Philanthropy New Zealand
Tōpūtanga Tuku Aroha o Aotearoa

Impact Investment in Action

INSIGHTS FROM THE FIELD
IN AOTEAROA

APRIL 2021

The cover design motif is a variation on a waha graphic.

Traditionally, Waha is a term for the mouth, voice or a gateway. The waha, being a gateway or an inlet/outlet, is the first port of call for building partnerships and collaboration.

A significant portion of this report highlights and calls out direct quotes from collaborators. The waha device, acting as the mouthpiece, is a simple connector to the many 'voices' in the report.

This independent research report was prepared by The Connective for Philanthropy New Zealand

Authors: Jo Kelly, Rangimarie Price
Contributors: May Miller Dawkins, Emma Wethey

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Foreword

SUE MCCABE,
Chief Executive, Philanthropy New Zealand

Tēnā koutou katoa,

There's never been a better time to produce insights and guidance into impact investing in Aotearoa New Zealand for philanthropists, grant makers and other investors.

The philanthropic and grant-making sector is diverse in what it supports and how it operates, but providing risk capital for innovation and start-ups, and funding system-level change, are commonly seen as important roles.

Given its focus on purpose, the philanthropic and grant-making sector can justify investing more broadly than solely for the best financial return. The sector manages significant capital and unlocking more of it for impact investing would be transformational for many enterprises and causes.

Philanthropy New Zealand (PNZ) commissioned this research because impact investing is a growing focus area for funders. There's a body of international research available on impact investing, but little on Aotearoa New Zealand.

Some of PNZ's funder members have been impact investing for many years, while others have entered the market very recently as the movement grows. Still more are 'impact curious'. Wherever you are at, we hope that the learnings, tips and experiences in this report will support you investing for social, environmental and economic impact.

We humbly note that the concept of impact investing has long been understood in Aotearoa New Zealand, even if the term itself is relatively recent. Māori, in particular, have seen investment as needing to be deeply connected to community, wellbeing and the environment.

We'd like to acknowledge The Connective, who undertook this research with skill, commitment and caring. We appreciated the Te Ao Māori lens they brought to this work.

We are grateful to those who gave information for this report, generously sharing their expertise and being open about both successes and learnings.

A special thank you to WEL Energy Trust, who funded PNZ to commission this research as they continue to champion the power of impact investing.

We will continue to collaborate with others – such as Ākina and the Impact Investing Network National Advisory Board – to share ideas, opportunities and learnings as impact investing grows as a contributor to the wellbeing of Aotearoa New Zealand.

Executive summary

Impact investments are investments made into organisations and funds with the intention to generate social and environmental impact alongside a financial return.

– Global Impact Investing Network

While investing for social, environmental and cultural benefit is not new in Aotearoa New Zealand, an increasing number of practices are using the language and approaches of 'impact investing'.

This independent research seeks to understand the emerging practice of impact investing in Aotearoa New Zealand through case studies of four different impact investing projects. The focus is on the way cross-sector partners and collaboration involving philanthropic and grant-making organisations has been initiated and managed, the capability built within these partnerships, and the stated impact of these investments to date.

These four case studies are:

1. Soul Capital
2. Impact Enterprise Fund
3. New Zealand Housing Foundation
4. Te Pai Roa Tika o Te Taitokerau

Examining the application of Te Ao Māori was an important part of the approach taken in this research. For Māori, all investment is impact investment. Understanding Māori perspectives on what constitutes and is needed to achieve a 'return' or 'outcome' adds necessary and important substance to an understanding of the term 'impact' in a uniquely Aotearoa New Zealand context.

This report outlines key insights from the field and offers practical guidance at the end of each section, based on interviews with early investors (including philanthropic and grant-making organisations), fund managers, executives and staff from the case studies.

INSIGHTS FROM THE FIELD

Philanthropic investors are recognising the opportunity to invest for a just and equitable economy

In the case study investments, the investors (including philanthropists and grant makers) are seeking varied financial returns (ranging from 15% to just above term deposit), diverse social, environmental and cultural outcomes, and to contribute to building the market and eco-system in Aotearoa New Zealand. Beyond capital, they contribute time, energy and expertise to build the knowledge of the field and to de-risk investments and the market for new entrants.

Learning how to ‘do’ impact investment is a key driver for philanthropic investors and information about this aspect has been a successful outcome of these case studies. For philanthropic organisations, undertaking impact investment can require changing orthodoxies and adopting a learning mindset.

Strong, trust-based partnerships are crucial to success

While commercial and financial capability is an important aspect of impact investing, the ability to partner effectively is the key to unlocking transformative impact.

For Māori, relationship comes first and then transaction can follow. Investors are building better cultural capability to enable engagement and partnering more effectively with Māori.

Investors are advised to first understand what is needed by the communities in which they are investing (potentially working with trusted community intermediaries) and then determine whether a particular commercial enterprise or investment is the right approach. In some contexts, a market-based solution may not be the best way to achieve the desired outcomes.

Learning by doing

In these early-stage impact ventures, there has often been a lack of sufficient evidence or data to fully inform investment decisions. Investors have needed to invest intuitively, based on values alignment and belief in the key people leading the funds and ventures.

Impact investment requires a paradigm shift, away from a culture of maximising profit in one sphere and ‘giving back’ in another, towards a culture of balanced returns across multiple dimensions. A learning mindset is key.

Working with external fund managers opens up opportunities via their networks, processes, impact expertise and experience in managing relationships with impact ventures.

Enthusiastic investors of all types are crucial to building the Aotearoa New Zealand market. However, the message across all case studies is clear: investor enthusiasm and commercial experience should not be mistaken for expertise in what is most beneficial for communities.

It is important to factor in the time and resources required to identify the right opportunities to deliver on the impact investors’ intentions.

