

How Do Foundations Invest with Impact?

- How we do it at Fondation Botnar

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Fondation Botnar

Introduction to Fondation Botnar

- * Octav Botnar, married to Marcela Botnar, was a successful entrepreneur running a car business in the UK
- * Octav B. deceased in 1998, after which in 2003 Marcela created Fondation Botnar, with the aim of helping children in need around the world
- * After Marcela's death in Switzerland in 2014, the foundation was the sole beneficiary of her will and inheritance
- * In 2017 the Foundation Board recruited a CEO (Stefan Germann) and established a Management Office in Basel, Switzerland
- * Team of 20 people
- * According to the deed, "the purpose of the Foundation is to support children worldwide in the areas of health, nutrition and education"
- * We have refined the purpose of the foundation:
improve the wellbeing of young people, with a focus on urban environments in LMICs



Asset Management at Fondation Botnar (1)

- * Investment Policy and Investment Beliefs guide our investment activity
- * Oversight by four-member Investment Commission and Management Office (CIO and Senior Portfolio Manager)

- * Investment horizon: at least 50 years
- * Investment objective:
 - Deliver +2% average return p.a.
 - Liquidity management enabling grant funding
 - Currency allocation reflects needs on the grant side
- * Indexing strategies preferred for traditional asset classes

- * We **invest responsibly** to harmonize our investments with the goals of the foundation (“mission-related investments”)

- * Two beliefs about **Responsible Investing**:
 - Responsible Investing contributes to enhance long-term risk-adjusted returns
 - Responsible Investing creates long-term positive value for society and the environment

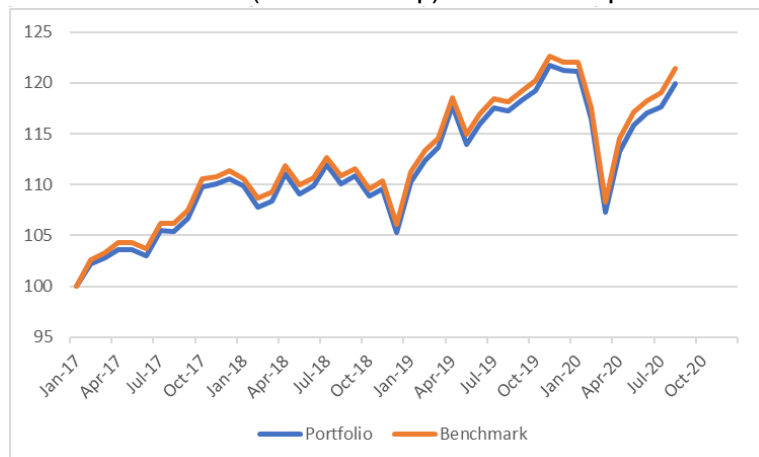
Asset Management at Fondation Botnar (2)

- * SAA approved by the Foundation Board
- * We follow an anti-cyclical rebalancing strategy
- * Current portfolio with asset class mandates was established back in 2016
- * Streamlined portfolio with 5 managers and 10 mandates
- * All are indexing strategies
- * TER of about 12 basis points
- * Two impact investing mandates currently ramping up targeting of 3% of SAA
- * Average ann. return of +5.2% since inc. (February 2017 to August 2020)

31/01/2017 = 100; performance through Aug. 31, 2020; source: UBS Switzerland AG

SAA			
	Target	Lower band	Upper band
Liquidity	2%	0%	5%
Swiss bonds	15%	11%	19%
Global bonds	10%	8%	12%
Corp bonds	19%	15%	23%
<i>Bonds total</i>	44%	34%	54%
Swiss eq	10%	9%	11%
Dev eq	38%	34%	42%
EM eq	4%	3%	5%
<i>Eq total</i>	52%	49%	55%
Swiss RE	2%	1%	3%
Impact investing*	0%	0%	0%
Total	100%		

*3% to be added (from dev. eq.) once MV equals 1.5%



Fondation Botnar’s spectrum from traditional investments to philanthropy

Traditional investments	Responsible investments	Impact investments “Investing with impact”	Venture Philanthropy Portfolio “Investing for impact”	Philanthropy
No purpose relation	Objective to harmonize investments with the goals of Fondation Botnar		Objective to drive Fondation Botnar’s purpose to improve the wellbeing of young people	
Investments with no regard for ESG practices	Investments which mitigate risky / adopt progressive ESG practices	Investments that aim to achieve positive, measurable social/environmental impact across sectors	Purpose-related investments in for-profit social entrepreneurs applying business models driving our purpose in our focus countries	Grants
Return objective are market rate returns, consistent with the risk tolerance of the Foundation Board			Impact is the primary objective, and returns may be below market (at least capital preservation is targeted)	Impact-only – à fonds perdu
	Implemented through passive replication of ESG indices, exclusion of child labor and active ownership (voting and engagement via Hermes EOS)	Implementation through two private equity/debt mandates with investments in business models targeting positive impact across sectors in emerging and frontier markets	Implementation planned by selecting one or more partners who will source investees	One-off, implement. & research grants

