



# Sustainable Investors Fund



# Sustainable Investors Fund Levers of Impact

## Acknowledgements

This report would not have been possible without the contributions of the entire Sustainable Investors Fund (SIF) network, including our employees, our portfolio of asset managers, and our investors. We are grateful to Bridgespan Social Impact, an impact investing consultant, and designer Dustin O'Neal for their partnership in creating this report.

## Design note

The human hand is symbolic of our power to create, collaborate, and activate levers of change; the design of this report is centered on that embedded potential. The illustrated hands depicted on the cover and throughout this document represent the Sustainable Investors Fund's approach to affecting change on a global scale. Forming partnerships with visionary management firms, SIF invests in a collective mission to improve and sustain life on earth.

*This report is printed on 100% post-consumer recycled paper.*

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# Foreword

In the aftermath of the Great Recession, Robert Shiller, the Nobel Prize-winning economist, posited that *“finance, at its best, does not merely manage risk, but also acts as the steward of society’s assets and an advocate of its deepest goals.”*

At Capricorn Investment Group, we have been working to embody this vision for two decades. Our mission is to pursue investment results by leveraging market forces to scale solutions to global problems. We seek solutions that can revolutionize how capital is invested to address such urgent challenges as climate change, resource scarcity, and economic inequality.

We believe there is an opportunity for those investors who can catalyze the movement of capital toward innovations that have the potential to be transformative for the asset management industry, generate superior risk-adjusted financial returns, and provide lasting environmental or social impact. Building on our years of experience, Capricorn has recently launched a separate fund—the Sustainable Investors Fund (SIF)—that invests in and helps scale firms who are tackling the world’s challenges.

We produced this inaugural SIF impact report both to articulate our approach to investing and to document our vision for the environmental and social impact we hope to realize. While much of SIF’s intended impact may not be readily apparent for years, we want to describe our approach to impact management. We plan for this to be the first of a series of reports documenting our experiences. Ultimately, we want to hold ourselves accountable for ensuring that our investments go beyond financial returns and have a multiplier effect that spurs broader behavioral changes.

This report describes how the partnership works, provides a snapshot of our current portfolio, goes a little deeper to look at three SIF portfolio firms (Community Investment Management, Aristata Capital, and Respira)—and, finally, shares a few thoughts about where we think SIF is headed over the next few years.

We appreciate your continued interest in this work and look forward to collaborating in the years to come.

Sincerely,

**The Sustainable Investors Fund Partnership**





# Introducing the Sustainable Investors Fund

Founded in 2000, Capricorn Investment Group is one of the largest mission-aligned investment firms in the world. Our investment decisions are made with the ambition of realizing financial as well as environmental and social returns across a range of asset classes and strategies. As of mid-2021, we have more than \$10 billion in assets under management.

As the full scope of the need and opportunity for innovative solutions accelerated, we made the decision to scale capital deployment by launching specialized funds with like-minded partners. One such fund is the **Sustainable Investors Fund (SIF)**, a private equity partnership. Its investment objective is to create value through ownership and early stage investment in public and private firms that incorporate environmental or social impact as drivers of investment returns. Prior to the creation of SIF, Capricorn had already committed \$1.7

billion into 12 early stage sustainable investment managers. As a standalone fund, SIF was launched in 2019, and, as of July 2021, it has made investments into eight asset management firms.

## Distinctive purpose and design

At Capricorn, we believe in the power of entrepreneurship and innovation to address the world's challenges. With SIF, we specifically seek out and invest in those asset management firms that have innovative approaches to addressing these challenges. These investors typically have new, entrepreneurial models that we can catalyze to become the next generation of market-leading asset management teams with environmental or social impact at their core.

