IMPACT REPORT:

Nordic Investors

A survey and analysis of impact investing in the Nordics 2021

THE ONE INITIATIVE

To impact or not to impact? That is no longer the question.

We live in the Anthropocene. The term was introduced by atmospheric chemist and Nobel laureate Paul J. Crutzen in 2000, and can foster a recognition of the crucial, world-historical responsibility for the future of the planet that modern industrial man has incurred. We live in an age in which man has become a geological force on an equal footing with volcanoes, meteor showers and the displacement of tectonic plates.

The consequences of climate change are coming closer. They are now at our own Nordic doorstep: wildfires, drought, flooding due to heavy rainfall, changes in the fauna. We emit too much greenhouse gasses. And it rises. Short-term we need to reduce that. However, our challenges as global citizens, and as investors, cannot be solved only by reducing CO2 until 2030, 2050 or whatever horizon we have in mind.

It's much more complex than that. Social equality and natures ecosystems must be embedded in the solutions we invest in.

In this years' report Alejandro Litovsky, Founder and CEO at the London based company Earth Security explain why venture capital's smart bet is to partner with nature. The convergence of climate change, biodiversity collapse and environmental pollution, is redefining the investment context for venture capital. As a result, industrial organizations and markets are in a process of profound transformation. Investors need to factor new risks due to climate instability, including regulatory risks due to carbon pricing. It's an opportunity for VC investors to invest in emerging business models combined with the responsibility to invest in nature as an asset class; by investing in protection, restoration, and regeneration economies.

According to The State of Nordic Impact Startups 2021 by Dealroom and Danske Bank 34% of Nordic venture capital last year was invested in impact. We have passed the tipping point for impact investing to become mainstream. In 2021 many new venture capital funds were announced in the Nordics. To mention a few: Norrsken VC, Pale Blue Dot, Thrill Impact, Climentum Capital, STAR Impact, Planetary Impact Ventures and VÅR Ventures. We have talked to Sofia Ström, chairman at STAR Impact in Sweden and Thomas Høgenhaven, managing partner at Danish Planetary Impact Ventures to understand how they are different from the venture capital funds we know.

In Europe some of the largest closings of impact venture capital funds were up to several hundred million Euros, e.g. World Fund in Germany, Astanor Ventures in Belgium, 2150 in the UK and Rubio Impact Ventures in the Netherlands. We feature in this report an interview with Johannes Weber, co-founder and managing partner at Ananda Impact Ventures.

The size of the funds is not the most interesting though. What we must all learn how they define and have objectives for impact, and how they manage, measure and report impact performance from their portfolio.

One of the Nordic venture capital funds that has a clear strategy, and in addition to that a mission to inspire the market, is Norrsken VC in Stockholm, Sweden. They shared their first impact report openly this spring. Norrsken VC has almost 30 impact startups in their portfolio in areas, such as climate, edtech, healthtech and agritech, but like to see even more companies that are tackling topics of social equality and financial inclusion. Impact and sustainability is taken

> **Social equality and natures ecosystems must be embedded in the solutions we invest in.**

into account through the entire investment process: from deal screening and due diligence to management and exit. Companies commit to adopt sustainability standards and report on impact KPIs and risks in the shareholders agreement. The carried interest (financial returns) won't be accessible to Norrsken VC if they are not reaching the impact KPIs they have set up with the portfolio companies and approved by the Limited Partners. And the fund managers are entitled to a carried interest subject to achieving at least 60% of the impact targets. We have talked with one of their LPs, Swedish SEB Pension & Försäkring.

Investors in this year analysis invest where they have best access to deal flow, in their local national market or in the Nordics and Baltics. It requires that we increase the pipeline of startups with a positive impact that is operational and aligned with the business model. Our region needs to invest in coaching of founders in early-stage teams, with know-how, best practice, and tools to achieve impact. In 2021 we have seen many new accelerators and many incubation programs with impact at the core. Leading accelerators in the region have acknowledged this too. Read our article on how the Baltic longtime accelerator Startup Wise Guys have developed an impact business modeling methodology.

Our world is changing. Rising seas, spiking temperatures, and extreme weather imperil global infrastructure, crops, and water supplies. Conflict, famine, plagues, and riots menace from every quarter. Our greatest enemy, it turns out, is ourselves. The warmer, wetter, more chaotic world we now live in, the Anthropocene, demands a radical new vision of human life. I believe investors can, and must, play a significant role in this. And I am thankful to Nordic and Baltic investors that have shared their intentions, approaches, and activities in this report.

Richard Georg Engström
Founder and Executive Director
The One Initiative

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Summary

Integrating methods to track outcomes and economic growth is high on the agenda. We focused the third edition of the Impact Report Nordic Investors on the question what drives investors to invest in social and environmental change. We see high engagement with the practice of setting goals and define impact metrics. On the other hand, it also becomes clear that many are working on their own, as collaboration and making use of international best-practice is fairly low.

Consistent with previous years' surveys, most investors invest in social as well as environmental outcomes, but there is much less focus on social outcomes compared to environmental, among the respondents. There is a great spread in the ranking of which the 17 UN Sustainable Development Goal (SDGs) that investors focus on. Responsible consumption and production have more importance compared to previous years.

Impact investments perform well in financial as well as outcome-based terms, compared to expectations. No respondent answered that their investments have underperformed financially, although a few had expected to see more blended returns.

This year, 73% of respondents say that they have defined methods and are using impact metrics, or about to implement this. Only two say that they do not intend to measure impact, although one of them still puts outcomes more important than financial returns. Among those that have defined their impact metrics, we see that slightly less than half make use of international standards or best-practice when it comes to setting goals for a portfolio.

It is more common to develop a proprietary approach or leave it to the investees to define their goals and choose their methods for tracking and reporting. It comes as no surprise then that relatively few respondents are familiar with the international organizations and bodies that have developed tools for this. Perhaps a bit more surprising is that some investors say less time is spent on reporting requirements and advisory for impact ventures compared to other investments.

86 individual investors (ie. business angels and family offices) and institutional investors (ie. VC, PE funds, accelerators and governmental investments funds) from the Nordic and Baltic region have participated in this years' survey.

CHOOSING INVESTMENT THESIS

90% of investors look for solutions with impact at a large scale.

88% agree that the team is the most important factor when deciding what to invest in.

77% say the invest in areas where they have knowledge, networks or other advantage in solving the cause.

80% focus on sectors that have a good deal flow and offers good returns.

62% say that they are providing patient capital to businesses.

WHAT TO INVEST IN TO ACHIEVE OUTCOMES

The environment is high on investors agenda. Nordic and Baltic investors prioritize energy (18%), climate (13%) and agriculture (11%) in the IRIS+ themes.

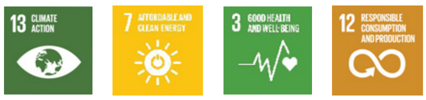
36% choose climate (SDG13), responsible consumption and production (SDG12) or clean energy (SDG7) as their SDG focus.

10% focus on health and wellbeing for all (SDG3).

36% of respondents have all their investments classified as impact investments.

62% plan to increase their allocation to impact.

THE SDGS MOST IMPORTANT FOR ACHIEVING IMPACT



Key conclusions 2021 are:

- Except for the team, impact at scale, high financial returns, and the opportunity to contribute on domain specific topics are prime causes to invest for impact. This may be explained by the fact that more respondents in this year's survey work individually (business angels and family offices) or in smaller private equity firms (VC and accelerators) and fewer by large institutional investors.

- In line with last year, half of respondents believe that scale and impact goals are best achieved through technology-based solutions. Only 11% thinks that technology is less important.

- Although investors put scale and technology at the forefront, they are less keen to explore such opportunities globally. Less than a third consider deals from any part of the world and only half of respondents are open to deals in other European countries or the US. Nordics and Baltics feel familiar in terms of what type of impact investors seek. When it comes to market where investors have most additionality, emerging and frontier markets do stand out as this is one of the most important reasons for the that geographical scope.

- Less than a third have formal, written impact investing policy statements. But almost all have objectives for impact across all or most investments in their portfolio companies. Most of respondents say that they have defined methods and are using impact metrics, or about to implement this.

- Most prefer to invest directly or via a syndicate, but 15% prefers to invest via funds.

For comparison, see seven main findings in last years' 2020 report in the fact box to the right.

IMPACT REPORT NORDIC INVESTORS 2020

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

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

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

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.

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

76% of investors invest primarily within Nordics.

MONITORING & MEASURING

28% have formal, written impact investing policy statements.

64% of respondents measure and describe social or environmental impact in their portfolio. A few additional respondents track such data for all their investments, but do not describe them at portfolio level.

72% find that their impact investments perform financially in line or above their expectations as well as on their impact targets.

COLLABORATION WITH OTHERS

38% have used methods based on international standards or best-practice. The EU Taxonomy is more known to respondents than the impact-focused tools published by the GIIN and the IRIS metrics.

25% collaborate with others and 58% have some, informal collaboration.

Respondents collaborate mostly with subject experts, other investors and entrepreneurs. Very few collaborate with NGOs or public actors.

GEOGRAPHICAL FOCUS

Within all developed markets (US, Europe, Nordics) **79%** stated that deal flow or expertise are the key reasons to invest.

35% answered that the main reason for investing in emerging markets is the possibility to have a positive impact.

29% also see emerging markets as access to growth opportunities.

About the survey respondents

This survey targeted Nordic private equity investors with early stage solutions – primarily business angels, venture capital funds, governmental investment funds, accelerators and family offices. 86 investors participated.

The survey has been open to Nordic and Baltic investors. The respondents are mostly Danish, Swedish and Norwegian investors, who invest over a wide spectrum of capital – from less than Euro 250,000 to over Euro 100 Million.

The character of the participants is split between 26% individual investors (ie. business angels and family offices) and 74% institutional investors (ie. VC, PE funds, accelerators and governmental investments funds).

Almost half of the participants are organized with other investors (figure 3); 29% in business angel networks and 28% in other associations. More than 10% are members of several networks.

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

Again, this year we have sought to understand the behavior, motivation for and the outcome of investing in impact – asking questions such as 'how important is impact to you?', 'do you have impact objectives?' and 'do you have a method to assess the long-term performance of the organizations you support?´. 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 categorization of approaches, we found that 45% of respondents, agreed or strongly agreed with the statement "Impact objectives takes priority over financial returns". With this in mind, we should ask ourselves in the future whether a categorization 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 firmly on the agenda in 2021, that we can move beyond this and towards more sophisticated assessments of intentionality.

