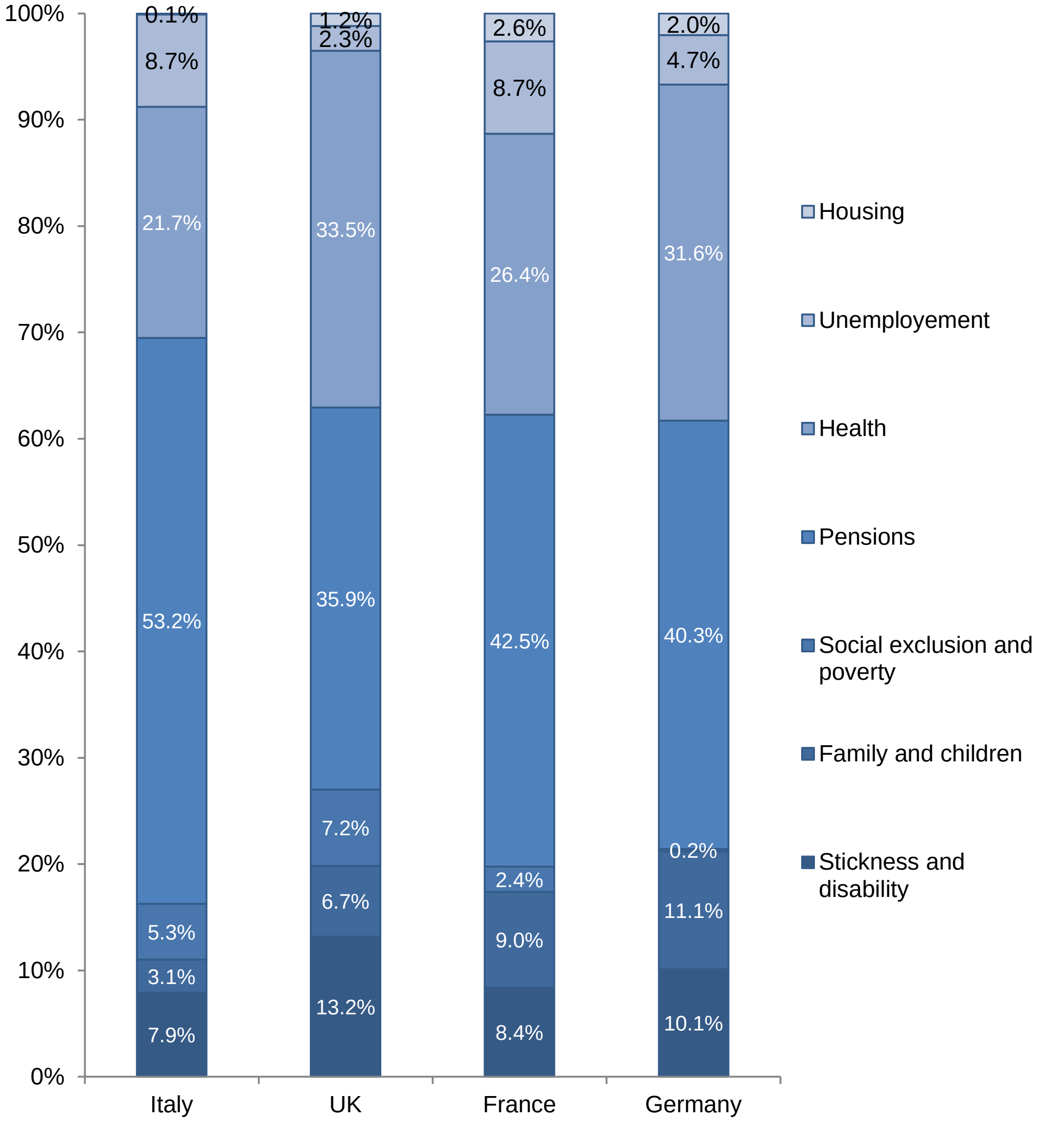
Source: Eurostat Online Database, 2014

Table 3 – Breakdown of public expenditure on welfare per capita, 2011

€ per capita	Italy	UK	France	Germany
Stickness and disability	558	963	841	912
Family and children	219	486	899	998
Social exclusion and poverty	371	525	239	19
Pensions	3,755	2,623	4,255	3,629
Health	1,534	2,449	2,644	2,847
Unemployement	613	170	871	419
Housing	6	87	262	184
Welfare expenditure per capita	7,056	7,303	10,011	9,008