Measuring, understanding and managing impact is complex but necessary

Each of the cases undertakes some form of impact reporting, with varied approaches. There is consensus that further work is required to develop impact management approaches that are relevant in an Aotearoa New Zealand context. Investors and fund managers need to align expectations with capacity and take a community-led, pragmatic, principles-based approach to understanding impact. At its best, impact measurement and management generates strategic insight that informs investment decisions and drives ventures forwards.

Philanthropic capital continues to be critical in expanding the market

There is confidence and some evidence that there is an increasing supply of investible purpose- and kaupapa-driven ventures and investment opportunities. Nonetheless, the investors in these case studies indicated that raising funds, finding deals and making impact investments took longer and cost them more than they had anticipated. This was largely due to the lack of an enabling start-up eco-system for ventures focused on positive impact.

Philanthropists have played, and will continue to play, a critical role in building this eco-system and investment market in Aotearoa New Zealand. This role can be enabled by partnerships and collaborations that involve pooling capital, sharing learning, sharing power and trusting in committed people. Central government is also seen as having a key role in the development of the impact investment eco-system, as both a funder of service providers and an investor, albeit in investments of a scale that does not yet occur frequently in Aotearoa New Zealand.

> *If [potential investors] genuinely have motivation, there’s no better way to learn about impact investing and develop the market than actually doing it. I think we’ve got enough reports, we’ve got enough boards, we’ve got enough conferences. I think we just need more people doing deals, frankly*
>
> **– Chris Simcock, Impact Enterprise Fund**

Introduction

In recent years, the concept and practice of impact investment in Aotearoa New Zealand has begun to attract the attention of investors (including philanthropic and grant-making organisations). As has been the case in other locations, these investors increasingly aim to not only make a financial return but also enable market solutions that intentionally contribute to positive social and environmental outcomes.

Leveraging direct investment as a means of generating balanced social, cultural and environmental benefits is not new in Aotearoa New Zealand. For Māori, all investment is impact investment. As the global investment narrative has shifted in the last decade, the term 'impact investment', adopted by the Impact Investing National Advisory Board Aotearoa New Zealand, has entered the mainstream Kiwi investment vernacular.

Overview of Impact Investing Aotearoa, a 2020 report prepared by the Centre for Social Impact and Steven Moe, is a useful resource for those wishing to develop an understanding of impact investment in Aotearoa New Zealand in general.

> *"Impact investments are investments made into organisations and funds with the intention to generate social and environmental impact alongside a financial return"*
>
> **– Global Impact Investing Network**

Purpose

The purpose of this research was to understand the emerging practice of impact investing in Aotearoa New Zealand, to inform investors and philanthropic organisations who may want to use their capital for social and environmental good.

The research focused on:

- the way cross-sector partnerships and collaboration involving philanthropic and grant-making organisations have been initiated and managed through direct impact investments and impact funds
- what capability has been built within these partnerships (including for the measurement of impact)
- the stated impact of these investments to date.

Research approach

For each case study, interviews were undertaken with philanthropic investors, individual investors, fund managers and impact investment recipients to elicit key findings about their investment impact experiences.

In addition to this report, detailed summaries of each case study were prepared for use by Philanthropy New Zealand (PNZ).

PNZ's strategic pathway, 'Supporting better giving', recognises that creating better outcomes for Māori is enabled through increased knowledge of Te Ao Māori and ways to honour Te Tiriti o Waitangi. In commissioning this research, PNZ considered the inclusion of a Te Ao Māori perspective an essential component in ensuring relevance to the unique context of Aotearoa New Zealand.

The research team was led by wāhine Māori with experience in tikanga-led approaches to investment. The research process included alignment with protocols upholding tikanga, te reo and tā koha, as well as creating time and space for gaining privileged access to deep insights, reflecting those insights accurately and enabling participants to retain sovereignty over any intellectual property (IP) that the participants wished to retain.

Te Ao Māori in the investment context

What investment has reversed the impact of historical trauma on our whakapapa, our whenua, our people? Nothing. Not enough to bring about the step change we require. We know what bad investment looks like, investment that continues to cause harm; ideally, we would do the opposite of that.

– Keti Marsh-Solomon, Te Pai Roa Tika

Impact investing. What is it? It's a movement that is more principle based. And what are those principles? We start to get closer and closer to Te Ao Māori and an indigenous world view. And I just think it's more human.

– Jamie Newth, Soul Capital

Te Ao Māori perspectives are grounded in the understanding of the living whakapapa between the spiritual, cosmological/universal and philosophical realms and humanity. The dynamic interrelationships between all these factors are constantly at play. It is this whakapapa (along with a number of others) that invokes the mutually inclusive sacred obligation to deeply care for people and to uphold the life-supporting capacity of Papatūānuku (the planet) in perpetuity. Preserving equilibrium across these interrelationships creates the environment in which abundance and wellbeing can occur.

Woven into this is the interconnection between past, present and future, which is a living whakapapa that is constantly 'present' to Ngai Māori; hence the references to 'intergenerational horizons' or 'intergenerational thinking'. The word 'tangata' refers to personhood, both singular and plural (i.e. applying to both an individual and a whānau). The Māori world view does not give primacy to individual (self-) interest), but to whanaungatanga – kinship communities, the expression of whakapapa.

All of this shapes the lens through which Māori experience events, patterns of behaviour over time and the cyclical nature of the world. With this lens, investment is considered a means for (not an end of) generating wellbeing for people and the planet. Investment strategies and opportunities are assessed and deployed based on their potential to deliver good – as defined by Māori. Investors can be better equipped to choose between opportunities that deliver limited, incremental or transformational outcomes.

Barriers to the incorporation of Te Ao Māori in investment include the lack of knowledge or capability to navigate the way to do this authentically, without being tokenistic or insincere. These research participants acknowledged that incorporating Te Ao Māori as part of any investment strategy requires expertise at a governance, management and investor level. It requires putting upfront effort into building and looking after high-trust relationships for the whole life of the investment. While this knowledge is particularly necessary when investing with and for Māori, this principle includes all communities and whānau. A high-trust relationship requires engaging appropriately at the outset, and a genuine willingness to listen, change plans and be patient.