SIF aims to create examples of asset management firms that address environmental or social challenges while generating superior risk-adjusted financial returns. Indeed, in many instances, effectively addressing these challenges is what produces the financial returns. We also invest in ideas that have the potential to transform the asset management industry and help to make alignment

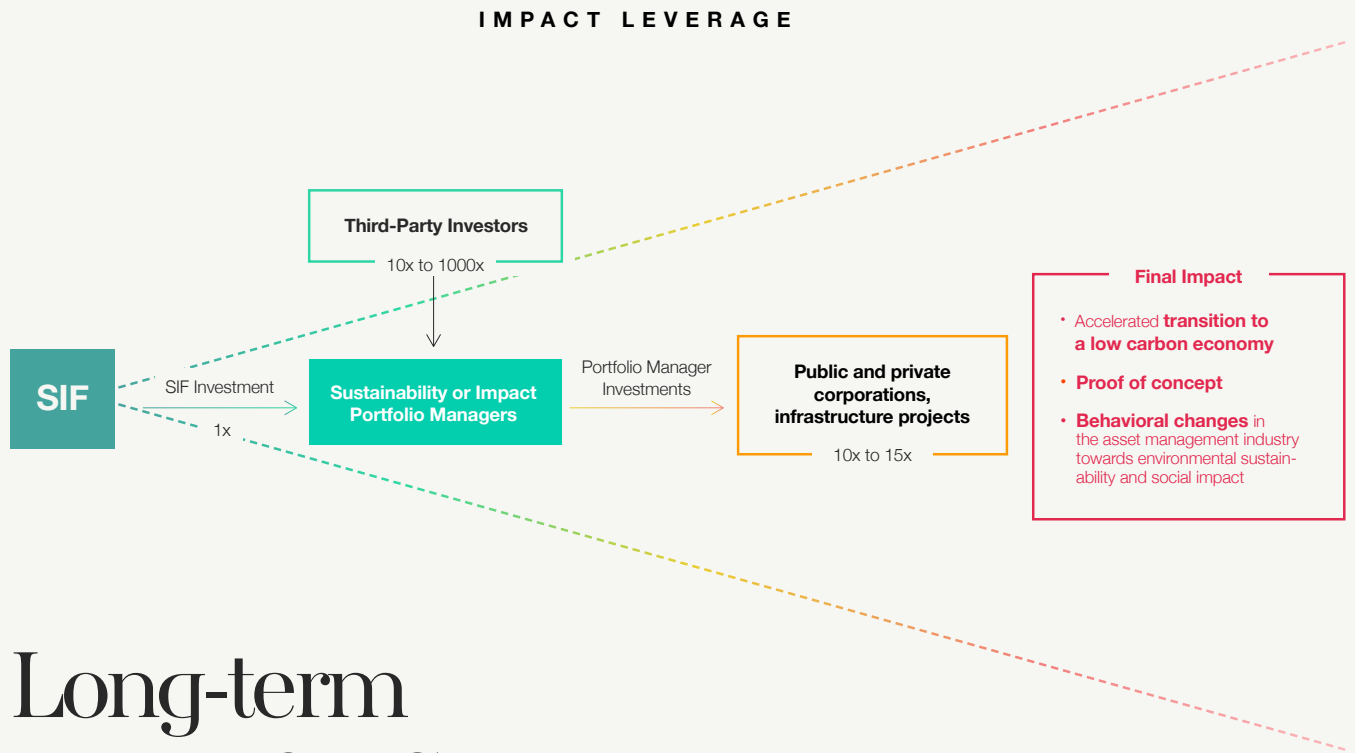
of financial and social returns absolute. Today, there is a multitrillion dollar gap in addressing the global Sustainable Development Goals (SDGs). By helping develop the next generation of management teams who successfully align financial and social returns that directly contribute to one or more SDGs, SIF can play a role in helping to bridge that funding gap.

While we draw on our experience and network to source and conduct diligence on potential investments, there is no way to know exactly which solutions and approaches will be most effective in addressing environmental and social challenges. As a result, SIF instead looks at the “who” alongside the “what.” We seek out management teams with innovative ideas for impact at scale. These firms and ideas span a range of geographies, asset classes, and sectors. The firms in which we invest therefore encompass a variety of promising paths to impact: for example, providing long-term price guarantees for carbon credits so that carbon offset project developers gain better access to private capital; demonstrating and scaling fintech innovation in lending for underserved communities; or using litigation finance as a tool to address injustice.

SIF provides more than capital. We also provide strategic advice based on our experience launching asset management products; access to our network of nonprofits, governments, and corporate entities; help in attracting other limited partnership capital; and support for management teams in sharpening their mission, strategy, and evaluation and reporting frameworks.

