IMPACT REPORT:

Nordic Investors

A survey and analysis of impact investing in the Nordics 2020

THE ONE INITIATIVE

We have a diverse history pointing at impact investments. Where should Nordic investors take it from here?

In 1970 Milton Friedman introduced his theory in an essay for The New York Times titled ”A Friedman Doctrine: The Social Responsibility of Business is to Increase Its Profits”. In it, he argued that a company has no social responsibility to the public or society. Its only responsibility is to its shareholders and to conduct the business in accordance with their desires.

Now some 50 years later, the shareholder theory still holds the dominant view in the corporate world. Although the concept is refined it is foundational to the worldwide startup and investor ecosystem. In 2020 founders are in many ways today's role models. And to be a shareholder is the prerequisite for both the risk taking and the opportunity for financial success as a founder. From an investors perspective, a team of founders that can lead and execute is more often the key to success than the technology itself.

In 2011, Professor Michael E. Porter and Mark R. Kramer – social impact experts and co-founders of the global mission driven consulting firm FSG – published the article 'Creating shared value.' in Harvard Business Review. Their premise was simple: that the capitalist system is under siege. Creating shared value (CSV) soon became a broadly adopted business concept, with its central premise being that the competitiveness of a company and the wellbeing of the communities surrounding are mutually dependent. Framed in this new paradigm of a connected societal and economic progress, CSV has the power to unleash the next wave of global growth and to redefine capitalism.

During the same decade, in 2006, Rockefeller Foundation launched the 'Impact Investing Initiative' and coined the term - as well as the UN Principles for Responsible Investment being instated.

A few years later in 2009, the Global Impact Investing Network (GIIN) was founded with the ambition of developing the impact investing industry. To date, this network numbers over 20,000 investors and leaders – many of which we have been inspired by for this report.

Whilst business ethics theories are changing norms towards sustainability, there are a number of other macro trends which hold significant influence.

With the birth of the Internet and it's ongoing adoption across the globe since the 1990's, entrepreneurship has become a defining principle of the international business landscape. Tech entrepreneurs and early-stage companies who started out in the early 2000's have become some of the most influential companies in the world. Scaling is the common denominator among investors and founders. Innovation and entrepreneurship is the characteristic for (business) life in the 21st Century.

The acceleration of the climate crisis in recent years has called urgent attention to the need for bold environmental action.

In September 2015, we obtained a common global language to address the need for sustainable development with the 17 UN Sustainable Development Goals (SDGs). The adoption of the SDGs by 193 countries has begun to send ripple effects through business and civil society as they increasingly define governmental and business strategies.

A large global movement of people was touched by Greta Thunberg in 2018 and 2019 raising her voice to the leaders of the world. She called international attention to the need to acknowledge the scientific evidence and take heed to climate experts.

Shame has also come on the agenda as a driving force for change. Some think it's good. Some don't.

Though the debate has been at times polarised, there remains positive indications that things are changing. In 2019,

Amazon announced it would meet the terms of the Paris Climate Agreement 10 years ahead of schedule after mounting pressure from employees. And in February 2020 Jeff Bezos, Amazon's chief executive, committed USD 10 billion to the Bezos Earth Fund, an initiative to fund scientists, activists and NGOs to explore new ways of fighting the devastating impact of climate change.

In light of these megatrends, how do Nordic investors focussed on early-stage companies approach these changes to our economic, technological, social and climate systems?

Amongst business angels, VC funds, family offices and similar early-stage investors, there is emerging consensus that a mix of innovation, technology and sustainability will be key to solving the world's biggest challenges. As a result, impact startups are becoming the talk of the town.

Whilst impact startups represent an exciting way forward for investors looking to accelerate sustainable development, there is no one-size-fits-all rule. For those looking to invest for impact, there are many nuances to consider which is what we are looking to unfold in our 2020 market analysis, the 2nd edition of Impact Report Nordic Investors.

We see growing interest in impact investing and many signs of progress in this year's survey. Geographies, causes, industries and solutions are becoming more and more diversified, with the market growing in both depth and sophistication. Four out of five investors state that impact investing is very important for them. And more than half of the respondents state that both the financial return and the positive impact from their portfolio has performed in line with their expectations – or even outperformed them.

In addition to collating survey responses, we have spoken with practitioners and thought leaders within the Nordic impact space – and beyond. It is our sincere hope that this report will help us collectively understand how we can accelerate the Nordic impact investing ecosystem when looking forward.

We hope you will enjoy reading, sharing and debating the report with your colleagues and peers. Jointly we can learn how to change the purpose of capital to serve many more people and the planet itself – not only the shareholders of the companies shaping our world.

Richard Georg Engström
Founder and Executive Director
The One Initiative

Table con

06
Summary

08
About the survey respondents

10
Theme: Investor types
Institutional investors focus more on impact than individual investors
In this theme, we take a look at the institutional investors and their approach to impact investing. The results from our study show that there is great potential in institutional investors who are focused and risk-averse.
We also speak to Markus Hökfelt who heads a newly established green tech venture capital fund within mian Swedish bank SEB.

14
Theme: Scaling
Scaling is a key consideration for investors
We examine how a large majority of investors state that scaling is an important consideration before deciding to invest.
We talk to Swedish tech and impact investor Anette Nordvall about how scaling is not the only measure of success.

18
Theme 3: Climate
Climate has moved to the top of investors agenda
We examine why climate action is at the top of investors' agenda. And also what kind of impact solutions investors prioritize.
We speak to venture capital fund Pale Blue Dot about why a humble mindset is important to climate tech.

22
Where do you invest and why?
We take a closer look at the geographical strategies Nordic investors have and why.

24
The Covid-19 pandemic
Covid-19 has been the defining event of 2020. We explore how many investors see it as an investment opportunity,despite the financial turmoil.

# of ntents

26

Theme: Making a difference

Few investors have a formal impact policy or strategy

How do you really make a difference as an investor? That is what we try to understand in this theme.

We speak with Mohannad El-Khairy from Tidal Impact, and discuss how to make it easier and cheaper for every startup to measure their impact.

30

Theme: Being an impact investor

Personal motivation is a key driver for impact investing

We ask the impact investors 'What's in it for you?' and discuss both professional and personal incentives to invest in a positive impact.

We talk with angel investor Mette Fløe Nielsen, who believes that you should give it all you can for the sake of your investments.

34

Theme: Manage and measure impact

Guiding principles, frameworks, standards, and tools for impact

There are many ways to manage and measure impact – we guide you through a selection of sources.

We speak to Mike McCreless from Impact Management Project, who set out to create a common universal language to manage and measure impact investments already in 2016.

38

Impact investing is Denmark's stepping stone towards a greener future

An introduction to the Danish state's investment fund Vaekstfonden and The Danish Green Investment Fund. They are both working to fulfill Denmark's ambitions to be a green and innovative, pioneering country.

40

Nordic early stage opportunities for impact investing

+impact by Danske Bank has investigated several myths about impact startups and assessed whether they are true or false. The myths are mirrored with the answers from the investors in our study.

42

Methodology and definitions

43

Participants

Summary

Impact Investing is high on the agenda of most investors. Also in the Nordics. With this 2nd edition of Impact Report Nordic Investors, for the first time, we have a baseline to build upon.

We see this year an expansion of intentions and activities. 88 % of the respondents have answered that impact investing is very important to them. At the same time geography, causes, industries and solutions are becoming more and more diversified. The trend is clear. The market for impact investing is growing in both depth and sophistication. 67% of the investors say that they expect to increase their impact investments.

Compared to last year's focus - why, how, what and where do you invest with impact? - with this year's survey we also sought to understand the behaviour, motivation and the outcome related to investing in impact. We asked for instance about the respondents' share of capital invested in impact, the extent of impact objectives in the investment strategy and criteria for investing in impact.

The 2020 main conclusions are:

- **Most investors find impact investing important to them. It provides good opportunities and return and they expect to increase allocation of capital for impact.**
- **More than half of the investors think that both financial returns and the positive impact on the world in their impact portfolio are in line with or outperforming their expectations.**
- **Most invest in seed (startup stage) and series A (venture stage) for impact. They decide on causes where they see scalability and where they can**

WHY INVEST WITH IMPACT

80% think impact investments provide opportunities for a good return.

61% answered that financial returns on impact investments are in line with or outperforming their expectations.

62% answered that their impact portfolio performance is in line with or outperforming held up against the impact expectations.

CHALLENGES TO INVEST WITH IMPACT

34% of the investors have a written impact policy statement.

62% of investors seek in-depth knowledge of the data and science available before investing.

74% state that they have a longer time horizon when investing in impact.

49% have to be more engaged in their impact investments than traditional investments.

49% see the need for more specialization to invest in impact.

HOW TO INVEST WITH IMPACT

Nordic investors primarily use private debt (**18%**), private equity (**32%**) and direct investment (**33%**) for impact.

Most Nordic investors invest in Seed/startup stage (**66%**) and Series A/venture stage (**17%**) for impact.

74% provide patient capital for a longer hold period than normal.

87% decide to invest in causes that have potential for impact at a big scale.

77% decide on causes in which they expect good investment opportunities and returns.

80% are actively engaged by using their expertise for the impact cause they invest in.

74% prefer to invest in impact causes where there are co-investors.

contribute with experience and find co-investors. And they provide patient capital for a longer hold period than normal.

- This year the climate has moved up the impact investing agenda. Investors focus on environmental causes (e.g. agri-food and energy) more than social causes (eg. health and education). SDG 13: Climate Action is highest on the agenda. Investors value technology as a strong driver for impact.
- Only a third of investors have a written impact statement. They have to be more engaged in their impact investments than traditional investments and see the need for more specialization to invest in impact.

To give an idea of the baseline, see the five main findings in the 2019 report in the factbox to the right.

128 individual and institutional investors from the Nordic and Baltic region have participated in this years' survey, which is an increase of 52% in number of respondents since 2019.

IMPACT REPORT NORDIC INVESTORS 2019

92% of Nordic investors perceived impact investing as a good way to solve shared societal challenges

83% of Nordic investors, investing in impact, expected their impact portfolio to deliver at or above the market rate of return

67% of Nordic investors asked for more data on past performance of impact portfolios

70% were not yet measuring or reporting on the impact of their own portfolio.

The most popular global goals among investors in 2019 were

SDG 3: Good Health and Wellbeing, SDG 7: Access to Clean and Affordable Energy, SDG 9: Industry, innovation and infrastructure and SDG 11: Sustainable cities and communities and the themes to invest in to achieve impact were renewable energy, healthcare and education.

WHAT TO INVEST IN TO ACHIEVE IMPACT OBJECTIVES

Nordic investors chose Climate as their preferred theme (**20%**) followed by AgriFood (**14%**), Energy (**13%**) and Health (**13%**).

40% of investors have 100% of their private equity portfolio in impact investments.

43% of the respondents invest 100% of the private equity impact portfolio in technology.

THE SDGS MOST IMPORTANT FOR ACHIEVING IMPACT

WHERE DO NORDIC INVESTORS INVEST FOR IMPACT AND WHY?

76% of investors invest primarily within Nordics.

42% of investors are primarily driven by deal flow and the types of solutions available, when prioritizing a certain market.

44% invest in developed markets because of the deal flow and **11%** because of their expertise.

Only **16%** chose the possibility to have a positive impact as the reason to invest in developed markets.

30% of the respondents have chosen impact as the main reason to invest in emerging markets.

About the survey respondents

This survey targeted Nordic private equity investors with early stage solutions – primarily business angels, venture capital funds, governmental capital funds, accelerators and family offices. 128 investors participated.

The respondents are mostly Danish and Swedish investors, who invest over a wide spectrum of capital – from less than 250K Euro to over a billion Euro.

The split between individual investors (ie. business angels and family offices) and institutional investors (ie. VC, PE funds and accelerators) is around 50:50.

The majority of the respondents invest in pre-seed, seed or venture stage businesses (ie. series A).

This year we have gone beyond investors self-classification on impact ie. an "Impact first" approach vs. "Financial first" approach.

We have sought to understand the behaviour, motivation for and the outcome of investing in impact – asking questions such as 'how important is impact to you?', 'how to integrate impact objectives in your investment strategy' and 'which instruments do you use when investing in impact?' This inquiry has yielded insights which allow us to gain a more nuanced understanding of the investors approach to impact.

When comparing the importance of impact and the categorisation of approaches, we found that 88% of respondents, agreed or strongly agreed with the statement "Impact investing is very important".

With this in mind, we should ask ourselves in the future whether a categorisation of "Impact first" vs. "Financial first" approaches still are an effective gauge on the state of impact investing today. It is our hypothesis that impact is so firm on the agenda in 2020, that we can move beyond this and towards more sophisticated assessments of intentionality.