Source: Eurostat Online Database, 2014

Figure 4 – Breakdown of public expenditure on welfare per capita, 2011

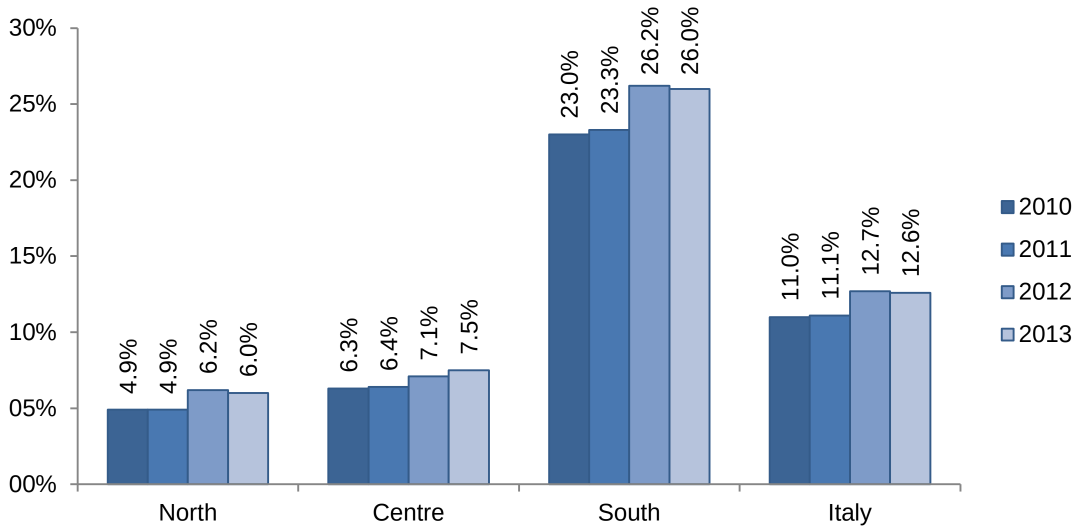


Source: Eurostat Online Database, 2014

Annex 4 – Poverty in Italy

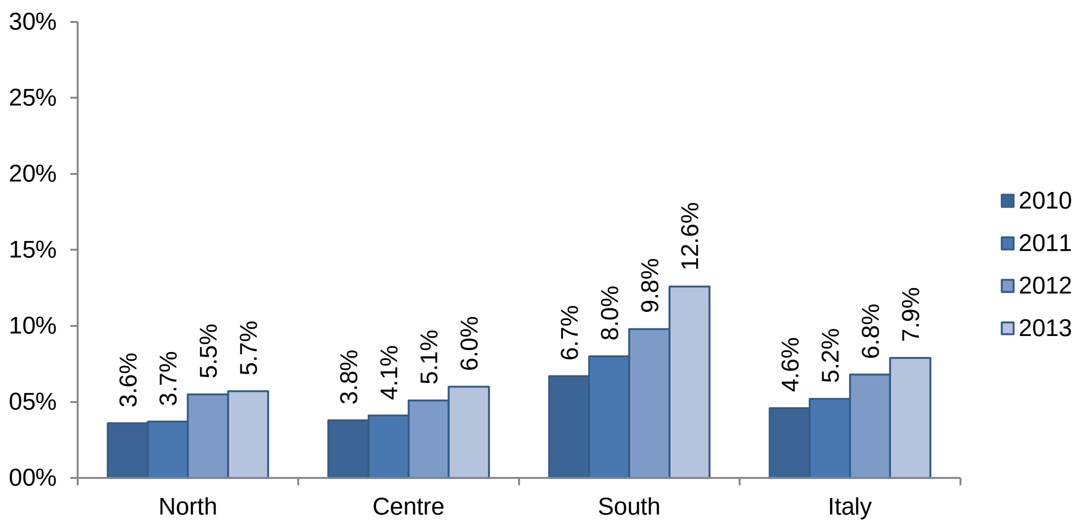
In 2013, 12.6% of households was in relative poverty (3,230 thousand of people) and 7.9% in absolute poverty (2,028 thousand of people).

Figure 5 – Household in relative poverty, 2010-2013



Source: Istat, 2014

Figure 6 – Household in absolute poverty, 2010-2013



Source: Istat, 2014

Annex 5– Oltre Venture Fund I

Box 1 – Oltre Venture I Team

Luciano Balbo - Chairman

Luciano Balbo, with a 20 year experience in venture capital and private equity, founded Oltre Venture in 2006 after an experience in the social sector since 2002, thanks to Oltre Foundation (the first Italian venture philanthory foundation). In 1988 Luciano co-founded B&S Private equity, one of the main Italian player within the private equity sector. Previously he has been the General Director of Finnova (SO.PA.F spa), which was the first venture capital in Italy. Luciano has covered important managerial positions.