### An attractive investment for SIF has **four key characteristics:**

1. *Its investment thesis addresses environmental or social issues, such as climate change or inequality.*
2. *It goes beyond advancing proven interventions, backing innovative solutions that may not be proven yet.*
3. *There is an opportunity for impact at scale or system-wide change.*
4. *The management team should see SIF as more than just a provider of capital but also as an added value partner, with SIF able to bring its expertise and networks to bear.*



# Long-term Vision for SIF

SIF's vision is a future in which capital is efficiently and intentionally allocated to sustainably address long-term environmental and social challenges.

In this future, incentives for asset management firms no longer prioritize narrowly defined, short-term objectives. Long-term environmental and social factors become standard considerations for investors, who incorporate risk, return, and impact factors into their investing approach. This in turn encourages companies to prioritize environmental and social outcomes in order to be able to attract capital. And investing in these companies is no longer seen as particularly risky or innovative, but instead a core driver of long-term financial performance.

So what role will SIF play in realizing this vision? SIF has \$365 million of capital to deploy and aspires to have impact through our unique investment approach—a mechanism we call “impact leverage” (see chart above).

When we invest in an asset management firm, we partner with them to help raise third-party capital. An investment by SIF in one of its asset managers could therefore see an impact multiple of as much as 10 to 1,000 as the management team raises third-party capital, and it could be leveraged even further as the management team deploys capital and drives change in the asset management industry.



For example, imagine SIF were to make a \$50 million seed investment into a sustainability-focused asset management firm, and then play a role in helping the management team ultimately raise \$1 billion. This firm then takes a minority stake in a \$10 billion listed company and uses its board seat to help move the corporation toward decarbonization. In this way, SIF's initial \$50 million investment has the potential to influence billions of dollars toward a more sustainable economy.

## Investment Approach

To achieve our ambitious vision, SIF focuses on four objectives:

### 1. Identify and invest in management teams who can achieve transformational impact

Although SIF's portfolio span a variety of industries and issue areas, our asset managers have one thing in common: their ability to align financial outcomes with environmental or social outcomes to ultimately transform the asset management industry.

SIF evaluates firms for investment by using a proprietary assessment framework that closely aligns with the Impact Management Project.<sup>1</sup> For potential investments, SIF starts by understanding the firm's investment strategy: What is the impact the manager aspires to have? Is the investment strategy likely to be successful in the pursuit of this aspiration? Next, SIF evaluates managers against five key metrics. In order to be considered

for investment, an asset management firm should demonstrate high impact across all dimensions. The visual on page 8 depicts SIF's current portfolio firms across these metrics.

#### MANAGEMENT

SIF considers the firm's management team, evaluating its track record of commitment to impact and its potential for outsized industry leadership and influence. In order to be considered for investment, SIF should believe in the manager's or team's ability to achieve impact and influence the asset management industry.

#### WHAT OUTCOMES ARE INTENDED? WHO BENEFITS?

SIF evaluates which social or environmental challenge the manager seeks to address, evaluating if the firm makes a direct contribution to a United Nations SDG (UNSDG). Given SIF's focus on both environmental and social impact, managers can be focused on a variety of SDGs; for example, SDG 10 (reducing inequalities) or 13 (climate action).

#### HOW MUCH (INTENSITY OR SCALE)?

SIF evaluates each firm to see how much its work contributes to a UNSDG. In order to be considered for an investment, a firm would need to demonstrate its ability to profoundly impact individuals (intensity) or an industry or system (scale). Regardless of the intensity or scale of impact, firms should demonstrate the potential to achieve meaningful scale and revolutionize the asset management industry.

<sup>1</sup> See <https://impactmanagementproject.com/impact-management/impact-management-norms>.

## CONTRIBUTION

SIF then considers whether there is potential for outsized impact by scaling solutions or demonstrating proof of concept for uniquely innovative approaches. In order to be considered for investment, a firm should contribute to outcomes that are better than what would have occurred otherwise. SIF considers investments that are either a completely new model or a substantial update or upgrade to an existing one.

SIF also considers management's focus on **reporting**. We look for firms that are able to set more quantitative metrics and have a commitment to report out on these metrics. Tracking progress on key performance indicators and sharing examples of how investments have achieved outcomes increases our ability to transform the asset management industry.

## RISK OF NEGATIVE EXTERNALITIES

SIF then determines the likelihood that the asset management firm's work would contribute to unintended consequences and the probability of those risks materializing. SIF considers investments where the potential risk of unintended consequences is low.

