

Impact Linked Compensation Convening #1

*In partnership with the ImPact with funding
from the Tipping Point Fund on Impact
Investing.*



THE IMPACT

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Convening Agenda



- Welcome
- Research framework
- Initial Results of Survey
- Speed Networking
- Mini-Case Study - Prime
- ILC Reflections
- Focus Groups

Research Team



Aunnie Patton Power



Peter Chakaniza



Riannah Burns



Juan Jardón-Pina



Advisors



Karim Harji



Ellen Maginnis



Anne Tucker

With thanks to our collaborators



Research Framework



Three fundamental parts of compensation: Yardstick to measure, mechanism to link performance and pay, and governance to ensure mechanism working (Reward Value, 2022).

Decision Factor 1:

Yardstick

- How do managers select metrics that reliably reflect impact without adding significant cost burden?
- How are managers integrating stakeholder voices into their data?

Decision Factor 2:

Mechanism

- Short term or long term incentives?
- Signalling effects?
- Penalties and rewards
- Amount tied to impact

Decision Factor 3:

Governance

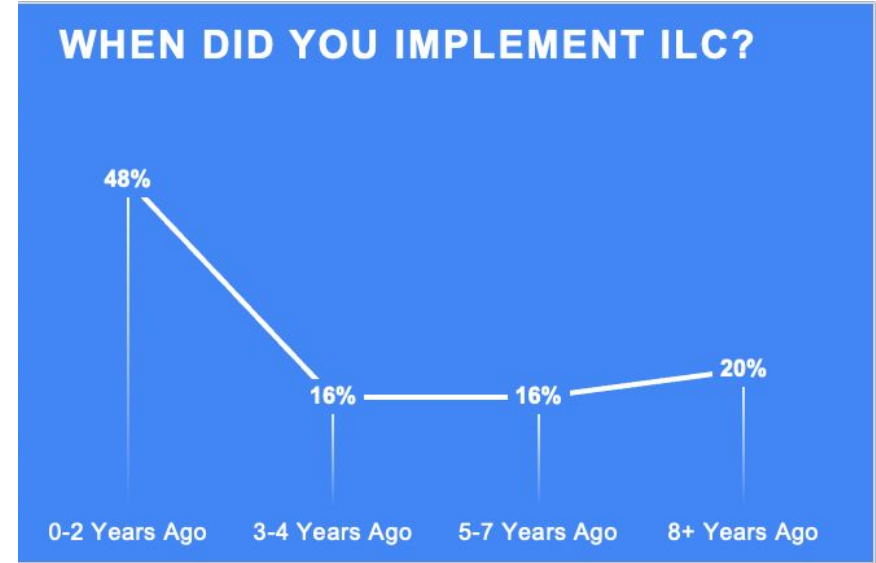
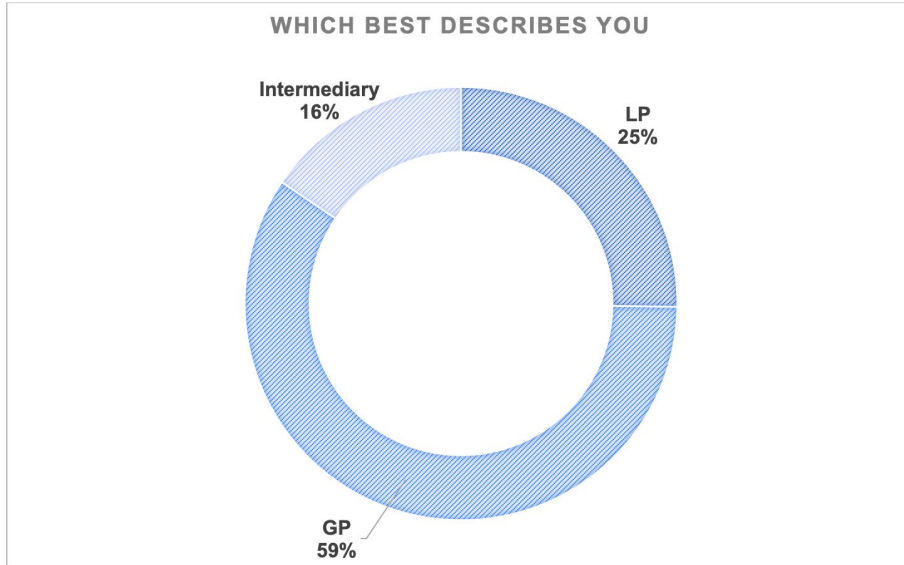
- Soft or participatory governance
- Balance setting ambitious targets with flexibility to adapt as fund evolves
- Role of trust

