KODA

Impact Investing – Social Impact Bonds

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Agenda

1. Set the scene
2. Explore Social Impact/Benefit Bonds
3. Preparing your organisation

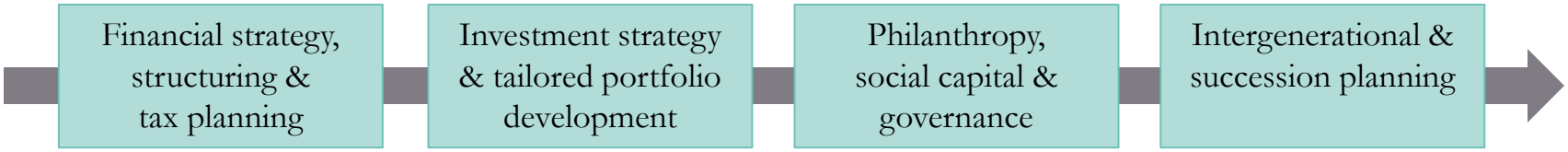
Welcome to Koda Capital

At Koda we take an innovative and holistic approach to working with **non-profit and charitable clients**. As trusted advisers we work alongside our clients to achieve **exceptional outcomes**.

Our sole focus is on providing our clients tailored financial solutions that are **independent, insightful, transparent and designed to help support their mission**.

For non-profit and charitable clients we combine institutional-grade systems and processes with high calibre people in a business that is focused on meeting clients' bespoke needs.

Our expertise spans:

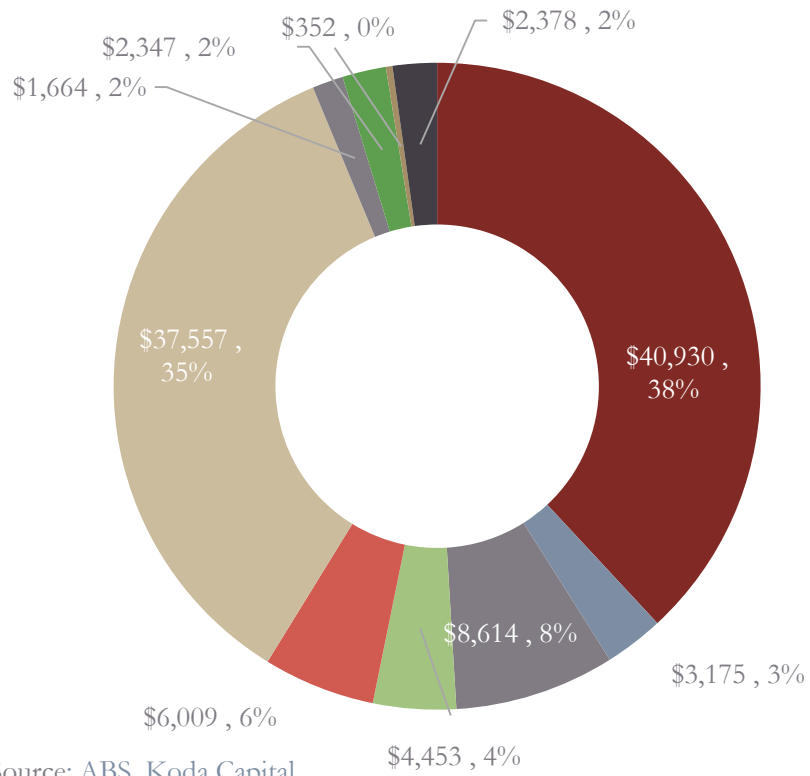


The need for change

- Government policy and philosophy
- Budgetary pressures
- Increased competition
- Rising costs
- Higher funder expectations
- Increased accountability and transparency
- Systemic change
- Digital revolution

Pressure on government funding

2012-13 NPI Income (millions)



Source: ABS, Koda Capital

The marketplace

Charity



Collective Impact

Venture Philanthropy

Payment for Outcomes

Social Enterprise

The brave new world

Profit for Purpose

Impact Investment

B Corporation

Shared Value

CSR

For-Profit



"Impact investments are defined as investments that set out to achieve positive social and environmental impact, alongside a financial return, and measure the achievement of both." **Impact Investing Australia**

