paul ramsay FOUNDATION

INSIGHTS PAPER

Supporting Community-Led Impact Fund Managers

APRIL 2024

Executive Summary

Only 2% of global impact assets are held within Australia[i], yet the Australian impact investment market has experienced more attention and growth over recent years thanks to, among other activities, the Social Impact Investing Taskforce's work, the establishment of new peer networks, and more investors entering the market.

The Australian market, however, lacks the range of investors to provide well-rounded and adequate choice required by For-Purpose Organisations (FPOs). This gap is particularly true for impact funds led by those with 'lived experience' of the societal and environmental issues that impact funds seek to solve.

We believe that those with lived experience of societal and environmental challenges are best placed to disburse capital to the communities they serve. By empowering communities to hold their own capital, power dynamics can be redressed, and funds can flow to those who can create the greatest impact.

This is the basis behind Paul Ramsay Foundation's (PRF) work in seeding and supporting the establishment of new 'community-led' fund managers. We define a community-led impact fund as an impact investment fund which is controlled and driven by those with deep knowledge and sector expertise gained through significant lived experience of the problems faced by a community – be that a community of interest, or a geographical community.

Community-led funds are typically financing intermediaries – organisations that receive (principally repayable) 'wholesale capital' from investors to on-invest. The already challenging economic model of making a financing intermediary impact fund stack up is heightened for those who fall outside of the 'typical' investor bubble.

In 2020, we embarked on our journey to support new community-led fund managers through our backing of First Australians Capital – an Indigenous-led organisation seeking to provide finance to underserved Indigenous businesses through a pilot fund. We have since made subsequent investments into new community-led fund managers.

The seeding of new community-led fund managers became a strategic impact investing priority in 2023. Our practice has been supported by an independent evaluation into our partnership model, which consists of a three-pronged approach consisting of both financial and non-financial support:

- Grant funding: for establishing operational expenditure;
- Repayable finance: for on-investing; and
- Non-financial technical assistance: for capability building.

This paper explores the process, learnings and future considerations captured as part of our work to date.

While we are early in our journey, we are excited by these opportunities and the future. We hope that this paper stimulates discussion, and we look forward to working with others who share our belief.

Background and Problem

An often-overlooked metric relating to the growth and maturity of an investment market is the number (and quality) of financing intermediaries.

Financing intermediaries – or funds – often adopt a specific thematic, be that place, impact area or stage. A growth in the number and range of such funds is essential to both prospective investee choice and to the likelihood of tackling deep entrenched disadvantage using impact investment.

Logic dictates that the likelihood of positive impact generation is larger when investors have lived experience of the social and environmental challenges their fund seeks to solve. The unspoken truth is that it is rare for investors to be best placed to support entrenched disadvantage directly, particularly when it pertains to a very specific community. Service providers who have significant lived experience of the problems a community faces – be that a community of interest, or a geographical community – are typically better placed to hold genuine empathy with prospective investees (and those they service), to build and maintain trust, and to identify – and mitigate – impact risks.

Lack of capital is a particularly prominent challenge for early-stage small-scale community interventions. Often these FPOs need relatively small investment sums which represents high risk to investors due to high transaction costs and limited track record of FPO delivery. As such, few investors are attracted to this space. Layer on top a lack of deep community knowledge, networks and experience and these market segments becomes wholly unattractive to investors and hence underserved. Yet without access to capital, how can early-stage small-scale community interventions routinely grow, reach sustainability and deliver impact at scale?

The compelling solution is to empower those embedded in their communities to become holders or managers of funds, yet barriers, such as access to capital and expertise, prevent this.

Access to capital

- Community-based organisations often do not hold the wealth or funds required to establish a fund themselves, which results in the need for (wholesale) investment if a fund is to be established.
- The lack of community wealth is perpetuated within communities who have faced historic discrimination, preventing receipt and transfer of wealth – the colonisation of First Nations peoples being a prime example.
- The number of financing intermediaries is directly correlated to the amount of available wholesale finance to establish funds. Community-led funds, which may seek 'concessional' financial returns due to the nature of the underlying investees, require patient, affordable and flexible wholesale finance which can only be provided by a sub-set of wholesale investors, and is therefore scarcer still.

Access to expertise

- Community-based organisations may not have, or are perceived not to have, the capability (or capacity) to satisfy wholesale investors that they have the ability to deliver an impact fund.
- Impact investing enjoys a mixed reception: inaccessible jargon often alienates people and many consider impact investment to be purely standard secured mortgage-like debt, which is unappealing or unserviceable.
- Regulatory licences (understandably) create a barrier to new fund manager entry due to cost and required expertise.

Our Solution

We believe that those with lived experience of societal and environmental challenges are best placed to disburse capital to the communities they serve. By empowering communities to hold their own capital, power dynamics can be redressed, and funds can flow to those who can create the greatest impact.

