THE IMPACT THESIS BLUEPRINT

DANIEL SOLIMAN

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About the author

Daniel Soliman is the Founder and Principal of Pareto Impact Ventures. Having structured and advised on over $1 billion in real estate and healthcare investments, he guides investors to translate intent into high-performing portfolios with measurable impact.

A graduate of the Harvard Kennedy School and the University of Pittsburgh, Daniel has lectured at both Harvard and Johns Hopkins and published research in *The Journal of Impact & ESG Investing*.

A testament to what America promises, Daniel is the son of Finnish and Egyptian immigrants raised to value service. He carried this commitment into the juvenile justice system as a teacher, where he learned that meaningful change requires a relentless focus on outcomes. He channeled that same dedication into competitive powerlifting, earning multiple All-American honors, national championships, and a spot on Team USA. He brings the perspective of the classroom and the platform to the boardroom, aligning capital to drive tangible change.

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Note on Research

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شكرًا · Thank you · Kiitos

To those who offered an attentive ear,
a discerning eye, or a moment of grace,

This is for you.

CONTENTS

Preface

In most markets, price is the dominant signal.

In traditional investing, price reflects the expected financial return. However, investments generate more than the returns enjoyed by investors. They also create effects on the planet and people, producing near-term outcomes and long-term impact. These societal returns are treated as externalities, rarely evaluated beyond regulatory compliance. The result: a market that shapes society based on financial performance, systematically ignoring the broader consequences of capital allocation.

Impact investors are redefining the value equation by designing investments intended to produce societal returns. Their goal is to create a system that reflects an asset's total value, reshaping how capital is allocated and how investments are priced. The innovation has created demand for these investments, moving from implicit pricing anchored in intention and classification to explicit pricing driven by measurable outcomes.

Building this value-based system at scale is the work that lies ahead. Unifying the fragmented impact investing field requires a measurement system that is:

- **Disciplined:** producing measures and data with the clarity and rigor to integrate with traditional financial analysis.
- **Adaptable:** evolving and refining as methodologies for measuring impact mature.
- **Integrated:** connecting horizontally across investor types and vertically through the investment chain.

Born Out of Necessity

Impact Internal Rate of Return (Impact IRR), supported by JPMorganChase and published in *The Journal of ESG and Impact Investing*, marked my first contribution toward a disciplined, adaptable, and integrated system. Premised on Modern Portfolio Theory and centered on time, return, and risk, it adapts Internal Rate of Return to measure societal returns. To streamline the application of this methodology, I sought a standardized impact thesis architecture. Finding established frameworks and norms but no connecting structure, I leveraged components from professional praxis to build the foundation I could not find.

Over two years later, that search culminated in *The Impact Blueprint Thesis*—a resource that integrates theory, framework, and practical application into a unified system for forecasting impact in measurable terms. The Blueprint is crafted to support investors seeking rigor and students building their foundations.

Anchored in Theory, Designed for Progress

Designed to grow alongside impact investing, the Blueprint is built on three key tenets:

- **Open Access:** Exclusivity protects value, but accessibility builds markets. This resource is not gated behind a paywall or program.
- **Adaptive:** A static text can't serve an evolving field. The print edition captures a point in time; the digital content evolves with it.
- **Versatile:** The Blueprint uses Impact IRR to illustrate how outcomes translate into investable terms, but it is methodologically agnostic. The principles apply whether you adopt this framework or another.

An Invitation

This book was forged through debate. Rigorous, evidence-based discourse is integral to its foundation. I invite you to test these ideas. Use what serves the work.

Fundamentals. Tools. Action.
Time to build.

Daniel Soliman
Pareto Impact Ventures

www.piv.group
www.impactblueprint.io

How to use The Blueprint

This book was designed for more than simply reading; it was designed to be used. Whether you are defining a problem statement or drafting your first impact thesis, following this guide will show you what you need to do.

The Journey: Learn → Apply

How to use this guide: Start on the left to learn the core concepts (*The Module*). After reviewing the **Checklist**, move to the right (*The Practicum*) to actively apply those learnings using the interactive **Sandbox**.

* Note: Checklists appear in Modules 3–6.

Practical Tools

- **Checklists:** Modules 3–6 include structured checklists that support each stage of the impact thesis: problem definition, opportunity framing, return estimation, and final synthesis.
- **Smart Citations:** This book supplements its source documentation with smart citations. Each smart citation includes a QR code linked to a maintained URL for direct access to the cited source. As URLs change, smart citations are updated, ensuring access beyond the publication date. In the printed edition, they appear in the margin where each source is cited. A complete smart citations directory accompanies the source documentation in Appendix 2 across both editions.
- **Sandbox (Digital Readers):** Sandbox practicums are fillable, allowing you to enter thesis notes, calculations, and ideas directly into the pages.

FUNDAMENTALS

MODULE 1

OVERVIEW OF IMPACT INVESTING

MODULE 1

OVERVIEW OF IMPACT INVESTING

Learning Outcomes & Objectives

The rapidly growing impact investment market has an estimated value of *almost $1.6 trillion*.[1] But what exactly is impact investment and how does it work to generate social, environmental, and financial benefits?

After working through this overview of impact investment, you will be able to:

- **Define impact investing** and understand the characteristics that distinguish it from other investment approaches.
- Explain how impact investing relates to the rest of the **continuum of capital**.
- Identify and categorize different **impact investment opportunity sets**.
- Describe the **financial instruments** utilized in impact investments.

Executive Summary

Overview of impact investing

Impact investments differ from traditional investments because they have two goals instead of one: they aim to generate **positive, measurable social or environmental outcomes alongside financial returns**. Such investments may focus on a diverse range of goals, but they are linked by four common characteristics: intentionality, a reliance on data and evidence, a focus on performance management, and a commitment to sharing learning to support improvement across the impact investing industry.

Locating impact investments on the **continuum of capital** helps us to understand how they relate to other types of capital, which range from traditional investments (which are concerned only with financial outcomes) to grants (which are concerned only with social and/or environmental impact). Impact investments occupy their own unique position on the continuum between "finance-first" and "impact-first" approaches.

In terms of financial return, impact capital can be divided into two main types: market rate and below market rate. There is also a third type —"blended capital"—which is a combination of the two. The distinctions between these three types are discussed are discussed in more detail later (Impact Investment Opportunity Field). However, it is important to stress that all impact investment, regardless of type, seeks some form of financial return. Therefore, **the overall goal of all impact investment** is to create a market that balances financial return with positive social and/or environmental impact.

The strategies that impact investments use to achieve their goals have **four fundamental elements**. First, they define their intended impacts. Second, they determine how those impacts will be measured. Third, they set out when those measurements will take place during the investment lifecycle. Finally, they clarify the acceptable levels of both financial and social/environmental returns sought from the investment.

Modern Portfolio Theory and Impact Investing

Modern Portfolio Theory (MPT), introduced by Nobel laureate Harry Markowitz in 1952, revolutionized investment strategy by showing that portfolio-level risk and return mattered more than individual asset performance. This theory laid the foundation for tools like the Capital Asset Pricing Model (CAPM) and remains central to how investors manage risk.

Building on MPT, **Impact Frontiers** developed the **Efficient Impact Frontier (EIF)**—a framework that helps investors evaluate portfolios based on both financial and impact returns. While financial returns are measured using tools like IRR and NPV, impact return measurement is still evolving. The EIF provides a structured approach to balancing financial performance with positive social and environmental outcomes and impact.

The Impact Investment Opportunity Field

Potential investors can determine which sets of opportunities are viable impact investments using the **Impact Investment Opportunity Field**. The field enables investors to plot opportunities against their **risk-adjusted financial** and **risk-adjusted impact returns**. Thresholds that set out the minimum/maximum levels of each type of return enable investors to classify opportunities as impact investments and determine their type.

Opportunities that meet financial but not impact thresholds are classified as **traditional investment opportunities**. Opportunities that meet neither of the thresholds are designated as **non-investable**. Neither of these sets of opportunities meets the definition of impact investments.

The remaining opportunity sets are viable impact investment options that can be further classified as **market-rate capital (MIC)** impact investments, **below-market-rate (BIC)** impact investments, or **blended capital**.

MICs are investments that aim to deliver positive social or environmental outcomes while also generating **levels of financial return that would be acceptable to traditional investors** who focus solely on generating profit.

BICs offer financial returns below commercial capital thresholds. Therefore, they **come with incentives** to encourage market-rate investors to participate and contribute to the achievement of their intended social and/or environmental goals.

Blended capital investments result from combining MICs and BICs. They fall below the minimum financial threshold for MICs but above the maximum threshold for BICs. Blended impact capital can follow two strategies: distinct blended finance, which keeps MIC and BIC investments separate) and integrated blended capital, which combines MICs and BICs into a single pool.

It is also possible to depict **non-investable impact-focused funds** (i.e., grants) on the Impact Investment Opportunity Field. However, as grants focus solely on impact and are given with the expectation of no financial return at all, they cannot be classified as impact investments.

Financial instruments

Financial instruments can be defined as contracts for monetary assets that can be created, modified, bought, traded, or settled. **Financial instruments** can be debt- or equity-based.

Debt-based financial instruments can increase a business's capital but can come with interest requirements and refinancing risks. **Equity-based financial instruments** are mechanisms that serve as the legal ownership of an entity and effectively have infinite duration.

Impact Investing Definition

Key Concepts

In this section we will:

- Explore the **definition of impact investment** and the key characteristics of such investments.
- Examine the **continuum of capital** on which impact investments stand.
- Describe the **two main types of impact capital**: market rate and below market rate.
- Discuss the **goals of impact investment**, the **three types of opportunity** in the impact investment market, and the fundamental elements of an **impact investment strategy.**

Definitions

The Global Impact Investing Network (*GIIN*) characterizes impact investing as the strategic allocation of capital designed to yield financial profits while simultaneously driving quantifiable social or environmental impact.[2] *According to GIIN*, impact investments share four core characteristics[3]; specifically, they are:

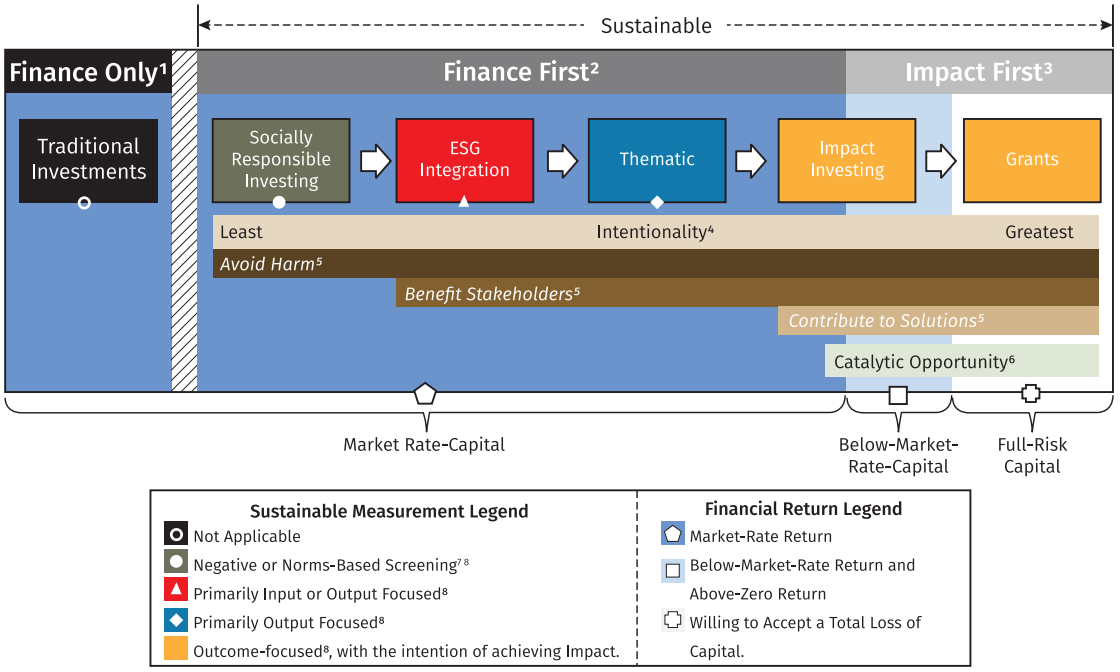
1. **Intentional:** Impact investors purposefully aim to contribute to the achievement of positive social and/or environmental outcomes.
2. **Based on evidence and data:** Impact investments cannot be designed on hunches; investors must use evidence and data at the design stage and throughout the investment's lifecycle.
3. **Focused on performance management:** Impact investments must be managed toward the achievement of their intended goals through regular performance assessments and, if necessary, course correction.
4. **Committed to sharing learning:** Impact investors should use common industry terms, conventions, and indicators to describe and share their strategies, goals, and performance. By so doing, they contribute to further impact beyond their own areas.

Where impact investments sit on the continuum of capital

Impact investments are only one type of investment on the continuum of capital, which ranges from "finance-first" to "impact-first" investments. Alongside impact investments, that continuum also includes grants, socially responsible investments, environmental, social and governance (ESG) integration, and thematic investments.

The continuum of capital is shown in *Figure 1*, which also shows each investment type's method of sustainability measurement and acceptable financial return terms.[4]

Figure 1: The Continuum of Capital



1 Finance-only capital is exclusively focused on financial returns.

2 Finance-first capital prioritizes financial over impact returns.

3 Impact-first capital prioritizes impact over financial returns.

4 Intentionality refers to the investors' intention to contribute to measurable and positive social or environmental benefits.

5 Impact investing must avoid harm, benefit stakeholders, and contribute to stakeholders.

6 Catalytic investments are designed to generate or enhance impact by attracting market-rate investors who would not otherwise invest.

7 For more on negative or norms-based screening see Wagstaff, Revesz, and Stewart (2024).

8 These impact intentionality measurement metrics are derived from Tideline's Framework for Impact Labeling (BlueMark, Morgan, Lewis & Bockius LLP, 2021).

Types of impact investment capital

In terms of financial return, there are two main types of impact investment capital:

1. **Market-rate impact capital (MIC):** These investments seek to achieve financial returns equal to those of comparable non-impact investments while also generating positive and measurable social and/or environmental outcomes or impact.
2. **Below-market-rate impact capital (BIC):** These investments aim to deliver positive and measurable social or environmental outcomes despite the associated financial returns being beneath the market rate. BIC opportunities offer incentives to encourage market-rate investors to participate. Other names for BIC are patient capital, concessionary capital, and catalytic capital (although it should be noted

that there are some instances in which catalytic capital is priced at market rates in acknowledgment of the higher risk associated with being the first mover in a space). Program-related investments (PRI) are typically also a type of BIC.

When MIC and BIC combine, they produce a third form of impact investment: blended capital.

Modern Portfolio Theory and impact investing

In 1952, economist Harry Markowitz introduced a transformative idea in his paper "*Portfolio Selection*"—that the performance of an individual asset matters less than how it contributes to the overall risk and return of a diversified portfolio.[5] This insight became the foundation of **Modern Portfolio Theory**, which helps investors construct portfolios that optimize returns for a given level of risk by emphasizing diversification and asset correlation.

Markowitz's work earned him the **1990 Nobel Memorial Prize in Economic Sciences**, which he shared with William Sharpe and Merton Miller. The Nobel Committee recognized his theory of portfolio selection as a breakthrough in financial economics. Today, it remains a cornerstone of investment strategy, shaping how individuals and institutions manage risk and return.

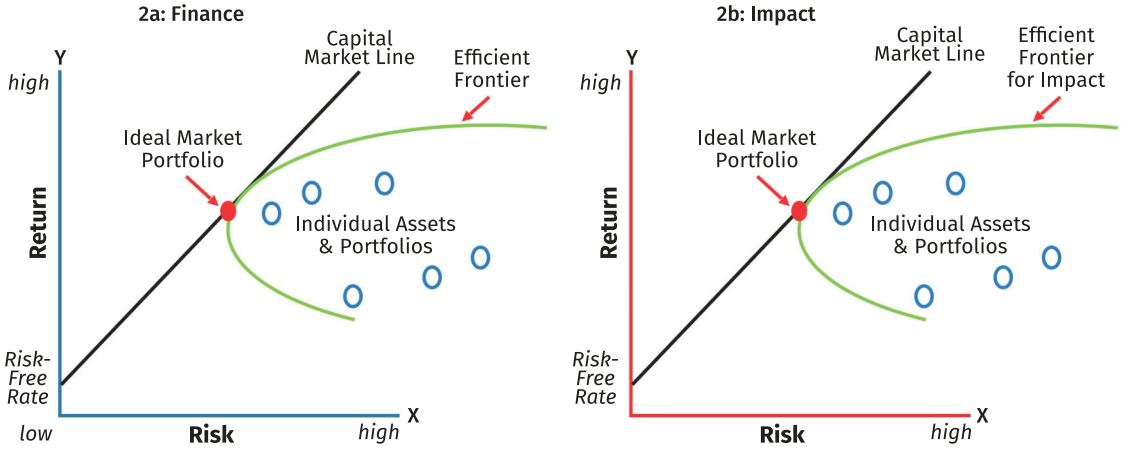
Modern portfolio theory is a strategy that's designed to balance the risk and return of assets in a portfolio based on the investor's risk tolerance. This relationship is visualized through the *efficient frontier*—a curve that represents the set of optimal portfolios offering the highest expected return for a given level of risk or the lowest risk for a given level of return.[6]

Building on this concept, *Impact Frontiers introduced the Efficient Impact Frontier (EIF)*—a framework that maps portfolios based on their **risk-adjusted financial returns** and **risk-adjusted impact returns**.[7] The EIF enables investors to identify the most effective combinations of financial performance and social/environmental impact.

While financial return is typically measured using standardized tools such as *Internal Rate of Return (IRR) or Net Present Value (NPV)*,[8] the field of impact return is still evolving. There is no universally accepted model for projecting impact returns, but the EIF provides a structured way to begin defining and evaluating them.

Figure 2 *illustrates this concept of two efficient frontiers that plot return on the y-axis and risk on the x-axis:*[9]

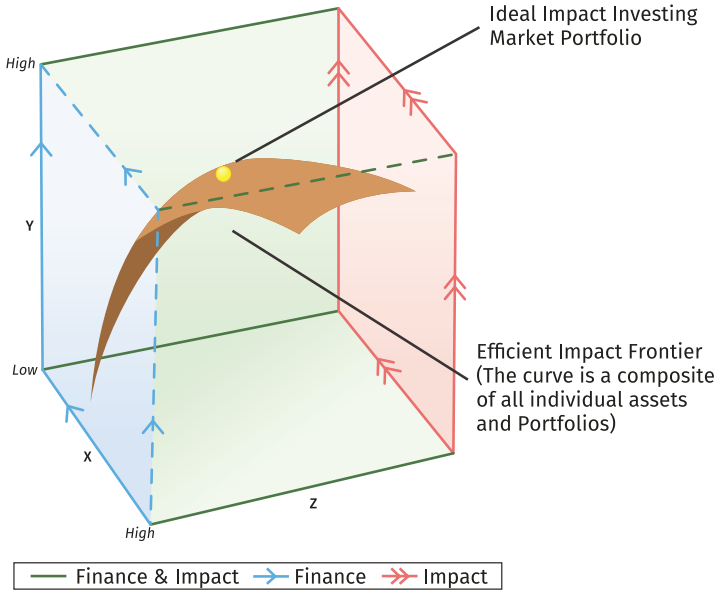
Figure 2: Efficient Frontiers



1. **Figure 2a** shows the traditional efficient frontier, which identifies the optimal financial return for a given level of risk.
2. **Figure 2b** mirrors this concept for impact, illustrating how impact returns can be optimized relative to risk.

To visualize the full opportunity set for impact investments, *Figure 3* introduces a three-dimensional model.[10] This model connects the financial and impact frontiers using a z-axis, creating a unified space that represents the **Efficient Impact Frontier**. This 3D representation allows investors to assess whether a given impact investment offers an acceptable balance of financial and impact returns.

Figure 3: Efficient Impact Frontier

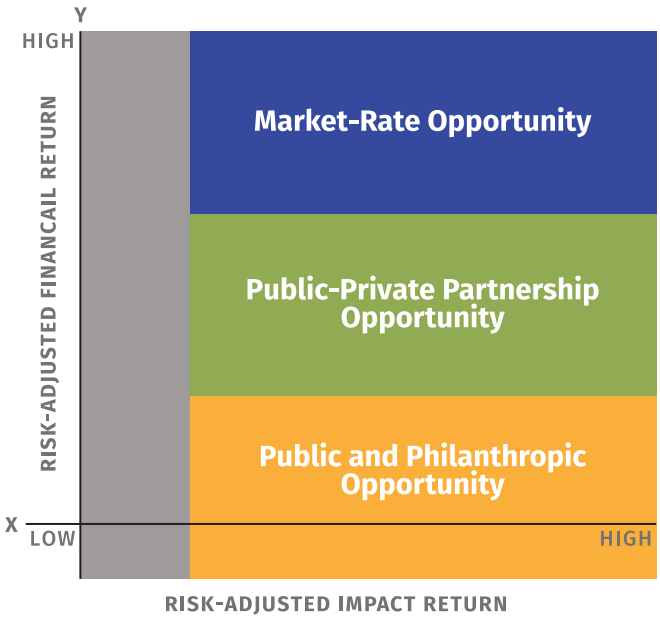


By using the EIF, investors can better understand how to allocate capital in ways that maximize both financial performance and positive social and/or environmental outcomes, bringing clarity and structure to a field that is still developing its standards for measuring impact.

The goal of impact investing

The ultimate goal of impact investing is to realign the market to comprehensively evaluate both the financial returns and impact of all investments. An interim step toward that is to define the impact investing market by systematically categorizing impact investments into three distinct tiers based on their expected financial and impact returns (*see Figure 4*).[11]

Figure 4: The Goal of Impact Investing: Realigning the Market to Positive Impact



1. **Market-rate opportunities:** Investments made to achieve both market-rate financial returns and at least the minimum required intended social/environmental impact.
2. **Public-private opportunities:** Investments that pool private-sector capital that seeks a market-rate return with public-sector capital (from central and local governments or publicly owned corporations) that is priced below market rates to achieve an acceptable blend of financial return and social/environmental impact.
3. **Public and philanthropic opportunities:** Investments made by the public sector or private (for-profit and non-profit) entities that are priced below market rate and prioritize social/environmental impact returns. Strictly speaking, philanthropy is distinct from impact investing in the sense that it places no emphasis on financial returns.

(For the complete analysis, please see *"Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments."*)

The fundamentals of an impact investment strategy: Four Questions

To effectively operate within the three-tiered market system shown in Figure 4 (above), investors must address four fundamental questions that form the backbone of any impact investment strategy:[12]

1. **Impact definition:** How is impact clearly and consistently defined across different investment contexts, ensuring alignment between investor intentions and measurable outcomes?

2. **Impact measurement:** How is impact accurately measured and quantified using reliable methodologies that can be applied consistently across the investment tiers?
3. **Impact timing:** When is impact measured throughout the investment lifecycle and what are the appropriate intervals and milestones for assessment and reporting?
4. **Return acceptability:** What constitutes an acceptable level of return for the impact achieved, taking account of the trade-off parameters between financial returns and social/environmental outcomes across the three investment tiers?

These foundational questions must be resolved before investors can effectively navigate the tiered market system and make informed decisions about capital allocation across market-rate, public-private, and public and philanthropic investment opportunities.

Key Takeaways

- Impact investments aim to generate **positive, measurable social and/or environmental outcomes and financial returns**. All impact investments should be intentional, based on data and evidence, focused on performance management, and committed to sharing learning.
- Impact investments exist on a **continuum of capital** that ranges from traditional investments (which are concerned only with financial outcomes) to grants (which are concerned only with social and/or environmental impact). Uniquely among the investment types on the continuum, impact investment balances finance-first and impact-first approaches.
- **Modern Portfolio Theory**, created by Harry Markowitz, introduced the concept of the **efficient frontier**, **emphasizing** that **portfolio-level risk** and **return** are more important than individual asset performance.
- **The Efficient Impact Frontier (EIF)**, developed by Impact Frontiers, extends the efficient frontier by **mapping portfolios** based on **both financial** and **impact returns**. It offers a structured approach for investors to balance financial performance with measurable social and environmental impact.
- The two types of impact capital **are market-rate and below-market-rate**, which are distinguished by the extent of the investors' commitment to achieving the same level of financial return that would be expected from a traditional investment. Regardless of type, the overall goal of impact investment is to create a market that balances some financial return with positive social/environmental impact.

- The **four fundamental elements of an impact investment strategy** are defining the intended impact, calculating how it will be measured, establishing when it will be measured, and agreeing the acceptable levels of both financial and social/environmental returns.

Impact Investment Opportunity Sets

Key Concepts

In this section we will:

- Explain the concept of an **impact investment opportunity set**.
- Introduce the **Impact Investment Opportunity Field** and explore how it allows investment opportunities to be classified based on their degree of impact and intended level of financial return.
- Look in detail at the **three impact investment opportunity sets**: market rate (commercial), below market rate (concessionary), and blended capital.
- Discuss **non-investable impact-focused funds** (grants), which are not classified as impact investments because they do not seek any financial return.

A traditional investment opportunity set is the range of investment options available to investors based on their capital's financial requirements.

Similarly, an impact investment opportunity set is the range of investment options available to investors based on their capital's financial and impact requirements.

The following units describe the Impact Investment Opportunity Field and show how it can be used to categorize different investment opportunity sets.

Impact Investment Opportunity Field

Note: *Drawing on the framework proposed by Daniel Soliman, this section examines the **'Complete Range of Impact Investments'** to categorize portfolio performance.*[13]

Key Concepts

In this unit, we will:

- Explore the Impact Investment Opportunity Field, highlighting how it relates to **modern portfolio theory** and the concept of **the efficient economic frontier**.
- Discover how the field's **efficient impact frontier** is defined by the balance of social/environmental impact and financial reward.

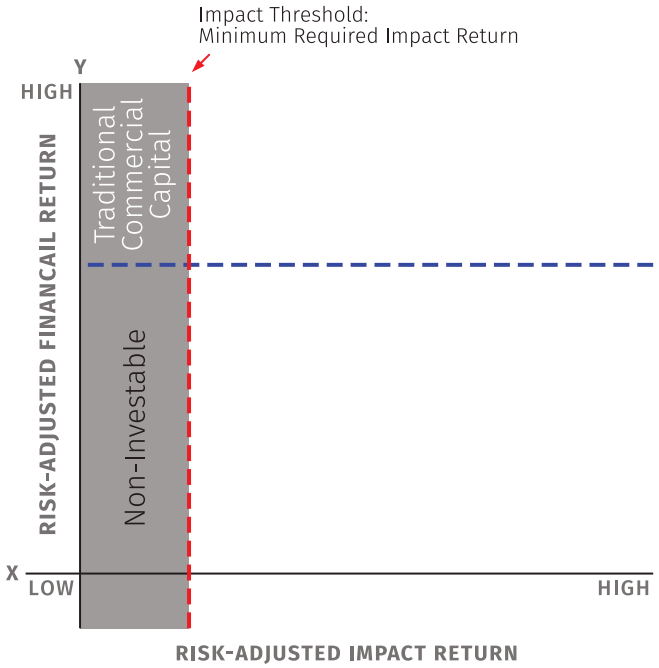
The Impact Investment Opportunity Field (Figure 5) can be used to depict all potential impact investments and determine which ones are viable based on their risk-adjusted levels of financial and social/environmental returns. To understand how that works, it is first necessary to know a little about modern portfolio theory and how it has been extended to encompass impact investing.

The two foundations of modern portfolio theory are risk and (economic) reward. According to that theory, an analysis of the risk/reward relationship produces the efficient economic frontier, that is, the set of optimal portfolios that offer the highest expected financial return for a defined level of acceptable risk or the lowest risk for an acceptable level of expected financial return.

The extension of modern portfolio theory for impact investment comes through the concept of the efficient impact frontier. Where the efficient economic frontier focuses on the relationship between risk and economic reward, the efficient impact frontier allows investors to determine which sets of portfolios offer optimal combinations of risk-adjusted financial and impact returns.

Figure 5 gives an example of charting the Impact Investment Opportunity Field using the efficient impact frontier.

Figure 5: Impact Investment Opportunity Field



As the figure shows, the Impact Investment Opportunity Field consists of a chart depicting the risk-adjusted impact returns on the x-axis and risk-adjusted financial returns on the y-axis for all possible investments. That allows potential investors to position each impact investment opportunity set relative to the efficient impact frontier. The exact placement of the frontier itself is determined by two minimum thresholds:

1. **Impact threshold:** The minimum impact required for an investment to be classified as an impact investment. In Figure 5, the impact threshold is marked in **red**.
2. **Market-rate threshold:** The minimum required financial return for comparable non-impact investments. In Figure 5, the market-rate capital threshold is highlighted in **blue**.

