

IMPACT REPORT: Nordic Investors

A survey and analysis of impact investing in the Nordics 2019



Tove Rådelius, Investment Manager at Norrsken Foundation:

“We believe that impact focused businesses thrive and are better investment opportunities due to their ability to attract the best talent, customers and capital.”

INTRODUCTION

The potential for investments in sustainable development

In September 2015, 193 countries signed and adopted the 2030 United Nations Agenda for Sustainable Development and its 17 Sustainable Development Goals. UN estimates that the global gap to implement the goals ranges from US \$3 trillion to US \$5 trillion annually. Looking at it from another angle 'The Better Business Better World'-report shows that solutions for the SDGs represent a US \$12 trillion market in commercial opportunities and a potential of 380 million jobs to be created by achieving the SDGs. As a matter of fact there is US \$200 trillion in private capital on global financial markets that increasingly could be invested in the SDGs. The question then becomes how we can accelerate investments in sustainable solutions?

The aim of this report

The Nordics are known for their progressive approach to social and environmental solutions and sustainable

companies. But just how is impact investing approached in the Nordics? There are a few global impact investor surveys but we have not come across any reflecting the view of private investors in the Nordics.

This report explores underlying motivations, challenges and risk perceptions surrounding impact investment. We aim to bring data driven insight into the emerging practice of impact investing in the Nordics. Through this report we hope to provide a better understanding of the impact landscape and set up a benchmark for future comparison.

Who would benefit from this report?

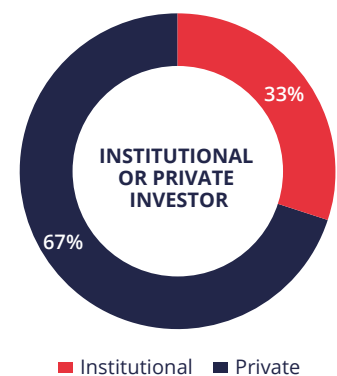
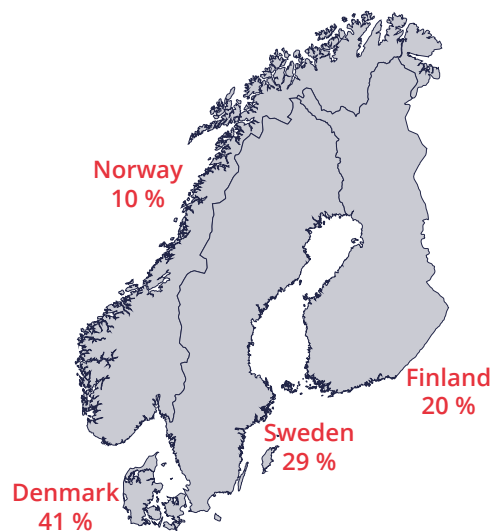
We believe this analysis and report will benefit investors, whether they already invest for a positive impact on people, society and the planet – or not. The primary focus is on the approach and activities of private investors, such as business angels, family offices and venture capital funds. This is contrast-

ed with institutional investors. Other stakeholders, such as investor networks, capital funds and policy makers can also get a first image of a growing Nordic market for impact investing.

Who participated in the survey?

84 investors from across the Nordics participated in an online survey. We reached the respondents through our network and via social media. The survey was presented as a survey for a report on impact investment. This approach can create a bias as investors with focus on impact are more likely to participate in a survey about impact investment. For this reason, this report cannot claim to create a complete picture of the Nordic impact investor landscape. Please refer to the end of this report for a more thorough insight on methodology.

Furthermore, due to our Danish outset there is an overrepresentation of Danish investors, which we hope to correct in our next report.



SUMMARY

Impact Investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. It is growing in the Nordics. 92% of Nordic investors, both private and institutional, perceive impact investing as a good way to solve shared societal challenges. However, as an investor you do not have to compromise your financial return when seeking a positive impact on the world. 83% of Nordic investors, investing in impact, expect their impact portfolio to deliver at or above the market rate of return.

Some investment opportunities are more attractive to investors than others. Private Nordic investors focus their capital mostly in their local market, and on sustainable development in areas of renewable energy, healthcare and education for all. Despite SDGs being widely implemented in the Nordic society and business environment, few investors seriously use them to develop their impact investment strategy.

Since this is a new field of financing and an immature market there are still challenges and obstacles to overcome before we see impact investment go mainstream. 67% of Nordic investors ask for more data on past performance of impact portfolios. However, 70% are not yet measuring or reporting on the impact of their own portfolio.

Please read on and find more details inside the report.

WHY INVEST WITH IMPACT?

92% believe impact investment is a good way to meet social and environmental goals

72% believe impact investment presents financially attractive opportunities

83% expect their impact portfolio to deliver at or above market rate of return

WHY NOT INVEST WITH IMPACT?

67% need more data on past performance of impact investments

54% need better sources of information and more transparency

54% think impact markets have poor liquidity and exit options



HOW TO INVEST WITH IMPACT?

Financially driven investors:

11% invest for a financial return only

48% invest for a financial return first, then impact

Impact driven investors:

8% invest for impact only

33% invest for impact first, then a financial return

70% are not measuring or reporting on the impact of their portfolio

40% expect their impact investment to outperform traditional investments in the long term (+7 years)



WHAT DO RESPONDENTS INVEST IN TO ACHIEVE IMPACT OBJECTIVES?

55% of investors have more than 80% of their portfolio in tech focused solutions

Most popular SDGs for achieving impact:



Most popular themes:

76% invest in renewable energy

47% invest in healthcare

46% invest in education

WHERE DO RESPONDANTS INVEST FOR IMPACT?

Impact-driven Institutional investors display more home bias (investing primarily within the Nordics and developed markets) than financially-driven institutional investors.

WHY IMPACT INVESTING?

To get beyond the hype, news stories and new impact seeking funds we tried to find the underlying reasons for our respondents' interest in impact.

Q: What is the motivation for your interest in impact investing?

Across all respondents there is a consensus that impact investing is a tool to achieve internal or personal social and environmental goals. Impact generally is not for liquidity, marketing or to complement their philanthropy strategies.

Impact-driven institutional investors are strongly motivated by an external agenda and client demands. Private investor motivations are similar whether financially or impact-driven, but they

differ when it comes to philanthropy, where impact-driven investors see impact as a complementary strategy.

Financial rewards were unexpectedly popular as a persistent motivation across all the respondents. We explore this further in the next section.



Anonymous institutional investor in the survey:

In terms of returns; investors are interested in high-returns on par with traditional VC and other venture related investments. A typical notion of SDG related start-ups is that it's for a bigger and more meaningful cause which tends to scare off investors as they perceive it as a philanthropic investment only.

Figure 1: What is the motivation for your interest in impact investing?

* For detailed categories see page 27



INTERVIEW

Impact Investor:

Mads Heine, Business Angel (Denmark)

“Two years ago, I adopted the United Nations’ 17 Sustainable Development Goals as an integral part of my investment focus. Going forward I will gradually adjust my portfolio and increase my focus on sustainability in EdTech, FoodTech & AgriTech. Another interesting space is Renewable energy. However, this is mostly play for Institutional money and thus a tough space for business angels.”

Mads Heine is a Danish business angel, a member of several investor networks in the New Nordics including several cross-border investments. For many years he has been focusing primarily on FinTech and more traditional business models. Now he has no doubt where to put his money both from a return and a consciousness perspective. “I believe all Investors should think and act as global citizens and take action to solve global challenges. For way too long, investors, corporates and politicians have not taken the appropriate actions to secure a balanced approach.”

The Danish company Matter is one of his recent impact investments. They have developed an algorithm to support ESG screening for institutional and large investors in listed shares and government bonds. With a strong data-driven approach to sustainable investments powered by machine-learning, Matter is pushing the asset management industry into more sustainable and impactful solutions. Matter offers tools to screen assets and portfolios, measure impact and communicate this to end-users through a digital platform. “Denmark is the leading country in the world when it comes to pensions funds’ asset under management. Matter has already secured strategic partnerships with Skandia and AP Pension and more is to come.” Mads explains. “To understand and provide full transparency Matter offers individuals a sustainable pension savings with a personalized dash-

board to track financial performance and individual impact.”

Long term, Mads thinks, the political and social risk of not being sustainable will increase significantly as more investors start doing the right calculations. Also, the highly conscious future workforce is only attracted to companies that are willing to consider sustainable alternatives that support their purpose.

According to Mads impact investing is not without challenges. “For many years impact start-ups have suffered from investor prejudice that they have compromised an optimal business model to provide impact. Within the next years, I think more impact start-ups will start to experience better pricing and broader investor fo-

cus.” Another large challenge Mads see are the very few Nordic impact venture funds. Hence all impact start-ups need to focus globally to attract venture funding. “I fear that the percentage of impact business angels despite a growing tendency will not be enough to provide sufficient funding in the early stages going forward. Luckily, I see more and more global impact venture funds taking a closer look at the Nordics.”

Mads is fully convinced that the Nordics are strongly overrepresented when it comes to impact investment opportunities and even represent one of the most promising impact ecosystems globally. “Strangely enough, I often run into start-ups with a sustainable business model that has not yet integrated UN SDGs nor positioned their funding strategy toward impact investors. I expect this is due to our cultural heritage. In many ways, sustainability and impact come naturally to Nordic start-ups and their employees. Most likely this will fuel strong growth in Nordic impact start-ups.”



APPROACH AND RETURNS

How committed to impact investing are the respondents?

Impact investing is not broadly understood in the marketplace since it is an emerging field. So instead of asking directly whether they were impact investors or not, we asked respondents:

Q: How would you characterize your investment approach across the following spectrum?

We then summarize the categories into “finance-only, finance-first, impact-first, impact only”. Given the smaller numbers of financial only (n=9) and impact only (n=8) respondents we occasionally group them into “financially driven” and “impact driven” when comparing responses.