FIGURE 1 / n 128
Head office

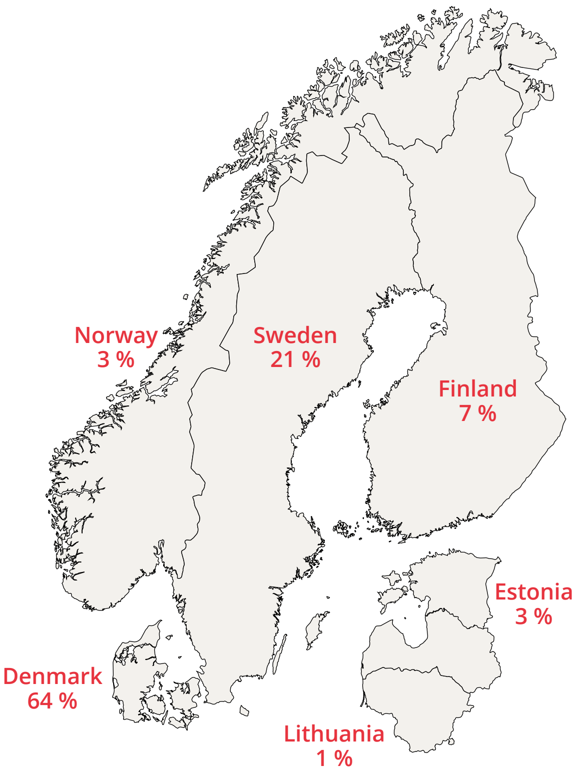


FIGURE 2 / n 128
Investor type

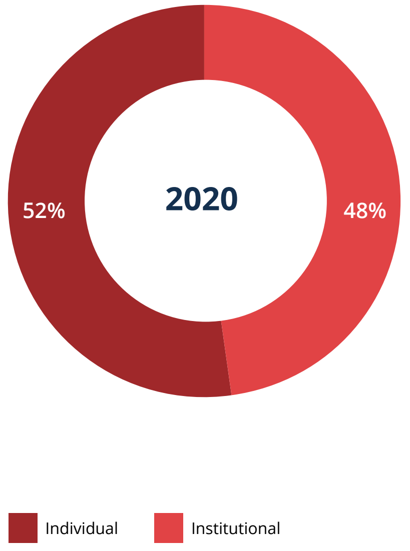


FIGURE 3 / n 103
Fund size

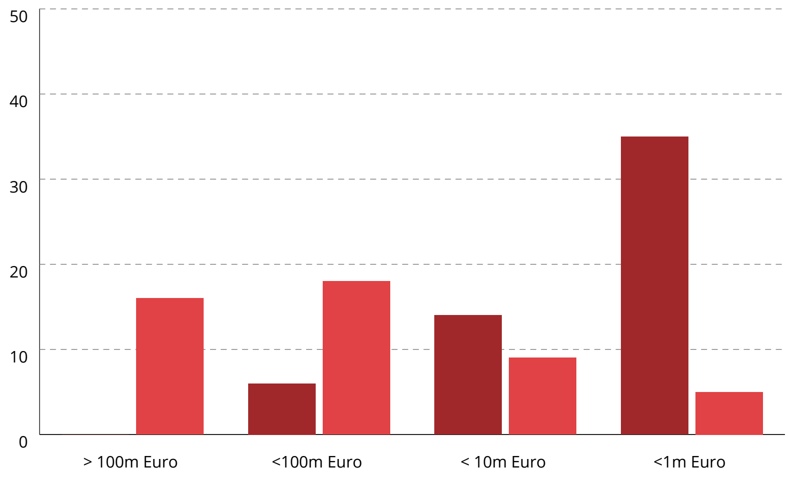


FIGURE 4 / n 83
Approach to impact 2019

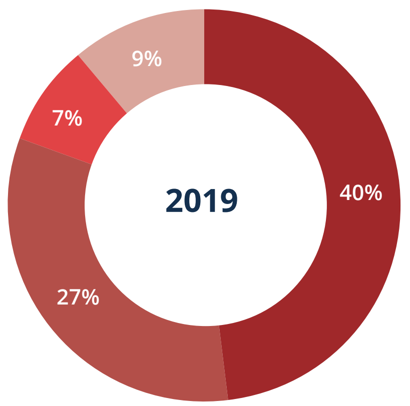


FIGURE 5 / n 120
Approach to impact 2020

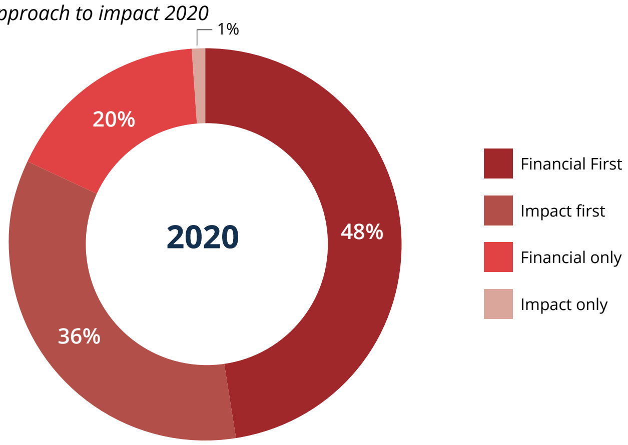
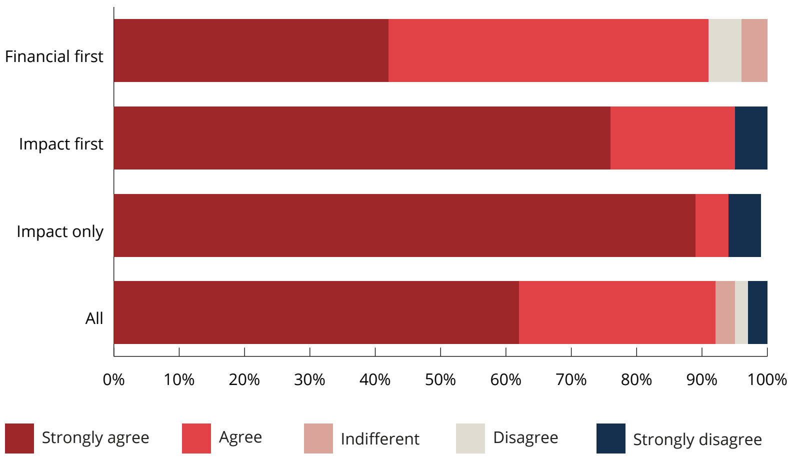


FIGURE 6 / n 120
The importance of impact



THEME: INVESTOR TYPES

Institutional investors focus more on impact than individual investors

Business angels and other individual investors are indispensable for investing in early stage impact startups. But when it comes to impact, institutional investors are also playing their part. According to our study, institutional investors actually invest a larger portion of their private equity in impact than individual investors.

The majority of institutional investors in the survey have more than half (Figure 7) of their portfolio placed in impact investments. When it comes to individual investors, the portion is less than 30% (Figure 7). This significant gap can likely be attributed to the difference in risk profile. Impact investing is still considered high risk by many, not least because it is often directed at early-stage companies. Many individual investors are looking to spread their investments across several areas, whilst institutional investors are often set up with a mandate to focus on impact.

Many venture capital funds also have a great deal of knowledge and special competence within the areas in which they invest and therefore have the skills to support the companies they invest in. This may also be the case for impact.

In figure 8 shows which asset classes the respondents channel their impact investments to. Many focus on private debt, private equity, and direct investments – while very few have public stocks or public bonds. There is a clear weighting of investments in the first three pillars, which also illustrates that this is often the asset class where impact investments can be found.

Private equity is often the vehicle through which investors invest for impact. Figure 9 illustrates the share of the capital that the survey-respondents have placed in each asset class. Figure 10 further shows how much of the respondents' private equity portfolio is channeled into impact investments.

Figure 11 details the company maturity stage that the respondents mostly focus on. 66% of the respondents prioritize the seed/startup stage and 17% venture stage (series A).

PRIVATE EQUITY

Private equity is composed of funds (ie. venture capital funds) and individual investors (ie.. business angels) that directly invest in private companies, such as impact startups.

FIGURE 7 / n 117
How much of portfolio in impact

	ALL	MOST	HALF	SOME	NONE
Individual	17%	5%	14%	54%	10%
Institutional	29%	17%	20%	20%	14%

FIGURE 8 / n 119
Amount of asset classes invested in impact

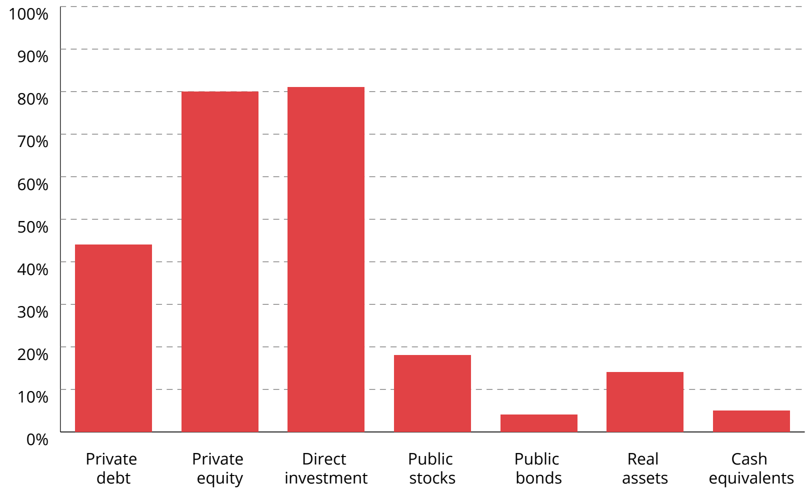


FIGURE 9 / n 118
Total portfolio in PE investments

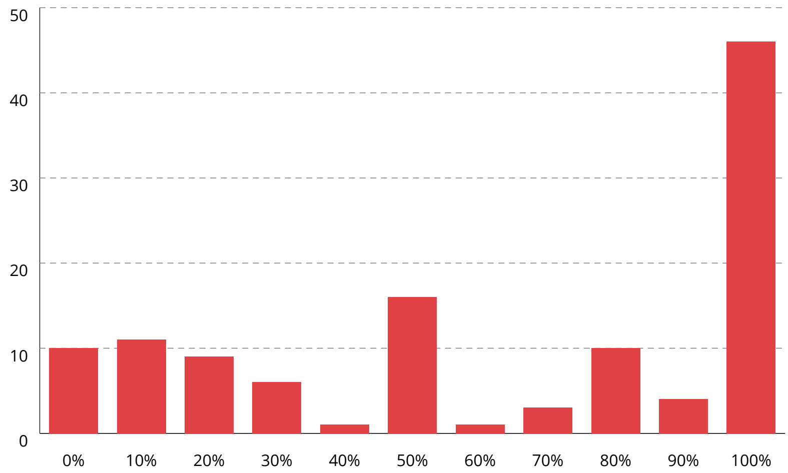


FIGURE 10 / n 117
Percentage of PE portofolio in impact

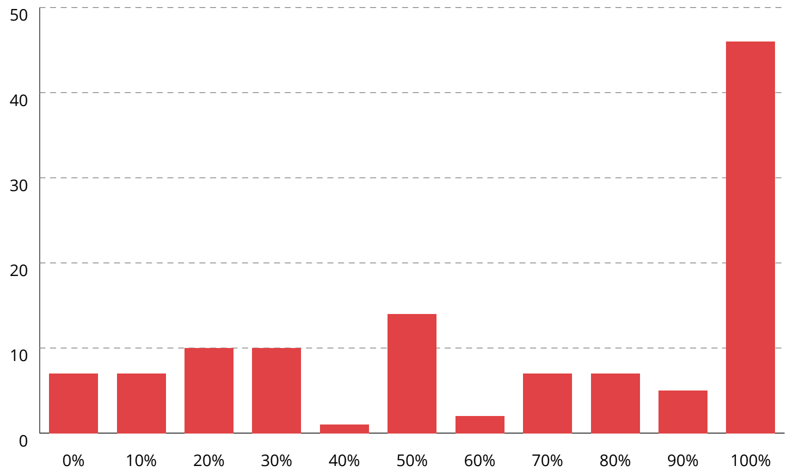
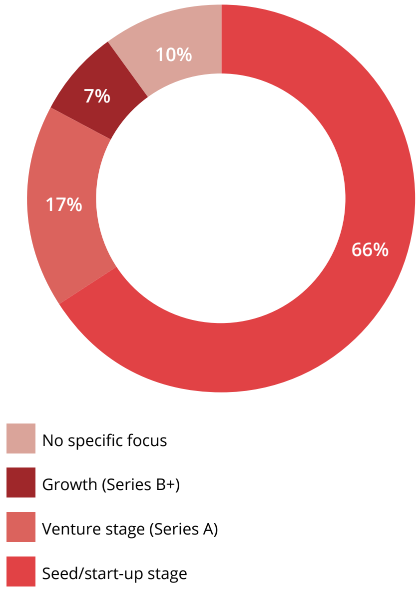


FIGURE 11 / n 119
Company maturity stage investors focus on



We pride ourselves with having a strong impact focus throughout the entire investment process; from initial assessment to post investment reporting of our portfolio companies, and we demand that impact is intentional and clearly measurable. We actively work with our portfolio companies to measure and articulate the fantastic work that they do, as we believe this to be a strength when it comes to everything from recruitments, internal communications and alignment, external communications, and fundraising. Tracking and following-up on impact KPIs is done on a quarterly basis, and we have aligned the investment team's compensation structure to reaching both impact and financial targets – putting one's money where one's mouth is. Our internal impact framework is the result of continuous refinement and improvement over the three years since we launched our first fund, and we will continue to improve as we gather more knowledge. Hence my tip to early-stage investors and start-ups alike is to simply start somewhere, and refine as you learn."

TOVE RÅDELIUS, INVESTMENT MANAGER, NORRSKEN VC

Institutional investors are crucial for impact startups looking to take the

NEXT STEP

In 2020, leading Swedish bank SEB launched a new unit with a mandate to invest SEK 300 million in green tech solutions. With a clear mandate to invest patient capital in the green solutions of tomorrow, SEB is paving the way for more institutional investors. With GreenTech VC, a new investment vehicle, SEB will be crucial in accelerating the development of hardware solutions from early-stage to well-established companies.