Results - Sample



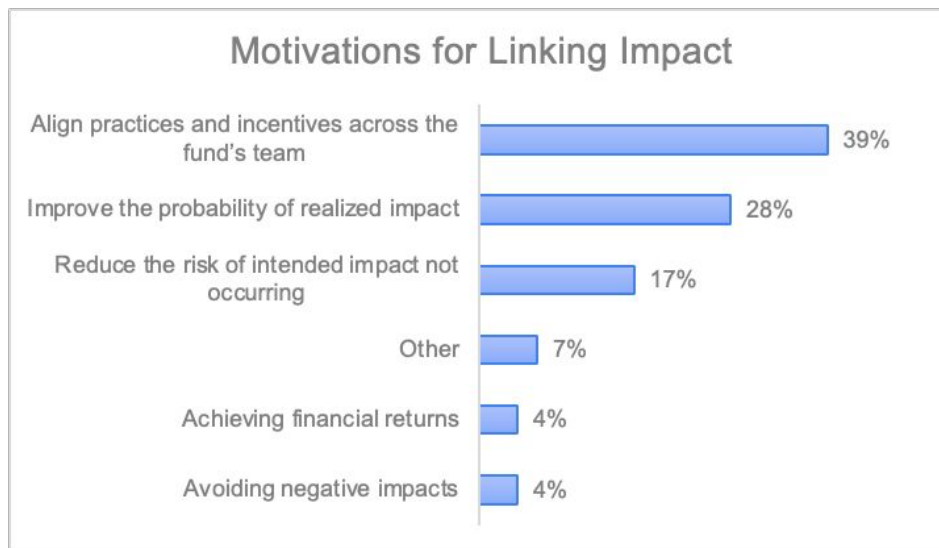
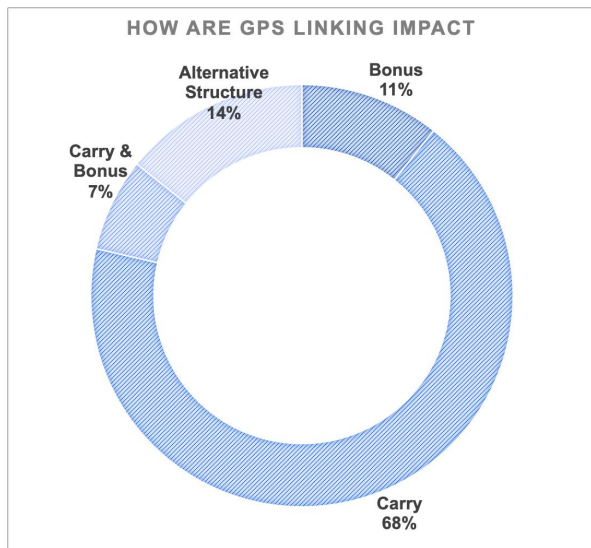
- 131+ responses
- 61 GPs
 - 28 with ILC
 - ~75 % are private equity funds
- 26 LPs
 - 9 invested in vehicles with ILC
 - Mix of Family Offices, Foundations, Individual Investors & DFIs
- 16 Intermediaries

Who is using ILC?



- Significant interest from GPs
- Majority of ILC implemented in last two years

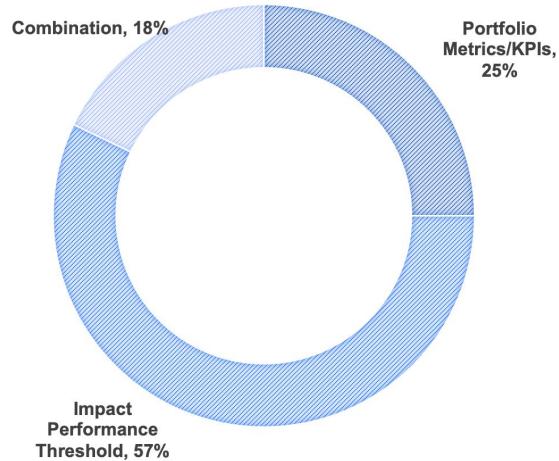
How and why are they linking impact?