FIGURE 1 / n 86
Head office

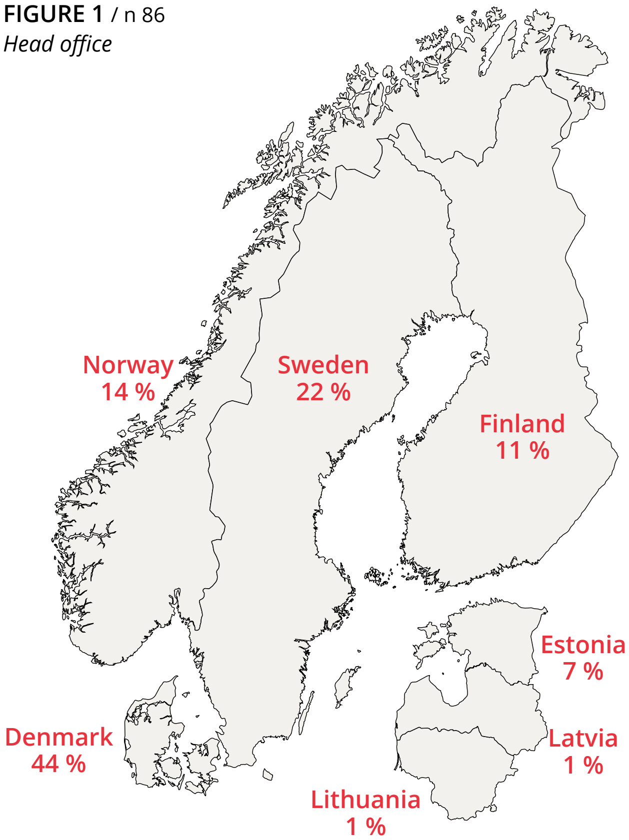


FIGURE 2 / n 86
Type of investor

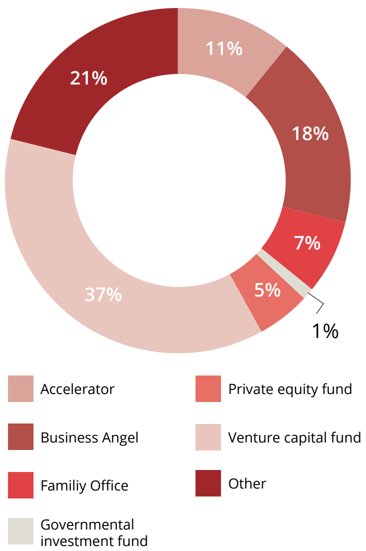


FIGURE 3 / n 86
Part of network

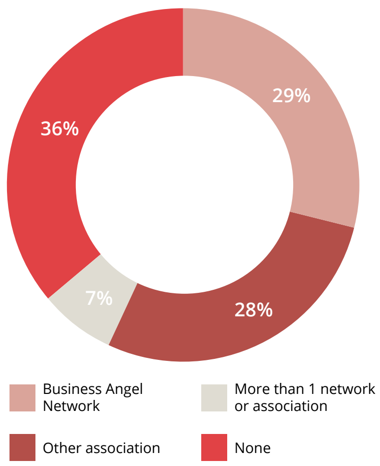
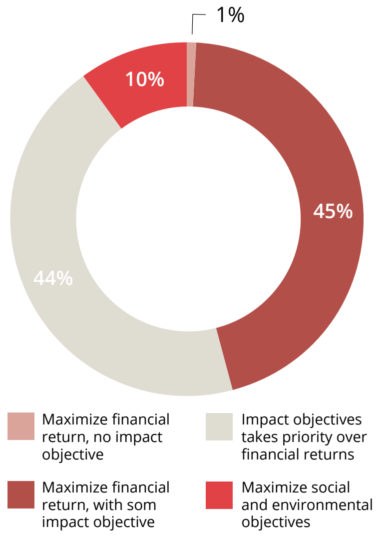


FIGURE 4 / n 86
Characterize your investment approach to impact



More impact VCs are appearing at the Nordic investment market

For quite some years social entrepreneurs and impact startups have mostly been supported by individual private investors. Family offices, high net worth individuals and business angels have taken the early risk, investing in sustainable solutions and business models. In this years' study we see an increasing number of venture capital funds in the Nordic region with 100% focus on impact.

Over 70% of this years' respondents have more than half of their capital private equity investments (figure 5). This illustrates that this is often the asset class where impact investments can be found.

In this years' survey we seen an increasing number of institutional investors participating (private equity funds, venture funds, accelerators and governmental investment funds). We see it as a sign that investment capital for impact is getting more organized for long-term investments.

We see a significant increase of new venture funds allocating all its focus and capital on sustainable solutions to achieve environmental and social impact along the financial return. The majority of the institutional investors in the survey have their portfolio placed in impact investments (figure 6). When it comes to individual investors (business angels and family office), the portion is less than 20%. 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.

Half of the respondents prefer to invest directly for impact. Only 27% invest through a syndicate which is most common among individual investors. Over all the respondents plan to allocate more of the private equity capital in impact. Almost 70% of the investors plan to increase it in the coming years (figure 7).

The respondents seek impact through investments in early-stage solutions. Figure 8 details the company maturity stage that the respondents mostly focus on. 60% of the respondents prioritize the seed/startup stage, 25% venture stage (series A) and 4% growth (series B+).

FIGURE 5 / n 51
Total portfolio in PE investments

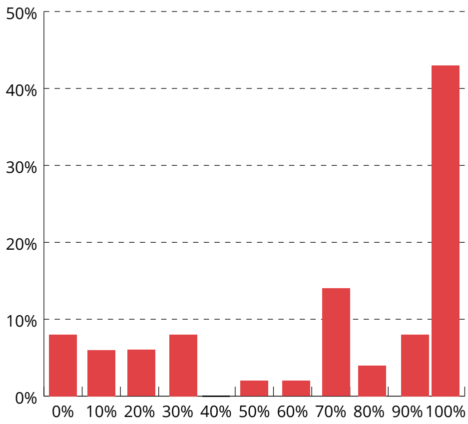


FIGURE 6 / n 48
PE portfolio % of which is impact

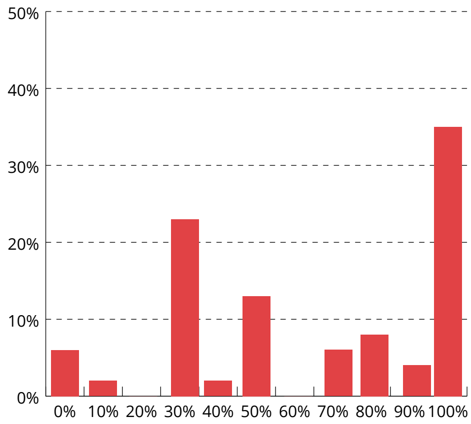


FIGURE 7 / n 47
Plan to increase allocation in impact PE

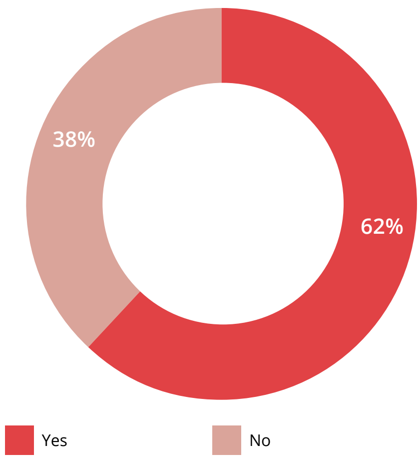
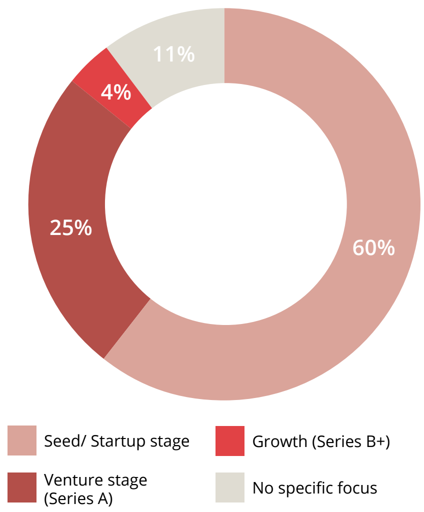


FIGURE 8 / n 48
Stage of company to invest in



A pioneer among impact funds grows and expands its scope

Ananda Fund is one of Europe's first impact funds that is now closing its fourth fund, which will be double the size of its previous fund, by finalizing a €100M capital raise. Several of the ventures that Ananda first invested in have become showcases for how socially driven businesses can grow both profit and impact.

"I think the world has changed a bit in the last 12 years and the focus on social is not as prominent. We have expanded to also include climate and other sustainability themes. We have done a lot of research in those spaces on certain topics and then we found some really nice deals and I think we'll end up at between 30% to 50% sustainability deals in the new fund." Johannes Weber, co-founder and managing partner at Ananda Impact Ventures says.

Today there is a plenitude of funds calling themselves impact funds. Johannes Weber gives his thoughts on whether there is more competition in terms of deals or if there is a competitive advantage by having more insights and practice on how to implement and integrate impact into your processes.

"In a way, all of us, (who set up the first impact funds in Europe), tried to get that competitive advantage, by saying that we will go for that funding gap, and fund companies that otherwise wouldn't get funding. That was the reason for impact investors doing that. I always felt a bit awkward around that proposition, because if you turn it around this means the deals are just not good enough for other investors to look at them. Now the competition doesn't really come so much from other impact funds. It comes from mainstream VCs that look at similar deals through a different lens but come to the same conclusion, that it's an investable opportunity. Then the question is, of course, why does the company need us?"

The experience shows that there are a few points where Ananda add value, because they have some sector knowledge in care, and certain sustainability areas on education or health. And many startups want to have somebody on board who really understands the particular market. The other value is that founders are trying to build a more balanced shareholder ship and having an impact fund as investor helps them to stay on their mission. Johannes Weber explains how Ananda do that in practice.

"We have an impact term sheet, which is actually part of our standard term sheet. I think that it is important that it's part of the standard terms, which all other investors see, and they need to agree to it. We have had really good discussions around this and have seen even quite traditional funds take some of these things into their term sheets. Therefore, I think there's a strong proposition for generalist impact funds like us."

Ananda is also keeping the carried interest scheme linked to the delivery of impact in the portfolio, which they developed in 2014 as they received funding from the EIF (European Investment Fund). Today there are about 40 funds in Europe that link carry to outcome-based performance, not just financial returns.

"It has been constantly improved since 2014 and also our impact reporting is going to be a bit more sophisticated now because there are so much more requirements coming from the ESG space and so for the Euro 50 million we add to the new fund, we need to increase the team and step up in terms of analysis, governance and reporting."

Finally, we ask Johannes Weber how he feels about having this classic structure of 10 plus two years, and if he can achieve impact in that period?

"We are now exiting fund one and fund two, and there are a couple of companies that I personally would prefer to keep a bit longer as I still see value creation underway and because I understand these companies really well. In an ideal world, I would probably want to have an evergreen structure or something like that, but if you want to reach a certain size, at least from my fundraising experience, it would be really hard to raise 100 or 200 million on an evergreen structure. We can create a lot of impact within our fund life though. We can make sure that the impact is so inherently baked into the business model so the entrepreneurs make sure this is central to the whole creation of the company" Johannes Weber concludes.

Johannes Weber
Co-founder and managing partner, Ananda Impact Ventures

THEME: REASON FOR IMPACT

Investors bet on a team that can deliver impact at scale

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

FIGURE 10 / n 73
Importance for tech based solutions

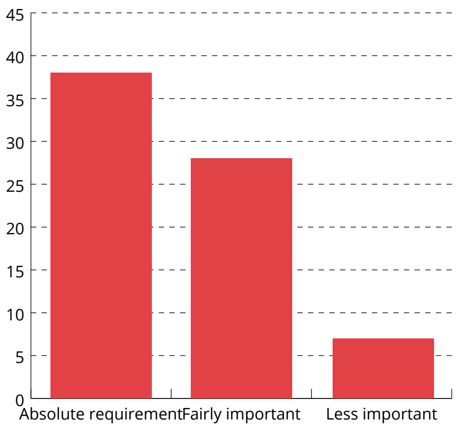


FIGURE 11 / n 72
What kind of asset classes do you invest in for impact?