Te Ao Māori perspectives on what constitutes a 'return' on investment add definition and substance to an understanding of the term 'impact' that is contextually relevant and necessary for Aotearoa New Zealand.

The case studies

The investments for this study were selected by PNZ with the advice and input of the Impact Investing National Advisory Board Aotearoa New Zealand. Given the intention of the research to draw from the learnings and experiences of people in each case, preference was given to investments and funds launched prior to 2019. The details of the case studies chosen are noted below.

Soul Capital

Soul Capital is a catalytic fund management company and eco-system builder.

Soul Capital manages two funds with philanthropic organisations as investors. One of these was being established, with Foundation North as the founding investor, at the time of writing this report.

THE AWHI FUND (the focus for this case study) is a venture capital fund that targets highly scalable, early-stage ventures at non-concessionary financial returns. One of the fund's investment requirements is that impact be 'embedded' into the business model in such a way that it cannot be taken out and the positive benefits scale up as the business scales up.

Impact Enterprise Fund

This is a venture-capital-style 10-year fund with 15% Internal Rate of Return (IRR) financial return threshold and a focus on expansion-stage businesses, ideally looking to expand internationally. Businesses must be based in Aotearoa New Zealand and demonstrate strong revenue. The early focus has been on clean energy, agriculture technology, education and healthcare.

New Zealand Housing Foundation

The New Zealand Housing Foundation (NZHF) is a charitable trust that delivers affordable housing options for low-income working New Zealand households unable to purchase their first secure, warm, dry home. In addition to its broader service offering, NZHF has 'Rent to Own' and 'Shared Ownership' impact investment products.

Te Pai Roa Tika o Te Taitokerau

This is a Māori-owned and -led trust, development company and investment fund underpinned by an intergenerational, whānau-led kaupapa and tikanga framework. The focus areas within the kaupapa are wai, kai, whenua, whare, whai rawa and tangata.

While Te Pai Roa Tika is still in its establishment phase, it was recommended as a Māori-led case study that already offers significant learning related to the purposes of this research.

Detailed information about each case study can be found in the *Appendix.*

Investors' intentions and strategic approaches

Philanthropic investors are recognising the opportunity to invest for a just and equitable economy.

Investors across the four case studies realised the inherent value and potential of seeking a mix of financial, social, cultural and environmental outcomes from their investments. They also shared the strategic aspiration of building the impact investment market, as well as demonstrating the viability of investing intentionally for positive impact.

Financial return expectations varied across the four cases, from 15% IRR in the case of the Impact Enterprise Fund to 'just above term deposit' for the New Zealand Housing Foundation.

The philanthropic investors articulated the need for impact investments to align to their philanthropic mission and their organisation's overall strategy. Through the process of evolving their strategies and theories of change, the organisations were finding that community-led approaches to investment, enterprise and sustainable development were a key change pathway that offered significant benefits for their constituents. While impact investment needed to align to strategy, strategy was increasingly being informed by the principles and potential of impact investment.

Number one for us is that it aligns to strategy

– Peter Tynan, Foundation North

Despite the varied expectations, all cases were characterised by the desire of the investors to achieve measurable social, environmental and cultural returns.

Strategic differences across case studies were characterised as signalling different impact return thresholds. Market rate or 'non-concessionary' financial returns were expected to deliver broad impacts at scale, while lower financial return expectations were perceived to enable deeper and longer-term transformative change for local communities.

I believe the type of businesses that are delivering a high financial return typically have that broader impact. It's a lighter-touch approach on a broader audience, versus a deep transformative impact on a smaller number of people

– Jackson Rowland, Impact Enterprise Fund

These differences are not articulated as being 'right' or 'wrong' but rather, as pointing to intentional strategic choices within the emerging Aotearoa New Zealand market.

The alignment of investment behaviour and expectations with Te Ao Māori, across the whole investment continuum, was viewed by participants as a key driver for achieving a more equitable, sustainable economy and positive intergenerational outcomes. Actual alignment varied broadly across these case studies.

We've become much more intentional.

We understand and can give a terminology to an activity that was just what we did.

We understand that we are part of a bigger movement, in that we are contributing to something more broadly, globally and in the New Zealand investment scene.

– John McCarthy, The Tindall Foundation

LEARNINGS FROM THE FIELD

Setting intentions

Philanthropic investors and foundations are intentionally 'building the market and eco-system' for impact investment in Aotearoa New Zealand through:

- contribution to the knowledge and integrity of the impact investment movement
- investment of financial capital, time, energy and expertise
- co-development of projects and ventures
- collaboration and shared learning
- demonstration of leadership and 'just getting a few deals done' to prove the concepts
- de-risking investments and enabling other investors to take confidence in the developing market.

These market-building activities reflect the fact that this group of investors have been early adopters and enablers of impact investing in Aotearoa New Zealand. As impact investment becomes more mainstream, investors will likely not intend or need to play such a broad a role as this group of investors have done.

Partnership and collaboration

Strong, trust-based partnerships are crucial to success in impact investment

Many investors take the view that impact investment is about applying conventional investment mindsets and methods to social and environmental problems. The investors in the four cases covered in this report took a more nuanced view. They indicated that while commercial and financial capability and approaches were an important aspect of impact investing, the ability to partner effectively was the real key to unlocking the transformative impact.

The investors in these case studies engaged in the following four distinct types of partnership, which are explored in detail below:

1. Iwi, hapū and whānau
2. fund management partners
3. co-investors
4. ventures.

IWI, HAPŪ AND WHĀNAU

For Māori, relationship comes first and then transaction can follow. It is important for investors to engage early, as well as allow sufficient time to do the work required to foster trust with Māori. To varying degrees, investors spoken to for this research were on personal and organisational journeys toward understanding and aligning their investment approaches with Te Ao Māori. Some were building cultural capability to enable engagement with Māori and were making intentional efforts to partner more effectively, having realised that historical approaches have proven ineffective at delivering on their obligations to equitably benefit Māori.

