



IMPACT
INVESTMENT
GROUP

The BOLD* Contract

*Beneficial Outcomes Linked Debt



The BOLD Contract

The BOLD is a new financing tool, specially designed by Impact Investment Group, for investing in companies and projects that drive positive social or environmental change.

BOLD's first use case is a loan from IIG's Catalyst Fund to Xceptional – a startup dedicated to empowering autistic talent to fill tech skill gaps and create meaningful careers.

The BOLD contract incentivises impact, because the loan balance decreases if the borrower's impact increases.

Benefits & Features:

- Investor's Internal Rate of Return (IRR): expected to be between 5–15%¹, depending on the level of impact achieved.
- Aligns the goals of impact-focussed investors with impact-focussed businesses.
 - Impact Investors can expect modest returns from a business that is delivering impact, but if the business does not achieve its impact, the investors achieve greater returns. This allows them to invest greater amounts in future impact projects elsewhere.
 - Impact entrepreneurs have business & financial incentives to achieve the impact inherent in their mission: the loan amount reduces based on the impact.
- Is founder-friendly:
 - The repayments are a share of revenue, instead of an interest rate. This means that the loan is far less burdensome than most debt products.
 - Other types of finance, like traditional venture funding, or a loan from a standard finance company, can drag a purpose-driven founder away from their mission.
- Guards against perverse incentives: In the model, significant effort is put into co-designing the metrics so they reward positive and meaningful impact.

¹ This is a return intended for a commercial business, the BOLD mechanism could also be used by not-for-profits, in which case the return floor could be set at 0% - simply return of capital.

The Parties

The Designer and Investors

Impact Investment Group designed and arranged the first BOLD contract and is the lead investor via its foundation, The IIG Catalyst Fund. Four other impact-focussed investors participated in the investment alongside the IIG Catalyst Fund; Tripple, The Community Impact Fund, The Disability Impact Fund, and The Snow Foundation.

The design process included two very important parts.

The first was negotiating a new kind of mechanism that would meet the goals of the investors and the borrower, and potentially become an instrument that other investors could use.

The second was agreeing on an impact metric and measurement process that avoided the risks of perverse incentives. So, Xceptional's BOLD contract values jobs, and includes the overall wellbeing of the people in those jobs.

<http://impact-group.com.au>

The Borrower

Xceptional is a multi-award-winning technology platform that connects autistic people to companies that need tech talent. The company allows job seekers to demonstrate rather than articulate their strengths through activity-based assessments.

Skills within their talent pool include enhanced pattern recognition, sustained concentration and precision. These strengths are applied to business challenges in areas such as software engineering, cybersecurity and data analytics.

Xceptional empowers businesses to build, support and benefit from neurodiverse teams and workplaces. Most importantly, employees with autism think and see the world differently. They are what makes us exceptional.

<http://xceptional.io>

"Our growth to date shows the incredible opportunity in placing neurodiverse candidates in specialised roles and shattering any stigma around hiring these candidates

"People on the autism spectrum, for example, often have remarkable attention to detail and advanced problem-solving skills, making them ideal candidates for complex code testing tasks.

"So far we have focused our efforts on placing roles in Australia's largest companies. Now that we've proven the model, we'll be expanding our target pool and will look to place candidates in government, startups and SMEs.

"One of the most frequent questions I get from other purpose-driven founders is how to access capital. I'll definitely be pointing people to BOLD from now on."

- Mike Tozer, CEO and founder of Xceptional.

Simplified Process



Loan contract starts

The loan was signed in October 2019, helping to grow Xceptional's business.

At the start of the contract Xceptional owes a debt. The amount is the principal multiplied by an agreed amount. Refer to the following table for more detail.

Xceptional is also granted an agreed number of months at the start of the loan period, when no cash repayments are due.



Meeting impact goals reduces annual loan debt

Xceptional continues their work of finding good jobs for people on the Autism spectrum, and supporting them in their roles, and guiding companies who may be feasible employers.

At the end of each loan anniversary, the impact adjustment amount is calculated, according to a set formula, laid out in the following table.



Repayments begin based on monthly revenue

After the repayment holiday ends, Xceptional will also start to make repayments on the loan, and the repayments are calculated based on a share of income, as opposed to an interest rate.

Loan is fully repaid

The repayments stop when the loan amount is at zero; a result of the combined impact incentive mechanism and the repayments.

The base case for the BOLD contract with Xceptional is a 4–4.5 year period, and an IRR that could be between 5-15%.

The maximum term is 10 years.

The Contract: Key Terms & Mechanisms

Return Amount Formula:

$$A = (B \times C) - D$$

- **Return Amount: A**

This is the amount of money the investors can receive back from their investment.

- **Principal Amount: B**

The amount of money that the investors loaned the company.