Fondation Botnar’s spectrum from traditional investments to philanthropy – Responsible investments

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Responsible investments

* Two beliefs about **Responsible Investing**:

- Responsible Investing contributes to enhance long-term risk-adjusted returns
- Responsible Investing creates long-term positive value for society and the environment

* ...but also: part of risk management and targeting a minimum portfolio quality in terms of ESG factors

* Implementation along three pillars:

#	Approach	Asset class
1	ESG integration in indexing strategies through ESG benchmarks/universes	Corp. bonds, equities MSCI World ESG Leaders
2	Exclusion of issuers involved in severe controversies related to child labor	Across the portfolio, excluding global gov. bonds and Swiss RE
3	Active ownership, i.e. voting and engagement	Corp. bonds, developed equities and Swiss equities

Hermes EOS

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Impact investments

Impact investments aim to achieve positive, measurable impact (social/environmental), with intentionality, by investing in purpose-led organizations

Purpose-led organizations have business models that focus on delivering impactful products/services which tackle the needs of the underserved (e.g. affordable education and healthcare for the people at the bottom of the pyramid) or environmental issues

- * Ramping up two mandates targeting 3% of the SAA
- * Geographical focus: emerging and frontier markets
- * 70% private equity, 30% private debt
- * Manager search performed internally to build impact investing know-how
- * Two managers are:



and



Obviam: SMEs and fast-growing local companies, local economic development, providing goods and services to poor populations, job creation, and building responsible businesses

PGII: improve the lives of underserved people; sub-goals: fulfil basic needs (financial services, affordable housing, energy access, food, healthcare, education), inclusive growth (SME growth, job creation), and protect the environment

Fondation Botnar’s spectrum from traditional investments to philanthropy – **Venture Philanthropy**

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*Mainly Tanzania, Ghana, Senegal, Colombia, India, Indonesia and Vietnam

Agreement with tax authorities as basis for Venture Philanthropy strategy

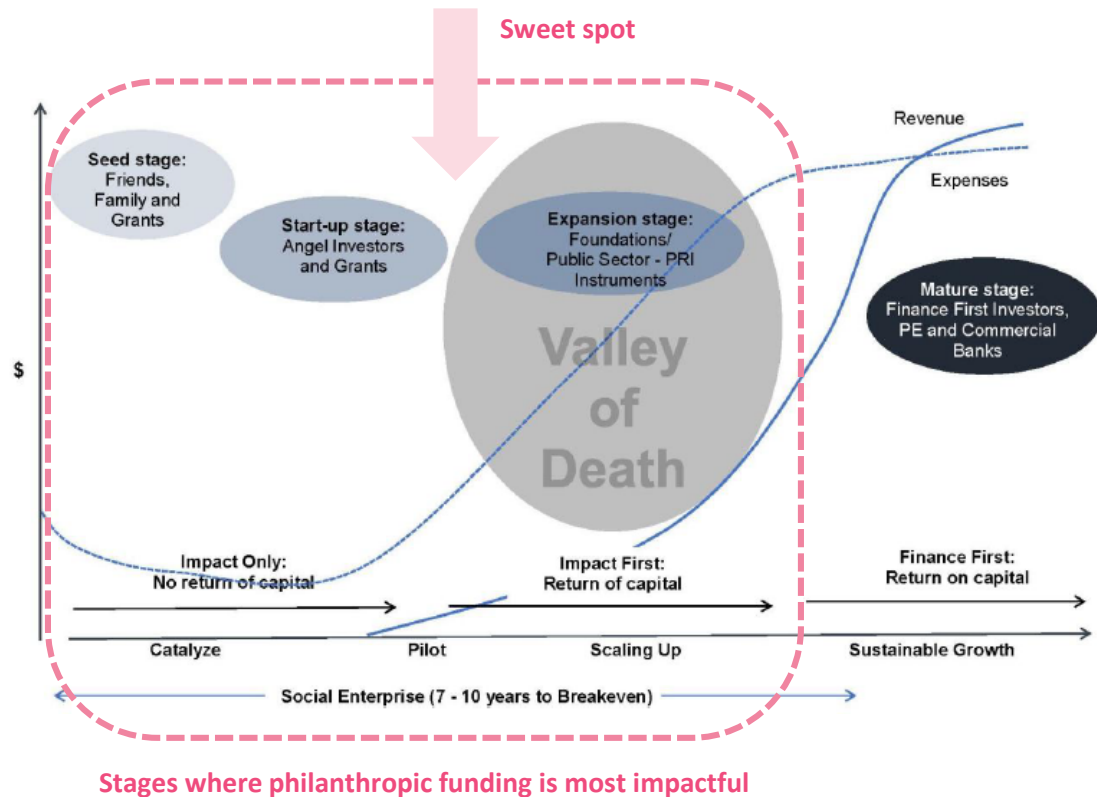
- * Deed of the foundation: “Within the scope of fulfilling its purpose, the Foundation may set up other foundations and establish or acquire shares in companies.”