How would you characterize your investment approach across the following spectrum?		
Maximize financial return	Financial only	Financially driven
Maximize financial return with some impact objectives	Financial first	
Impact objective takes priority over financial returns	Impact first	Impact driven
Maximize social and environmental objectives	Impact only	

Figure 2:

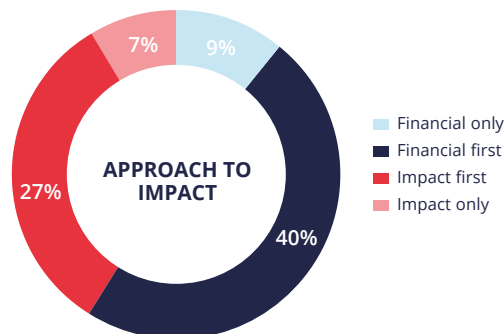
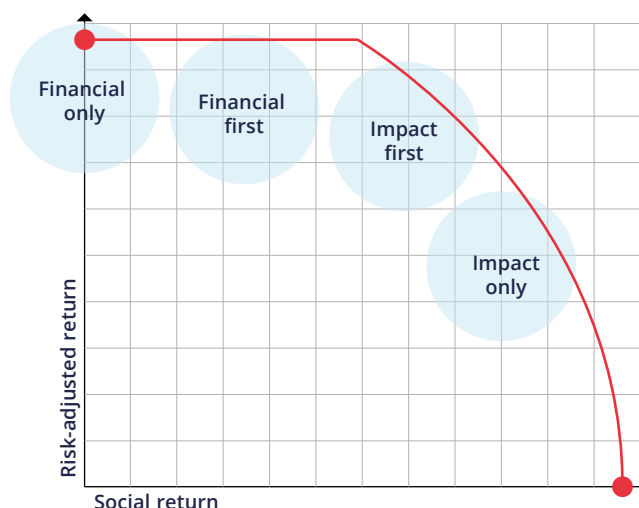


Figure 3:



Impact return trade-off?

Investing theorists generally believe, that there is a trade-off between impact (social and environmental return) and risk-adjusted financial returns. In other words that more impact focus equals lower return on investment. Impact investors may also incur additional costs in identifying and evaluating the businesses they invest in.

Some investors believe it is possible to have an investment strategy where there is no trade-off, and they can have positive impact for the same risk-adjusted financial returns. This is depicted by the flat part of the curve in Figure 3.

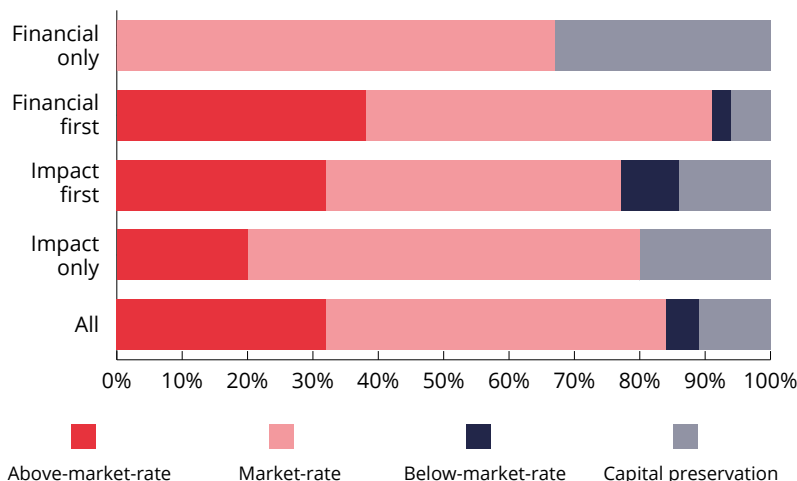
Since impact first investors prioritize impact over that of financial returns, we expect that they start to sacrifice return for impact. So, we asked:

Q: What financial return do you expect on your impact portfolio?

Expectations among Nordic investors

We found that the above theory did not match the respondents’ expectations. Overall, 83% expected risk-adjusted market returns or above on their impact portfolio, almost regardless of their approach to investing. It must also be stressed that these are expectations only, and expectations may carry bias.

Figure 4:



Time horizon in impact investment

The nature of public markets has been blamed for putting profit over long term sustainability. What are the investors' expectations of an impact portfolio? Were impact investors more patient? We asked:

Q: Do impact investments yield lower or higher financial returns compared to traditional investments in the short-term (1-3 years)?

Q: Do impact investments yield lower or higher financial returns compared to traditional investments in the long term (> 7 years)?

In the short-term respondents generally expected the same or lower returns as compared to traditional investments. However, in the long term, 40% of respondents expect impact investments to outperform traditional investments. Impact investment time horizons seem to be longer.

Impact measurement

According to Global Impact Investing Network (GIIN) measuring impact is a key component of being an impact investor. However, measuring and reporting on impact can be a resource intensive task and impact measurement methodologies are still emerging and being standardized. We asked:

Q: Do you report on or measure the social or environmental impact of your portfolios?

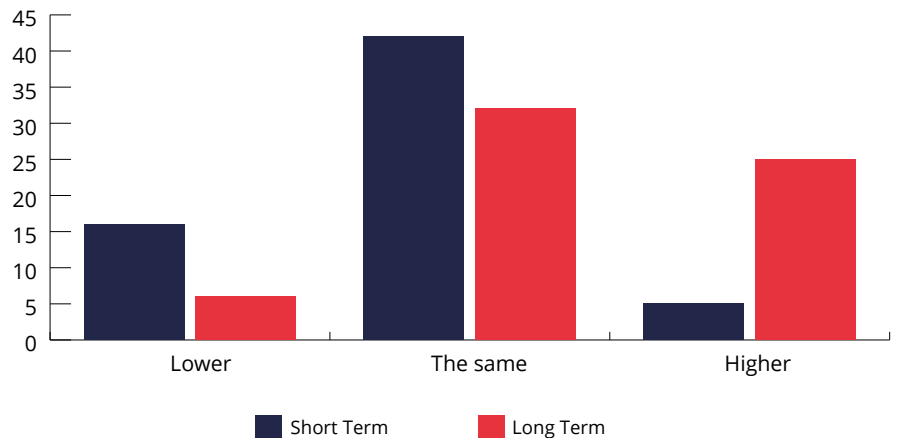
Overall only 7% of private investors (4 out of 56) measure or report on the impact of their portfolio. Institutional investors are more likely to measure impact and the more that the investor is committed to impact, the more likely they are to measure impact.



Anonymous institutional investor in the survey:

The established benchmark of 1-2 % in management fees should cover all due diligence cost including legal, ESG, impact and monitoring costs. Impact investing implies more costs which is difficult to raise - including understanding of spending more resources on project preparation and monitoring.

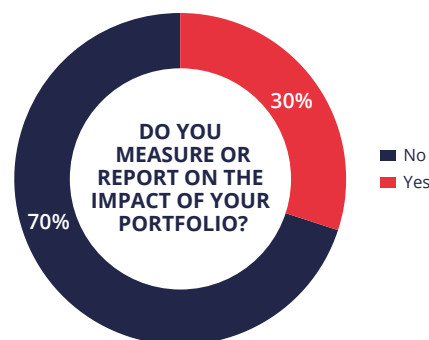
Figure 5:



Yes responses: (n=22/73)

Approach:	Institutional	Private
Financial first	50%	3%
Impact first	82%	19%
Impact only	100%	0%

Figure 6:



Anonymous institutional investor in the survey:

It is a relatively new industry in which few funds have yet exited (in order to assess the returns) - us included.

THE MARKET OF NORDIC IMPACT INVESTING OPPORTUNITIES

Across the Nordic countries there is a growing market of impact investment opportunities. The analysis and report 'The State of Nordic Impact Start-ups' by Danske Bank gives unique insights into this development. In 2019 they researched +5,000 Nordic start-ups and presented the first findings about the market. 10% of Nordic start-ups have solutions that address the United Nations' 17 Sustainable Development Goals (SDGs). The top-4 SDGs they solve are SDG3 (Good Health and Well-being), SDG7 (Affordable and Clean Energy), SDG11 (Sustainable Cities and Communities) and SDG12 (Responsible Consumption and Production). In general, they focus on top-line growth but struggle to make a profit.

Financial performance seems to improve though as they mature in age. In addition, the energy market represents 65% of the profit pool. 21% are exploring business opportunities in emerging markets.

Two examples of impact investment opportunities are Trine from Sweden and Too Good To Go from Denmark.



Impact start-up case: Trine (Sweden)

WHAT: Trine¹ makes it easier to invest in solar energy in emerging markets with minimum investment amounts of 25 euros, which is then transformed into loans for sustainable businesses that focus on solar energy solutions.

WHY: Trine's goal is to achieve universal access to energy and thereby help local economies to become more self-sufficient. Trine supports SDG 7: Affordable and clean energy.

WHY YOU MIGHT CONSIDER INVESTING IN TRINE: Trine makes money in two different ways. When a loan becomes fully funded through Trine the solar company will pay Trine a one-time fee for arranging the loan. Trine also takes a management fee, which is a percentage on the total loan that the solar company pays throughout the payback period. In the first 4 years almost 25 million euros have been invested through Trine, and almost 4,2 million euros have been repaid to the roughly 9,000 investors on their platform.

1 (<https://trine.com>)

Impact start-up case: Too Good To Go (Denmark)

WHAT: Too Good To Go² is an app providing a marketplace that connects businesses who have surplus food with members of the public who want to rescue this food. Customers order a "magic bag" of surplus food at a discounted price and then collect it from the stores in question in a pre-set collection time.

WHY: There is food lost or wasted along the supply chain from farm to table. It is not just the food itself that goes to waste, it's all the resources that went into making it, from water to land and labour. When wasted, food has a harmful effect on the environment. It is responsible for 8% of the global greenhouse gas emissions.

WHY YOU MIGHT CONSIDER INVESTING IN TOO GOOD TO GO?

It's the world's leading food waste app founded in 2016. They saved 2 million meals in 2017, 7 million in 2018 and expects to reach 21 million saved meals in 2019 with a clear ambition to reach 100 million saved meals in 2020. They have grown to several million registered users and thousands of partner stores in 12 countries.