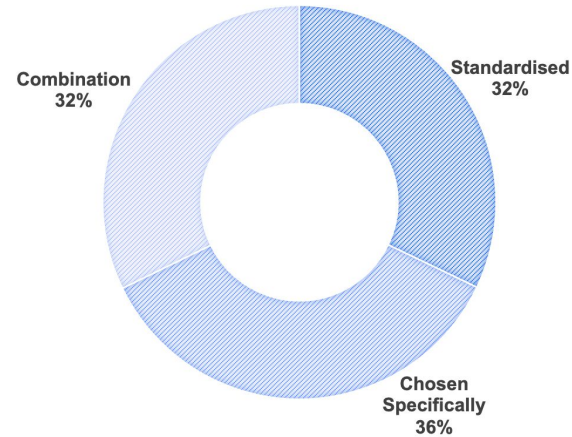
- Largely carry at risk structures: consistent with PE dominant sample
- In general, ILC costs paid out of management fees (72%)

How and why are they linking impact?

WHAT IMPACT MEASURE IS YOUR COMPENSATION TIED TO?

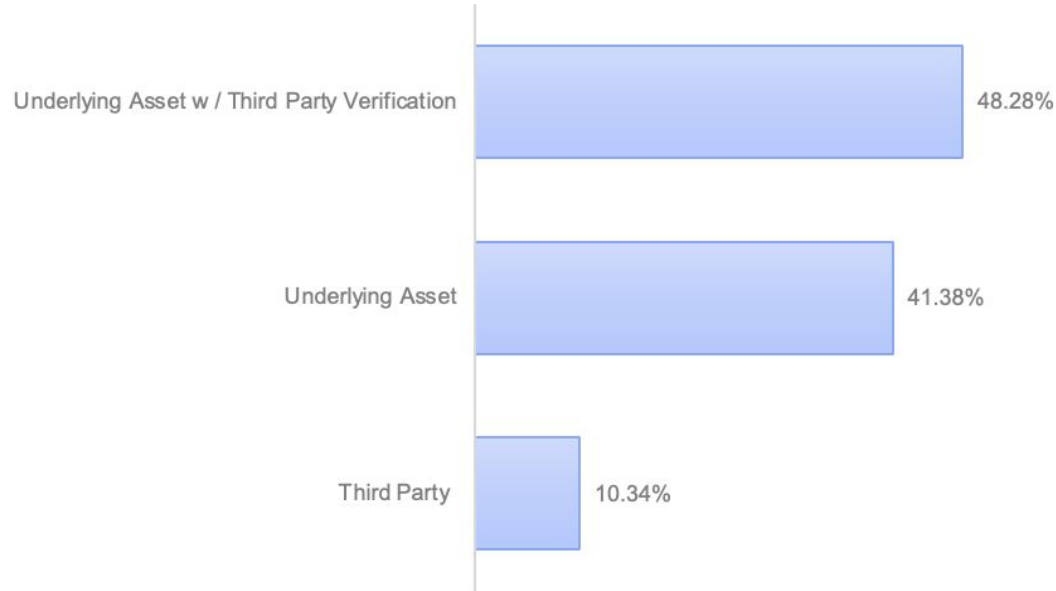


ARE THESE MEASURES STANDARDISED, SPECIFIC OR A COMBINATION OF FACTORS?



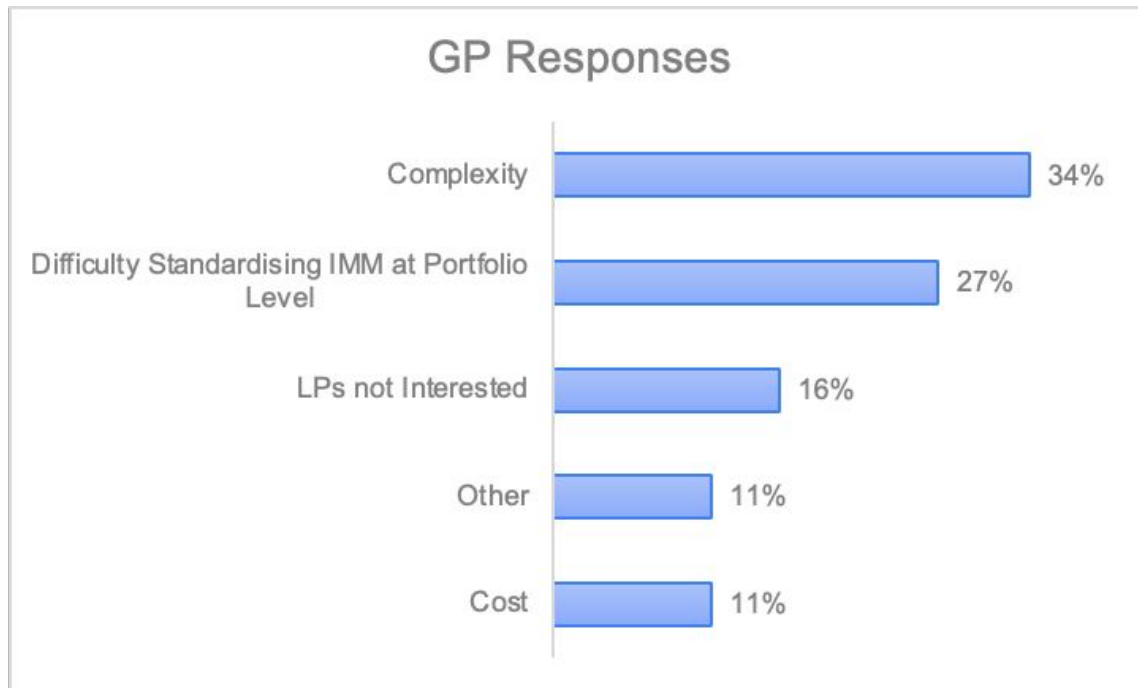
- Majority of compensation tied to exceeding performance threshold
- There is no one favoured approach, can be either bespoke, standardised or combination of factors