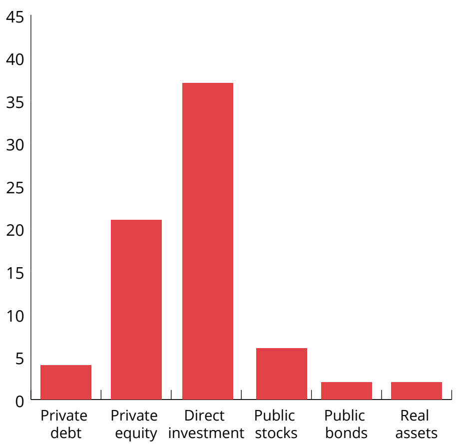
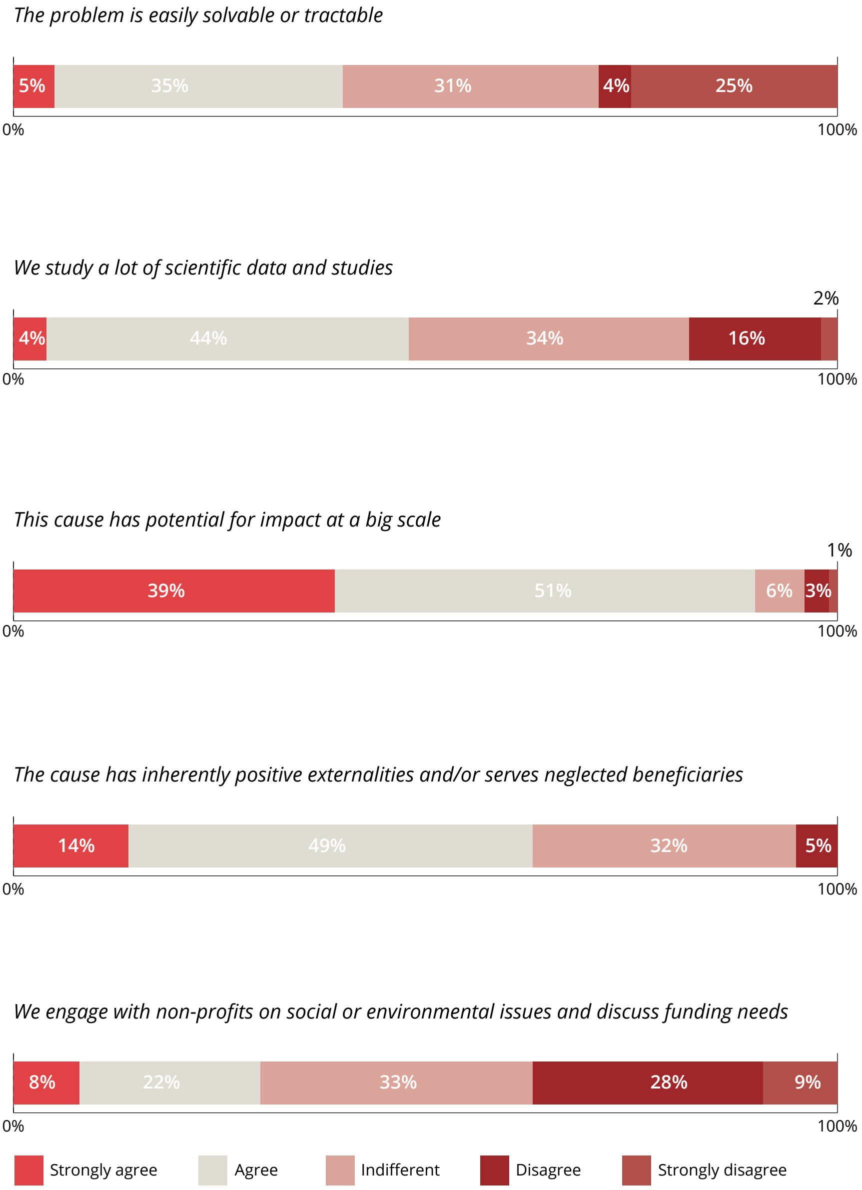


FIGURE 12 / n 71
How do you decide which impact causes to invest in?



”In the early business journey, you invest in a team you believe can make the difference.

If you listen to respondents in this years' report the team is the most important criteria for deciding which solution to invest in. It follows very well the main trend among investors, that success in startups is very much dependent on a team that can execute. All early-stage solutions and business models will pivot several times until they get a market fit and fulfills the purpose, so in the early business journey you invest more or less in the team.

Except for the team, impact at scale, high financial returns and the opportunity to contribute on domain specific topics are prime causes to invest for impact (figure 12).

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. Respondents collaborate mostly with subject experts, other investors, and entrepreneurs. Only 30% engage with non-profits on social or environmental issues and discuss funding needs.

In line with last year, most of the respondents believe that impact at scale is best achieved through technology-based solutions (figure 10). Only 11% thinks that technology is less important.

Figure 11 shows which asset classes the respondents channel their impact investments to. Many focus on private equity, and direct investments – while very few have private debt, public stocks or public bonds.

Venture capital's smart bet is to partner with nature

Until now we have taken nature's goods and services for granted, but climate change and resource scarcity are creating a challenge for humanity, including for investors. As we see drastic changes to the reliability of rain, insect populations that carry out pollination, the quality and health of soils, and the stability of temperatures that make cities livable, our understanding of nature as an asset is growing clearer.

Alejandro Litovsky, founder and CEO of the UK based company Earth Security sees a huge opportunity for investors to invest in natural as an asset class; by investing in protection, restoration, and regeneration economies.

The last year the word 'impact' got exponential attention in investment circles. In the startup and venture capital ecosystem it is now everywhere. CO2 reduction, circular economy, healthy living, and a world prosperous for all, are part of all startup communications. Investors gravitate towards a deal-flow of sustainable solutions that can have a positive impact. According to The State of Nordic Impact Startups 2021 by Dealroom and Danske Bank 34% of Nordic venture capital in 2020 was invested in impact startups.

For Alejandro Litovsky, founder and CEO of Earth Security, climate change requires investors to be more specific in how they measure their impact in terms of climate resilience and carbon intensity. Nature, he argues, offers the most effective solutions to address both. For the last 10 years he and his team have partnered with global investors, companies and governments to identify and develop innovative solutions that can leverage nature's capital for climate resilience and inclusive prosperity.

He believes we are at a critical point, where a triple planetary crisis – the convergence of climate change, biodiversity collapse and environmental pollution, is redefining the investment context for venture capital.

"Climate change is already here and as a result industrial organizations and markets are in a process of profound transformation. As an investor, this means factoring new risks due to climate instability, including regulatory risks due to carbon pricing, but it also means perceiving the new opportunities to invest in emerging business models and companies that will provide the solutions to these challenges." As to the global extent of this challenge, Litovsky draws a parallel to the Covid-19 pandemic. It wasn't just one country or region that was affected. We saw the domino effect on a planetary scale. With climate change, two factors that are redefining investment opportunities are, firstly, carbon as a valuable commodity and, second, resilience in how companies and globally integrated production value chains adapt to a world of more extreme weather events.

Litovsky points out that carbon constraints in the market, currently driven by the voluntary commitments of companies and countries to achieve 'net-zero' emissions, but increasingly by shadow carbon pricing by corporates and eventually a regulated price for carbon, are turning carbon into a valuable commodity. The demand-side pressures to reduce carbon are already driving an increase in the demand for the trading of carbon offsets. Investing with a carbon lens is therefore key to investment portfolios.

"But carbon is not a commodity like copper or soy. You don't grow carbon, harvest it and sell it. You reduce it or you embed it, including sequestering it in organic material." Nature is by far the cheapest and most cost-effective way of embedding carbon, from land-based forests to ocean ecosystems, and hence it is becoming a valuable asset alongside the push for carbon reductions. Trading 'embedded carbon' will therefore require more and more sophisticated and science- and technology-based systems to reliably measure, audit, facilitate and transact it in ways that differ from normal commodities. "From a venture capital perspective" he argues, "this means taking positions in a range of companies, technologies and platforms that will provide solutions to an economy that is based on trading embedded carbon."

Litovsky already sees a growing interest from investors and companies in speculative carbon and land-related investments, but with a finite amount of land on Earth this means that making such investments must also be done in a socially responsible way and not leave local communities behind. Local people not only need to be involved in the process but must also perceive some of the economic benefits from these markets and become stewards of the nature that holds the carbon in place. Timber plantations in much of the developing world are already seeing the risks of pursuing a 'carbon rush' without taking the benefits to locals seriously – forest fires are notoriously simple to spark. This requires investment models that move beyond 'old' extractive mindsets and are based on systemic thinking.

The other side of the coin of climate change is resilience. The importance of adapting to intensifying storms, floods, rising sea levels and droughts has convinced even climate change skeptics. This is where 'regenerative business models' come into play. For hundreds of years, our industrial models in particular in land-use sectors such as agriculture have been based on cutting down trees and biodiverse ecosystems in order to make room to intensify single-crop production. The green revolution gave us synthetic fertilizers and a multi-billion-dollar industry of inputs including chemical pesticides that have boosted food production and has largely supported exponential population growth.

"You don't grow carbon, harvest it and sell it. You reduce it or you embed it.

"We have taken for granted that the rain was there, that the water would be flooding from the mountains, and that soil fertility was a given. As we've depleted, transformed, and are disrupting most ecosystems on Earth, we now learn that these services were a result of biodiverse natural ecosystems. We must somehow bring these natural systems back and make them part of the way we produce food and other resources."

Regenerative agriculture models already exist and have proven how powerful and cost-effective it is to work in balance with nature to grow crops, with measures as simple as growing trees within farmland and allowing nature to come back. The challenge now is bringing these models to the mainstream. This is where, in Alejandro's view, we need a partnership of venture capitalists and entrepreneurs. "A good example that is ripe for disruption is coffee" he says. "Rising temperatures due to climate change in coffee-producing regions of the world will render up to 70% of today's production lands unsuitable for coffee cultivation in the next few decades." A regenerative business model known as 'shade-grown coffee' –essentially cultivating coffee crops below the canopy of rainforests, create a system of lower temperature, more humidity and water, and a natural pest control system provided by a more complex ecosystem. These models often provide an opportunity for local communities to be actively involved in cultivation and stewardship. "Investing in regenerative coffee is not only an exciting venture, which requires business acumen in how to scale the value chains for these products" argues Litovsky, "it is also a smart hedge against climate risk if this means you'll be the last plantation standing."

The same mindset and models can be applied to all other valuable agriculture commodities, he says, and should inform a rethink of how other venture portfolios, from agritech to city infrastructure, also work in partnership with nature to achieve goals of long-term prosperity.

Alejandro Litovsky
Founder and CEO of Earth Security

Impact is a very important part of the investment activities

Although only a third of the respondents in this years' survey have a formal impact investing policy, impact is a very important part of their activities. The interesting findings appear when you have look at how they act on the intention to do good while doing well.

All (98%) of the respondents in this years' survey think that achieving a positive impact is a very important part of their investment strategy (figure 13). We somehow think it is obvious in a survey on the matter. What is more interesting to understand how their approach is carried out.

This year, 73% of respondents say that they have defined methods and are using impact metrics, or about to implement this (figure 14). Only two say that they do not intend to measure impact, although one of them still puts outcomes more important than financial returns.

Among those that have defined their impact metrics, we see that slightly less than half (38%) make use of international standards or best-practice when it comes to setting goals for a portfolio (figure 15). The new EU Taxonomy is more known to respondents than the impact-focused tools published by the GIIN the IRIS+ metrics.

It is more common to develop a proprietary approach or leave it to the investees to define their goals and choose their methods for tracking and reporting. It comes as no surprise then that relatively few respondents are familiar with the international organizations and bodies that have developed tools for this (figure 16).

25% answer that they have formal collaboration with others and 58% have some, informal collaboration (figure 17). In figure 18 we see that respondents collaborate mostly with subject experts, other investors and entrepreneurs. Very few collaborate with NGOs or public actors that might have long-term experience and deep insights into certain impact domains.