It is this belief which has driven our strategic impact investing priority to seed new community-led fund managers and impact funds.

In 2020 we embarked on our journey to support new community-led fund managers through our backing of First Australians Capital – an Indigenous-led organisation seeking to provide finance to underserved Indigenous businesses through a pilot fund. Since this date we have continued exploring our role in this space and how we might best seed and support new community-led fund managers and impact funds. This became a strategic impact investing priority of ours in 2023.

Case Study: First Australians Capital

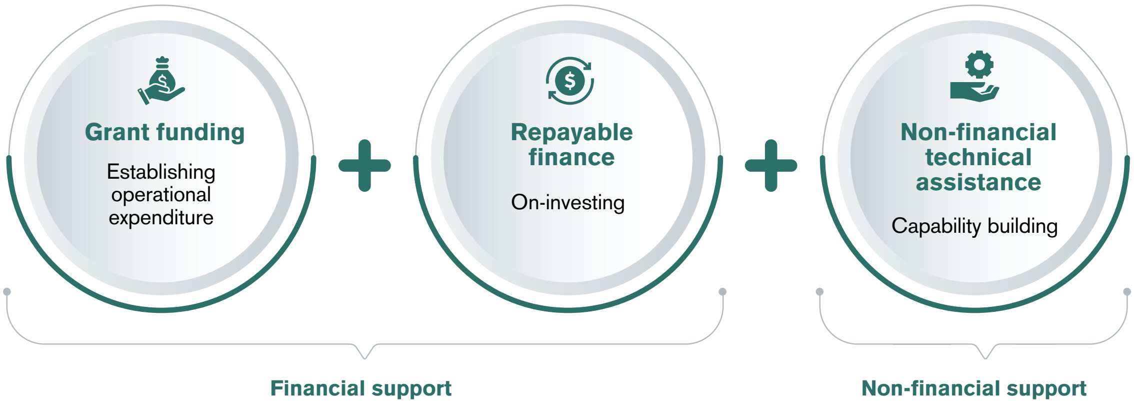
First Australians Capital (FAC) is an Australian charity founded in 2016 to provide capacity building services and access to capital to Indigenous businesses.

In early 2021, FAC launched a pilot fund to test the 'investibility' of Indigenous businesses, the commercial viability of a fund providing capital to Indigenous businesses and ultimately drive socioeconomic development in Indigenous communities. A total of $13m was provided to FAC by PRF alongside two other investors. The pilot fund provided equity and debt capital alongside capability support to Indigenous businesses.

Alongside PRF's $6m commitment to the pilot fund, PRF also provided a $350,000 grant to cover the fund's initial operating expenditure (opex) and evaluation activities, and non-financial technical assistance in the form of Investment Committee membership and ad-hoc support. In 2021, PRF provided an additional grant of $225,000 to FAC to engage a third party to undertake market scanning and fund design advice for a future successor fund.

The pilot fund's success has informed the design of FAC's 'Catalytic Impact Fund' which is approaching its minimum close target of $20m ahead of its mid-2024 launch.

We have developed and employed a three-pronged model of activity, consisting of both financial and non-financial support.