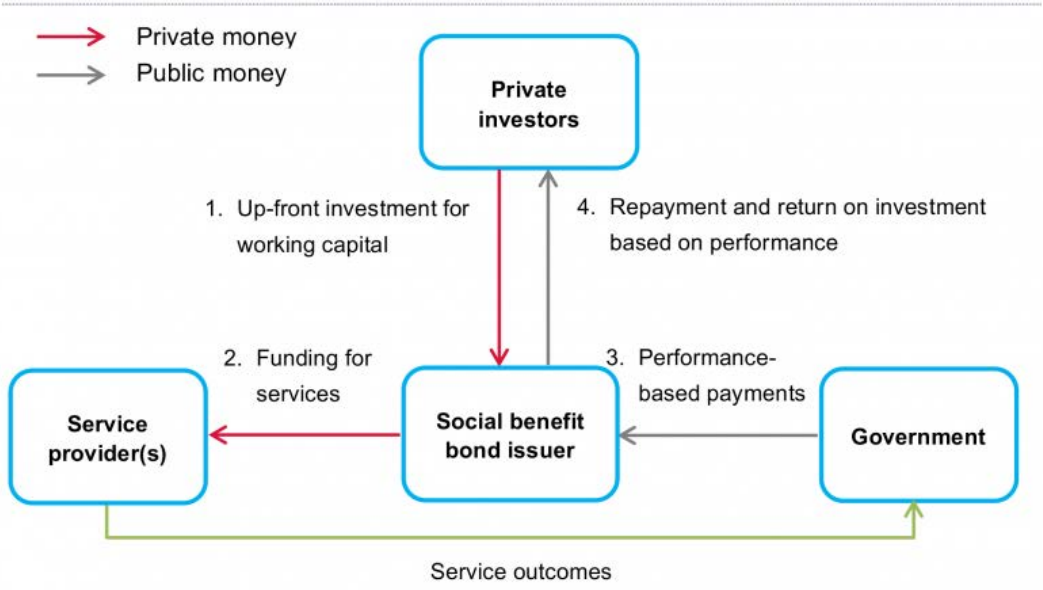
Social impact bonds are not a replacement for grants or traditional investments but share some features of both



	Traditional investments	Ethical investments	Social impact bonds & social enterprises	Tied grant	Untied grant
Example	Equities, property, bonds, cash	-ve screens (exclude harmful businesses) + ve screens (purpose-driven businesses)	Bonds & equity in social ventures	Donation given for a specific project	Donation given for general purposes
Where does the $ go?	Equities, property, bonds, cash based on financial merit alone	Ethical equities, property & bonds, based on financial & ethical considerations	Programs that have specific social outcomes & financial returns	Specific project nominated by donor	NFP uses for general operations
$ returns	Market return	Market + / - (constrains investable universe but returns subject to underlying assets)	Financial returns may be tied to social outcomes (less so for social enterprises)	None (other than potential tax deduction)	None (other than potential tax deduction)

Table adapted from Benevolent Society investor presentation

Social Impact Bonds (SIBs)



Adapted from J Liebman (2011). *Social Impact Bonds: A promising new financial model to accelerate social innovation and improve government performance*. Centre for American Progress

Source: NSW Treasury

"A SIB is a financial instrument that pays a return based on the achievement of agreed social outcomes.

Private investors provide upfront capital to cover the cost of delivering a service to achieve a particular social outcome.