When launching a new venture it is commonplace for founders to turn to friends and family for funding. Or alternatively seek the support from grants and business angels.All of these things are important in impact investing, where there is a large growth layer of new businesses.

Yet for many, the hard part comes when they are ready to take the next steps and access growth capital in order to compete on a global stage. At this stage, additional knowledge and expertise is needed - and not least patient capital. This is where people like Markus Hökfelt, heading a new unit called SEB Greentech come into the picture. He explains:

"When a startup has to take the next two or three steps, it often becomes more difficult than in the early phases. It is a very tricky process. You need a lot of equity, but there is still a lot of risk involved, and it can therefore be difficult to get a loan. If you suddenly get into an unforeseen delay of one or two years, you could lose the whole company. This is where there are business opportunities for someone like SEB, when you need quite a bit of money, patience and a great deal of sector knowledge. In that kind of scenario,it will be difficult for a business angel, even if it is a fairly wealthy one."

The new SEB unit does not have exactly the same structure as a traditional VC fund. They do not have the same time frame as a typical fund has and invest directly from the balance sheet. He continues: .

"When it comes to impact investing, time is of the essence. Especially within the field of climate change. We don't have any 'hard stop' time horizons. As long as we add value to the company we continue."

Though they have initially committed to investing 300 Million SEK, the ambition is to grow this to 1 Billion SEK in five years. Markus Hökfelt further explains:

"The largest 'hard to abate' sectors of CO2 will require physical and chemical improvements. Software alone cannot do that. I don't think you will see a consumer-success startup like Spotify in the energy sector.

> **When it comes to impact investing, time is of the essence. Especially within the field of climate change. We don't have any 'hard stop' time horizons. As long as we add value to the company we continue.**

Most of the success cases in the green tech field are hardware first driven like Tesla, wind turbines, solar PV and Li-ion batteries. It is not a question of either-or. But there is a lot of investment in software right now. We need to recognise the great potential latent in hardware, and how an investment in this can really move the needle for a positive impact."

Markus Hökfelt
Head of GreenTech VC, SEB

THEME: SCALING

Scaling is a key consideration for investors

When investing in impact, there are many things to consider before deciding on a primary cause. We asked the respondents to reflect on a number of decision-making criteria. Though the answers vary, the vast majority of respondents emphasize scalability.

Scalability is a concept which is most commonly found in the tech world. Many early stage investors are former tech entrepreneurs and look for what they know when considering investments. This desire for scalability, high financial returns and the opportunity to contribute on domain specific topics are prime concerns – and this is no different when it comes to impact investing among our respondents.

They also consider that technology is an important factor when it comes to their private equity investments for impact. In their view, social and environmental problems must be solved through technological products and services.

Figure 12 shows that almost half of the respondents invest 100% of the private equity impact portfolio in technology. Figure 13 shows that a large majority strongly agree with the idea that technological innovation is crucial for considering an impact investment. Moreover, it is not simply altruism which drives the investment in impact. Figure 14 shows the reasons our respondents invest in impact. Most decide to invest in causes that have potential for impact at a big scale. A large majority state that they decide on causes in which they expect good investment opportunities and returns. Almost as many of the respondents choose to invest in areas where they already have the expertise or network.

Figure 14 further shows that a large majority prefer to invest together with other stakeholders.

As it is often the case that impact investments in the earlier phase involve some risk, many would like to include others to get additional expertise from co-investors and balance this risk. Despite this not as many investors seek in-depth knowledge of the data and science available before investing, neither do impact measurement mean as much in deciding on the cause to invest in.

FIGURE 12 / n 115
Amount of PE impact portfolio in tech

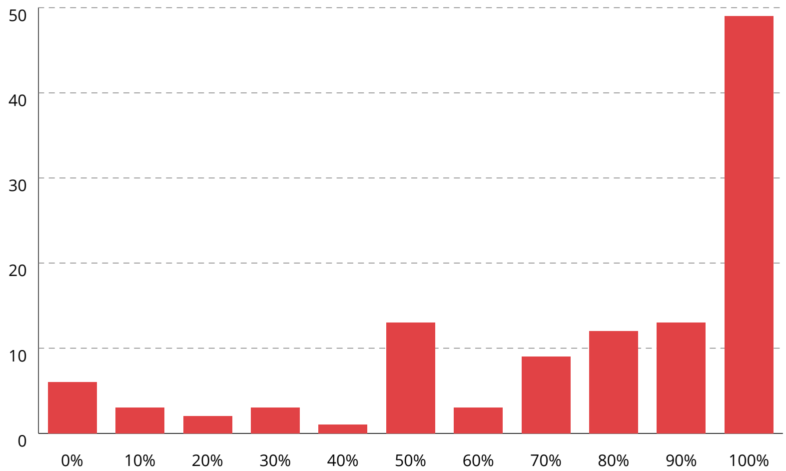


FIGURE 13 / n 107

Technological innovation is crucial for impact

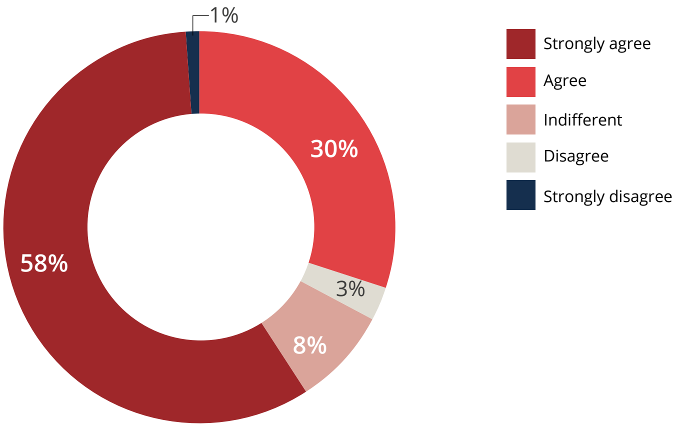
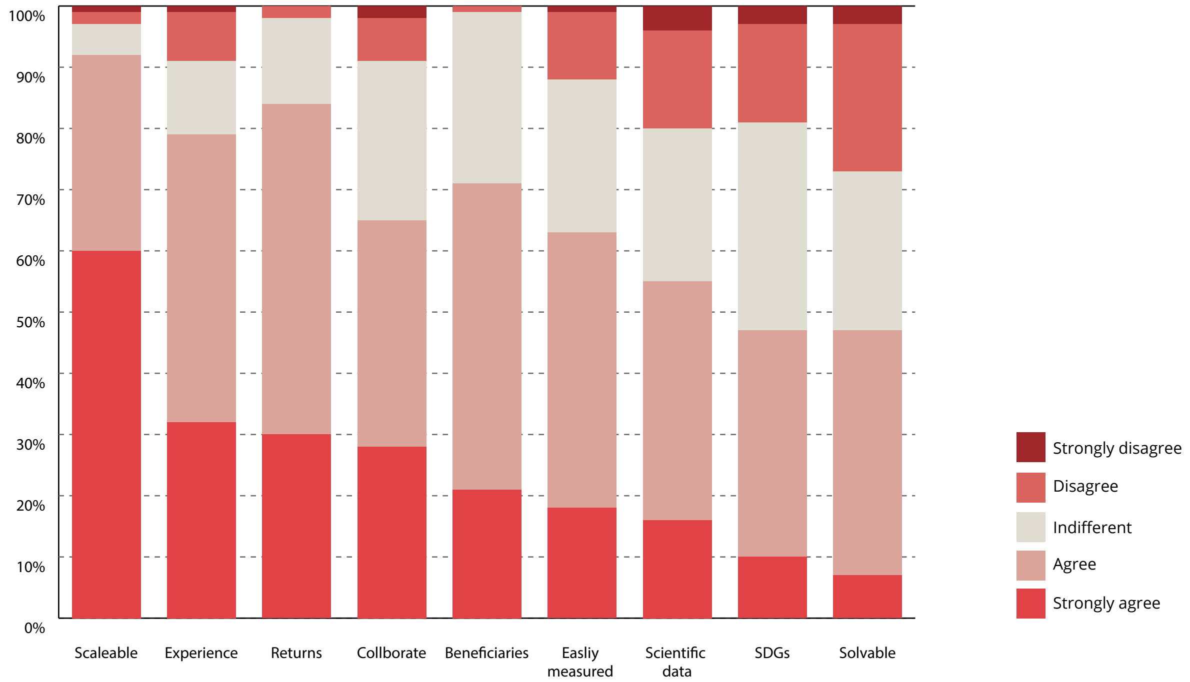


FIGURE 14 / n 111

Criteria for which impact causes to invest in for impact



When evaluating potential investment objects, we assess their ability to maximize both financial returns and their positive impact on people and the planet through five main criteria. Is the company's solution built on technology that can scale? Does the company have a team with the right competencies, network and capability to do the job that will scale the solution? Is the company founded with intentionality to generate true impact through scaling their solution? Does the company have traction to show that their solution is appealing to customers and other stakeholders? And lastly, is it the right time for us to join as an investor - can we help them with what they need to get to the next level?

NINA HEIR, CEO, KATAPULT ACCELERATOR

THEME: SCALING

Yet scaling is just one way of looking at business

As many impact investors have a background in the world of tech, scalability of investments is often a key concern. It can indeed be a good method of assessment. But we should be careful to ensure that this is not the only measure of success as Anette Nordvall, CEO of Keiretsu Forum Nordics discusses.

It's become a bit of a buzzword but in essence scaling is a way of thinking.

hether a venture is scalable – or not – is a fundamental consideration for many investors when assessing the viability of a business. Scalability has become synonymous with tech startups with some of the leading startups having scaled to nearly every country in the world.

A large majority of investors in our survey too believe that scalability is fundamental to investment.

Anette Nordvall, CEO of Keiretsu Forum Nordics (KFN), who has a history as both a tech and impact investor, believes that scaling is a specific way of thinking which has become very widespread in business today. She comments:

"It's become a bit of a buzzword but in essence scaling is a way of thinking. As a concept it can be used from both an investment and operational point of view, whether it be to assess how far an investment can go or whether a company's logistics can be replicated. People often ask: is there a way I can scale my business so that it's more efficient? We are still enticed by the idea of exponential growth, like with Twitter and Facebook, where scaling doesn't stop until you've reached everyone on the planet."

Anette Nordvall of course considers this when looking at her own investment, but also believes that technological adoption is not always synonymous with impact. She explains:

"Many people think that if you do not have a viable technology, you need lots of manpower to create impact. They think you have to be there to physically distribute water in the third world because that's what impact looks like. But this does not have to be the case. It may be better water solutions on location to remedy polluting industries. We will still have dirty industries for many years to come, so it's an important conversation in which leaders need to take a standpoint.

She has seen an increase in emphasis on impact investments, especially after large asset management companies such as BlackRock have moved their assets into this market.

"Back in February 2020, the CEO of BlackRock, Larry Fink, made a public statement that they would not invest in something that is not green. These are some of the largest fund managers in the world. When they say such a thing, the whole market changes. CNBC's Jim Cramer also made a statement that oil and other fossil fuel stocks are now considered the same as tobacco stocks. These kinds of statements have made people question their choices and think to themselves 'Oh... I have some bad investments lying around that I need to get rid of.'"

Over the years, Anette Nordvll has invested in a lot of software ventures but she nonetheless has a penchant for hardware and believes there is great potential in making hardware smarter. She continues:

"There are few products today that do not have some kind of software connected to it. In the future, I believe there will be some form of AI and machine learning integrated in the same way."

In general, she holds great confidence for the future of impact investment. And while Covid-19 has been a curse, and she's truly sorry for all the hardship and the many lost lives during this period she also believes it could be a blessing in disguise in other areas.

"Prior to Covid-19, I couldn't see how we could make the kind of big shifts that were necessary as most capital was still being invested in fossil fuels and the companies fuelled by them. But Covid-19 has changed this. I no longer have to fly to Finland to attend a conference. I'll participate over Zoom instead. This has changed our consumption habits forever, our thought process and view of the future. Covid-19 has been an obvious turning point for sustainability. And we consequently take action in another way."

Anette Nordvall
Chapter President and CEO
Keiretsu Forum Nordics

Climate has moved to the top of investors agenda

One of the most significant changes from last year's survey is how far climate issues have moved on the investors' agenda. Over the past year, climate has become a topic of central importance to the investors surveyed.

The climate crisis has received increasing coverage, from newspaper headlines to executive boardrooms. This has trickled down to the focus areas through which impact investors are looking to contribute - and invest their capital.

When asking investors about which of the SDGs is the most important (Figure 15), the most common responses were SDG 13: Climate Action, SDG 7: Access to Clean and Affordable Energy and SDG 3: Good Health and Wellbeing – followed by SDG 12: Responsible Consumption and Production. As an increasing climate crisis has drawn attention to the need for a decarbonized industry, such as clean energy and responsible consumption, Covid-19 has drawn attention to the importance of public health.

Figure 17 paints a similar picture, with the climate and the environment taking higher priority within investors' agenda, than in last year's report (figure 17). Almost half of the respondents state that they invest in both environmental and social causes, whereas 41 percent invest in environmental causes and correspondingly 12 percent invest in social causes.

In order to assess desirable areas of investment for impact investors, we have used the widely accepted IRIS+ impact categories (figure 18). Nordic investors chose Climate as their preferred area (20%) followed by Agri-Food (14%), Energy (13%) and Health (14%).

