



ImpactEnterpriseFund

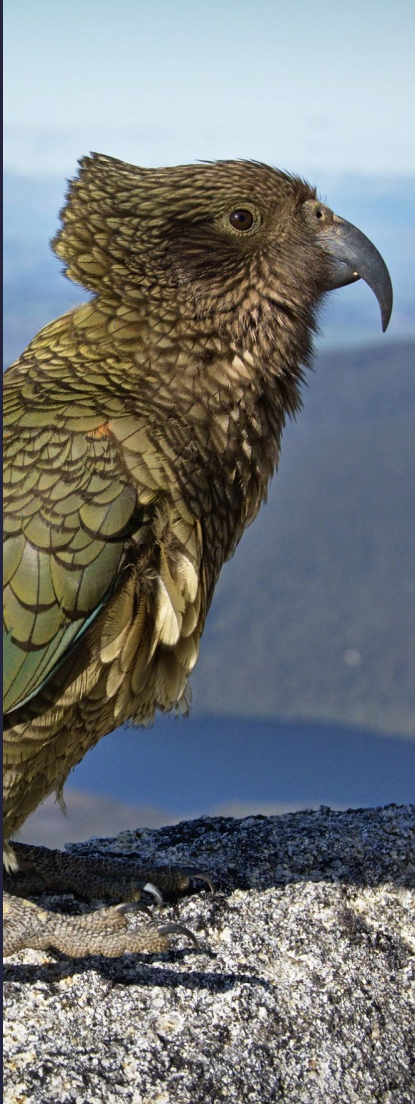
Impact Report | 2020

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NewGroundCapital



ImpactVentures



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Foreword

E ngā maunga, e ngā pataka o nga tāonga tuku iho, tēnā ra koutou.
Tēnā ra ano i runga i o tātou tini aitua kua wheturangitia.
E mihi atu ana, e tangi atu ana.
Rātou te hunga mate ki a rātou. Tātou te hunga ora ki a tātou.
Ki a tātou e noho nei i te ao hurihuri.

2017 seems a long time ago in the sense that raising a private multi-million dollar fund in Aotearoa for investments exclusively in impact focused businesses was not a well-travelled path. Nearly four years and six investments later, the Impact Enterprise Fund is part of a world where impact investment is becoming a more familiar term, the global market is estimated to be over \$1 trillion, and New Zealand has multiple impact investing funds (with more on the way).

It is this very growth which the Impact Enterprise Fund is proud to have been a leader of. Each of our six investments is expected to deliver significant growth of both financial profitability and positive impact for people and the planet over the coming years. Importantly, that way of doing business is also becoming increasingly mainstream and well placed to deliver strong and broad returns in the long term.

We hope you enjoy our first annual impact report. Please contact us if you want to kōrero.

Nāku iti nei
nā

Paul Majurey
Chair, Impact Enterprise Fund



Introduction

The Impact Enterprise Fund (IEF) provides growth capital and venture partnership to businesses who deliver social and/or environmental impact, alongside attractive financial returns. This Fund has two primary objectives: delivering market-rate financial returns, and delivering tangible social and environmental outcomes.

And we are pleased to say that, now in our fourth year of operation, we continue to be impressed with the breadth and innovation of businesses in New Zealand who are managing to deliver significant social and/or environmental outcomes via profitable and scalable business models. We have now evaluated over 500 businesses, and have a portfolio of six businesses, with room for a few new and follow-on investments over the coming year.

One of things we are very happy to note, is that over this time, we have seen a marked increase in the number of impact led businesses, with a corresponding increase in investability. While more support is needed in New Zealand to really accelerate this sector and the outcomes it is able to deliver, it is clear businesses are not waiting for that support and instead working overtime to overcome any challenges that exist and reach their potential.

This document is intended to be a high level summary of the impact that our fund and our portfolio has contributed to so far, and our processes for assessing, measuring and reporting that impact. It is intended to highlight the amazing work our portfolio is doing, while also demonstrating just how simple, pragmatic, and rewarding, impact investment can be.

We look forward to having more investors and partners on this journey with us.

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Summary of alignment with IMP

The Impact Enterprise Fund uses the globally leading impact investing framework, the Impact Management Project (IMP), as the basis of our impact assessment process (for more information on our framework, see page 11).

The IMP has created, through co-design with many of the world's leading investors, a consistent and comparable framework to

consider investments. This framework covers both the investors and enterprises intended impact. The diagram below defines these different categories, and indicates where the IEF's portfolio falls within these categories.

A

Act to avoid harm

The enterprise prevents or reduces significant effects on important negative outcomes for people and planet;

B

Benefit stakeholders

The enterprise not only acts to avoid harm, but also generates various effects on positive outcomes for people and planet;

C

Contribute to solutions

The enterprise not only acts to avoid harm, but also generates one or more significant effect(s) on positive outcomes for otherwise underserved people and planet.