The always hot topic is whether investors measure and describe social or environmental impacts from their portfolio. Two thirds of the respondents strongly agree or agree to that (figure 19). A few additional respondents track such data for all their investments but do not describe them at portfolio level.

FIGURE 13 / n 71
Achieving impact, is a very important part of my/our investment strategy

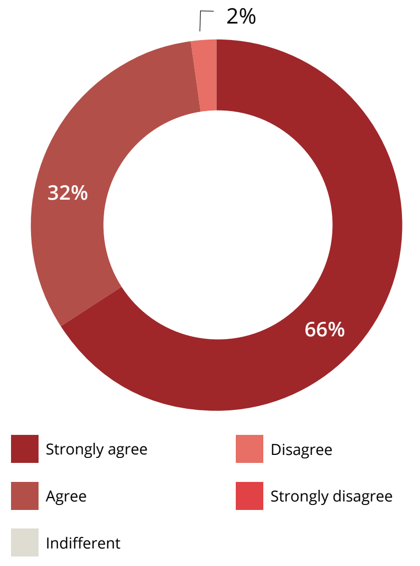
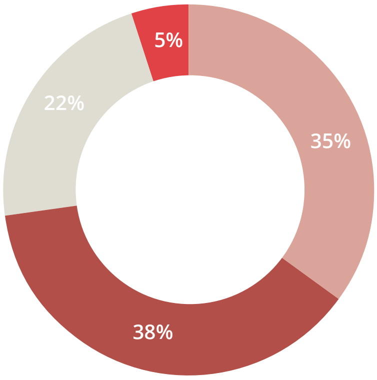


FIGURE 14 / n 79

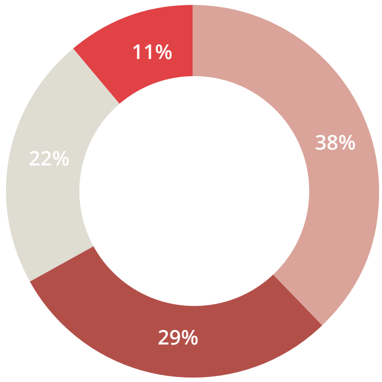
Have you decided how you will assess the long-term impact performance of the organisation that you support



Yes, I/we have defined methods and metrics
No, we have not started this
I/we have started, but not implemented yet
No, we do not intend to do this

FIGURE 15 / n 55

If you answered 'yes' to Figure 14, how did you select method and metrics?



Portfolio goals based on international standards or best-practice
Investees set goals and choose methods for follow-up
Portfolio goals define our own method
Other

FIGURE 16 / n 78

Are you familiar with any of the following tools and resources?

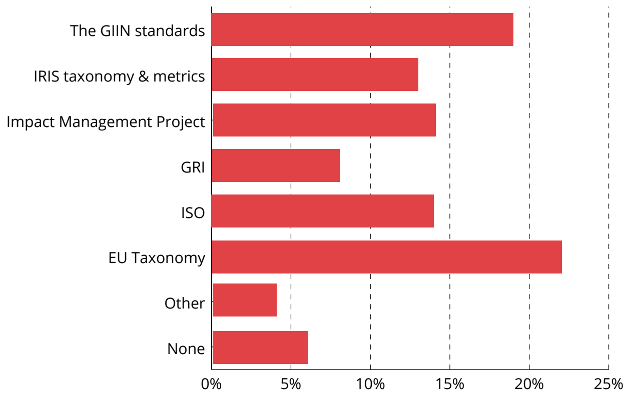
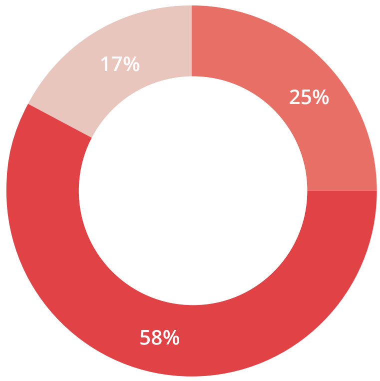


FIGURE 17 / n 77

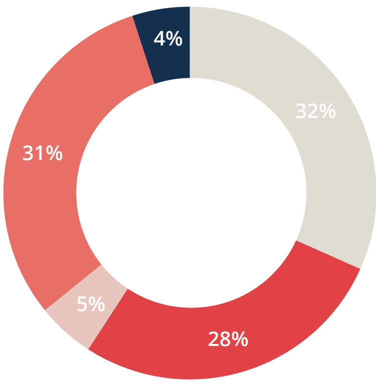
Do you collaborate with others on the topic of impact investment practices and/or evaluations?



Yes, I/we have formal collaboration with others
Yes, I/we have some, informal collaboration with others
No, I/we have not collaborated with others

FIGURE 18 / n 65

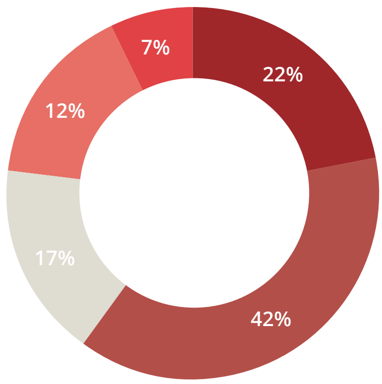
If you answered 'yes' to the Figure 17, who do you find most important to collaborate with?



Investors
Researchers & Subject experts
Non-profits
Companies/ Entrepreneurs
Public stakeholders

FIGURE 19 / n 72

We measure and describe social or environmental impacts of our portfolio



Strongly agree
Indifferent
Strongly disagree
Agree
Disagree

An impact strategy with several dimensions can address global problems better

Investors get an increasing number of green business propositions that are very good. Most focus on reducing CO2 emissions to mitigate climate change. We see in our analysis that less than a third have a strategy or policy for what they invest in and why. Sätila Impact Investment in Sweden is different. Whatever they invest in, the social dimension must be integrated. They think it is still too easy for investors to miss out on global problems in the due diligence if the strategy is one-dimensional.

"Since 2008 we have been investing in social entrepreneurship. To start with, in a Mexican biogas company with an everyday passion towards farmers wellbeing and the protection of Earth´s ecosystems. Investing in courageous people has been at our core. The ones that dare to improve things few have tried before. People, communities, and solutions that are underserved and that we need to include in the solutions of tomorrow. We are still an active owner in this company, Sistema Bio, because we can see how the business has had a huge positive impact, both in environmental and social dimensions." CEO Jessica Nauckhoff emphasizes when she introduces the Swedish impact investment company she is heading.

Today, Sätila Impact Investment focus on food and agriculture, animal welfare, energy, water and sanitation. With that said, it cannot be anything within these areas of interest. They spend most of their time trying to understand the systemic problems in these sectors and the root causes to work on. If they invest in agriculture, they look at the entire supply chain. How can local societies be self-sufficient to avoid unnecessary transportations, and at the same time use the resources to mitigate climate change and restore land and soil? In energy it could be a matter of more resilient solutions in smaller geographical clusters and local communities. Sätila Impact Investment tries to invest in solutions and entrepreneurs that have a mission for a more long-term and systemic approach.

"We genuinely believe in a future world in which we all pay back to people and the environment, based on regenerative values. So, when we look at solutions coming our way, we put a lot of efforts in the due diligence to understand if and how they will contribute to global sustainability for people and the planet. In food, it's about peoples' health, social development, and climate perspectives. We live in a world in which the people, the countries, and regions of the world, that feed us all are the poorest and most vulnerable. So, it's not enough to only look at the environmental problems of food production."

Sätila Impact Investment doesn´t neglect the need to measure the impact achieved. They are aware though that their portfolio companies are working on problems few others have addressed. Therefore, they don't enforce them to set up a very complex measurement system, which for early-stage companies is an administrative burden. They ask the portfolio companies to pick the indicators that are possible today and measure on them. Then over time they can plan for more data points to show evidence of impact and progress both on social, environmental and climate improvements.

"For us it is as important to build awareness about the problems we face and, at the same time work on the potential solutions. To succeed with new business models, we need to be transparent. We must dare to fail, to learn and go forward while share our learnings with others. The solutions we invest in today might be a good business and have a positive impact on the immediate problem, but our world is rapidly changing. We cannot be sure if all our portfolio companies are resilient to that in the long-term. We like to

strengthen the business and competence ecosystem surrounding our portfolio companies, and even beyond them to include more diverse types of entrepreneurs in this."

Jessica Nauckhoff points out the tremendous interest among investors today to invest for impact and how that is also a growing challenge.

"In just a few years the number of investors with interest in impact has exploded and there are so many new impact startups. It makes it much easier to have people understand why we at Sätila Impact Investment have put our capital in this for almost 15 years. However, it also makes it more difficult, and there are no universal standards for what impact that really matters and how to measure it. Most investors talk about climate change and how technology can solve it. So, potentially anyone can call their activities for impact investments without a reliable explanation on how that will make a better world. It might be easier to show improvement of the climate because we can measure CO2 reduction. Measuring social progress is very difficult though. There are so many factors to weigh and value and these dimensions are both very dependent on each other. We won't solve climate change without social development, and vice versa. That's the mindset we like to invest with, because you as an investor then can get a lot more out of your capital for a long-term positive change."

We won't solve climate change without social development, and vice versa.

Sätila Impact Investment
CEO Jessica Nauckhoff

THEME: WHAT TO INVEST IN FOR IMPACT

The environment is high on investors agenda

Consistent with previous years' surveys, investors invest in social as well as environmental outcomes, but there is much less focus on social outcomes compared to environmental, among the respondents. Energy, climate and agriculture is high on investors agenda.

The consequences of climate change are coming closer. What we have seen in developing countries for many decades is suddenly at our own Nordic doorstep: wildfires, drought, flooding due to heavy rainfall, changes in the fauna. This has trickled down to the focus areas through which impact investors are looking to contribute - and invest their capital.

There is a great spread in the ranking of which the 17 UN Sustainable Development Goal that investors focus on. The environment is on top though.

When asking investors about which of the SDGs is the most important (Figure 22), the most common responses were SDG 13: Climate Action, SDG 12: Responsible Consumption and Production, SDG 7: Access to Clean and Affordable Energy, SDG 11: Sustainable Cities and Communities, followed by SDG 3: Good Health and Wellbeing. As the increasing climate crisis has drawn attention to the need for a decarbonized industry, clean energy and responsible consumption, Covid-19 has drawn attention to the importance of public health.

In order to assess desirable areas of investment for impact investors, we have used the widely accepted IRIS+ impact categories (figure 21). Nordic investors chose Energy as their preferred area (18%) followed by Climate (13%) and Agriculture (11%).

Figure 20 paints a similar picture, with the climate and the environment taking a high priority within investors' agenda. As we have seen in our previous reports from 2019 and 2020 the majority of respondents – this year around 50% – state that they invest in both environmental and social causes, whereas 37% invest in environmental causes and correspondingly 15% invest in social causes.

FIGURE 20A / n 83
Are your private equity investments mostly in social, environmental - or both themes?

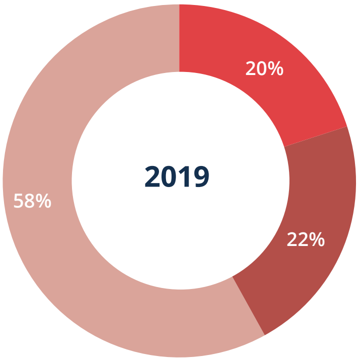


FIGURE 20B / n 120
Are your private equity investments mostly in social, environmental - or both themes?