1. Grant funding

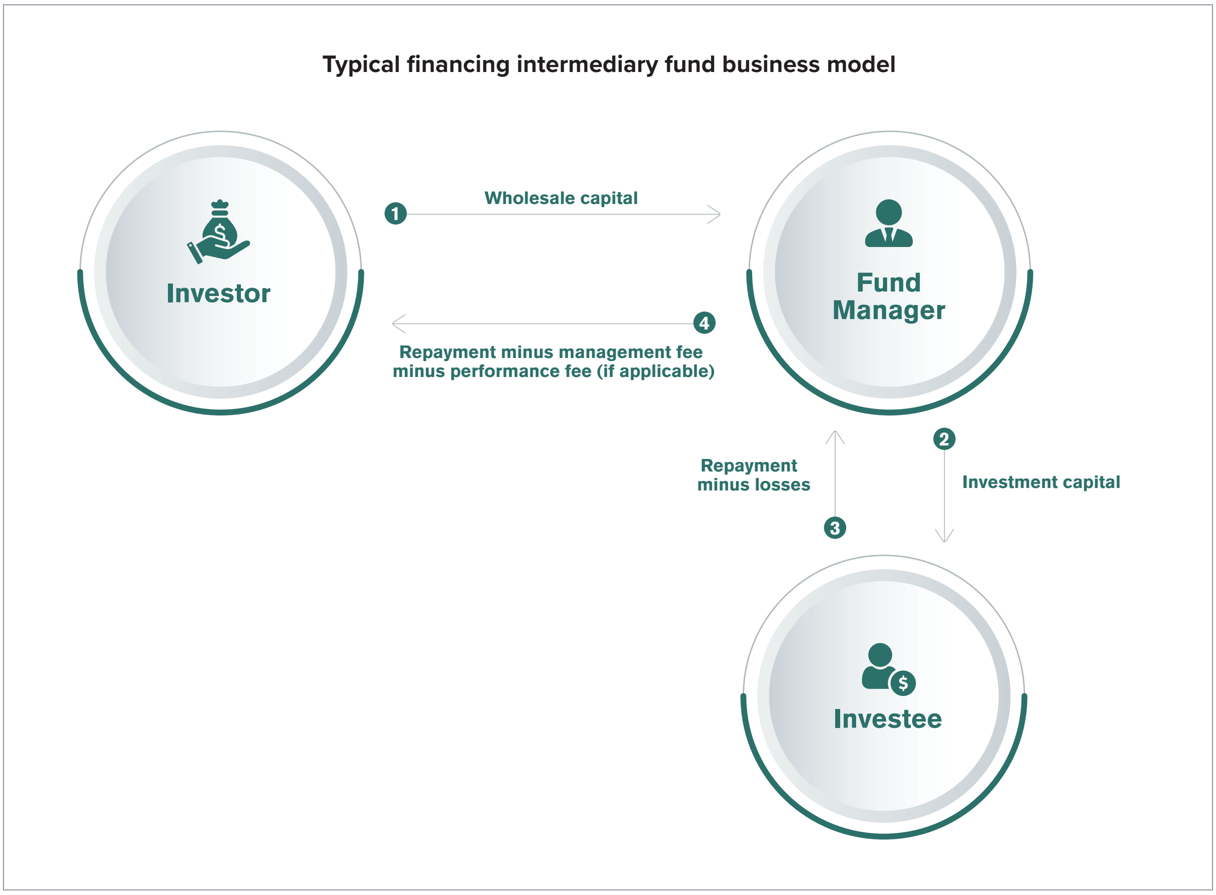
The economics of early fund management are hard – put bluntly, the fund model at small scale doesn't work. Capital is required to establish the manager – to appoint key staff, to create fund management systems, to hire office space, and more. Within the commercial or larger scale fund sphere, new managers might be established through equity raises (not possible for charitable legal structures – though products like the pioneering Perpetual Bond seek to overcome this challenge) and founders' personal funds (unlikely within communities which have not benefited from intergenerational wealth transfer and who may face barriers to employment). In time the fund will seek to receive a management fee based on a percentage of total Assets Under Management (AUM), and perhaps a performance fee. However these fees will likely to be accrued until the fund is generating income, and even then, small scale funds have lower levels of AUM and therefore generate smaller management fee income. Sustainability, therefore, is often only possible by:

- Building to substantial AUM;
- Supplementing management fees with other income (for example, consultancy income); and
- Being reliant on philanthropic funding to support the organisation.

In lieu of the ability to raise upfront equity or founder contribution, grant funding enables establishing operational expenditure until management fee income begins to flow. Without it, insufficient talent can be attracted which is detrimental to the fund manager's ability to deliver and to investor confidence. Lack of initial opex breathing space also creates immediate pressure to deploy funds (so that investment returns can be received as quickly as possible) which can have unintended consequences to the investment risk taken – and hence the fund's long-term sustainability. The fund is destined to fail before it has even begun.

2. Repayable finance

There is a need for patient, risk-tolerant repayable wholesale finance which is relatively bespoke based on the fund's underlying investee needs. This enables appropriate on-investing to underlying portfolio companies. Repayable wholesale finance means that the new fund manager can build and demonstrate a track record of receiving and repaying funds to wholesale investors. Ultimately this creates a proof point for future investors so that new capital can be leveraged into future funds, which also inherently spreads the risks for initial investors – the hope being that future funds can establish a larger AUM base to help overcome some of the economic challenges referenced earlier.



3. Non-financial technical assistance

Running a fund is hard. There is a requirement to establish new processes, comply with legislation and regulation, and manage risk and administrative burden. The notion that community-led delivery organisations can instantly transform into good strategic asset managers is mythical. There is a need to support the prospective new fund manager's team so that the team can develop and demonstrate the necessary financial and impact acumen, and ability to deliver, to future investors. Elements of non-financial technical assistance may include (supportive) Investment Committee (IC) membership, ad hoc meetings, sharing of templates, aid with impact management and guidance on portfolio management. Rather than this being an exercise of control, it must be with the goal of empowerment in mind.

Our approach is not new. The UK's Access Foundation has been successful in enabling new community-led funds through its 'Growth Fund'. Whilst we have taken a slightly different approach, the thesis remains the same.