- Waikaitu
- Zerojet
- Zincovery

- Melon
- LearnCoach
- Grounded

Note: Over time, as the portfolio's impact management capability increases as the businesses mature, we expect to see an increasing proportion of the portfolio in the 'C' column.

The growth of NZ's impact investing market

We are really pleased to see the significant growth of New Zealand's impact investing market in recent years, and we have welcomed the growing village of investors who are all trying to do better with their money.

We see the IEF as a key catalyst in this growth, of both the market, deals, and quality of impact investing. We continue to work to build the market in these ways, and discuss opportunities for NZ to focus on (page 14).

Market growth



Deal growth

ZeroJet Seed

We were pleased to be a part of a \$500,000 seed round for ZeroJet, with 4 other NZ investors.

Grounded Series A

More recently we have followed on with Grounded as part of their \$5mill Series A, led by an Australian VC.

Bigger still

In 2020 there were multiple impact investing deals in the tens of millions.

*: <https://responsibleinvestment.org/wp-content/uploads/2019/09/Impact-Investor-Insights-Aotearoa-NZ-2019-SUMMARY.pdf>

** : <https://investmentnews.co.nz/wp-content/uploads/RINZ20.pdf> (note data is based on self-reporting of 'impact')

Portfolio impact: Environment



Waikaitu

[Waikaitu](#) is a Nelson based company that produces a range of certified organic fertiliser, bio stimulant and crop protection products manufactured from seaweed.

The impact model for Waikaitu is direct substitution of chemical based fertilisers, stimulants and crop protection products for organic substitutes, leading to improved soil, human and insect health (e.g. bees). Further, to make the products, Waikaitu is harvesting an invasive species (Undaria Pinnatifida seaweed), removing it from natural environments. In the long-run, Waikaitu hopes to have seaweed farming as a key part of its supply chain, leading to significant carbon sequestration and nutrient removal benefits.

Based on this, the impact measures for Waikaitu are based around the volume of products sold, which are evidence led proxies for the ultimate impact on the environment.

Waikaitu 2020 impact

4,608L

Litres of toxic fungicide reduction (improving soil/insect health)

255 tonnes

NZBio and FishBoost sold (improving soil health)

ZeroJet

[ZeroJet](#) makes electric jet propulsion systems for small boats and tenders. Traditional four stroke boat engines produce almost 40x as many greenhouse gases as cars, so each combustion engine that is not needed takes a significant step towards improving the environmental impact of boating.

Because of this, the focus of ZeroJet's impact is also direct substitution oriented, substituting combustion engines for more environmentally friendly electric ones. And the more electric engines in use, the more the environmental harm of combustion engines is reduced. Therefore, the impact measures for ZeroJet at this stage are the number of partnerships they have with boat builders (demonstrating the potential reach and interest of electric boat engines) and the number of electric jet systems sold.

We also note that ZeroJet are very early in their growth journey, as reflected by the below measures, however we expect these to grow significantly over time.

ZeroJet's 2020 impact

1

of partnerships with boat builders

1

of electric jet systems sold

Portfolio impact: Waste

Grounded Packaging

[Grounded Packaging](#) source and distribute globally leading sustainable packaging solutions, primarily focused on food and ecommerce sectors. Crucially, these products replace single use plastics, and in doing so reduce the amount of waste that enters our landfills and oceans.

This avoidance of waste from landfill and oceans is the primary impact Grounded are contributing to. To demonstrate the extent of this, Grounded track and report on the number of items they've sold, and therefore single use items they've replaced. Grounded also report the number of unique customers they have, as this demonstrates the number of businesses using sustainable packaging, another proxy to understand the behavioural change Grounded are contributing to.

Grounded's 2020 impact

7,298,044

Total single use plastic items replaced

860

Customers using sustainable packaging

47.2 tonnes

Total carbon offset

Zincovery

[Zincovery](#) has developed innovative electrochemical technologies to extract metals from liquid waste. Their mission is to prevent the environmentally damaging disposal of metallurgical waste. The first sector they are targeting for this is steel galvanising, with the galvanising process using significant amounts of zinc, much of which currently goes into our landfills and waterways.

Therefore the most important impact that Zincovery contributes to is reducing the amount of toxic metals that are disposed of into the environment. Zincovery measure this by recording the weight of waste they process that would otherwise go to landfill. They also measure the amount of zinc recovered from this waste. This Zinc can then be reused, and therefore reduces the need for Zinc to be mined.

We note that Zincovery are currently in their pilot phase as they continue to work on the technology, hence measures at this stage are small, but likely to grow significantly over time.