Lorenzo Allevi – Managing Director

Lorenzo is part of Oltre since its foundation and he is also general manager of some of Oltre portfolio companies in the microcredit, housing and health services sector. Lorenzo has gained many years of experience within the financial area in the Rinascente Group (at the time listed on the Milan Stock Exchange), becoming the director of financial planning and managing director in some companies linked to the Group. He started his career in JP Morgan and mediocredito Lombardo.

Andrea Cavanna – Investment Manager

Andrea, in Oltre Venture since 2009, manages investments and investments opportunities mainly in the social housing and student housing sectors, and has been CEO of Sharing during its start-up phase. He developed his career within a consulting company in the real estate sector and in some major financial operations.

Cristina Bedini – Investment Manager

Cristina manages investment and investment opportunities mainly in the health-care sector. Previously, she was Program Officer at the Italian Association for Sustainable Finance. She developed her career in Accenture, in the strategic consulting area. She has a degree in Industrial Engineering and holds a Master in Management of non profit companies and cooperatives.

Stefania Fracassi – Office Manager

In Oltre Venture since its foundation, Stefania manages the office administration and back office operations. She has previously held the same role in a marketing company and in a major mobile communication company.

Box 2 – Oltre Venture I Investors

Foundations

Fondazione CRT
Fondazione De Benedetti Cherasco 1547 (Benedetto De Benedetti)
Fondazione Magnoni (Magnoni family)
Fondazione Exodus

Corporates

Cleops srl (Zambon family)
De Agostini spa
Eurofinleading Fiduciaria spa (Solaro del Borgo family)
Euromobiliare Fiduciaria spa
Mais spa (Seragnoli family)
Tetrafin spa (Carlo Secchi)
Fa.Ro srl (Alessandro Bianchi)
Oltre Gestioni srl
Micheli associati srl (Francesco Micheli)
Gisei srl (Roberto Giacobone)

HNWI

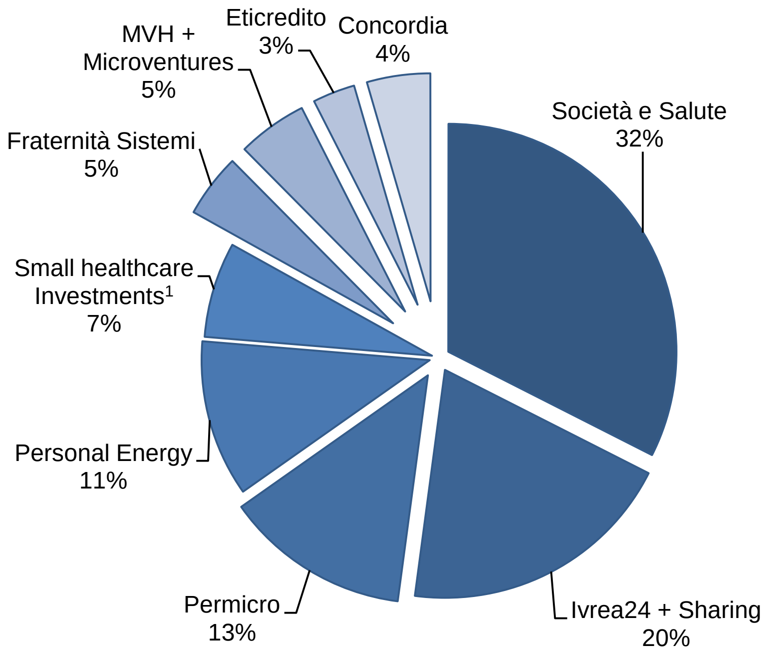
Luciano Balbo
Riccardo Casalegno
Marta Ghirardi
Massimo Antonetto
Lucio Zanon di Valgiurata
Maria Cristina Alpi
Raffaella Alpi
Carlo Alberto Marsiletti

Table 4– Oltre Venture I Portfolio Snapshot

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

Source: Oltre Venture, 2014

Figure 7 – Oltre Venture I Portfolio Allocation



Source: Oltre Venture, 2014

Box 3 – Focus on Oltre Venture I main investments

PerMicro

PerMicro is the first Italian microcredit experience. Its business model has been recognised and rewarded also at European level.