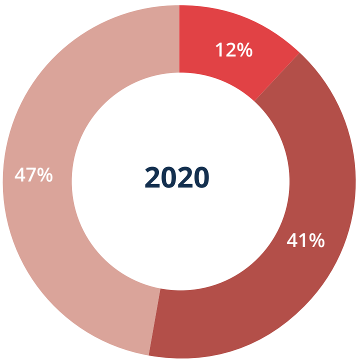
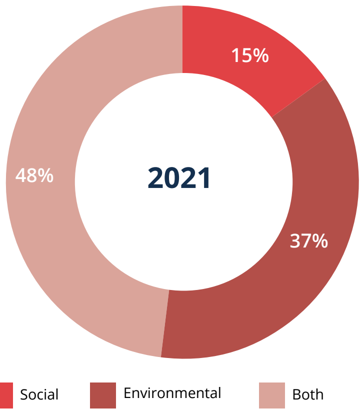


FIGURE 20C / n 68
Are your private equity investments mostly in social, environmental - or both themes?



> **The attention is on a decarbonized industry, clean energy and responsible consumption.**

FIGURE 21 / n 77
Which sectors do you usually invest in directly to achieve impact (IRIS+)?

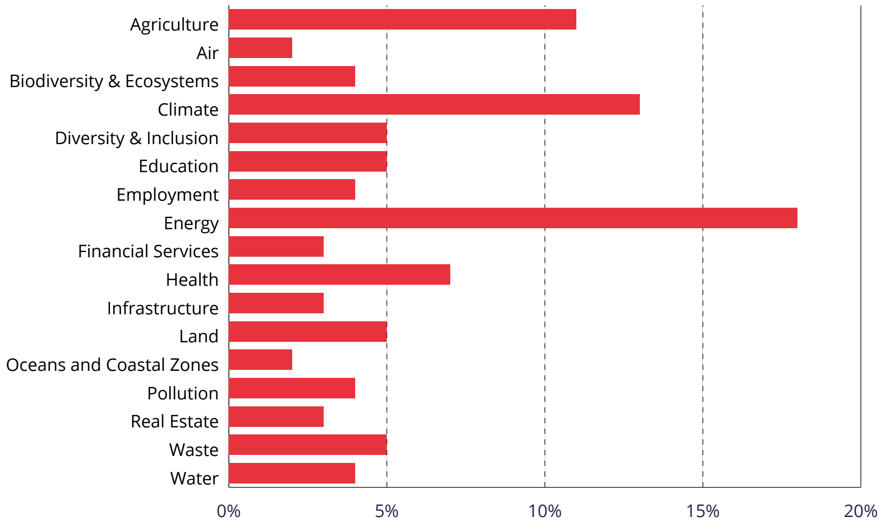
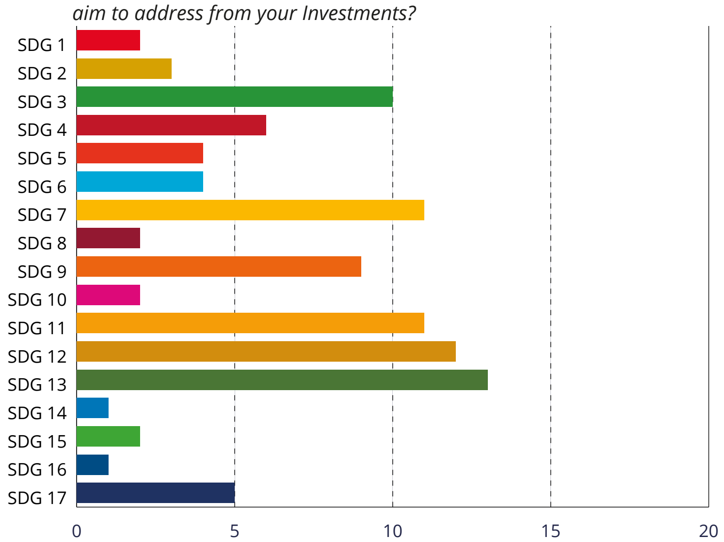


FIGURE 22 / n 65
Which of the UN sustainable development goals (SDG) do you mostly aim to address from your Investments?



Accelerating startups for social and environmental impact

Since the birth of the Internet, entrepreneurship has become a defining principle of the international business landscape. The mainstream acknowledgement in recent years of severe climate change calls for bold innovation. Startup Wise Guys (SWG), an accelerator and venture capital investor with Baltic origins, sees the combination of personal leadership, social development, and technology solutions to help on this.

"Startup Wise Guys started in 2012 by a group of successful Estonian tech entrepreneurs that wanted to help next generations of tech founders both with financial and mentoring support. Back then Estonia was tasting its first success connected to Skype. Today the tiny European country boasts large startup unicorns globally and is home to companies such as Wise, Bolt, Pipedrive, and others. This is not only due to technology and business model innovation. It is as much as due to increase entrepreneurial development in small countries like Estonia, Latvia and Lithuania. A kind of social development providing opportunities for a new generation to get a share in the European and global economy." says Cristobal Alonso, Global CEO and General Partner.

10 years ago, the Baltic region and beyond was full of eager and talented people wanting to change the status quo. SWG initial mission was to help founders become entrepreneurs and build successful global tech companies. Over time they also saw a need to support the entire ecosystem around them, through hires, taxes, good business practices, and relations to the global market of investments. And to date they might have the strongest footprint in the Eastern part of Europe, the CEE, and CIS countries. As an example, over the course of almost a decade SWG has invested in more than 40 companies in Ukraine alone. Being the most active early-stage investor in the country have made it possible to attract larger investors from other geographies to look at Ukrainian technology and innovation.

Cristobal Alonso sees this as a social development as much as a global market integration.

"Our activities in Ukraine and other Eastern European countries are obviously not only about economic developments but also helps on social mobility in emerging markets. In the early days we focused on how to help tech founders to become businesspeople. Now we are emphasizing leadership and more recently also on social and environmental positive impact. We have full modules of our program dedicated entirely on how to grow their company in a responsible and sustainable manner, taking care of people management, internal culture, efficiency, and processes. This creates a ripple effect. Founders that are mindful about their business and company, impact the ecosystems around them, as employers, as taxpayers, as suppliers or clients, and as ecosystem leaders. Many of our portfolio founders are active members of their communities back home and can help bringing best practices to countries or ecosystems where maybe it is not widespread."

With the Covid pandemic, it got very clear for SWG how social developments are also the basis for sustainable developments in a broader view.. In 2020, they worked together with a Nordic team to develop an Impact Business Modelling methodology and launched their first sustainability program with 10 startups in Tallinn. The success of the program has spun two new views on how to go forward. First, sustainable business must be a coaching module in all of the future SWG full time accelerator programs, be it B2B SaaS, Cybersecurity, or Fintech, which are their main focus verticals. And secondly, SWG as an accelerator company have set social and environmentally sustainable business on top of their agenda.

"Compared to VC funds in general, we have access to so many founders in their very early days of business, so we have a huge ability to impact how they think about their company, the market, and their surroundings in a broader context. We feel the responsibility to guide them on what they put into the world. The leadership is the starting point for that. We need to have them understand the impact they can have. What problems in society and environment are the most relevant to work on. And how you conduct your business, so it operates in the best manner for employees, the surrounding environment and even nature."

Cristobal explains how this effort goes two ways. On one hand SWG are introducing evaluation criteria, so in a choice between two similar startups, they will invest in the one having more positive impact on society and environment . In the existing portfolio of over 250 startups, they already work on next years' strategic project, which is to implement impact measurements and also ensure educational support on impact business modelling. They are now openly communicating this to investors making sure the investment thesis investors are attracted to, should have as much as positive impact on the world as the expected financial return.

SWG is now planning for several accelerator programs with this sustainability focus. They are cooperating with a Nordic team including Maxime Bauchau as one of its partners, an early-stage investor himself. The second sustainability programme will start in Copenhagen in January 2022 and focus on the "from farm to fork" supply chain. The Nordic team will then deliver several programs out of Copenhagen always keeping the focus on mitigating climate change.

Maxime Bauchau explains the focus.

"If you take a look at the UN IPCC report and at the leading think tank Project Drawdown, agriculture and forestry-related activities generate around 24% of greenhouse gas emissions worldwide. According to the UN, in order to limit the earth's temperature to rise more than 1,5°C, the combined requirement of CO_2 reduction in Food, Agriculture, Forestry, and Land Use represents 12 gigatons of CO_2 per year. Our upcoming sustainability program is for B2B startups developing solutions in capturing, storing and/or reducing CO_2 emissions. These solutions can be found in waste and diets, ecosystem protection, better agriculture practices, and the use of degraded lands."

But sustainability is not a vertical. It goes horizontal through all kinds of businesses in the supply chain. Therefore, they want to invest in and accelerate startups from various verticals, e.g. climatetech, agtech, biotech, edtech, fintech, retail services, consumertech, healthtech, wastetech, and more. As long as the solution is improving or systemically changing the "from farm to fork" supply chain.

Maxime also puts a few words on the impact business modeling methodology they have co-developed with SWG over the last year and how it will guide their portfolio companies.

"From our point of view is all boils down to working on the most relevant problems and show evidence that your solutions really can make a difference. We help companies to be much better to define their impact and get a theory of change in place. We also help them with metrics design and measurement format so they can show evidence of the progress of their positive impact. We ensure that the impact they would like to achieve is operational and aligned with their business model. If that doesn't happen, it is just a good green narrative and a theoretical proposition, but it won't make a difference. Finally, we aim to support long-term leaders in changing the world for the better. That means thinking about systemic changes and the probability that solutions can disrupt how we do things today, as businesses and as citizens, and see the transformational change, socially as well as environmentally."

Startup Wise Guys
General Partner Denmark
Maxime Bauchau

Startup Wise Guys
Global CEO and General
Partner Cristobal Alonso

Nordic investors focus on familiar markets

Nordics and Baltics feel familiar in terms of what type of impact investors seek. This is where they have best access to deal flow. When it comes to market where investors have most additionality, emerging and frontier markets stand out.

Although investors put scale and technology at the forefront, they are less keen to explore such opportunities globally. Less than a third consider deals from any part of the world (figure 23) and only half of respondents are open to deals in other European countries or the US. Nordics and Baltics feel familiar in terms of what type of impact investors seek. When it comes to market where investors have most additionality, emerging and frontier markets do stand out as where this is one of the most important reasons for the geographical scope.

Within all developed markets (US, Europe, Nordics) 79% stated that deal flow or expertise are the key reasons to invest (figure 25, 26, 27, 28). Only a few percent chose the possibility to have a positive impact as the reason to invest in developed markets.

However, the main reason for investing in emerging markets is the possibility to make a difference (figure 24). (35%) of the respondents have chosen matching impact themes as the main reason to invest in emerging markets, as well as making a big difference in the region with additionality as the criteria (30%).

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. 30% also see emerging markets as an access to growth opportunities (figure 24).

FIGURE 23 / n 70
Where do you invest for impact?

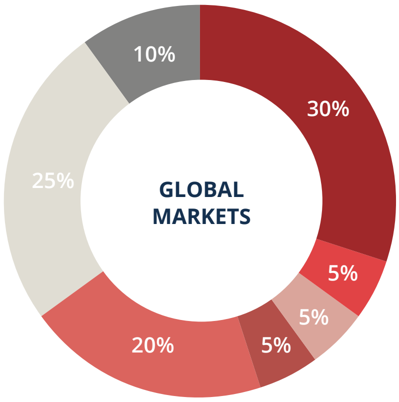


FIGURE 24 / n 70
Where do you invest for impact?