The philanthropic investors we spoke to were building governance and management teams that included sufficient numbers of Māori to enable delivering strategic initiatives with and for whānau. The need for organisations to take different approaches to recruiting and hiring people was also highlighted.

A number of people interviewed identified the need to find suitable 'navigators' who could provide a 'bridge' between Iwi, hapū and whānau and the investors coming into their rohe. Realistically, given the unique lived experiences of people in different places, more than one navigator could be required.

It was noted that well-intentioned consultation with whānau and hapū by investors and grant makers could often be delivered in a way that imposed solutions on whānau, rather than listening to their ideas about what would work best for them.

We've done a lot of work trying to make sure that we can operate in that space – safely for Māori and for ourselves – so a lot of training, a lot of work in terms of tikanga and the principles around it.

– Peter Tynan, Foundation North

Power was a consistent narrative across each case study. The investors identified the need to acknowledge where power was held in the investment relationship and to be prepared to relinquish that power in the service of more balanced, reciprocal partnerships specifically (but not only) with Māori.

We're learning as much as anybody about how to put some of these things together in very creative ways with some very clever and creative people. We need to learn to be really patient and to be that way does require us to let go, to not be in control.

– John McCarthy, The Tindall Foundation

One of the mechanisms the Housing Foundation had put in place to support genuine partnership was success-based service arrangements with Iwi partners. Services were designed to sit alongside existing Iwi-led programmes, such as financial planning, capability and savings schemes. The Housing Foundation were partnering with Iwi or the entity that owned the houses to identify whānau who might benefit from their services and to prepare and support whānau as they transitioned into home ownership. These arrangements were enabling Iwi to select the services that were most appropriate for their needs and reflected their kaupapa. Iwi could retain oversight and learn from what was happening in the delivery of projects, and they paid for the services at the point where they resulted in successful placement of whānau into homes.

We're helping to grow their capacity and develop their capability so they can take over from us and do what we do. That's becoming a key part of what we do. It's simply transferring IP from us to Iwi or an organisation. We don't own the IP; we think that IP should be owned by the community, so it's an approach that recognises others can do this as well as we can.

– Dominic Foote, NZ Housing Foundation

LEARNINGS FROM THE FIELD

Partnering with Māori

Investors can do more to increase their cultural capability and actively foster strong partnerships with Iwi, hapū and whānau, such as:

- engaging Māori early in the leadership and design of programmes and investments
- working with navigators or intermediaries
- designing service offerings specifically focused on the transfer of knowledge and IP through partnership
- taking a trust-based approach and providing flexible grant funding to support Māori-led kaupapa
- working under the guidance of a kaumātua
- undertaking concentrated learning programmes to better understand the history and context of Aotearoa New Zealand
- launching recruitment strategies aimed at building governance and management teams with genuine connections to Māori communities
- undertaking immersion experiences such as full-team overnight marae visits
- operating under one strategy for both Māori and non-Māori investments and initiatives, based on the principle that 'what's good for Māori is good for everyone'.

A general rule of thumb is, who looks and feels like the community, understands the complexities, who speaks the language? - that's who does the engagement.

– Keti Marsh-Solomon, Te Pai Roa Tika

FUND MANAGEMENT PARTNERS

The Impact Enterprise Fund was being managed by a joint venture between New Ground Capital, Ākina and Impact Ventures. All three partners acknowledged the inherent challenges of a three-way joint venture. Each also noted that the unique combination of partners' perspectives and experience had made the fund much stronger than it would have been if any one of the partners had not been part of it.

The partners had implemented regular, open communication, including almost daily calls. All partners took shared responsibility for the fund's success, including the functions of deal flow, origination, evaluation and execution. All partners also acknowledged the unique capability they each brought to the fund.

To date each partner had led two of the six investments made by the fund.

Investment opportunities were considered by two committees. First, an impact committee gave a simple 'yes/no' decision based on whether the opportunity was likely to align with the core impact thesis for the fund. If the impact committee approved it, the fund management team then engaged with the investment committee to seek agreement and from there, to progress to more advanced due diligence. The investment committee examined only the commercial terms of the opportunity. These two committees were completely separate from each other.

We're all bringing different strengths to the table. And that's been tremendously important. It's given us pause, to reflect on different people's perspectives, why they're thinking about things the way they are. And you will inevitably come out of those conversations, deliberations, with better-quality decisions.

– Roy Thompson, Impact Enterprise Fund

CO-INVESTORS

Co-investors in these case studies had shared in the development of pipeline opportunities as well as in due diligence on prospective investments. In some cases, one investor took the lead on the investment and created confidence so others could follow. In each case study, cornerstone philanthropic investors were identified as de-risking the initial investment.

The Tindall Foundation were in it; we felt we were in it together, so we took some bits from each other's involvement. It does help defray the risk, so we shared the risk with them.

– Peter Tynan, Foundation North

VENTURES

Active management of portfolio companies was enabling investors to contribute further to the success of the businesses in which they had invested, in areas in which the investor felt they could genuinely add value beyond financial capital.

The investors were providing support beyond the ventures that had already received their investment. As well, they were enabling and mentoring 'pipeline' ventures: entrepreneurs and organisations who asked for help to become investment ready or to 'panel beat' new ideas, products and concepts into shape.

LEARNINGS FROM THE FIELD

Enabling and supporting ventures

Investors are supporting ventures with:

- impact modelling
- impact management
- strategy
- finance
- budgeting and financial modelling
- advocacy
- mentorship and support
- ‘putting gas in the tank’ through grant funding to enable new funds and projects to get off the ground.