Opportunities that do not meet both the impact and market-rate capital thresholds are either (1) traditional market-rate investments or (2) non-investable. Traditional investments meet only market-rate capital thresholds and would thus be placed in the upper-left quadrant of the figure. Non-investable opportunities meet neither the minimum market rate nor the minimum impact returns and would thus be shown in the lower-left quadrant.

Investments to the right of the impact threshold, on the other hand, are viable impact investments. Those investments can be classified into three opportunity sets: market-rate impact investments, below-market-rate impact investments, and blended capital. These opportunity sets are the subjects of the next three units.

Key Takeaways

- The **Impact Investment Opportunity Field** allows potential investors to determine which sets of opportunities are viable impact investments.
- It does so by **plotting them against two thresholds**, which are based on minimum levels of social/environmental and financial returns.
- Opportunities that meet financial but not impact thresholds are classified as **traditional investment opportunities**. Opportunities that meet neither of the thresholds are classified as **non-investable**.
- The remaining opportunity sets are viable impact investment options that can be further classified as **market-rate impact investments**, **below-market-rate impact investments**, and **blended capital**.

Market-Rate Impact Capital (MIC) Opportunity Set

Key Concept

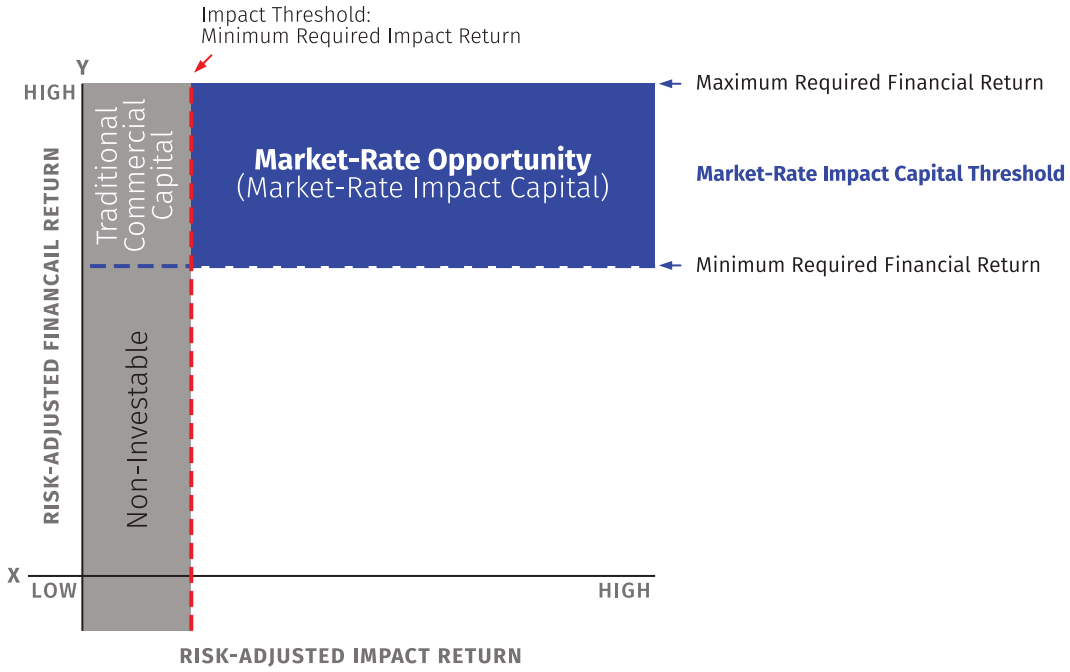
In this unit, we will:

- Explore **market-rate impact capital** opportunity sets and show where they are placed on the Impact Investment Opportunity Field.

Market-rate impact capital (MIC) opportunities are investments that seek to achieve financial returns equal to those of comparable non-impact investments while also generating positive and measurable social and/or environmental outcomes.

When graphed on the Impact Investment Opportunity Field, MICs are equal to or above the market-rate capital threshold, which means that they meet the minimum required financial return dictated by the market (see Figure 6).

Figure 6: Market-Rate Impact Capital (MIC) Opportunity Set



The minimum and maximum financial returns of MICs are calculated using current projected market returns.

MIC investments are primarily made by non-governmental entities (including both for-profits and non-profits). However, the public sector can also make MIC investments.

Key Takeaway

Market-rate impact capital (MIC) opportunities are investments that aim to deliver positive social and/or environmental outcomes while also generating **levels of financial return that would be acceptable to traditional investors** who focus solely on generating profit.

Below-Market-Rate Impact Capital (BIC) Opportunity Set

Key Concept

In this unit, we will:

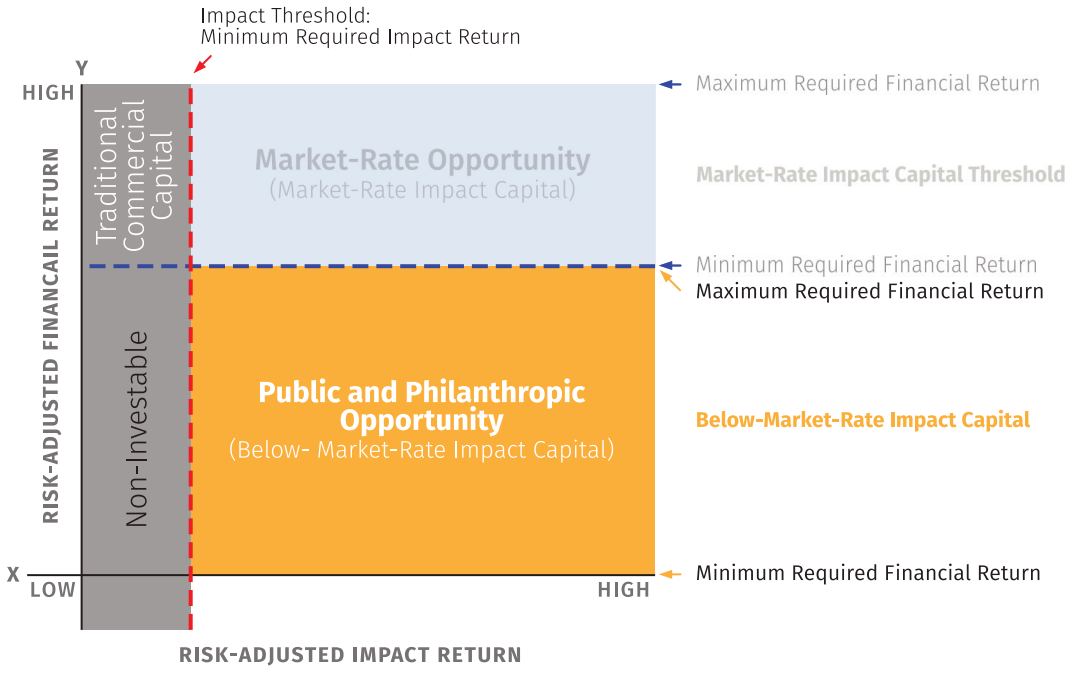
- Explore **below-market-rate impact capital** opportunity sets and show where they are placed on the Impact Investment Opportunity Field.

BICs are impact investments that provide the necessary incentives for MIC investors to participate in an investment structure projected to produce outcomes that align with the BIC investor's environmental and/or social goals.

BICs are only necessary for potential investments when financial concessions (1) induce market-rate investors to commit capital by creating a viable investment structure and (2) establish criteria that ensure the investment generates or enhances the specified outcomes or impact goals set by the BIC investor(s). The sort of financial inducements offered may include guarantees for debt at below-market rates and equity with asymmetrical returns.

When graphed on the Impact Investment Opportunity Field (Figure 7), BICs are investments below the market-rate capital threshold, which means that their projected financial return is lower than the minimum required for market-rate return.

Figure 7: Below-Market-Rate Impact Capital (BIC) Opportunity Set



The minimum financial return for BICs is 0 percent (the internal rate of return is zero, meaning that the investment does not produce any return and only the investment capital is returned at the end of the investment term).

The maximum financial return for BICs is asymptotic to the minimum market-rate capital threshold, which means it approaches but never reaches the minimum financial return for market-rate capital.

BIC investments are made by the public sector (central governments, local governments, or through publicly owned industries/corporations) or non-governmental entities (including both for-profits and non-profits).

Key Takeaway

- Because below-market-rate impact capital (BIC) opportunities offer financial returns below commercial capital thresholds, **they come with incentives** to encourage MIC investors to participate and contribute to the achievement of social and/or environmental goals.

Blended Capital Opportunity Set

Key Concepts

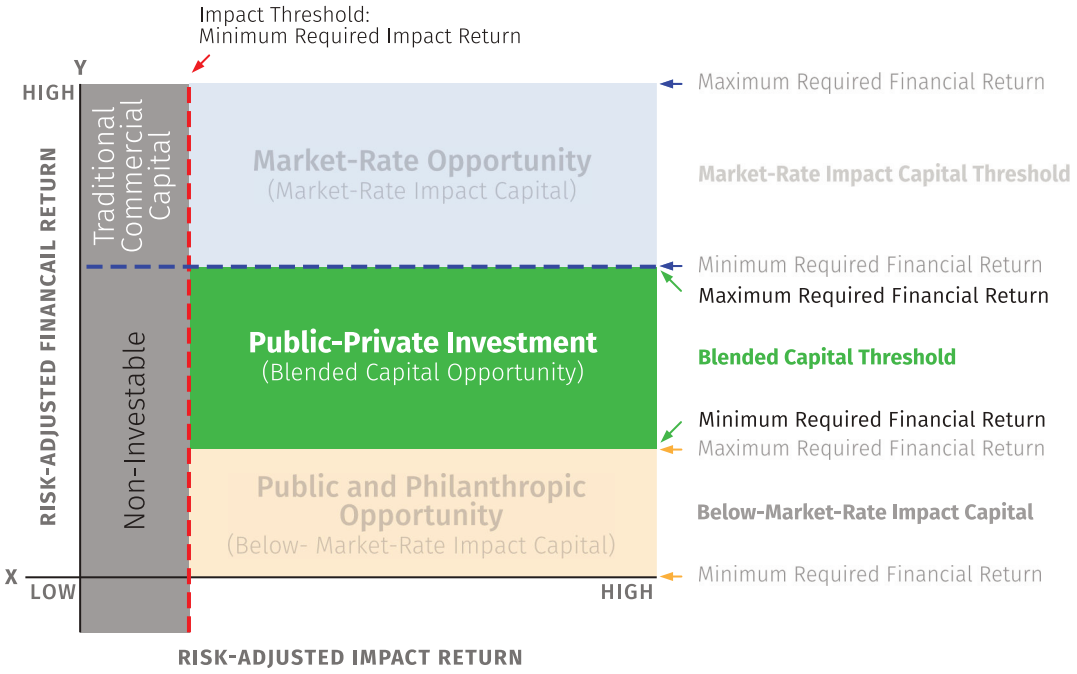
In this unit, we will:

- Explore **blended capital** opportunity sets and show where they are placed on the Impact Investment Opportunity Field.
- Introduce the **two types of blended capital strategies**: distinct blended finance and integrated blended capital.

When the range of impact investments is expanded to include impact investment opportunities where BICs and MICs are combined, a third type of impact investment emerges: blended capital, which combines capital with different levels of risk to catalyze risk-adjusted market-rate-seeking financing into impact investments.

When graphed on the Impact Investment Opportunity Field (Figure 8), blended capital opportunities sit between BICs and MICs.

Figure 8: Blended Capital Opportunity Set



Functionally, blended capital pools MIC from the private sector with BIC from the public sector (i.e., central governments, local governments, or publicly owned industries/corporations) or non-governmental philanthropic investors to achieve an acceptable blended financial return and an intended social and/or environmental return.

There are two blended strategies:

1. **Distinct blended finance:** MICs and BICs are mutually exclusive within the investment structure (for example, a real estate project where all funding sources are kept separate on the capitalization table, which shows the percentage of equity that each investor holds in the project).
2. **Integrated blended capital:** MICs and BICs are combined to make investments (for example, a private equity fund with contributions from both MIC and BIC investors).

In both cases, the BICs are priced to induce the MIC investors to participate, and the weighted average cost of capital is reduced to make the investments viable.

As shown in Figure 8, the minimum financial return for blended capital is asymptotic to the maximum BIC threshold (i.e., it can approach it but never reach it). Similarly, the maximum financial return for blended capital is asymptotic to the minimum MIC threshold (i.e., although it might near it, it will never cross it).

Key Takeaways

- The combination of market-rate and below-market-rate impact investments produces a third category: **blended capital**.
- Blended capital investments sit **between the two other main types of impact investment**, sitting above the maximum financial threshold of BICs but below the minimum financial threshold of MICs.
- There are two blended strategies: **distinct blended finance** (which keeps MIC and BIC investments separate) and **integrated blended capital** (which puts MICs and BICs into a single pool from which investments are made).

Non-Investable Impact-Focused Funds (Grants)

Key Concept

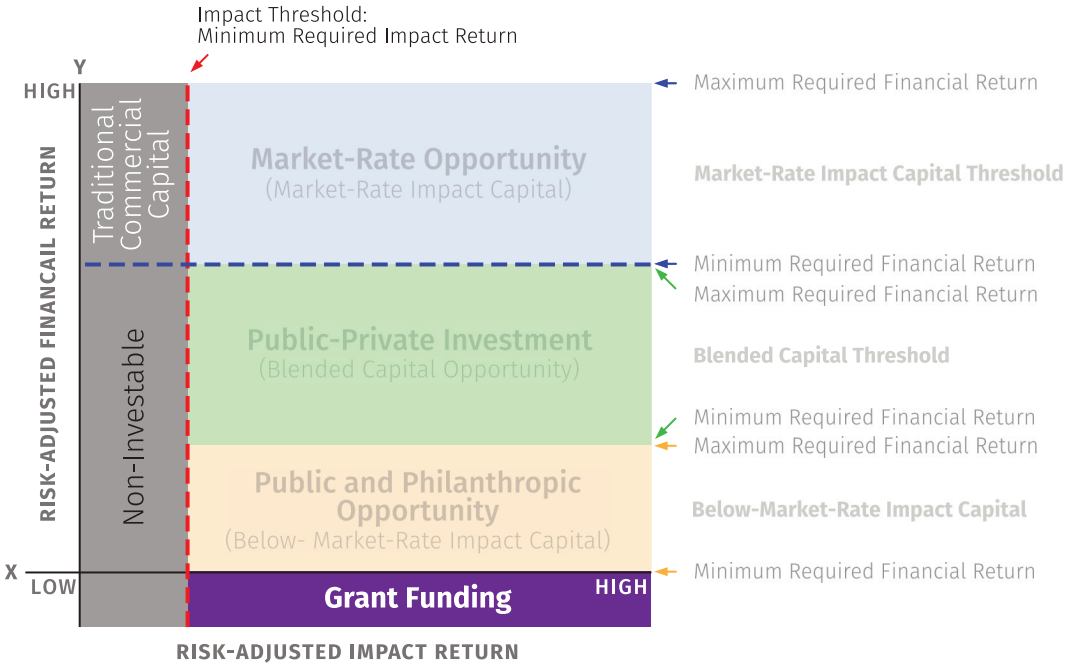
In this unit, we will:

- Explore **non-investable impact-focused funds** (grants) and explain why they are not classified as impact investment opportunities.

Grant funding, in this context, is capital provided by an individual or agency that is focused solely on impact return and willing to have a 100 percent negative financial return (meaning none of the grant capital will be returned). For that reason, grant funding is not an impact investment opportunity.

When graphed on the Impact Investment Opportunity Field (Figure 9), grant funding opportunities are placed below the minimum required financial return threshold of BICs, indicating that they are not impact investments.

Figure 9: Grant Funding Opportunity Set



The minimum grant funding threshold is a 100 percent negative financial return. Therefore, the maximum financial return for grant funding is asymptotic to a 0 percent financial return.

The public sector or non-governmental entities make the majority of grants; however, the private sector also makes grants.

Key Takeaway

- Grant funding focuses solely on impact and is given with a **willingness to have no financial return at all**, meaning that it cannot be classified as an impact investment.

Impact Investments: Financial Instruments

Key Concept

In this section we will:

- Examine the **three primary financial instruments** used in impact investments.

Corporate Finance Institute explains that financial instruments are contractual arrangements involving monetary assets that can be bought and sold, issued, altered, or ultimately settled.[14]

There are two primary financial instruments used in impact investing:

1. **Debt-based financial instruments:** Mechanisms that an entity can use to increase a business's capital. Debt structures often have a limited duration and interim cashflow payments of principal and/or interest. If they are not fully amortizing, they come with refinancing risks at the end of their duration. Examples include mortgages, bonds, and debentures.
2. **Equity-based financial instruments:** Mechanisms that serve as the legal ownership of an entity. Equity effectively has an infinite duration and has no required cashflows.

   Note: *There is a subset of financial instruments that have unique debt and equity elements to address the needs of the investee. Examples include revenue-based financing that enables patient capital without dilution or exits.*

Key Takeaways

- Financial instruments are **contracts for monetary assets** that can be created, modified, bought, traded, or settled.
- There are two primary financial instruments: **debt-based** and **equity-based**.

Key Learnings from Module 1:
Overview of Impact Investing

- Traditional investments are exclusively focused on financial returns. In contrast, **impact investments balance financial returns with positive and measurable social and/or environmental impact**.
- Impact capital can be **market rate, below market rate, or blended**.
- Market-rate impact capital (MIC) seeks **levels of financial return equivalent to traditional investments**.
- Below-market-rate impact capital (BIC) accepts lesser financial returns but **offers other inducements** to attract investment.
- The **combination of MIC and BIC** produces blended impact capital.
- The **Impact Opportunity Field** can be used to determine whether an investment opportunity should be classified as an impact investment and which type it is.
- The two **financial instruments related to impact investment** are debt-based mechanisms and equity-based mechanisms.

Now that we have covered the overview of impact investing, it is time to start exploring the details of impact investing strategies in the next Module.

MODULE 2

IMPACT INVESTMENT STRATEGY

MODULE 2

IMPACT INVESTMENT STRATEGY

Learning Outcomes & Objectives

Now that you understand the overview of what impact investing is and how it works, it is time to start getting into the details of how to translate theory into practice by putting together an impact investment strategy. After working through this Module, you will be able to:

- Define an **impact investing strategy**, identify **the characteristics of a well-structured strategy,** and locate the strategy creation phase within **the impact investment fund lifecycle**.
- Describe an **impact thesis** and understand how it relates to a traditional investment thesis.
- Understand the **theory of change** and how it provides the framework for the impact thesis by setting out how an investment and a series of subsequent activities lead to outputs, outcomes, and impact.
- Appreciate the role of **qualitative data** in the impact thesis and the importance of sharing such data equitably.
- List the **three main components of an impact thesis** and understand the sequence in which they are created.

Executive Summary

Investment strategy

An investment strategy is a set of principles developed to achieve an investor's goals. An impact investment strategy is a set of principles designed to achieve an investor's impact and financial return goals.

Impact thesis

Impact investing strategies should be developed during the first phase of the impact investment fund lifecycle (fund formation). They set out **detailed approaches to allocating resources** in ways that are intended to **maximize financial and impact returns** while appropriately managing risks.

One key element of the strategy is the **impact thesis**, which **details with evidence the logical connections** between the initial investment and the positive, measurable social and/or environmental outcomes and **impact it is intended to deliver**.

The impact thesis process outlined in this book is built on a **theory of change**. It aligns the impact pathway and may incorporate complementary models, such as logic models, outcomes chains, or system maps.

Regardless of which framework you use, it essentially **traces the logical links between five stages**, spanning from contributions to results.

The **first two stages are contributors**: the **original investment and the activities** delivered by the organization(s) receiving that investment. Such activities can include the **provision of services or the creation of products** that aim to lead to the realization of the desired impact.

The **next three stages are resultants**: the **outputs, outcomes, and the impact produced**. Essentially, **outputs** are recordings of the quantity of products that have been created or services that have been delivered. **Outcomes** are recordings of the **quantitative** or **qualitative** difference that those products or services made to the intended target in the short or medium term. For an impact thesis to be robust, outcomes must be **clearly demonstrated** and **quantifiable**. A **quantifiable outcome** is a **measurable change** in the **target population**. This focus on quantifiable outcomes is essential, as it shifts the emphasis from merely counting activities (outputs) to measuring tangible, real-world change. **Impact** refers to the long-term difference that those outcomes have made. However, it is important to note impact **will not be seen** during the relatively short lifecycle of a typical impact investment.

Qualitative data

Qualitative data refers to information that cannot be expressed numerically. It typically includes **detailed descriptions of situations or individuals**, direct quotes from people about their experiences or perceptions, and extracts from documents and records.

The use of such data in an impact thesis can help to evidence potential impact and **persuade stakeholders of the benefits of the investment and the activities that it will fund**. To maximize the benefits of the qualitative data used, it should be shared in **equitable ways**, which means making it accessible to a wide range of stakeholders so that they can respond to it and influence the conversation about the investment and its impact.

Impact thesis components

The impact thesis consists of three main components: **understand (define the problem), invest (define the opportunity), and project (forecast the returns).**

The understand stage involves gathering data about the issue you wish to address and using it to compile **the problem statement**. The invest stage requires you to work out what you will do about the problem, which involves identifying the sort of businesses in which you will invest and the **products/services that they will deliver** with that investment. At the project stage, you **forecast the returns** that your investment will generate in terms of outputs, outcomes, impact, and money.

Impact Thesis

Key Concepts

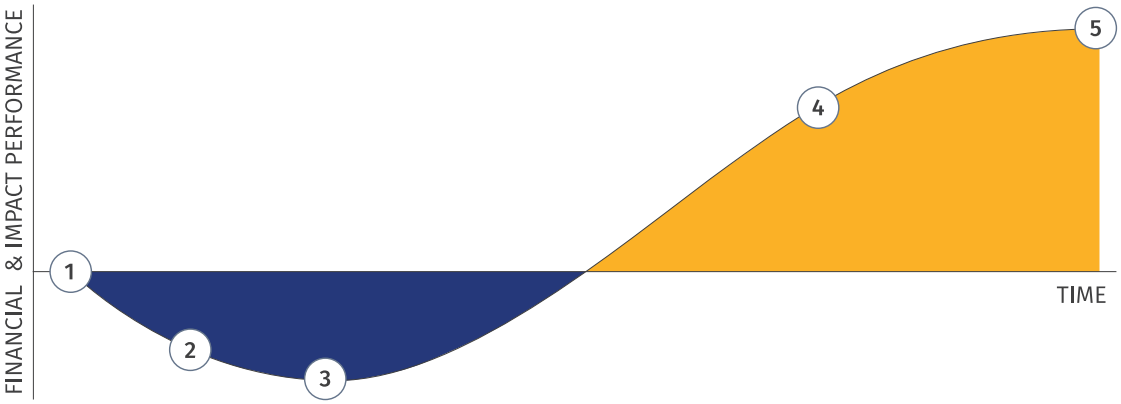
In this section we will:

- Discuss **impact investing strategies**, explaining what they feature and when they are created during the impact investment fund lifecycle.
- Define the **impact thesis** within the strategy and show how it relates to traditional investment theses.

To understand an impact thesis, it is first necessary to put it into the context of an overall impact investment strategy, as described below.

An impact investment strategy details a systematic approach to allocating resources to maximize both financial and impact returns while managing risk. A well-structured strategy considers the investors' financial and impact goals, risk tolerance, and investment horizon (i.e., the length of time that they expect to hold the investment) to ensure that the portfolio aligns with their long-term objectives. This strategy is formulated during the fund formation phase of the impact investment fund lifecycle (Figure 10).

Figure 10: Impact Investment Fund Lifecycle



Stage	Description
1. Formation	Creating an investment vehicle by developing the fund's legal and operating framework, including building the impact investment thesis.
2. Fundraising	Securing investments from external sources that align with the fund's strategic financial and impact goals.
3. Deployment	Managing the capital and monitoring/reporting the fund's financial and impact performance to investors.
4. Harvesting	Begin asset liquidation to maximize returns while preparing the comprehensive impact report. Investors will start to see realized gains alongside verified outcome data.
5. Liquidation	Distribution of returns and final impact report to investors.

Note: Adjecent stages occur concurrently. During early stages, the curve reflects capital outflow; impact returns are not yet realized.

The impact thesis is the main document that outlines the strategy for the impact investment fund. *A traditional investment thesis* acts as a formal argument explaining the logic behind a potential deal's profitability.[1] To be convincing, this analysis must highlight specific, tangible results rather than depend on vague or theoretical strategic value.[2]

Applying these concepts to impact investing, *Next Generation's Impact Investment Index* notes that a strong investment and impact thesis combines the various parts of a complex strategy into a clear, rigorous story—based on data and other supporting evidence—and that this is often more difficult for impact funds because their stories tend to be more multifaceted than those of traditional funds.[3]

In the rest of this guide, we will explore the components of an impact thesis in much more detail to show how it can be used to conduct due diligence on impact investments.

Key Takeaways

- Impact investing strategies detail **systematic approaches to allocating resources to maximize both financial and impact returns** while managing risk. They should be developed during the **fund formation phase** of the impact investing lifecycle.
- The impact thesis outlines the impact investment fund's strategy and **gives evidence to show** how it will deliver positive, measurable outcomes.

Theory of Change

Key Concepts

In this section we will:

- Define the **theory of change**, and show how it connects with the impact thesis.
- **Touch upon** frameworks such as **logic models** and **outcome chains**.
- Discuss and differentiate the **theory of change components**, which consist of **contributors (inputs and activities)** and **resultants (outputs, outcomes, and impact)**.

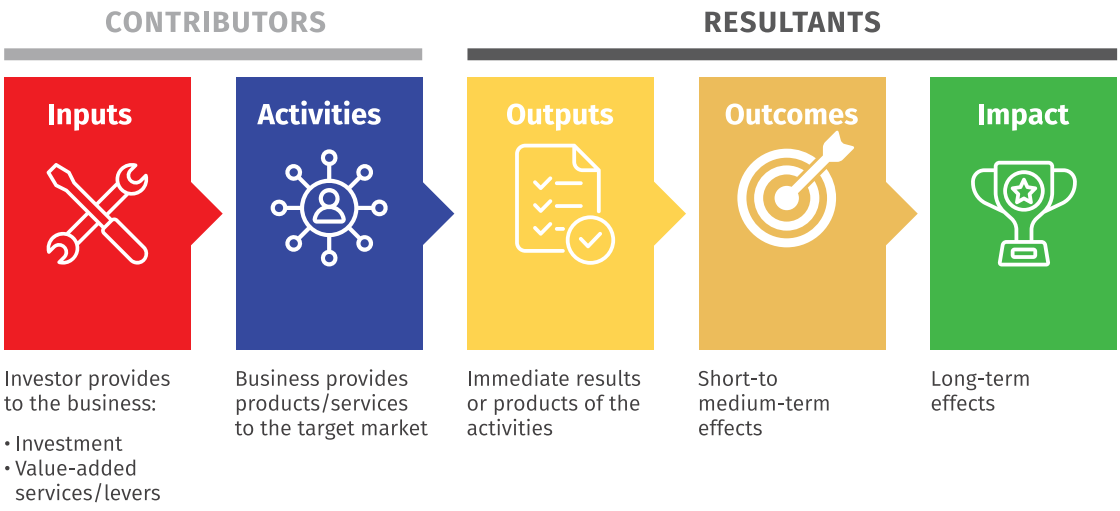
The framework leverages a theory of change model that aligns with *Impact Frontier's* impact pathway model by showing the direct link from investor contributions to the resulting effects on people and the environment.[4]

A theory of change can draw on elements from complementary frameworks, such as logic models, outcomes chains, or system maps. These approaches are related and often involve the same or similar components; in fact, their names are sometimes used interchangeably.

The theory of change example given in Figure 11 shows how directed investments in a business that provides products/services to target customers are projected to lead to intended outputs, outcomes, and possibly impact, drawing on a causal analysis based on available evidence.

A traditional theory of change explains with evidence and analysis how a given intervention (also known as a program) or set of interventions is expected to lead to specific development change (*United Nations Development Group*).[5] Here, that methodology will be adapted to fit the context of an impact investment.