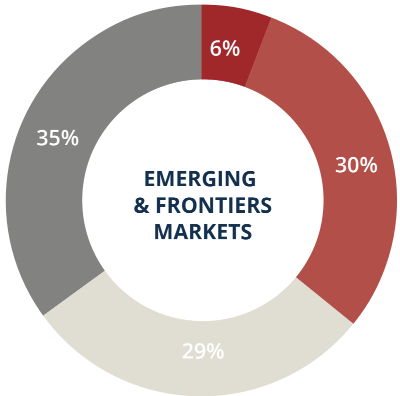


FIGURE 25 / n 70
Where do you invest for impact?

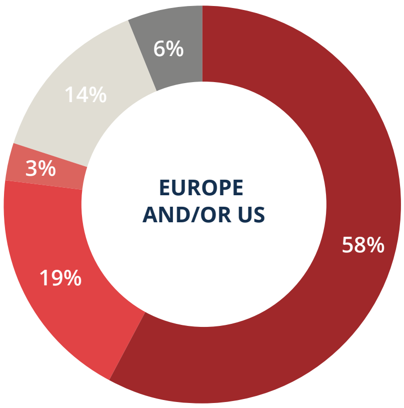


FIGURE 26 / n 70
Where do you invest for impact?

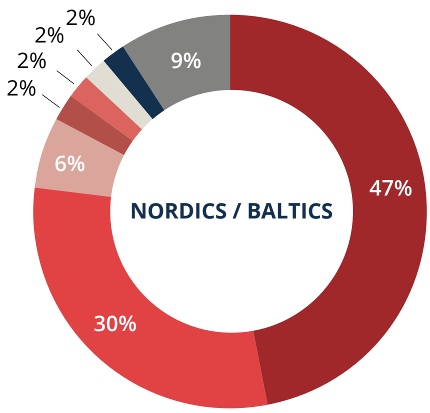


FIGURE 27 / n 70
Where do you invest for impact?

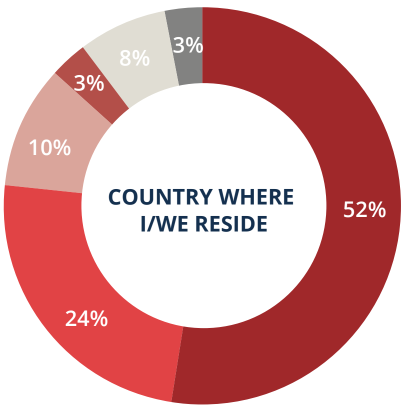
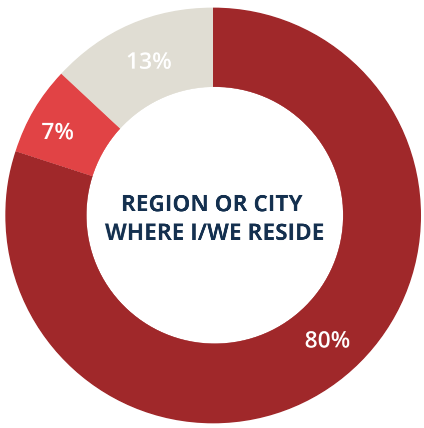
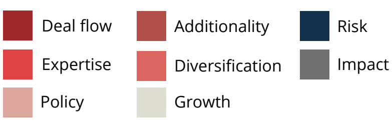


FIGURE 28 / n 70
Where do you invest for impact?





Sweden's west university incubators takes the lead in scaling and sustainability

There seems to be a frenzy on the west coast of Sweden when it comes to supporting the scaling processes of companies. Chalmers Ventures and GU Ventures, both run in an academic environment, are making international headlines as they succeed where many universities are struggling in commercializing research and innovation. We talked to Sofia Ström, who chairs the new fund STAR Impact.

If you missed it Swedish Chalmers Ventures and GU Ventures have been ranked as two of the world's 20 best university business incubators for many years. GU Ventures has been working with sustainability as a core business goal since 2012. To further strengthen their work on sustainability the focus area the last year has been on impact measurement and management. GU Ventures, together with co-founders, are now launching a new impact investment fund STAR Impact. They will offer impact focused profit and non-profit organizations investments and loans to drive positive change and finance companies that have both positive impact and business goals at their core. STAR Impact will focus on six areas of the 17 UN Sustainable Development Goals (SDG) that address food, nature and quality of life, for pre-seed and seed stage companies, and is aiming for significant direct and indirect positive impact alongside financial returns. The fund will invest in the Nordics, and it does not need to be associated with Gothenburg University only.

"I think it is important that we can invest in profit as well as non-profit organizations", says Sofia Ström, who chairs the new fund and has been a business manager and responsible for sustainability with GU Ventures for many years. "There are a lot of resources out there and we need to do our part to re-direct money to more impact driven companies. Evaluations will be done with impact indicators, and we want to innovate and contribute to how investments are made."

Sofia Ström thinks their focus on sustainability really helps scaling companies when it comes to access to capital and access to international markets.

"The increasing interest in sustainability both from investors and companies is growing. I see a need to further strengthen the competence among companies, as well as among investors regarding sustainable development. We help many companies to validate and verify where we see the potential. Important questions to start with are for example 'How do you contribute?' and 'What are you doing differently compared to two years ago?' The impact indicators are also important to consider from start, to at least have a good hypothesis of what the business will lead to. And to see what makes it likely that impact will be achieved. I hope in ten years that we won't be talking about impact investing, but it would be a given, in all that we do."

Over the years GU Ventures has implemented processes and methods to ensure that the portfolio companies at GU Ventures are evaluated and developed in line with the SDGs throughout the whole incubator process. As for scaling solutions, Sofia Ström raises a discussion about which markets and segments that are addressed.

"I think it is important to study the SDG Industry Matrix reports done by UN and KPMG. These reports point out important areas within each industry sector that needs to be addressed. If we can find solutions and companies contributing to this, we can make an even greater impact and scaling both business and impact."

Sofia Ström continues:

"Another important factor to consider when scaling is to evaluate what SDG goal is relevant on your specific market and to be aware that you need to have a systemic approach when consider both your positive and possible negative effect."

Sofia Ström gives an example of Olsaro Crop Biotech AB from the GU Venture portfolio that is impact driven. They are solving the challenges in global agriculture with massive amount of land that is ruined due to high salinity (8,7% of the planet). This leads to a significant challenge for 1.5 billion

A systemic approach is needed when considering both positive and possible negative effects.

people worldwide to grow food due to soil degradation. Olsaro Crop Biotech AB has developed a salt tolerant wheat to address this problem and a proof of concept is now in place.

"Normally the innovation system is very focused on Europe and the US and in other markets we do not really have enough networks, activities and programs. One good example though is Inclusive Business Sweden, who targets developing markets and tries to help companies identify and promote those opportunities."

Sofia sees more and more companies in the GU Ventures portfolio with sustainable solutions scaling. One of them is Mycorena. They produce a funghi-based protein and are now building a large-scale production facility in Falkenberg, on the Swedish west coast. Another is the BICO-group company Cellink which produces bioprinters and bio ink and now has sales in over 65 countries.

"Compared to when I started at GU Ventures seven years ago, we have much more focus on sustainability in all areas of our portfolio, for example when it comes to renewable energy and food. I would also say that today innovators, entrepreneurs and investors are much more aligned when it comes to sustainability. They have the same goal that business and sustainability go hand in hand. A more equal relationships, which I think is good."

Often digitalization and technology is the prerequisite for many investors interest in sustainable solution. Especially when investing in companies that are about to scale.

"Digitalization is a mega trend, and it has many positive aspects when it comes to sustainability and reach. But it is important to consider possible negative impact as well, such as high energy consumption, or the possibility for bias that could be built into algorithms when it comes to equality and inclusion factors." Sofia Ström concludes.

STAR Impact
Business Developer & Sustainability Sofia Ström, GU Ventures and Chairman START Impact

Today almost all investors have impact objectives

In recent years, many investors have seen themselves in the mirror and assessed in more detail where they stand on the sustainability agenda. Some have begun to put formal impact strategies and policies in place, but these investors are few. According to our analysis, however, more or less all have impact objectives.

It could be deeply satisfying to work as an impact investor, and see a business thrive and grow while it's improving our world. 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. Many believe that impact aligns investments to values, meaning that investments made are in line with values which the individual investor follow.

In this years' survey we asked if the respondents have impact objectives across their portfolio (figure 29). 54% answer they have impact objectives across all investments in their portfolio. 42 % say they have impact objectives in most or some in a specific portion of their portfolio companies. Less than 5 % don't have any impact objectives at all.

Investors that move their capital to impact still have modest expectation on the financial return. Asking them if they see impact investing as an arbitrage market (expected to outperform the market due to the impact opportunity), a rational market (that are expected to perform at market return) or concessionary market (below market return expected due to the impact) most see impact investing as a rational market.

If you like to transform to an impact investor, what is then difference between impact or a traditional investment?

We explored how respondents' impact investments differ from their more traditional investments. As a result, we uncovered some significant findings (figure 33). First and foremost, we uncovered a need to be more engaged when investing in impact. More than a half (57%) stated that they engage more or same in their impact investments. 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. 57% also think that they must adapt their funding conditions for impact organizations as compared to the traditional investments.

Another significant finding is represented in the time horizon. 59% 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, more reporting requirements, and more advisory services.

FIGURE 29 / n 74

Which statement do you agree with the most?

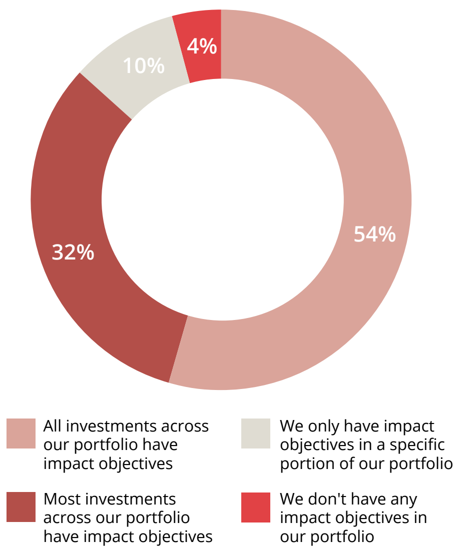


FIGURE 30 / n 68

Arbitrage Market

Impact investments (i.e. expected to outperform the market due to the impact opportunity)

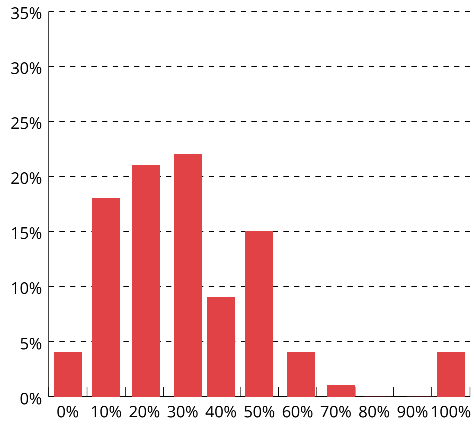


FIGURE 31 / n 68

Rational Market

Impact investments (i.e. that are expected to perform at market return)

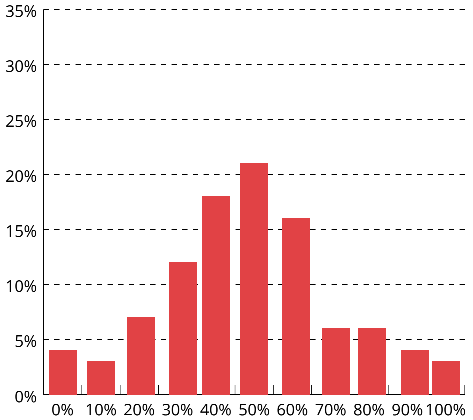


FIGURE 32 / n 68

Concessionary Market

Impact investments (i.e. below market return expected due to the impact)