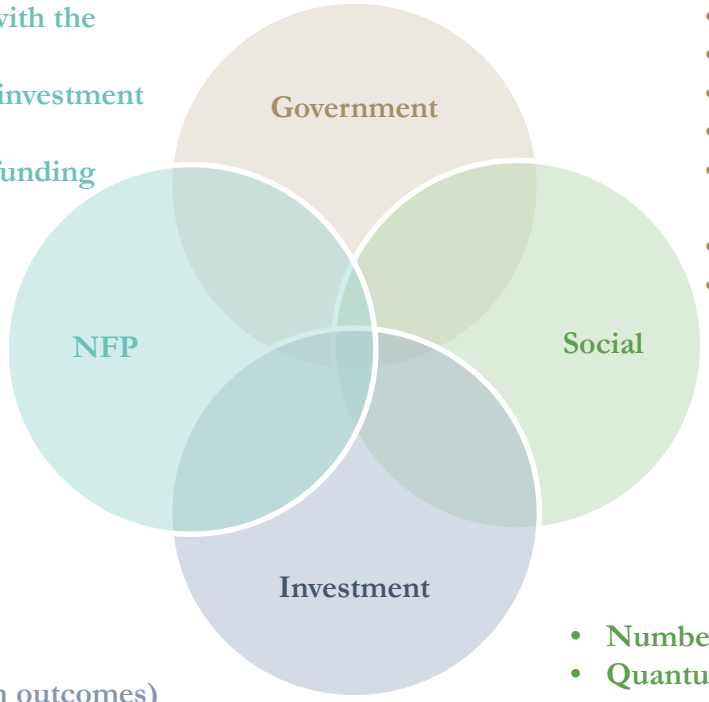
Achievement of this outcome should reduce the need for, and therefore government spending on, acute services.

Part of the resulting public sector savings are then used to repay investors' principal investment and provide a financial return.

The repayment of the principal and the level of return is performance-based, which means it depends on how much outcomes have improved." **Victorian Treasury & Finance**

To be effective, the bond must appeal to a number of key stakeholders, each of which have different interests & criteria for success

- Capability, expertise, effectiveness and leadership
- Sustainability of organisation
- Track record in achieving outcomes with the program and similar programs
- Ability to work with government and investment intermediaries
- Outcomes rather than activity based funding
- Ability to deliver program sustainably
- Ability to meet the needs of more people through expansion or continuation of program
- Alternative funding source
- Access to capital markets
- Long-term funding