Who is providing the data?



- Underlying Asset are main providers with Third Party Verification

Why aren't GPs linking impact?



- 34% of respondents plan to link impact to compensation in their current or next fund
- 54% of respondents might link & need to learn more to do so

What do LPs who invest in ILC think?

88% GPs who use ILC received mostly or somewhat **positive** feedback from LPs on compensation structure.

90% LPs change their assessment of **IMM governance** in due diligence when a fund manager uses ILC. *Does ILC enhance governance?*

What do LPs who haven't invested in ILC think?

nascent industry

no market demand

lack of disclosure

no standard approach

long term partnerships

measurement challenges

Challenges

operational effort - imm articulate metrics
conflict of interest real and ambitious tgts
early stage companies
investor confusion robust frameworks
uncertain performance
educating lps trust in impact data
flexibility staff concerns
standardised metric
relevant examples

Unintended Consequences

no standardisation
decoupling i and f return
measurement bias
measurable impact
positive reputation
limited scope
definition difficulties

superficially implemented
cost and capacity
investor-manager misalign
talent attraction
cost and time
double standard
measurement confusion
over complication
operational burden
perverse incentives
impact underperformance

ILC Case Study



Anne Tucker
*Faculty Director, Legal Analytics &
Innovation Initiative at Georgia State
University College of Law*



Sarah Kearney
*Founder & Executive Director
Prime Coalition*



Case Study: Prime Impact Fund



Prime Coalition (Prime)
501c3 public charity.
Steers and influences capital toward market-driven climate solutions. Past ten years focused on large-scale GHG mitigation, interested in mitigation, adaptation, and resilience over next ten years.

Mission Alignment Committee (MAC)
Volunteer advisory committee appointed by Prime to oversee impact and additionality.

After PortCo exit, it reports Composite Impact Score, determined by Mission Lock Criteria

Prime Impact Fund
\$52MM 100% catalytic capital seed fund for gigaton-scale climate impact.

Fund Advisory Committee (FAC)
Board committee that governs of all Prime's investment programs.