PerMicro set up 12 branches mostly in northern Italy, and thanks to the entrance in its capital structure by BNL (BNP Paribas Group), there have been two branches also in Southern Italy.

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).

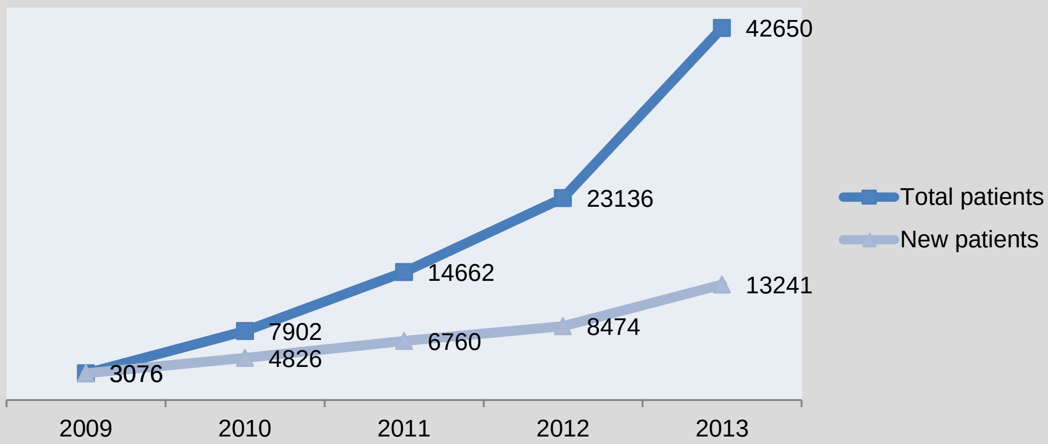
Società e Salute

Società e Salute manages Centro Medico Santagostino, which supplies medical care services in every medical area 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 Health National System (mostly in the area of dental care and psychological assistance), offering services at prices slightly higher than the public sector, at a significantly higher quality level.

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 health sector.

Figure 8 - Evolution of patients at Centro Medico Sant'Agostino



Annex 6 – The Social Impact Accelerator

SIA was launched in 2013 by European Investment Fund. Leaded by Uli Grabenwarter, it is set up as a fund of funds and seeks to mobilise an initial amount of € 60 million of capital for investment in social impact funds.

Box 4 – European Investment Fund

EIF is part of the European Investment Bank Group, the bank owned by and representing the interests of the European Union Member States. Established in 1994 as a public-private-partnership, EIF's shareholders are the European Investment Bank (EIB), the European Union though the European Commission (EC) and a wide range of public and private banks and financial institutions.

EIF's central mission is to support Europe's small and medium-sized businesses (SMEs) by helping them to access finance. SMEs access to finance is enhanced by developing and offering targeted financial products to intermediaries, such as banks, guarantee and leasing companies, micro-credit providers and private equity funds.

EIF's activities are carried out using either own resources or those provided by the European Investment Bank, the European Commission, by EU Member States or other third parties.

Figure 9 – EIF's shareholders as at September 2014

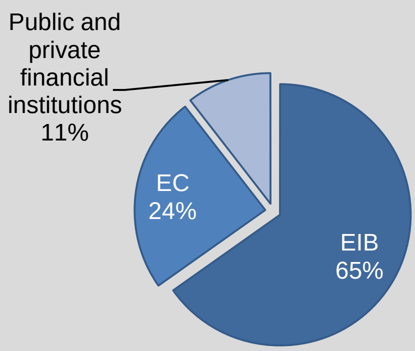
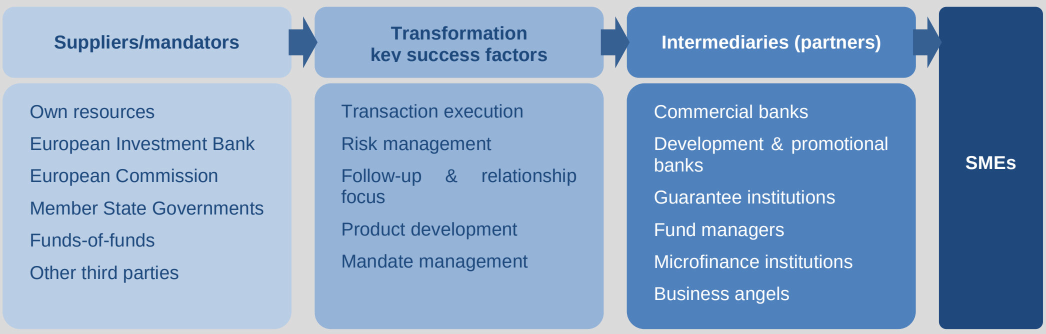