- **Multiplier: C**

This is decided by a commercial negotiation, and is one of the variables that defines the maximum return amount.

- **Impact Adjustment Amount: D**

This is a variable, expressed in dollars, based on the degree of impact, that reduces the maximum return amount. The calculation and inputs for this are below.

This is the incentive mechanism: Depending on the amount of impact (D) the loan amount is reduced.

Impact Adjustment Formula:

$$D = (E - F) \times G$$

- **Impact Metric: E**

This is a crucial metric. It is a number to represent the chosen positive impact. It is extremely important to design a metric that measures the outcome the parties are trying to achieve: In this case, it's people placed in jobs, who are also happy with their role¹.

- **Minimum Impact Level: F**

This is the impact baseline. The BOLD incentivises impact above this threshold.

- **Impact Value: G**

This is an amount in dollars ascribed to each instance of impact.

Other Key Terms:

- **Repayment share of Revenue**

This is a commercial negotiation, and defines the base repayments

- **Repayment Holiday**

This is a grace period at the start of the loan period, when no cash repayments are due.

¹.In this case, the metric has been designed to ensure that the primary beneficiaries of Xceptional's work, the people on the autism spectrum, are not just placed into jobs with no regard to whether it improves their lives. Xceptional will measure this through a wellbeing survey.

Potentially Asked Questions

How is the BOLD different from a grant with acquittals?

A few ways:

- a There is a financial return. In the first BOLD contract, the expected IRR is between 5-15%.
- b In our implementation, there is greater flexibility for the recipient.
- c There are financial incentives for both the borrower and the investor, hopefully broadening the pool of potential parties providing capital.
- d The BOLD investor/lender can recycle their capital; if the borrower hits their impact target, it's the initial capital plus a small return. If they miss their impact targets, it's a larger return.
- e The disincentive for missing impact targets is scaled: It's not the kind of drastic step that might happen if a grant recipient fails an acquittal.

How is this different from a Social Impact Bond (SIB)?

- a This is a far smaller and lighter-weight structure than SIBs, which typically involve more processes. SIBs tend to pay for the delivery of public services, funded out of long-term savings from the public purse.
- b We expect the BOLD instrument to be suitable for parties emphasising agility and simplicity.

How is this different from a venture capital investment?

- a VC investors generally look for >10x returns from each investee company (but expect a high failure rate), to provide 20% IRR returns across a portfolio.
- b BOLD is a loan. Most VC investment is in the form of equity, or sometimes convertible notes.
- c There is a financial incentive for the investee to achieve impact targets.

If the borrower is successful in meeting its impact targets, doesn't the investor lose out?

- a The BOLD presumes that the investor is motivated by impact; primarily - but not exclusively. Investors are entering the contract expecting to take a lower return for impact above a baseline. This makes a BOLD mechanism particularly suitable for investments by foundations, NGOs and other purpose-driven organisations, as well as family offices and individual impact investors.

Stay In Touch



Above: Rachel Yang, one of the guardians of the Catalyst Fund, and the investment manager for IIG's Giant Leap venture capital fund. Rachel led this project for Impact Investment Group

Is this interesting or useful for you? We'd love to help.

We hope the BOLD will become a useful financial tool for impact investors and purpose-driven entrepreneurs who find current financial tools lacking something. We invite you to copy or adapt this mechanism for your own impact investing use.

Please contact us if:

- You want to be kept informed about what comes next for the BOLD contract
- You can see potential for using BOLD in your own work
- You have ideas for ways to improve the BOLD mechanism.

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Impact Investment Group

About Us

Impact Investment Group is a leading Australian impact funds manager. We want to prove that finance can be a force for good. That finance can be great for people and great for the planet.



Above (L–R): Danny Almagor – Chair, Amanda Goodman – Head of Syndication, Daniel Madhavan – CEO, Caroline Vu – Head of Enlightened Hospitality, Will Richardson – Head of VC

We believe that aiming for systemic change is our path to meaningful environmental and social impact. We therefore work in the context of broader visions.

We see a future where energy is 100% renewable, affordable and universally accessible. Our buildings, towns and cities can be sustainable, inclusive and beautiful. Vibrant businesses can grow while respecting the earth and contributing to our society.

Our community of investors has funded solar farms, green buildings, and the startup years of mission-driven businesses. As impact investors, we aim for financial returns alongside measurable, intentional environment and/or social benefits. We help individuals, family offices, foundations and superannuation funds invest in line with their values, and support them to move further towards impact. We're fully owned by Small Giants, the family office of Danny Almagor and Berry Lieberman.

Some Stats

The company was founded in 2013 and made its first acquisition, a \$5.25 million real estate investment, in June that year. As of March 31 2019, IIG had more than \$680 million in assets under management across its three primary business classes. It employs more than 30 people, with offices in Melbourne and Sydney.