Company	Manager	What/Who	How Much (Intensity)	How Much (Scale)	Contribution	Negative Externalities	Nature of Innovation
Aristata							<i>New Model</i>
Community Investment Management							<i>Upgrade</i>
Ecofin							<i>Upgrade</i>
Inherent Group							<i>Upgrade</i>
Lafayette Square							<i>Upgrade</i>
Osmosis							<i>New Model</i>
Respira							<i>New Model</i>
Sustainable Development Acquisition Corp.							<i>Upgrade</i>



**NEW MODEL:** The company creates impact in substantially new and previously unexplored forms.

**UPGRADE:** The impact generated is similar in nature to that of other products/services in the market, but with substantial improvements in scale and/or depth.

## 2. Leverage our own investment by helping management teams attract additional limited partnership capital

SIF has a network both in the United States and internationally that it leverages to help new firms attract additional limited partnership capital. We introduce potential investors to the management teams in which SIF has itself invested and help facilitate connections at conferences, panels, and forums. SIF also helps firms communicate to potential LP investors the way in which their activities are unlocking environmental or social impact.

## 3. Continuously engage with management teams on their strategy

Management teams have different needs at different stages. A new firm may need help with such initial steps as hiring staff and setting up legal structures. A more established firm may benefit from access to global networks or advice on strategic positioning. In addition to tapping its own expertise and connections, SIF works to help managers clarify their impact strategy or establish a robust impact framework to guide investment decisions.

For example, in addition to a financial investment in one firm—which is demonstrating and scaling responsible innovation in access to capital for underserved communities—SIF helped the firm strengthen its approach to gender-lens investing, through which it assesses and supports businesses

in emerging markets to better break down barriers to capital for women and women-led small and mid-size enterprises.

## 4. Help shape the public debate to influence the asset management field

In addition to leading by example, we look for ways to influence the field. As a signatory to the International Finance Corporation's Operating Principles for Impact Management, SIF is publicly demonstrating our commitment to implementing a global standard for managing investments for impact and sharing lessons in the management of impact investments. Capricorn also hosts and participates in conferences, forums, and panels. We collaborate with nonprofits, governments, and corporate entities—including B Lab, Ceres, the Environmental Defense Fund, the Global Commissions to End Energy Poverty, Global Impact Investing Network, Principles for Responsible Investment, World Economic Forum, Cyclotron Road, and Prime Coalition, among others—to provide opportunities for learning, sharing, and collaboration. We build on this network through conversations and other interactions with our friends and peers across the investment, technology, and government realms.

Capricorn has also joined dozens of other asset managers in taking the net-zero commitment. We have committed to reach net-zero emissions in our portfolio by aligning our portfolio to include climate transition leaders. We are also using our voice to influence others in making this important transition.



# Portfolio Snapshot

The firms in the SIF portfolio vary in their focus and sector; each offers a balance of innovation, potential for scale, and depth of impact. These firms are innovating ways to more effectively align financial returns and environmental or social impact—which, taken together, have the potential to revolutionize how the asset management industry tackles the world's challenges. In this

portfolio snapshot, you will see the variety of firms we invest in, the challenges they seek to address, their theory of change for addressing these challenges, and their intended outcomes.

SIF is investing in new firms that aim for transformational impact, which means we have fewer immediate metrics of success we can point to. Although few of our firms have detailed key performance indicators (KPIs) at this stage, a focus on transformational environmental or social impact is core to each of their investing strategies.

# Respira



RNEW: London

## CHALLENGE

The carbon offset market is underdeveloped and immature, leaving the potential of nature-based projects, an integral component of achieving climate goals, untapped. To make the necessary progress on climate change, the voluntary market for carbon offsets and nature-based solutions in particular will rapidly need to scale to the hundreds of billions of dollars by having access to a stream of diversified, high-quality, and independently validated offsets.

Renewable power generation is a critical component in addressing climate change; however, there remain structural barriers to deploying the scale of capital required.

## THEORY OF CHANGE

Utilizing its balance sheet, Respira enters into long-term forward purchase agreements with nature-based project developers, providing them a guaranteed income stream. They then sell these high quality carbon offsets to companies through aggregated and diversified products. This approach delivers financial security and stability to the projects and their stakeholders and gives them the platform they need to develop and expand.