Learning by doing

Learning comes from doing and there are many ways for all investors to participate

In each case study, the investors noted that the opportunity to learn how to ‘do’ impact investment was a key driver for their investment. To varying degrees, this had been a successful outcome of the partnerships that were formed within each case study. This section of the report summarises some of the key learnings that emerged from investments into these funds and projects.

BRING A LEARNING MINDSET

The investors in these cases possessed qualities typical of commercial investors, such as sufficient appetite (and internal controls) for risk, an entrepreneurial mindset and strong financial and commercial capability. In early-stage impact ventures, there can be a lack of sufficient evidence or data to inform investment decisions fully. Critically, in these four cases, the early investors had the confidence to invest intuitively, based on the values alignment and personal beliefs of the key people leading the funds and ventures.

We figured if we’re going to do this, it’s going to be with people we want to work with. To be fair, that’s probably why we invested in Soul Capital.

– Leighton Evans, Rātā Foundation

These same entrepreneurial qualities, which allowed the individual investors to identify exciting opportunities, could become constrained by traditional mindsets and processes inside their organisations at an operational and governance level. In one case, an organisation’s wider culture was said to nearly ‘kill the deal’.

Respondents noted a growing body of evidence to suggest that impact investment was a solid commercial proposition that aligned easily with trustees’ fiduciary duties. They reported that philanthropic trustees could still take a binary view of their responsibilities and were comfortable with either granting or investing, but needed more confidence when making decisions at the intersection of the two. Similarly, within the philanthropic organisation’s management team, if it was unclear whether the impact investment relationship sat with the commercial team or with the granting/funding team, it could ‘fall through the cracks’. They said to avoid this, it was helpful to assign the relationship and clarify who was responsible for it right from the outset.

They noted that impact investment required a paradigm shift, away from a culture of maximising profit in one sphere and ‘giving back’ in another, towards a culture of balanced returns across multiple dimensions.

Those that aren’t doing it, what they need is evidence and benchmarks, which is another way of saying they need someone else to lead to build that stuff. I would say – think about why your organisation exists and if it is for a particular mission that’s social or environmental, then perhaps it’s your mandate to lead on that stuff.

– Jamie Newth, Soul Capital

The challenge for the funds in the early days has been that they've attracted a lot of philanthropy. This is not a long-term solution, as philanthropic investment can sometimes say, 'Oh, well, if it is not performing then we'll just call it a gift; we'll write it off as philanthropy', rather than it being a proper grown-up wholesale investment proposition. This progression in maturity is crucial to develop the sector. Impact funds must be sophisticated and attractive to institutional investors.

– Carl Vink, CEO, Whakatupu Aotearoa Foundation

WORK WITH VALUES-ALIGNED FUND MANAGERS

Some of the philanthropic investors were grappling with the question of whether to develop in-house direct investment capability to support their impact investment efforts, or to work with external fund managers who had the relevant expertise and networks. They identified benefits and drawbacks in both approaches. An in-house team could ensure certainty of strategic alignment with the organisation's broader agenda; but working with external fund managers could open up opportunities for greater deal flow through their established networks and processes, as well as expertise about impact and appropriate experience in managing relationships with impact ventures.

When looking for a fund manager, the philanthropic investors in the study gave weight to whether the fund manager had strong relationships to communities, as well as their understanding of impact, commercial capability and alignment of values. They noted there should be both a values alignment and a respectful degree of separation between fund managers and investors, so the unique perspective and expertise of the fund manager was not unduly constrained.

We didn't see a role for ourselves in managing those deals, per se; we see that as a fund manager's job. It should be similar to, but not the same as, how we run the rest of the investment portfolio and that's a function of not wanting to have the whole staff doing that.

– Peter Tynan, Foundation North

To be in a position of philanthropic capacity, people (with high net worth and family offices) have either been successful or inherited the fruits of previous generations' success. With that comes influence ... so when we talk about partnerships, values alignment is necessary.

– Deb Shepherd, Soul Capital

IDENTIFY THE RIGHT OPPORTUNITIES

As mentioned earlier, investors spoken to for this research declared their intentions to provide catalytic, restorative or transformative capital. They aimed to enable communities to define and realise their own cultural, social and economic potential. They were looking to invest in ventures that could reverse or minimise environmental damage.

Most participants in this research aimed to contribute, to the fullest extent they could, to the success of the ventures in which they were investing to drive these outcomes. Many were working beyond their day job and at the edge of their remit, because they believe in the possibility of driving transformational outcomes.

Clearly, these types of investors are crucial to the early days of building the Aotearoa New Zealand market. However, the message across all case studies was clear:

Investor enthusiasm and commercial experience should not be mistaken for expertise in what is most beneficial for target communities.

We have a tendency as investors to say, 'I know everything. I can do a quick impact model for that business over there and tell you what good you're doing for each other, so let me just quickly do it, it'll be helpful' – but the business knows best, so just listen.

– Jackson Rowland, Impact Enterprise Fund

In making investment decisions, investors and fund managers in all four case studies weighed up the:

- connection to whānau
- evidence
- lived experience of the organisation founders and team
- professional experience of the people involved
- understanding of the organisation founders or project developers about the particular issues the venture was designed to address

In keeping with typical early-stage investors, Soul Capital and the Impact Enterprise Fund prioritised the company founders' capability and experience. Both fund managers needed to be convinced of 'mission lock' (the extent to which the desired impact could be separated from the activities of the business) and looked closely at whether the company founders demonstrated genuine and detailed understanding of the issues they were trying to address. This was a pragmatic approach for establishing a proxy understanding of whether the venture would be able to provide a meaningful solution to a given problem that was aligned to the priorities of the fund. Neither fund manager was looking for the perfect model; in fact, both acknowledged that models necessarily evolve over time, as do the issues they are trying to address – but the ability of the founder to deliver a responsive solution is key.

The Housing Foundation and Te Pai Roa Tika, as both project developers and investors, took a more whānau- and hapū-centric approach to identifying potential investment opportunities. Both had established mechanisms to understand and incorporate the needs and aspirations of whānau from the earliest design stages.