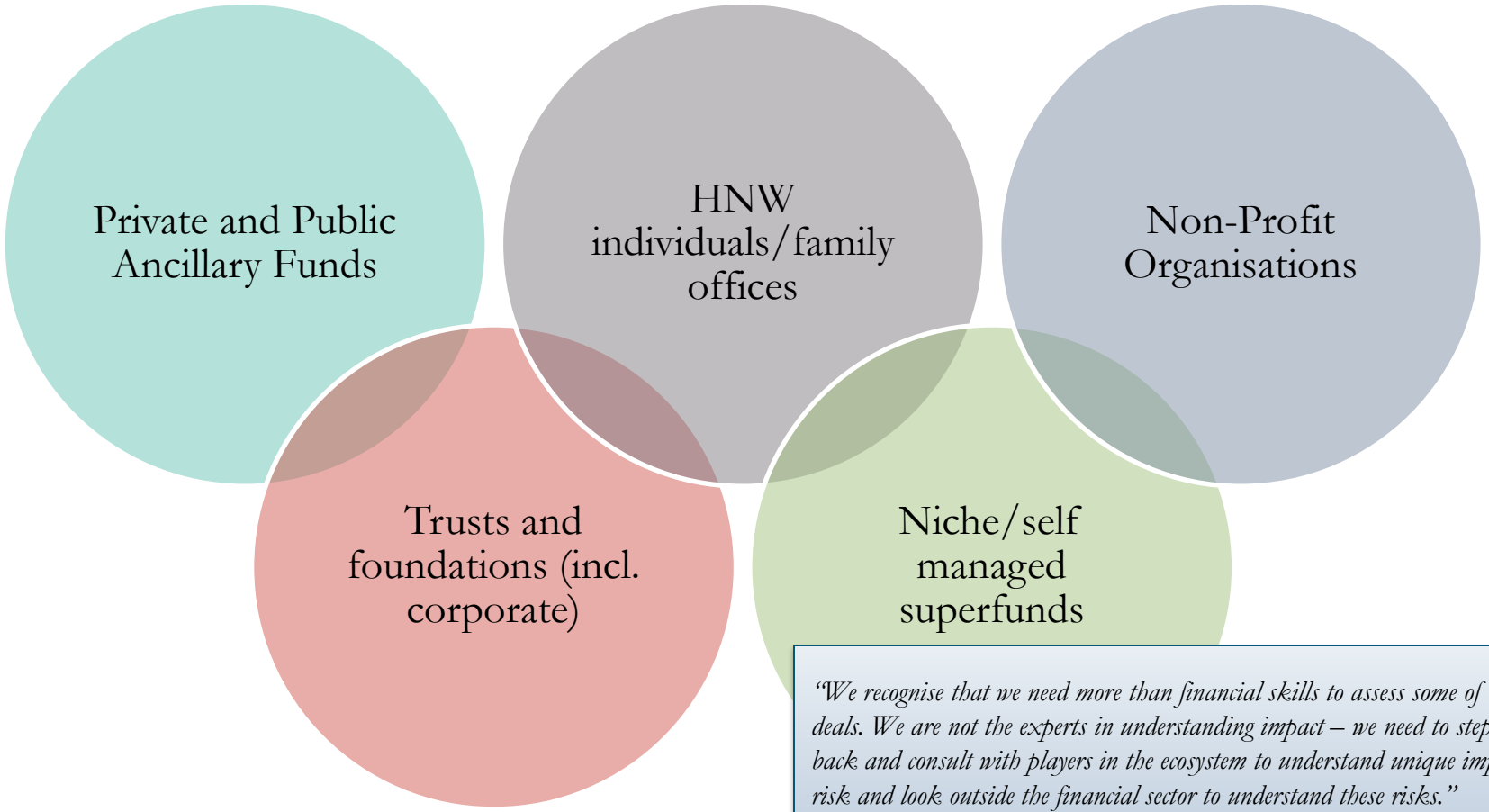


- Government savings (quantum)
- Single or multi-department savings
- Timeliness & sustainability of savings
- Benefit to broader community
- Social issue of critical importance
- Preventative or restorative
- Innovation to address entrenched social issues
- Indirect economic benefits
- Fund outcomes rather than outputs

- Capital risk / guarantee
- Term of program (years)
- Interest return, range and scale (min – max % pa & relationship with outcomes)
- Risk-free rate
- Interest payment frequency
- Size of issue
- Comparison with other impact bonds
- Comparison with traditional bonds/investments
- Avoid perverse incentives
- Liquidity

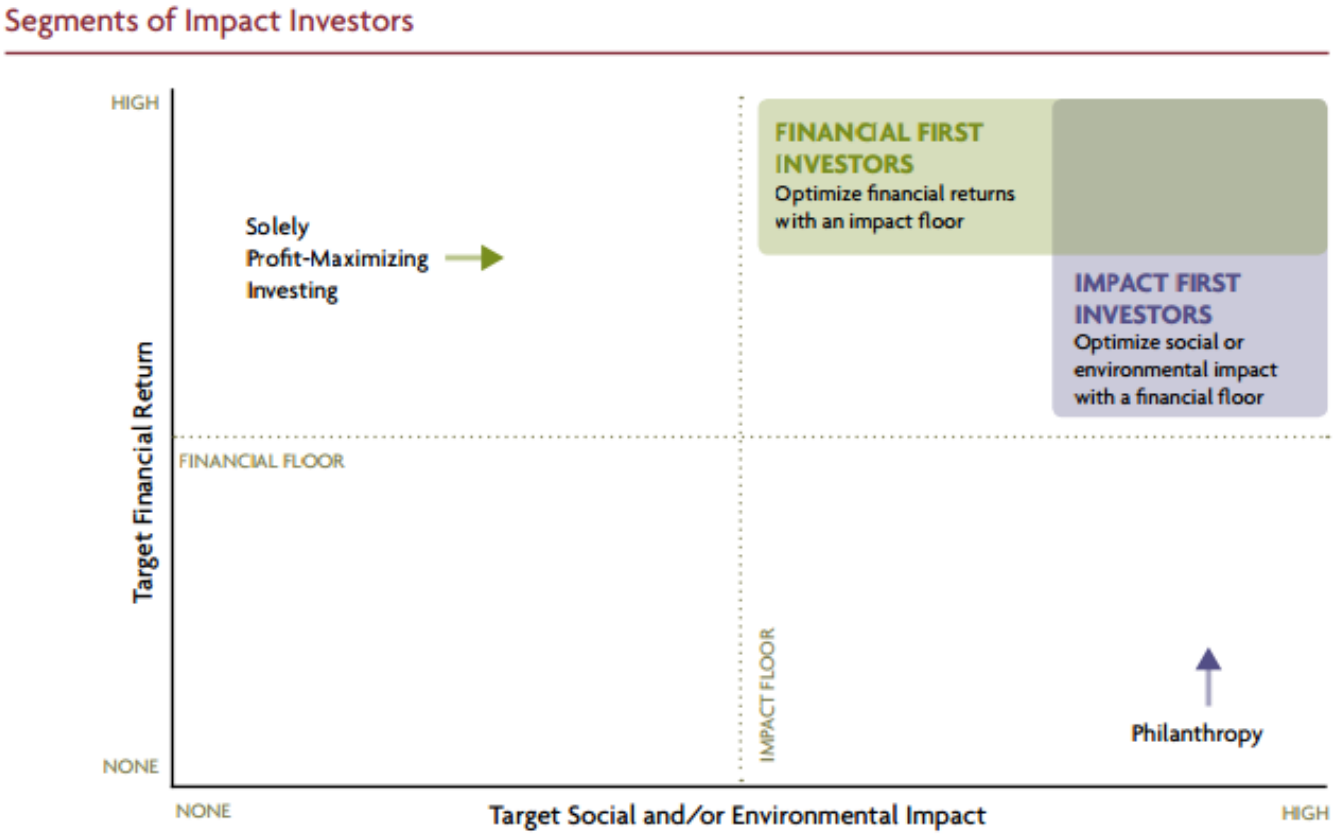
- Number of people's lives improved
- Quantum of improvement in people's lives
- Enduring impact / benefit
- Multiplier effect to families and community
- Specific risk factors that may hinder program success
- Benefit to broader community