Ecofin intends to scale a low-fee pooled investment vehicle which can both attract public market investors as well as lower the cost of capital for renewable power generation in the US middle market by creating a diversified portfolio of construction and operating stage assets in a public format (UK registered investment trust) using an integrated environmental, social, and governance (ESG) investment process. This enables investors with wide-ranging liquidity and risk tolerances to commit capital; for example, it is a way for European investors already comfortable with the risk profile of solar, wind, and battery storage to invest in projects in North America.

## INTENDED OUTCOME

In the future, there will be deep, standardized markets for high quality nature-based carbon offsets that play a key part in enabling society's transition to a net-zero economy.

*What would success look like?*

*A mature carbon offset market that provides efficient capital to nature-based projects and fuels society's transition to a net-zero economy.*

In the future, renewable power generation will mature into an established asset class that can be accessed across different liquid and illiquid markets, asset types, and risk appetite.

*What would success look like?*

*Growth of renewable infrastructure market due to private capital investments in long duration clean energy projects in the middle market.*



# Inherent

## CHALLENGE

Corporate sustainability performance is neither well-understood nor efficiently priced by markets.

Companies that excessively contribute to resource depletion are both damaging society and will face long-term financial underperformance, but investors lack the tools to evaluate a company's resource efficiency when making an investment.

There is currently systematic mispricing in the cost of capital that businesses face. The foundation of this mispricing is fixed income and credit markets over-indexing on short-term issues and failing to incorporate ESG considerations that will have meaningful implications for business growth, profitability, and license to operate over the medium to long term.

## THEORY OF CHANGE

Osmosis' proprietary dataset and model, Model of Resource Efficiency ("MoRE"), identifies resource efficient companies and constructs portfolios that overweight efficient companies and underweight, or short, inefficient companies.

Inherent Group uses an integrated ESG framework to identify and underwrite credit investments in those companies they expect to exhibit resilience in a world of rising systemic risks. Inherent then works with management teams to embed best practices on material sustainability issues, strengthening ESG as a source of long-term competitive advantage.

## INTENDED OUTCOME

Through the redistribution of capital to efficient, sustainable companies, the cost of capital for inefficient companies will inevitably rise, enforcing corporate change, or in the event of continued corporate mismanagement of resources, the closure of unsustainable businesses or business lines.

*What would success look like?*

*A rapid acceleration in companies managing, measuring, and reducing their environmental footprints.*

In the future, those businesses that develop sustainable, inclusive strategies and integrate these topics throughout their decision making will face a lower cost of capital than those that do not.

*What would success look like?*

*Corporate behavior change is influenced toward sustainability due to climate and sustainability risk being integrated into investment decisions.*





SDAC: Nasdaq



## CHALLENGE

There are innovative companies addressing climate change and its effects on global land, agriculture, and water resources. These capital intensive companies urgently need financing to scale solutions.

A “justice gap” exists: marginalized communities are often unable to seek redress for harms done to them due to lack of funds or support in accessing the legal system specifically when dealing with commercial entities.

Many corporations currently do not account for the negative externalities (e.g. environmental damage, human rights abuses) of their business model due to the low likelihood of them facing legal repercussions from marginalized communities and associated correction costs.

## THEORY OF CHANGE

SDAC, in partnership with the Renewable Resources Group Capital Management, is a SPAC (special purpose acquisition company) that will invest in a sustainability-aligned company, bringing it more resources, at a lower cost of capital, sooner than under a traditional IPO or in private financing.

Aristata is applying an impact model to litigation finance, providing capital to fund promising commercial litigation with significant associated social and environmental benefits.

## INTENDED OUTCOME

A young, impactful company will be able to accelerate scale on a faster timeline, matching the urgency of reaching climate goals.

In the future, the world will be safer and more equitable, because there will be a higher cost of bad behavior to corporations, forcing them to better incorporate negative externalities into their decision making.

*What would success look like?*

*An increase in funding for socially impactful litigation increases legal access to marginalized communities and spurs internal corporate practice change as a result of case outcomes. Aristata generates long-term, large scale impact with each investment and drives behavior change in the long term.*

## CHALLENGE

In the United States, we see a multi-trillion-dollar shortage of available capital in the middle market, a multi-trillion-dollar shortage of available affordable housing, and a \$75 trillion investment management industry where women and people of color manage 1.5% combined.