In Te Pai Roa Tika, this approach was implicit from the outset and was fundamental to the kaupapa. The management team set aside significant time in the early stages to listen to, and establish strong connections with, whānau, hapū and Iwi. As with with the other three case studies, the lead time to deploy capital into an initial portfolio of projects and investments had been longer than initially anticipated. However, the investors in Te Pai Roa Tika indicated high confidence that this whakapapa gave Te Pai Roa Tika the weight and credibility to bring forth relevant, high-impact investments and create enduring change.

Paying Aunty to cook in the kitchen becomes part of the project, because if people aren't fed, they don't turn up; if they don't turn up, they don't talk, you don't get the insights, you don't get the movement that you need around the marae or around the project.

– Jodi Hayward, Te Pai Roa Tika

In contrast, when the Housing Foundation was initially established in 2002, it was 'product driven'. It saw its role as being to emulate international housing models and make them work in New Zealand. In recent years, in an intentional strategic shift led by its CEO and trustees, the Foundation has undergone a significant transition – from focusing on the delivery of houses (the product), to understanding the needs of those who are affected the most by poor, inadequate housing (the people). As the evidence shows that Māori are disproportionately disadvantaged across a number of outcomes related to housing, this change in approach necessarily led to a significant shift in the way the foundation undertook to work with Iwi and Māori organisations. Partnership with Iwi, hapū and whānau had become core to the foundation's approach to designing and delivering its products and services. While the foundation still builds houses, it also focuses on providing the services that enable whānau to enter home ownership.

In identifying appropriate solutions to the issues of focus, the participants highlighted the importance of working closely with ventures to understand their whakapapa – what is important to them, where and how the impact occurs and the evidence of that impact.

These investors acknowledged that a market-based solution was not always the best approach. Sometimes the government, Iwi or other organisations were better suited to deliver the outcomes sought. The investors advised that organisations should first understand what is needed by the communities in which they hope to invest, then determine whether a particular commercial enterprise or investment is the right solution.

Everything has to have a whakapapa. So we go through a process of whakapapa, whanaungatanga, wananga. We understand what the needs of a client or partner might be and we try and meet them.

–Jodi Hayward, Te Pai Roa Tika

LEARNINGS FROM THE FIELD

Learning by doing

The case study participants gave the following advice for philanthropic organisations to ready themselves for impact investment:

- A 'learning' mindset is needed among the organisation's trustees and leaders.
- Enable and demonstrate strong individual leadership and willingness to try.
- Be guided by the growing evidence base that is developing as impact investing matures globally.
- Collaborate; share the learnings and 'wins'.
- Make sure it is clear who is responsible for the fund manager relationship, so it gets the focus it requires.
- Work with fund managers who are aligned to your values.
- Take the time to identify meaningful impact opportunities.
- Do not mistake enthusiasm and commercial experience for expertise in what is most beneficial for the target communities.

LEARNINGS FROM THE FIELD

Assessing investment opportunities

When considering potential investments, the participants asked the following questions:

- Where and how will the impact occur as a result of the business (impact model)?
- Can the positive benefits of the business be separated from its core products/services/activities (i.e. is the impact embedded into the business model)?
- To what extent have target communities informed and influenced the approach, product or service?
- Does it make sense for our organisation to invest? Is it aligned to our strategy? Does it align with our values?
- Is the governance approach fit for purpose?
- Who are the business owners? Who are the key people? What is their whakapapa? What is their experience?
- Can we build a relationship with them?
- How well do they understand the problem(s) they are working to address?
- Does the opportunity stack up commercially?

Measuring impact

Measuring, understanding and managing impact is complex but necessary

Impact measurement, for the purposes of investment decision making, was a priority for all of the investors interviewed for this research. In each case study, impact reports were provided to investors. The level of rigour and detail required in impact reports was determined by the investors, fund managers and the capability and capacity of the portfolio companies and projects.

The Awhi Fund and Impact Enterprise Fund collaborated closely with the ventures, at the outset of the relationship, to define priority outcomes and indicators. They drew from the Impact Management Project (IMP), which is widely considered global best practice for impact measurement. For these funds, the approach to understanding impact was necessarily pragmatic and determined by the capacity of their own team and portfolio companies to undertake detailed measurement (and improvement) of impact.

First and foremost, measuring impact is hard. It's especially hard when you go from the most obvious level to the next level, in terms of truly understanding what is the theory of change and how best are we going to see that in action over time?

– Deb Shepherd, Soul Capital

Both fund management teams invested time into working with portfolio companies to develop their skills and capacity for measurement. Both were wary of placing a burden of reporting on early-stage companies that could not be achieved or maintained.

We have a really close relationship with our portfolio and an active management approach. So we are regularly communicating and working with our portfolio to help them along their impact measurement journey. We work with them to grow their impact management capability.

– Jackson Rowland, Impact Enterprise Fund

Similarly, the management team of Te Pai Roa Tika was developing a set of outcomes and indicators that were specific to its kaupapa and its particular investment opportunities. These were expected to vary across different hapū, businesses and projects. Te Pai Roa Tika was aware that impact investors globally were preferencing the IMP framework for impact measurement. Their approach to letting whānau voice determine the outcomes and indicators was consistent with the fundamental principles of the IMP. They were combining global and local metrics that were being identified based on their resonance with whānau and their relevance to understanding progress in the Taitokerau Māori context.

The Housing Foundation was working with a research partner to undertake a longitudinal study that aligned to the government's living standards framework and measured the change in wellbeing outcomes for whānau. A concise summary of their research findings was to be provided as an impact report to investors. The Housing Foundation team designed the investors' impact report in collaboration with their key investors, the Tindall Foundation, so

There's always a risk that we get captured by the stories or narrative. And we see that happen in the impact world. Metrics and data are very important. With a sample of one, I can tell you anything I want. I'm very reluctant to read just narrative reports about how something is going, because I know that the author is trying to convince me of their position or world view. And if they're any good at their job, I will read it and go, 'Well, that sounds great'.