Figure 11: Theory of Change Components



As Figure 11 shows, the five components of the theory of change can be divided into two categories (contributors and resultants), which are detailed below:

Contributors: The essential elements needed to achieve measurable effects for the target customers. Contributors can be divided into the following two components:

1. **Inputs:** The investment that the investor makes in businesses that can provide products and/or services likely to achieve the investor's intended positive social and/or environmental effects. Inputs can also include such value-adds as the resources and relationships the businesses draw upon for their activities and the contextual elements that define them.[6]

   Note – the input stage can look slightly different when an impact investor is investing in an impact fund of funds. In such cases, the first step in the theory of change is to invest in the fund of funds before sourcing businesses in which to invest.

2. **Activities:** The product(s) and/or service(s) the invested businesses provide to the target market that are projected to produce positive social and/or environmental results. Activity components may include operations, the procurement of additional inputs, and any supporting actions.[7]

Resultants: A collective term for the measurable outputs, outcomes, and impact resulting from the impact investment.[8]

3. **Outputs:** The direct result of an invested business's activities, including their products, services, and any byproducts that can be measured by output indicators or deliverables. An output indicator measures the immediate products or services produced by a program or project, offering information on the quantity and quality of goods or services created.
4. **Outcomes:** the projected short- and medium-term effects, both positive and negative, of the products or services provided by the investee business to the target customers, or the benefits that thereby flow to the natural environment.
5. **Impact:** The positive and negative primary and secondary long-term effects produced by the investee business's products or services that benefit the target customers or natural environment and can contribute to population-level change. Note that impact, as defined here, is unlikely within the timeframe of most impact investments.

Key Takeaways

- The theory of change is the sequence that **links inputs and actions with their social and/or environmental effects;** it provides the basis for the impact thesis.
- Alternative/complementary frameworks that may also be used include **logic models, outcomes chains, or system maps.**
- Theory of change components can be divided into **two contributors and three resultants.**
- The contributors are **the original investment and the subsequent products and/or services** provided by the organization receiving the investment.
- The resultants are the **outputs, (short- and medium-term) outcomes, and (long-term) impact** of the investment/activities.

Qualitative Data

Key Concepts

In this section we will:

- Introduce **qualitative data** by describing the different categories of information covered by the term.
- Discover how qualitative data can be used when **developing an impact thesis** and consider the importance of sharing such data equitably.

Quantitative data consists of information that can be measured numerically. In contrast, qualitative data refers to observations, perspectives, thoughts, and feelings that cannot be expressed with numbers. According to Michael Quinn Patton, this data generally falls into three categories:

- **In-depth observations:** Detailed accounts of specific events, behaviors, or interactions between individuals.
- **Direct accounts:** Firsthand narratives through which people describe their beliefs, attitudes, and lived experiences.
- **Written records:** Information drawn from existing documents, such as official reports, diaries, or case files.[9]

When developing your impact thesis, qualitative data can be very useful in two ways:

1. Aligning stakeholders, customers, and investors by providing context and real-world examples and stories about the community, customers, and issues.

2. Emphasizing the potential effects of an impact investment on communities, customers, and stakeholders based on data from comparable investments or research.

It is important that qualitative data and information be shared in equitable ways, ensuring that all stakeholders have access to clear, easily interpretable data.

Such data allows stakeholders to understand the need for the investment and follow the logic of the theory of change. It also enables them to measure the impact being achieved and contribute to discussions around the best approaches to take to maximize that impact.

Key Takeaways

- **Qualitative data cannot be expressed numerically** and typically includes detailed descriptions of situations or individuals, direct quotes from people speaking about their **experiences or perceptions**, and extracts from documents and records.
- Qualitative data strengthens the impact thesis in two ways: **it aligns stakeholders by providing human context and real-world stories**, and it **emphasizes potential effects** by drawing on evidence from comparable investments.
- Qualitative data must be **shared in equitable ways** that are relevant and clear to all stakeholders, allowing them **to actively influence the investment strategy** instead of just observing it.

Impact Thesis Components

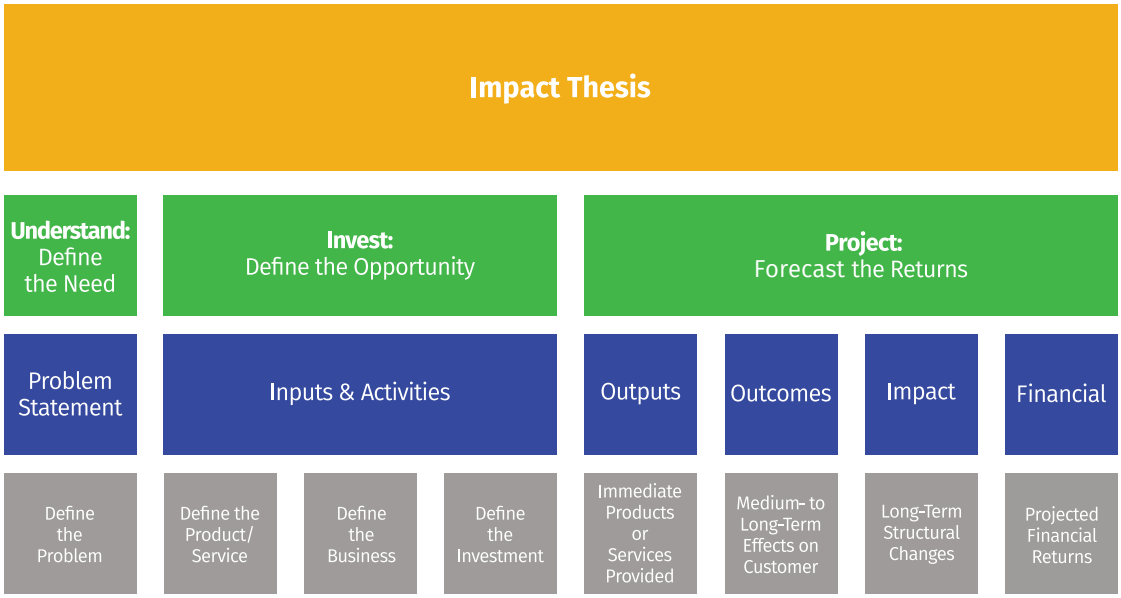
Key Concept

In this section we will:

- Explain the **three main components of an impact thesis** and understand the sequence in which they are created.

Building on the theory of change, the impact thesis is made up of three components, as shown in Figure 12.

Figure 12: Impact Thesis Components



1. **Understand: Define the need.** The first step is to define the problem statement, which states what issues the investment(s) will work to address for the target customers. The target customers are individuals experiencing issues that result in negative outcomes or impact.

   This component can also be thought of as the "but for" or the "status quo" test. In other words, potential investors should consider what negative outcomes or impact the target customers would experience without the impact investment.

2. **Invest: Define the opportunity.** The next step describes how the impact investment can address the target customers' problem(s) and will likely result in improved, positive outcomes and/or impact.

   This component includes defining the typical business in which to invest, the product or service provided by the business to the target customers, and the type of impact investment for this use case.

3. **Project: Estimate the returns.** This step involves estimating the projected outputs, outcomes, impact, and financial returns.

Key Takeaways

1. The impact thesis consists of three components: **understand** (define the need), **invest** (define the opportunity), and **project** (forecast the returns).

Key Learnings from Module 2

1. Impact investing strategies contain **detailed descriptions of how resources will be allocated** to maximize both financial and impact returns.
2. The impact thesis is a key element of the strategy that describes, with supporting evidence, **the connections between the initial investment, the activities it will fund, and the results it is meant to deliver**.
3. The **impact thesis is based on the theory of change**, which goes from investment through activities to outputs, outcomes, and long-term impact..
4. **Qualitative data** should be used to align stakeholders with the impact strategy and give them opportunities to contribute to discussions regarding the formation and delivery of strategy.
5. The three components of the impact thesis are **understand, invest, and project.**

Now that we have taken an initial look at impact investment strategies and introduced the components of the impact thesis, it is time to look in more detail at each of those components.

MODULE 3

UNDERSTAND: DEFINE THE PROBLEM STATEMENT (COMPONENT 1)

MODULE 3

UNDERSTAND: DEFINE THE PROBLEM STATEMENT (COMPONENT 1)

Learning Outcomes & Objectives

The essential first element of making an impact investment is understanding the problem that you are seeking to solve. So, let's look in detail at Component 1 of the impact thesis, which focuses on identifying both the problem and the people who will benefit from the solution.

After working through Module 3, you will be able to:

- **State the problem**, including identifying its magnitude/size and the specific pain points experienced by the target customers.
- List **potential customer groups and individuals**, including determining the projected number of potential customers and their distinguishing characteristics.
- Identify techniques for defining the **size of the problem**.

Executive Summary

Problem definition is the essential first element of creating the impact thesis that informs any impact investment. Understanding the problem requires asking:

- **What is the problem?**
- **Who does it affect?**
- **What is the size of the problem?** (Optional)

What is the problem?

The **first step in problem definition** is identifying the specific social and/or environmental issues that are present. Identifying gaps in the **value chain or the customer's journey map** helps to highlight aspects of the problem that impact investment could address. **Engagement with the affected community** and relevant research/data helps to identify the precise nature of the problem and the negative impact it is generating.

Who does this problem affect?

The **second step in problem definition** is identifying the total addressable market, that is, the number of people experiencing the problem. Such people can be connected by **shared characteristics** including their location, identity, income, or the benefits they receive.

After broadly defining the market, the next step is to explore it by **generating customer and stakeholder archetypes** that detail the behaviors, goals, and pain points of the various groups impacted by the problem. Here, the term “customer” refers to **the people who will directly use** the products or services funded by the impact investment, whereas the term "stakeholders" refers to any individual or group that will be impacted.

How big is the problem?

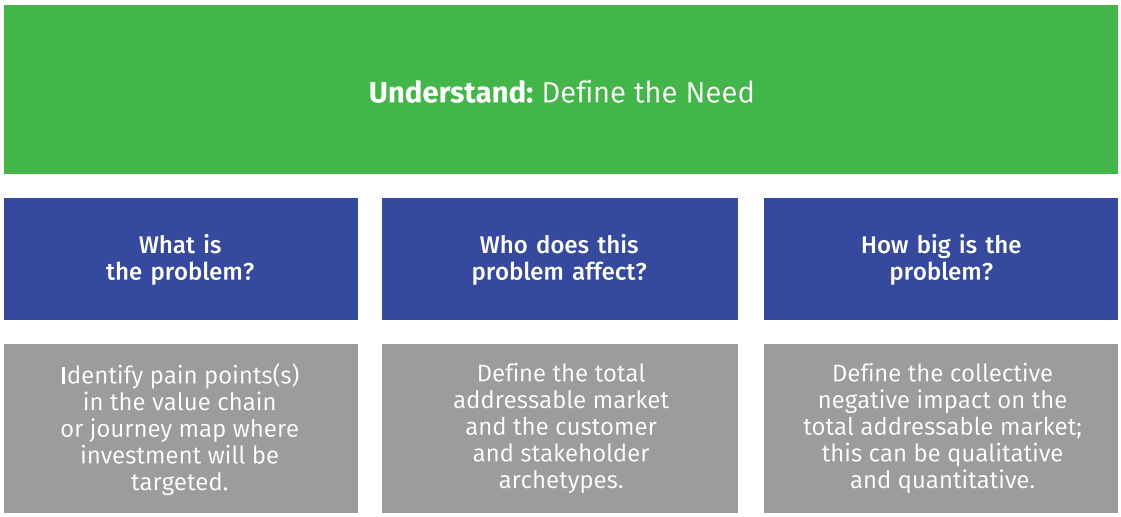
The **third step in problem definition** is determining the size of the problem, otherwise known as market sizing in traditional investments. This can be done by research, multiplying the total addressable market by the problem’s projected negative outcomes, or **calculating the monetary value** of the impact investment’s projected results.

Overview: Understand (Component 1)

Component 1 of the impact thesis is about understanding the problem, as shown in Figure 13. To achieve that, you must answer the following questions:

1. What is the problem the impact investment is trying to solve?
2. Who does this problem affect?
3. How big is the problem?

Figure 13: Understand: Define the Need



What is the problem the impact investment is trying to solve?

Key Concepts

In this section we will:

- Discuss how to **define a problem**.
- Consider the importance of identifying the gaps in the **value chain, customer's journey map, or current theory of change** that result from the problem.
- Highlight the importance of **engaging the community's voice** to better understand the problem.
- Discuss the value of **incorporating research** at the problem definition stage.

As mentioned in Module 2, this step can also be thought of as the "but for" or the "status quo" test. In other words, ask yourself what would be the negative outcome(s) and/or impact(s) for the target customers if there were no outside intervention. When you understand that, then you have started to define the problem.

The first step is to define what specific social and/or environmental problem(s) are occurring. The problem may be systemic; however, it will be important to focus the problem statement on the aspect(s) of the systemic problem that the investment thesis will address. It is essential to be as detailed as possible by identifying gaps in the value chain or the customer's journey map that result from this problem. A value chain, in this context, is a step-by-step breakdown of all the activities that create and deliver value to a customer. A *journey map* is a document that showcases the steps that a customer takes to accomplish a goal.[1] It may also be beneficial to draft a theory of change or impact pathway to better understand the customer's current pain point(s).

It is also essential to incorporate *human-centered design* by including the community's voice, which involves using community-informed research and interviewing community representatives to better understand the problem.[2] Community voice is the analog to consumer research in product development. Similarly, community engagement is an iterative process that does not stop when you have completed Component 1 of the impact thesis. When working on Component 2, you will do more detailed work to identify the people affected by the problem, so you need to make sure that you return to community engagement at that stage, and throughout the whole process, to ensure that all relevant voices are heard and incorporated into both your problem definition and the planning and delivery of your solution.

While working on Component 1 specifically, the more pertinent data and research you use to strengthen your understanding of the problem and related assumptions, the stronger the link will be between the problem, the potential impact investments, and the projected positive resultants from those investments.

Key Takeaways

- Problem definition requires you to identify the **specific social/environmental problem** that is occurring and to highlight the aspects of that problem **that the impact investment could address**.
- Identifying gaps in the value chain or customer's journey map helps you to **understand the nature of the problem in detail** and **start identifying places** where the impact investment could make a difference.

- Engaging with the **voice of the affected community** in your research is an essential step toward fully understanding the problem.
- Incorporating relevant **research and data into your analysis** forges an understanding of the problem and the links between potential impact investments and their desired results.

Who does this problem affect?

Key Concepts

In this section we will:

- Define the concept of the **total addressable market**.
- Show how **customer archetypes** can be used to understand the market in greater detail.
- Discuss the distinction between **customers and stakeholders** and identify the different categories of each group.
- Explore **methods for calculating** the total addressable market.

The *total addressable market* is the number of potential customers experiencing pain points and problems.[3] People within the total addressable market will have shared characteristics that may include, but are not limited to, the following:

1. **Location:** Neighborhoods, urban renewal districts, tribal lands.
2. **Identity:** Race, ethnicity, gender, or other demographic social category.
3. **Income:** economic status.

The total addressable market can be estimated using either a *bottom-up or top-down* methodology. While both are valid, this section focuses on the bottom-up approach, which involves identifying customer archetypes (see below) and then estimating the number of potential customers within each archetype.[4]

Regardless of how that market is calculated, it is recommended that research and data be used to validate the findings.

Once the total addressable market is defined, a deeper investigation is needed into the customer base/target market to determine the customer archetype(s). According to Yale, an *archetype* is a data-driven profile of typical users or beneficiaries, created from analyzing their habits, aspirations, and specific frustrations.[5]

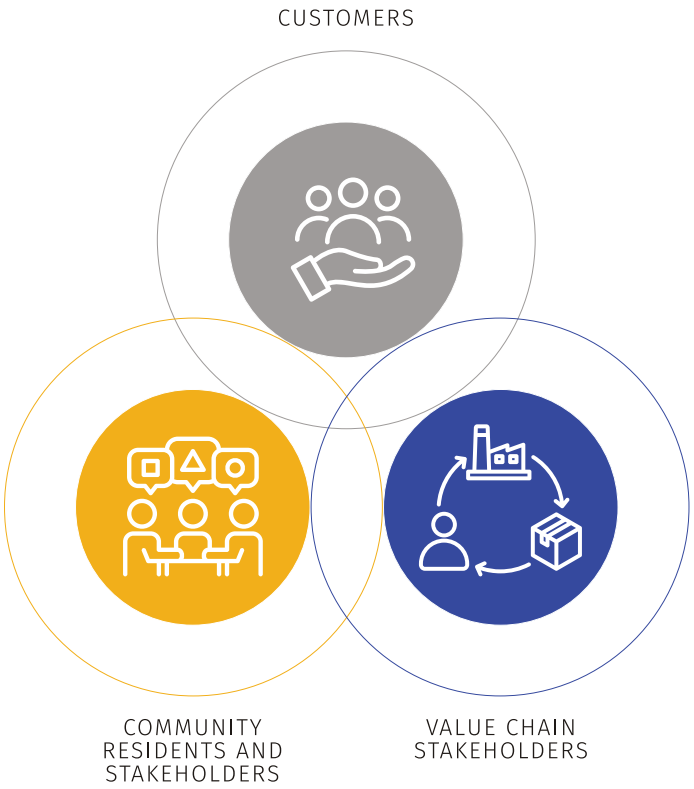
It is important in this context to distinguish between a stakeholder and a customer:

1. A **stakeholder** is any individual, group, or organization with a vested interest in the business funded by the impact investor who can be affected by or influence the business's success.
2. A **customer** is broadly defined as the **end user**, the **paying entity**, or an **intermediary purchaser** of a **product or service**. This process is financed through impact investment that aims to produce a positive outcome or impact.

Both are significant, and they do not need to be mutually exclusive; however, the primary goal of impact investment is to ensure that the end customers can achieve their objectives. A subsidiary aim is to address stakeholders' concerns to the greatest extent possible.

Figure 14 shows the three potential archetype categories (note that these categories are not mutually exclusive).

Figure 14: Customer & Stakeholder Archetypes



1. **Customers:** There can be up to three types of customers: end customer, payor, and provider. All impact investments will have end customers, but the presence of the other types will vary depending on the investment, specifically who pays for and provides the product or service.
    - **End customer:** An individual who uses the product or service provided by the business, which is financed through impact investment aimed at producing a positive outcome or impact.
    - **Payor:** An organization that pays for the end customer to receive the product or service.
    - **Provider:** A business that secures a product or service from another company, either through purchasing or partnership, to sell or deliver directly to the end customer. A provider is the second business in a Business-to-Business-to-Customer (B2B2C) transaction.
2. **Community residents and stakeholders:** The people, groups, organizations, or businesses that (1) reside and/or (2) have an interest or concern in the community where a business intentionally sources, markets, produces, and/or sells/provides its products or services.[6]
3. **Value Chain Stakeholders:** Adapted from *Michael Porter's value chain concept*, this group includes the internal and external stakeholders explicitly involved in the activities required to produce products or services.[7] These stakeholders generally align with two types of activities:
    - **Primary activities:** Inbound logistics, operations, outbound logistics, marketing and sales, and services.
    - **Support activities:** Procurement, infrastructure, human resources management, and technological development.

Note that the value chain includes the business's workforce, which is integrated into both primary and support activities.

Key Takeaways

- The **total addressable market** is the number of potential customers experiencing the defined problem. Their **shared characteristics** can include such things as location, identity, income, or the benefits they receive.
- When that market has been broadly defined, it can be explored in more detail using **customer archetypes**, which detail the behaviors, goals, and pain points of the people who are the intended beneficiaries of the activities funded by the impact investment.

- Different archetype categories distinguish between **customers and stakeholders**. Customers are the people directly **using a business's products or services** and stakeholders are **anyone or any group that can be affected** by the business's activities. Stakeholders can also be classified as either **community or value chain stakeholders**.
- The **primary goal of impact investment** is to ensure customers' problems are solved. Ensuring that stakeholders' concerns are addressed is **a subsidiary aim**.

How big is the problem?

Key Concept

In this section we will:

- Discuss ways to define the **size of the problem**.

Defining the size of the problem can be accomplished by conducting research to estimate the potential social benefits of addressing the problem you have defined. Another way to calculate it is by multiplying the total number of potential customers (the total addressable market) by the projected negative social and/or environmental outcomes or impact of the problem.

During this step, you may also choose to monetize (calculate the monetary value) of the collective outcome/impact to gauge the efficacy of an impact investment.

Key Takeaway

- Defining the **problem size** can be achieved through research, multiplying the total addressable market by the **projected negative outcomes** of the problem, or calculating the monetary value of the results of an impact investment.

Key Learnings from Module 3

- The first component of an impact thesis is **understanding and defining the problem**.
- This component consists of **three steps**: **identifying the problem, defining who it affects**, and **determining its size**.
- Identifying the problem involves building a **detailed picture of its nature and impacts** compiled through research and community engagement.
- Determining **who the problem affects** requires calculating the total addressable market and then developing **customer and stakeholder archetypes** that constitute detailed profiles of the affected groups.
- **Techniques for calculating problem size** include multiplying the total addressable market by the projected negative outcomes of the problem or attaching monetary values to the projected results of the impact investment.

Now that we have covered problem definition, it is time to turn to the second component of the impact thesis, which is Invest: Define the Opportunity.

Understand (Component 1) Checklist

This checklist outlines the necessary items to define the problem statement for your impact thesis.

1. **Problem Definition**
    a. **Define the Core Problem:** State the specific social and/or environmental problem your fund will address.
    b. **Focus the Problem Statement:** Narrow your scope to the specific aspects of the systemic problem that your investment thesis will target.
    c. **Map the Customer Experience:** Create a **value chain** or **customer journey map** to identify the precise gaps or failures that your investment could resolve.
    d. **Incorporate Community Voice:** Conduct interviews with community representatives and use community-informed research to understand the problem from a human-centered perspective.
    e. **Gather Supporting Evidence:** Collect and integrate relevant data and research to strengthen and validate your understanding of the problem and its underlying assumptions.

2. **Target Market & Customer Analysis**
   a. **Calculate the Total Addressable Market (TAM):** Determine the total number of potential customers who are experiencing the problem you have defined.
   b. **Define Market Characteristics:** Identify the shared characteristics of your target market, such as **location**, **identity** (e.g., race, gender), or **income**.
   c. **Develop Customer Archetypes:** Create detailed profiles (**archetypes**) of your typical customers, outlining their specific behaviors, goals, and pain points.
      i. **Distinguish Customers from Stakeholders:** Identify the **customer**, defined as the
         1. **End-user:** An individual who uses the product or service provided by the business, which is financed through impact investment aimed at producing a positive outcome or impact.
         2. **Payor:** An organization that pays for the end customer to receive the product or service.
         3. **Provider:** A business that secures a product or service from another company, either through purchasing or partnership, to sell or deliver directly to the end customer.
   d. Identify **stakeholders**, which includes any individuals, groups, or organizations with vested interests, such as community residents or value chain participants.

4. **Problem Sizing**
   a. **Quantify the Problem's Magnitude:** Calculate the size of the problem by multiplying the **Total Addressable Market (TAM)** by the projected negative social or environmental outcomes associated with the problem.
   b. **Estimate Potential Social Benefits:** Research to estimate the positive social benefits that could be achieved by successfully addressing the problem.
   c. **(Optional) Monetize the Impact:** You may choose to calculate the monetary value of the collective negative outcomes to better gauge the potential efficacy of your impact investment.

MODULE 4

INVEST: DEFINE THE OPPORTUNITY (COMPONENT 2)

MODULE 4

INVEST: DEFINE THE OPPORTUNITY (COMPONENT 2)

Learning Outcomes & Objectives

When you have developed your understanding of the problem, the next step is to work out how your investment will help to address it. To do that, you need to move to Component 2 of the impact thesis, which focuses on defining the opportunity so you can work out the details of the investment that you will make.

After working through this Module, you will be able to:

- Select the **product and/or service that the investee business** can provide to the target market to address the problem.
- Identify the **types of businesses** in which to invest.
- Determine the **investment vehicle**, that is, the investment structure needed to enable the business to provide the product and/or service.

Executive Summary

Component 2 of the investment thesis involves defining the opportunity so that you can answer the following three questions:

1. What products and/or services will be provided to the target market/potential customers to address the identified problem(s)?
2. What type of business(es) will receive investments to provide the product or service?
3. What type of investment structure will be needed to invest in the business(es)?

Identify the product(s) or service(s) to provide to the target customers

Three steps will help you to identify what products/services to fund through your proposed impact investment:

- Generate a list of options.
- Rating the likelihood of each option to deliver the desired results.
- Analyze the impact of the products or services and identify the changes needed to achieve the desired results.

Levels of evidence frameworks can help you rate the quality of the evidence that suggests whether or not each option would achieve the desired result.

When considering the potential options, it is important to assess them from **the perspective of equity**, which means taking account of the perspectives of diverse customer groups and being **sensitive to the barriers** that might limit their engagement with the products or services that you have assessed would achieve the biggest impact.

Determine the types of businesses that will offer the product or service

Identifying the right businesses to invest in requires a thorough assessment factors, including the following:

- **Lifecycle stage:** Is the business in the startup, growth, maturity, or decline stage?
- **Revenue streams:** How will the product or service be funded?
- **Core competencies:** Does the business currently have the capabilities to deliver the product or service? If not, how can it acquire them?
- **Prevalence:** Is there a sufficient number of businesses in which to invest or must more be established?

Governance issues may also be worth investigating, paying particular attention to **intentional environmental and social governance** factors.

You also need to **estimate the customer bases** of the businesses in which you might be investing. This involves calculating three interrelated numbers:

- **Total addressable market (TAM):** The **total number** of potential customers experiencing the identified problem.
- **Serviceable addressable market (SAM):** The number of people the business could **potentially serve**, taking into account any constraints on its operations.
- **Serviceable obtainable market (SOM):** The number of people the business can **actually serve** in its current circumstances.

Define and draft the investment structure(s) for the selected businesses

Defining and drafting an investment structure for the selected business(es) requires an assessment of the investment's financial and impact effectiveness, using a methodology such as the Impact Internal Rate of Return (Impact IRR).

An evaluation of a business's funding structure can be made using such tools as a capitalization table or a sources and uses table. A capitalization table records a company's equity ownership, showing who owns what stake. A sources and uses table focuses on how funds are timed and used rather than ownership.

The final decision on the investment structure depends on a variety of factors including your goals, your willingness to accept risk, the type of impact investment (e.g., market-rate, below-market-rate), and the type of financial instrument you are using (e.g., blended, debt-based or equity-based).

Value creation levers

As well as investing capital, investors can also provide additional value-added services to investee businesses. These can be either traditional value creation levers or impact-focused levers, such as access to aligned capital and impact risk management.

Overview: Invest (Component 2)

As shown in Figure 15, the key questions to ask when putting together Component 2 of the investment thesis are as follows:

1. What products and/or services will be provided to the target market/ potential customers to address the identified problem(s)?
2. What type of business(es) will receive investments to provide the product or service?
3. What type of investment structure will be needed to invest in the business(es)?

Figure 15: Invest: Define the Opportunity

The following sections look at each of those questions in detail.

Identify the product(s) or service(s) to provide to the target customers

Key Concepts

In this section we will:

- Discuss the three steps that lead to **identifying the product or service** to provide.
- Highlight **levels of evidence frameworks** and other resources that can be used to evaluate the quality of the evidence that informs decisions about each option's potential to address the problem.
- Emphasize the importance of adopting an **equitable perspective** that gives weight to the differing opinions of the various individuals and groups that will be affected by the proposed products or services.
- Give an example strategy that shows how an **equitable lens** can be used to align the components of an impact thesis with customers' lived experiences while removing the specific **barriers to success** that they encounter.

Using evidence to identify product(s)/service(s) to deliver

When identifying what activities the impact investment should fund, the first step is to generate a list of potential products/services that could be delivered to target customers to address the problem and pain points identified in the problem statement.

The second step is to rate the likelihood that the selected product(s)/service(s) will achieve the intended results and address the identified pain points. Using an established framework to evaluate the performance of impact investments improves the comparability of your evaluations over time and across different investments and portfolios. See: Levels of Evidence Framework found in the *Impact IRR*[1] that is adapted from the *Investor's Guide to Impact* by the Center for Sustainable Finance and Private Wealth.[2]

1. "**Scientific consensus:** Systematic reviews of the empirical evidence document a scientific consensus on the product's/service's effectiveness.
2. **Empirical evidence:** Empirical studies show that the product/service has been effective in specific settings. However, how far these findings can be generalized remains to be seen.
3. **Model-based predictions:** Models predict the product's/service's effectiveness under certain assumptions.

4. **Narrative:** A narrative that rationalizes why the product/service could be effective."

Other resources that can be used to rate the likelihood of a specific product or service effectively addressing the problem include the *GIIN IRIS+ System*, *Impact Frontiers' Impact Management Project*, *The Investment Integration Project*, and research from organizations such as *the Value Balancing Alliance* and the *Capitals Coalition*.