Who are the investors?



"We recognise that we need more than financial skills to assess some of the deals. We are not the experts in understanding impact – we need to step back and consult with players in the ecosystem to understand unique impact risk and look outside the financial sector to understand these risks."
Simba Marekera, Christian Super - Impact Investments: Perspective for Australian Superannuation Funds, October 2013

Impact investor profiles



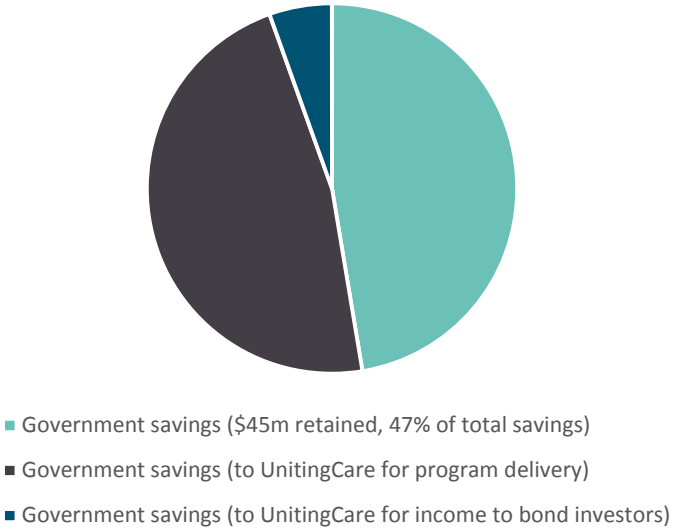
Source: Monitor Institute

Newpin & Benevolent Society SIBs

	The Newpin Bond	The Benevolent Society Bond
Description	Australia's first social benefit bond. Raised funds to support children and young people in OOHC to be safely restored to their families or to prevent them from entering care. Newpin is a long-term, intensive support program that works with families to improve parenting so children can live safely with their families.	Australia's second social benefit bond. Raised funds for The Benevolent Society's Resilient Families Service, which helps families address issues such as domestic violence and substance misuse, mental health, unstable housing and will improve family functioning and relationships. Keep children out of the child protection system and keep families safely together over the long term.
Performance measure	The restoration rate of children who enter the program.	The service aims to keep children out of the child protection system.
Bond class	One class	Two classes: class P and class E
Capital raised	$7m	$10m
Clients	700 + families (of which approx. 55% will have at least one child under the age of five in OOHC)	300 + families (at least one child under six years of age and will have been recently reported to Family & Community Services as at risk of significant harm)
Term	7 years	5 years
Investor principal guaranteed	50% guaranteed to be repaid at the maturity date 100% repaid if the restoration rate reaches 55%	Class P – principal repaid on redemption Class E – 100% principal at risk
Interest	Minimum interest rate is 5% p.a. over the first 3 years Maximum interest rate is 15% p.a. over the full term Target is 10-12% p.a.	Class P – 0-10% depending on level of performance Class E – 0-30% depending on level of performance