Equally, Australia's Department of Foreign Affairs and Trade (DFAT) established the Emerging Market Impact Investment Fund (EMIIF) in 2018 (since rebranded to Australian Development Investments (ADI)) using a similar model to ours to support new funds in Southeast Asia and the South Pacific.

Foundations have been interested in this work too, typically on an ad hoc basis. For example, both the UK's Esmée Fairbairn Foundation and Canada's McConnell Foundation have supported the establishment of racially diverse and Indigenous funds respectively.

Case Study: Access – the Foundation for Social Investment

The UK's Access – the Foundation for Social Investment (Access) was launched in 2015 with the support of the National Lottery Community Fund, Big Society Capital and the UK Government Cabinet Office to address two specific gaps for charities and social enterprises in England trying to access impact investment:

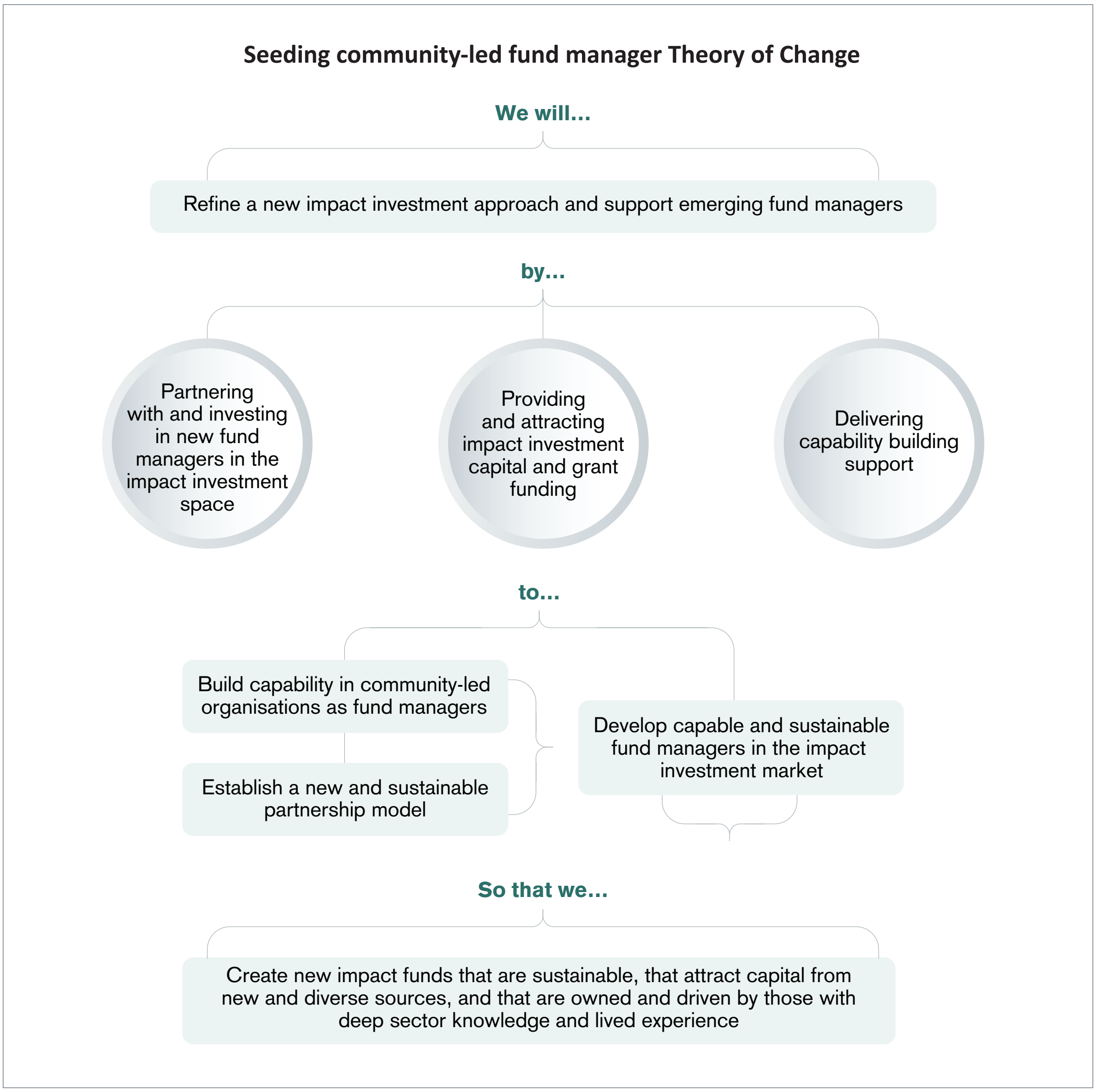
1. Impact investment products need to be better suited to what charities and social enterprises are asking for; and
2. Many charities and social enterprises who could benefit from taking on impact investment need support to be able to do so.