Note; we will discuss in detail how to flesh out the outcome and impact opportunity of each product/service. At this point, however, it is sufficient if a product/service seems to have sufficient outcome/impact potential to continue the analysis.

The third step when identifying the activities that the impact investment should fund is to determine if the product's/service's resultants align with the selected level of evidence. If the investment will supply a product/service that matches the level of evidence, then it is more likely to achieve the projected results.

However, if the proposed product/service differs significantly from the version supported by the evidence, then the following will need to be explained: (1) how the changes might alter the resultants and what tactics will be utilized to mitigate the risk of not achieving similar results, or (2) how the resultants might be discounted based on these changes. Once finalized, set aside these findings so that they can later be incorporated into Component 3.

Suggestions for maximizing customer success

Not all customers experience the problems that an impact investment aims to solve in the same way. Therefore, it is unreasonable to assume that one can treat all customers similarly and expect the same results. Customer analysis requires informed customer segmentation. To maximize the effectiveness of an impact investment, it is strongly recommended that you adopt an equitable perspective to inform design and the evaluation of the social impact achieved, proportionate to the effect the investment would have on people and the planet.

That means viewing the problem and solution through the customers' lived experiences and taking action to address the barriers to success. In other words, meeting customers where they are by tailoring the inputs, activities, or outputs to achieve the intended outcomes.

In contrast to equality, which emphasizes uniformity, equity recognizes that different people may require tailored resources to succeed. Adopting an equitable lens will improve product-market fit, achieve better long-term results, and add value for all stakeholders.

Using an equitable lens requires you to:

1. Identify the specific circumstances or barriers that a group faces which prevent them from accessing or utilizing a product or service to achieve a desired result.
2. Provide tailored resources to ensure the group has what they need to overcome the circumstances/barriers and reach the intended goal.

This can be accomplished in various ways, and it is advisable to use appropriate frameworks and resources when developing your impact investing thesis.

In addition to using frameworks, you can use the following strategy to align components of the investment thesis with an equity-focused approach:

1. **Select cohort(s):** A cohort refers to the individuals or entities on which you wish to concentrate the investment to achieve an equitable outcome. Examples include:
    - Customers: Choosing a specific customer base or subset of customers (based on gender, culture, race, ethnicity, religion, disability, class, age, or opinion) that faces significant barriers to success in accessing or utilizing a product or service to achieve a desired outcome.

      Example 1: *Providing subsidized transportation services to homebound seniors to increase their participation in healthcare services and improve healthcare outcomes.*

      Example 2: *Offering online education options to single parents unable to attend in-person classes to increase participation and graduation rates.*

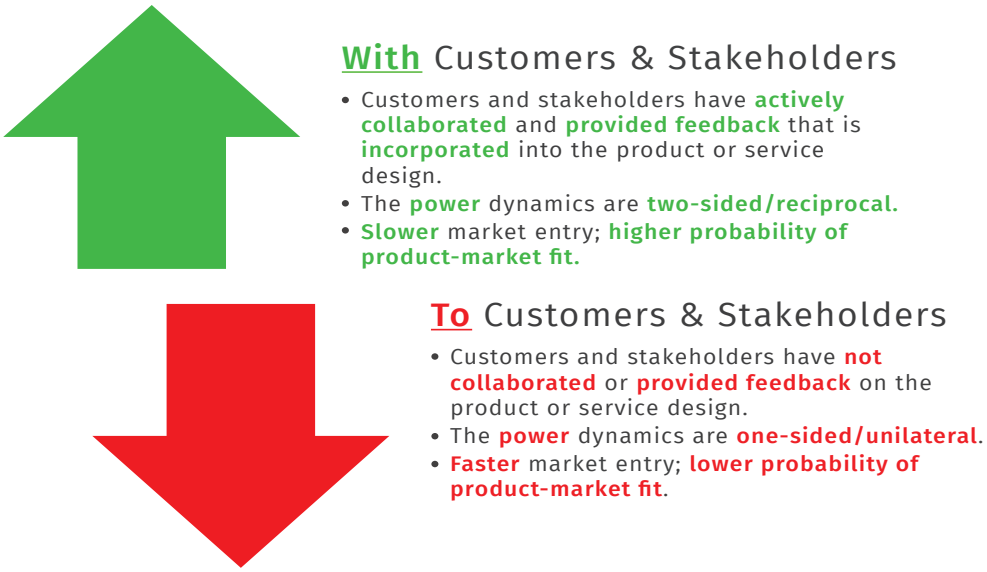
    - Invested businesses: Investing in business owners who have been underrepresented or disadvantaged and/or businesses in historically disadvantaged communities. This can also include businesses that provide components of the product or service.

      Example 1: *Investing in minority-owned businesses that have historically faced underinvestment to develop a product that increases the businesses' revenues and expands their staff.*

Example 2: *Investing in small family farms that do not have adequate access to funding for capital expenditures to increase their profitability.*

2. **Listen, look, and achieve:** After selecting your cohort(s), it is vital to ensure that they receive adequate resources to meet the intended goals. To ensure this, complete the following steps:
   - Listen: Conduct customer and stakeholder interviews to understand the issues and potential solutions.
   - Look: Comprehensively research the issues using traditional research and additional interviews with subject matter experts, people who experience similar issues, and people who have experience applying solutions to comparable issues.
   - Achieve: Test potential solutions with customers and stakeholders to ensure success. This involves collaborative engagement, offering or co-designing solutions to achieve success. Doing this collaboratively (*with* customers and stakeholders) rather than using a top-down approach (*to* customers and stakeholders) is essential. The distinctions between the two approaches are shown in Figure 16.

Figure 16: Bottom-Up vs. Top-Down Approaches to Customers and Stakeholders



Key Takeaways

- The three steps that lead to identifying the products/services to fund as part of an impact investment are **generating a list of options**, rating the **likelihood that each option will deliver** the desired results, and **examining the impact** of any required changes to the products or services.
- When rating each option's likelihood to deliver the desired results, it is important to use **levels of evidence frameworks** that help you assess the quality of the available evidence.
- It is also essential to adopt an **equitable lens** and use **strategies that overcome barriers to engagement** with the full range of customers so that their voices can shape the impact investment and the products and services that it will fund.

Determine the types of businesses that will offer the product or service.

Key Concepts

In this section we will:

- Explore how to **identify the right businesses** to deliver a intended products or services, looking at such factors as the **business's lifecycle stage, revenue streams, core competencies,** and **prevalence**.
- Discuss the importance of **governance factors** and **intentional governance**.
- Demonstrate how to size the market in detail by calculating the **total addressable market, serviceable addressable market,** and **serviceable obtainable market**.

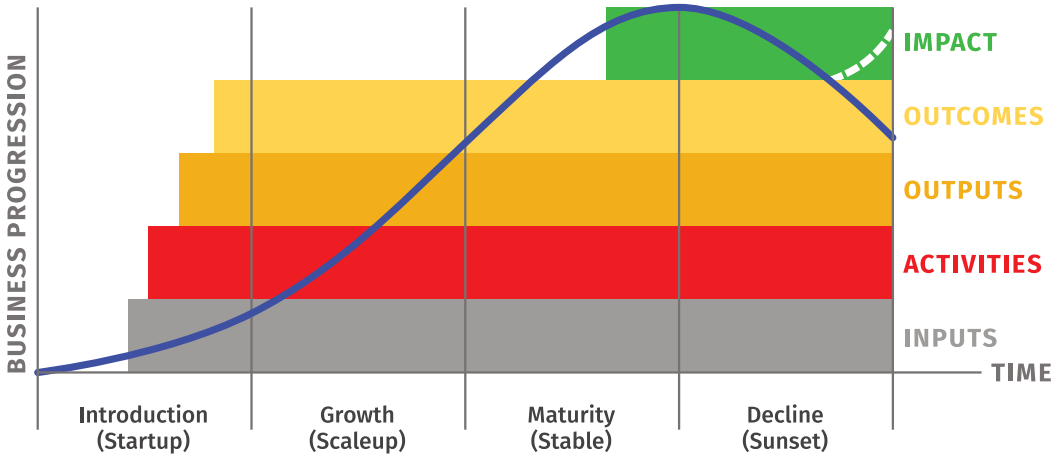
Business Identification

Once the product/service is selected, the next step is to define the types of businesses that are capable of delivering such products/services to the target customers to produce positive resultants. When defining those businesses, the following questions will need to be addressed:

1. **Business lifecycle stage:** The stage of the business often determines the contributors and resultants that can be projected during the investment period. Furthermore, as the business moves toward the maturity stage, it is more likely to achieve the projected resultants. Figure 17 gives a detailed explanation of an impact business's lifecycle.

2. **Revenue streams:** How is the product/service funded? Business- to-business-to-consumer (B2B2C) or business-to-consumer (B2C)?
3. **Business core competency:** Is the product/service part of the business's core competency? If not, what must be done to ensure it can be delivered to the target customer to ensure positive resultants?
4. **Business prevalence:** Is there a critical mass of businesses in which to invest? If not, how many need to be created? Would it be possible to establish new businesses within the investment period to meet the investment's impact objectives?

Figure 17: Impact Business Lifecycle



	Introduction (Startup)	Growth (Scaleup)	Maturity (Stable)	Decline (Sunset)
Capital & Strategy	Investors commit small amounts, typically via **seed funding**. Focus is on testing viability before significant equity raises.	Significant investments are made as **equity or debt** to drive expansion.	The business provides a **stable income** for investors.	Leaders must **reinvest in new products** or wind down the enterprise.
Key Traits	Developing a **Theory of Change**. Conducting early testing to validate the solution.	Achieved **product-market fit** and gained revenue visibility. **Cash flow** generation accelerates at this point. **Outputs** delivered along with initial **outcomes**.	**Reliable, consistent**, and well-established in the marketplace. **Revenue** and **profits** remain **steady** alongside **outputs**, **outcomes**, and potentially **impact**.	The product or service becomes **outdated**. Market relevance fades, potentially leading to the business's closure.

Solid Blue Line: Impact Business Development
Dashed White Line: Pivot & Reposition Impact Business Model

Governance Factors

When evaluating a potential business investment, it is wise to include governance metrics. *The Governance Institute* describes "intentional governance" as a proactive approach to managing a board's composition, interactions, and culture, aimed at ensuring the board functions optimally.[3] Intentional environmental and social governance factors may include the following:

1. Board structure and effectiveness.
2. Leadership experience, diversity, and tenure.
3. Executive compensation.
4. Management ownership requirements.

Estimate business customer base

The customer base can be estimated by sizing the market, which will achieve two objectives:

1. The impact investment fund team will gain insight into its ability to serve the target market and can make adjustments to enhance the potential impact of the investments.
2. It will provide potential investors with a tangible understanding of the proposed strategy's scope and effectiveness.

There are three components of market sizing (see Figure 18):

1. **Total Addressable Market (TAM):** In Component 1, the TAM was defined as the number of potential customers experiencing pain points and problems (i.e., identifying the entire population experiencing these issues). Another way of defining TAM is to assume that the business providing the product or service that can address the target market's problem has full market penetration without any barriers. It's important to note that TAM provides only a high-level view and does not consider competitive dynamics, regulatory barriers, or operational limitations.
2. **Serviceable Addressable Market (SAM):** SAM focuses on the portion of the TAM that a business can realistically serve, taking into account factors such as geographic constraints, infrastructure availability, and regulations. Understanding SAM helps impact investors demonstrate to potential fund investors the validity of the investment thesis, allocate resources efficiently, and design execution strategies.

3. **Serviceable Obtainable Market (SOM):** SOM focuses on the immediate opportunity, i.e., the portion of the SAM that a business can realistically capture, taking into account its current capabilities, competitive positioning, and market conditions. SOM provides the most actionable insights for short-term planning, investment decision-making, and impact measurement.

Figure 18: Market Sizing

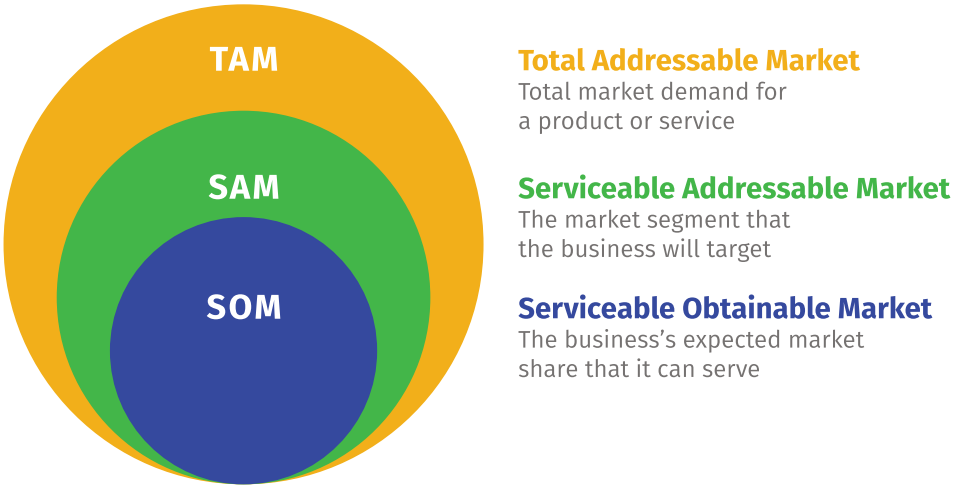


Table 1 provides guidance in calculating the TAM, SAM, and SOM.

Table 1: Calculating the TAM, SAM, and SOM

Calculating the TAM, SAM, and SOM	
Total Addressable Market (TAM)	1. Identify your target market by considering factors such as the people experiencing the problem, geographic location, and demographics.
	2. Estimate the total number of potential customers by utilizing industry reports, government data, academic research, or other comparable sources.
Serviceable Addressable Market (SAM)	3. To determine the SAM, filter the TAM based on factors such as geographic location, demographics, and prevalent archetypes.
Serviceable Obtainable Market (SOM)	4. To estimate the SOM, filter SAM according to factors such as the market landscape, competing businesses and organizations, brand awareness, and marketing strength.

Key Takeaways

- **Identifying the right businesses to invest in** requires a thorough assessment of factors including their lifecycle stage, revenue streams, core competencies, and prevalence.
- Governance issues can also be worthy of investigation, paying particular attention to **intentional environmental and social governance** factors.
- Estimating the customer bases of the potential investee businesses requires the calculation of the **total addressable market (TAM)**, **serviceable addressable market (SAM)**, and **serviceable obtainable market (SOM)**.
- TAM is the **total number of potential customers** experiencing the identified problem. SAM is the amount of people the business can **potentially serve**, taking into account constraints on its operations. SOM is the number the business can **actually serve** in its current circumstances.

Define and draft the investment structure(s) for the selected businesses

Key Concepts

In this section we will:

- Examine the components that **enable an assessment** of an investment's effectiveness using the **Impact Internal Rate of Return (Impact IRR)** methodology.
- Discuss how to evaluate a business's funding structure using a **capitalization table** or a **sources and uses table**.
- Set out factors to consider when selecting an **investment structure**.

Impact investment components

Before examining how to finance the selected business(es), it is helpful to review the components necessary to assess an investment's effectiveness. These components, detailed in Table 2, include projected financial return, projected impact return, hurdle rate, attribution and deadweight, and catalytic opportunity.

Note: All of these components are utilized in the *Impact Internal Rate of Return (Impact IRR) methodology*. The Impact IRR methodology encompasses all of these components. This guide will utilize Impact IRR, but you can choose any analytical tool you prefer.

Table 2: Impact Investment Components

Impact Investment Components		
Component Categories	**Component & Definition**	**Example**
Components that account for both impact and financial returns	**Term:** The time period of an investment, the provisions of an agreement or contract, and the lifespan assigned to an asset or liability.	An average debt investment has a ten-year term.
	Hurdle rate: A hurdle rate is the lowest return a manager or investor is willing to accept before moving forward with an investment or project.[4] Embedded in the hurdle rate is the opportunity cost: the value an investor is willing to forgo as the result of making an investment.	The projected hurdle rate for the debt investment in the business is 10%.
	Catalytic opportunity: Classifying investments that can induce additional necessary commercial capital to invest in impact-driven enterprises.	The debt investment is catalytic because it is in the first-risk position with a below-market return that resulted in inducing an additional $10M debt investment.
Components that account for impact returns	**Attribution and dead-weight:** The percentage of outcome(s) and impact that can be assigned to an investment.	XYZ and ABC Funds each invested 50% in the community healthcare facility, and each investment will be attributed to 50% of the outcomes.
	Impact variability: The rate at which the desired social and/or environmental outcome(s) and impact may change throughout the lifetime of the project and/or investment.	Multiple studies have established that investing in affordable housing, which offers rental options capped based on a household's income, will prevent the household from being cost-burdened.
Components that account for financial return	**Total investment:** Total projected investment into a given project/program.	The average investment is expected to reach $10 million, with an overall portfolio totaling $350 million.
	Projected financial return: The financial gain or loss of an investment in a particular period.	The investment is projected to have an internal rate of return (IRR) of 15%.

Impact investing funding structures and financial instruments

The first step when determining how businesses should be funded to provide the product or service is to evaluate their funding structures. Two typical investment structures are:

1. **Capitalization table:** A capitalization table, or cap table, is a *record of a company's equity ownership*, including who owns the company's shares and how much of the company they own.[5] See the example in Table 3.

Table 3: Capitalization (Cap) Table Example for a Company

WhizBang Startup						
Name	**Common Stock**	**Stock Options**	**Series A Preferred**	**Total Shares**	**Percent Outstanding**	**Percent Fully Diluted**
Founder One	1,875,000		312,500	2,187,500	47%	44%
Founder Two	1,375,000			1,375,000	30%	28%
Employee One		100,000		100,000	2%	2%
Employee Two		50,000		50,000	1%	1%
Investor One		0	625,000	625,000	13%	13%
Investor Two		0	312,500	312,500	7%	6%
Remaining Option Pool		350,000		350,000		7%
Total	3,250,000	500,000	1,250,000	5,000,000	100%	100%
Percent Ownership	65%	10%	25%	100%		

1. **Sources and uses:** A sources and uses table is similar to a cap table; both outline funding sources for a real estate project, detailing investors, lenders, and ownership percentages, thus illustrating the investment's "capital stack." However, "sources" may specify the timing and use of funds, while a cap table emphasizes ownership breakdown. See Table 4.

Table 4: Sources & Uses Example (Affordable Housing)

100 Units, Total Development Cost $38.3M						
USES	SOURCES					
	Below-Market Impact Debt	Market-Rate Impact Debt (30 year Amortizing Debt)	Market-Rate Impact Equity (Low-Income Tax Credits)	Total	$/Per Unit	% Phase
Acquisition & Closing Costs	$ 102,308	$ -	$ -	$ 102,308	$ 1,023	0.3%
Fees/Permits/Studies	$ 1,119,137	$ -	$ -	$ 1,119,137	$ 11,191	2.9%
Direct Construction Costs	$ 7,363,665	$ 5,884,308	$ 15,965,596	$ 26,213,569	$ 292,136	76.3%
Indirect Construction Costs	$ 3,942,623	$ -	$ -	$ 3,942,623	$ 39,426	10.3%
Rent-up Costs	$ 76,923	$ -	$ -	$ 76,923	$ 769	0.2%
Financing Costs	$ 54,058	$ -	$ 1,584,735	$ 1,638,794	$ 16,388	4.3%
Developer Fee	$ -	$ -	$ 2,202,769	$ 2,202,769	$ 22,028	5.8%
Total Permanent	$ 12,658,714	$ 5,884,308	$ 19,753,101	$ 38,296,123	$ 382,961	100.0%
Total Permanent Source/Sources	33%	15%	52%	100%		

Evaluating funding structures will help you understand the current investment opportunities in the market as well as potential opportunities for innovation. Deciding whether to use an existing or a new investment structure will depend on your financial and impact goals and risk tolerances. For example, utilizing a tested model will likely yield the expected results, whereas trying an untested model for projected higher impact may incur additional risk.

When deciding on the investment structure, there is no definitive right or wrong answer. It ultimately depends on your goals and your willingness to take on risk.

When assessing an existing or new financial structure, you can review the definitions for types of impact investments in Module 1 and refer to Table 5, which will help you to evaluate your options for choosing the best impact investment. This chart is also available as a separate PDF.

The selected financial structures will also be used in Component 3.

Table 5: Impact Investment Opportunities Matrix

	Impact Investment Types		
	Market-Rate Market rate financial investments that prioritize impact.	**Below-Market-Rate** Below market rate financial returns that prioritize impact and incentivize commercial capital investors to make investments they would not have otherwise considered.	**Blended** Combination of commercial and concessionary capital.
Financial Instrument Types			
Debt-based financial instruments Instruments with fixed durations, interim payments, and refinancing risks. Examples: bonds, debentures, mortgages.			
Equity-based financial instruments Instruments represent ownership with infinite duration and no required cashflows. Examples: convertible debentures and preferred stock.			

Key Takeaways

- The components that **enable an assessment** of an investment's financial and/or impact effectiveness using the Impact Internal Rate of Return (Impact IRR) methodology include **projected financial return, projected impact return, hurdle rate, attribution and dead-weight,** and **catalytic opportunity**.
- A business's funding structure can be evaluated using a **capitalization table** or a **sources and uses table**.
- A capitalization table **is a record of a company's equity ownership**, which details who owns the company's shares and what percentage of the company they own.
- A sources and uses table is similar to a capitalization table, but instead of emphasizing ownership, it **focuses on the timing and usage of funds**.

- There is no **definitive right or wrong answer** when selecting an investment structure. It depends on such factors as your goals, your willingness to accept risk, and the type of impact investment (e.g., market-rate, below-market-rate, or blended) and financial instrument (e.g., debt-based or equity-based).

Value Creation Levers

Value-added services can include **traditional value-creation levers** and **impact-focused levers.**

Investors may provide additional value-added services to investees in addition to investment capital. Such services can range from traditional *value-creation* levers to impact-focused levers. Examples given in *Tideline's New Frontiers in Value Creation Levers* include impact positioning, product/service development, market building, workforce initiatives, impact incentives, access to aligned capital, and impact risk management.[6] Traditional value-creation levers include financial engineering, governance engineering, and operational engineering.[7]

Please see Appendix 2 for further details of such levers.

Key Learnings from Module 4

- The second component of an impact thesis is **understanding the investment opportunity**.
- This component consists of **four steps**: identifying the **product(s) or service(s) to provide** to the target customers, determining the **types of businesses** that will offer such services/products, defining and drafting **the investment structure**, and considering any additional **value creation levers**.
- Identifying the product(s) or service(s) requires the generation of an initial list of options, which should then be **evaluated using robust evidence** to determine **the likelihood that they will deliver the desired results** and to identify the impact of any required changes to those product(s) or service(s). It is also essential to consider **customer perspectives through an equitable lens**.
- Determining the types of business to invest in requires an **evaluation of their lifecycle stage, revenue streams, core competencies, prevalence,** and **governance issues**. It is also necessary at that stage to identify the **customer base** in terms of the **total addressable market, serviceable addressable market,** and **serviceable attainable market.**
- Defining the **investment structure** for the selected businesses requires using a methodology such as **Impact Internal Rate of Return (Impact IRR)** and tools such as a **capitalization table** or **source and uses table**. The final decision on the structure depends on your goals, your willingness to accept risk, and the type of investment being made.
- **Value-creation levers** can be either traditional or impact-focused.

Now that we have covered defining the investment opportunity, it's time to turn to the third component of the impact thesis, Project: Forecast the Returns.

Invest (Component 2) Checklist

This checklist covers the items needed to define the investment opportunity for your impact thesis.

1. **Product & Service Identification**
    a. **Generate a List of Options:** Create a list of potential products and services that can effectively address the problem you defined in Component 1.
    b. **Evaluate Options with Evidence:** Use an established **Levels of Evidence framework** to rate the likelihood that each product or service will achieve the desired results.
    c. **Apply an Equity Lens:**
        i. Identify specific cohorts (customer groups) that face unique barriers to success.
        ii. Design or tailor the product/service to meet customers "where they are" and provide the resources they need to succeed.
        iii. Engage customers and stakeholders collaboratively (with them, not to them) by listening to their needs, researching the issues, and testing solutions together.

2. **Target Business Profile**
    a. **Define Ideal Business Characteristics:** For your investment pipeline, specify the required:
        i. **Business Lifecycle Stage:** (e.g., Startup, Growth, Mature).
        ii. **Revenue Streams:** (e.g., Business-to-business-to-consumer or business-to-consumer).
        iii. **Core Competencies:** Ensure the business can deliver the product/service effectively.
        iv. **Prevalence:** Confirm that there are enough suitable businesses to invest in. Draft a plan for investing in new businesses if there aren't enough to meet projected demand.
        v. **Establish Governance Criteria:** Define any intentional environmental or social governance factors you will require from investees, such as board diversity or executive compensation policies.
        vii. **Size the Market for Investees:** Estimate the customer base for a typical business in your pipeline by calculating the:
            1. **Total Addressable Market (TAM):** The entire population experiencing the problem.

2. **Serviceable Addressable Market (SAM):** The portion of the TAM your target business can realistically serve, considering factors like geography and regulations.
3. **Serviceable Obtainable Market (SOM):** The portion of the SAM a business can realistically capture with its current capabilities and market position.

3. **Investment Structure Design**
   a. **Analyze Funding Structures:** Evaluate the typical funding structures of businesses in your target market using tools like a **capitalization (cap) table** or a **sources and uses table**.
   b. **Select Investment & Instrument Types:**
      i. Choose the **type of impact investment** that aligns with your fund's goals: Market-Rate (MIC), Below-Market-Rate (BIC), or Blended.
      ii. Choose the **type of financial instrument** you will use: Debt-based or Equity-based.
      iii. **Finalize the Investment Structure:** Define the investment structure for your deals based on your fund's financial goals, impact targets, and risk tolerance.

4. **Value-Added Services**
   a. **Define Value Creation Levers:** Specify what value-added services your fund will provide to investees in addition to capital.
   b. **Select Lever Type:** Determine if you will offer **traditional value-creation levers** (e.g., financial or operational engineering) or **impact-focused levers** (e.g., impact risk management, market building, or access to aligned capital).

MODULE 5

PROJECT: FORECAST THE RETURNS (COMPONENT 3)

MODULE 5

PROJECT: FORECAST THE RETURNS (COMPONENT 3)

Learning Outcomes & Objectives

The third and final component of the impact thesis involves making projections to forecast the returns that the impact investment will make.

After working through this Module, you will be able to:

- Estimate the projected outcome(s) and/or impact from the potential impact investments.
- Finalize the projected outcome(s) and/or impact data for analysis.

Executive Summary

Component 3 of the impact thesis involves estimating the returns that the investment will generate, that is, the measurable returns of delivering the product or service to customers. This means measuring the resultants in terms of outputs, outcomes, and impact, and the fund's financial returns.

Data integrity and resultant categorization

Before classifying resultant data, you must ensure that it passes a preliminary integrity check. Specifically, it is necessary to check that all the data being used is standardized, verified, confidential, and current. When that has been done, you can also categorize resultant data in terms of its provenance and friction.

Data provenance refers to the source of the data and its proximity to what it is measuring. In other words, it requires you to identify whether the data comes from primary or secondary sources. Primary sources are direct records of events, whereas secondary sources compile and analyze data from primary sources.

Data friction refers to the effort needed to collect data. It can be classified as low, medium, or high friction depending on how difficult it is to gather. Note that the degree of data friction does not have any bearing on the quality of the data.

Identify, classify, and project the resultants

After addressing data integrity and categorization, there is a ten-step process to follow that leads from identifying and classifying resultants through to compiling the finalized resultants. Other steps in that process include distinguishing between those resultants that can be monetized and those that cannot and establishing risk mitigation plans in the event of data being unavailable or incomplete.

Overview: Project (Component 3)

The final component of the impact thesis is to forecast the projected resultants and the projected financial return from Component 2 (see Figure 19). As mentioned earlier, the resultants are the subsequent measurable effects of delivering the invested business's product or service to the target customers.

Figure 19: Project: Estimate the Returns

The *key terms*[1] in Figure 19 are defined below:

- *Outputs:* The direct result of an invested business's activities, including their products, services, and any by-products that can be measured by output indicators or deliverables. An output indicator measures the immediate products or services produced by a program or project, offering information on the quantity and quality of goods or services created. (Example: An investment in a housing developer provides a rental housing unit to a qualified customer, such as a household with low income.
- *Outcomes:* The projected short- and medium-term effects, both positive and negative, of the products or services provided by the investee business to the target customers, or the benefits that thereby flow to the natural environment. (Example: The customer pays rent that matches their income, so they are not housing cost-burdened and can use funds for other necessities.)
- *Impact:* Positive and negative primary and secondary long-term effects produced by the investee business's products or services that benefit the target customers or natural environment and can contribute to population-level change. (Example: Due to this investment and similar ones, community stability and well-being for low-income residents living in affordable housing are improved.)