Figure 10 – EIF's role



Source: EIF corporate brochure

For more info: http://www.eif.org/who_we_are/index.htm

During the last twenty years European Union (EU) and its Western countries, as well as other countries across the world, have been supporting the development and empowerment of small and medium enterprises (SMEs) as one of the engine of their economic development (European Commission, 2006). More recently, Europe 2020, the new strategic plan of the European Union, puts SMEs at the center of "Innovation Union", one of the seven flagship initiatives for a smart, sustainable and inclusive European economy. Among the EU priorities for 2020 there is the intent to make "*an efficient European venture capital market a reality*" and explore "*incentives for private sector funds that make financing available for start-up companies, and for innovative SMEs*."

Despite several studies argued that the most efficient and effective public support to SMEs should be based on the provision of value added business services, such as training, tutoring, development of both material and immaterial infrastructures and counseling, in the last ten years the majorities of European public policies have been focused on the closure of the SMEs equity gap through direct investments. Public Private Venture Capital (hereafter PPVC) has been one of the most preferred ways to do that.

Venture Capital is a form of intermediation particularly well suited to support the creation and growth of innovative enterprises (Kortum & Lerner, 2000). It is aimed at financing and nurturing companies (mainly high tech and high flyer) at an early stage of development (start ups). Venture capitals is a mean not only to provide equity, but also expertise (knowledge of the market), managerial and entrepreneurial skills and a network of contacts to help SMEs to exploit their growth potential.

The US experience of a terrific expansion of new technology firms backed by venture capital funds prior to achieving spectacular growth and commercial expansion influenced many Western countries' policies, which were designed to foster an innovative culture, to establish a framework conducive of innovation, to trigger research and innovation and to close the equity gap (European Commission, 2006). Considering the role played by Venture Capital in the US and its limited spontaneous development within the European boundaries, the EU and its Countries launched several initiatives of PPVC to support the growth of this market as a way to close the equity gap and to support SMEs. For that reason, in 2001 the European Investment Fund (EIF) was transformed into the Europe's largest venture capital investor with an injection of more than 2 billion euro, making the increase of risk capital supply one of it main priority.

Box 5 – SIA launch, Press Release

EIF launches a social impact investing fund of funds

Date: 14 May 2013

"A public/private initiative to support social enterprises"

The European Investment Fund (EIF), with the collaboration of private sector investors, has launched in 2013, the Social Impact Accelerator (SIA), the first pan-European public-private partnership for social impact investing. SIA is a pilot initiative which addresses the growing need for availability of equity finance to support social enterprises, a segment of the business world which is becoming increasingly instrumental in promoting social inclusion, providing alternative sources of employment for marginalised social groups and contributing to growth.

SIA, which is set up as a fund of funds, will be managed by EIF and will provide equity financing to funds in the social impact segment, which strategically target social enterprises across Europe. Beyond simple financial return targets, these social impact funds seek to trigger positive societal change as a result of their impact conscious investment activity.

In addition to enhancing the availability of finance for social enterprises, SIA aims to build up the existing market infrastructure for social impact investing in such a way that this emerging asset class is placed on a path to long-term sustainability. As part of this drive, EIF has developed a new framework for quantifying and reporting on impact metrics at all levels of the SIA investment chain. SIA will also ensure that knowledge-sharing between private sector actors committed to social impact investing and EIF becomes a core part of the initiative from the outset.

Commenting on the launch, Richard Pelly, EIF's Chief Executive, said "We are convinced that social impact investing will shape the way many people invest in the future. One cannot think only in terms of financial returns anymore. SIA will endeavour to respond to the financing needs of social enterprises that focus on scalable social impact as the core of their business activity. Our approach is to make all actors in the SIA investment chain - whether social enterprises, social impact funds, and also EIF - accountable for their results in delivering social impact through their activities. Together with our private sector partners we also seek to demonstrate that this is an attractive asset segment also for mainstream investors."

EIF's launch of SIA is a first step in the EIB Group's strategy of pioneering activity in the impact investing space as well as responding to the wider EU policy aim to establish a dedicated European-level instrument in support of social inclusion and social enterprises in Europe.