- * Potential constraint: charitable purpose generally inconsistent with program-related/purpose-related investments (commercial activity)

- * Following a dialogue with tax authorities, we obtained a ruling paving the way for purpose-related investments, under the following conditions:
 - Investments need to be direct investments
 - Purpose-related investments must be disclosed and separated from the financial assets (“Finanzanlagevermögen”) on the balance sheet
 - Purpose-related investment activities should be of a subordinate nature
 - We must not distort the competition (i.e. tax exemption leading to competitive advantage)
 - Activity outside of Switzerland is acceptable as long as it is limited to developing countries, due to the Swiss humanitarian tradition
 - We are free to use grants, equity or debt, as long as there is a purpose-related use of funds
 - Loans must be provided at below-market rates

Prospective investees in our Venture Philanthropy strategy

- * For-profit social entrepreneurs, applying business models that contribute to driving our purpose
- * Preferred business lifecycle entry point: proven start-ups at an early growth/expansion stage
- * Objective: support our investees grow and reach economic sustainability (break-even), in order to scale their impact and drive our purpose
- * Our investees must plausibly formulate a medium-term path to economic sustainability (break-even)
- * We expect our prospective investees to adhere to progressive ESG practices
- * Sourcing and selection through our implementation partners



- * Financial instruments: recoverable grants, convertible grants, loans, convertible loans and equity

Thank you, questions?

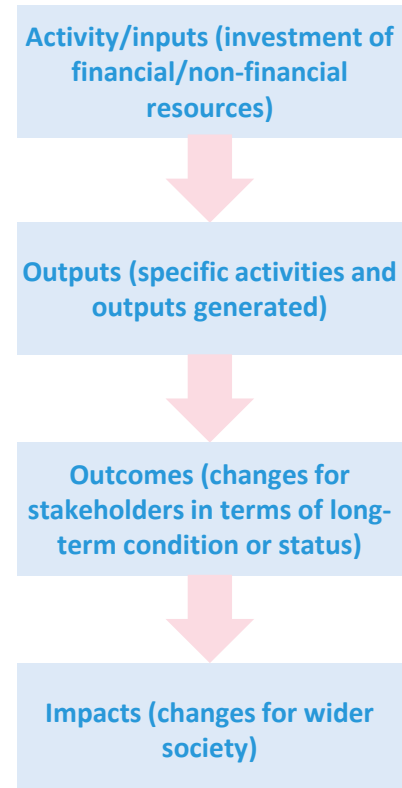
Annex

Financial first (“Investing **with** impact”) versus impact first (“Investing **for** impact”)

	(“Mainstream”) Impact investments (“Investing with impact”)	Purpose-related investments / Venture Philanthropy (“Investing for impact”)
Social entrepreneur business lifecycle entry point	<u>Mature stage</u>	Between seed/start-up stage (friends and family, incubators/accelerators, grants) and mature stage (financial first impact investors): <u>proven start-ups at an early growth/expansion stage</u> ; this is the missing middle: entrepreneurs often fail at this stage due to a lack of financing options (“Valley of Death”)
Company risk / credit risk	Medium	High
Financial returns	Competitive returns	May generate or even require below market returns (target at least capital preservation / return <u>of</u> capital)
Investors	Financial first impact investors; growth equity	Impact first investors (philanthropic investors, public sector); Series A equity
Ticket size (developing countries)	\$2-5mn	\$250k-\$2mn

Measuring and reporting impact

- * We will measure and report the impact generated by our investees
- * Objective: assess if the ex-ante expected impact has materialized and if it is in line with our purpose
- * Support from our implementation partners and impact measurement organizations
- * Adhere to globally accepted impact reporting standards (e.g. IMP, GIIN)



Engaged capital: building capacity and the ecosystem

- * As a complement to our financial commitments
- * In order to scale, social entrepreneurs need both

Capacity building (technical assistance)

- talent development (strong management and technical skills)
- access to network of experts (accounting, legal, marketing, impact measurement and reporting, ESG practices, etc.)

Instruments:

incubators/accelerators, business development services (BDS)

Funding:

grants (small businesses cannot afford BDS)

Ecosystem building = improve market conditions in which social entrepreneurs operate

- strengthening value chain services (upstream/suppliers, downstream/distribution channels, infrastructure)
- advocating for better policies and informal rules (inhibitory laws, misaligned government subsidies, absence/ineffectiveness of standards)
- influencing cultural norms and behaviors (lack of customer awareness, lack of market information, hard-to-influence beliefs/norms in customer base)

Instruments:

service providers, intermediaries, advocacy, media, marketing

Funding:

grants