2 <https://toogoodtogo.dk>

INTERVIEW

Supporting the Nordic impact start-up ecosystem

Stine Jersie Olsen, Growth & Impact, Danske Bank

Nordic impact entrepreneurs are solving big problems. Danske Bank wants to support this movement. With the free online platform +impact (www.plusimpact.io), impact accelerator programs and other activities in the Nordic ecosystem, purpose-driven start-ups get help to develop their business.

“The Journey actually started back in 2015, where we started looking at how we could help Nordic start-ups to scale. One of the initiatives we launched was the Hub, which helps start-ups recruit talent. In 2017 we could see that impact start-ups could be part of finding the solutions to some of the great challenges we are facing and that they also need help scaling.” says Stine Jersie Olsen, Danske Bank.

Impact start-ups tend to follow the same startup patterns as traditional tech start-ups i.e. they invest heavily during the first couple of years and the initial annual deficits are part of a deliberate strategy to scale the business quickly. When this journey started, Danske Bank wanted to understand what the impact start-ups’ real needs were. “We interviewed more than 40 impact start-ups in the Nordics, and it revealed a lot of valuable insights. More than half of the impact start-ups feel that they lack business skills and 70% find it hard to identify the right business model. Almost all impact start-ups have a hard time finding funding to finance their operations. 87% lack an ecosystem with access to mentors and experts that can support them. 35% of start-ups addressing challenges in emerg-

ing markets find that market access is their key challenge.”

Another way to understand the impact start-ups was to research and analyze the entire market. In 2018 Danske Bank did the first Nordic analysis of impact start-ups. In 2019 they presented their second report ‘The State of Nordic Impact Start-ups’ which identified 647 impact start-ups across Sweden, Norway, Finland and Denmark. Almost two thirds of all the start-ups in the study have SDG 3, 7, 11 or 12 as their primary SDG. 74% of the total profit pool was generated by impact start-ups with solutions for emerging markets however only 21% of the impact start-ups are present in emerging markets. Only 14% of the start-ups have a female CEO.

Stine thinks that the Nordics have all the right prerequisites for being a front runner in the global impact space. The region has a long tradition of focusing on sustainable solutions, innovation, responsible consumption, environment, energy, recycling and waste management. And in combination with this, entrepreneurship is strong on the political agenda, which is proven by the thriving SME landscape in the Nordics. “We can see the Nordic eco-system for impact

start-ups and investors are developing at a steady pace. It has been argued that one of the strengths about the relatively small Nordic eco-systems in Copenhagen, Oslo, Helsinki and Stockholm respectively are that they have strong communities and are doing a great job at supporting international investors, who are attracted to the Nordic impact space.”

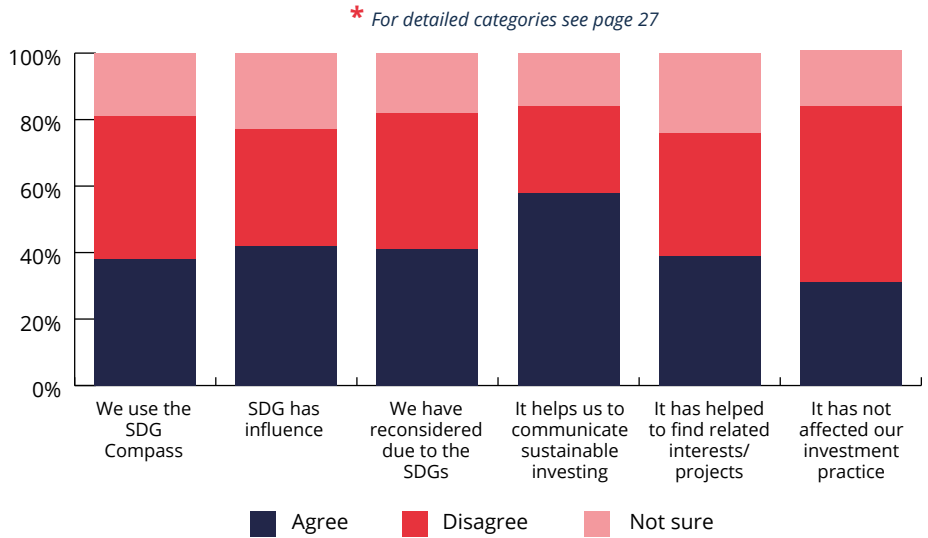
“To grow the number of impact start-ups we however need to address the challenges that the start-ups have identified themselves. The impact start-ups often have in-depth knowledge of the social and environmental issue they strive to address but may lack business support to make their ideas succeed and scale. So, we have launched these cross-Nordic initiatives to address some of the challenges we see the start-ups are facing and in order to mature the ecosystem.” Stine explains.



UN SUSTAINABLE DEVELOPMENT GOALS

The UN Sustainable Development Goals (SDGs) were not originally designed as investable market themes. However, they are so communicable and today present in every environmental company report. Often investors specialize in certain industries or sectors based on their expertise and background. With SDGs and purpose related themes it is more about seeking positive impact than segmentation only for profit. Hence, we were interested in investors' approach to the SDGs, their investments in different themes and to see if the opportunities from impact solutions match investor expectations.

Figure 7: How have you incorporated the SDGs into your investment?



How do investors use SDGs?

Since the adoption of the goals, we wondered how they were used by investors in practice. We found that SDGs were most useful as a communications tool (58% Agree). 30% of investors say, that SDGs have not affected their investment practice.

Approach to SDGs

We found that some respondents had no SDG preferences and they seek impact from any of the 17 goals. Whereas others were far more focused in their approach.

Q: Of the UN sustainable development goals (SDG) where do you seek impact from your investments?

Figure 8: Number of SDGs

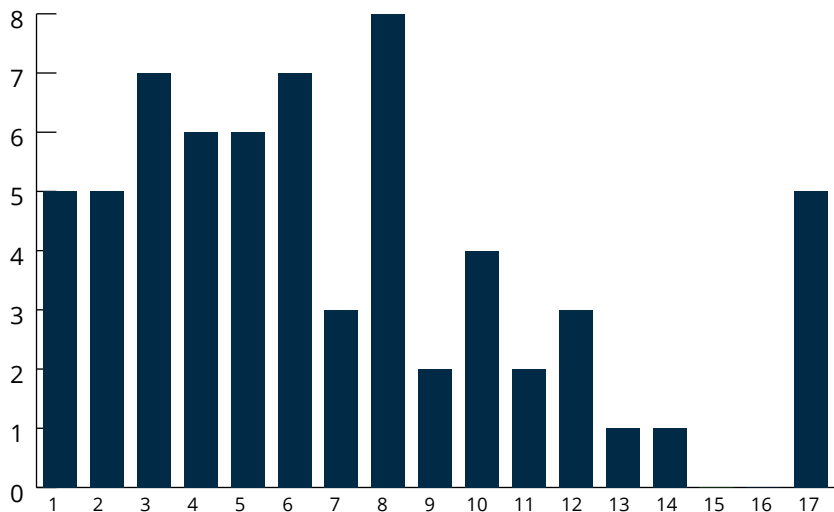
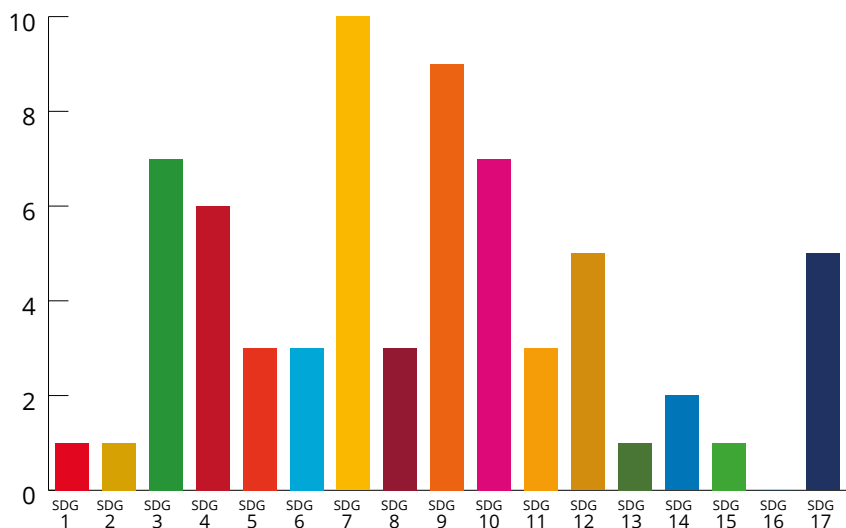


Figure 9: Where do focused investors seek impact?



Considering the number of SDG goals chosen: Broad or Narrow focus: n=82		
	Private	Institutional
1-4 goals	46%	17%
5-9 goals	34%	52%
10-17 Goals	17%	30%

Private investors tend to choose only 4 goals or less, whereas institutional investors seem to have a broader approach with 52% by investing in 5-9 goals. The focused SDG investors (4 goals or less) prefer SDG 3 (Health and Well-being), 7 (Affordable and Clean Energy), 9 (Industry, Innovation and Infrastructure) and 11 (Sustainable Cities and communities).

Opportunities from impact start-ups match investor expectations

Are the Nordic investors and growth companies that offer sustainable solutions aligned in their impact focus? The recently published report 'State of Nordic Impact Start-ups' revealed that Impact Start-ups in the Nordics are focused mostly on the following UN Sustainable Development Goals:

- 3 (Good Health and Well-being),
- 7 (Affordable and Clean Energy),
- 11 (Sustainable Cities and Communities) and
- 12 (Responsible Consumption and Production).

The most popular goals among Nordic investors are from the survey are:

- 3 (Health and Well-being),
- 7 (Affordable and Clean Energy),
- 9 (Industry, Innovation and Infrastructure),
- 11 (Sustainable Cities and Communities) and
- 13 (Climate Action).