Social minded investors also prioritized Education and Employment as a focus area (figure 20).

Segmenting investors into institutional (ie. VC, PE funds and accelerators) and individual investors (ie. business angels and family offices) you see a higher priority of health and education among institutional investors.

FIGURE 16 / n 116
Mostly social or environmental objectives in 2020

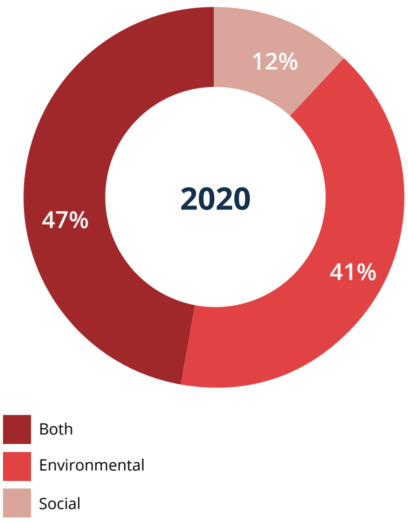


FIGURE 17 / n 72
Mostly social or environmental objective on 2019

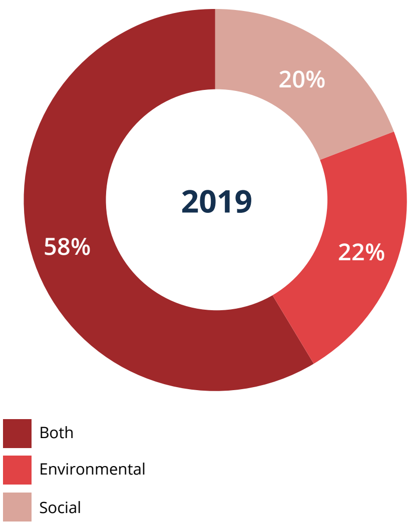


FIGURE 15 / n 117
SDGs addressed from your investments

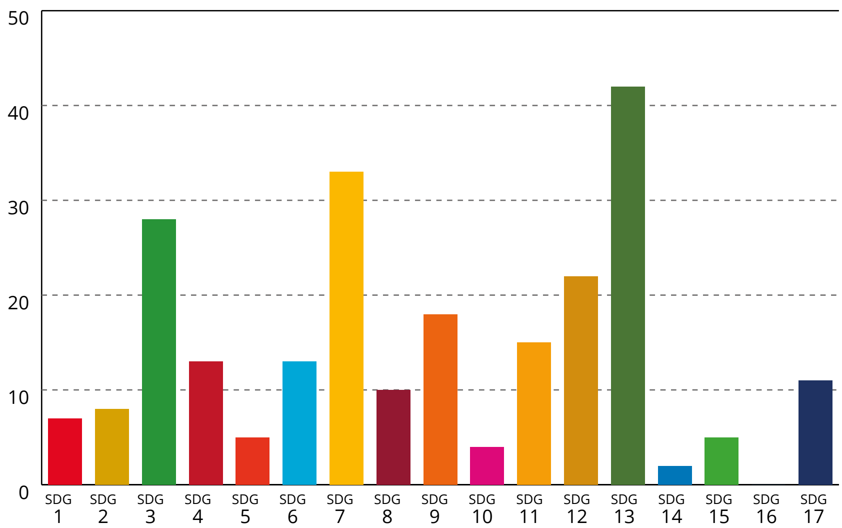


FIGURE 18 / n 128

Impact themes mostly invested in (IRIS+ themes)

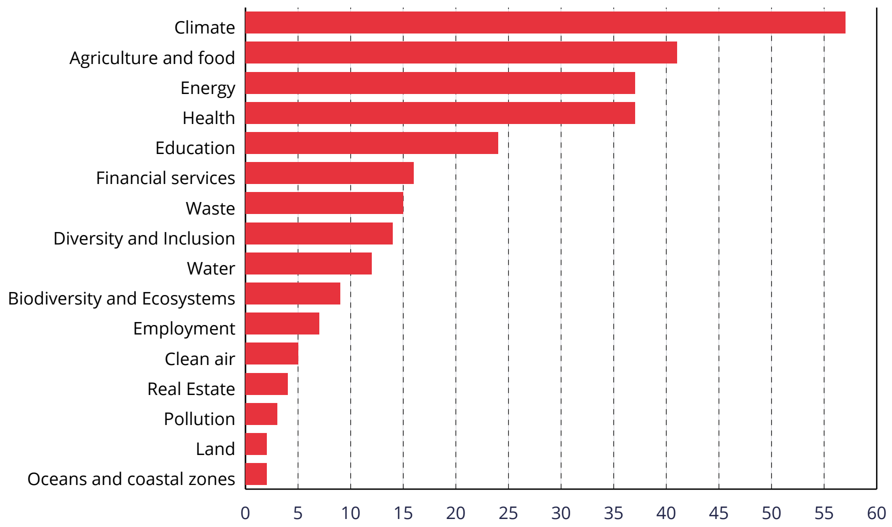
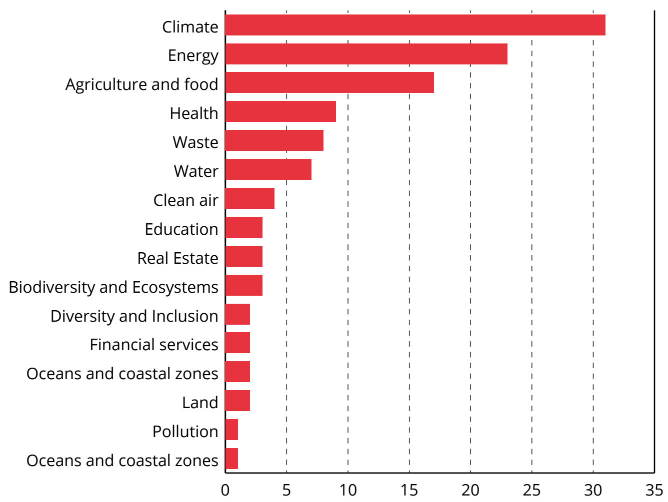


FIGURE 19 / n 117

Environmental focus for SDGs and impact themes (IRIS+ themes)

***Environmental only:** Which themes do you invest in?*



***Environmental only:** Where do you seek impact?*

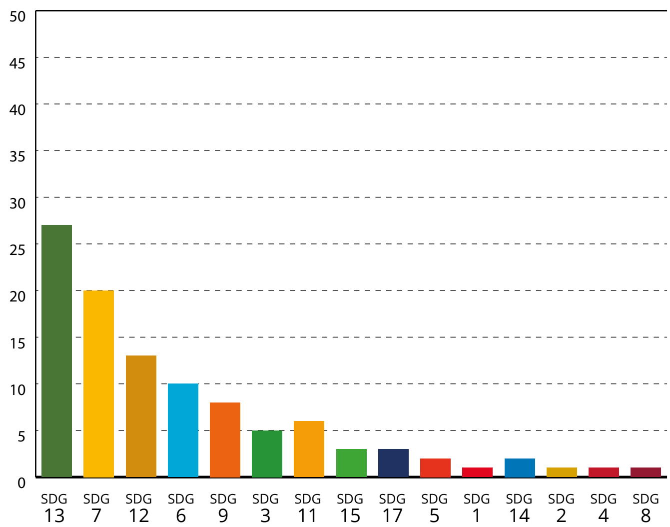
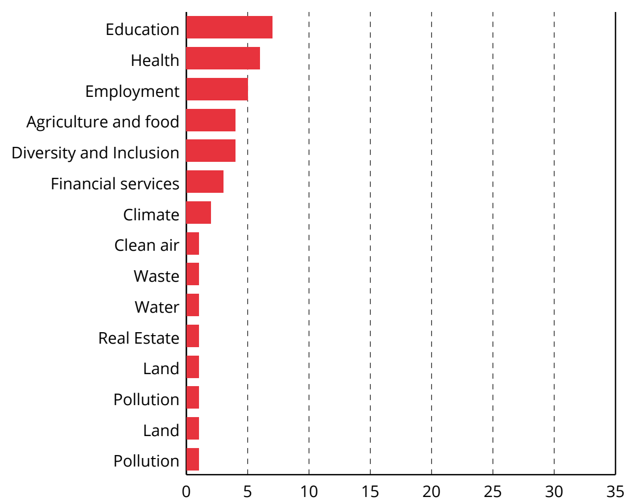


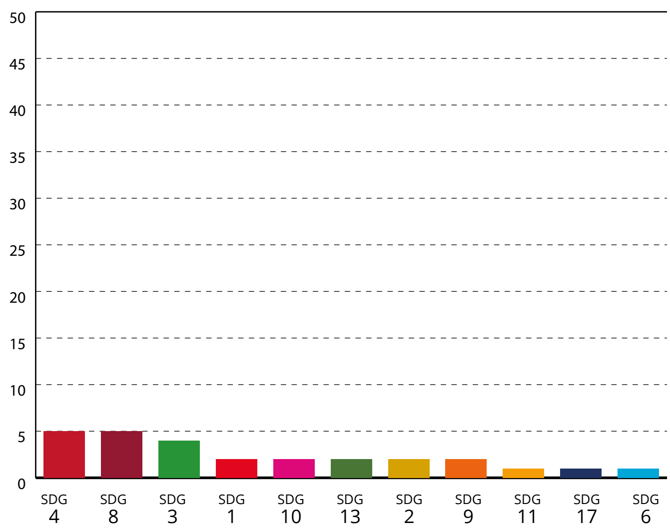
FIGURE 20 / n 117

Social focus for SDGs and impact themes (IRIS+ themes)

***Social only:** Which themes do you invest in?*



***Social only:** Where do you seek impact?*



Tackling climate change starts with recognising the unknowns

The Swedish climate venture capital fund Pale Blue Dot is investing in companies that reduce and reverse the effects of climate change and prepare for a new world. They are ambitious. In order to assess impactful climate solutions, Pale Blue Dot deep dives into specific climate problems whilst recognising that it is a complex field with many unknowns. They are humble and admit that they are incomplete. Because everyone else is too.

As we can see from this year's survey results, SDG13 Climate Action is the UN Sustainable Development Goal highest on the investors agenda, as well as the focus area they would most like to invest in. Hampus Jakobsson, co-founder of Pale Blue Dot, has a clear idea on why.

"In 2018 Great Thunberg initiated the 'Friday's for Future' demonstration outside the Swedish parliament. In 2019 Amazon announced it will meet the terms of the Paris Climate Agreement 10 years ahead of schedule. And in 2020 PwC's launches the report 'The State of Climate Tech 2020' – a first-of-its-kind analysis of the state of global climate tech investing. The discussion is moving incredibly fast, evolving from youth activism, to an organised and conscious movement, within the involvement of global players. And that's just in three years. That's good. Shame is also a factor. But we need to move beyond virtue signaling like buying a Tesla, and be committed to create serious change.

Hampus anticipates the need for behaviour change, also amongst the investment community. In his view, it's not enough to look for scalability and financial returns, at least not if investors want to play a part in climate change solutions. He continues:

"This need to change behaviour and attitudes can be seen when we are assessing deals. We do due-diligence as carefully as we, but we're not chemists, biologists, physicists. It's like sitting on the school bench again in ninth grade, raising your hand and for example asking "What is an enzyme?". I think 99% of people hate that feeling. I imagine that many

> You can find the core of the problem and at the same time identify the potential in the investment if you use the three magic words more often. 'I don't know'.

investors have a hard time admitting that there are things they don't understand when talking to impact startup founders. But we have to try to understand it as best as we can and admit when we don't. There's a reason why we still use fossil fuels and haven't come up with anything new. No one has dared to raise their hand. It takes great humility to admit that you do not know best."

Pale Blue Dot embarks on a detailed research process when they are considering investments. They produce a comprehensive article about what to invest in, about the whole subject and the problem to solve. The aim is to make this as scientific as possible in order for them to understand whether the venture is a good investment from a climate perspective. At the same time they also outline all of the unknowns, so that they can find partners who can contribute with the right knowledge. Hampus continues:

"You have to have that attitude. There isn't room for those who aren't willing to admit that something is complex, but who try to play cool and bullshit. We aim to be the ones

in the front row of the classroom telling the teacher that we do not understand. When you sit on something as powerful as capital, and not just your own, you have to be incredibly humble and admit that you do not know everything. And climate change undeniably is a complex thing."

Though we can see a desire to invest in climate solutions through the survey respondents, fewer of those actually invest in solutions due to the difficulties of impact measurement. From Hampus' perspective, although measurement is important it shouldn't be pursued to the point of paralysis. Impact investments should fundamentally resonate with investors and over time they should find the metrics to measure their actual impact. He explains:

"A good example is an investment we made in a company that reduces the risk of forest fires. One of our investors would like us to report on the carbon dioxide emissions that are avoided with this technology, i.e. carbon dioxide equivalents. But how do you measure how many carbon dioxide equivalents a risk minimization company for forest fires reduces in advance? We know that 2% of all CO2 emissions in the world is because of forest fires. And we know that this technology significantly reduces the risk. We feel it is enough for now to measure the number of square kilometers of forest that the technology monitors. When they have succeeded, raised hundreds of million dollars and perhaps are the ones defining this market, then they should calculate how the impact they've created, ie. if it is 10, 20 or 50% decreased risk of global forest fires."