Source: NSW Treasury, KPMG

Upside for all stakeholders – the bond essentially represents a co-investment by government, the NFP & bond investor



Example: Newpin Social Benefit Bond

Social benefit:

- Supporting 700+ families
- Restoring 400 children to their parents

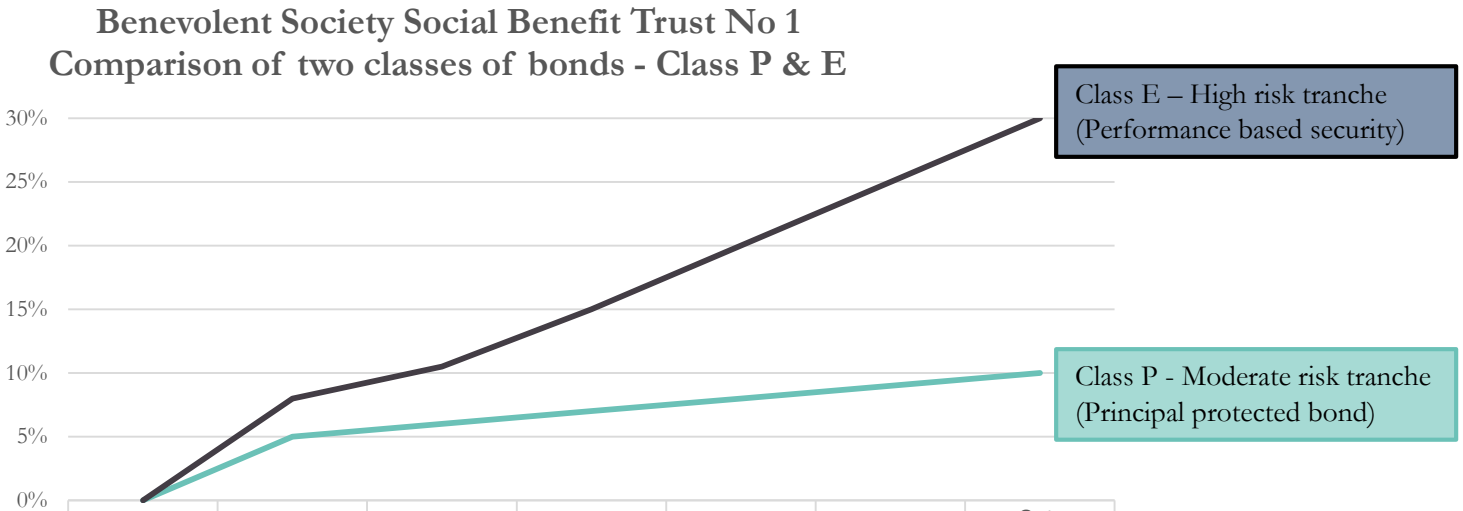
Financial benefit:

- Save NSW Government $95m over long term
- Government will retain $45m of this (~47% of total savings)
- Balance paid to UnitingCare for:
  - program delivery
    (representing ~47% of government savings)
  - income payments to bond investors
    (representing ~5% of government savings if maximum success achieved)

Investment summary:

- 7 year duration bond
- Years 1-3: 5% pa minimum interest
- Interest calculated based on performance (measured by restoration of children to family home)
- Interest paid at end of each year and capped at 15% pa over 7 year term
- Principal repaid at maturity

Investor risk appetite will vary and some bond issues have been structured with this in mind



	Fail (<5%)	Baseline (5-15%)	Good 1 (15-20%)	Good 2 (20-25%)	Good 3 (25-35%)	Good 4 (35-40%)	Out-performance (>40%)
Class P Bonds (% pa)	0%	5%	6%	7%	8%	9%	10%
Class E Bonds (% pa)	0%	8%	10.50%	15%	20%	25%	30%