Source: EIF press, www.eif.org

For more info: http://www.eif.org/what_we_do/equity/sia/index.htm

Box 6 – Uli Grabenwarter Speech at the conference organized by the SDA Bocconi Impact Investing Lab in Milan on the 26th of May 2014

In my perspective, impact investing can be defined as “any profit-seeking investment activity that intentionally generates measurable benefits for society”. Therefore, five can be considered the distinctive characteristics of impact investing: a) Profit orientation, b) Correlation between impact and financial return, c) Intentional impact, d) Measurable impact, e) Positive effect on society.

With true impact investing, there is no trade-off between profit and social impact because the two elements are positively correlated. Any trade-off between profit and social impact is the investor’s choice, not a function of impact investing.

I want to concentrate mainly on two aspects.

First, the notion of investment must include a focus on return. This requirement does not relate to the company’s dividend policy, but merely states that the company should be run with a for-profit mindset. While philanthropic activities are a vital segment of impact financing, they are dependent on charitable funding sources and, without such financial support, they cannot be considered self-sustainable. Consequently, they cannot be part of a broader asset allocation strategy and cannot reach scale through return-driven growth of assets.

The second aspect concerns the trade-off between financial profitability and social impact. This idea suggests that social impact is always at the expense of financial return. This is not true, at least in impact investing, where the impact is part of the business objectives and therefore it is the origin of any investment decision. However, if one accepts the positive correlation between the impact to be achieved and the financial sustainability of the underlying business model as a prerequisite for impact investing, the trade-off between social impact and financial return can no longer be the decisive factor in investment selection.

In finance, the expected return is the return for which an investor is ready to financially back a business model. The question of whether this return matches market return, falls short of it or exceeds it may be of theoretical value but has no importance in practice: the sheer existence of enough investors to fund a business model with its business objectives, return expectations and risks involved indicates that there is a market for this business model.

If one looks at the return history of venture capital as an asset class, one can easily argue that there are plenty of asset classes that deliver better returns that VC. Yet, there are plenty of investors who continue to deploy venture capital, and they are certainly far from being charity organizations. The point is that there is ultimately only a choice driven by investor preferences, which combine the purpose of the investment with its financial profitability and the risk profile associated with the underlying business model.

In my experience and research activity, I found a positive correlation between the strategic approach to impact investing and the financial and social return. We also found that the investors who were the least successful in achieving their expected financial returns were also the ones with the biggest shortcomings in the strategic setup of their investment activity: very little or no defined target sectors or interests and no ex ante definition of the expected impact and/or financial drivers/results. These players approached investments based on personal preferences, emotional ties and relationships with the principal and/or other family members, and were often driven by a “give-back-to society” mentality.

In brief, a strategic approach to impact investing involves a strategic choice of sector; research-driven investment target selection with an organized deal funnel; strategic choices in asset allocation and portfolio strategy; and deliberate choices in impact and financial returns. The result is a clear definition of the target business models: how to produce social impact and financial return, and the expected scope and scale per deal.

Source: SDA Bocconi School of Management, Impact Investing Lab

For more info: http://www.sdabocconi.it/en/site/impact-investing-lab

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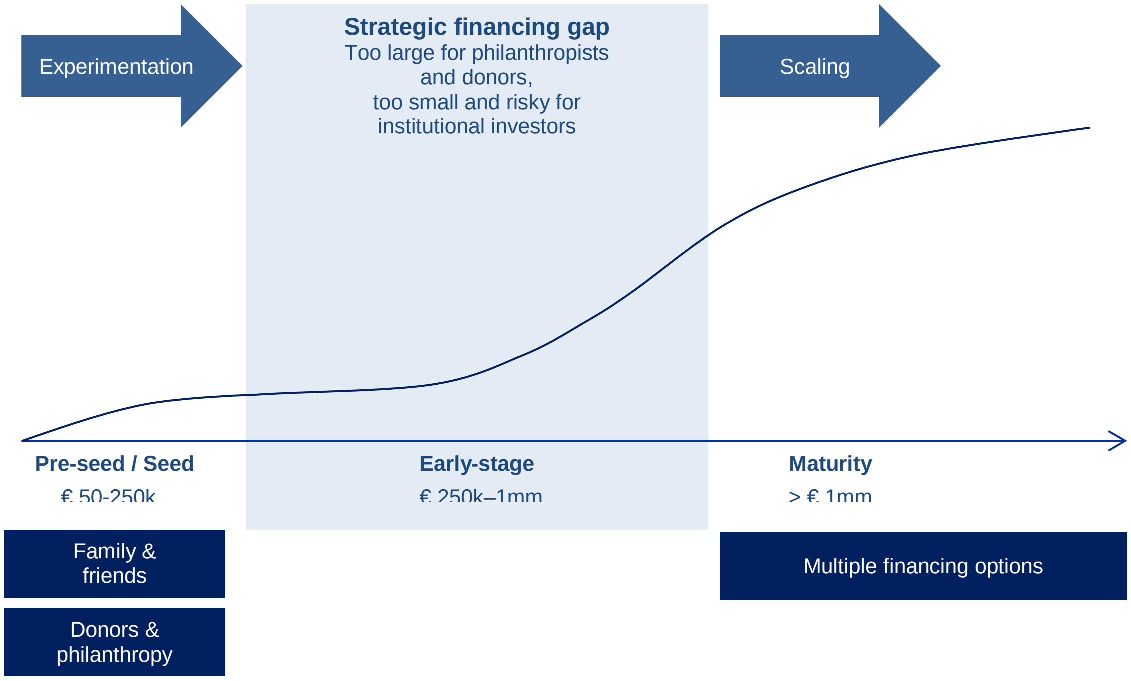
Annex 7 – The Strategic Financing Gap