Data Integrity & Resultant Categorization

Key Concepts

In this section we will:

- Set out the criteria that determine **data integrity**.
- Explain **data provenance** and **data friction** and show how the two can be used to categorize resultant data.

Data integrity

Before classifying resultant data, investors must ensure that all potential data meets or will meet the following *criteria*:[2]

1. **Standardized:** Ensure that all data collected from businesses are standardized regarding measurement units and time frames to allow for accurate aggregation.

2. **Verified:** Implement processes to verify the accuracy and reliability of the data provided by businesses, including third-party validation where possible.
3. **Confidential:** Maintain strict confidentiality of data as required, ensuring that data shared externally does not compromise a business's confidentiality.
4. **Current:** An agreed-upon cadence for updating data to reflect changes in business performance and corresponding customer outputs, outcomes, and/or impact.

Each resultant can be categorized using two factors: provenance and friction.

Categorizing resultants 1: data provenance

Data provenance refers to the origin of data and its proximity to the actual delivery of a product or service. There are two levels of data provenance: primary and secondary (see Table 6 for examples and definitions adapted from the *University of Minnesota Crookston*[3]).

Primary sources are most likely to yield the expected data because they are directly observed and documented from the product or service delivered to the target customer.

Secondary sources can correlate resultants (e.g., outputs outputs to outcomes, outcomes to impact) when the product or service replicates established research. When the research is robust, validated, and accepted by industry and/or government, secondary resultants are accepted standards. Acknowledging secondary resultants is essential as they are estimations that may be validated, if needed, in the future.

Table 6: Data Provenance[3]

Data Provenance: *The source and proximity to the original data*	
Category & Definition	**Example**
Primary: Firsthand information or raw data generated during the event, presented without external modification or critique.	Measuring new livable wage jobs (outcome) created by a small business loan using payroll data.
Secondary: Materials that evaluate, synthesize, or process original data to generate new conclusions or context.	Estimating the purchase of necessities (healthcare, housing, food) based on research on comparable populations when employee wages are increased to a living wage.

Categorizing resultants 2: data friction

Data friction refers to the effort needed to collect data and does not relate to the quality of the resulting data. An investor's acceptable level of friction depends on their objectives, budget, timeline, and how to collect data in an equitable way that minimizes burden on the end customers.

This is an emerging field, and there are opportunities for innovation in developing accurate, efficient, and scalable datasets.

There are three levels of data friction: low, medium, and high (see Table 7 for definitions and examples).

Low-friction data demands minimal effort to extract. It enables investors to measure resultants from existing datasets that are easily computable.

Medium-friction data consists of existing partial datasets or datasets generated using technology from which resultants can be derived and measured.

High-friction data refers to situations where no datasets are available, meaning that substantial effort is required to gather, clean, and/or assess the data.

Table 7: Data Friction

Data Friction: The effort required to collect data	
Category & Definition	**Example**
Low: The process is streamlined and efficient, allowing for data collection with minimal obstacles.	Collecting rent payments from affordable housing using property management software and comparing them to market rates from established databases to determine the rental savings for affordable housing residents.
Medium: The process entails a moderate amount of effort and obstacles, making it manageable yet not entirely seamless. There may be future opportunities to streamline the process to achieve low friction.	Collecting the outcomes related to the cost savings from onsite accessible healthcare in a mixed-use affordable housing development by comparing the value of healthcare access with residents' previous living conditions, utilizing anonymized health records provided by the residents' health insurer.
High: The process is cumbersome and challenging, complicating data collection due to various barriers and inefficiencies.	Collecting outcome data on children's educational improvements correlated with living in affordable housing based on survey data collected from interviews with students' teachers.

Table 8 combines the two categories and will help you classify all your resultants in the next step.

Table 8: Data Categories Matrix

	Data Friction		
	Low	Medium	High
Data Provenance			
Primary			
Secondary			

Key Takeaways

- Before classifying resultant data, it is essential to ensure that it is standardized, verified, confidential, and current.
- Each resultant can be categorized using two factors: data provenance and data friction.
- Data provenance refers to the source and proximity of the original resultant data, that is, whether it comes from primary or secondary sources. Primary sources are direct records of events as they occurred. Secondary sources draw on and add extra analysis to primary sources.
- Data friction refers to the effort needed to collect data but not the quality of the resulting data. Data can be classified as low, medium, or high friction depending on how much effort is required.
- Both data provenance and data friction can be recorded in the data category matrix.

Identify, Classify, and Project the Resultants

Key Concepts

In this section we will:

- Outline the steps for forecasting the impact investment's projected resultants.

Follow these steps to forecast the projected resultants:

1. Identify resultants that can be attributed to a typical impact investment.
2. List all potential resultants for which data cannot be collected or analyzed during the investment term. You may integrate them into accompanying frameworks or methodologies if desired.
3. Categorize all resultants based on provenance and friction.
4. Incorporate non-monetizable resultants into relevant metrics and/or frameworks. If using Impact IRR, sort all resultants into monetizable and non-monetizable groups.
5. Identify all resultants that can be monetized and identify the level of evidence associated with each resultant (e.g., scientific consensus, empirical evidence, model-based predictions, and narrative). Based on the level of effectiveness, resultants may need to be discounted..
6. Follow the same steps for resultants that cannot be monetized.
7. Ensure customer-level and business-level investment data are high quality, standardized, verified, confidential, and current.
8. Establish risk mitigation plans that may include redundancies to collect alternative data from alternative sources/proxy datasets.
9. Finalize the projected resultants per customer based on past performance and research/level of evidence.
10. Compile the total projected resultants per business annually using a projected typical investment term based on the past performance of target customers' services and/or research. Adjust the annual yield based on external factors, if necessary.

Key Takeaways

- There are ten recommended steps to follow to forecast the projected resultants of the impact investment.
- The steps include identifying and categorizing the resultants, distinguishing between those that can be monetized and those that cannot, ensuring data quality, establishing risk mitigation plans, and compiling the finalized resultants.

Key Learnings from Module 5

- Estimating the measurable returns of a project means calculating both resultants (outputs, outcomes, and impact) and financial returns.
- All data should be checked against quality criteria to ensure it is standardized, verified, confidential, and current.
- Data can also be categorized by its provenance (i.e., whether it comes from primary or secondary sources) and friction (i.e., how hard it is to acquire).
- There is a recommended ten-step process to follow that leads from identifying resultants to compiling the total projected resultants.

Having completed all of the components of the impact thesis, the final step is to draft and finalize the thesis as a whole, which is the subject of the next Module.

Project (Component 3) Checklist

This checklist details the items required to forecast the financial and impact returns for your impact thesis.

1. **Data Integrity & Categorization Framework**
    a. **Establish Data Quality Standards:** Before collecting data, create a protocol to ensure all information from investees is:
        i. **Standardized:** Uses consistent measurement units and time frames.
        ii. **Verified:** Has its accuracy and reliability checked, with third-party validation where possible.
        iii. **Confidential:** Is handled according to strict confidentiality agreements.
        iv. **Current:** Is updated on an agreed-upon schedule.
    b. **Create a Data Categorization System:** Prepare to classify each resultant (i.e., each output, outcome, and impact metric) you will track using two factors:
    c. **Data Provenance:** The source of the data, categorized as either **Primary** (original records of an event) or **Secondary** (analysis of primary sources).
    d. **Data Friction:** The effort required to collect the data, categorized as **Low**, **Medium**, or **High**.

2. **Resultant Projection Process**
   a. **Identify Attributable Resultants:** List all the outputs, outcomes, and impacts that can be directly attributed to a typical investment from your fund.
   b. **Identify Out-of-Scope Resultants:** Make a separate list of any resultants that cannot be feasibly collected or analyzed during the investment term.
   c. **Categorize All Resultants:** Using your framework, categorize every resultant you plan to track by its provenance and friction level.
   d. **Separate Monetizable and Non-Monetizable Resultants:** Divide your list of resultants into two groups: those that can be assigned a monetary value and those that cannot.
   e. **Link Resultants to Evidence:** For each monetizable resultant, identify the level of evidence (e.g., scientific consensus, empirical evidence) that supports its projected effect.
   f. **Discount Resultants Based on Evidence:** Based on the strength of the evidence, determine if any projected resultants need to be discounted to reflect uncertainty.
   g. **Repeat for Non-Monetizable Resultants:** Follow the same process of linking to evidence and discounting for all non-monetizable resultants.
   h. **Create Data Risk Mitigation Plans:** Establish backup plans for data collection, such as identifying alternative sources or proxy datasets in case your primary data becomes unavailable.
   i. **Project Per-Customer Resultants:** Based on your research and evidence, finalize the projected average resultant yield for a single customer.
   j. **Project Per-Business Resultants:** Compile the total projected resultants for a typical investee business on an annual basis, and adjust the yield if necessary based on external factors.

MODULE 6

DRAFT AND FINALIZE THE IMPACT THESIS

MODULE 6

DRAFT AND FINALIZE THE IMPACT THESIS

Learning Outcomes & Objectives

Having completed all three of its components, it is time to bring everything together by completing the impact thesis.

After working through this Module, you will be able to:

- Finalize the impact thesis.

Executive Summary

Following completion of the three components of the impact thesis, you can take the final steps required to draft and finalize the thesis itself.

The first stage is to draft the need, focusing on the problems you identified and the total addressable market and customer archetypes that you defined during your work on Component 1.

The second stage is to draft the opportunity, focusing on defining the businesses and product(s)/service(s) that you will invest in. This stage also involves defining the investment strategy and the resultants that will stem from the activities funded by the impact investment.

The third stage is to stress test your financial and impact assumptions.

Finally, you can complete the impact thesis by writing up information to cover all the points shown in Tables 9 and 10.

Draft and Finalize the Impact Thesis

Once you have completed all three components, you can begin drafting the impact thesis and conducting the analysis required to finalize it, following the steps below for each stage.

Draft the need

1. **Define the problem:** State the problem(s), why it is occurring, and its size (i.e., give a qualitative/quantitative description of the collective lost opportunity–negative outcomes and impact–stemming from the problem).
2. **Define the archetype and total addressable market:** Describe the typical customer and calculate the total number of potential customers.

Draft the opportunity

1. **Define the business and product/service:** The type of business, the product or service provided to the total addressable market, and the level of evidence that the program can effectively address the problem.
2. **Define the investment strategy:** Identify the types of investments needed in the business to provide the product/service to the target market, outlining the investment structure, projected financial return, and the number of investments during the fund's investment period.
3. **Define the resultants:** Classify them according to the level of evidence, provenance, friction, and collection strategy. Sort them by type (output, outcome, impact) and determine whether they can be monetized. Finally, project the average annual resultant yield per customer.

Stress test financial and impact assumptions

1. Compile the financial and resultant information and conduct a stress test analysis to validate your assumptions. It is recommended to use the Impact IRR methodology for this analysis.
2. Conduct analysis to ensure that the primary financial and resultant drivers are highlighted to maximize the projected return based on all the draft requirements for the impact thesis.

3. Compare the projected financial and impact returns to ensure they align with expectations.
4. Align analysis with non-monetizable factors and/or impact investment frameworks to ensure that the financial and impact return/yield of the draft impact thesis are aligned.

Finalize the impact thesis

Compile the finalized impact thesis by addressing all of the points in Tables 9 and 10.

Table 9: Define the Need

Define the Need
Provide an overview of the problem. This may include providing context for a larger systemic issue.
1. **Problem definition:** Explain what is currently happening and why. Provide a value chain or journey map to explain the problem and current failures. 2. **Definition of the problem's magnitude/lost opportunity:** Define how far-reaching this problem is. Utilize cumulative outcomes or impact to describe the problem's depth and breadth. This section may also include additional qualitative and quantitative information. 3. **Target market description:** Estimate how many people this problem affects. 4. **Description of archetype customers:** The distinguishing characteristics of customer types within the target market. 5. **Optional:** Qualitative information about the target market, customers, or the problem, to provide context.

Table 10: Define the Opportunity

Define the Opportunity	
State the value proposition by explaining why the selected business type(s) are best suited to serve the target market to address the problem.	
Business Characteristics	**Fund's Projected Return**
1. *Impact criteria:* Based on the target market and archetype characteristics, state why the type of business is best suited to provide its product(s) and/or service(s) to the target market. 2. *Product/service:* Define the product or service the business will provide to the target market. 3. *Sector:* Define the sector(s) in which the business operates. 4. *Location:* Define the business locations. 5. *Lifecycle stage:* Startup, established business, etc. 6. *Tax status* (if applicable): For-profit or nonprofit.	1. Define the financial criteria and projections: The typical projected investment may include structure, size, term, and projected return. 2. Define the impact criteria and projections: Based on the level of evidence, product-market fit, and experience describe the projected impact on the target market. This may include both quantitative and qualitative resultants. It will also include a projected monetized outcome and potential impact. 3. Identify risks and risk mitigation tactics for both financial and impact criteria. 4. Project the fund's financial return: This may include typical investment metrics and metrics that blend both impact and financial returns 5. Project the fund's impact return, which includes highlighting benefits to the target market/customers. 6. Optional: *Include qualitative metrics (narratives, stories) based on the outcomes and impact of comparable investments.*

Key Learnings from Module 6

- Drafting and finalizing the impact thesis requires going over and writing up all of the elements from the previous three components.
- The sequence to follow is drafting the need, drafting the opportunity, stress testing the financial and impact assumptions, and then finalizing the thesis.

Finalize Impact Thesis Checklist

This checklist outlines the final steps for drafting, analyzing, and completing your impact thesis by integrating all previous components.

1. **Draft the Need (Component 1 Summary)**
   a. **Write the Problem Statement:** Draft a clear narrative that states the problem, explains why it's occurring, and defines its size by describing the collective negative outcomes or impact.
   b. **Describe the Target Market:** Detail the customer archetypes and state the calculated total addressable market.
   c. **Incorporate Visual Aids and Cite Sources:** Include relevant graphs, charts, and figures (such as a customer journey map) to explain the problem visually, and ensure all data and research sources are properly cited.
2. **Draft the Opportunity (Component 2 & 3 Summary)**
   a. **Define the Business and Solution:** Describe the type of business you will invest in, the product or service it provides, and the level of evidence supporting its projected efficacy.
   b. **Outline the Investment Strategy:** Detail the types of investments needed, including the investment structure, projected financial return, and the number of investments planned for the fund's lifecycle.
   c. **Define the Resultants:** Classify all projected outputs, outcomes, and impacts according to their level of evidence, data provenance (primary/secondary), data friction (low/medium/high), and your collection strategy.
3. **Stress Test Assumptions**
   a. **Conduct Stress Test Analysis:** Compile all financial and impact information and perform a stress test to validate your assumptions.
   b. **Identify Key Drivers:** Analyze your model to highlight the primary drivers of both financial and impact returns.

c. **Compare Projections to Expectations:** Ensure that your projected financial and impact returns align with your fund's overall expectations and goals.

d. **Align with Qualitative Factors:** Check that your quantitative analysis is aligned with any non-monetizable factors or other impact investment frameworks you are using.

4. **Finalize your Impact Thesis**

a. **Complete the Final Write-Up:** Finalize the full impact thesis document, ensuring all required sections from the "Define the Need" and "Define the Opportunity" templates (Tables 9 and 10) are fully addressed.

APPLICATION

PRACTICUMS OVERVIEW

Using these Practicums, you can develop a comprehensive impact thesis by applying the methodology outlined in The Impact Thesis Blueprint. We'll use an example case study—the quiet crisis affecting seniors in fictional Maplewick County—to guide you through a four-part journey:

1. **Understand:** Define the problem (**Practicum 1**).
2. **Invest:** Define the solution and select businesses to implement it (**Practicum 2**).
3. **Project:** Estimate both the financial and impact returns (**Practicum 3**).
4. **Draft:** Construct the complete impact thesis (**Practicum 4**).

While our case study illustrates the key steps, it's a simplified model designed to help you master the **methodology** rather than to serve as a complete professional. To ensure you learn effectively at each stage, every practicum is built on a **four-part learning-and-doing cycle**:

- **Key Concepts:** This section introduces essential ideas. It breaks down core principles for the practicum. Understanding these concepts lays the foundation for the work ahead.
- **Building Blocks:** With the foundational concepts in place, these sections detail the main tasks. They describe the specific framework and methodology to follow. They clarify the overall goal of this part of your impact thesis. The focus is on both the "how" and the "why."
- **Guided Example:** Next, we connect theory to practice. You will see precisely how the principles are implemented through a step-by-step walkthrough of the Maplewick County case study.
- **Your Sandbox:** Finally, the learning becomes your own. The Sandbox is your dedicated, hands-on workspace to apply the methodology to a problem you care about. Here, you can experiment, draft, and build the components of your unique impact thesis.

(Note: This overview is repeated at the start of every practicum for easy reference.)

PRACTICUM

1

UNDERSTAND: DEFINE THE PROBLEM STATEMENT

(COMPONENT 1, MODULE 3)

PRACTICUM 1

UNDERSTAND: DEFINE THE PROBLEM STATEMENT (COMPONENT 1, MODULE 3)

Objective

To **define the problem statement** by applying the **"but for"** or **"status quo" test** to a specific social or environmental issue that the fund will address. This includes **detailing the target customer's experience**, **identifying who is impacted**, and **quantifying the magnitude of the problem** to demonstrate the opportunity for impact.

Introduction

In these practicums, you will develop a comprehensive impact thesis by applying the methodology outlined in The Impact Thesis Blueprint. We'll use an example case study—the quiet crisis affecting seniors in the fictional Maplewick County—to guide you through a four-part journey:

1. **Understand:** Define the problem (**Practicum 1**).
2. **Invest:** Define the solution and select businesses to implement it (**Practicum 2**).
3. **Project:** Estimate both the financial and impact returns (**Practicum 3**).
4. **Draft:** Construct the complete impact thesis (**Practicum 4**).

While our case study illustrates the key steps, it's a simplified model designed to help you master the **methodology** rather than serve as a complete professional template. To ensure you learn effectively at each stage, every practicum is built on a **four-part learning-and-doing cycle**:

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- **Building Blocks:** With the foundational concepts in place, these sections detail the main tasks. They describe the specific framework and methodology to follow. They clarify the overall goal of this part of your impact thesis. The focus is on both the 'how' and the 'why.'
- **Guided Example:** Next, we connect theory to practice. You will see precisely how the principles are implemented through a step-by-step walkthrough of the Maplewick County case study, offering a clear model to follow.

- **Your Sandbox:** Finally, the learning becomes your own. The Sandbox is your dedicated, hands-on workspace to actively apply the methodology to a problem you care about. Here, you will experiment, draft, and build the components of your unique impact thesis.

Case Study: Introduction

Ambrose Ventures, a national healthcare investment fund based in Maplewick, is interested in creating a fund to explore investments in in-home services that allow seniors to age in place or in their communities instead of being prematurely placed into institutional care.

Maplewick is best known for its historic downtown, the world's largest dill pickle, and its strategic location at the intersection of three interstate highways. With a population of 670,000 and a metropolitan area of 1.3 million, Maplewick is a mid-sized city that manages the impact of industrial decline while actively reimagining its future through innovation, policies to encourage small business growth, and investments in green technology.

Historically a manufacturing and logistics hub, Maplewick has leveraged its central location and multimodal infrastructure to become a key node in national distribution networks. However, the city faces ongoing challenges: concentrated poverty, racial and economic segregation, and unequal access to opportunity across neighborhoods.

Demographically, Maplewick is a diverse yet divided community (see Table 1). African American residents make up about 21% of the population, with deep roots in North Maplewick—a historically redlined area now at the center of ambitious public-private redevelopment efforts. Meanwhile, the city's growing Latino and immigrant communities are transforming its cultural and economic landscape.

Table 1: Maplewick Demographics

Race/Ethnicity	Total	Female	Male	%
White	419,050	209,525	209,525	63%
African American, Black	140,700	70,350	70,350	21%
Hispanic, Latino	49,600	24,800	24,800	8%
Asian	22,100	11,050	11,050	3%
Two or More Races	27,000	13,500	13,500	4%
Other Race	4,550	2,275	2,275	1%
Total	670,000	335,000	335,000	100%

Key Concepts

Building Block 1: What is the problem?

- **Core problem statement:** The specific problem your fund is aiming to solve.
- **Customer experience mapping & community voice (human-centered design):** The process of describing the target customer's current experience, including system failures and gaps, while incorporating the perspectives of affected people and communities. This involves creating a customer journey map or value chain to visualize key pain points and system gaps, listing the methods used, and recording insights gained from the community.
- **Supporting evidence & research:** The key data points, research papers, or reports that verify the existence and extent of this problem. Cite your sources.

Building Block 2: Who does this problem affect?

- **Total addressable market (TAM):** The total number of potential customers experiencing the problem you've defined, including the calculation method and source.
- **Customer archetypes:** A detailed profile based on user research that defines customer traits, including location, identity, income, behaviors, goals, and pain points.
- **Stakeholder archetypes:** A detailed profile of the identified individuals or groups beyond the customer who are impacted by or have a vested interest in the problem, including community and value chain stakeholders.

Building Block 3: How big is the problem?

- **Quantifying the magnitude of the problem:** The process of determining the total negative impact by multiplying the TAM by a negative outcome or outcomes, creating a formula, and citing sources to verify the calculations and assumptions.
- **(Optional) Monetizing the impact:** Converting collective negative outcomes into monetary terms is an effective way to communicate the issue to investors. This process involves multiplying the derived magnitude by a per-unit monetized negative outcome. Establish a formula and validate the results by citing sources that support your calculations and assumptions. This step can be included when finalizing the impact thesis.

Building Block 1:
What Is the Problem? (see pages 41–43)

This section explains the specific social or environmental problem your fund will address. Think of this as the "but for" or "status quo" test—what negative results would continue in the absence of your investment?

1. Core Problem Statement

Instructions: In one or two sentences, state clearly the specific problem your fund is aiming to solve.

Example

Seniors in Maplewick County are often forced into expensive and isolating institutional care prematurely because of a lack of coordinated and affordable programs that support aging in place. This systemic failure strains the healthcare system, drains seniors' life savings, and negatively impacts their health and well-being.

Sandbox

Core Problem Statement (Draft your core problem below.)

2. Customer Experience Mapping & Community Voice (Human-Centered Design)

Instructions: Describe your target customer's current experience. Where are the failures or gaps in the system? You can create a customer journey map or a value chain to visualize this. Ensure that you include the key pain points and system gaps.

Be sure to include the perspectives of the affected people and communities. List the methods used and key insights gained from the community.

Example

The journey for a senior and their family after a health event is often confusing and stressful, pushing them toward institutionalization by default. The customer journey map shown in Table 2 details this experience:

Table 2: Detailed Customer Journey Map: Navigating Senior Care

Stage	Customer Actions	Customer Thoughts/Feelings	Pain Points	System Gaps/Failures
1. Trigger Event	An 82-year-old senior, Gertrude, has a fall, resulting in a hospital stay. She feels physically weaker but is still mentally sharp and wants to go home.	Fearful, uncertain, determined. *"I don't want to leave my home. This is where my memories are. But how will I manage?"*	Abrupt transition from independence to needing care. Lack of a clear plan for post-hospital support.	Hospitals are incentivized to discharge patients quickly, often without a comprehensive home-care transition plan in place.
2. Search for Options	Gertrude's adult child frantically searches online for "in-home care," "senior living," etc. They are bombarded with options, from single-service providers to nursing homes.	Overwhelmed, guilty, stressed. *"I'm drowning in information. How do I know what's safe? What can we even afford? I feel like I'm failing them."*	Fragmented market with dozens of unvetted, single-service providers (e.g., just meals, just transport). No central point of contact.	Lack of products or services with a proven track record to assist seniors with aging in place.
3. Financial Navigation	The family tries to understand what insurance and assets will cover. They discover that most non-medical, in-home care is paid for out-of-pocket.	Confused, shocked. *"Medicare doesn't cover this? The private care costs are astronomical!"*	The "cliff" between being eligible for Medicaid and being able to afford private pay (for middle-income families). Navigating bureaucracy and waitlists for low- and moderate-income seniors.	The system is designed for acute medical care, not long-term, non-medical support. There's a significant financial and services gap for both income groups.
4. The "Forced" Decision	Faced with high costs and complexity, the family concludes a nursing home is the only "all-in-one" and financially predictable (though expensive) option.	Resigned, heartbroken. *"I guess this is the only choice. It feels like we're giving up, but I don't know what else to do."*	The logistical nightmare of coordinating care becomes a greater burden than the care itself.	The path of least resistance leads to institutionalization because the market lacks a viable, easy-to-navigate alternative for aging in place.
5. Post-Outcome	Gertrude moves into a nursing home.	Isolated, depressed. *"I miss my garden. I miss my neighbors. This isn't home."*	Rapid depletion of life savings. Loss of independence and community connection. Potential for health to decline faster in a care home.	Higher system-wide costs and poorer quality-of-life outcomes compared to supported in-home aging.

Methods Used:

- **Focus groups** with seniors at the Maplewick Community Center.
- In-depth **interviews** with geriatric social workers and hospital discharge planners.
- **Surveys** distributed to adult children caring for aging parents in Maplewick County.

Key Insights:

- Seniors' top concern is staying in their own homes and keeping their independence.
- Their main worry isn't death but becoming a financial and emotional burden on their children.
- Family caregivers urgently need a single, trusted contact to help them manage and coordinate care.

3. Supporting Evidence & Research

Instructions: List the key data points, research papers, or reports that verify the existence and extent of this problem. Cite your sources.

Example

- A report by a leading public policy institute reveals that nearly 70% of people aged 65 and older wish to remain in their homes for as long as possible.
- The Maplewick County Council on Aging's 2025 Report identified a significant gap between the need for and the availability of in-home care aide services. It also stated that medical debt from falls costs seniors about $3,000 per fall, each fall costs the healthcare system $14,000, and the average annual cost of a nursing home is $108,405 vs. $54,900 for in-home care.
- Maplewick University's School of Public Health published a paper stating that 25% of Maplewick seniors were at high risk of falling, and 50% are likely to require institutional care within twelve months that could have been prevented.

Sandbox

Customer Mapping and Community Voice

Draft your customer mapping and community voice sections. Add your supporting research and evidence.

Building Block 2:
Who Does This Problem Affect? (see pages 43-46)

This section focuses on identifying and understanding the specific population experiencing the problem.

1. Total Addressable Market (TAM)

Instructions: What is the total number of potential customers experiencing the problem you've defined? Be sure to include the TAM calculation and source/methodology.

Example

Table 3: Households in Maplewick with 65+ Year Olds Not in Institutional Care

Panel A: 65+ Demographics				
White (NH)	105,00	57,750	42,250	70%
Black/African American	31,500	17,325	14,175	21%
Asian	4,500	2,475	2,025	3%
Two + Races/Other	9,000	4,950	4,050	6%
Total	**150,000**	**82,500**	**67,500**	**100%**
Latino/Hispanic	12,250	6,738	5,513	8%

Panel B: 65+ Income Tier		
Income Tier	**Number of Households**	**% of Households**
≤30% AMI	37,000	25%
30% - 50% AMI	45,000	30%
51% - 60% AMI	7,500	5%
61% - 80% AMI	7,500	5%
81% - 99% AMI	7,500	5%
>100% AMI	45,000	30%
Total	**150,000**	**100%**

- **TAM Calculation:**
  - **Total addressable market** = (Number of seniors aged 65+ in Maplewick County who do not reside in institutional care, i.e., aging-in-place seniors) x (% of seniors who want to age in place) x (% of seniors at high risk of falls that will likely lead to institutional care).
  - **Number:** 150,000 seniors x 70% x 25% = **18,375 seniors**.
  - **Sources/methodology:** The population data are sourced from the U.S. Census Bureau. ADL limitation rates are from the CDC's National Center for Health Statistics. The number of seniors in institutional care is from the Maplewick County Department of Health.

Sandbox

Total Addressable Market

Calculate your total addressable market and provide sources.

1. Customer Archetypes

Instructions: Complete the profile for at least one end-customer archetype. An archetype is a detailed profile based on user research. For the end customer, make sure to define their traits and include details about their location, identity, and income. For all customer archetypes, be sure to include the following information: description, behaviors, goals, and pain points.