Emerging market small and mid-size enterprises, or SMEs (and particularly those SMEs led by women) and low-income communities are chronically undercapitalized, with few traditional lenders seeing them as attractive segments to finance. While fintech is an area of focus for venture capital investors, there is significantly less debt capital to fund fintech models in emerging markets, which limits the ability of these innovative companies to serve the needs of SMEs and historically underserved communities. A lack of SME growth and financial inclusion inhibits developing economies from thriving.

## THEORY OF CHANGE

Lafayette Square believes that deploying capital and curating services will create economic opportunity for all. The firm leverages its investment process, technology, and strategic partnerships to support people and places that have been historically underserved by traditional financial institutions.

CIM is partnering with new technology-enabled lenders in emerging markets, providing debt capital and engaging with them as an active partner to help take innovative lending models to scale and effectively serve underserved communities.

## INTENDED OUTCOME

In the future, we will have a more inclusive American economy. Local communities will be revitalized with economic growth and job creation in a way that is inclusive, leverages the best of capitalism, and captures the needs of all members of the community.

*What would success look like?*

*Lafayette's goals by 2030 are to house 100,000 residents, employ 100,000 people, generate 3 gigawatts of clean energy, and provide advice to 1,000 women and people of color starting new investment management businesses.*

In the future, emerging market SMEs (particularly those led by women) and low-income communities will be seen as attractive customer segments – meaning they have access to the capital they need to scale, creating jobs, increasing equity, and improving financial health.

*What would success look like?*

*A growth rate of emerging market SMEs, improved financial health of low-income communities, and innovations and efficiencies in lending contribute to closing the credit gap for emerging market SMEs and historically underserved communities.*



# Case Studies

## Aristata Capital

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### UNDERSTANDING THE CHALLENGE

Rob Ryan, the CEO of Aristata Capital, was working for a public-interest litigation NGO in the United Kingdom when he realized that, while public-interest litigation could effectively move governments to take action on climate issues, it had much less impact on corporations. There was a “justice gap”: individuals and communities that had suffered environmental or social damage could not afford to pay law firms with good commercial litigation experience to take their cases against corporations—especially when there was the prospect of paying “adverse costs” (in which the loser pays the winner’s costs, a situation common in most legal systems outside of the United States). Furthermore, public-interest litigation firms and NGOs often don’t have the expertise or the financing to take on these commercial cases, while few commercial law firms offer pro bono services for commercial litigation.

However, as Ryan and his partners observed, there were litigation funders (investors who provide financing for legal cases in return for a share of the proceeds if the case is successfully resolved) who occasionally took on commercial cases that produced significant environmental and social outcomes as an accidental by-product, not as

a part of their strategy. Could litigation funding explicitly focused on achieving environmental and social impact be able to address this justice gap in a meaningful way?

### DEVELOPING A MODEL TO ADDRESS THE CHALLENGE

Out of this initial idea, Aristata Capital was born. It is the first litigation funder dedicated to driving positive environmental and social change while providing an attractive financial return. Aristata seeks out plaintiffs affected by issues such as violations of indigenous rights, workplace discrimination, environmental damage, and climate change. Aristata’s lending is “non-recourse,” so it achieves a return if there is a successful outcome, placing a premium on expert due diligence skills. In contrast to typical litigation funders, it has structured its commercial model to flex its fees in scenarios with low payouts in order to align its interest with those of the claimants and benefit from the upside of potential positive rulings. Aristata believes that this model has the potential to have impact beyond the individual case—achieving not only justice for the claimants but also more systemic change by leading powerful corporate and state actors to change their behavior, take responsibility for the impact of their actions, and more fully incorporate environmental and social impact into their decision making processes.

Consider a recent investment that Aristata made in a litigation case supporting indigenous communities in a remote Pacific archipelago. A service

provider had significantly underreported its use of the communities' facilities, fees for which are used to provide a variety of public services for the local community (e.g., aged care, child care, land management, waste management, and building houses, schools and hospitals). If the case is successfully resolved, Aristata expects both financial redress for this community and stronger incentives for corporations to ensure they are respecting the rights of remote, indigenous, island peoples.