Hampus concludes that one of the basic challenges when investing in climate solutions is the need to combine a scientific mindset with being an investor. On one side you have to be deep into the details and have a critical approach, whilst on the other you have to take risks like you're playing a game of Texas hold'em poker. He concludes:

"As an investor, you sometimes have to make a bet because there is often no more objective truth. This way of working doesn't necessarily go well with the scientific approach. It can be like oil and water. I still hold a fundamental belief nonetheless that you are able to combine these worlds. You can find the core of the problem and at the same time identify the potential in the investment if you use the three magic words more often. 'I don't know'."

Hampus Jakobsson
General Partner
Pale Blue Dot

Nordic investors focus on deal flow and growth in developed markets

As we face significant challenges across the world, we need sustainable solutions that can be adopted both in high income markets as well as in emerging markets. But where do Nordic investors invest? And why? They tend to focus on where to get the best deal flow and to be able to generate growth – no matter where in the world.

Nordic investors are active in many parts of the world. Whether it's the emerging markets or domestic markets, decisions to invest are most commonly driven by deal flow and the types of solutions available.

Within developed markets (DM) almost two thirds stated that deal flow or expertise are the key reasons to invest (figure 21). Only 16% chose the possibility to have a positive impact as the reason to invest in developed markets.

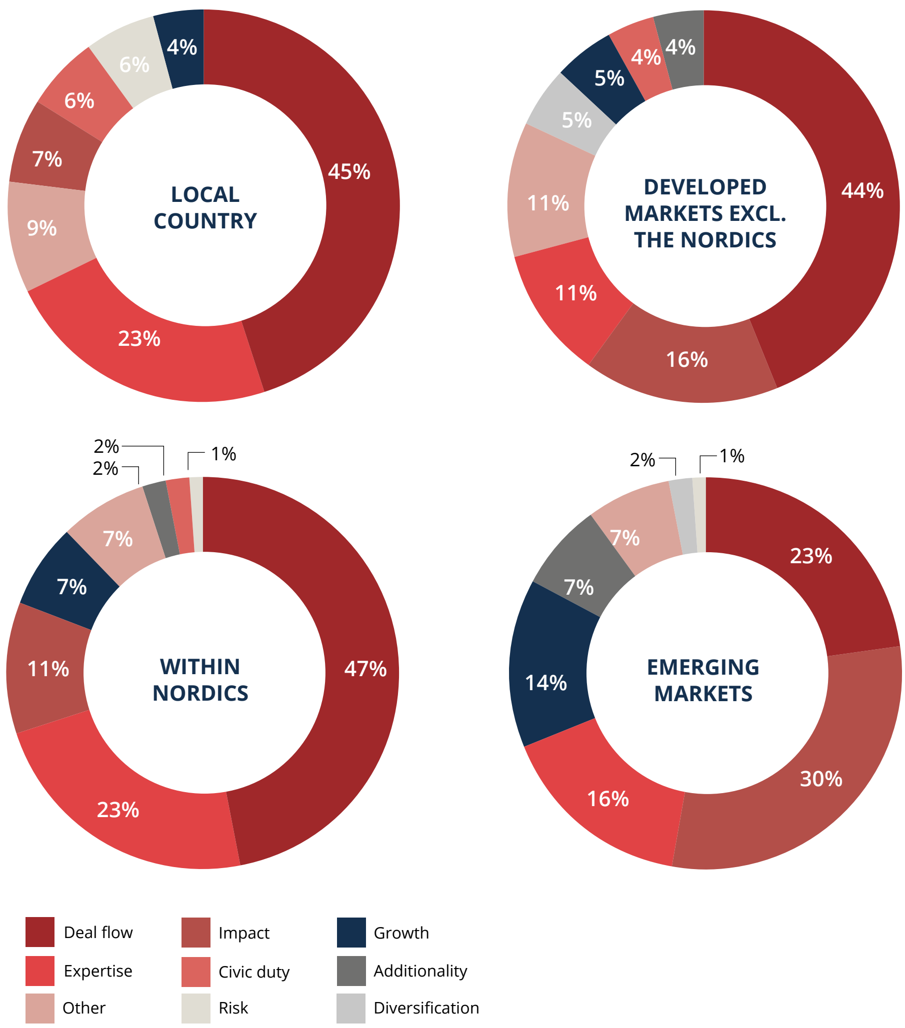
The picture however is slightly different within the emerging markets. Deal flow, growth and expertise are likewise stated as strong reasons to invest, as opportunities for good business cases also exist in the emerging markets.

However, the main reason for investing in emerging markets is the possibility to make a difference (figure 21). 30% of the respondents have chosen impact as the main reason to invest in emerging markets. Investors turning to the emerging markets are likely to be driven by a more strategic focus which is underpinned by a desire to make a difference.

We also looked if there is a difference when you are an institutional or individual investor, or whether you classify yourself as impact first or financial first, in which markets you invest (figure 22).

When combining this finding with investment focus and type of investors, we found two things. Firstly, that 'impact first' investors tend to have a more global focus, whereas 'financial first' investors focus within the Nordics mostly. Secondly, that institutional or individual investors have very much the same geographical focus.

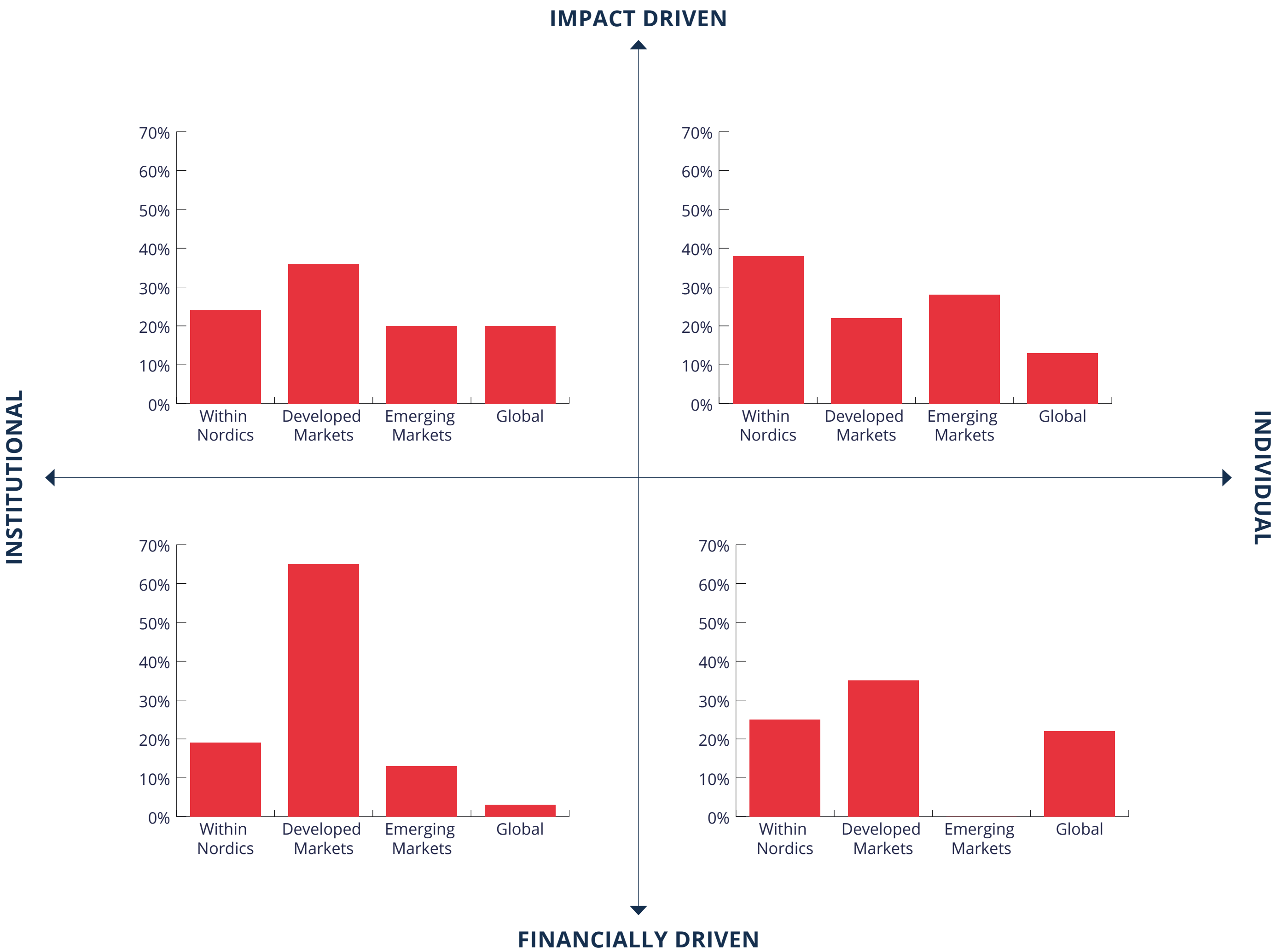
FIGURE 21 / n 104
Location of impact investments and the reason why



"My way into impact investing is a combination of my business experience with my personal passion for reading and education. My parents founded a bookstore in the 1960's, which I took over 20 years ago. At that time I founded SAXO.com and managed it as CEO for many years. Today it is Denmark's largest online bookstore. Prior to my time in SAXO, I worked with education in Bolivia, especially preventive healthcare learning. These two paths of my career have given me the understanding that digitization of reading, with e-books and e-learning, can make a positive difference for people. Today I invest in startups in the educational market. I can leverage a lot of my market understanding together with insights into the south american market. SDG 4, which is to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, has become my differentiator. It's where I can and would like to have a positive impact."

JØRGEN BALLE OLESEN, BUSINESS ANGEL, JBO INVEST HOLDING

FIGURE 22 / N 112
Geographic strategy by investor type and approach



COVID-19

Despite the serious effects of Covid-19 across the globe, for impact investors it has opened up more opportunities than threats.

Though a year ago the market was termed as a 'startup market' where founders could set the terms of valuation for their company, this is no longer the case. The Covid-19 pandemic has changed the state of play – turning it into an investor's market. This is one of the conclusions in this year's report.

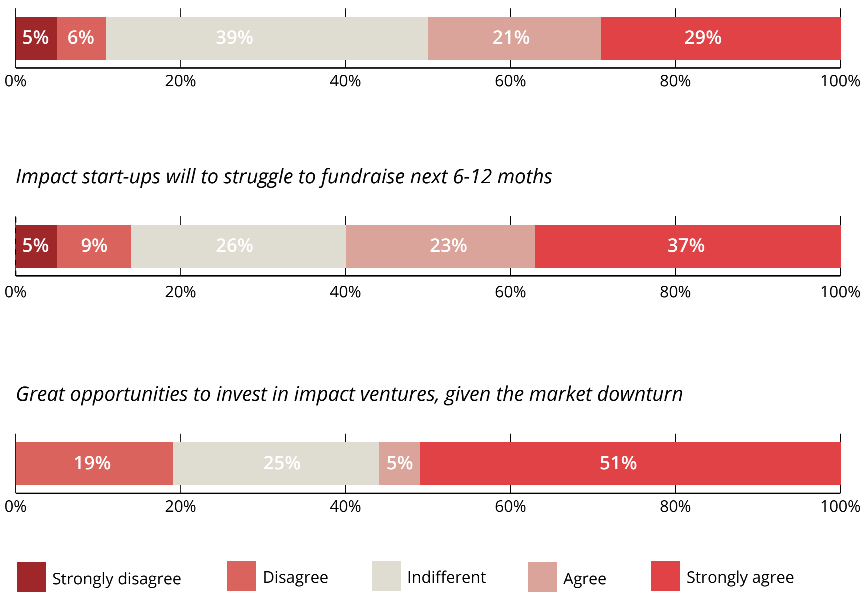
Roughly 60% of investors surveyed expect impact startups to be struggling to raise funds in the wake of the Covid-19 pandemic (figure 23). But this is not because they are not desirable ventures, as around a similar percentage stated that they see great opportunities to invest in impact ventures (figure 23).

In fact 45% maintain impact investing as a way to help and contribute in the current situation (figure 24) and at least half of the respondents demonstrate that they themselves are not economically strained (figure 24).

Moreover, the majority of investors express that they're experiencing neither additional gains nor additional losses. The majority also agree or are indifferent to the question of investment performance (figure 24).

FIGURE 23 / n 113

Resources are being diverted to fight COVID-19, at expense of important causes



"Over the past years private equity funds have been able to do successful fundraising. Large portion of the new capital has been invested to funds with ESG or Impact -commitment. Also, the number of Nordic impact ventures has been rapidly growing and these companies are looking for new capital. As the covid-19 pandemic is maturing we see this as good timing to transition from supporting current portofolio to new investments. For those with dry powder in the funds current downturn is a great opportunity to make profitable and impactful investments."

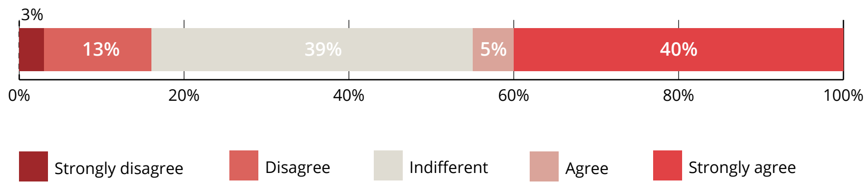
JAAKKO ISOTALO, FUND MANAGER, GRID.VC

FIGURE 24 / n 114

Due to the economic downturn, we have less capacity for investing with impact

Impact investments are performing better than our other investments during Covid-19

Investing in impact is our way of contributing to this Covid-19 crisis



Few investors have a formal impact policy or strategy

There is little doubt that the majority of investors are looking to make a positive difference through their capital. For some, it is indeed their central purpose. But how does one actually achieve that? Whilst the majority recognise the importance of communicating about impact investment activities, few have a formal strategy in place.