Example

- **End Customer:** "The Keystone Generation" (At-Risk Senior)
- **Location:** Seniors living in their own homes or apartments across Maplewick County.
- **Identity:** Individuals aged **65+**, often widowed or living alone, whose adult children (see the "Concerned Caregiver," below) often serve as primary caregivers and decision-makers, are key secondary customers.
- **Income:** The market is segmented into two primary brackets:
- **Middle-income:** Seniors with assets like a home and $100K to $500K in retirement savings, which disqualify them from significant government assistance such as Medicaid but are not enough to comfortably pay for long-term, private-pay institutional care.
- **Low- to moderate-income (LMI):** Seniors with incomes at or below 50% of the area median income (AMI) may qualify for certain subsidized programs, but they often encounter significant service gaps, waiting lists, and difficulties covering co-pays or additional support needs.
- **Behaviors:** Insists on managing all household chores and finances on her own, often hiding her struggles or physical exhaustion from her family. She downplays health issues, loneliness, or near falls when talking to her children to avoid becoming a "burden." She secretly adjusts to her limitations by "furniture surfing" for support or simplifying her daily routines.
- **Goals:** To stay in her own home and familiar community, seeing it as the only acceptable way to spend her remaining years. She wants to keep her independence and dignity, making her own decisions without her children taking over. Her main goal is to avoid a serious fall or illness that could force her to move and wipe out her savings.
- **Pain Points:** A deep fear of falling, seeing it as the first step toward losing her independence and being placed in a nursing home. She feels intense frustration and embarrassment about her own physical limitations and the loss of abilities she once took for granted. She also constantly worries about her finances, knowing her modest savings won't be enough to cover a serious health emergency or the high costs of long-term care.
- **End Customer:** "The Concerned Caregiver" (Daughter/Son of a Senior)
- **Description:** A 58-year-old teacher who lives 45 minutes away from her 84-year-old widowed mother, who is the **end customer**. This family falls into the **middle-income** bracket; they have a home and modest savings but are shocked by the high cost of institutional care.

- **Behaviors:** Spends her weekends helping her mother with groceries, appointments, and home maintenance. She is constantly calling to check in and feels stretched thin between her job, her own family, and her mother's needs. She has spent hours online researching care options, feeling more confused each time.
- **Goals:** To ensure her mother is safe, healthy, and happy. To find a reliable and affordable solution that allows her mother to stay in her beloved home without sacrificing her own well-being and career.
- **Pain Points:** Constant worry and guilt. The logistical complexity of coordinating appointments, transportation, and potential in-home help. Frustration with a fragmented and expensive system that offers no clear path forward.

1. Stakeholder Archetypes

Instructions: Besides the customer(s), who else is impacted by or has a vested interest in this problem? List community stakeholders and value chain stakeholders.

Example

Community Stakeholders:

- **Local hospitals:** Directly impacted by senior readmission rates, which are often caused by inadequate post-discharge support at home.
- **Maplewick County Area Agency on Aging:** Mandated to support the local senior population.
- **Local government:** Concerned with rising healthcare costs and the well-being of its senior citizen population.
- **Medicare:** Has a strong interest in preventing seniors from entering institutional care to reduce costs and enhance the seniors' quality of life.

Value Chain Stakeholders:

- **In-home care agencies:** Providers of care aides.
- **Medical equipment suppliers:** Provide walkers, hospital beds, etc.
- **Emergency services (EMS):** Often the first responders to senior falls or emergencies at home.

Sandbox

Customer and Stakeholder Archetypes

Add your customer archetypes. Add your stakeholder archetypes.

Building Block 3:
How Big Is the Problem? (see page 46)

This section aims to quantify the extent of the problem to highlight the size of the opportunity for impact.

1. Quantifying the Magnitude of the Problem

Instructions: Calculate the total negative impact. This generally involves multiplying the TAM by a negative outcome or outcomes. Develop a formula and verify your results by citing sources that support your calculations and assumptions.

2. (Optional) Monetizing the Impact

Instructions: If applicable, define and calculate the estimated monetary value of the collective negative outcomes. This can be a compelling way to frame the problem for investors.

Example

The absence of verified aging-in-place solutions in Maplewick County results in an unnecessary and avoidable annual financial burden of over $983 million. This figure highlights the premature and inefficient use of seniors' life savings, caregivers' savings, and/or costs to the healthcare system of institutional care, resulting in poorer health outcomes and increased pressure on the entire healthcare system.

- **Formula, Aging in Place vs. Institutional Care:** (total addressable market of at-risk seniors) x (average annual excess cost of nursing home care vs. in-home support) = total monetizable financial burden on the community.
- **Calculation:** 18,375 seniors x ($108,405 – $54,912) = **$982,933,875 annually**.
- **Sources:** The TAM of 18,375 seniors is from Building Block 2. The average national cost data is from the journal study cited previously, used as a proxy for local costs.

Sandbox

Problem Size. **Calculate the size of the problem.**

PRACTICUM 2

INVEST:
DEFINE THE OPPORTUNITY
(COMPONENT 2, MODULE 4)

PRACTICUM 2

INVEST: DEFINE THE OPPORTUNITY (COMPONENT 2, MODULE 4)

Objective

To **define the investment opportunity** by **identifying the solution**, the **ideal business profile** to deliver it, and the **necessary financial structure**.

Introduction

In these practicums, you will develop a comprehensive impact thesis by applying the methodology outlined in The Impact Thesis Blueprint. We'll use an example case study—the quiet crisis affecting seniors in the fictional Maplewick County—to guide you through a four-part journey:

1. **Understand:** Define the problem (**Practicum 1**).
2. **Invest:** Define the solution and select businesses to implement it (**Practicum 2**).
3. **Project:** Estimate both the financial and impact returns (**Practicum 3**).
4. **Draft:** Construct the complete impact thesis (**Practicum 4**).

While our case study illustrates the key steps, it's a simplified model designed to help you master the **methodology** rather than serve as a complete professional template. To ensure you learn effectively at each stage, every practicum is built on a **four-part learning-and-doing cycle**:

- **Key Concepts:** This section introduces essential ideas. It breaks down core principles for the practicum. Understanding these concepts lays the foundation for the work ahead.
- **Building Blocks:** With the foundational concepts in place, these sections detail the main tasks. They describe the specific framework and methodology to follow. They clarify the overall goal of this part of your impact thesis. The focus is on both the 'how' and the 'why.'
- **Guided Example:** Next, we connect theory to practice. You will see precisely how the principles are implemented through a step-by-step walkthrough of the Maplewick County case study, offering a clear model to follow.

- **Your Sandbox:** Finally, the learning becomes your own. The Sandbox is your dedicated, hands-on workspace to actively apply the methodology to a problem you care about. Here, you will experiment, draft, and build the components of your unique impact thesis.

Case Study: Introduction

Ambrose Ventures, a national healthcare investment fund based in Maplewick, is interested in creating a fund to explore investments in in-home services that allow seniors to age in place or in their communities instead of being prematurely placed into institutional care.

Maplewick is best known for its historic downtown, the world's largest dill pickle, and its strategic location at the intersection of three interstate highways. With a population of 670,000 and a metropolitan area of 1.3 million, Maplewick is a mid-sized city that manages the impact of industrial decline while actively reimagining its future through innovation, policies to encourage small business growth, and investments in green technology.

Historically a manufacturing and logistics hub, Maplewick has leveraged its central location and multimodal infrastructure to become a key node in national distribution networks. However, the city faces ongoing challenges: concentrated poverty, racial and economic segregation, and unequal access to opportunity across neighborhoods.

Demographically, Maplewick is a diverse yet divided community (see Table 1). African American residents make up about 21% of the population, with deep roots in North Maplewick—a historically redlined area now at the center of ambitious public-private redevelopment efforts. Meanwhile, the city's growing Latino and immigrant communities are transforming its cultural and economic landscape.

Table 1: Maplewick Demographics

Race/Ethnicity	Total	Female	Male	%
White	419,050	209,525	209,525	63%
African American, Black	140,700	70,350	70,350	21%
Hispanic, Latino	49,600	24,800	24,800	8%
Asian	22,100	11,050	11,050	3%
Two or More Races	27,000	13,500	13,500	4%
Other Race	4,550	2,275	2,275	1%
Total	670,000	335,000	335,000	100%

Key Concepts

Building Block 1: Identify the product or service (the solution)

- **Potential products/services:** A list of potential products or services that can address identified pain points is created based on research.
- **Evidence-based selection:** The selected product or service is rated based on its likelihood of achieving the intended results by using the **levels of evidence framework** and providing justification.
- **Equity lens application:** A plan is developed to ensure the solution is fair and accessible to all targeted customers, especially those with unique barriers, by identifying cohorts and tailoring resources to overcome those obstacles.

Building Block 2: Define the target business profile

- **Ideal business characteristics:** The profile of a typical business in the investment pipeline is defined, including its lifecycle stage, revenue streams, core competency, prevalence, and any relevant governance factors.
- **Market sizing for investees:** The size of a typical business's customer base is estimated by calculating the **total addressable market (TAM)**, **serviceable addressable market (SAM)**, and **serviceable obtainable market (SOM)**.

Building Block 3: Design the investment structure

- **Investment type & financial instrument:** The appropriate **impact investment type** (market rate, below market rate, or blended) and **financial instrument type** (debt-based, equity-based, or innovative) are selected based on the fund's goals.
- **Typical investment structure:** Key terms for a typical investment, such as the structure, average size, average term, and projected financial return, are outlined.
- **Funding structure analysis:** The funding structures of potential investees are analyzed, including capitalization tables and sources and uses tables.

Building Block 4: Define value creation levers

- **Value-added services:** Specific non-financial support services that the fund will provide to investees are identified, such as traditional value-based or impact-focused levers.

Building Block 1:
Identify the Product or Service (The Solution) (see pages 54-58)

This section focuses on selecting an evidence-based solution for the problem outlined in Component 1.

1. Potential Products/Services

Instructions: Based on your research into the problem, list potential products or services that could solve the identified pain points.

1. **Option A:**
2. **Option B:**
3. **Option C:**

Evidence-Based Selection

Instructions: For your chosen product/service, rate the likelihood it will achieve the intended results using the levels of evidence framework. Justify your choice.

2. Equity Lens Application

Instructions: How will you make sure the solution is fair and accessible to all target customers, especially those facing unique barriers?

- **Identified cohort(s) with barriers:** (e.g., single parents needing childcare, individuals with disabilities requiring accessibility features.)
- **Tailored resources/strategies to overcome barriers:** (e.g., subsidized transportation, flexible scheduling, culturally competent outreach.)

Example

Potential products/services: Based on the problem of a fragmented and difficult-to-navigate senior care market, potential solutions include:

- **Option A:** “A la carte” home care agencies offering specific services like companionship or meal prep by the hour.
- **Option B:** Technology marketplaces that connect families directly with independent, pre-vetted caregivers, modeled after a gig economy system.

- **Option C:** Evidence-based services modeled on successful aging-in-place university programs, which have been shown in randomized controlled trials to reduce the likelihood of institutionalized care by 75% for at least one year for seniors at high risk of falling and being institutionalized.

Chosen product/service: Evidence-based programs.

- **Level of evidence** (Check one):
  - ☐ Scientific consensus
  - ☒ **Empirical evidence**
    - **Justification & source(s):** This choice directly addresses the need for a coordinated, effective solution. The justification is based on strong empirical evidence that many services launched at universities have proven to improve daily functioning and reduce both disability and healthcare costs for seniors. These services also have high potential for commercialization and scaling and can be provided to each customer up to three times annually.
  - ☐ Model-based predictions
  - ☐ Narrative

Equity lens application:

- **Identified cohort(s) with barriers:** Low- to moderate-income (LMI) seniors with 50% or below area median income (AMI) who cannot afford market-rate program fees.
- **Tailored resources/strategies to overcome barriers:**
  - **Sliding-scale fee structure:** Develop a tiered pricing model based on income, subsidized by the fund's blended capital structure.
  - **Partnerships for public funding:** Actively collaborate with the investee business to help it become an approved provider for government programs and other public or private funding streams, ensuring the services are accessible to the most vulnerable seniors.

Sandbox

Product/Service Selection

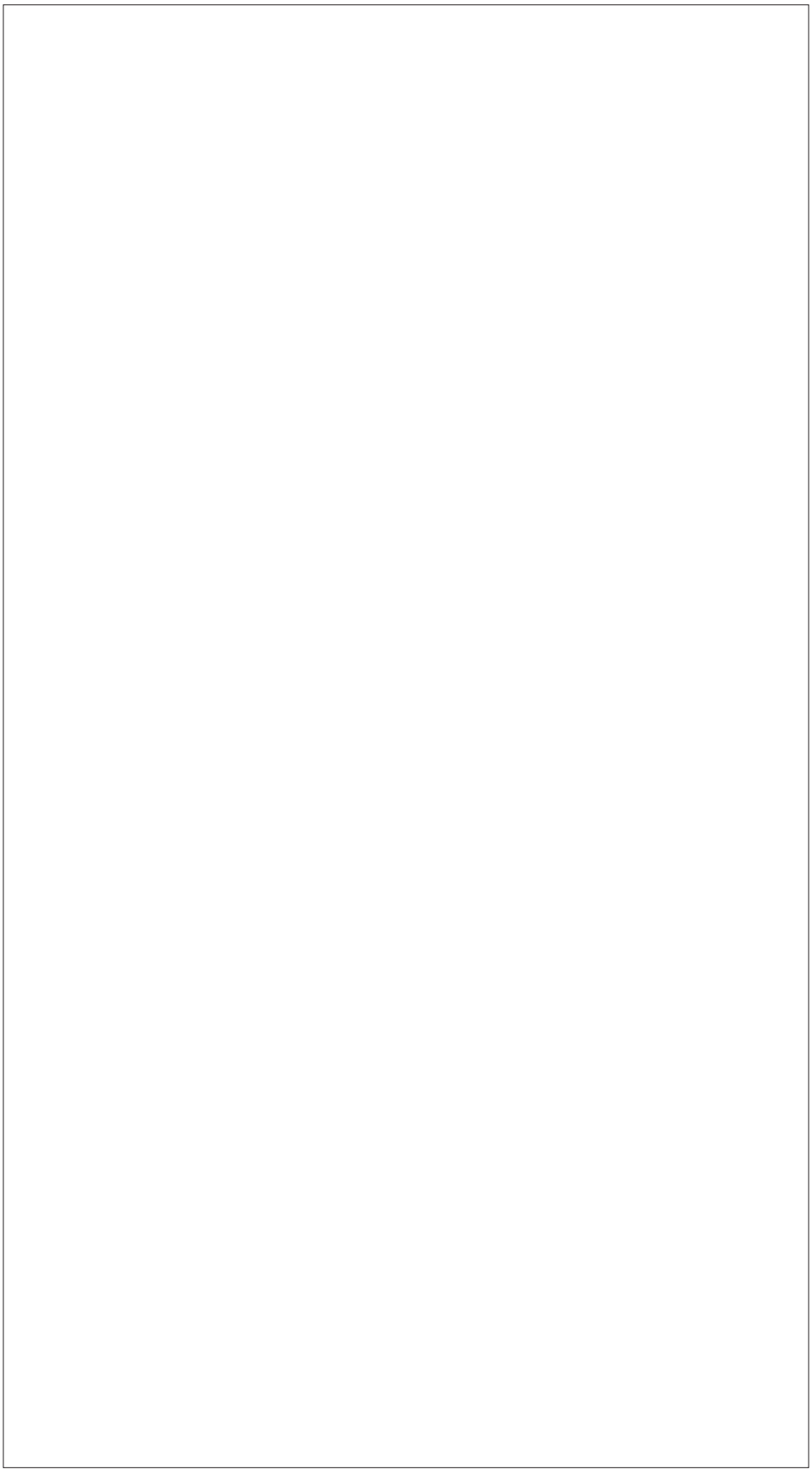
Chosen Product/Service:

Level of Evidence (Check one):

- ☐ Scientific consensus:
  Based on systematic reviews of empirical evidence.
- ☐ Empirical evidence:
  Based on specific studies, but generalizability may be limited.
- ☐ Model-based predictions:
  Based on theoretical models and assumptions.
- ☐ Narrative:
  Based on a rational explanation of why it could be effective.

Draft justification and list sources.

INVEST: DEFINE THE OPPORTUNITY (COMPONENT 2, MODULE 4)



Building Block 2:
Define the Target Business Profile (see pages 58–62)

This section focuses on identifying the ideal type of business to invest in to deliver your chosen solution.

1. Ideal Business Characteristics

Instructions: Define the profile of a typical business in your investment pipeline:

a. **Business lifecycle stage:** Startup, growth, mature, or decline.
b. **Revenue streams:** e.g., B2B2C (business-to-business-to-consumer), B2C (business-to-consumer).
c. **Core competency:** Does the business have the expertise to deliver the solution?
d. **Prevalence:** Are there enough businesses to invest in, or will new ones need to be created?

2. Governance Factors (Optional)

Instructions: List any specific environmental or social governance criteria that you will require from investees, for example, board composition requirements.

3. Market Sizing for Investees

Instructions: Estimate the size of the customer base a typical business in your portfolio can reach:

a. **Total addressable market (TAM):** From Component 1.
b. **Serviceable addressable market (SAM):** The part of the TAM that the business can realistically serve based on geography, regulations, and other factors.
c. **Serviceable obtainable market (SOM):** The part of the SAM that the business can realistically capture with its current capabilities.

Example

Ideal business characteristics: We have identified and secured letters of interest from ten potential businesses to invest in, which have the following characteristics.

- **Business lifecycle stage: Growth (Scaleup)**. Businesses with validated models, achieved product-market fit, and consistent revenue are still expanding and willing to take risks to grow market share, which requires capital to broaden their service area and client base.
- **Revenue streams:** A hybrid model featuring B2C (business-to-consumer) monthly subscription fees and a B2B2C component through partnerships with insurers who pay to reduce readmission costs and long-term care expenses.
- **Core competency:** Expertise in providing services to seniors, managing logistics to coordinate multiple services, and delivering high-touch customer service to seniors and their families.
- **Prevalence:** Few firms utilize these validated models, opening a major market opportunity for a proven provider to become a leader.
- **Governance factors:** The business has an established advisory board and a commitment to tracking client safety and satisfaction metrics as part of its governance oversight.

Market sizing for investees:

- **Total addressable market (TAM): 18,375 seniors** in Maplewick County who have at least one ADL (activities of daily living) limitation and are at risk of premature institutionalization. The number of seniors in this category is projected to increase dramatically, with some estimates suggesting it will triple within five years. For calculations within our investment term, we will use this number as a base but acknowledge the substantial future growth of these service lines.
- **Serviceable addressable market (SAM): 9,000 seniors**. This is the portion of the TAM that lies within the service area of each of the 10 potential investees.
- **Serviceable obtainable market (SOM): 7,000 seniors**. This is the portion of the existing 10 businesses' clients who meet the criteria for these services.

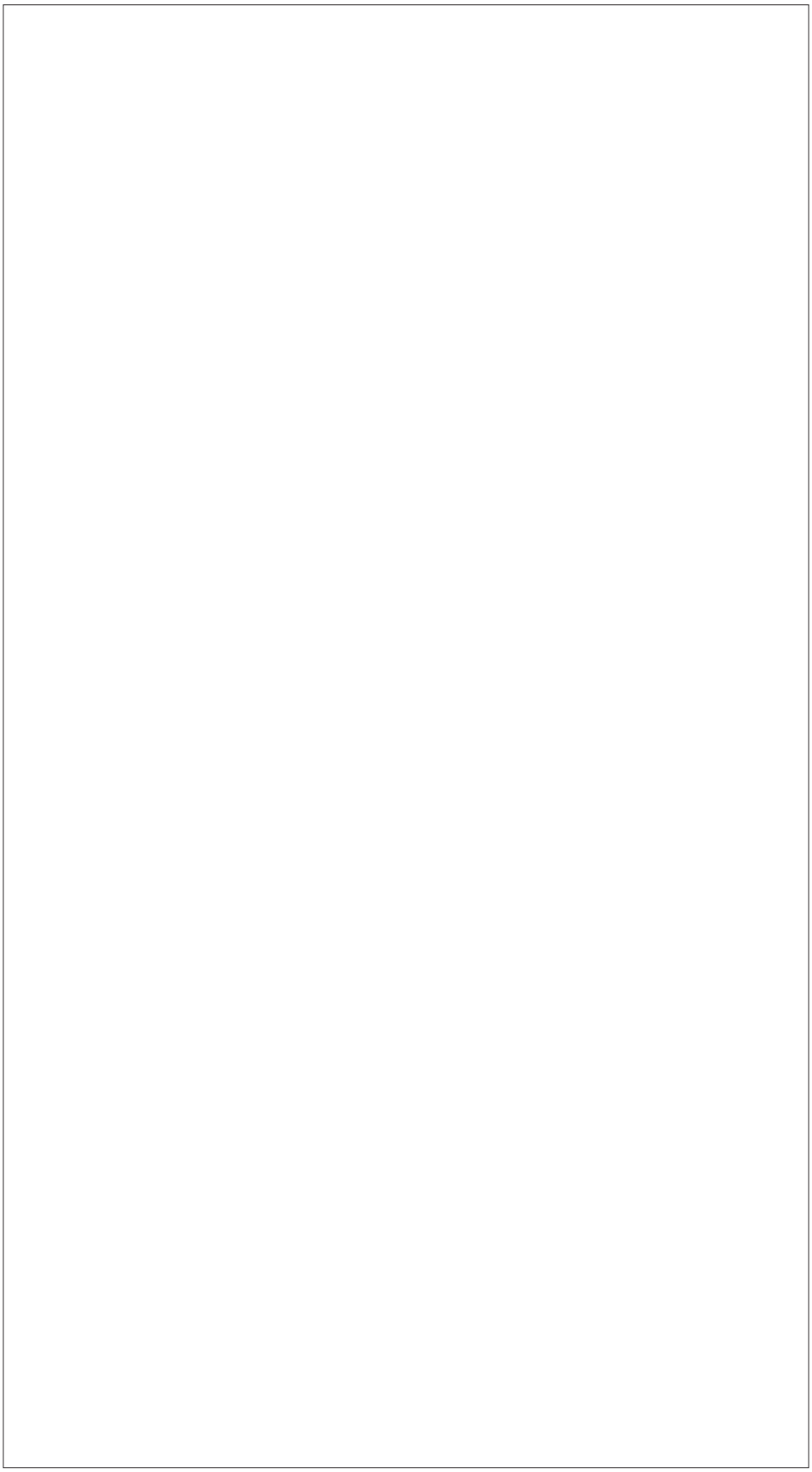
Sandbox

Business Characteristics

Draft ideal business characteristics:

1. Business Lifecycle Stage (select one and provide justification):
    a. Startup
    b. Growth
    c. Mature
    d. Decline
2. Revenue Streams:
3. Core Competency:
4. Prevalence:
5. Governance Factors:
6. Market Size:

INVEST: DEFINE THE OPPORTUNITY (COMPONENT 2, MODULE 4)



Building Block 3:
Design the Investment Structure (see pages 62–67)

This section focuses on defining the financial vehicle for your investments.

1. Investment Type & Financial Instrument

Instructions: Based on your fund's goals, select the appropriate categories for your investments.

a. **Impact investment type:**
   i. **Market rate (MIC):** Seeks market-rate financial returns.
   ii. **Below market rate (BIC):** Accepts lower returns to catalyze impact.
   iii. **Blended:** Combines MIC and BIC.

b. **Financial instrument type:**
   i. **Debt-based:** e.g., bonds, loans.
   ii. **Equity-based:** e.g., common stock, preferred stock.

2. Typical Investment Structure

Instructions: Outline the key terms for a typical investment.

a. **Structure:** (e.g., Series A preferred equity, 7-year term loan).
b. **Average size:**
c. **Average term:**
d. **Projected financial return (IRR %):**

3. Funding Structure Analysis

Instructions: Analyze the funding structures of potential investees. Review capitalization tables, sources and uses tables, etc.

Example

Impact investment type:

- ☒ **Market rate (MIC)**
  - **Justification:** Provide structured debt that ensures a steady return. This approach enables participation in the new business line's growth without taking an immediate ownership stake, balancing risk with the opportunity for significant long-term returns.
- ☐ Below market rate (BIC)
- ☐ Blended

- **Financial instrument type:**
  - ☒ **Debt-based**
    - **Justification:** Provide structured debt that offers a steady return. This strategy enables participation in the growth of the new business line without an immediate ownership stake, balancing risk with the potential for significant long-term gains.
  - ☐ Equity-based
- **Typical investment structure:**
  - **Structure:** Senior debt.
  - **Average size:** $1,000,000.
  - **Average term:** 7-year term.
  - **Projected financial return (IRR %):** 10%.

Sandbox

Core Investment Criteria

Select the impact investment type, financial instrument type(s), and typical investment structure. Provide a justification for each choice.

Impact Investment Type

- ☐ Market rate (MIC)
  - Justification:
- ☐ Below market rate (BIC)
  - Justification:
- ☐ Blended
  - Justification:

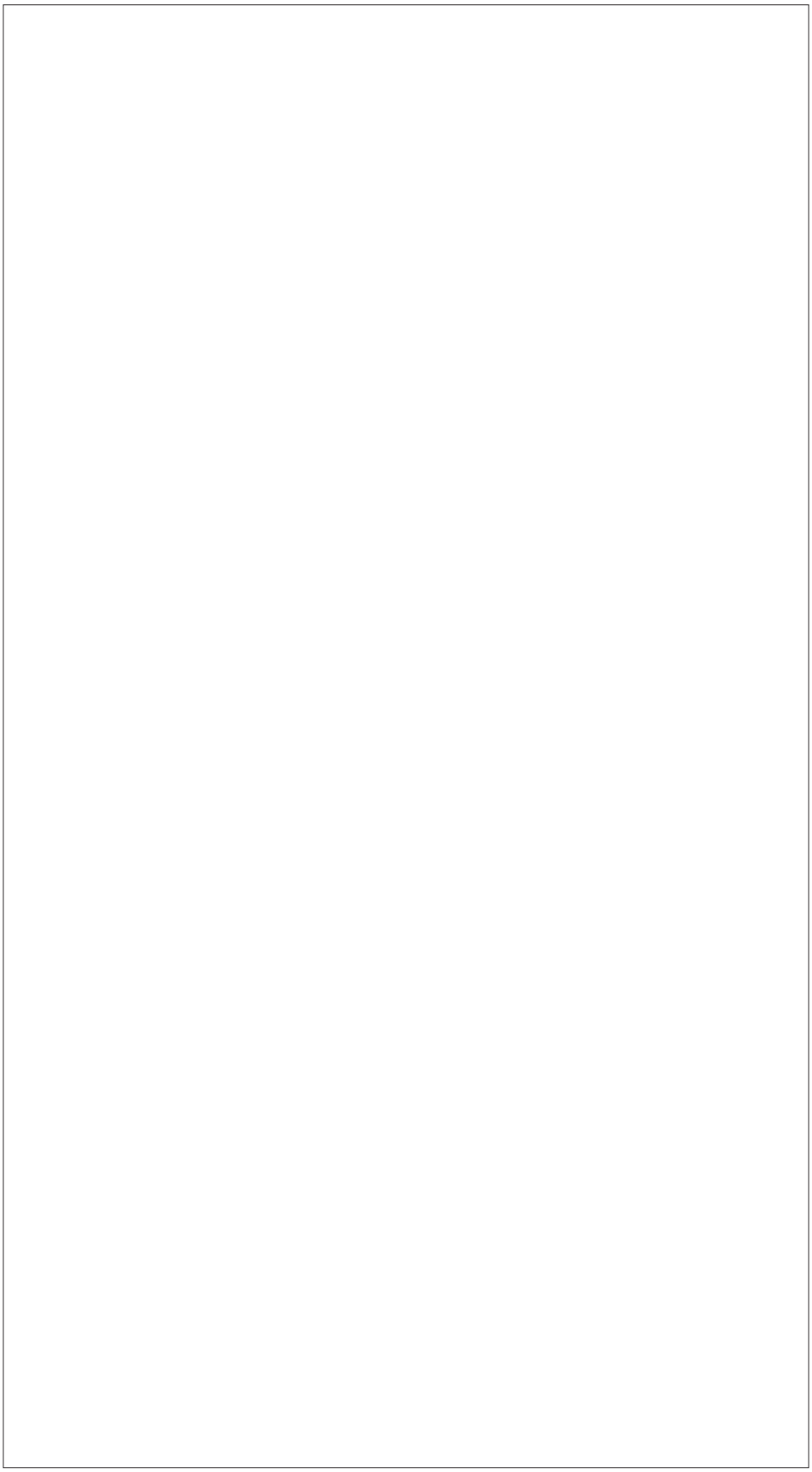
Financial instrument type:

- ☐ Debt-based
  - Justification:
- ☐ Equity-based
  - Justification:

Typical investment structure:

- **Structure:**
- **Average size:**
- **Average term:**
- **Projected financial return (IRR %):**

INVEST: DEFINE THE OPPORTUNITY (COMPONENT 2, MODULE 4)



Building Block 4:
Define Value Creation Levers (see page 67)

This section details the non-financial support your fund will provide to investees.