The Growth Fund, launched by Access in 2016, was designed to provide the finance (of up to £150,000) that charities and social enterprises need for growth, exclusively through financing intermediaries. Now closed, the Growth Fund supported the launch of 16 new impact funds through a combination of repayable and grant finance. Many of the newly established funds focused on communities of interest: for example, those targeting homelessness and communities through sport; and geographic communities: for example, place-based funds in the Southwest of England and Greater Manchester.

As of September 2023, the Growth Fund had invested into 725 enterprises with an average investment amount of £67,000, through 16 impact funds with total investments of £48.58m[iv].

In October 2023 HealthQ concluded an independent evaluation into the support model PRF employed with First Australians Capital. This evaluation led to the development of a high-level partnership Theory of Change.

The hypothesis behind our support is that by adopting a new investment approach to support emerging fund managers, delivered through our three-pronged activity model, new capable and sustainable impact funds can be created that are owned and driven by those with deep sector knowledge and lived experience. This overcomes many of the barriers previously discussed and will lead to a greater flow of capital to those best placed to deliver impact which will ultimately tackle entrenched disadvantage.



Structure of funding

Inevitably a critical component of the new fund manager support model is the structure of the support provided. The levels of financial and non-financial support will vary depending on the partnership goals and objectives specific to each partnership. These should be co-designed with a partner and documented appropriately.

This support falls under the umbrella of 'blended finance'. Blended finance needs to be appropriately structured to create the greatest prospect of success.

'Success' is rarely the pilot fund which our support may enable – as was the case with First Australians Capital. By definition, a pilot is designed to test supply and demand for impact capital and fund viability. It is important that the wholesale finance is structured to enable this test and learn, and with future funds in mind. This results in the need for patient, affordable and flexible wholesale finance.

Our partnership model employs three forms of blended finance: concessional capital; technical assistance; transaction design.

Forms of blended finance

Blended finance typically occurs through four avenues:

1. **Adjusting returns (concessional capital).** The capital enables the fund to accept below-market returns.
2. **Adjusting risk (guarantees).** The capital is used as insurance for the return of capital invested by private sector investors.
3. **Strengthening companies (technical assistance).** Non-financial support to strengthen the recipient's capability.
4. **Project development (transaction design).** The capital, often grant, used to fund riskier market segments or for feasibility studies or proof of concept.

A valid argument is that grant funding, as opposed to repayable finance, should be used for on-investing to enable the new fund manager to build and demonstrate a track record. The counter to this argument is that grant funding would fail to evidence the ability of the fund manager to repay. Grant finance is also unlikely to attract the same level of scrutiny and oversight which future investors are likely to require. In that sense, the provision of grant funding for on-investing will prove little if the objective is fund scale and sustainability.

When might use of financing intermediaries be most appropriate?

Direct investing still has a valuable role to play and should not be abolished. PRF's active impact-first investment portfolio, for example, is 40% directly invested and 60% through financing intermediaries[1]. However, there are several conditions in which we believe investing through financing intermediaries, particularly those led by people with lived experience, may be more appropriate.

- **Skills and capability.** When a financing intermediary currently, or has the potential to, possess skills and experience which we do not. This is particularly relevant for lived experience within a strong thematic focus.
- **Underlying investment restrictions.** When the nature of the underlying investments is out of scope for the investor, for example, with investment ticket size, which would result in the investor's capacity being overwhelmed or in need of a complete strategy shift. For example, PRF's average impact-first investment size is $1.5m and we typically do not invest less than $1m. Doing so would quickly overwhelm our internal capacity and capability, rendering us less effective.
- **Value add structure.** When a financing intermediary takes a portfolio approach to investing which may lead to additional benefit. For example, a strong and narrow thematic focus with the resultant learning from the investment portfolio being used to advocate for policy change.

It is also important to note origination considerations. In our authorising environment, we must ensure that there is alignment with our Charitable Purpose. This allows us to provide concessional capital, grants and non-financial support.

1 As at February 2024.

Lessons

While this practice is not entirely new globally, it remains nascent, and it is new within Australia. Running a fund is hard. This is significantly heightened as a financing intermediary, and amplified for community-led organisations who have not operated in the investment market before. Inevitably we have learned many lessons along the way which we are building into our practice.

1. Grant funding

- **Sufficient grant funding**. Grant funding to establish upfront operational expenditure needs to be sufficient and multi-year. Opex grant funding represented only 6% of the total sum invested into First Australians Capital. This is similar to the UK Access Foundation Growth Fund ratios in which a maximum of 5% of total invested sum could be used for grant opex. When we reflected and reviewed these proportions as part of our second seed investment into a community-led fund manager (Impact Seed in Western Australia), this figure jumped to 39% (and 5-year vs 2-year with First Australians Capital). There is no hard and fast rule, rather the grant proportion should alter based on need, the nature and the size of the community-led fund.
- **Restrictions.** While there are situations where unrestricted grant funding is valuable, in this instance we believe that grant funding should be restricted to a fund manager's core costs. This ensures funding is used as intended (to support fund manager establishment) and prevents leakage through the use of grant funds to repay wholesale investment capital.