Zincovery's 2020 impact

0.1 tonnes

Amount of waste avoided landfill

0.1kg

Amount of zinc recovered

Portfolio impact: Health and wellbeing



Melon Health

[Melon Health](#) delivers chronic disease management and treatment programmes digitally, as part of its goal of empowering people to reclaim their health. Melon receive a variety of data as patients complete their programmes which demonstrate the clinical improvements the patient make, and therefore the improvements to their wellbeing that occur.

Accordingly, Melon has a variety of ways they could measure their impact, at an individual level, programme level and organisation level. To keep things simple and consistent for our purposes, Melon regularly reports the number of new enrolments across the platform (representing people beginning the process to improve their health) and also the number who specifically enrol in the emotional wellbeing programme.

Melon's 2020 impact

6,163

New enrolments
on Melon

4,100

New patients in
emotional wellbeing
programme

LearnCoach

[LearnCoach](#)'s purpose is to reduce inequality and improve education outcomes by providing easy-access education at low cost. LearnCoach's impact model is built on:

1. Providing education resources for core NCEA courses to students for free, generating improved results
2. Increasing attainment rates of qualifications through the ability to sit tutorials and NZQA accredited exams through LearnCoach, gaining real NCEA credits. This has a number of positive long-term impacts (health, employment, income etc)
3. Working with at risk students (e.g. through MSD) to pathway them into training and employment

Accordingly, LearnCoach measure their impact through the number of students participating in this material, and qualifications achieved from this.

LearnCoach's 2020 impact

3.41m

Learning sections
completed

67

Qualifications
completed



Our impact principles

In this section of the report we provide more information around how we consider impact within impact investments. The overarching framework is our Impact Principles which we have developed to guide our approach to understanding and enabling impact more generally.

1 Impact Models (or Theory of Change) are the foundation for IEF to understand a business's impact. See our [Impact Model Template](#).

2 The business and their community knows best. IEF will ask and learn, rather than assume.

3 IEF aims to invest in businesses with embedded impact.*

4 We measure what matters. This is:

- Complimented by robust logic and evidence
- Within the Companies control
- Pragmatic for our portfolio

5 We actively work with our portfolio to enable them to manage their impact and use it as an enabler in the growth strategy of the business.

* **Embedded impact** means that the impact is incorporated into the business in such a way that it would be difficult to operate the business without delivering the impact, such as embedded into the core product or legal structure.



Our impact process

Our impact diligence process has two main stages

1 Initial impact approval

Each business that seeks investment from the IEF must first complete our [Impact Model Template](#). This enables us to understand the purpose of the business, how that is protected/embedded, and how their activities connect and contribute to the ultimate impact they're aiming to achieve.

Once this is complete we then present the opportunity to our Impact Committee to check that it aligns with our funds thesis of “meaningful and measurable impact that benefits people and the planet”. If it is approved, we will then proceed to ‘Impact Diligence’.

2 Impact diligence

In this stage we look more in depth into the impact to better understand it. This includes talking to stakeholders and undertaking research to understand the likely extent of it, the communities affected, and potential unintended consequences.

This is also where we use the Impact Management Project’s [‘Five Dimensions’](#) to understand the impact in more detail, including potential measures and goals to improve (or manage) the impact over time.

Once we have a robust understanding of the impact and how it can be measured we then include that in our final diligence report as is part of getting final approval for the investment.

CASE STUDY

The impact of Grounded Packaging

To demonstrate our impact process, below is a summary of the work we have completed with Grounded Packaging.

Firstly, Grounded completed our impact model template, which clearly set out their core activities (selling home compostable and other sustainable packaging products), and how this leads to their ultimate targeted impact of reducing the amount of waste in our oceans and landfills, while also promoting circular economy practices. Our Impact Committee were excited by this impact, so we proceeded to the Impact Diligence stage.

In the Impact Diligence stage we completed a variety of desktop research and stakeholder interviews to understand the complexities of the sustainable packaging space, from feedstock right through to end of life. This included conversations with the Ministry for the Environment and NZ Product Stewardship Council. Through this we gained a sound understanding of the sector, it's unintended consequences, and significant positive impact potential. We also learned that Grounded were well positioned to positively influence the sector as a system builder, giving us confidence in the significant scalability of the investment's impact.

Post investment, we have worked with them to develop a more robust impact model, and determined what the most appropriate impact measures would be. In determining the impact measures, we considered 1) what would best demonstrate the impact within the model and 2) what would be simple for Grounded to regularly report. A summary of this model is presented on this slide, including where the chosen impact measures reflect on this model. Following this model they've also implemented several new initiatives to increase their impact further, including attaining B Corp certification, partnering with [SeaBin](#) and [1% For The Planet](#).