There is a large overlap between the impact focus of start-ups and investors. However, there are also differences. Impact start-ups have identified SDG 12 as a large opportunity, whereas investors see SDG 9 and 13 as opportunities. Clearly there is a need for investments in climate change mitigation (SDG 13) however the products and services needed are more aligned with SDG 7 and SDG 12, which may explain why there seems to be a difference in perspective between start-ups and investors.

The State of Nordic Impact Start-ups report also found that 65% of profit generated by impact start-ups are addressing SDG 7 (Affordable and Clean Energy). While SDG 7 and Energy-related themes are popular with the investors we surveyed, their interests and impact intention is more spread across the SDGs than the solutions provided by impact start-ups.

Figure 10: Impact start-ups SDG focus

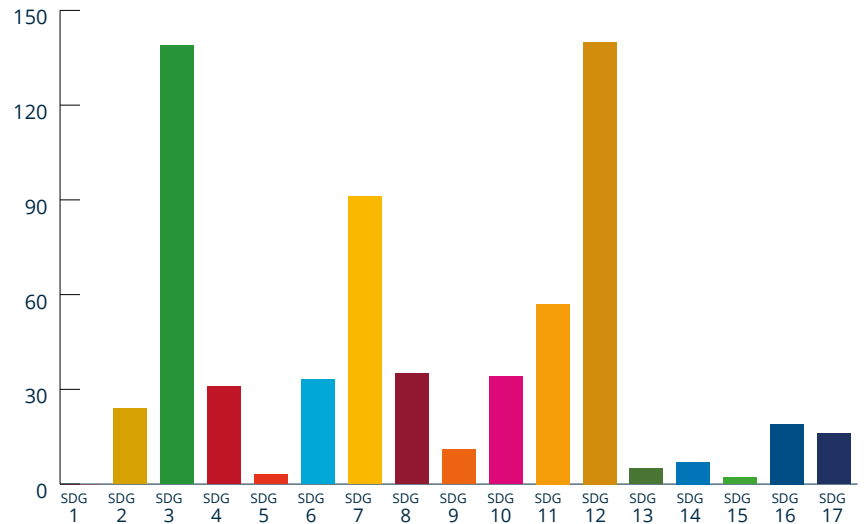
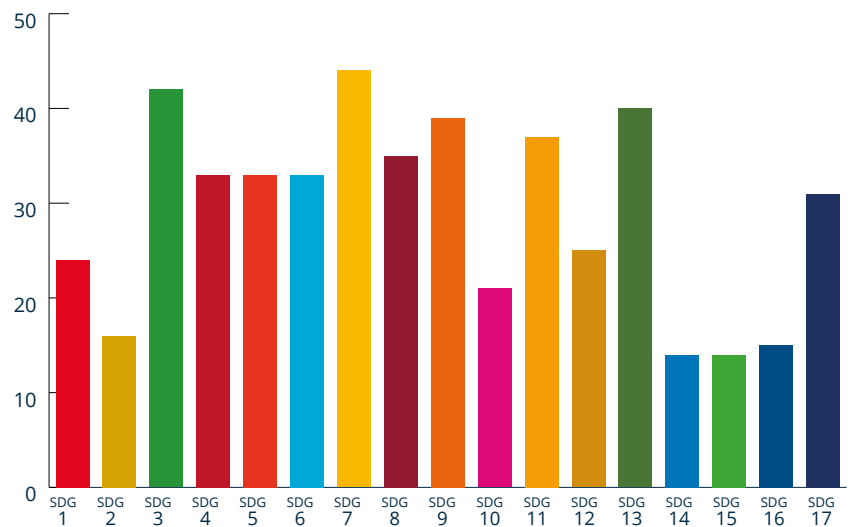


Figure 11: Where do investors seek impact?



IMPACT THEMES

Traditionally investors focus on industrial themes where they can maximize profit or have certain expertise. So, in addition to SDGs we also asked about what impact themes the respondents seek financial returns.

Themes overall popularity

Energy efficiency and renewable energy are popular themes among investors. Other themes are healthcare and education.

Country hubs

When comparing the nationality of the investor with themes, we see some evidence of country specific interests. For example, Swedish investors exhibit

a strong preference for energy related themes and Norwegian investors prefer pollution and agricultural impact themes. *Q: What themes do you invest in? (n=76, grouped by head office country)*

How much is invested in technology solutions

Given the inherent scalability and impressive returns over the last decades from technology solutions, we wondered how highly investors valued technically based solutions to solve environmental and social challenges.

We found that 55% of Nordic investors have over 80% of their portfolio in technical solutions.

Figure 12:

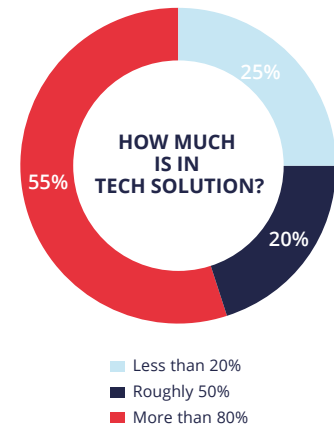


Figure 13: Denmark

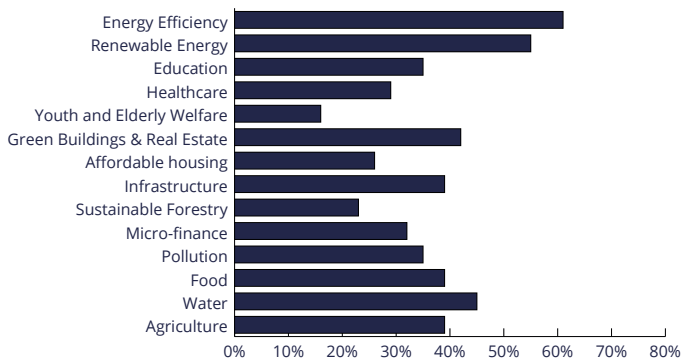


Figure 14: Norway

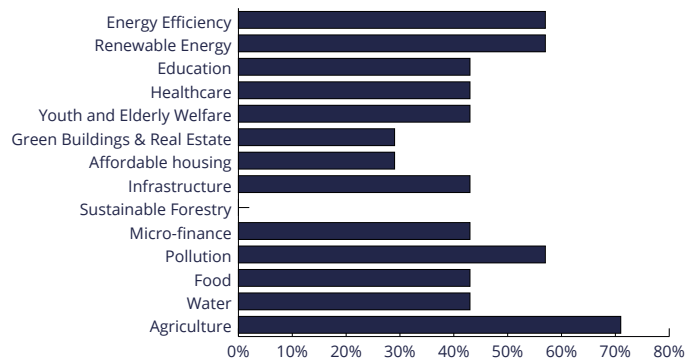


Figure 15: Sweden

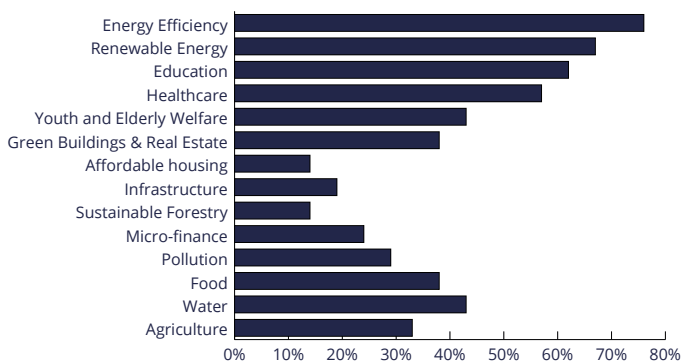
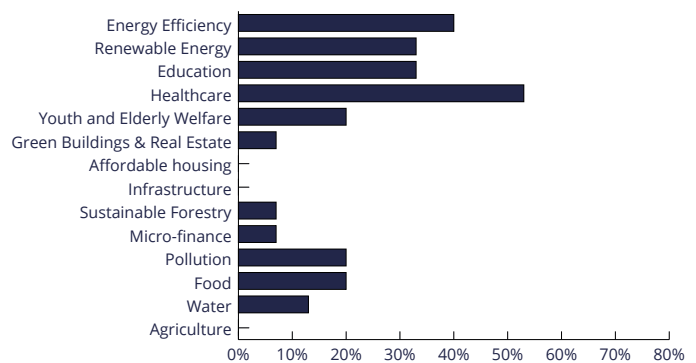


Figure 16: Finland



Environmental vs Social Focus:

At the simplest level, the objectives of impact investors can be described as environmental (within the planetary boundaries, nothing is left behind) or social (no-one is left behind) or both. 23% of the survey respondents say that their impact objective is focused on the environment, while 18% are focused on social investment opportunities.

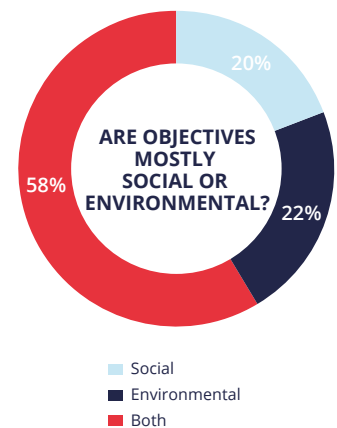
In order to examine what an environmental or social focused investor might look like we excluded the investors focused on both social and environmental goals.

Environmentally focused investors

are heavily focused on energy-related themes. While socially focused investors are mostly concerned with education and healthcare. Additionally we found some evidence that socially focused investors exhibited more home bias, but this needs further investigation.

Of the Nordic investors that we surveyed, 22.5% were environmentally focused. This is noticeably higher than what the GIIN 2019 survey found from global impact investing institutions. This may be partly attributable to the large proportion of private investors that we surveyed.

Figure 17:



Socially Focused: n=13

Figure 18: Which themes do you invest in?