In recent years, many companies have begun starting to look at themselves in the mirror and more thoroughly assess where they stand on the sustainability agenda. Some have developed formal impact strategies and policies, but these investors are few and far between.

This is perhaps due to the fact that impact investing is a new and complex area making it challenging to summarise an exploratory approach in formal policy statements. Only 34% say they have a written impact policy statement (figure 25). Moreover, it could be due to the fear of living up to ambitious image goals. Or could simply be due to a lack of best-practice available.

This lack of governance is a significant finding when compared with the fact that 88 percent of the respondents deem that impact investing is very important (figure 26) and 68% state that they expect to increase their impact investments (figure 27).

For the data collected in figure 28, we asked investors about their theory of change – ie. the impact they wish to make as an investor. The four questions asked have been inspired by the Impact Management Project (see more about IMP on page 34). A large majority of investors stated that they are signaling the importance of impact through their investments. Moreover, a similar majority of investors are actively engaged through using their expertise within their area of investment. A large majority further responded that they help to improve the undersupplied capital markets for impact, and that they provide patient capital for a longer hold period.

Equality is a core value for GOE Invest. As investors, we have a responsibility to guide the money flow towards a more equal world, and supporting diversity in the startup ecosystem contributes to that purpose. Our goal is to have at least 75% of our startup investments in diverse founding teams. We prioritise gender diversity, but also look at ethnicity and age. We encourage our startup partners to hire for diversity as they build their organisation and board. It is also good business. The data shows that mixed founding teams repeatedly outperform homogenous ones and create a greater ROI. With the majority of investments going to all-male teams, we see these startups as untapped potential.

MAJA TROLLE, INVESTOR, GOE INVEST

FIGURE 25 / n 120

We have a written impact policy statement

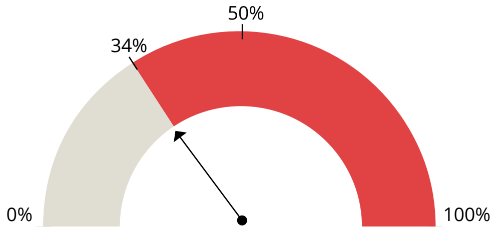


FIGURE 26 / n 120

For us investing for impact is very important

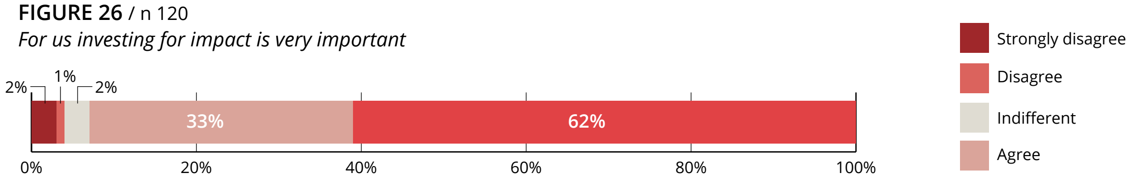


FIGURE 27 / n 113

Plan to increase the allocation of private equity into impact investing

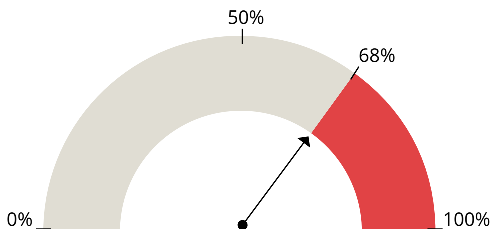
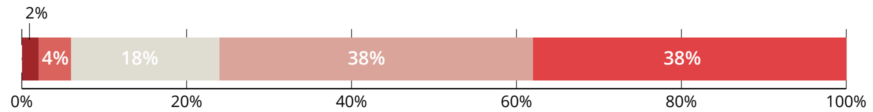


FIGURE 28 / n 123

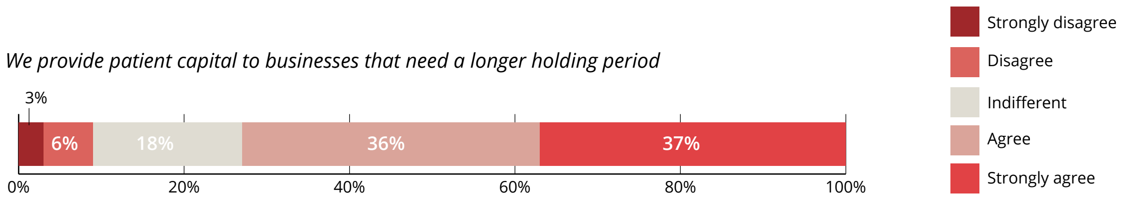
We signal that impact matters in our investments

We engage actively by using expertise, networks and influence to have impact

We help improve the undersupplied capital markets for impact



We provide patient capital to businesses that need a longer holding period



THEME: MAKING A DIFFERENCE

Impact measurement is in dire need of democratisation

Despite his early beginnings in the traditional VC world of Silicon Valley, Mohannad El-Khairy came to quickly understand that the world of early-stage impact startups was unique. He discovered that the startup cookie-cutter way of financing was not optimal, and that instead patient, knowledgeable and relational capital was needed. At the same time, he found it was also often difficult to quantify the impact one's investment actually has. These experiences led him to start Tidal Impact – a company aiming to provide impact transparency at an accessible price point.

"Venture Capital is still a great option for many early stage companies. But we should recognise that VC is not the only option when it comes to the substantial problems that the world faces and the solutions needed to solve them. At the core, funds are financially-driven vehicles with the central aim of generating profit. However, I wanted to build something where the central aim was positive impact first. Not as an afterthought. All to ensure financial sustainability and long-term profitability."

For example, if a company needs to replace polluting diesel generators with a greener, wind and solar-powered battery stack in Brazil, raising a big round of equity funding wouldn't be necessarily optimal. Instead it might require a blended approach of equity, project, government, and perhaps even financing. As Mohannad comments: "It's about finding the right cocktail of financing." He continues:

"If you are not an impact-driven business in the long run you won't be profitable. That is something we fundamentally believe in."

Most of those who responded to the survey in this report are deeply involved in impact investments and solutions, and yet only one third have established an impact strategy or policy.

From Mohannad's point of view, there may be several reasons for this. He comments:

"When it comes to definitions, impact is still a vague term. With large organizations, it may be that part of their business is unsustainable – or even harmful. The fact that they can quickly be called out if they don't completely revamp their core business or operations prevents them from being concrete about impact. They might be afraid of not being able to live up to a concrete vision. But it's important to not simply admit defeat and start no matter how small. While talk can be cheap, it can also be helpful to get the entire company on board and to agree that this is how they quantify, measure, and assess impact the same way for other parts of the business. We strongly believe that companies need to embed impact as a measure of progress."

If you are not an impact-driven business in the long run you won't be profitable. That is something we fundamentally believe in.

Despite the effects of the Covid-19 pandemic and the consequent downturn in the worldwide economy, Mohannad El-Khairy has a big vision for Tidal Impact. In the short term , he's launching a SaaS solution for companies large and small looking for an affordable way to quantify and track their impact. Whilst in the long term, his visions are much grander. He would like to build the first digitally-native, impact-focused, global merchant bank. He concludes:

"Our north star is that within four to five years we can say for every dollar invested in a company, here is the impact we can expect. And here is the kind of financial performance we can expect of that dollar. We are not there yet, we need quality data and time, but that is our north star."

Mohannad El- Khairy
Co-founder and CEO
Tidal Impact

Personal motivation is a key driver for impact investing

Is it about a good return? Or the good feeling? We asked the impact investors about the core motivation for their work, whilst also examining the qualities they believed were necessary to succeed as investors.

Before embarking on a new venture, any investor will spend time considering what they will gain if they decide to invest for a positive impact.

Figure 20 shows that a large majority believes that impact aligns investments to values, meaning that investments made are in line with values which individual investors follow.

Almost as many investors state, impact investments help expand their network (figure 30), which is also in line with the profile of the respondents who often make investments in collaborations with others. Many also respond that impact investing helps them contribute to the fight for a better climate (figure 30) and to help address the SDGs (figure 30).

Finally, around 80% answer that impact investments provide opportunities for a good return (figure 30), which emphasizes that a majority have the intention to contribute to sustainability alongside a financial return.

Impact investors need to be committed and patient.

We further explored how respondents' impact investments differ from their more traditional investments. As a result we uncovered some significant findings (figure 29).

First and foremost, we uncovered a need to be more engaged when investing in impact. More than a half (59%) stated that they are more engaged in their impact investments than traditional investments, while the rest answered the same engagement. The increased demand for engagement in impact investments could be explained by the fact that many impact investments in the Nordics are still in early stage solutions.

Another significant finding is represented in the time horizon. 45% percent stated that they have a longer time horizon. As impact investments often are characterized by new inventions on complex problems, this corresponds well to expectations. The respondents also stated that impact investing to a greater extent requires specialization, more time and effort in the due diligence process and also more advisory services.

Investment performance

Within this section, we explored how impact investment had been performing overall.

Almost half of the respondents (figure 31) answered that financial returns on impact investments were in line with expectations. Nearly a third were unsure which could be maybe be due to lack of a baseline for impact investments. Nonetheless a large proportion believe that their impact investments have performed well – or even outperformed the expectations.

Answers were homogenous across the board, when we asked how the private equity impact portfolio performed overall since inception and whether it held up against impact expectations (figure 31).

FIGURE 29 / n 112
Management of impact investments compared to conventional investments

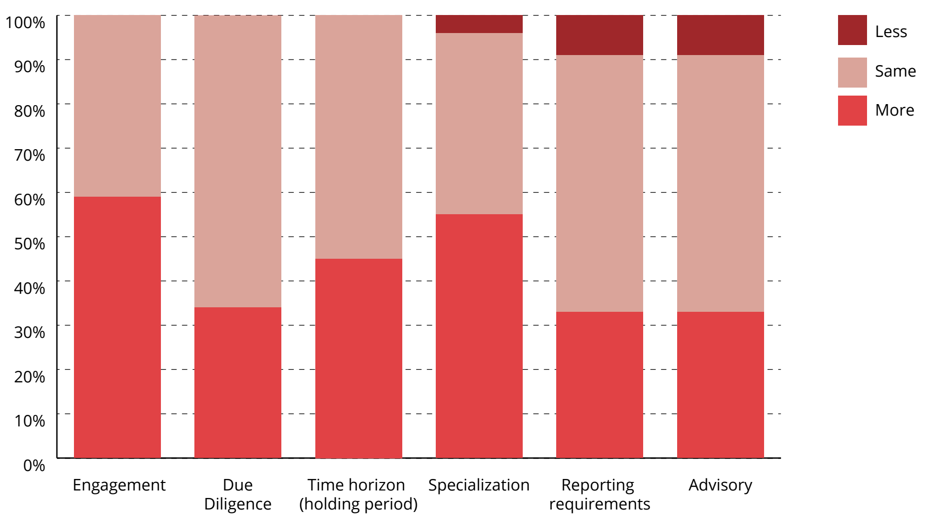


FIGURE 30 / n 123

Impact investing helps us to better align our investments to our values

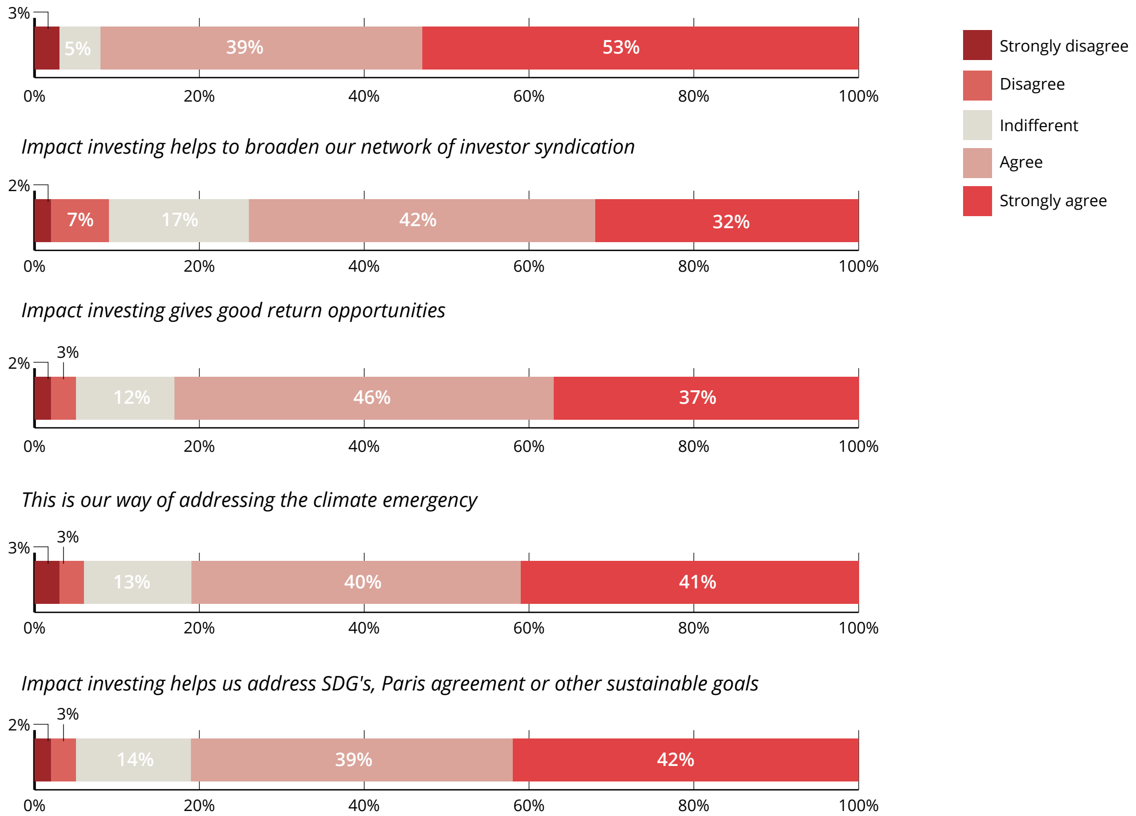
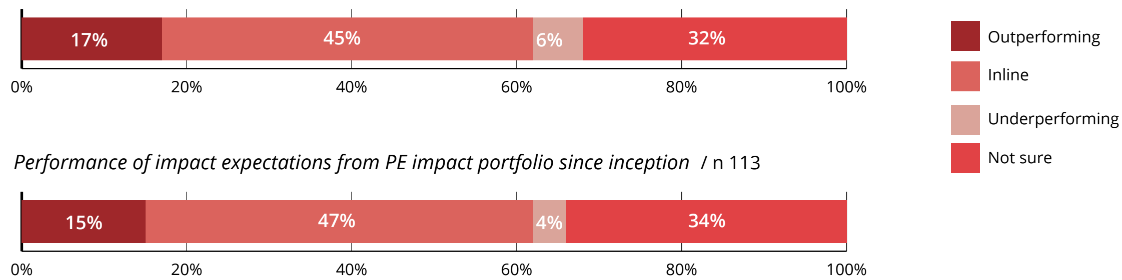