Case study – Impact Seed

Founded in 2015, Impact Seed is a Perth-based organisation focused on social enterprise development and impact investing market building. The team provides support to place-based projects that aspire to create deep impact in Western Australia (WA).

In 2021 PRF supported Impact Seed with a $1.3m grant to deliver 'Impact to Innovate': a capability building and investment readiness program for early-stage social enterprises in WA. Of the 34 social enterprises who went through the program in Year 1, several were deemed to be investment ready, yet enterprises were unable to raise capital due to a lack of early-stage finance in the WA market owing to its geographic isolation.

To overcome this barrier, in April 2023, PRF approved a $1m loan alongside a $640,000 grant to support the creation of a place-based pilot fund: the WA Impact Loan Fund. PRF's loan, used for on-investing, carries a 3% interest rate and 10-year term. Repayments to PRF are made via a 'cash sweep' mechanism in which repayments flow to PRF from Impact Seed when received from the pilot fund's investees. During the initial 6-year availability period, 75% of principal repayments received by the WA Impact Loan Fund can be recycled to make further investments. The pilot fund intends to catalyse other funders through a co-investment requirement. The WA Impact Loan Fund is expected to provide debt ranging from $50,000 to $350,000. PRF's $640,000 grant is provided over 5 years to cover the pilot fund's initial set-up costs and opex, including hiring key staff. In addition to the financing, PRF is providing non-financial technical assistance in the form of Investment Committee membership and ad-hoc support.

2. Repayable finance

- **Repayable capital**. Repayable capital, used for on-investing, needs to be patient, affordable and flexible. Wholesale finance should be structured with the ultimate benefactors of the new community-led fund – the investees – in mind. Investee appropriate investment quantum, price, and repayment terms will all influence what form the wholesale finance should take. Applying a one-size-fits-all approach doesn't acknowledge the necessary nuance in funding within varying sectors and communities. A wholesale investor seeking repayment on standard repayment terms without matching underlying investee repayment profiles will be counterproductive to supporting the fund manager's sustainability.
- **Remember purpose.** The three-pronged activity model is designed to:
  - Test the viability of a potential community-led fund; and
  - Create a credible track record to build investor confidence, de-risk the fund proposition and leverage future investors to enable the fund to reach a sustainable scale. However, it is important to remain realistic and quantify what 'success' means when referring to sustainability given the challenges that 'sub-scale' funds encounter.

3. Non-financial technical assistance

- **The need for balance.** Non-financial technical assistance requires balance. Whilst investor risk mitigation will always remain a consideration, the wholesale investor needs to be genuinely supportive – this is particularly relevant for Investment Committee membership.
- **Establish a clear goal.** A mutually agreed purpose, established and documented upfront to ensure aligned motivations mitigate miscommunication. The use of a Memorandum of Understanding ensures that the original partnership intent is safeguarded, outlasting any inevitable staff turnover.
- **Power imbalance.** There will always be a power imbalance within the partnership – it is inevitable. It is important to acknowledge, remain conscious and minimise imbalances. This is more pertinent when working with First Nations organisations with a need to appreciate the cultural context. Active listening, openness, transparency and an aspiration to relinquish control are essential in the formation of a genuinely trusted relationship. For a successful partnership to emerge, the wholesale investor needs to acknowledge that simply because they hold wealth does not automatically mean that they are the best placed to invest directly. Whilst IC seats may be a beneficial capability building component initially (provided purpose and execution are aligned), in time the objective should be for the wholesale investor to step away to allow a skills-based IC to form and blossom. We have found that transitioning onto an Advisory Committee, which holds no control levers, is positive for all.

4. Design and development

- **Community-led development.** It isn't appropriate to expect a community-led organisation to be able to develop an impact fund from a standing start and with no resources. Fund development is an expensive and enduring process which requires support and expertise. To provide support, we have developed an investment readiness grant pool of $200,000 per year with a maximum available grant of $50,000. We have shifted our practice to one of patience across a staged developmental process which may consist of: testing (less than $50,000) > development (less than $200,000) > execution (financial and non-financial support).
- **Regulation.** Regulation creates a necessary barrier to entry for new funds. We sought significant regulatory advice to inform our work; it is imperative that others wishing to operate in this space do likewise. The complexity of when an Australian Financial Services Licence (AFSL) is required, whether this should be held directly, indirectly as an authorised representative, or whether charitable exemption is possible, in addition to the use of bi-lateral loan agreements, the classification of a Managed Investment Scheme and coded vs non-coded loans is significant, and punishment for non-compliance is severe.