– Carl Vink, Whakatupu Aotearoa Foundation

it would meet their requirements and would not be overly complex.

Measurement is paramount. We don't have internal capability at all. We're very comfortable buying it in from people that understand us, our vision, our strategy, where we're going.

– Dominic Foote, NZ Housing Foundation

While the participants generally agreed that understanding impact was important, they said the language and techniques required to make it meaningful were 'not there yet'. There was uncertainty, and some scepticism, about the value of standardised measurement and metrics, but there was enthusiasm for a principles-based approach. In addition, there was an appetite for a future regulatory requirement for all companies in Aotearoa New Zealand to produce a standard impact statement, similar to a company's annual return.

Some of these investors perceived themselves to be in a context in which the investment opportunities they were considering were 'competing' against each other within a finite pool of available capital. They viewed measurement as a mechanism through which they might, in future, objectively qualify and quantify the impact of their investments. This was perceived as potentially helping investors to avoid uncomfortable trade-offs and subjective judgements that could preference one particular community or solution over another.

By contrast, some of these investors took a more 'generosity'-based approach in which measurement, while important, was not a key determinant of investment decisions.

How we might measure the success of the Impact Enterprise Fund, for example, would be quite different to how we might measure the success of Te Pai Roa Tika. If it's even possible for me to measure the success of Te Pai Roa Tika, it's not from my world view.

– John McCarthy, The Tindall Foundation

LEARNINGS FROM THE FIELD

Impact measurement and management

When considering or undertaking impact measurement and management, key learnings from these case studies were as follows:

- Whānau and community voice are key to understanding impact, and investors should work with intermediaries who have connections to the communities they want to understand.
- Ask the ventures and portfolio companies to determine what the appropriate metrics are, but support them to access resources, tools and relevant frameworks.
- It is critical for both for investors and ventures to align expectations with capacity and take a pragmatic, principles-based approach to understanding impact.
- Active management of portfolio companies supports both strong relationships and a better understanding of impact. Anticipate the resource requirements for embedding impact management as a core business function.
- Measurement is not the end point; it is the means for gaining strategic insight and learning.
- Philanthropic organisations can support the development of the impact measurement field by requiring and enabling fund managers to undertake impact management and share their learnings.

Looking forwards

Philanthropic capital is critical to building the impact investment market

These investors had confidence that the ‘supply’ of kaupapa- and purpose-led businesses would continue to increase.

We’re really seeing this next wave of entrepreneurs and great businesses. A lot of those are going to be founded with the kind of embedded purpose or mission of solving a big problem.

– Chris Simcock, Impact Enterprise Fund

Nonetheless, they acknowledged that unlike profit-led businesses, kaupapa- and purpose-led businesses were not benefitting from having a supportive and well-developed start-up eco-system. This was negatively affecting both the ‘supply’ (venture) and the ‘demand’ (investor) side of potential impact investments.

The investors indicated that raising funds, finding deals and making impact investments had taken longer and cost more than they anticipated from the outset.

Philanthropic organisations and central government were seen as having a key role in the development of the impact investment market, as both investor and funder of eco-system organisations. The lack of impact-capable advisors and service providers was highlighted as being a problematic gap in the current eco-system.

How do we mobilise this massive pool, the young professional group, who have a lot of values alignment and have great skill sets but just don't know how to contribute? They can add so much value without even realising it.

– Chris Simcock, Impact Enterprise Fund

There was recognition that for meaningful impact investment to take hold as an alternative to responsible or Environmental, Social and Governance (ESG) investing in global capital markets, significantly more diversity was needed among asset classes, funds, products and actors, to accommodate diverse sources of capital, intentions and expectations.

Developing opportunities that would attract large institutional investors, pooled capital, collaboration and shared learning was seen as being key.

We’re a small country. We desperately need to work together. We see duplicate organisations forming up all the time in the philanthropic space and the conservation space, and everyone builds their own infrastructure and there are costs to that.

– Roy Thompson, Impact Enterprise Fund

LEARNINGS FROM THE FIELD

Looking forwards

To strengthen and scale the market, the case study participants signalled strong support for:

- continued funding of impact eco-system organisations that provide support to impact ventures and businesses, including impact investment readiness, impact consulting, and commercial advisory and advocacy services
- provision of operational and readiness grant funding to ‘build the pipeline’ of investable deals
- identifying and building pathways for next-generation professional advisors to engage with the market
- pooling philanthropic capital into one or more impact funds.

We're not going to conform to impact investment frameworks that don't work for our people.

We're going to talk to our people. We're going to use the tikanga framework, or a kaupapa framework that helps to have those conversations.

And then my people will tell your people what 'good' looks like for us.

And if we're ever in your realm, you tell us what 'good' looks like for you.

And we'll figure out if we can help. Because from a Te Ao Māori perspective, it's not one way.

– Jodi Hayward, Te Pai Roa Tika

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Roy Thompson – New Ground Capital, Impact Investment Fund

APPENDIX:

Overview of case studies

SOUL CAPITAL (AND THE AWHI FUND)

Soul Capital has two funds with philanthropic organisations as investors.

THE AWHI FUND (The Awhi fund was the focus for this case study).

Entity type: Fund Manager (registered NZ Company)

Awhi Fund mandate: Targets highly scalable, early-stage ventures at non-concessionary financial returns. One of the fund's requirements is that impact be 'embedded' into the business model in such a way that it can't be taken out and the positive benefits scale as the business scales.

Time period: 10+ years

Date of establishment: 2014 (Soul Capital), 2017 (Awhi Fund)

Portfolio companies and priority outcomes

Ooooby

- Improved market access for small-scale farmers and producers
- increased supply of locally, sustainably grown food to communities (food system resilience)
- reduction in food and packaging waste.