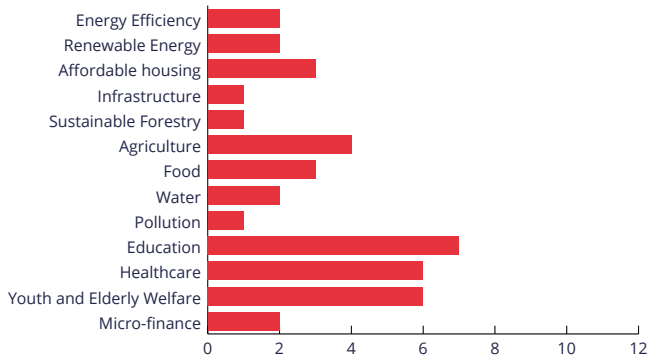
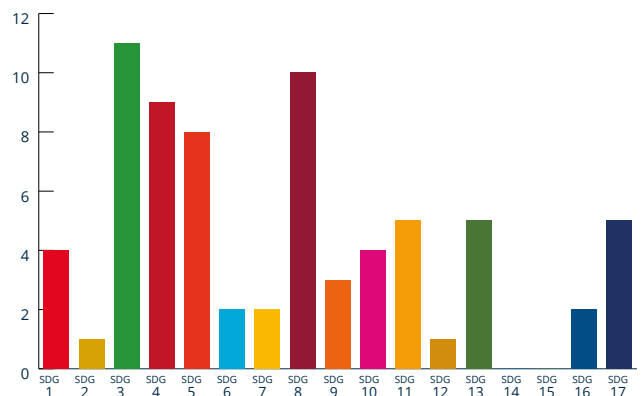


Figure 19: Where do you seek impact



Environmentally focused: n=16

Figure 20: Which themes do you invest in?

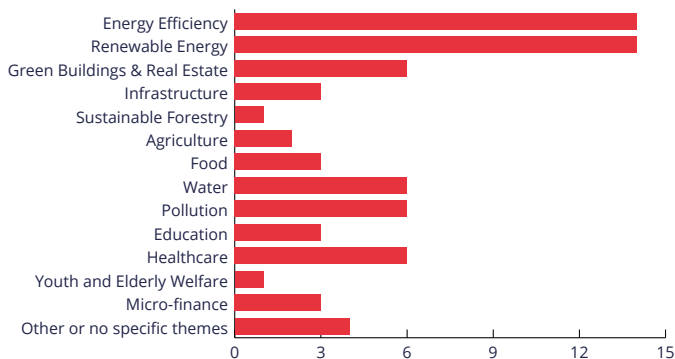
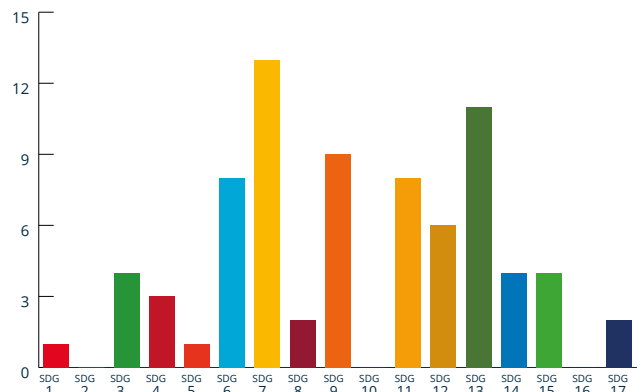


Figure 21: Where do you seek impact



Impact Investor:

Jannek Hagen, Managing Director at Bestseller Foundation (Denmark)

“Impact Investing, the principles of which when applied appropriately, can be a powerful tool to support sustainable growth, addressing some of the biggest challenges for our planet and the growing populations. Especially in emerging markets, Africa and India not the least.”

“Much more capital is needed to address the challenges at hand, hence we welcome more investors to join the cause.” says Jannek Hagen, Managing Director at Bestseller Foundation, when describing why the Danish global fashion corporate reinvests some of its’ profit in social and environmental progress.

Bestseller Foundation was set up as an impact investment fund, based on the philosophy that a for-profit investment approach is best suited for generating, sustaining and scaling social and environmental returns. They direct their capital towards impactful enterprises with proven or promising business cases – with the potential to significantly grow their businesses and an inherent, intended positive outcome and ultimately impact.

One successful investment is in Samasource, founded as a non-profit organization in 2008, with a mission to expand opportunity for low-income people through the digital economy. In 2019 they restructured to become a hybrid non-profit/for-profit model, enabling the enterprise to scale and further establish itself as a leader in the field of AI and data sourcing. Today they have offices in East Africa, Europe, US and The Caribbean, climbing annual revenue and a thriving customer base with an increasing demand for secure, diverse and high-quality training data. Samasource in Kenya, for example, utilizes over 1,700 semi-skilled peo-

ple e.g. to teach self-driving cars how to recognize objects. Bestseller Foundation helped grow that number of people (from approximately 500), predominantly coming from the low-income area Kibera of Nairobi, by investing directly into the Kenyan subsidiary and transforming it into a for-profit entity. Samasource is moving people out of poverty, demonstrating an average 4.0x income multiple for its workers as a result of a Samasource job.

“We invest directly into African and Indian entities with various instruments and within a few key thematic priorities.” Jannek Hagen continues. “We deploy our capital in a flexible manner, hence balancing our financial return requirements against targeted social and environmental returns on a case-by-case basis. This allows us in some cases to expect closer to market-rate returns while supporting the direct impact targets of the investee in question, whereas in other cases we provide capital of a somewhat more concessionary nature, whereby we are able to support catalytic initiatives with the potential for generating impact at a broader market level.” For special purposes, although to a lesser degree, they also extend grants to reinvest their profits, continuously aiming to generate further impactful results.

Jannek Hagen believes there is a growing interest for doing impact investments. However, to some Danish investors the investment

cases simply appear too risky, considering the combination of investing perhaps in a yet to be proven impact business case and adding to that an emerging markets context. Potential mitigators that could unlock more private impact investment capital could be that new impact investors co-invest with more seasoned impact investors and that more public co-investment capital would be available, e.g. as ‘first-loss’ capital. “From a Danish perspective, perhaps it would also be worthwhile that the authorities consider the potential for a different tax regime, incentivizing impactful enterprises and impact investors alike.”

Investing in businesses to enable a better world requires new learnings, methods and tools. “One current challenge, which we are paying ever more attention to, is the needed emphasis on outcome and impact data in our investment decisions. In order to validate the impact case claimed by investees, such approach is required through the entire lifecycle of investments, i.e. from the due diligence stage over the investment management stage and eventually to an exit stage.” Data however can be challenging to gather and verify. Bestseller Foundation is currently addressing this challenge by considering which stakeholders are best equipped to further assist in this regard, be it survey companies, consultancy firms, NGOs or others.

Additionally, Jannek Hagen states: “I believe that the application of the term ‘Impact Investing’ is generally somewhat carelessly applied these days, which is dilutive to the concept and the perception of it. Better outcome and impact reporting based on more and better data would be helpful also at an industry level.”



GEOGRAPHIC SCOPE OF INVESTMENTS

When trying to make an impact, do you start at home in your local community or do you look for global solutions? One would expect that the geographical strategy supports the impact intention. We asked:

Q: Where are your impact investments located?

There is a clear different approach to geographic strategy when comparing institutional to private investors, with private investors exhibiting a preference to investing closer to home.

This is not unique to impact investing though. Impact driven Institutional investors display slightly more home bias than financially driven institutional investors. We also tested the geographical preferences of environmentally focused vs socially focused, but found no significant trends.

Q: Why do you invest for impact in these regions?

Here we compare investors focused closer to home (within Nordics and developed markets) to those focused

globally and on emerging markets and found different underlying motivations.

We found that investors with a developed market (DM) and Nordic focus, mostly did so because of access to deal flow and their expertise in those markets. Investors with an emerging markets (EM) and global focus did so mostly because of additionality, diversification and growth.

Figure 22: What is the motivation for your interest in impact investing?