There is, perhaps, a more fundamental and systemic question our work has uncovered: is there a need to redefine what a 'fund manager' is? The term adds mystique, complexity and is loaded. It may alienate an organisation from its community which has implications for the fund's ability to deploy capital. Yet conversely, the term is important for mainstream understanding given that with scale, community-led fund managers may wish to access institutional capital. Diverting from this term can alienate investors. It's a philosophical catch-22 which has not been settled.

Future

Seeding new community-led fund managers is now a priority of our impact investing strategy. We will continue to learn, refine our work, and share with others – both within and outside of Australia.

We believe that diversity brings choice and greater likelihood of tackling entrenched disadvantage. However, barriers on both the supply and demand side prevent impact funds driven by those with lived experience from having a material market share; these must be addressed for future growth.

Supply side

More wholesale investment capital is needed.

- **Concessional capital**. The wholesale capital needed to capitalise new community-led funds is likely to be concessionary in nature – at least initially during a pilot phase. The amount of concession, and the sum required will vary due to the nature and characteristics of the underlying impact fund. As before, the wholesale capital must be impact-driven – providing finance which FPOs need – not wholesale provider driven. Supplying inappropriate wholesale capital can have significant unintended negative consequences.
- **Universe of wholesale investors**. Due, in part, to the concessional nature of the wholesale capital required, the 'universe' of investors, and hence the pool of available capital to tap into, is generally limited to foundations and other charitable organisations. This is because philanthropic organisations have the ability to generate sub risk-adjusted market returns due to their non-existent cost of capital and the focus on Charitable Purpose. Philanthropic organisations should embrace the role they have in accelerating this market and work with others to share practice, spread risk and provide wholesale capital.
- **The role of Government and regulation**. It is unsurprising that markets such as the UK and the US are further advanced than Australia given market intervention. In the UK, government, and the National Lottery Community Fund (a quasi-government entity) have stepped in to provide significant financial support in seeding the Access Foundation which acts as an early-stage FPO supporter and 'wholesaler'. In the US, the requirement for private foundations to distribute 5% of the market value of their endowments each year for charitable purposes can include concessional impact investments (unlike the Australian equivalent rule for Private Ancillary Funds). Australia's Social Impact Investing Taskforce included the establishment of a Foundation for Impact Investment – similar to the UK's Access Foundation – within its recommendations[ii]. Whilst the Federal Government's May 2023 budget commitments included acting on some of the Taskforce's recommendations, there has been no uptake for the formation of this foundation. However, rather than wait, foundations, like PRF, are seeking to act in collaboration to prove the value of such activity.
- **Structural complexities**. Even removing the barriers created by an initial need for concessional capital, structuring appropriate wholesale capital is resource intensive. There is no one-size-fits all approach given the diversity of community-led funds and their needs. A relatively bespoke approach is needed based on the financing intermediary's capabilities and the requirements for the underlying investees they will serve. For example, there may be a

need for blended finance to underlying FPOs which alters the wholesale finance construct and creates structural questions on how best to deploy blended finance. This means that if wholesale investors – such as PRF – can reduce the transaction costs involved in providing wholesale finance by developing and sharing investment agreements, templates and sharing practice, more wholesale capital should enter the market which will lead to more capital and more community-led funds.

Complexity and fragmentation have plagued impact investment markets; there is a need to work together to reduce the strain and challenge on investors and investees. Groups such as the Foundation Group for Impact Investors (FGII) play a critical role in reducing barriers.

Demand side

Community-led fund managers require support.

- **Market education.** The market remains nascent and education is important. Impact investing remains complex, misunderstood and scary to many – work needs to be done to enable access, particularly for communities who have historically been shut out from engaging in investment discussions and, as such, are distant to the market. However, promising initiatives exist globally.
    - **Developmental grants and accelerators.** Our recognition that potential community-led fund managers require money, time and support led to the establishment of our $200,000 investment readiness development grant pool. This concept is not new: Australia's Growth Grants and the UK's Reach Fund are testament to that, though a focused grant pool targeting new fund managers is novel and can be scaled. Equally, the UK's Pathway Fund – established in 2022 as a wholesaler dedicated to catalysing opportunities for Black and Ethnic Minority communities across the UK – has established an incubator program to support first-time fund managers over an 18-month period. In 2024, Canada's McConnell Foundation supported a similar initiative. The 'TOWARDS: Community Finance Development Accelerator' is a capacity-building accelerator for community finance intermediaries seeking to drive positive social and environmental impact in their communities through lending and investing. These can be replicated in Australia.
    - **Finding potential community-led fund managers**. Origination is challenging; communities may be wary of foundations and access is often difficult. Umbrella and peak bodies can help build networks and become key trusted funding and origination partners. The UK's Rivers Trust is a good example of this.