Kara Technologies

- Improved access to educational and audio visual content for users of sign language using AI algorithyms and digital humans.

CoGo

- Shifting consumer behaviour to more sustainable consumption choices with a focus on carbon footprint measurement.

Grounded Packaging Co

- Reduction of waste to landfill through sustainable packaging.

Regen

- Reduction in irrigated water use
- improved pasture growth
- increased profitability and wellbeing of farmers
- reduced nitrate leaching

As early investors into these companies, the Awhi Fund is contributing to their growth, and therefore the delivery of their priority outcomes.

TE PAI ROA TIKA O TE TAITOKERAU

Te Pai Roa Tika o Te Taitokerau is a Māori investment kaupapa. The Te Pai Roa Tika tikanga framework is informed by *He Tangata, He Whenua, He Oranga* – a pivotal piece of research undertaken by Amokura Iwi Consortium to define and advance the Māori economy in Taitokerau. The kaupapa is further supported and enabled through the development of a mechanism for engaging whānau and hapū in strategic definition, insight and decision making. To date, the kaupapa has been Iwi and grant funded and financial return expectations vary according to investment opportunities, which are being identified through whakapapa connection to the Te Pai Roa Tika Kaupapa.

Mandate: Based on a kaupapa and tikanga framework developed with Te Taitokerau whānau, hapū and Iwi.

Entity type: Māori-owned and -led trust, development company and investment fund.

Focus: Wai, Kai, Whenua, Whare, Whai rawa, Tangata.

Time frame: Intergenerational

Date of establishment: Still in the fund-raising and establishment phase (2021).

Stated positive outcomes:

While it is still in its early days, key reported outcomes to date include the positive effects on individuals within the kaupapa. The management team has been empowered to design and lead Te Pai Roa Tika in accordance with Te Ao Māori values and principles. Anecdotally, this has had an empowering effect on the team, who report being able to take a healing path through their contribution to their whānau.

The businesses and whānau who have engaged with Te Pai Roa Tika have also signalled positive experiences, which in itself is perceived by the management team as an immediate-term positive outcome.

IMPACT ENTERPRISE FUND

Impact Enterprise Fund is a venture-capital-style 10-year fund with a 15% IRR financial return threshold and a focus on expansion-stage businesses, ideally looking to expand internationally. Businesses must be based in Aotearoa New Zealand and demonstrate strong revenue.

Entity type: General partner/limited partner structure, where the fund managers are the General Partner of the Limited Partnership and the investors are the Limited Partners of the Limited Partnership.

Mandate: Provides growth capital to businesses who deliver on social and/or environmental impact, alongside attractive financial returns. This fund has two primary objectives: delivering market-rate financial returns and delivering tangible societal and environmental outcomes. Early focus has been placed on clean energy, agriculture technology, education and healthcare, but the fund's mandate is broad and its approach to sourcing is not exclusive to these sectors. As with Soul Capital, this fund requires that impact be embedded or 'mission locked' into the business model.

Investments and priority outcomes:

LearnCoach
- improved education outcomes
- greater life and career opportunities to students everywhere.

ZeroJet
- reduction of environmental harm, in the form of air and water pollution, from each unit sold.

Grounded
- Reduction of waste going to landfill.

Waikaitu
- substitution of chemical-based fertilisers, stimulants and crop-protection products by organic products, leading to improved soil and insect health
- carbon sequestration
- removal of nutrients running off into waterways
- reduction of methane emissions caused by grazing animals.

Melon Health
- improved health and wellbeing outcomes for patients suffering from chronic conditions
- reduction of strain on the health system.

Zincovery
- Reduce environmental toxins created by the galvanising industry.

As early investors into these companies, the Impact Enterprise Fund is contributing to their growth and therefore, to the delivery of their priority outcomes.

NEW ZEALAND HOUSING FOUNDATION

Housing Foundation is a charitable trust that delivers affordable housing options for low-income working New Zealand households unable to purchase their first secure, warm, dry home. Housing Foundation also collaborates and partners with Iwi and other organisations in the sector.

Entity type: Charitable trust that develops projects producing new affordable housing for direct investment.

Mandate: To create sustainable communities through its affordable housing developments, which are predominantly located in Auckland and Christchurch.

Date of establishment: 2001

Investments and priority outcomes: In 2017 Housing Foundation developed two impact investment products:

1. SHARED HOME OWNERSHIP HF co-owns the property in partnership with whānau with the goal of supporting whānau to purchase the portion (the share) owned by HF at a pace the family can afford and commit to. The share in the property owned by HF is funded through the impact investment. As whānau buys the HF share of the property, HF repays the investor their investment plus the increase in value of the property between the time the investment was made in the property to the point the whānau purchased the HF share in their house. The investor receives 75% of their investment plus the increase in value of their investment; HF retains 25% of the investment as cost recovery and for reinvestment in another shared ownership property. The investor has the option to exit with 75% of the purchase price, or reinvest with HF into additional properties. Importantly, the investor exit is triggered by the family's decision to purchase the equity from the investor. The investor cannot force this. Average time for whānau to transition to full ownership is 5 years.

2. RENT TO OWN Rental income is based on an affordable rental amount calculated as 30% of the household gross annual income. Properties yield an annual rental income return to investors of approximately 2–3%. Typically seen as a pathway to Shared Home Ownership.

Stated positive outcomes of HFNZ community developments:

Housing Foundation has helped to create 900+ houses in sustainable communities across 14 different locations, mostly in Auckland and Christchurch, with some smaller developments in Kaikohe, Kaitaia and Coromandel.

A comprehensive independent survey (undertaken by Nexus and commissioned by HFNZ) found that homeowners who had participated in NZHF developments reported improvements on many dimensions, including:

- Quality of life
- security of tenure
- safety
- health
- more crime free
- indications of reduced financial stress
- neighbourly helping
- house meeting household needs
- sense of community.

In one HF development, 81% of surveyed homeowners said life had become better since moving to the community.