Class P - **Moderate risk** tranche (Principal protected bond) Principal repaid at maturity (5 years) – guaranteed Income at risk, subject to performance, scaled (moderately) in line with program success	$7.5m
Class E – **High risk** tranche (Performance based security) Capital at risk, subject to performance of program at maturity (5 years) Income at risk, subject to performance, scaled (more aggressively) in line with program outcomes	$2.5m

Cash flows are based on outcomes (performance driven) and reflect an understanding of each stakeholder's needs

	Cash flow	Start	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Net $
Government										
Savings	In		Estimated $95m savings over the 7 years of the program							Est. $45m
Estimated spend (performance based)	Out		$7.1m	$7.1m	$7.1m	$7.1m	$7.1m	$7.1m	$7.1m	
UnitingCare / Trust										
Gov't funding (performance based)	In	$7m	$7.1m	$7.1m	$7.1m	$7.1m	$7.1m	$7.1m	$7.1m	Est. $4m
Program & bond costs & repayment of principal at end	Out		$5.9m + $350k	$5.9m + $350k	$5.9m + $525k	$5.9m + $840k	$5.9m + $1.05m	$5.9m + $1.05m	$5.9m + $1.05m+ $7m	
Bond Investor										
Interest (perf. based) & principal (at end)	In		$350k *(5% min.)*	$350k *(5% min)*	Est. $525k *(5% min.)*	Est. $840k *(perf. based)*	Est. $1.05m *(perf. based)*	Est. $1.05m *(perf. based)*	$7m + Est. $1.05m *(perf. based)*	Est. $5.2m
Capital invested	Out	$7m								

Targeted to PAFs granting 5% pa

NSW SIB outcomes to date

The Newpin Bond

In the two years to 30 June 2015, Newpin restored 66 children to their families. This is a cumulative restoration of 61.6% compared to a baseline of 25%. The program also prevented children in 35 families from entering care.

Investors received a 7.5% return in the first year and 8.9% in the second.

The Benevolent Society Bond

Theoretical result in 2014 for the 21 months to June 2015 was 12% (up from 8% in 2014). Resulting in a return of 5% for Class P and 8% for Class E.

Tips for developing an SIB

- A strong program model/offering with a well-articulated link to the Gov'ts stated outcome objectives. Also, draw the link between these outcomes and State/Territory finances (i.e. cost/benefit to the State)
- Contract negotiations/administration, EOIs and measurement are all intensive for an NFP and not all will have capacity
- Put in place a defined model for funding the program through the Bond that has the finance avenues firmly in place
- Ensure you have objective, third-party means of assessing the impact of the financial vehicle in which you intend on delivering the bond
- Consider attribution and developing your control group/counterfactual
- Develop a strong monitoring and evaluation framework that will provide surety to the State that outcome will be realised and lead to financial outcomes for the State

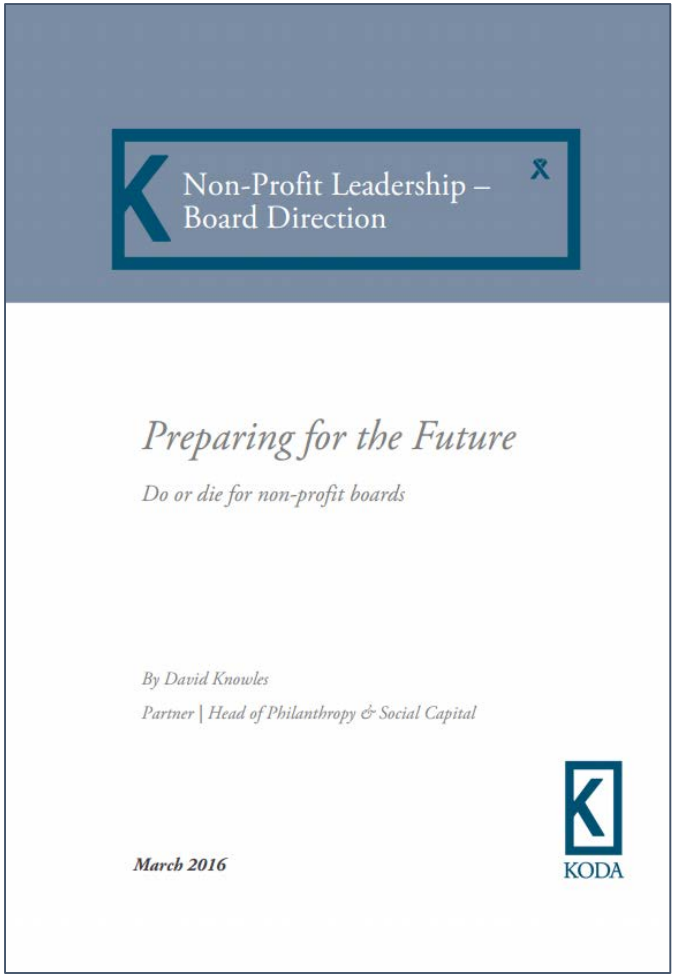
Additional benefits of a SIB to your charity