FIGURE 31

Performance of financial expectations from PE impact portfolio since inception / n 114



I am not as such measuring if my impact investments are outperforming expectations. But I am positively surprised to see a huge demand for sustainable suppliers from corporate customers serving consumers. They experience consumer pressure and are looking outside their organization for sustainable innovation. I see that impact start-ups need more support as they are breaking new ground. They shall not only offer a compelling sustainable product but also hit the usual economic triggers that make a customer switch supplier. The price has to be compelling compared to the present solution, it has to easily fit into production etc. I think many impact start-ups really meet sustainability expectations but are struggling with the more traditional value add."

STEEN ULF JENSEN, ANGEL INVESTOR, JENSENGROUP INVESTMENT FUND K/S

THEME: BEING AN IMPACT INVESTOR

As impact investor, there is an opportunity to live out the ambitions that lie deep within oneself. Together with like-minded people, impact investors can use their capital to create a better tomorrow. But you should not get involved for your own sake only to the extent that it helps your investment, says angel investor Mette Fløe Nielsen.

Investors should give as much of themselves as the investment requires

The vast majority of people get involved in impact investing for obvious reasons – to make an impact. Whether it is to mitigate the climate crisis, prevent food waste, or provide better education worldwide, the idea of doing business whilst doing good is deeply compelling.

Whilst it is deeply satisfying to work as an impact investor, it should not be done to please oneself. Ultimately, it's always about what's best for the investment, as is argued by Mette Fløe Nielsen, CEO of M.I.L. Invest, business advisor and angel investor. She comments:

"There is no difference between an impact or a traditional investment when it comes to the level of involvement. You have to be as committed as the business requires, and you always have to remember that you are not there for yourself."

With a background in IT and with various management positions in large companies, Mette has significant experience in the startup ecosystem. At the same time, her husband was an IT entrepreneur, so they were an entrepreneurial family and have always had a great knowledge of the startup environment. When Sitecore, one of their companies was acquired, it released enough capital for them to go into private equity investing.

For Mette it quickly became clear that investing in startup and scaleup companies requires a strong network with whom one can co–invest, As a result the Nordic Makers was formed, a group consisting of peers within the investment world focusing on technology-driven investments. For Mette, however, some investment opportunities attracted particular attention. She continues:

"I viewed pitches on a constant basis, but it was always the same kind of ones that attracted extra attention. These were the startups where the business was more than It was just the product or service. There was also a story. I liked it best when the impact angle was central to the business model."

As a result , she decided to focus exclusively on businesses whose core model was based on impact-driven technology. Her strategy became increasingly defined over five years, allowing her to select startups that where SDG focussed and or the ones closest to her heart. She chose the latter.

"For me, the focus became increasingly about the climate. I have children and I want them to have a planet worth living on in the future. Furthermore, the climate angle was something tangible for me. The changes are obvious because we have not really had a white Christmas since I was a child."

Within the climate agenda, I focus primarily on energy sources – preferably with the "odd man out" angle such as alternative sources of energy for the future.

The other area that interests me the most is social impact. We do not have that much inequality in our part of the world, but in most other places it's a huge problem. It's frustrating that we don't talk about that as much as we do the climate for instance. We must not forget that due to our political and social infrastructure in this region of the world, we are well-placed to come up with ideas and new technologies. We are privileged to know a lot about how to build an equal society."

"There is no difference between an impact or a traditional investment when it comes to the level of involvement. You have to be as committed as the business requires, and you always have to remember that you are not there for yourself.

Though many in our survey state that patience is an important trait as an impact investor, Mette suggests that it depends significantly on the investment.

"If you throw yourself into a research-based investment, it takes longer before you get a return. This doesn't change whether it's an impact or a traditional investment. If the product is fully developed and the market strategy is ready, you can create a return in record time and have an instant impact. Just look under the Covid-19 lockdown. Several companies have had an excellent product-market-fit, and therefore have been able to create a large turnover."

When it comes to long lasting impact, Mette looks forward to many of the investments being made today materializing in the years to come.

She concludes: "We are missing the results. As we did 20 years ago when we started to talk about tech. We're missing some superstars. But they will come soon - no doubt!"

Mette Fløe Nielsen
Managing Director
M.I.L Invest

Guiding principles, frameworks, standards and tools for impact

Investing for impact is not necessarily a new category or asset class. There has been a long history of investing in impactful entrepreneurs and worthy causes to improve our world.

Nonetheless, in September 2015 we obtained a common global language to address the need for sustainable development with the 17 UN Sustainable Development Goals (SDGs). The adoption of the SDGs by 193 countries has begun to send ripple effects through business and civil society as they increasingly function as a common global language.

Whilst formulating intentions to meet the goals is important, managing your investments, measuring the outcome and reporting the evidence are the next needed steps.

There are many principles, frameworks and standards for impact investing, such as the Principles for Responsible Investing (PRI) (https://www.unpri.org) and Social Value International (https://socialvalueint.org).

To inspire Nordic institutions and individuals investing in early-stage solutions for impact, we propose to take a closer look at the following frameworks which are used by thousands of investors around the world.

The Impact Management Project

The Impact Management Project (IMP) provides a forum for building global consensus on how to measure, manage and report impacts on sustainability. It is relevant for enterprises and investors who want to manage environmental, social and governance (ESG) risks, as well as those who also want to contribute positively to the global goals.

They convene a Practitioner Community of over 2,000 organisations to share best practices, delve into technical issues and identify areas where further consensus is required in impact measurement and management.

They also facilitate the IMP Structured Network – a collaboration of 16 standard-setting organisations that, through their specific and complementary expertise, are coordinating efforts to provide complete standards for measurement, management and reporting of impacts on sustainability.

IMP works with three intentions on impact, the ABC's (Avoid to do harm, Benefit stakeholders and Contribute to solutions). Investors' intentions across the ABC of impact map to specific impact goals across five dimensions: What, Who, How much, Contribution and Risk.

For more info:
https://impactmanagementproject.com

IFC – Operating Principles for Impact Management

The question for many investors is on how to increase their impact. Despite increased interest and a growing number of product launches claiming to be impact investments, there has been no common methodology for how investors should manage investments for impact and the governance structures they need to support it. This has created complexity and confusion for investors, including around the differences between impact investing and other forms of responsible investing.

To address this challenge, International Finance Corporation (IFC) – in consultation with a core group of ex-

Classifying an enterprise's impacts into A, B or C

Dimension	Assessment to look for...				
What	Unknown	Important negative outcomes	Important negative outcome(s)	Important positive outcome(s)	Important positive outcome(s)
Who	Unknown	*Various*	Underserved	*Various*	Underserved
How Much Depth	Unknown	*Various*	High degree of positive change	*Various*	High degree of positive change **and/or**
Scale	Unknown	*Various*	*Various*	*Various*	For many **and**
Duration	Unknown	*Various*	*Various*	*Various*	Long-term
Contribution	Unknown	*Various*	Likely the same or better	Likely the same or better	Likely better
Risk	Unknown	*Various*	*Various*	*Various*	*Various*
	↓	↓	↓	↓	↓
Classification of impact	**May cause harm**	**Does cause harm**	**Act to avoid harm**	**Benefit stakeholders**	**Contribute to solutions**

The ABC classification and five dimensions to manage and measure impact (Impact Management Project).

ternal stakeholders – developed and launched the Operating Principles for Impact Management in the spring of 2019. These 9 principles support the development of the impact investing industry by establishing a common discipline around the management of investments for impact.

For more information:
https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/principles

IRIS+

IRIS+, developed by the GIIN (Global Impact Investing Network) is a generally accepted impact accounting system which leading impact investors use to measure, manage and optimize their impact. Proper use of the IRIS+ system ensures a minimum level of consistency in a users' impact claims and performance, which makes it easier for investors to analyse and extract useful information for decision making. Use of IRIS+ also facilitates the comparison of impact information.

The IRIS+ Thematic Taxonomy document describes the generally accepted definitions of Impact Categories and Impact Themes, providing a shared language for describing, assessing, communicating, and ultimately comparing impact performance.

The Fundamentals guidance series of IRIS+, offers an overview of the core concepts and rules underpinning IRIS+-based impact measurement and management, eg. the core concepts behind impact performance measurement toward the SDGs and the five dimensions of impact as outlined by the Impact Management Project.

For more information:
https://iris.thegiin.org/standards/

Software for impact management, measurement and reporting

A selection of software solutions for both enterprises and investors to manage, measure and report on their impact.

IMP+ACT Classification System:
https://www.impactalliance.co.uk
Sopact:
https://www.sopact.com

International investor networks for impact investing

Some of the approx. 50 business angel networks and venture capital associations in the Nordics have started to address impact investing. To learn from some of the leading international networks specifically working with impact investing please consider:

EVPA

The European Venture Philanthropy Association is a lively community of organisations sharing the same vision and a common goal: creating positive societal impact through venture philanthropy.

https://evpa.eu.co

The GIIN

The Global Impact Investing Network is the global champion of impact investing, dedicated to increasing its scale and effectiveness around the world. Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

https://thegiin.org/

Toniic

Toniic is a global community of asset owners (mostly high net worth individuals, family office and foundation asset owners) who are deepening their impact across the spectrum of capital and personal resources.

https://toniic.com/

MANAGE AND MEASURE IMPACT

The language of impact is spreading throughout the world

To translate the high-level aspirations around the world on impact investing to much more detailed concrete practices, supported by data and evidence, we need a common language. Impact Management Project took on that ambition almost four years ago. They are now an acknowledged forum for building global consensus on how to measure and manage impacts.

> **IMP is a little like grammar in a language. It's not a vocabulary, but each sentence should have a subject, a noun and a verb to function. I see each approach to impact should somehow cover these five dimensions.**

Mike McCreless, Head of Investor Collaboration, Impact Management Project (IMP) explains how the five dimensions; what, who, how, contribution and risk, is just a piece of the puzzle. You can use the five dimensions in a very practical way and match and combine with other tools and frameworks around the world. It's for instance very complementary to the IFC Operating Principles which is more like a process guide. It's aligned with the SDG's. You have standards like those of the Sustainability Accounting Standards Board, Global Reporting Initiative, and the IRIS+ metrics of the Global Impact Investing Network, all of which work well with the five dimensions. IMP provides a middle layer between these big ideas of impact people talk about and the very specific metrics, so investors and entrepreneurs can organize and communicate effectively about the impact they achieve.

"We already have thousands of practitioners of the five dimensions around the world. We see a large uptake all across the spectrum. Small funds in emerging markets, private equity investors and venture capital use it to organize their thinking. Asset managers, investing directly in companies tend to like to use the five dimensions in a way that is customized to their context. But asset owners, like pension funds in the Nordics or global capital funds managing huge pools of capital, that level of detail is overwhelming for them. They can't manage five dimensions across all these assets and sectors, so they need to have a higher level to the portfolio as a whole, which are the ABC's." (A: Act to avoid harm, B: Benefit stakeholder, C: Contribute to solutions). The IMP also provides a logical flow for how to interpret a company's performance across the five dimensions to determine whether it is an A, a B, or a C.

We live in a world where most investors don't think about impact. In some cases, it's a good alignment between a strong positive impact and a good financial return. In some cases, not. Mike McCreless sees that you have to improve the communication between the entrepreneur, the asset manager (e.g., a VC fund) and the asset owner (LPs), so they have confidence that the impact intentions are met with the right capital. Mike underlines that it is an ongoing challenge. He sees a good movement but doesn't think we're there yet.