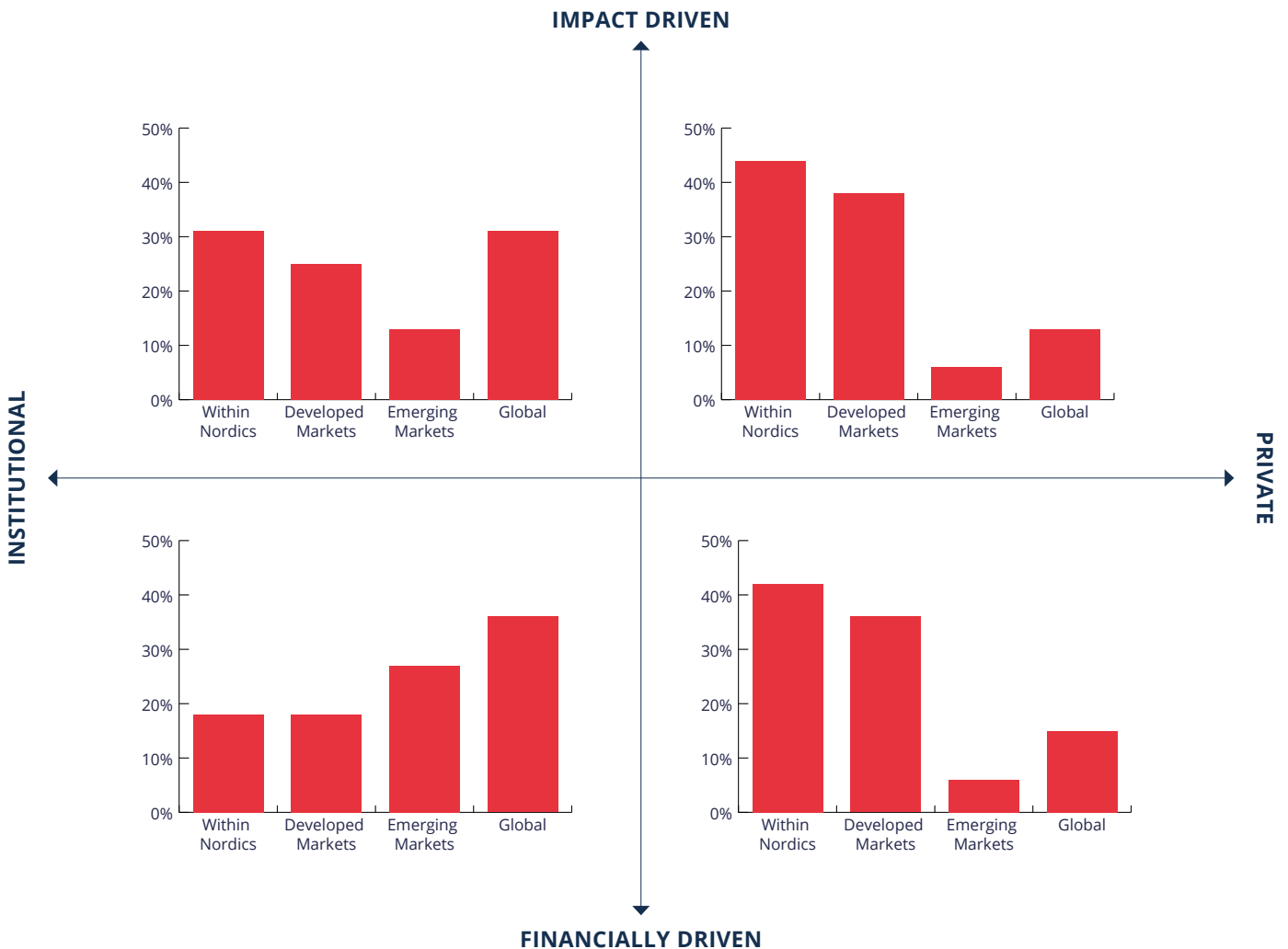


Figure 23: Developed Markets & Nordic focus

* For detailed categories see page 27

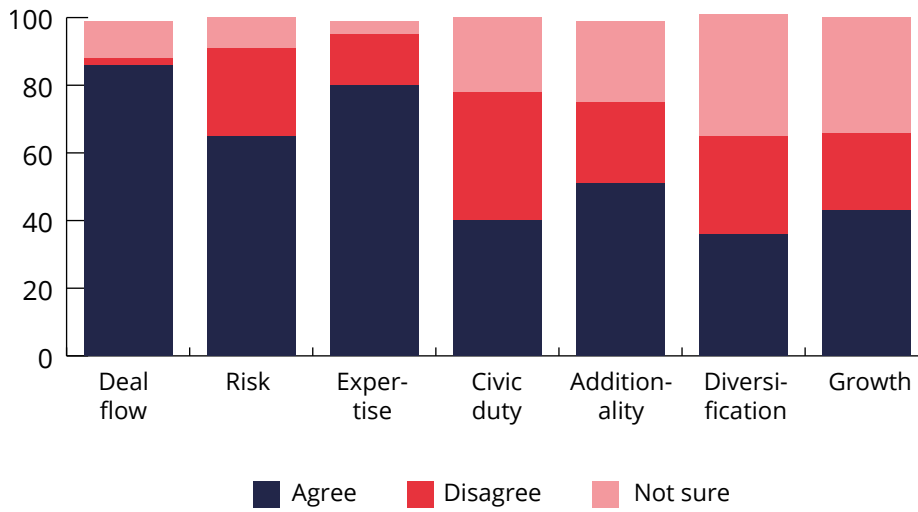
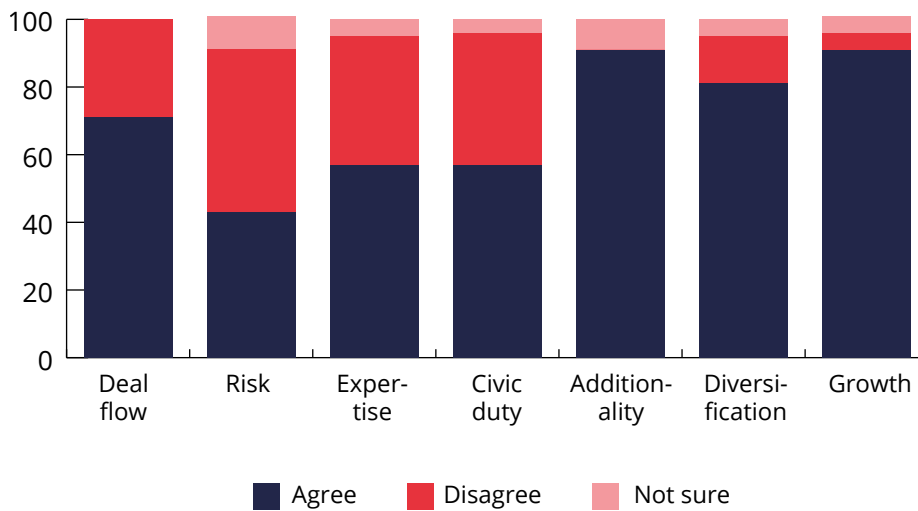


Figure 24: Emerging Markets & Global focus



Private investor in the survey with a global focus:

High impact potential solution/ global potential / global innovation.

Private investor in the survey focused within the Nordics:

As an active investor transaction costs are lower and my network is stronger.

INTERVIEW

Impact Investor:

Tharald Nustad, Founder of Nordic Impact and Katapult Group (Norway)

Tharald Nustad comes from a real estate family and has been a tech entrepreneur since finishing his studies. He started working with Ashoka and social entrepreneurship nine years ago, and he found that combining his experience in tech start-ups and business with improving the world was much more fulfilling and important than just building tech businesses.

“The last five years I have been focusing everything on impact investing and committed to moving all my investments and all my work towards positive impact. The last four years we have built Nordic Impact and the Katapult Group to mobilize capital. We want to show by example how investing in tech start-ups, founded to solve problems in the world, is both a better way to meet global challenges and to make profits.” Tharald emphasizes. Their approach is to invest in impact tech start-ups through the Katapult Accelerator, Katapult Ocean and Katapult.ai, aiming to deliver great impact and above market rate returns. They also do many activities to develop the impact investing market, including the organizing Katapult Future Fest and other impact investing events to direct capital to great impact tech start-ups.

One of their success stories is investing in Otovo, a platform for installing solar panels on private houses and leasing them to the residents. “Otovo has made it competitive to get private solar power in Norway, a country that has little sun, low power costs and high installation costs. They are now scaling to Sweden and France, with the advantage of having become competitive in the adverse conditions in Norway. Otovo has an amazing team and is doing its fair share to help the transition to renewable energy, and we have had 4X

valuation increase on our investment in a few years.”

Tharald thinks that there is a lot of interest and talk about sustainability and impact investing, but the amount that is being invested is still quite small. “A lot of other investors don’t recognize that it is possible to generate great profits at the same time as focusing on solving problems as a foundation for the business. Often it is hard to find co-investors and follow-on investors for our investees.” Tharald points out as a concrete problem. Still he has a hard time to understand why that is. “Having a positive purpose will attract the best talent, partners and customers,

and it will make you adaptable to have a profitable business in a rapidly changing future. The power of entrepreneurship and business will be the strongest force to solve problems in going forward.”

Tharald finds that the impact opportunities in the Nordics are quite good. Katapult invests in start-ups from all over the world and a disproportionate amount, 10-20%, comes from the Nordics. “Part of the reason is that we are based in the Nordics and have a good network here but also the Nordics are quite strong with the combination of impact and tech, especially in renewable energy, EdTech and HealthTech.”



IMPLEMENTATION

Since impact investing is a new discipline, there is still a lot to learn about its implementation. So how do Nordic investors go about it? Where do they find the best opportunities and what are the practical elements of implementing an impact portfolio? We found that institutional investors invest at a later stage in the business life cycle as compared to private investors. Looking at all the investors we also found:

- Most are new to impact investing
- There are few transactions annually per investor
- Most use convertible loans and equity as financing instruments
- There are many sources of finding impact driven opportunities

Anonymous institutional investor in the survey.

“(Characteristics of excellent impact investment) **Where impact and returns are intrinsic. The more they scale, the better returns and the more impact**”