- Strengthen relationship with government
- Build organisational profile as an innovator
- Allows you to approach funders (donors!) in alternate manner
- Fosters innovation and productivity from within your organisation
- Learnings through rigorous measurement and evaluation

Getting ready for SIBs

- Get your organisation ready:
  - Are your Board and Executive Team briefed on Impact Investing and SIBs?
  - Does your Board and Executive Team have the right skill set?
  - Do you need to form a working group?
- Consider engaging with financial intermediaries & other service providers (e.g. SVA, banks, EY, Deloitte, Corrs, Koda Capital, etc.)
- Understand that these vehicles are complex, resource intensive and not all programs will work
- Get your organisation investment ready – *investors will demand transparency, accountability and a sound track record, along with robust governance and management practices*
- Are you in a position to scale programs successfully?
- Increase your focus on measurement, evaluation and the collection of data from programs

Koda's new white paper for non-profit boards



"The most important task of a non-profit board is to prepare its organisation for the future"

"The future requires different people, skills and attitudes. Many non-profits lack the right mix for the task ahead"

Resources

- **Impact Investing Australia - (Case Study) Newpin Social Benefit Bond**
- http://impactinvestingaustralia.com/wp-content/uploads/Uniting-Care-Burnside-SIB.pdf

- **KPMG - Evaluation of the Joint Development Phase of the NSW Social Benefit Bonds Trial**
- http://www.benevolent.org.au/~/media/Benevolent/About/KPMG_Evaluation_SBB_JDP_Final_Report_290114%20pdf.ashx

- **Social Finance – Social Impact Bonds (The Early Years)**
- http://www.socialfinance.org.uk/wp-content/uploads/2016/07/SIBs-Early-Years_Social-Finance_2016_Final2.pdf

- **Victorian Treasury**
- http://www.dtf.vic.gov.au/Victorias-Economy/Social-Impact-Bonds-in-Victoria

- **NSW Office of Social Impact Investment**
- http://www.osii.nsw.gov.au/

Questions



Exceptional Investment Management and Advice for Non-Profits

Providing independent advice to charitable and non-profit organisations is a core part of Koda's service offering. We are passionate, deeply experienced and committed to working with our non-profit clients.

We provide social capital investors outstanding service and peace of mind, in the form of:

Good quality, unbiased advice
delivered by highly experienced equity-owning partners working in an advisory business free of product conflicts.

Prudent risk management
with institutional-grade systems for asset ownership, execution and reporting designed to meet your needs. Assets can be held directly, or through world-class custodians.

Sophisticated investment capability
based on proprietary research and insights from our Investment Strategy Group specifically focused on your needs - complemented by research and data sourced from leading global and domestic research houses and delivered by a dedicated and experienced Koda adviser.

People and processes you can trust
to support your work. We will be your stable, reliable partner, providing advice and guidance informed by experience and a deep understanding of your needs. Strategies, portfolios, communication, reporting and fee charging arrangements can all be designed to meet your needs.

Tailored solutions
delivered by a dedicated advisory team that will invest time to understand your needs, review your governance framework, design an investment policy and a bespoke portfolio specific to your needs and aligned to your values. Our best ideas and strategies will be applied to your specific circumstances.

Philanthropy & Social Capital services
delivered by our dedicated team. The team's ability to help non-profit organisations increase their impact is based on its experience advising hundreds of non-profits across sectors like education, religion, health, ageing, welfare and the environment. The team's deep understanding of the non-profit sector is complemented by the sector experience of our advisers and board members.



Thank you

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