#### SIF'S SUPPORT FOR ARISTATA

When SIF heard about Aristata, we were excited by their potential to have outsized impact through their litigation funding approach, and we committed as an anchor investor in their first fund. Since that investment, we have been working with Aristata to help them attract additional limited partnership capital while also supporting them in refining their investment model and impact strategy.

For example, SIF's team helped Aristata to develop a robust impact diligence process for new potential litigation cases, identifying those that are likely to have the highest impact potential and highlighting the key stakeholder considerations that should be prioritized in developing a legal case. SIF has also helped Aristata recruit their new CFO and made connections across the Capricorn network (including inviting Ryan to present on a panel at the Skoll World Forum) to help facilitate their first fundraising effort. We have also created a method to finance initial claims prior to the formal launch of the fund to provide a tangible

track record. "Many investors find our impact model compelling, but didn't want to get involved prior to first close," says Ryan. "SIF has brought us great value through its willingness to engage early and bring its expertise to bear in helping us address the justice gap."

## Respira

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#### UNDERSTANDING THE CHALLENGE

Ana Haurie and Robin Bowie, the co-founders of Respira, are serial entrepreneurs, having previously run a boutique investment bank (Dexion Capital), which they sold in 2015. After Dexion, Haurie and Bowie decided to turn their attention to the problem of climate change, and in particular decarbonization and the transition to a low-carbon economy.

Through their conversations with market participants, they quickly understood that nature-based offsets (created, for example, through forest conservation or tree planting) could and should be an integral part of the solution for climate change. Growing the nature-based offset market would allow forward-looking businesses to reduce their carbon emissions—and create significant social and biodiversity benefits—in the short and medium term, while simultaneously working on the longer-term solution of decarbonizing their operations. The challenge was how to create the financial support to allow these projects to expand and develop.

The problem is that, while many project developers might be backed by grant or development financing, they are often unable to get capital at the volume or speed they need to develop and operate the projects on a truly impactful scale. Institutional investors are often reluctant to invest in this sector, given that many projects are operating in least developed countries in the Global South. So how can these projects generate a risk-adjusted rate of return that will unlock institutional capital? And how can these developers get access to the capital they need to make a project workable?

#### **DEVELOPING A MODEL TO ADDRESS THE CHALLENGE**

Haurie and Bowie, realizing that these financial challenges could be addressed by innovative financial products, launched Respira to find ways to secure long-term guaranteed contracts with carbon-offset projects globally. Respira aims to reduce the project development risk associated with many nature-based solutions and attract institutional capital by entering into long-term forward purchase agreements with projects certified by internationally recognized, high-quality independent accreditation organizations such as the Gold Standard and Verra. Respira focuses on projects in emerging markets and least developed countries.

Respira then aggregates these purchase agreements into pooled portfolios offering a risk-assured carbon offset product that is attractive to institutional investors. For project developers,

these contracts provide a long-term predictable source of revenue, allowing them to make up-front investments and scale their projects. In addition, Respira enters into profit-sharing agreements with the projects, allowing them to share in any additional value that might be created if the price of carbon offsets rises in the coming years. Ultimately, Respira's vision is to lead the development of a global market for high quality offsets that helps businesses dedicated to a drastic reduction in emissions with decarbonization strategies and net-zero pathways.

One project Respira will support, located in Tanzania, covers well over 500,000 acres and could prevent the loss of 1.25 million trees each year. A pioneering collaboration between the project developer, Carbon Tanzania, and the district government and local communities, it is designed to improve land protection and governance across the project area. The project is expected to reduce emissions by over 5.7 million tons of carbon dioxide equivalents over its first 10 years. The revenue from selling carbon credits will be used to provide health services, develop school infrastructure, improve farming practices, plant woodlots for fuel wood, and cultivate fruit trees—benefiting over 20,000 residents in total. The project will also provide direct environmental benefits for the region—protecting habitat for 13 endangered species, including the eastern chimpanzee, as well as 38 large mammal and 261 bird species.