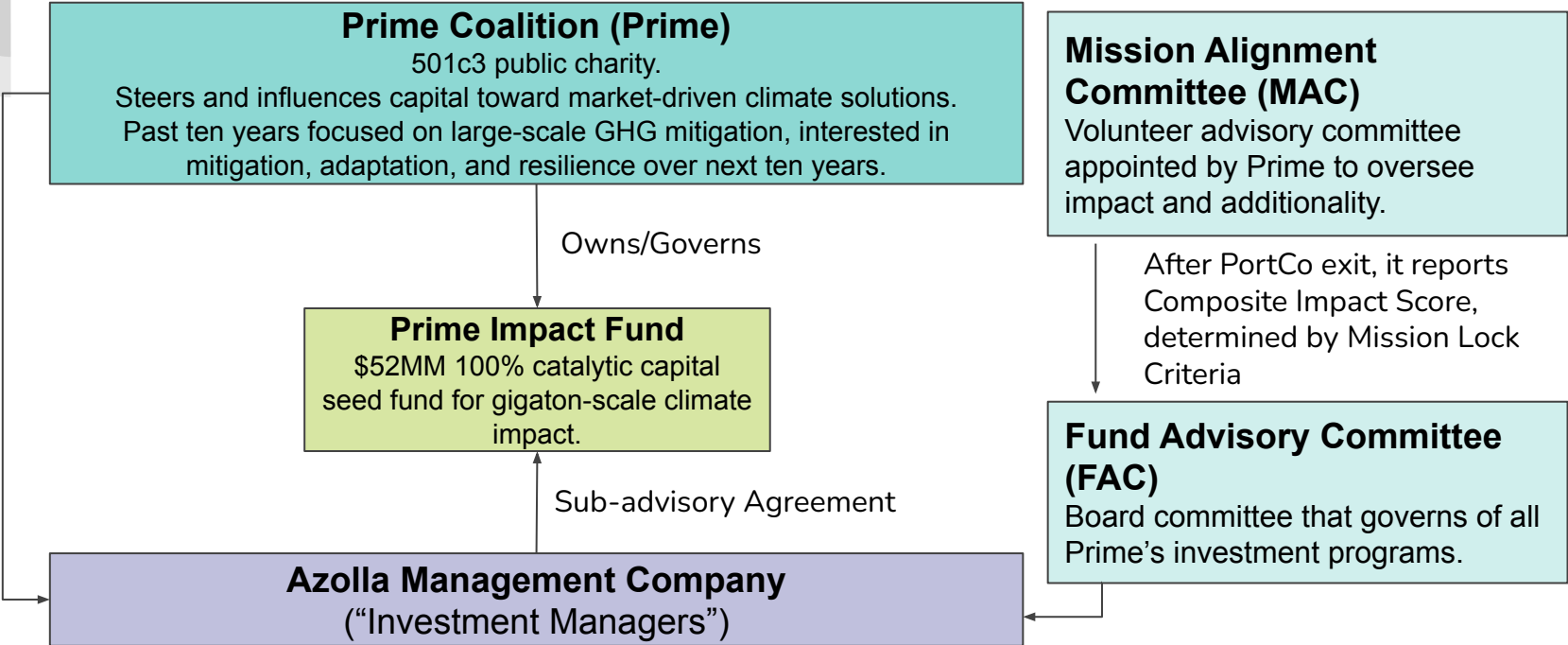
Azolla Management Company ("Investment Managers")

When Prime receives distributable proceeds, FAC approves Management Incentive Payments (=15% net positive profits x Composite Impact Score) for the exited investment

Investment manager compensation: management fees + Management Incentive Payments (MIP)

Owns/Governs

Sub-advisory Agreement



Case Study: Prime Coalition / Azolla Fund I



Prime Coalition (Prime)
501c3 public charity.
Steers and influences capital toward market-driven climate solutions. Past ten years focused on large-scale GHG mitigation, interested in mitigation, adaptation, and resilience over next ten years.

Mission Alignment Committee (MAC)
Volunteer advisory committee appointed by Prime to oversee impact and additionality.

General partner, limited partner with impact governance, service provider

Azolla Fund I
\$230MM venture fund for gigaton scale climate impact.
Catalytic sleeve + Full Cycle sleeve.

Investment advisor

Azolla Management Company
("General Partners")

Mission Lock Criteria
Carry awarded =
 $50\% \times (\text{No. PortCos meeting MLC}) / (\text{Total PortCos exited})$

Mission Alignment Fund
Foregone carry;
Donated to remediate harm and/or
Redeployed to mission-aligned nonprofit programming

GP compensation: management fees + 20% carry

50% of carry available as base plus 50% gated by Mission Lock Criteria

Reflections on ILC



Ellen Maginnis
*Independent Consultant and
Senior Advisor, BlueMark*



Christina Leijonhufvud
*CEO, BlueMark
Co-Founder, Tideline*



Focus Groups



Karim Harji
Director, Oxford Impact Measurement Programme



Room #1: Yardstick: Choosing the right metrics and/ or thresholds

Karim Harji and Riannah Burns

Room #2: Mechanism: Governance: Aligning expectations of GPs and LPs around impact performance

Anne Tucker and Juan Jardon-Pina

Room #3: Governance: Dealing with unintended or negative effects of ILC

Ellen Maginnis and Peter Chakaniza

Room #4: Yardstick: Perceived high costs of accurate data collection

Aunnie Patton Power and Samantha Silberstein

Brainstorm strategies for addressing challenges.

Recordings will not be released.

Impact Linked Compensation

Next Steps

- Please share survey with peers
- Scheduling 1-on-1 interviews
- 2nd Convening



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Survey & More Info

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Get in touch

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