1. Value-Added Services

Instructions: What specific value-added services will your fund offer in addition to capital? Check all that apply and provide specifics.

Example

- **Value-added services:**
    - **Payor engagement and contracting support:** Utilize the fund's network and healthcare industry expertise to assist the business in engaging and securing pilot programs and long-term contracts with key payors, such as Medicare Advantage plans and local hospital systems. This includes helping the business develop the financial models and value propositions needed to attract these large entities.
    - **Impact measurement and management:** Provide dedicated support to help the company compile and integrate its client outcomes into a professional impact measurement platform. This includes standardizing outcome metrics, verifying data, and creating dashboards to effectively communicate the program's social and financial return on investment to stakeholders.

Sandbox

Value Creation Levers

Draft a list of value creation levers provided.

PRACTICUM 3

PROJECT:
FORECAST THE RETURNS
(COMPONENT 2, MODULE 5)

PRACTICUM 3

PROJECT: FORECAST THE RETURNS
(COMPONENT 3, MODULE 5)

Objective

To forecast the **projected financial and impact returns** of your investment, this practicum guides you through **establishing a data quality framework** and **following a systematic process** to **project your fund's resultants** (outputs, outcomes, and impact).

Introduction

In these practicums, you will develop a comprehensive impact thesis by applying the methodology outlined in The Impact Thesis Blueprint. We'll use an example case study—the quiet crisis affecting seniors in the fictional Maplewick County—to guide you through a four-part journey:

1. **Understand:** Define the problem (**Practicum 1**).
2. **Invest:** Define the solution and select businesses to implement it (**Practicum 2**).
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4. **Draft:** Construct the complete impact thesis (**Practicum 4**).

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- **Guided Example:** Next, we connect theory to practice. You will see precisely how the principles are implemented through a step-by-step walkthrough of the Maplewick County case study, offering a clear model to follow.

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Maplewick is best known for its historic downtown, the world's largest dill pickle, and its strategic location at the intersection of three interstate highways. With a population of 670,000 and a metropolitan area of 1.3 million, Maplewick is a mid-sized city that manages the impact of industrial decline while actively reimagining its future through innovation, policies to encourage small business growth, and investments in green technology.

Historically a manufacturing and logistics hub, Maplewick has leveraged its central location and multimodal infrastructure to become a key node in national distribution networks. However, the city faces ongoing challenges: concentrated poverty, racial and economic segregation, and unequal access to opportunity across neighborhoods.

Demographically, Maplewick is a diverse yet divided community (see Table 1). African American residents make up about 21% of the population, with deep roots in North Maplewick—a historically redlined area now at the center of ambitious public-private redevelopment efforts. Meanwhile, the city's growing Latino and immigrant communities are transforming its cultural and economic landscape.

Table 1: Maplewick Demographics

Race/Ethnicity	Total	Female	Male	%
White	419,050	209,525	209,525	63%
African American, Black	140,700	70,350	70,350	21%
Hispanic, Latino	49,600	24,800	24,800	8%
Asian	22,100	11,050	11,050	3%
Two or More Races	27,000	13,500	13,500	4%
Other Race	4,550	2,275	2,275	1%
Total	670,000	335,000	335,000	100%

Key Concepts

Building Block 1: Data integrity & categorization framework

- **Data quality standards:** This is a protocol to ensure all data collected from investees is of high quality. The data must be **standardized** (uses consistent units and time frames), **verified** (its accuracy and reliability are checked), **confidential** (managed according to strict procedures), and **current** (updated on an agreed-upon schedule). The benefits of high-quality data are its reliability and trustworthiness in the marketplace and its ability to reduce skepticism about your findings. More than just getting all these components "right," it involves documenting the quality of your data and acknowledging its strengths and limitations. Confidence is built through transparency in evaluation.
- **Data categorization system:** This is a framework for classifying metrics based on their **provenance** (the source and proximity of the data) and **friction** (the effort required to collect the data). Data provenance can be **primary** (original records) or **secondary** (analysis of primary sources). Data friction can be **low**, **medium**, or **high**.

Building Block 2: Projection of Resultants

- **Identify & classify resultants:** The process of listing all measurable effects, including **outputs** (direct results; more immediate, e.g., the number of seniors served), **outcomes** (short- to medium-term effects, e.g., a reduction in hospital readmissions), and **impact** (long-term effects such as sustained independence).
- **Separate monetizable & non-monetizable resultants:** The division of resultants into two groups: those that can be assigned a credible monetary value and those that cannot be easily valued in monetary terms.
- **Link to evidence & apply discounts:** The process of identifying the **level of evidence** for each key resultant and applying a discount to account for risks and uncertainty.
- **Data risk mitigation plan:** A backup plan in case primary data sources become unavailable, which may involve using validated proxy datasets or alternative collection methods.
- **Final projections:** The final projected yield for a typical investment, including the average yield per customer and the total projected annual yield per business.

Building Block 1:
Data Integrity & Categorization Framework
(see pages 75–78)

Before projecting returns, you need to set up a framework for maintaining data quality and organizing your metrics. This ensures a consistent and justified approach to measurement.

1. Data Quality Standards

Instructions: Define the protocol you will use to ensure all data collected from investees is of high quality. Describe your process for meeting each standard.

- **Standardized:** How will you ensure consistent units and time frames?
- **Verified:** How will you check the accuracy and reliability of data?
- **Confidential:** What are your procedures for maintaining data confidentiality?
- **Current:** What is the agreed-upon schedule for updating data?

2. Data Categorization System

Instructions: For each key resultant (metric) you plan to track, classify it using the matrix below. This helps to understand the source of your data and the effort required to collect it.

Table 2: Resultant Categorization Matrix (1)

Resultant (Metric)	Type (Output, Outcome, or Impact)	Provenance (Primary/Secondary)	Friction (Low/Medium/High)
(e.g., New, Livable Wage Jobs)	Outcome	Primary	Low

Example

Data quality standard for verified senior service fund

- **Standardized:** All investees must submit impact data using a provided digital template or create an API to extract the relevant data from their system. The template specifies uniform measurement units and reporting periods (calendar quarters) to enable accurate aggregation.

- **Verified:** Self-reported data will be verified through quarterly reviews. For critical outcomes, we will require third-party validation where possible, such as comparing company-reported readmission rates against anonymized data provided by a hospital partner under a data-sharing agreement.
- **Confidential:** All client-level data will be managed in accordance with the Health Insurance Portability and Accountability Act (HIPAA) regulations. Investees must use a secure, encrypted data portal for all submissions. Any data shared externally will be aggregated and anonymized to ensure the confidentiality of both clients and businesses.
- **Current:** Investees must update their data quarterly, with submissions due within 30 days of the end of each quarter. This helps ensure timely performance tracking.

Data Categorization System

Table 3: Resultant Categorization Matrix (2)

Metric	Resultant (Output, Outcome, or Impact)	Provenance (Primary/ Secondary)	Friction (Low/Medium/ High)	Monetized
Number of Seniors Enrolled in the Services	Output	Primary	Low	
Improved Client-Reported Narratives	Outcome	Primary	High	
***Projected Healthcare Cost Savings**	Outcome	Secondary	Low	X
Cost Savings: Aging in Place vs. Institutional Care	Outcome	Primary	Medium/High	X

*Fund study on healthcare savings. Not included in the current impact internal rate of return (IRR) but might be in future funds.

Sandbox

Data Quality Standards

Define the protocol you will use to ensure all data collected from investees is of high quality. Describe your process for meeting each standard.

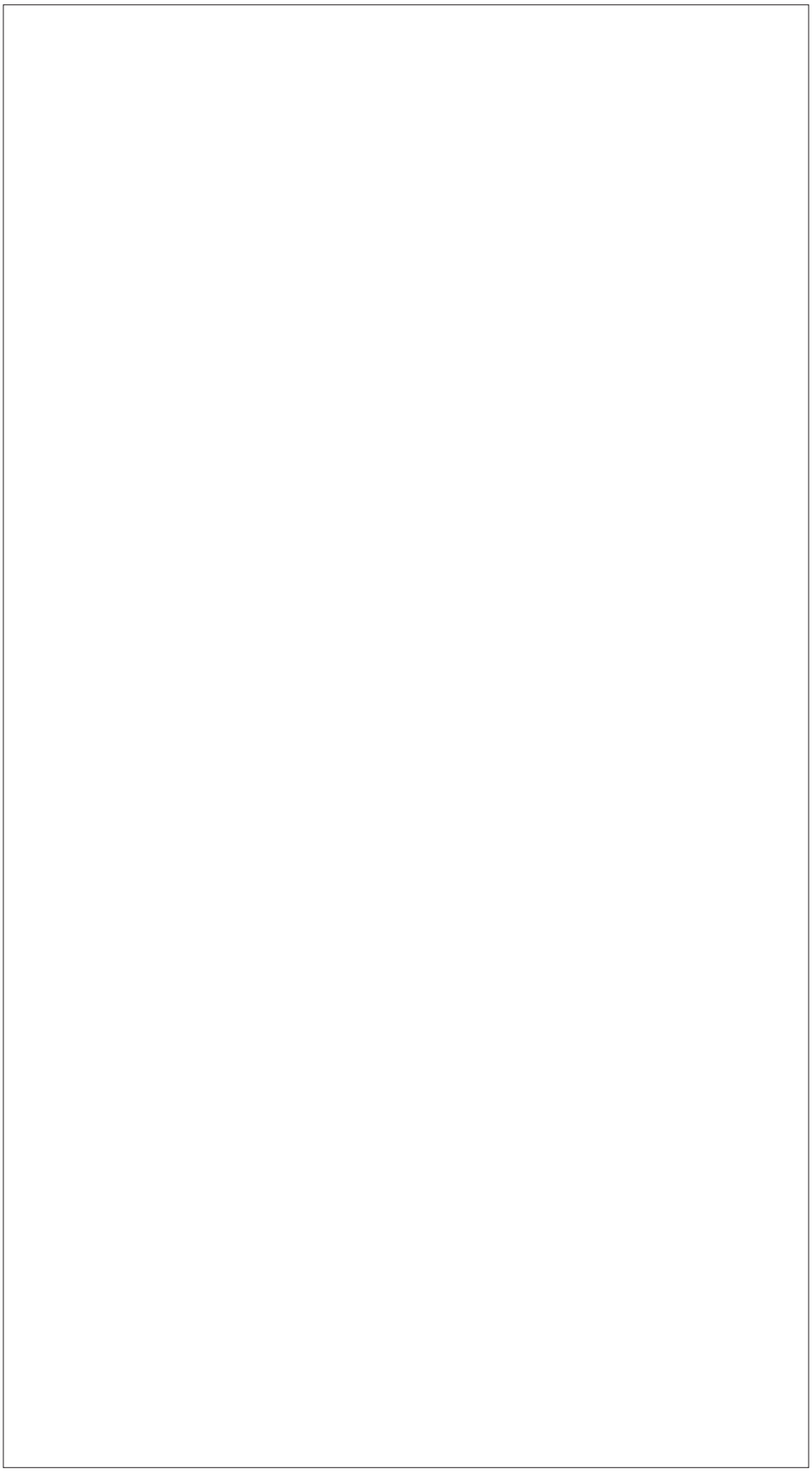
- **Standardized:** How will you ensure consistent units and time frames?
  - **ANSWER:**
- **Verified:** How will you check the accuracy and reliability of data?
  - **ANSWER:**
- **Confidential:** What are your procedures for maintaining data confidentiality?
  - **ANSWER:**
- **Current:** What is the agreed-upon schedule for updating data?
  - **ANSWER:**

Data Categorization System: You have two options for this activity. **Please choose one:**

- **Practice Here First:** Complete the partial chart below for each metric. You will then add the final columns in **Building Block 2**.
- **Work Ahead:** If you feel comfortable, you can skip this chart and proceed directly to **Building Block 2** to complete the full version all at once.

Metric	Resultant (Output, Outcome, or Impact)	Provenance (Primary/ Secondary)	Friction (Low/Medium/ High)	Monetized

PROJECT: FORECAST THE RETURNS (COMPONENT 2, MODULE 5)



Building Block 2:
Projecting the Resultants (see pages 79-80)

This section provides a step-by-step guide to identifying, classifying, and projecting the resultants for a typical investment in your portfolio.

1. Identify & Classify Resultants

Instructions: List all the measurable effects (outputs, outcomes, impact) that can be directly attributed to a typical investment from your fund.

Attributable resultants:

- **Outputs:** e.g., # of affordable housing units built, # of people trained.
- **Outcomes:** e.g., % reduction in housing cost burden, # of graduates employed in new field.
- **Impact:** e.g., long-term community economic resilience, intergenerational wealth creation.

2. Separate Monetizable & Non-Monetizable Resultants

Instructions: Divide your list of resultants into two groups.

1. **Monetizable resultants:** Those that can be assigned a credible monetary value.
2. **Non-monetizable resultants:** Those that cannot be easily valued in monetary terms.

3. Link to Evidence & Apply Discounts

Instructions: For each key resultant, identify its level of evidence and determine if a discount is needed to account for uncertainty.

Table 4: Levels of Evidence and Discount Applied (1)

Resultant	Level of Evidence	Discount Applied?
Add measured resultant	Scientific consensus, empirical, etc.	*Add a rationale to explain why it is or is not discounted.*

4. Data Risk Mitigation Plan

Instructions: What is your backup plan if the primary data sources become unavailable? For example, you could use validated proxy datasets or alternative collection methods.

5. Final Projections

Instructions: Based on your analysis, finalize the projected yield for your resultants.

a. **Projection per customer:**
   i. **Resultant:**
   ii. **Projected average yield:**
b. **Projection per business (annual):**
   i. **Resultant:**
   ii. **Total projected annual yield:**

Example

Identify & classify resultants:

- **Outputs:** Number of seniors completing the services.
- **Outcomes:** Total cost savings (reduction in hospital readmission, etc.)
- **Outcome:** Total projected healthcare cost savings for payors (e.g., hospitals, insurers), seniors, and families resulting from extending seniors' ability to age in place and maintain long-term independence in their homes.

Separate monetizable & non-monetizable resultants:

- **Monetizable resultants:** Cost savings for the senior, their family, and the healthcare system by preventing the institutionalization of an at-risk senior through this service.
- **Non-monetizable resultants:** Number of seniors served; improved client-reported quality of life score; increase in ADL (activities of daily life) performance.

Link to evidence & apply discounts:

Table 5: Levels of Evidence and Discount Applied (2)

Resultant	Level of Evidence (Scientific Consensus, Empirical, etc.)	Discount Applied? (Yes/No) & Rationale
Preventing Institutionalization of an At-Risk Senior	Empirical evidence	Yes. A 15% discount is applied to the projected outcome based on the original university research. Rationale: To address risks related to implementation fidelity and differences in patient populations between a commercial setting and a controlled academic study. This discount may be revised as needed, based on actual impact data collected during the investment period.

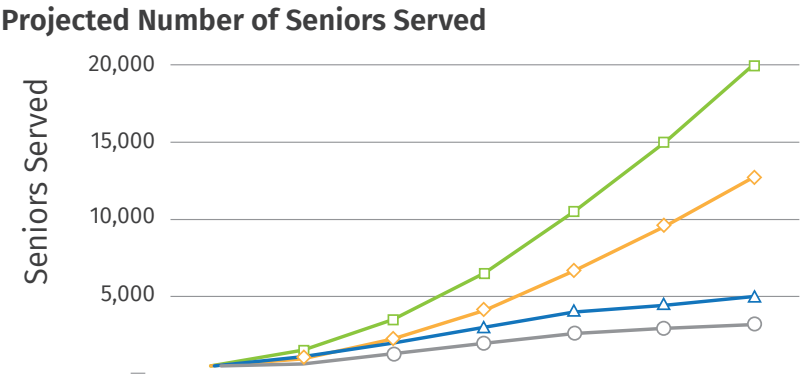
Data risk mitigation plan: If the primary data source for hospital readmissions (i.e., the hospital partner's data) becomes unavailable, the backup plan has two parts:

- Use client and caregiver-reported institutionalization data collected through regular surveys, applying a higher discount to this data.
- Use validated national proxy datasets for similar evidence-based programs to forecast the expected outcome, clearly noting the shift from primary to proxy data.

Final projections:

- **Projection per customer: Reduction in at-risk institutionalization.**
  - **Projected average yield:** Institutionalization of at-risk seniors within the serviceable obtainable market is reduced on average by 64% [75%*(1-.85)].
- **Projection per business and yield:** See Figure 1

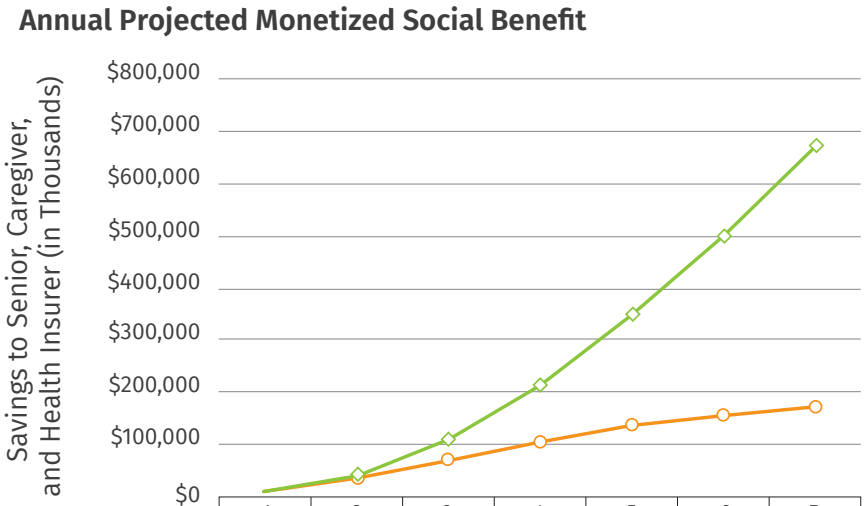
Figure 1: Projected Annual Avoidance of Institutionalization by At-Risk Seniors



	1	2	3	4	5	6	7
Annual Number of Seniors Served	500	1,000	2,000	3,000	4,000	4,500	5,000
Cumulative Number of Seniors Served	500	1,500	3,500	6,500	10,500	15,000	20,000
Annual Number of Seniors Served That Avoid Institutional Care for at lesat one year Attributed to the Program	320	640	1,280	1,920	2,560	2,880	3,200
Cumulative Number of Seniors Served That Avoid Institutional Care for at lesat one year Attributed to the Program	320	960	2,240	4,160	6,720	9,600	12,800

** Assume all 10 businesses start in Year 1 and serve the same number of customers. (see Companion Impact IRR Excel Workbook for calculations)*

Figure 2: Projected Annual Monetized Social Benefit



	1	2	3	4	5	6	7
Annual Savings Attibuted to Seniors Avoiding Institutional Care	$8,511	$34,044	$68,087	$102,131	$136,174	$153,196	$170,218
Cumulative Total Savings	$8,511	$42,554	$110,641	$212,772	$348,946	$502,142	$672,360

(see Companion Impact IRR Excel Workbook for calculations)

Sandbox

Resultant Chart

It's time to complete the full analysis chart. Follow the instructions below based on how you started:

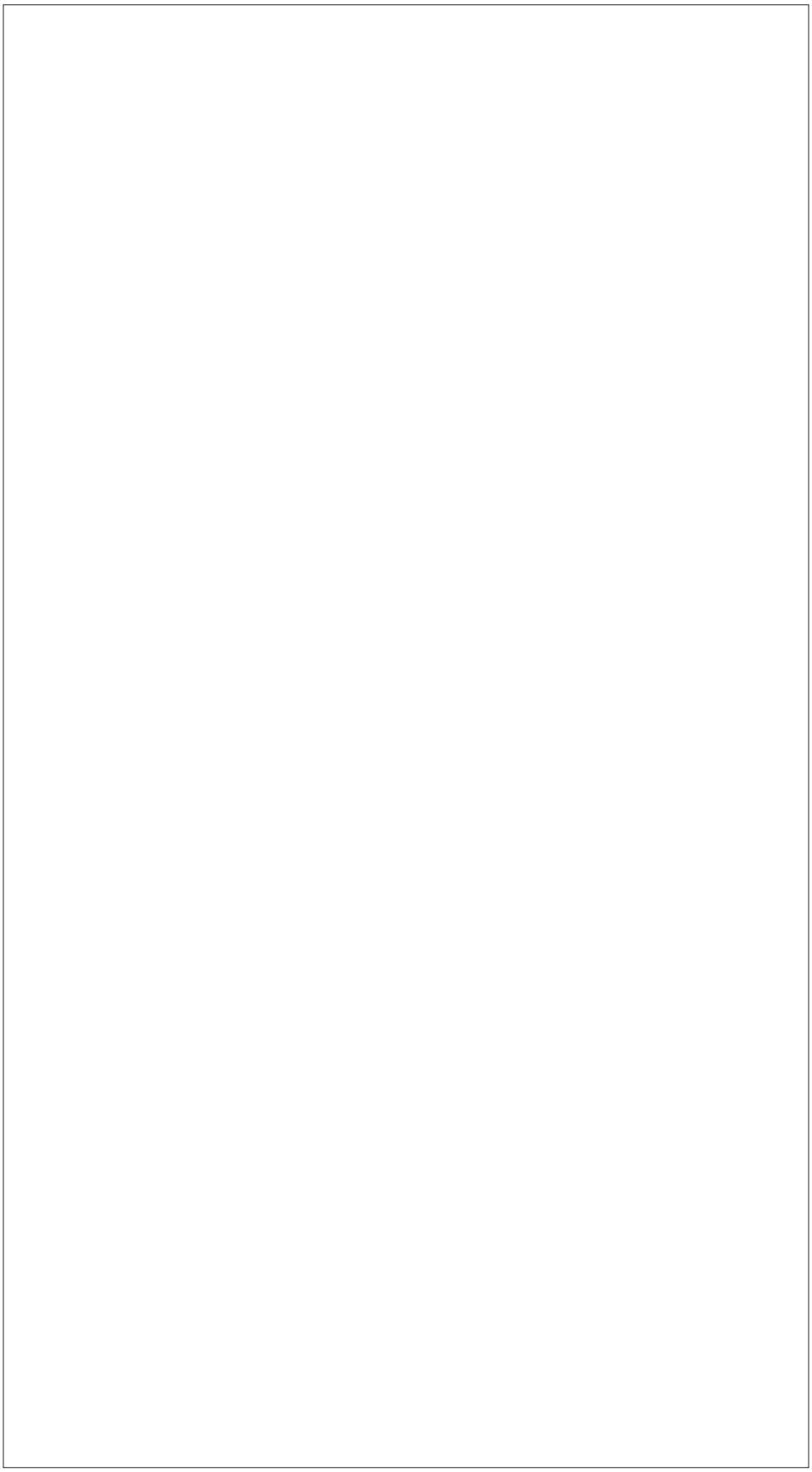
- **Continuing from Building Block 1:** Your information has been carried over. Simply complete the final two columns: "Discount Applied and Rationale" and "Risk Mitigation Plan."
- **Chose to Work Ahead:** Fill out all columns in the chart below to complete the activity.

Metric	**Resultant** (Output, Outcome, or Impact)	**Provenance** (Primary/ Secondary)	**Friction** (Low/ Medium/ High)	**Monetized**	**Discount Applied** (Yes/No) and Rationale	**Risk Mitigation Plan**

Project Resultants

Now, using the chart you've completed, draft a projection for each resultant. For this step, feel free to use tools like Excel to perform calculations and create charts. Please see the Companion Impact IRR Excel Workbook for a practical example.

PROJECT: FORECAST THE RETURNS (COMPONENT 2, MODULE 5)



PRACTICUM

4

DRAFT AND FINALIZE THE IMPACT THESIS
(MODULE 6)

PRACTICUM 4

DRAFT AND FINALIZE THE IMPACT THESIS (MODULE 6)

Objective

To **synthesize the findings** from Components 1, 2, and 3 into a **cohesive and compelling impact thesis**. As outlined in Module 2, a well-crafted thesis "integrates all the pieces of a complex investment strategy into a single narrative that is thoughtful, thorough, and supported by data and other evidence." This practicum guides you through **drafting the narrative, stress testing your assumptions,** and **completing the final document**.

Introduction

In these practicums, you will develop a comprehensive impact thesis by applying the methodology outlined in The Impact Thesis Blueprint. We'll use an example case study—the quiet crisis affecting seniors in the fictional Maplewick County—to guide you through a four-part journey:

1. **Understand:** Define the problem (**Practicum 1**).
2. **Invest:** Define the solution and select businesses to implement it (**Practicum 2**).
3. **Project:** Estimate both the financial and impact returns (**Practicum 3**).
4. **Draft:** Construct the complete impact thesis (**Practicum 4**).

While our case study illustrates the key steps, it's a simplified model designed to help you master the **methodology** rather than serve as a complete professional template. To ensure you learn effectively at each stage, every practicum is built on a **four-part learning-and-doing cycle**:

- **Key Concepts:** This section introduces essential ideas. It breaks down core principles for the practicum. Understanding these concepts lays the foundation for the work ahead.
- **Building Blocks:** With the foundational concepts in place, these sections detail the main tasks. They describe the specific framework and methodology to follow. They clarify the overall goal of this part of your impact thesis. The focus is on both the 'how' and the 'why.'

- **Guided Example:** Next, we connect theory to practice. You will see precisely how the principles are implemented through a step-by-step walkthrough of the Maplewick County case study, offering a clear model to follow.
- **Your Sandbox:** Finally, the learning becomes your own. The Sandbox is your dedicated, hands-on workspace to actively apply the methodology to a problem you care about. Here, you will experiment, draft, and build the components of your unique impact thesis.

Case Study: Introduction

Ambrose Ventures, a national healthcare investment fund based in Maplewick, is interested in creating a fund to explore investments in in-home services that allow seniors to age in place or in their communities instead of being prematurely placed into institutional care.

Maplewick is best known for its historic downtown, the world's largest dill pickle, and its strategic location at the intersection of three interstate highways. With a population of 670,000 and a metropolitan area of 1.3 million, Maplewick is a mid-sized city that manages the impact of industrial decline while actively reimagining its future through innovation, policies to encourage small business growth, and investments in green technology.

Historically a manufacturing and logistics hub, Maplewick has leveraged its central location and multimodal infrastructure to become a key node in national distribution networks. However, the city faces ongoing challenges: concentrated poverty, racial and economic segregation, and unequal access to opportunity across neighborhoods.

Demographically, Maplewick is a diverse yet divided community (see Table 1). African American residents make up about 21% of the population, with deep roots in North Maplewick—a historically redlined area now at the center of ambitious public-private redevelopment efforts. Meanwhile, the city's growing Latino and immigrant communities are transforming its cultural and economic landscape.

Table 1: Maplewick Demographics

Race/Ethnicity	Total	Female	Male	%
White	419,050	209,525	209,525	63%
African American, Black	140,700	70,350	70,350	21%
Hispanic, Latino	49,600	24,800	24,800	8%
Asian	22,100	11,050	11,050	3%
Two or More Races	27,000	13,500	13,500	4%
Other Race	4,550	2,275	2,275	1%
Total	670,000	335,000	335,000	100%

Key Concepts

Building Block 1: Draft the need (Component 1 summary)

- **The problem statement narrative:** A concise narrative that summarizes the problem, its root causes, and its size.
- **Target market summary:** A brief, high-level overview of the target customers, including their **archetype** and the **total addressable market (TAM)**.
- **Visual aids & citations checklist:** A checklist to ensure that the final document includes relevant visual aids, such as customer journey maps, and properly cites all data and research sources.

Building Block 2: Draft the opportunity (Components 2 & 3 summary)

- **The business & solution narrative:** A description of the business type and the specific product or service it provides, supported by the **level of evidence** for its effectiveness.
- **The investment strategy summary:** An outline of the investment approach, including the **investment structure**, **projected financial return**, and the planned number of investments.
- **The resultants summary:** A brief description of the projected **outputs**, **outcomes**, and **impact**, mentioning how they are classified (provenance and friction) and whether they are **monetizable**.