#### SIF'S SUPPORT FOR RESPIRA

SIF is excited about Respira's innovative approach to addressing challenges within the carbon offset market, as well their model for a long-term balance sheet, global focus, and commitment to profit sharing with project developers. We have committed capital to Respira through an anchor investment and their Special Purpose Vehicle. Since that investment, we have worked with Respira on a range of topics and facilitated connections to foundations, potential investors, and relevant stakeholders. As Haurie explains: "SIF has a set of capabilities that are rarely found, and they've been great to partner with. They have deep business savvy while, at the same time, prioritizing the long-term welfare of people and the planet. SIF not only helps us with capital, but to think about strategic issues we're facing."

## Community Investment Management

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#### UNDERSTANDING THE CHALLENGE

Jacob Haar, the co-founder of Community Investment Management (CIM), began his career working on financial inclusion in emerging markets, which has often been an area of significant innovation in lending to underserved individuals and communities. However, Haar saw that the lending market still often fails to serve small businesses, low-income communities, women, and people of color. Too often, it offers products that aren't designed to meet their

needs, alongside poor customer service and high fees. For example, women often run service businesses, but traditional lending requires high levels of collateral that service businesses don't have. This failure has a profound impact on individual lives: talented people aren't provided with the opportunities to scale their businesses and reach their potential. It also restricts broader economic development, with fewer jobs created, missed opportunities for economic growth, and the worsening of existing inequities.

In recent years, investors have begun to understand the potential for financial technology to develop products that substantially increase financial inclusion and access to capital for previously unserved small and medium enterprises and consumers, but don't require expensive bricks-and-mortar infrastructure. As a result, in the past five years, nearly a third of venture capital in emerging markets has gone to fintech (the integration of technology into offerings by financial services companies in order to improve their use and delivery to consumers). Unfortunately, despite the volume of available capital for fintech, there is a mismatch with the amount of debt capital being made available for lending.

#### DEVELOPING A MODEL TO ADDRESS THE CHALLENGE

Seven years ago, Jacob Haar and Michael Hokenson co-founded CIM as a US-focused institutional impact investment manager that provides strategic capital to demonstrate and scale responsible innovation in lending for underserved communities. CIM has provided \$1.5 billion in debt funding to small and medium

enterprises and low-income communities in partnership with fintech companies that have innovative products that reduce barriers to capital for those who are traditionally underserved. These models de-risk lending to these individuals and businesses, lowering the cost of serving them.

CIM engages in a deep partnership model with the lenders it finances, drawing on its extensive experience to help them design and market new products in ways that expand economic access while supporting them in effectively navigating common obstacles to responsible lending. CIM's team sees itself as playing an important role in catalyzing structural change in the broader environment—engaging with governments, business leaders, and regulators to promote greater adoption of responsible innovation.

Observing the growing mismatch between venture capital and debt funding for fintech innovators in emerging markets, CIM has launched an emerging market focused strategy designed to fund beneficial individual projects and achieve systemic shifts in how financial markets operate in emerging markets. The goal is for those who are currently underserved to gain access to the financial products they need to help scale their businesses, create jobs, and build a stronger and more equitable economy.

#### **SIF'S SUPPORT FOR COMMUNITY INVESTMENT MANAGEMENT**

Capricorn has long supported CIM's work in the United States, and SIF is excited to partner with the CIM leadership team in extending their compelling model into emerging markets. We have

initially committed capital to CIM to help seed this new platform. Alongside that investment, we have supported CIM with technical assistance as they have developed their emerging market strategy. For example, we helped strengthen its approach to gender-lens investing, through which it assesses and supports businesses in emerging markets to better break down barriers to capital for women and women-led small and medium enterprises. We have also facilitated connections to relevant stakeholders and supported with their team expansion. "When we were planning our emerging markets strategy, SIF was the first phone call we made," says Haar. "Their support has been a lot more than just capital. We're a small team, and the thought partnership with Capricorn over many years has been invaluable."

# Our Future

SIF is off to a good start, and we are excited about the firms within our portfolio and their potential for risk-adjusted financial returns alongside environmental and social impact. We plan to further build out our portfolio of investments in innovative firms, while also supporting our existing portfolio of asset managers in helping them successfully scale and transform the asset management industry. We look forward to reporting back on our progress in future impact reports, as well as providing tangible evidence of the progress we have made against the KPIs we have set out for our investees.

Our journey to scale solutions for global problems cannot be achieved alone. We will continue to work with our partners, investors, friends, and colleagues to continue innovating together in the pursuit of an asset management industry that puts environmental and social impact at its core.