Figure 25: Institutional investors

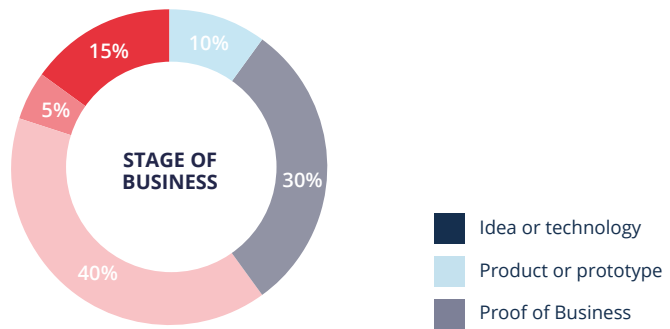


Figure 25: Private investors

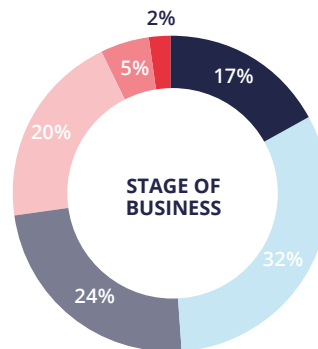


Figure 27: Types of financing instruments

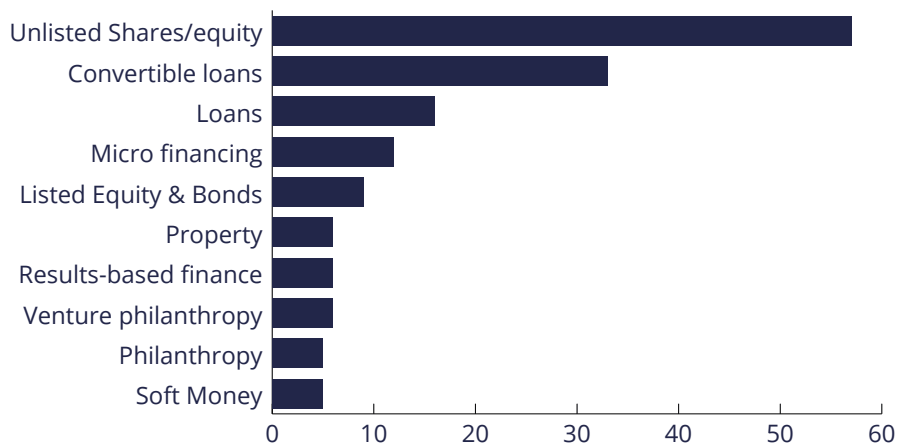
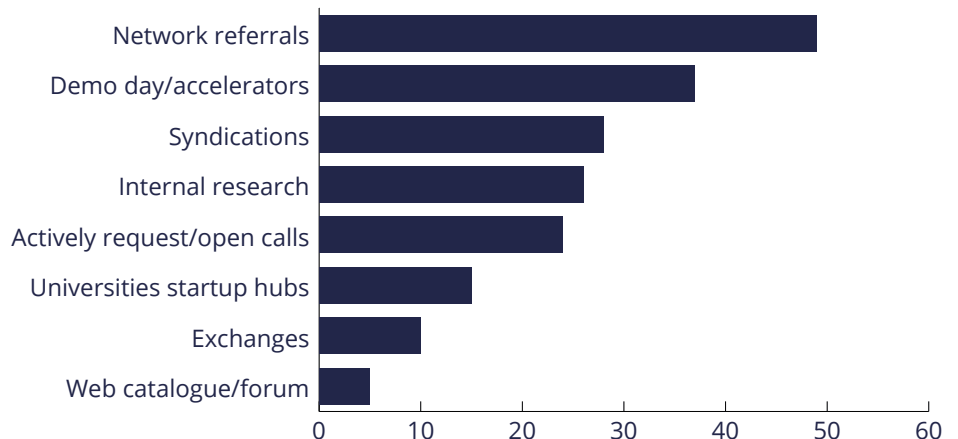


Figure 28: Source of impact investment opportunities



RISK PERCEPTION AND DIVERSIFICATION

With each investment comes risks specific to the opportunity. So, for this report it is essential to understand if the risk perception towards impact investment is any different as compared to traditional investments.

Q: How would you assess risks to an impact investment (as compared to a traditional investments)?

Institutional investors perceived risks associated with impact investments as the same or lower as traditional investments. This is especially true for ESG risk and perception and reputation risk. Private investors are concerned with risks associated with financing subsequent capital as well as the risks around liquidity and exit.

There are also risks on an overall portfolio basis. We asked if investors considered the diversification benefits of impact investing when added to an existing portfolio.

Q: When assessing a new impact investment, do you consider the diversification benefit or correlation with your existing portfolio?

Institutional investors tend to take a portfolio approach to risk and value the diversification benefits of new impact investments.

Figure 29: Private

* For detailed categories see page 27

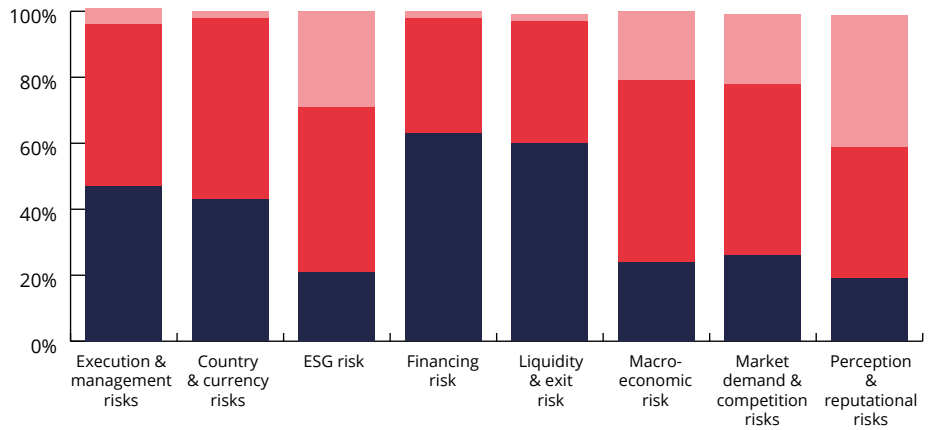


Figure 30: Institutional

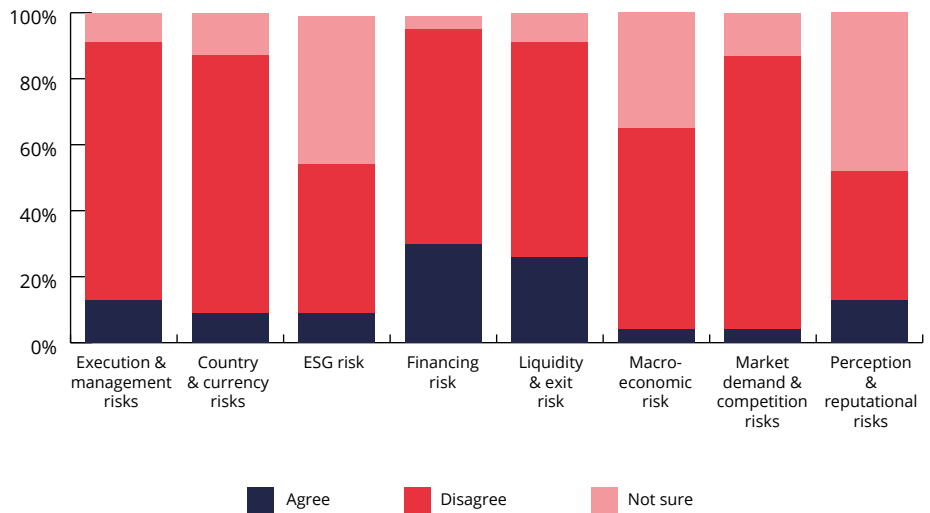


Figure 31: Institutional

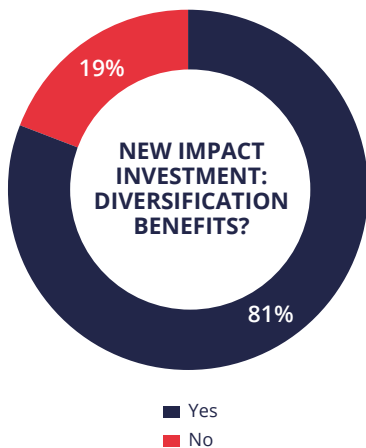
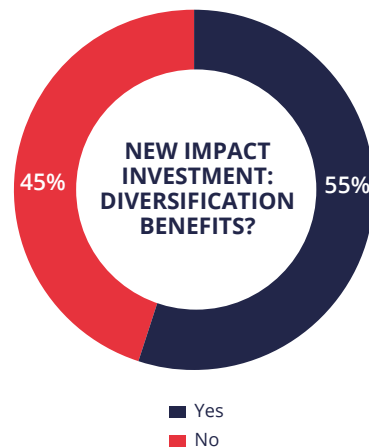


Figure 32: Private



CHALLENGES & OBSTACLES

Anonymous institutional investor in the survey:

(to scale impact investing we need...) "A clearer political vision and agenda. Public risk reduction and co-funding initiatives for sustainable technologies challenging mature non-sustainable business models.

An emerging field like impact investment naturally comes with new uncertainties. So, we explored both the challenges to raise additional capital for impact investment and the obstacles that need to be overcome to do more impact investment.

Q: What do you find are the biggest challenges to raising capital for Impact Investment?

The biggest challenge identified was around the lack of past impact investment performance data. Performance management and liquidity were also concerning to Nordic investors.

Obstacles

Q: What prevents you from doing more Impact investments?

Respondents felt that framework and basic conditions are in place for impact and that what is needed is further market maturity, data and investment opportunities.

Figure 33: What do you find are the biggest challenges?

* For detailed categories see page 27

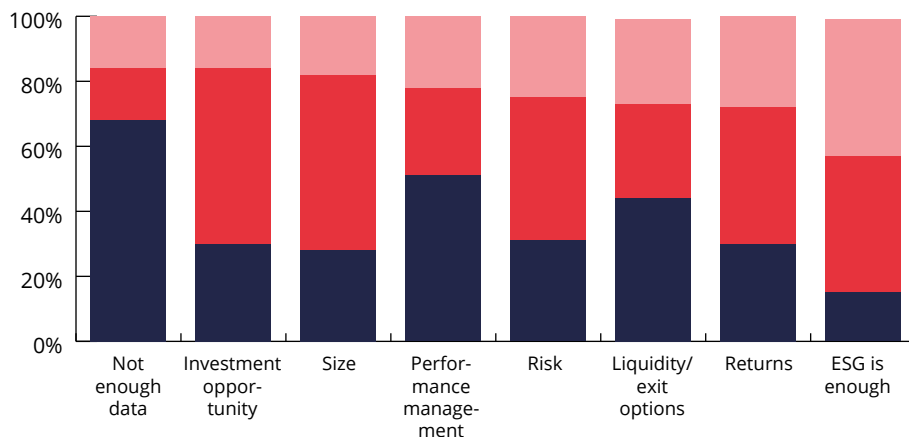
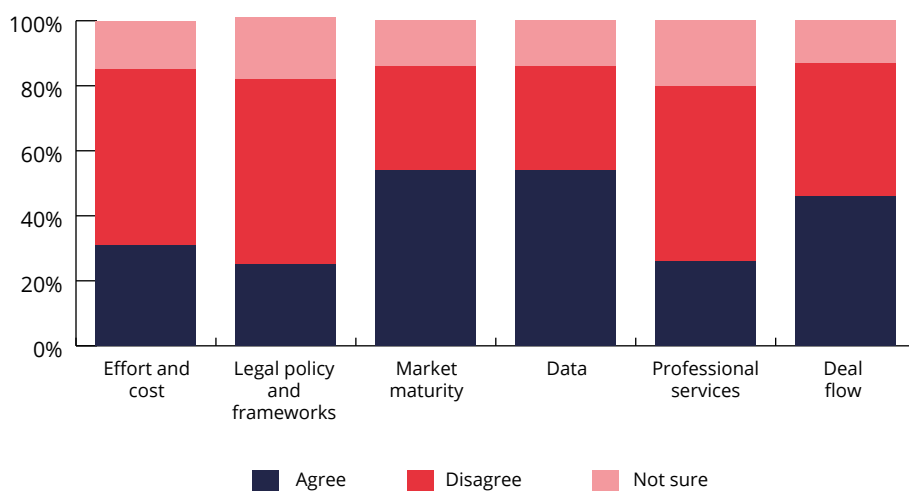


Figure 34: What prevents you from doing more impact investments?