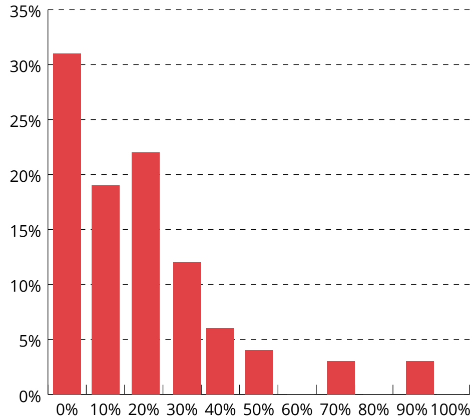
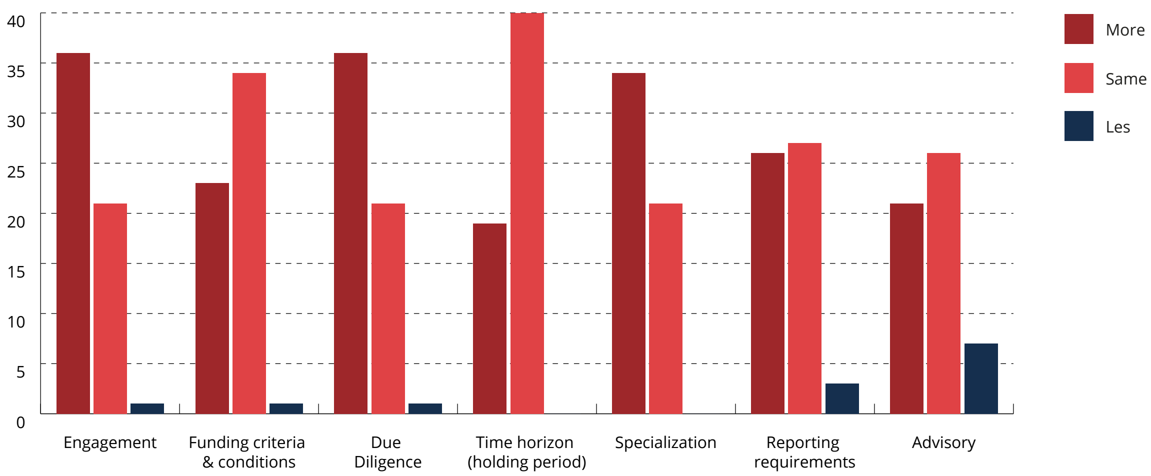


FIGURE 33 / n 73

Please compare your treatment of your impact investments to your traditional investments.



SEB's appetite for impact is growing. Impact will outperform traditional investments

SEB Pension & Försäkring has invested 10 million Euro in a Swedish impact fund. And it won't be the last impact investment we see from the company. They expect that in the future impact will provide better returns and lower risk, the company states.

An eyebrow or two were probably raised last year when SEB announced an investment of 100 million SEK, 10 million Euro, in the impact fund Norrsken VC. Not only did the insurance and pension arm of the big Swedish bank embark on a daring journey into what some see as an uncertain and perilous territory. It even proclaimed that it expected financial returns at least on the same level as those from traditional private equity investments – and with a lower future risk.

"Our expectation is that this investment will be at least as good as traditional investments. And on the middle and long term we believe that impact investments will outperform the others," says Damir Ratkovic, Portfolio manager, Investments at SEB Pension & Försäkring.

Norrsken VC, a relatively new Swedish impact fund, is an offspring of the Norrsken Foundation, founded by the man behind the fintech company Klarna, Niklas Adalberth.

The mission of the fund is to "drive more capital to impact by proving that impact leads to superior returns." Like any other VC fund Norrsken is hunting high and low for future unicorns. However, only impact companies are eligible for investment capital from the 120 million Euro Norrsken VC fund.

This goes hand in hand with the ambitions of SEB Pension & Försäkring.

"In the future we see a better potential for the impact investments than for traditional investments," says Mikael Nyberg, Head of Traditional Investment Group. He continues:

"Our perspective is that of a long-term investor. And if we are heading for a global transformation of the economy, this is an area where we should be in order to make a difference. That's why we believe this type of investments can provide a good way forward."

In fact, impact investment provides additional value for the customers of SEB Pension & Försäkring, Damir Ratkovic and Mikael Nyberg argue. The company has a high responsibility to take good care of its customers pension money. Impact investment does not only have the potential to provide a high return. It also comes with a new way of mitigating risk in a transforming world.

"Some say you take on more risk with this type of investments. That's probably true if you only look in the history books. But we're convinced that if you look forward, there is more risk in other types of investments," Damir Ratkovic says.

Investing in fossil fuels is already risky business. And that risk will spread to other types of companies that don't adapt their business model to the new and more sustainable world order, Damir Ratkovic predicts.

"In the future, companies that don't care about the climate or don't integrate impact in their business model can get in serious trouble. They risk higher taxation or prohibitions. There's a lot of risk involved in investing in traditional companies in the future," he says.

Norrsken VC has set out to finance startups which solve some of the world's greatest problems. The fund invests across all 17 SDG's. So far, the portfolio consists of 28 companies, mainly in the green area. But Norrsken also funds companies that work with health and education.

That is a great fit for SEB. In yearly customer surveys more than half of the respondents indicate that they want the company to invest in climate action. Quality education as well as clean water and sanitation also rank high on the customers agenda, Damir Ratkovic explains.

Of course, there is no such thing as an impact guarantee when you invest in startups. However, Damir Ratkovic is impressed with the extensive and transparent system for managing and measuring impact which Norrsken VC has developed. This makes him confident that SEB's investment will actually make a positive difference.

> There's a lot of risk involved in investing in traditional companies in the future.

SEB Pension & Försäkring
Damir Ratkovic, Portfolio manager, Investments

SEB Pension & Försäkring
Mikael Nyberg, Head of Traditional Investment Group

"Measuring is one of the big challenges for us. If you don't measure the effect of your activities, it's not really impact. We need it to be measurable if we are to invest. Norrsken VC has a clear idea of how to do that. And we believe in their case. We believe that they will in fact make impact," Damir Ratkovic says.

He adds that the financial remuneration of the Norrsken team is linked to the impact the portfolio companies have.

"Their performance fee is connected to the impact. We really like that. It's very convincing," Damir Ratkovic says.

Even if Damir Ratkovic and Mikael Nyberg are not yet willing to reveal the next impact move from SEB Pension & Försäkring there is more to come.

"We are looking for new opportunities. And probably we are ready to announce a new investment in a few months. This is definitely not our last impact investment in the venture space," Damir Ratkovic says.

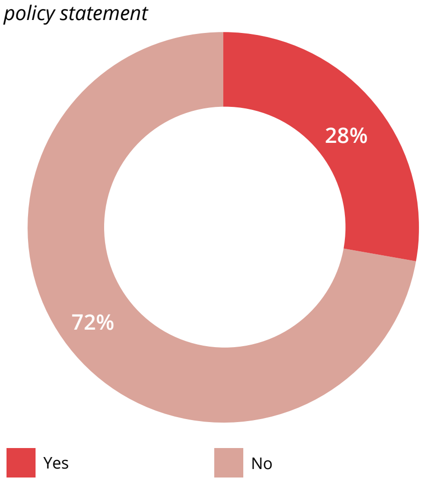
Many investors engage actively to improve impact

Impact investors are looking to make a positive difference through their capital. Few of the respondents to our survey have a formal strategy in place. Instead, they engage actively by using expertise, networks and influence to improve the social or environmental impact of the portfolio companies.

As an impact investor it's not enough to set targets on well-known business criteria. Most investors that have taken this survey signal that impact matters in their investments (figure 35). They see it as one way to contribute.

But impact investing is a new and complex discipline. So, another way is to engage actively. As an investor for impact, you need to understand the problems your portfolio companies try to solve. If you don't spend time and resources on that, you will not be able to do a proper due diligence. And in the long-term you can't manage a portfolio of companies if you don't understand the business and impact environment, they operate in.

FIGURE 34 / n 50
I/We have a formal, written impact investing policy statement



Another way to contribute is helping to grow new or undersupplied capital markets.

Many investors take an exploratory approach when investing in impact startups. It is very much about learning by doing. With help from experts, scientists and advisors investors over time learn about the impact area they invest in (figure 36). That's the way only 28% say they have a written impact policy statement (figure 34). Moreover, it could be due to the fear of living up to ambitious image goals. Or it could simply be due to a lack of best-practice available.

Another way to contribute is helping to grow new or undersupplied capital markets, that may involve more complex or less liquid investments. 61 percent of the survey respondents do that (figure 37).

Many investors (62%) also provide patient capital to businesses that need a longer holding period (figure 38).

We also asked the respondents how their impact investments had been performing overall. Over 70 percent of the respondents (figure 39) answered that financial returns on impact investments outperformed (11%) or were in line with expectations (61%). Nearly a third were unsure which could be maybe be due to lack of a baseline for impact investments.

When we asked how the private equity impact portfolio performed overall since inception held up against impact expectations (figure 40), 72% answered inline or outperforming.

FIGURE 35 / n 76

I/We signal that impact matters in our investments

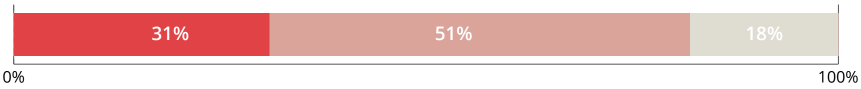


FIGURE 36 / n 76

I/We engage actively by using expertise, networks and influence to improve the environmental/societal performance of businesses

FIGURE 37 / n 76

I/We help to grow new or undersupplied capital markets, that may involve more complex or less liquid investments

FIGURE 38 / n 76

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

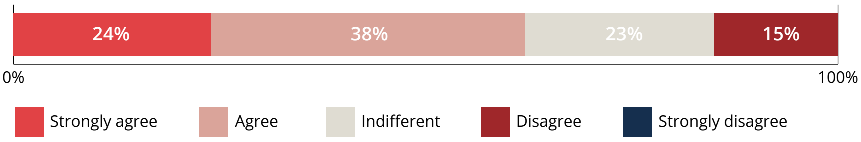
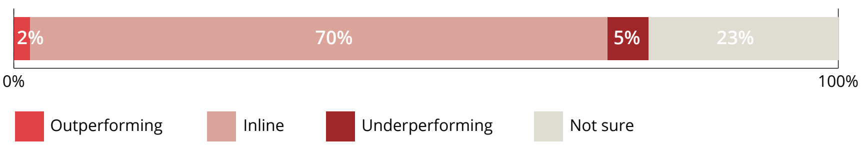


FIGURE 39 / n 64

How have your impact investments performed since inception against your financial expectations?

FIGURE 40 / n 64

How has the impact part of your portfolio performed since inception against your impact expectations?



Measuring meaningful outcomes – where the small and large capital start to meet

One of the strong trends we observe this year is the emergence of more outcome-based analysis in all parts of the financial sector. The most important European standard to help investors and companies transition to a carbon neutral economy is the EU Sustainable Finance Taxonomy. We talked with Thomas Høgenhaven, Managing Partner in the Danish fund Planetary Impact Ventures, who is implementing this in their work.

As of March 2021, funds that wish to be labelled "sustainable", "green" or "social" have an obligation to disclose details about their investments and will be classified as grey, light green or dark green. Only dark green funds have sustainable outcomes as the major objective of the fund (whereas the other colours of funds indicate an intention to promote sustainable objectives by for example the exclusion of non-sustainable assets). With the new standard EU Sustainable Finance Taxonomy small and large investors can start agreeing what is considered substantial contributions to climate change mitigation and climate change adaptation.