Grounded Packaging Impact Model



Build the market



With others, build a system



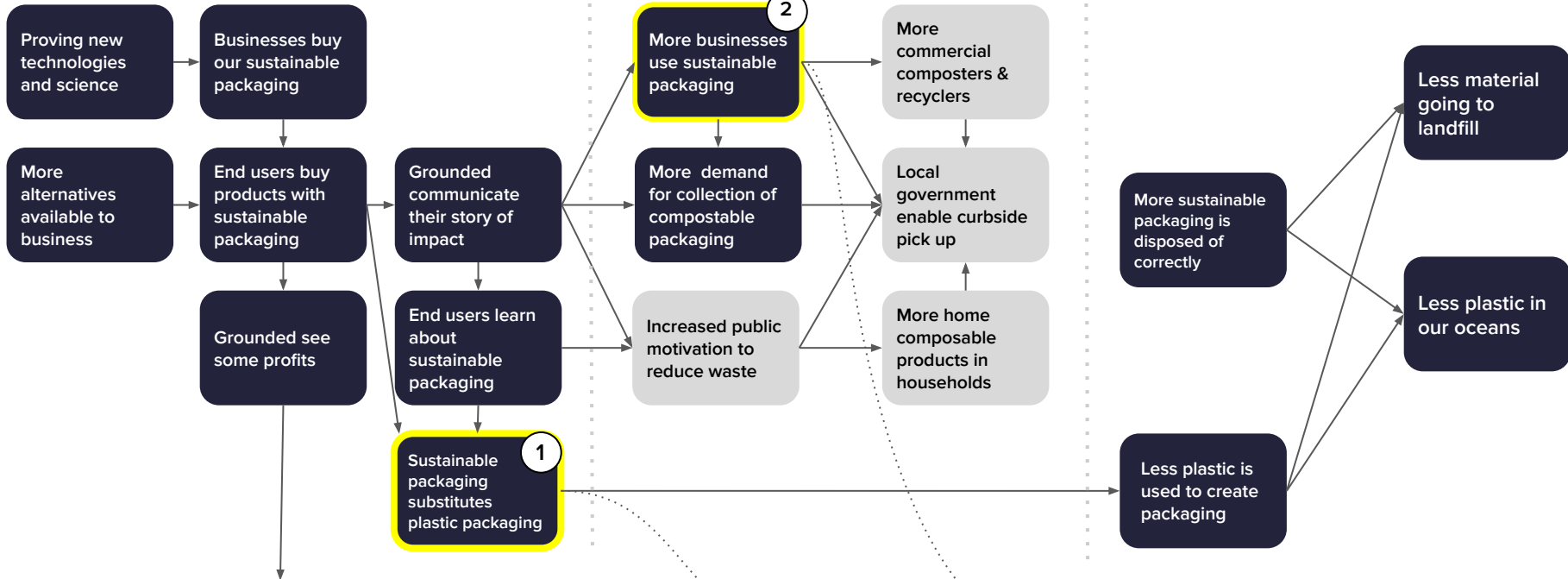
Plastic free packaging

We develop & distribute sustainable packaging

Prove the market

Share insights/data on the market

Others help build the new system



WHILE WE WAIT TO HAVE IMPACT AS PART OF AN IMPROVED SYSTEM, WE SUPPORT SEABIN TO EXTRACT PLASTIC FROM THE OCEANS NOW

- Give profits to SeaBin
- Increased support to remove plastic from the oceans
- Some plastic is removed from the ocean
- Less harm caused by plastic in our oceans

- MEASURE ONE**
Total single use plastic items replaced
- MEASURE TWO**
Number of customers using sustainable packaging

- KEY**
- = Outcomes Grounded contributes to
 - = Other organisations are contributing to these outcomes

WHAT'S NEXT

Striking the balance

The impact investing market in Aotearoa New Zealand has grown significantly over the last few years. As the market grows, businesses that are delivering positive impact are increasingly able to scale their business and their impact.

As we have seen in other markets, untamed growth has created challenges before.

Success in impact investing is measured and achieved differently to success in traditional investing.

For impact investing, success is optimising for both financial outcomes and impact outcomes. The complexities in optimising for impact growth should not be underestimated. Just as some investors spend decades honing their investment skills, others – like environmental scientists or community developers – amass decades of experience honing their skills in achieving positive impact. They know how best to achieve the change they're aiming for.

This knowledge is fundamental to impact investing and, when paired with an investor's knowledge of how to scale a business, can lead to impact on a scale not seen before.

But, this will only be achieved if both sides recognise and learn from the expertise of each other. Impact experts and investment experts need to actively collaborate to find the balance, and reflect that in the investment process.

Success needs to be measured by tailored instruments, robust measurement and reporting of impact outcomes, as well as those traditional investment metrics like IRR.

If this is not achieved, it will become more difficult to raise capital for *genuine impact*. A limited pool of capital for impact will limit the social or environmental outcomes we're collectively hoping to achieve.

The IEF Board and Management Team.



Contact us

For more information on the Impact Enterprise Fund, our portfolio, or impact investing generally, please contact info@iefund.co.nz.

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