Figure 11 – The strategic financing gap



Source: Authors' elaboration

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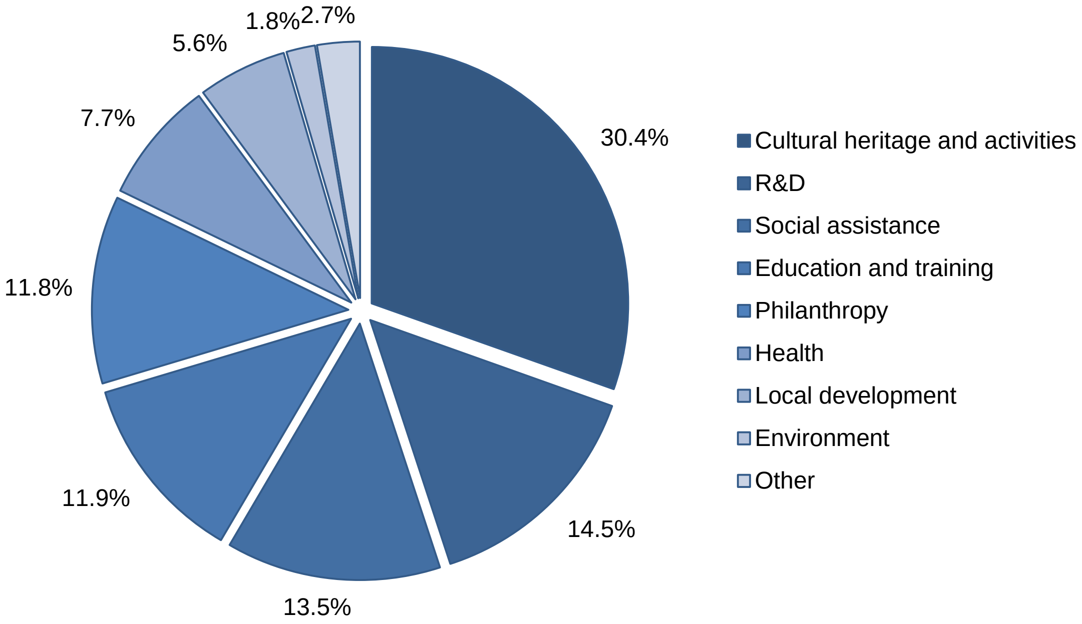
Annex 8 – Italian Banking Foundations

Emerging from a reform of the banking sector in the '90 (law n. 218/1990), banking foundations, 88 in total, often have a significant asset and have become over time pivotal actors for social development and welfare sectors in their respective regions.

Italian banking foundations together donate about € 1 billion euro per year. The recipients of grants are not profitable organizations that pursue social and public interest.

Due to their legal form and statutory obligations, these foundations cannot make donations to for profit organizations (Law decree n. 153/1999).