This means that more institutional investors are now engaged in building standards and guides to ensure not only to 'avoid harm' which has been the general signum for a so called "responsible" investor, but also to adopt more pro-active approaches. The Taxonomy has six objectives and to comply with this framework, a fund (or company) needs to make a substantial contribution to at least one environmental objective and to avoid negative impact for other areas. An EU Ecolabel is underway to help guide investors to the funds that comply with the Taxonomy. Until then, funds can self-declare if they are green or dark green (you may see this indicated by the numbers 8 and 9 on listed funds on online trading platforms).

On the other hand, we also notice that some private investors also started adopting the standards that big capital adopt. And the spectrum of responsible, sustainable and impact investors is possibly getting narrower as the consensus on what change the world needs builds. Planetary Impact Ventures, a recently started Danish venture fund for early-stage companies, focus on climate and biodiversity. The organic food company Aarstiderne is one of the founding investors with 25% of the capital and the rest is a mixer of the founder team's shares and private investors. The fund has made four investments to date; Agrain which is a company that turn residue products from beer and whisky making into new, edible products, SoliSense which offers a wireless soil moisture system to farmers, the organic, plant-based food brand Aurion and Re-Zip, which offers a complete life-cycle approach to packaging.

"We tried to be early adopters of the EU Taxonomy. We discussed for a long time what standard we should choose, but it is presumably the gold standard and rather than adapting later, we wanted to be at the forefront", Managing Partner Thomas Høgenhaven explains.

In line with the EUs financial sustainability disclosure regulation, Planetary Impact Ventures declares that they will consider also ethical and social consequences of their investments. Sustainability risks need to be built into all the fund's processes, from screening and due diligence, to monitoring and governance. In practice though, the EU Taxonomy seems complex to apply to a small private equity fund. There are a lot of metrics and thresholds that must be investigated in the investment process, then monitored, analyzed and reported each year.

"Yes, there were of course a lot of reverse mapping. Based on what we have in our deal flow and our experience we asked ourselves if it would fit. And it was largely a fit, we concluded. There is no direct mentioning of organic farming in the Taxonomy, but it falls within the category of minimizing the use of pesticides and finding non-chemical alternatives to pesticides in the activity of growing perennial and non-perennial crops. We are now at the end of our first year so we are currently setting up the first report. We are focusing on greenhouse gas protocol, our scope 3, and different impact metrics. We agree when we invest what the key performance indicators and targets should be. It is very much a bottom-up approach. They are for example spending less water or have water savings or avoidance of new wood being used by recycling instead."

Some parts of the Taxonomy are less in line with Planet Impact Ventures view on sustainability.

"The EU included natural gas, which is bit weird for us, so I guess we are also more critical and narrower than the EU Taxonomy. Since we are looking at a business with a direct, good impact we have a higher requirement of course, we do not have accept a 'do-no-harm' approach. The key to us is that the business model is right, and we want to see a mission lock." Høgenhaven says.

A mission lock is very common in the statues of social enterprises in countries where such enterprises are defined by law (which they are not in the Nordics) and the purpose is to avoid mission drift when for example new investors or partners come onboard. How would you implement this in private limited companies?

"Preferably that we get this into the shareholder agreements. But we have not required this to be written into the statues of the company, as we are not sure what that may do to future investments. We are an evergreen fund so that we can take a long-term perspective. A lot of founders are concerned about the short-term perspective from many investors and get worried about getting acquired by anybody."

"EU Taxonomy is presumably the gold standard and rather than adapting later, we wanted to be at the forefront.

Høgenhaven further explains that this is early days for many investors, so there is more focus on the right business model for sustainability than impact metrics and measurements.

"We are raising the bar and investors like that and most peoples' understanding of technical sustainability metrics are still not highly elaborate. Many have a good idea of what "sustainable" is, but it can get very technical and that is not what we debate. We have more discussions on the business models. We are not relying on new technologies. For example, with Re-Zip, there are some technologies applied in that case but most important is to fix the value-chain. Planetary Impact Ventures want to innovate the business models to achieve a positive impact."

Several of Planetary Impact Ventures' investments are – or will be – within organic food and agriculture. So, they also consider the aspect of affordability and which consumer segments can afford to eat organic food.

"Organic still comes at a premium. And to have the largest impact we need to enable sustainable solutions to all people, both high and low incomes. Prices have however decreased a lot in Denmark in the past ten years. But I don't think we can do this without a general tax on carbon and ideally other pollutants such as pesticides. Organic alternatives can then be relatively better priced, but still not the cheapest in real terms. We are still in the phase of looking at what can for example replace animal proteins. It comes down to volume and then we hope it may become affordable to all."

Høgenhaven says that Planetary Impact Ventures are working with their first version impact framework and have not yet implemented any social metrics.

"Our model is purely focused on climate and environment. We may expand at some point."

Planetary Impact Ventures
Thomas Høgenhaven,
Managing Partner

ADVICE FOR THE DANISH FOUNDERS:

THINK BIGGER

To grow the impact market investors should collaborate a lot more, and founders of Danish startups should think bigger. The advice comes from Erik Bruun Bindslev, Director of Value Creation & Partnerships at Vækstfonden.

To discover and develop the companies that Denmark cannot afford to miss out on. This is the purpose of Vækstfonden (The Danish Sovereign Investment Fund) . And a quite reasonable purpose for a national investment fund, most people will agree.

However, it is a purpose which requires the eyesight of a falcon and a very steady hand.

In the midst of the titanic transition our planet is going through, Vækstfonden is set out to find the startups which are capable of delivering satisfying financial returns on investment and a considerable yield to society simultaneously.

"We are in the middle of a transition from a linear to a more circular economy. This is very difficult for many companies and requires navigation. And we are focused on helping Danish companies think sustainability into their business," says Erik Bruun Bindslev, Director of Value Creation & Partnerships at Vækstfonden (The Danish Sovereign Investment Fund).

"This is an onerous task. Whereas financial due diligence comes with well-known rules and routines, assessing the impact of a brand-new startup is not yet business as usual. Often it is super hard to assess this. How do you quantify carbon? We still don't have common global carbon metrics. And yet, we talk as if we do. Some things are very clear while others are a lot harder to quantify," Erik Bruun Bindslev says.

In May this year 51-year-old Erik Bruun Bindslev landed in his new job at Vækstfonden after more than 20 years of working with sustainability within food and agriculture from his base in London.

His job is to support Vækstfonden's strategic framework to ensure that sustainability is part and parcel when the fund invests in private funds and startups, or grants loans and guarantees to SMEs with sound growth plans.

"We always look for green and sustainability which strengthens the resilience in our investments," Erik Bruun Bindslev says.

Vækstfonden operates with a triple bottom line, states Erik Bruun Bindslev. Therefore, his team looks at the market through the green as well as the social lenses in its search for investments.

"We are always looking for a societal return in every investment. And we have a complete balance between social, economic, and green," he says and continues:

"A startup can create jobs or halve the carbon footprint of a certain type of product. Both are valid reasons for us to invest. But we do need a Danish angle and a societal payoff. That is our guiding principle."

In fact, the green and the social dimension are intertwined, Erik Bruun Bindslev believes.

"The more you know about sustainability, the more you understand that everything is interlinked. You can't have a green transition without equality in society. And what you have in the local is also in the global," he says.

Over the last 30 years Vækstfonden has financed more than 11,000 small and medium-sized companies for more than DKK 42 billion. Erik Bruun Bindslev describes Vækstfonden as a long-term, patient investor which provides capital that the private market can't provide.

"We see ourselves as a really good and solid partner. We spend a big amount of time with founders to find the purpose of the business. We stack the capital in a way that is long-term, and we are evergreen. So, we don't expect to see a return in three or five years. We're in it for the long run," Erik Bruun Bindslev says.

In order to expand the market Erik Bruun Bindslev calls for more collaboration between investors – both on a national and an international basis.

"We need to do deeper collaborations in the financial sector and compare deals to learn from each other, pool our money, and stack our investments, so that we can give some of the companies a real boost," he says.

At the same time, he encourages founders in Denmark to think bigger.

"Founders have a myopic way of seeking capital. They seek 0,5 million. Think big. Why not ten million, so that they can start their journey in a proper way and don't have to think about financing for a while? This is missing in Denmark, and it's something that needs to change," Erik Bruun Bindslev says.

Erik Bruun Bindslev,
Director of Value Creation &
Partnerships at Vækstfonden

Methodology and definitions

EXTENDED FOCUS

We developed the 2021 survey with inspiration from the 2020 and 2019 survey, but more focus on how impact investors choose their targeted impact themes and causes, and how they define, measure and report on impact. We relied on frameworks from the international standards and tools of IRIS+ and The Impact Management Project.

Our survey consisted of 52 questions with alternative answers and 11 open ended questions, which can be found online (www.oneinitiative.org). The survey was targeting investors who invest in early-stage projects, start-ups and scaleups, such as business angels, family offices, institutional investors and governmental venture investment fund and accelerators that also invest for equity.

ACTIVITY AND SCOPE

The survey had 86 respondents. Since the survey does cover a wide spectrum of investors, it would not be wise to extrapolate the findings to the whole population of Nordic and Baltic investors. However, we see that the trends, approaches and beliefs that were expressed in our survey are in line with the observations made with the positioning of new impact funds that launched over the past two years (see for example interviews with Planet Impact Ventures and Ananda VC). This survey adds value by providing more in-dept insights for how investors operationalise their understanding of "impact".

IMPACT INVESTMENT DEFINITION

This is a much debated and evolving definition, and for the purpose of this survey and report we have decided to adopt the Global Impact Investing Network definition: "Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." (GIIN, 2018)

Other definitions

Individual investors
Smaller, private investors who manage their own capital and often do direct investments on their own: Business angels, investment companies owned by individuals and some family offices.

Institutional investors
Investors who invest and manage money on behalf of clients and operate in the regulated financial market. In our survey they are venture capital funds, private equity funds, accelerators, governmental funds and banks.

n= Number of respondents in a single question / figure.

Figure 32

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

Solvable problem
"The problem is easily solvable or tractable"

Scientific data
"We study a lot of scientific data and studies in choosing causes"

Scalable
"This cause has potential for impact at a big scale"

Beneficiaries
"The cause has inherently positive externalities and/or serves neglected beneficiaries"

3rd party input
"We engage with non-profits on social or environmental issues and discuss funding needs"

SDGs
"We chose the investments that best achieve the UN SDGs"

Collaborate
"We work with many other investors, together we achieve more change"

Experience
"We have information/ experience/ network advantage in solving this cause area"

Team
"The team is the most important criteria for deciding which solution to invest in"

Sector
"The sector offers good investment opportunities & returns"

Thank you - participants, partners and sponsors

Impact Report Nordic Investors 2021 could not have been carried out without the help from a large group of participating investors, partners and sponsors. We would like to thank all of you for your engagement and support.

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

EV Private Equity
Scale Capital
Katapult Accelerator
Business IQ Sweden AB
Dreamcraft Ventures
Metropole Advisory
NOON Ventures
SEB Greentech VC
Sätila Impact Investment
Startup Wise Guys
Almi Invest GreenTech
Climentum Capital
JBO Invest Holding ApS
Oxygen
Nordic Secondary Fund
Jensengroup Investment Fund
BluePearl AB
Den Sociale Kapitalfond
Rubio Impact Ventures
Worx
Vækstfonden (The Danish Sovereign Investment Fund)
Competic AB
ATRA Innovations
Den Sociale Kapitalfond
Strahl Capital
Mikrofonden
Færch & Døtre
ScaleUp Group
Toniic
Impact Invest
Pale Blue Dot
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Reach for Change

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