Anonymous institutional investor in the survey:

On average impact companies tended to be less experienced and focus too much on impact and less on running an efficient business model. This is already changing and increasingly there is a strong acceptance that only good business models can survive.

Impact Investor:

Søren Berg Rasmussen, Investment Officer at NEFCO (Finland)

Nordic Environment Finance Corporation (NEFCO) was founded to finance small and medium sized projects in order to generate positive environmental or climate impact, of interest to the Nordic countries, and as such, NEFCO is a pure so-called impact-first investor. NEFCO does this by facilitating investments related to green growth and climate mitigation and adaptation globally, with a focus on Eastern Europe, the Baltic Sea, Arctic and Barents regions.

Investment Officer Søren Berg Rasmussen thinks any responsible investor is bound to consider impact investing in one form or another. That being said, impact investing provides a growing range of investment opportunities globally, with good returns in a broad range of risk levels. In his view finance drives development, and by making impact requirements we mitigate adverse environmental and societal effects of continued market growth and development. In general, most investments offer an opportunity for an impact element, which can be realised when investors make impact a

condition for their investment. Such impact 'improvements' also often result in increased efficiency and cost savings, which in return increases at least the medium- to long term profitability of the investments.

But there are of course challenges. "In the environmental field of impact investing, one of the challenges is the diversity of sectors and risk levels. As a smaller international financial institution with a broad portfolio, we need in-depth knowledge of everything from solar and wind, to biomass, energy efficiency and new technologies entering the market. When looking at energy efficiency in e.g. the public sector, another challenge is the relatively small size of many of the capital needs. Larger scale bundling, including e.g. multiple cities, would be an advantage to attract broader investor interest, but has so far proven to be very difficult in practice. NEFCO however, has good experiences with small scale bundling of energy efficiency projects within individual municipalities, where we have introduced streamlined processes, some level of standardization and capacity building." Measuring the impact achieved

is another challenge. Both in terms of standardization of measurements and in terms of actual measuring. "Many companies consider the measurement requirement a nuisance, and often have bleak expectations towards the workload entailed in gathering data and reporting on the impacts. However, when working with NEFCO, companies have generally been positively surprised when introduced to our reporting requirements."

While the pipeline of impact investment opportunities in the Nordics is clearly growing rapidly, identifying bankable projects with companies at the right stage of development is still a large challenge. NEFCO experiences a gap in finance for companies in late development stages, but prior to full-scale commercialisation. "As an institutional investor, we primarily provide finance for technologies that has already been proven commercially to some extent, and which are now seeking upscaling possibilities on international markets." One of the success stories Søren Berg Rasmussen would like to share is from the energy sector. "Together with Baseload Capital in Sweden, NEFCO is financing the acceleration, building and deployment of Climeon Heat Power plants on a global scale. The heat power technology generates electricity from waste heat and geothermal heat at low temperatures in a cost-efficient way, ensuring a 24/7 supply of clean energy. NEFCO's financing enables the company to expand its operations also in markets with higher risk levels. Each power plant deployment will result in significant CO2 reductions as well as economic benefits and contribute to scaling up a Nordic green technology on global markets."



METHODOLOGY

Development

We developed the survey with inspiration from GIIN (Global Impact Investing Network) '2019 Annual Impact Investor Survey', the Toniic T100 Impact Investor Survey 2017 and with help from +impact (by Danske Bank). Our survey consisted of 50 questions and can be found online.

The survey was targeted towards a broad audience, both institutional and private, impact and capital investors.

Activity and scope

We reached out to the members of Nordic business angel networks (e.g. Connect Sverige, DanBAN, Keystones and FiBAN), some Nordic Venture Capital funds and other institutions. We had 84 survey responses, which is comparable to other impact investing surveys such as GIIN (266 global impact investors surveyed for their 2019 report). Although the survey does cover a wide spectrum of investors, it would not be wise to infer the findings onto the

whole population of Nordic investors. However, some trends, approaches and beliefs were expressed repeatedly and provide valuable insights into the Nordic investor community.

Impact investment definition

This is a much debated and evolving definition, however we decided to adopt the GIIN definition: "Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." (GIIN, 2018)

Other definitions

Geography

Respondents could make multiple selections. We summarized those responses manually into single overall geographic strategy.

DM: Developed markets strategy

"Europe & US" and "Within the Nordics" selections

EM: Emerging markets strategy

"Emerging markets" or "Africa", "South America" and "Asia" selections

Global strategy

Included "Global" or selections from both "Emerging Markets" and "Developed Markets"

Within the Nordics

Included only those that selected "Within the Nordics" exclusively

Private investors

Tend to manage their own capital and are: Angel investors, Family offices and Accelerators.

Institutional investors

Tend to manage client funds and are characterized by Fund Managers, Venture Capital Fund, Pension fund, Development finance institutions.

n

Number of respondents

CATEGORY DETAILS

Please see the full wording of the questions as asked to the survey participants:

Figure 1 page 6

- **Internal agenda:** A good way to meet our social and/or environmental goals
- **External agenda:** A contribution to a global agenda, such as the UN Sustainable Development Goals or the Paris Climate Accord
- **External demand:** We are responding to client demand
- **Financial reward:** They are financially attractive investment opportunities
- **Risk reduction:** They offer diversification to our portfolio
- **Marketing:** For marketing and value perception
- **Liquidity:** Bring liquidity/encourage future investment in neglected but important projects
- **Philanthropy:** Complements our philanthropic strategy

Figure 7 page 12

- We or our portfolio companies make use of the **SDG Compass**
- The SDG 2030 agenda **has influenced** our approach to our investment practice
- We have **reconsidered impact verticals/industries/themes** due to the SDGs
- The SDGs help us **communicate** our effort and approach to sustainable investing
- The SDGs have helped us to **find related interests/projects** and areas of expertise under certain goals
- The SDGs have **not affected** our investment practice

Figure 23+24 page 19

- **Deal flow:** It is easier to source deals and meet businesses
- **Risk:** There is a lower level of uncertainty/lower risk
- **Expertise:** We are more familiar with Nordic impact themes
- **Civic duty:** It is our civic duty to support the local community
- **Additionality:** The greatest area of impact needed is outside of the Nordics
- **Diversification:** Diversification benefits
- **Growth:** Access to growth economies

Figure 29+30 page 22

- **Execution & management risks** of a company generating lower profits and/or poor management
- **Country & currency risks** include political, regulatory, local economic or currency-linked risks
- **ESG Risk** is derived from noncompliance with environmental, social or governance criteria
- **Financing risk** of the investee not able to raise subsequent capital necessary to its growth
- **Liquidity & exit risk** of being unable to exit the investment at the desired time
- **Macroeconomic risk** includes regional or global economic trends and risks
- **Market demand & competition risks** of low demand for the investee's products/services or declining revenues from the actions of a competitor
- **Perception & reputational risks** of loss resulting from damages to an investor's or investee's reputation

Figure 33 page 23

- **Not enough data** on past impact investment performance
- Not enough **investment opportunities**
- Inappropriate investment **size**
- Impact **performance management**
- **Risk** is too great
- **Liquidity/exit options** not enough
- **Returns** not enough
- **ESG/negative screening is enough**

Figure 34 page 23

- **Effort and cost:** Expensive asset management, Poor return expectations and additional administration costs
- **Legal policy and frameworks:** Such as a lack of legislation and regulation, lack of statutory duty to engage in Impact investing, and Legal obligation to preserve capital
- **Market maturity:** Market has insufficient liquidity/exit options, a lack of products and solutions suited to impact
- **Data:** Insufficient sources of information, poor transparency in the Impact market
- **Professional services:** Lack of consultation opportunities, lack of best practice as guidance and lack of experienced/trained professional advisors
- **Deal Flow:** A lack of investment opportunities suited to impact

Thank you - participants, partners and sponsors

This 'Impact Report: Nordic Investors' could not have been carried out without the help from a large group of partners, sponsors and participants. We like to thank everyone very much for their generous involvement.

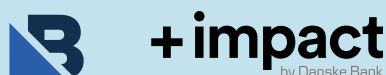
Participants

This is a list of some of the survey respondents. The rest preferred to remain anonymous.

Advice Netværk A/S
Almi Invest GreenTech AB
ATRA Innovations
Bambwa Group
Business IQ Sweden AB
CKCC Catalyst for Change
Copenhagen Venture Exchange
Courage Ventures Management Oy
Den Sociale Kapitalfond
Dr. Anna Kotsalo-Mustonen
Einstok Green Investment
EnergySpin
Execta Invest AB
Ferd Sosiale Entreprenører AS
FIM Impact Investment Ltd
Global Enabler Corporation
IFU
Impact Partenaires
JBO Invest Holding ApS
Keystones
Kielo Growth
Lundin Foundation
Lysgaard
Maj Invest
MBI Partner
Mikrofondens Sverige
MP Pension
MTI Investment AS
Nexit Ventures
nHack Ventures
Nordic Impact Funds
Nordic Secondary Fund
Norrskan Foundation
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IMPACT REPORT: NORDIC INVESTORS

This report is carried out as part of The One Initiative by IMPACT X, a leading Nordic company and online platform for insights in the impact business and investing market.

We research, analyze and rate impactful business opportunities and match them with investors and other actors that would like to generate positive, measurable social and environmental impact alongside a financial return.

For more information

Please visit our website www.impactbusinessindex.com or contact us directly at info@impactbusinessindex.com

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