Figure 12 – Breakdown of banking foundations donations by sector, 2013



Source: ACRI Annual Report, 2013

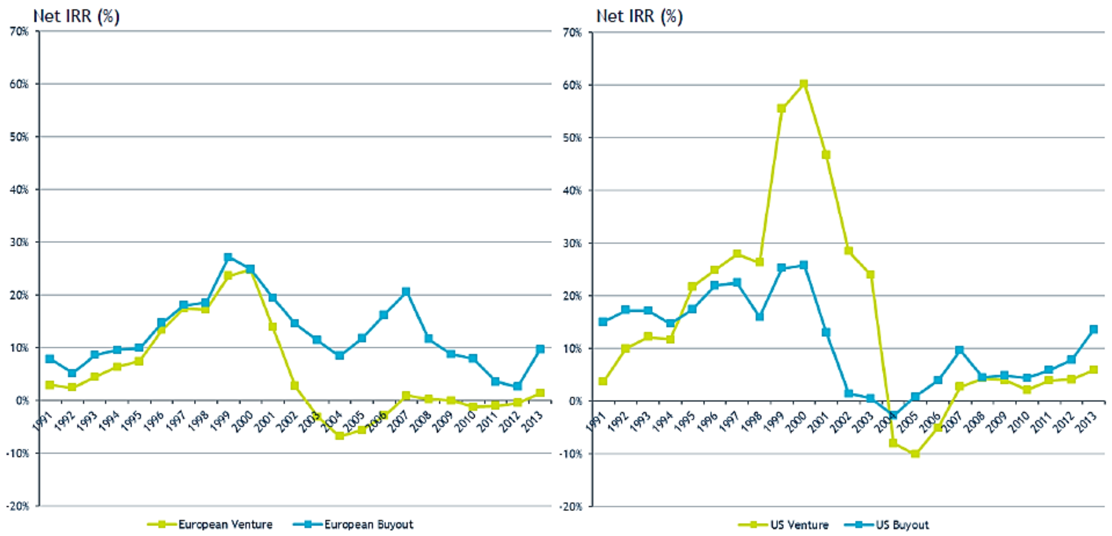
Annex 9 – Trends in European Private Equity Industry

Table 5 – 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

Figure 13 - Five-year IRRs for Europe and the US



Source: Thomson Reuters and EVCA

Box 7 – Private equity glossary

Private equity

This provides equity capital to enterprises not quoted on a stock market and refers to all stages of industry, i.e. venture capital and buyouts.

Venture capital

This refers to early-stage (seed and start-up) and later-stage finance.

Buyout funds

These are funds that make leveraged buyout, management buyout or acquisition investments. These funds use debt in addition to equity to leverage the size of their investments and increase the potential return on investment.

IRR – Internal rate of return

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The IRR is the interim net return earned by investors (limited partners) from the fund from inception to a stated date.

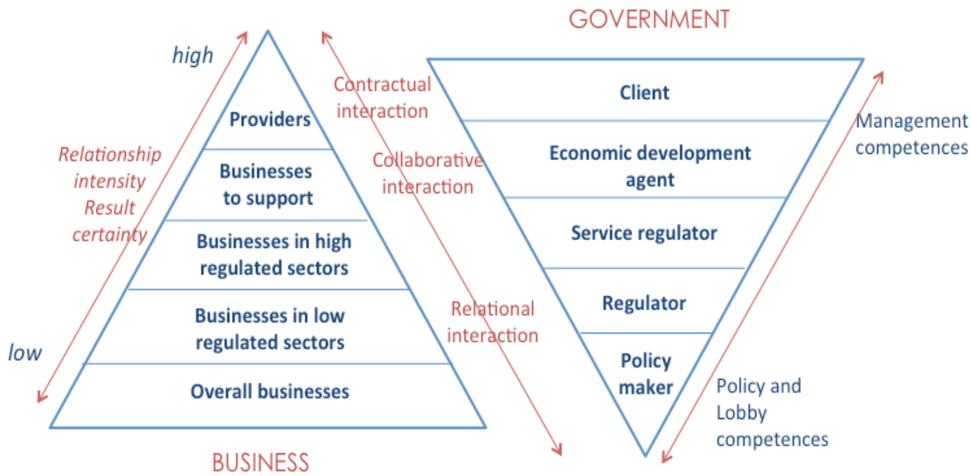
Horizon IRR

Horizon IRR indicates how the private equity industry is performing during a defined period (i.e. during 1 year, 3 years, …).

Annex 10 - Business Government Relations & Impact Investing

Beyond impact investing the relation between Government and Businesses (often referred to as Business Government Relations - BGR) has become of increasing interest for scholars and practitioners.

Figure 14 - Pyramid of relations between Businesses and Government



Source: Vecchi, Brusoni, & Cusumano, 2014

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