Case study – The Rivers Trust

In January 2019 the UK's Esmée Fairbairn Foundation approved a co-designed £1.8m bridging loan facility to The Rivers Trust – a charity that acts as an umbrella organisation to 60 member Trusts – to plug cashflow gaps created by the UK Government's Department for Environment, Food and Rural Affairs (DEFRA) Water Environment Grant (WEG). The WEG uses money it receives from the European Union to fund river and wetland restoration in the UK; the WEG pays funds in arrears.

Esmée Fairbairn Foundation's facility provides upfront funding to Trusts to enable delivery of these projects with repayments received from WEG payments.

Member Trusts apply to The Rivers Trust, who, with Esmée Fairbairn Foundation's input, approve applications. Member Trusts are charged interest on an escalating annual basis (starting at 0%) alongside a small upfront fee to cover The Rivers Trusts' administrative costs.

- **Peer learning**. Creating the conditions for peer learning between community-led fund managers so they can openly share with one another, can reduce the potential feeling of isolation and mean people can learn from the mistakes of others. The establishment of a community of practice – driven by community-led fund managers – should be explored.

- **Underlying enterprises; pre-investment**. Support is needed for community-led fund managers, but it is also essential to underlying enterprises who may benefit from new funds. There remains a need for more market education resource, and investment grant funding support. The establishment and reestablishment of Impact Investing Australia, Social Enterprise Australia, and the Federal Government's commitment to creating the **Social Enterprise Development Initiative** are welcome additions to the market.

- **Underlying enterprises; post-investment**. The support requirement doesn't end once the investment agreement has been signed. Anecdotally, non-financial technical assistance provided by a fund manager to an investee alongside capital is highly valued. Yet it is expensive to administer and undervalued by investors given it is difficult to quantify its impact (though many, including Big Issue Invest's '**Beyond the Cheque Initiative**'[iii], have tried through studies). Logically, high quality ('quality' being the operative requirement) post-investment support will reduce the risk of losses and therefore generate higher returns to the fund, and subsequently wholesale investors. However, if wholesale investors do not provide sufficient funds to enable the fund manager to provide support, then it is either poorly undertaken (limiting the impact) or adds additional strain to an already challenging economic fund model. Investors should consider where post-investment support may be required and how much it should cost.

Concluding Statement

It is important to keep in mind that the impact investment market is complex. It operates across a Spectrum of Capital, and even at the concessionary end (which the practice of seeding community-led fund managers would mostly apply to), there is no single solution.

A market which *only* consists of community-led funds won't tackle market failure; there is a need for a range and diversity of impact investors.

We are excited about this work and are committed to sharing and working alongside others to progress this agenda. We believe that we cannot address the world's social and environmental challenges without empowering those with lived experience to hold funds and power so as to take the decisions which they are uniquely placed to make.

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Disclaimer:
Ben Smith is the Head of Impact Investing at PRF. This paper is a reflection on PRF's approach to seeding new community-led impact fund managers, contains information and opinions about approaches to impact capital investment, and does not constitute advice.

Glossary

Assets Under Management – the total market value of investments owned or managed.

Blended finance – a combination of diverse capital sources, structures and knowledge through a common investment scheme or deal with each party using their expertise in complimentary ways.

Community-led impact fund – an impact investment fund which is controlled and driven by those with significant lived experience of the problems a community face.

Community of interest – a community of people who share a common interest or passion.

Cost of capital – the cost of a company's funds dictated by the investor's required rate of financial return.

Financing intermediary – an entity that pools funds from several investors to invest in multiple investees in line with a predefined strategy.

Geographic community – a community of people defined over a geographic space.

Impact investment – investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Lived experience – personal knowledge gained from first-hand involvement or direct experiences.

Management fee – fee paid to an organisation for managing investments on behalf of others. In the case of a fund manager, a typical management fee is 2% per annum of the fund's Assets Under Management.

On-investing – financing intermediaries which receive finance from one party and use those funds to invest in another.

Performance fee (also known as 'carried interest') – share of profits from a fund paid as incentive compensation to the fund's manager.

Spectrum of Capital – a graphical representation of the broad range of risk / return / impact strategies that exist within finance.

Wholesale capital – finance provided to a financing intermediary for the purpose of on-investing.

Endnotes

i Global Impact Investing Network (2022). GIINsight: Sizing the Impact Investing Market 2022

ii Access: The Foundation for Social Investment (2023). Quarterly Dashboard

iii Australian Social Impact Investing Taskforce (2022); Update and Review of Final Report

iv Big Issue Invest (2020). Beyond the Cheque Initiative