"I saw in your previous report from 2019 that there is this interest in understanding if you have to trade off financial return to achieve impact. Respondents said we believe we are having impact along with financial return. But then in another part of the report you show that there are few in the Nordics actually measuring the impact. This is really common. It's the situation in the whole world. It is obviously not that simple as if every time you increase impact you also improve your profitability, nor is it always the opposite! The world is more complicated, and more interesting, than that," Mike explains.

Mike finally points out that the five dimensions provide a practicable way to develop and test more detailed and nuanced hypotheses about the relationships between impact and financial risk and return, using data to see that impact is not just one big homogenous entity that has one universal relationship with financial return. You have to see in which context a type of impact actually does improve financial performance and get that straight. And also, what type of impact doesn't have any relationship either way to expect profit.

He concludes:

"IMP is a little like grammar in a language. It's not a vocabulary, but each sentence should have a subject, a noun and a verb to function. I see each approach to impact should somehow cover these five dimensions."

Mike McCreless
Head of Investor Collaboration, Impact Management Project

A GREENER FUTURE

Impact investing is Denmark's stepping stone towards a greener future

Denmark needs to be at the forefront of innovation and a green transition. This is why the Danish state's investment fund, Vaekstfonden together with the Danish Green Investment Fund want to increase impact investing significantly. They have set a goal to discover and develop more companies working with CO2 reduction and sustainable solutions.

Through strong partnerships with investors and business angels Vaekstfonden finances novel businesses with innovative ideas and the potential to make a real impact on our society. Each year Vaekstfonden finances more than 800 companies, and Vaekstfonden is committed to make sure that a significant number of these companies help drive green transition. In the years to come Vaekstfonden is looking into financing many more green and sustainable companies to help the transition towards a greener and more sustainable planet.

Alongside Vaekstfonden, The Danish Green Investment Fund's purpose is to finance economically viable projects that facilitate and support the sustainable development of our society. The Danish Green Investment Fund seeks to bridge the gap between traditional bank financing and equity capital. The fund co-finances projects within environmental savings, renewable energy sources and resource efficiency. Together, the two funds work for a greener and more sustainable future.

How will the impact investors from the two funds achieve this mission?

MICHAEL ZÖLLNER

Managing Director, The Danish Green Investment Fund:

"To truly succeed with the green transition, we need to demonstrate that green transition and sustainability are not just mission statements. Nor are they contradictions to obtain growth, scalability or revenue. Sustainability can and should to a much larger extent be incorporated into the core of a business model. We are financing companies who have demonstrated how green solutions can be commercially viable and show great potential. It is essential for us to not only consider the financial numbers and prospects of a potential business case but also the environmental and societal effects. That is the essence of impact investments for us. And it is my hope that we will soon see an increasing awareness and shift towards this type of investments in the future."

MIKKEL HESSELGREN

Senior Vice President, Fund of Funds, Vaekstfonden – The Danish state's investment fund:

"We are starting to see funds all over the world who are dedicated to investing in companies that can accelerate the green transition, including in Denmark and the Nordics. What characterizes these funds is that they integrate green impact and financial returns in their belief and in their investment strategy and they see green and sustainable solutions as one of the most relevant and attractive long-term investment opportunities. We see strong investment teams with the right competencies to help both start-ups and more established companies develop or scale-up green solutions. The green funds are key in building tomorrow's sustainable companies and we look forward to engaging in many more partnerships with funds seeing green transition as both a necessity and an opportunity."

ERIC-ALAN RAPP

Investment Partner, Vaekstfonden – The Danish state's investment fund:

"In Denmark we have extraordinary conditions for developing new green ideas. We have some of the best green research institutions in the world, a broad variety of financing partners, and politicians who are dedicated to reach the Danish goal of 70% reduction of C02 emissions by 2030. One of the most urgent things we need to do better, is strong partnerships. It is of utmost importance that companies, financing institutions, researchers and many others come together in making the 70 % a realistic goal. I am very confident that we as impact investors will be very busy in the years to come."

Learn more at www.vf.dk/en and www.gronfond.dk/en

Eric-Alan Rapp, Investment Partner, Vaekstfonden

Michael Zöllner, Managing Director, The Danish Green Investment Fund

Mikkel Hesselgren, Senior Vice President, Fund of Funds, Vaekstfonden

Nordic early stage opportunities for impact investing

The report, State of Nordic Impact Start-ups 2020 is the third consecutive years, impact startups in the Nordics have been mapped and analysed. The report is part of the +impact universe and in the 2020 edition 1,018 impact startups across the Nordics were analysed.

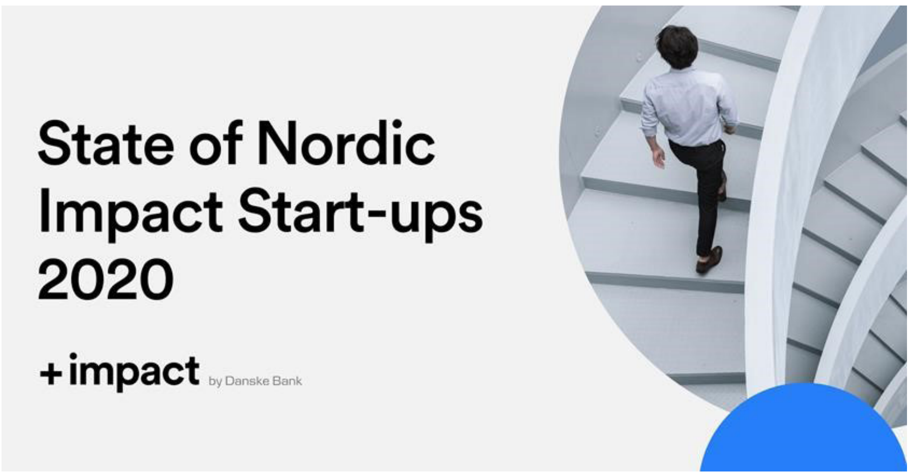
The report by Danske Bank is a response to input received from both startups and investors on issues that prevent the impact startups to progress and the ecosystem to grow.

This edition of the report is structured around 10 myths that Danske Bank believes keep on getting in the way for progress. Either because the myths are putting the impact startups in a negative light or because they are too positive, preventing the ecosystem from working on issues where we need to improve.

The intention of the report is to test these myths with data and in doing so to direct the conversations and actions to the matters where we should put most attention. We have mirrored three of the myths with findings from this year's Impact Report Nordic Investors.

> We hope our report, combined with Impact Report Nordic Investors 2020 will help to move the conversation in the right direction and ultimately accelerate progress in the Nordic impact start-up space.
>
> MIKKEL SKOTT OLSEN, +IMPACT BY DANSKE BANK

Mikkel Skott Olsen,
+impact by Danske Bank



MYTH #2

Nordic impact start-ups are solving the most pressing global challenges.

PARTLY FALSE. The majority of the Nordic impact start-ups are focusing on solving local problems in high-income markets, fewer focus on solutions which will move the needle on the underlying SDG indicators.

The State of Nordic Impact Start-ups 2020 shows that the biggest share of the start-ups are centered around SDG 3 Good Health and Wellbeing (21%), SDG 12 Responsible Consumption and Production (21%) and SDG 7 Access to Clean and Affordable Energy (11%) as well as SDG 11 Sustainable Cities and Communities (10%), which together accounts for 63% of the start-ups.

Findings in Impact Report Nordic Investors 2020:
Surveying Nordic investors on SDGs show that their largest interest is to solve climate change. That is very different from last years' report Impact Report Nordic Investors 2019 in which SDG13 Climate Action was far from that sustainable development goal investors cared about the most. It might not be peculiar that investors answer this although we can see from Nordic deal flow that there are not many impact startups providing climate solutions. We think that it is a biased investor position following the last years focus on climate, with the Greta Thunberg movement and the debate about reducing CO2 emissions in general. Probably a true wish for more tangible solutions on the climate crisis though. Except from that, Nordic investors focus very much on solutions on problems within their local high income markets, such as SDG 3 (Good Health & Well-being), SDG7 (Clean and Affordable Energy) and SDG12 (Responsible Consumption and Production).

MYTH #3

Impact start-ups are a special breed of start-ups

PARTLY FALSE. The impact start-ups differ in type of impact and scalability - some with the same mindset as their conventional counterparts.

In reality impact start-ups differ just as much as 'conventional' start-ups. According to The State of Nordic Impact Start-ups 2020 the best way to accelerate the impact space in the Nordics, investors and the rest of the ecosystem is to understand and appreciate the differences between impact start-ups. Both those that can deliver broad impact (scalability) and those who can deliver deep impact (impactability) and change lives in the process are needed. The first step is to understand what drives and enables them and the nature of their reach, and collectively identify the start-ups and appoint them with the resources they need to optimize their impact.

Findings in Impact Report Nordic Investors 2020:
We can conclude that Nordic investors see impact start-ups as a special breed. Comparing direct investments in impact to traditional companies, there are several characteristics to invest in impact start-ups that investors recognize. It's a longer due diligence process to screen and decide on these kinds of investments. More advisors have to be involved. You need much more specialized competencies and experience which also means your engagement has to be higher. Investing in impact start-ups is a long-term commitment seeking financial return beyond time horizons of conventional investments. According to Nordic investors reporting requirements for impact investments also need more efforts.

MYTH #4

Impact requires a trade-off between purpose and profit.

FALSE. 98% of Nordic impact start-ups integrate impact to improve top and bottom-line.

Impact start-ups can integrate impact in their business models in four different ways:¨

1. Integral (Impact is inherent to the value proposition and product, delivered by meeting customer needs in the market]
2. Premium (Impact is achieved in a way that is more costly, but the start-up uses its impact angle to gain market share or price at a premium)
3. Efficiency (Impact is achieved by investing in processes that reduce costs of operating)
4. Conflict (Impact is achieved by investing in processes that make operations more costly)

Almost 98% of the Nordic impact start-ups integrate impact to enhance their profitability. Only around 2% integrate impact in a way that increases costs. In conclusion, both the global trend of accelerating growth opportunities within impact investing and our assessment of Nordic impact start-ups, show that impact is not on the expense of profit.

Findings in Impact Report Nordic Investors 2020:
Nordic investors see impact investing as of great importance. Not only do they see it as a way to address the climate emergency, to align investing with their values or even to broaden their investment syndication network. Almost 80% of Nordic investors strongly agree it also delivers good return opportunities. When we asked investors on the performance of their impact portfolio, around 60% think it's in line with or outperforming their financial and impact expectations.

Methodology and definitions

EXTENDED FOCUS

We developed the 2020 survey with inspiration from the 2019 survey, but with more of a focus on how impact investors choose their targeted impact themes and causes. We relied on frameworks from IRIS+, The Impact Management Project and the GIIN (Global Impact Investing Network) '2020 Annual Impact Investor Survey'.

Our survey consisted of 50 questions and can be found online (www.oneinitiative.org). The survey was targeted towards investors that invest in early stage solutions, startups and scaleups.

ACTIVITY AND SCOPE

We had 128 survey responses, which is comparable to other impact investing surveys. Although the survey does cover a wide spectrum of investors, it would not be wise to infer the findings onto the whole population of Nordic investors. However, some trends, approaches and beliefs were expressed repeatedly and provide valuable insights into the Nordic investor community.

IMPACT INVESTMENT DEFINITION

This is a much debated and evolving definition, however we decided to adopt the GIIN definition: "Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." (GIIN, 2018)

Other definitions

Geography

Respondents could make multiple selections. We summarized those responses into geographic strategies:

DM: Developed markets strategy
Developed markets and within the Nordics only.

EM: Emerging markets focused strategy
50% or more of investments in emerging markets.

Global strategy
In all regions, with less than 50% in EM.

Within the Nordics
Within the Nordics and in their local country exclusively.

Individual investors

Tend to be smaller and manage their own capital such as business angels and family offices.

Institutional investors

Tend to manage client funds and are venture capital funds, private equity funds, accelerators and governmental funds. Tend to manage more than Euro 100m.

n=

Number of respondents in a single question / figure.

Figure 31

We asked "How do you decide which impact causes to invest in?"

Solvable problem
"The problem is easily solvable or tractable"
Scalable
"This cause has potential for impact at a big scale"
Collaborate
"We work with many other investors, together we achieve more change"
Beneficiaries
"The cause has inherently positive externalities and/or serves neglected beneficiaries"
Scientific data
"We study a lot of scientific data and studies in choosing causes"
SDGs
"We chose the investments that best achieve the UN SDGs"
Experience
"We have information/ experience/ network advantage in solving this cause area"
Returns
"The sector offers good investment opportunities & returns"
Easily measured
"The impact can be easily measured (in these causes)"

Figure 7

All = 100%
Most = 61-99%
Half = 40-60%
Some = 1-39%
None = 0

Thank you - participants, partners and sponsors

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Participants

This is a list of some of the survey respondents. The rest preferred to remain anonymous.

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seed-funding.dk
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Impact Partners
Den Sociale Kapitalfond
Nordic Impact Funds
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Credentum
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Katapult Accelerator
Limitless fund
FIM Impact Investing Ltd
The Velux Foundations
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Nordic Eye Venture Capital
Orang Management
Reach for Change
Chalmers Ventures
Danish Business Angels -DanBAN
Sätila Impact Investment
LUMO Labs
Chr-Hansen Holding A/S
JBO Invest Holding ApS
Jensengroup Investment Fund
Lars Arne Christenen Holding
Joachim Gerlach Holding
TMRRW Capital
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Norrsken VC
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White Albatross Ltd.
PreSeed Ventures
STOAF III SciTech
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Green Urbanics
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Holmsberg Invest ApS
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