Building Block 3: Stress test assumptions

- **Compile financial & resultant data:** The process of consolidating all quantitative information into a single model for analysis.
- **Conduct stress test:** A validation of core assumptions using a methodology such as **impact internal rate of return (IRR)**.
- **Identify key drivers:** The process of highlighting the primary drivers of both **financial and impact returns**.
- **Compare projections to expectations:** A check to ensure that projected returns align with the fund's stated goals.
- **Align with qualitative factors:** A verification that the quantitative analysis is consistent with non-monetizable resultants and other qualitative frameworks.

Building Block 4: Finalize the thesis document

- **Checklist completion:** A final review to ensure that all required sections from the "Define the Need" and "Define the Opportunity" templates (Tables 9 and 10 in the Impact Thesis Blueprint) are fully addressed.
- **Clarity & cohesion review:** A final check to ensure the document is a coherent, well-supported, and thoughtful narrative.

Building Block 1:
Draft the Need (Component 1 Summary) (see pages 85-87)

This section focuses on summarizing your problem statement into a clear and concise narrative.

1. **The Problem Statement Narrative**

Instructions: Write a paragraph that clearly states the problem, explains why it is occurring, and defines its size. Incorporate your key findings from the Understand practicum.

2. **Target Market Summary**

Instructions: Describe the typical customer (archetype) and state the total addressable market (TAM). This should be a brief, high-level overview.

3. **Visual Aids & Citations Checklist**

Instructions: Confirm that you have included the following in your draft:

a. ☐ Relevant graphs, charts, or figures (e.g., customer journey map) to visually explain the problem.

b. ☐ Data and research sources that are properly cited.

Example

The problem statement narrative: Seniors in Maplewick County are being prematurely forced into costly institutional care because of a fragmented and hard-to-navigate market for aging-in-place support. This systemic failure results in an avoidable negative impact of **over $983 million each year**, depleting seniors' assets, adding stress to families, and overburdening the local healthcare system. The issue arises because there is no single, trusted organization to coordinate the complex services—such as home care, transportation, and safety modifications—that seniors need to continue living safely in their homes.

Target market summary: Our target customers are seniors aged 65+ and their concerned family caregivers, who are often the primary decision-makers. These end customer archetypes is overwhelmed by the complexity and cost of care options and is seeking a trustworthy, comprehensive solution. The total addressable market (TAM) in Maplewick County is **18,375 seniors** at immediate risk of losing their independence.

Sandbox

Problem Statement Narrative

Use the space below to draft your Problem Statement Narrative, following the instructions provided in Building Block 1.

Building Block 2:
Draft the Opportunity (Component 2 & 3 Summary) (see pages 85-87)

This section focuses on summarizing your proposed solution and its projected returns.

1. **The Business & Solution Narrative**

Instructions: Describe the type of business you will invest in and the specific product or service it provides. State the level of evidence that supports the effectiveness of this solution.

2. **The Investment Strategy Summary**

Instructions: Outline the key details of your investment strategy, including the investment structure, projected financial return, and the planned number of investments.

3. **The Resultants Summary**

Instructions: Briefly describe the projected outputs, outcomes, and impact of your investments. Mention how they are classified (provenance, friction) and whether they are monetizable.

Example

The business & solution narrative: Our fund will invest in established, growth-stage companies that offer a list of predetermined programs. These programs offer medical and non-medical support, enabling seniors to age in place safely. The effectiveness of each program is backed by strong empirical evidence from university-based studies where the model was developed and validated.

The investment strategy summary: We will make **market-rate debt investments**. A typical investment will be **$1,000,000** with a 7-year term and a projected financial return of **10% IRR**. The fund plans to make 10 such investments over its lifecycle.

The resultant summary: We forecast that a typical investment will enable the businesses to serve **500 seniors in the first year, ramping up to 5,000 by year 7 (output).** This will lead to **320 seniors being able to age in place in year 1 increasing to 3,200 by year 7 (outcome)**, which is a monetizable, primary, medium-friction metric. Moreover, an **improved quality of life for seniors** is **a key non-monetary outcome** that will be measured (**primary, medium-friction metric).** The **long-term outcomes**, including **significant healthcare cost savings**, will also be measured and studied.

Sandbox

Draft the Opportunity

Use the space below to draft your Opportunity Narrative, following the instructions provided in Building Block 2.

Building Block 3:
Stress Test Assumptions (see pages 85-86)

This section provides a checklist to validate your financial and impact models before finalizing the thesis.

1. Compile Financial & Resultant Data
   - ☐ **Check:** Have you compiled all quantitative information into a single model for analysis?
2. Conduct Stress Test
   - ☐ **Check:** Have you performed a stress test (e.g., using the Impact IRR methodology) to validate your core assumptions? Review the Impact IRR Primer and the Impact IRR Companion Worksheet Calculations to guide you on how to implement this methodology.
3. Identify Key Drivers
   - ☐ **Check:** Have you identified and highlighted the primary drivers of both financial and impact returns in your analysis?
4. Compare Projections to Expectations
   - ☐ **Check:** Do the projected returns align with the fund's stated goals and expectations?
5. Align with Qualitative Factors
   - ☐ **Check:** Is your quantitative analysis consistent with your non-monetizable resultants and any other qualitative frameworks you are using?

Sandbox

Stress Test Assumptions

Use this space to summarize your key findings and confirm you have completed the Stress Test Assumptions checklist from Building Block 3. Your detailed calculations and full validation supporting these findings should be kept in external documents (Excel Workbooks, Google Sheets, etc.).

Building Block 4:
Finalize the Thesis Document (see pages 86-87)

This section is a final checklist to ensure your impact thesis document is complete and professional.

1. Complete the "Define the Need" Section
   - ☐ **Check:** Have you fully addressed all points from the template in Table 9 of the Impact Thesis Blueprint?
2. Complete the "Define the Opportunity" Section
   - ☐ **Check:** Have you fully addressed all points from the template in Table 10 of the Impact Thesis Blueprint?
3. Review for Clarity & Cohesion
   - ☐ **Check:** Is the entire document a single, coherent narrative that is thoughtful, thorough, and supported by evidence?

Example
Ambrose Catalyst Capital Porch Swing Fund: Impact Thesis

The Problem

Seniors in Maplewick County face a quiet crisis. Research shows that nearly **70% of people aged 65 and older wish to remain in their homes**, yet they are often prematurely forced into expensive and isolating institutional care. This is due to a fragmented, complex, and costly senior care market, with the Maplewick County Council on Aging identifying a **significant gap between the need for and availability of in-home support services**. This systemic failure creates an avoidable annual financial burden on the community of over **$983 million**.

A fall event often triggers the problem. According to research from Maplewick University, **25% of local seniors are at high risk of falling**. A single fall can create medical debts of **$3,000 for the senior** and cost the **healthcare system $14,000**. After such an event, families must navigate a confusing maze of unvetted, single-service providers as there is no single, trusted organization to coordinate care. This logistical nightmare makes institutionalization the path of least resistance, even though it is often against the senior's wishes and is significantly more expensive, costing an average of **$108,405 annually compared to $54,912 for in-home care**. Tragically, for many high-risk seniors, institutionalization often occurs despite its being preventable; studies show that half of those seniors who experience falls are likely to be put into institutional care within a year of their fall, when proper in-home support could have avoided institutionalization.

The Target Market

This problem directly affects a **total addressable market (TAM) of 18,375 seniors** in Maplewick County who are at high risk of losing their independence due to a high risk of falling. Our target customers are:

- **"The keystone generation" (at-risk senior):** Individuals aged 65+, often widowed or living alone, who have a strong desire to remain in their homes but require support. They fear becoming a financial and emotional burden on their children and are intensely frustrated by their physical limitations.
- **"The concerned caregiver" (their adult children):** Typically aged 45-65, they serve as primary caregivers and decision-makers. They are overwhelmed by the complexity of care options and feel stretched thin between their jobs, their own families, and their parents' needs.

This market is segmented into two key income brackets, both of which are poorly served by the current system:

- **Middle-income seniors:** Those whose assets disqualify them from most public aid but are insufficient to comfortably pay for long-term institutional care.
- **Low- to moderate-income (LMI) seniors:** Those at or below 50% of the area median income (AMI) who face significant service gaps and long waitlists for the limited subsidized care available.

The Solution: Investing in Coordinated, Evidence-Based Care

The Ambrose Catalyst Capital Porch Swing Fund (PSF) will address this crisis by investing growth capital structured as senior debt in ten businesses that provide evidence-based, clinically validated services, modeled on successful university programs to offer seniors the best opportunity to age in place. These comprehensive, managed care platforms will serve as the single point of contact that families and seniors are urgently seeking.

The effectiveness of this model is supported by strong **empirical evidence**; randomized controlled trials have shown that these programs can **reduce the likelihood of institutional care by as much as 75% for seniors at high risk of falling**. By improving seniors' daily functioning and reducing disability, these coordinated services directly combat the primary drivers of premature institutionalization. To ensure fairness and accessibility for low- to moderate-income seniors, investees will be supported to develop sliding-scale fee structures and form partnerships to secure public funding.

Beyond providing capital, the fund will deliver critical value-added services to ensure investees succeed in scaling this high-impact model. This includes **payor engagement and contracting support**, where the fund will leverage its healthcare industry expertise to help businesses secure contracts with key payors like Medicare Advantage plans and local hospital systems. Additionally, the fund will provide dedicated **impact measurement and management** support, helping companies compile and integrate client outcomes into professional platforms to effectively communicate their social and financial return on investment to stakeholders.

The immediate opportunity for this solution is substantial. For the ten potential businesses already identified as investment targets, the serviceable obtainable market (SOM) is **currently 7,000 seniors, with this market segment forecast to triple over the next five years.** This number is derived from the portion of these businesses' existing clients who meet the criteria for the enhanced aging-in-place services. This SOM is part of a larger **serviceable addressable market (SAM) of 9,000 seniors**, representing the total number of at-risk seniors within the current geographic service area of these potential investees.

Investment Strategy & Return Profile

Table 1: Summary of Target Investment Profile

Summary of Target Investment Profile	
Investment	10 $1M Senior Debt with a projected return of 10%, 7 Year Term. Interest Only.
Investee Profile	Vetted cohort of growth-stage in-home healthcare providers
Service Provided	Evidence-based coordinated care services that reduce institutionalization risk by up to 75% for high-risk seniors, as verified by randomized controlled trials.
Level of Evidence:	Empirical Evidence
Attribution & Catalytic Opportunity	Tier 1. Potential Catalytic Opportunity.
Notable Outcomes	Projected to prevent the premature institutionalization of 12,800 seniors, creating over $170M in projected cumulative savings for seniors, their families, and the healthcare system.
Projected IRR & Impact IRR	10% 221%

Business characteristics: PSF will invest in **growth-stage** companies that have already validated their business models, achieved product-market fit, and established consistent revenue. These businesses will have core competencies in providing services to seniors, managing logistics, and delivering high-touch customer service. Their revenue will come from a hybrid model of business-to-consumer (B2C) subscription fees and business-to-business-to-consumer (B2B2C) partnerships with insurers. This selected cohort of ten businesses is defined by its shared financial profile, operational characteristics, and projected returns, as outlined in Table 1 above.

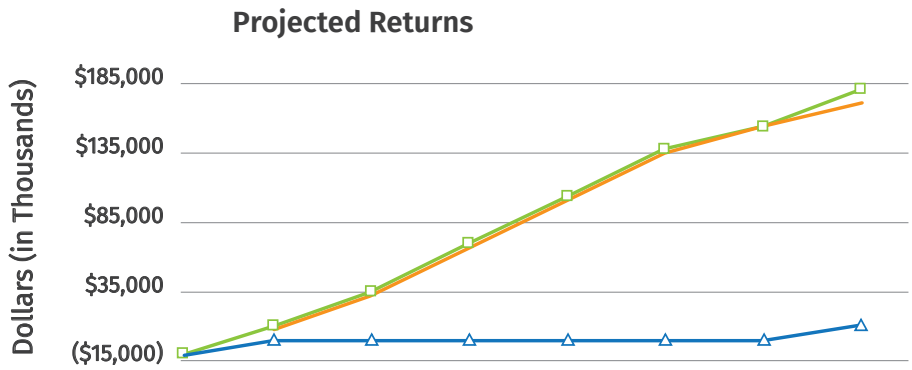
Highlighted fund's projected financial return:

- **Investment structure:** The fund will provide **market-rate senior debt**. This structure offers non-dilutive growth capital that appeals to business owners.
- **Typical investment:** A **$1,000,000** revenue-based loan with a **7-year term**.
- **Projected financial return:** A **10% IRR** from senior debt.

Highlighted fund's impact return:

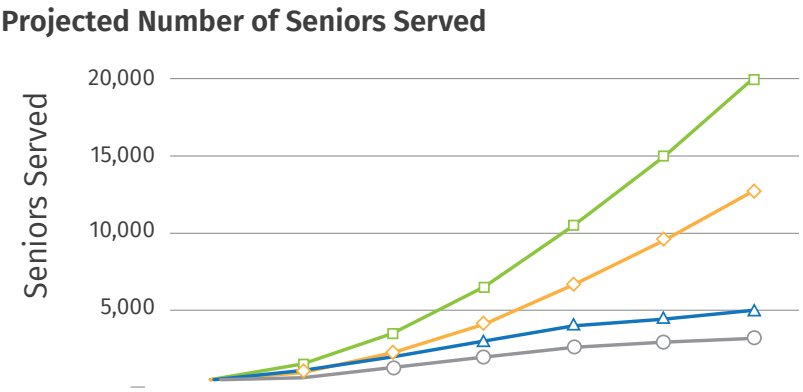
- **Outputs:** A typical investment will enable an investee to serve **50 seniors in its first year, ramping up to 500 seniors by year 7**.
- **Monetizable outcomes:** Based on the empirical evidence and applying a conservative 15% discount for real-world implementation risks, we project that each company can prevent **320 at-risk seniors from being institutionalized in year 1 increasing to 3,200 by year 7**. This is a primary, monetizable outcome that translates into significant cost savings for seniors, their families, and the healthcare system. The projected annual impact and associated cost savings for a typical investment are detailed in Figures 2 and 3.
- **Projected impact return:** To consolidate these significant outcomes into a single performance metric, we are utilizing the emerging **Impact IRR framework published in *The Journal of Impact & ESG Investing*.** This enables us to measure the total financial and impact portfolio return, which is projected to be a **221% Impact IRR** (see Table 1). This indicates a significant projected return, since the annual monetized benefit exceeds **$50,000 for each senior** who **avoids institutional care**.
- **Non-monetizable outcomes:** The program will lead to a measurable improvement in seniors' ability to perform activities of daily living (ADLs) and a higher self-reported quality of life, helping them maintain their dignity and independence.

Figure 1: Combined Financial and Impact Returns



	0	1	2	3	4	5	6	7
Total	($10,000)	$9,511	$35,044	$69,087	$103,131	$137,174	$154,196	$181,218
Impact Returns		$8,511	$34,044	$68,0087	$102,131	$136,174	$153,196	$170,218
Financial Returns	($10,000)	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$11,000

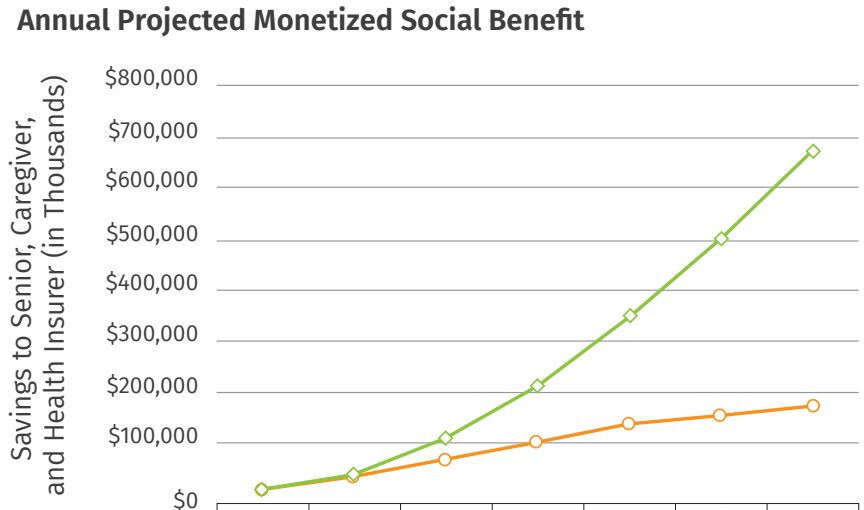
Figure 2: Projected Annual Avoidance of Institutionalization by At-Risk Seniors



	1	2	3	4	5	6	7
Annual Number of Seniors Served	500	1,000	2,000	3,000	4,000	4,500	5,000
Cumulative Number of Seniors Served	500	1,500	3,500	6,500	10,500	15,000	20,000
Annual Number of Seniors Served That Avoid Institutional Care for at lesat one year Attributed to the Program	320	640	1,280	1,920	2,560	2,880	3,200
Cumulative Number of Seniors Served That Avoid Institutional Care for at lesat one year Attributed to the Program	320	960	2,240	4,160	6,720	9,600	12,800

(see Companion Impact IRR Excel Workbook for calculations)

Figure 3: Projected Annual Monetized Social Benefit



	1	2	3	4	5	6	7
Annual Savings Attibuted to Seniors Avoiding Institutional Care	$8,511	$34,044	$68,087	$102,131	$136,174	$153,196	$170,218
Cumulative Total Savings	$8,511	$42,554	$110,641	$212,772	$348,946	$502,142	$672,360

(see Companion Impact IRR Excel Workbook for calculations)

Risks & mitigation: The primary risk is the failure to implement the program with fidelity to the original evidence-based model. The fund will mitigate this by providing active, value-added support to our investees. This includes leveraging its network to help secure contracts with key payors like Medicare Advantage plans and offering dedicated support to help companies compile and integrate client outcomes into professional impact measurement platforms.

Sandbox

Finalize Your Impact Thesis!

Congratulations on reaching the final step! To put the finishing touches on your work, carefully review the checklist in **Building Block 4**. If you are unsure of any details, revisit the relevant sections of the workbooks and the Impact Thesis Blueprint to ensure your final impact thesis is polished, professional, and powerful.

APPENDICES

APPENDIX 1

IMPACT IRR PRIMER

IMPACT IRR PRIMER

Learning Outcomes & Objectives

After working through this primer, you will be able to:

- Identify the **three categories of components** used in the **Impact IRR** (Internal Rate of Return) and **Impact NPV** (Net Present Value) methodology.
- Define the **seven core elements** of the **Impact IRR/NPV formula**.
- Understand how **projected financial and impact returns** are integrated into a **single, comprehensive calculation**.
- Explain the key concepts of **attribution, deadweight,** and **catalytic opportunity** in impact investing.
- Follow a **step-by-step case study** applying the **Impact IRR formula** to a sample investment.

Executive Summary

The Impact IRR (Impact Internal Rate of Return) and Impact NPV (Impact Net Present Value) methodology offers a tool for assessing an investment by combining both financial and impact returns into one calculation. It builds on traditional financial metrics by adding unique elements to measure social and environmental value.

The methodology's components are categorized into three main groups: those covering both impact and financial returns, those focusing only on impact, and those related solely to finance.

This guide explains the seven key components of the Impact IRR/NPV formula: Term (T), total initial investment (C_o), projected financial return (C_t), projected impact return (I_t), hurdle rate (r), attribution and deadweight, and catalytic opportunity. By quantifying projected impact, the formula enables investors to evaluate an investment's overall, combined value and make better-informed capital allocation choices.

An example investment from the "Fictitium Foundation" is used throughout this primer to demonstrate how each element is calculated and applied in practice, culminating in a final Impact IRR and Impact NPV.

NB—All information in this primer comes from the peer-reviewed article "Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments" published by the Journal of Impact and ESG Investing (Spring 2026, Vol. 6, No. 3), which is available to download for free.

The Components of Impact IRR / Impact NPV

The Impact IRR/NPV formula organizes its components into three distinct categories. Some are unique to this methodology, while others are shared with traditional IRR/NPV calculations.

- **Components that account for both impact and financial returns:** Both impact and financial returns rely on these elements.
  - **Term:** The defined time period of an investment.
  - **Hurdle rate:** The minimum required rate of return, which incorporates the investor's opportunity cost.
  - **Catalytic opportunity:** A classification for investments that induce additional necessary capital into an impact-driven enterprise.
- **Components that account for impact returns:** These elements are used to quantify the social or environmental value created.
  - **Attribution and deadweight:** The percentage of the social and/or environmental outcomes that can be assigned to a specific investment.
  - **Impact variability:** The rate at which the desired outcomes may change over the life of the investment.
- **Components that account for financial returns:** These are the traditional financial inputs.
  - **Total investment:** The total projected investment into a given project or program.
  - **Projected financial return:** The expected financial gain or loss from the investment over its term.

Impact IRR in Practice: A Case Study

To demonstrate how the Impact IRR/NPV formula works, we will use a single case study throughout this primer (see Text Box 1).

Text Box 1: Example Investment

The Fictitium Foundation is interested in making a $1.6M program-related investment (PRI) with an annualized return of 2% and a term of 10 years. The investment is intended to preserve a 42-unit naturally occurring affordable housing development.

The Fictitium Foundation's $1.6M PRI is the only below-market-rate impact capital (BIC) investment in this program; all other financing is market-rate impact debt. Combining that other financing with the foundation's funding produces a total investment of $4.2M. The Fictitium Foundation's cost of capital is 6%.

Investment Details

Amount: $1.6M PRI, subordinate debt annualized return: 2% (interest-only; capital returned as a balloon payment at the end of the term), 10-year term.

The Seven Core Elements of Impact IRR

The Impact NPV formula (see Equation 1) integrates seven key elements. We will use the Fictitium Foundation case study to explain each element.

Equation 1: Impact Net Present Value Formula

$$INPV = \sum_{t=1}^{T} \frac{C_t + I_t(C_o/D)}{(1+r)^t} - C_o$$

Where:

- **T** = Total number of periods
- **t** = Measurement of time period(s) (e.g., year, month)
- **I** = Projected impact (social and/or environmental) return for investment
- **C_t** = Projected financial return for investment
- **r** = Cost of capital/hurdle rate
- **C_o** = Total initial investment
- **D** = Total investment with similar terms in the capital stack (e.g., equity, debt)

Element 1: Term (T)

The **term (T)** is the defined time period of an investment. In the IIRR/INPV formula, an investor's financial and impact benefits are capped by this term.

➜ **Case study example:** The Fictitium Foundation's investment has a **term of 10 years**. Therefore, **T = 10** (see Equation 2 and Table 1).

Equation 2: Term Calculation

$$INPV = \sum_{t=1}^{10} \frac{C_t + I_t(C_o/D)}{(1+r)^t} - C_o$$

Table 1: Term of the Fictitium Foundation's Investment

0	1	2	3	4	5	6	7	8	9	10

Element 2: Total Initial Investment (C_o)

This element represents the investor's total capital outlay, or **total initial investment (C_o)**, which can be classified in two ways:

1. **Investment in a fund:** When an investor pools money, $\mathbf{C_o}$ is their proportional share of a specific investment made by the fund.
2. **Direct investment:** When investments are not made via a pooled fund, $\mathbf{C_o}$ is the total amount an investor contributes directly into a project.

➜ **Case study example:** The Fictitium Foundation is making a direct investment of **$1.6M**. Therefore, **$C_o$ = $1.6M** (see Equation 3 and Table 2).

Equation 3: Total Initial Investment Calculation

$$INPV = \sum_{t=1}^{10} \frac{C_t + I_t(1.6M/D)}{(1+r)^t} - 1.6M$$

Table 2: Total Initial Investment

0	1	2	3	4	5	6	7	8	9	10
(1.6M)										

Element 3: Projected Financial Return (C_t)

This is the **projected financial return (C_t)** expected by the investor during the investment period, plus the return of the initial investment capital at the end of the term. This projection must be adjusted based on the investment's risk profile. If an investment has a higher risk profile, the expected capital returned may be less than the total initial investment **(C_o)**.

➜ **Case study example:** The investment is a **$1.6M program-related investment (PRI)** with an **annualized 2% interest-only return** and a **balloon principal payment** in **year 10**. Therefore, the projected financial return **(C_t) = $32k/year** ($1.6M x .02) for years 1–9, and **$32k + $1.6M** in year 10 (see Equation 4 and Table 3).

Equation 4: Projected Financial Return Calculation

$$INPV = \sum_{t=1}^{10} \frac{32k^{*} + S_t(1.6M/D)}{(1+r)^t} - 1.6M$$

*1.6M

Table 3: Projected Financial Return Each Year

0	1	2	3	4	5	6	7	8	9	10
(1.6M)	32k	32k	32k	32k	32k	32k	32k	32k	32k	32k+ 1.6M

Element 4: Projected Impact Return (I_t)

This is the monetized value of the social and environmental returns —the outputs, outcomes, and/or impacts (collectively referred to as "resultants")—that can be directly attributed to the investment. This is an emerging concept in impact investing.

The **projected impact return (I_t)** is the sum of all projected monetized impact benefits for each year of the investment term. It is essential to monitor the investment and adjust these projections as new resultant data becomes available.

Defining Resultants: Outputs, Outcomes, and Impact

- **Outputs:** The direct result of an invested business's activities, including their products, services, and any by-products that can be measured by output indicators or deliverables.
- **Outcomes:** The projected short- and medium-term effects (positive or negative) of the products or services provided by the investee business to the target clients or the benefits that thereby flow to the natural environment.
- **Impact:** Positive and negative primary and secondary long-term effects produced by the investee business's products or services that benefit the target clients or natural environment and can contribute to population-level change.

Assessing Impact Variability and Levels of Evidence

Investors must also account for **impact variability**, which is the rate at which a resultant may change over the project's lifetime. This risk is assessed for each investment.

To project the likelihood of achieving the desired resultant(s), investors can determine the **level of evidence**. Levels of evidence can fall into the following four categories:

- **Scientific consensus:** Systematic reviews of the empirical evidence document a scientific consensus on the likelihood that the desired resultant(s) will be realized.
- **Empirical evidence:** Empirical studies show that the resultant(s) have been realized in specific settings. However, those findings cannot yet be generalized.
- **Model-based predictions:** Models predict that the resultant(s) should be realized under certain assumptions.
- **Narrative:** An explanation that rationalizes why the resultant(s) may be effective.

➜ **Case study example:** The Fictitium Foundation's investment is projected to sustain 42 affordable housing units. The **net projected monthly impact benefit** (the rent savings for residents) is **$13,110**. Given that the potential investment is a stable asset with a long track record, there is little expectation of impact variability, and scientific consensus supports the projections. Therefore, the net projected annual impact return, I_t **= $157,315** ($13,110 x 12) (see Equation 5 and Table 4).

Equation 5: Projected Impact Return Calculation

$$INPV = \sum_{t=1}^{10} \frac{32k + 157k\,(1.6M/D)}{(1+r)^t} - 1.6M$$

Table 4: Projected Impact Return Each Year

0	1	2	3	4	5	6	7	8	9	10
(1.6M)	32k+ 157k+	32k+ 157k+	32k+ 157k+	32k+ 157k+	32k+ 157k+	32k+ 157k+	32k+ 157k+	32k+ 157k+	32k+ 157k+	32k+ 157k+ 1.6M

Tables 5, 6, and 7 provide the detailed calculations underpinning the figures above.

Table 5: Projected Impact Return Calculation

The unit distribution is based on the existing tenant income profiles (AMI refers to area median income, i.e., the midpoint income level for a particular geographic area, with half of the households earning more and half earning less). Rents are capped at 30% of gross income, in accordance with the U.S. Department of Housing and Urban Development's guidelines.

Income Levels	Rents			Rental Property Unit Distribution			
	1B*	2B*	3B*	1B*	2B*	3B*	Total
30% AMI	$ 532	$ 639	$ 738	4	4	1	9
50% AMI	$ 888	$ 1,066	$ 1,231	10	12	3	25
60% AMI	$ 1,065	$ 1,279	$ 1,477	3	5	0	8
Market Rate	$ 1,159	$ 1,285	$ 1,801	0	0	0	0
Total				17	21	4	42

**B represents the number of bedrooms in a unit.*

Table 6: Gross Projected Monthly Impact

Calculated by taking the difference between the market rate rent and the affordable rent, then multiplying that by the number of units in Table 4.

For example, to find the projected gross monthly impact for one-bedroom units at 30% AMI, subtract $532 from $1,159 to get $627, then multiply $627 by the number of such units ($627 * 4 = $2,508).

Gross Projected Monthly Impact				
Income Levels	1B	2B	3B	Total
30%	$ 2,508	$ 2,584	$ 1,063	$ 6,155
50%	$ 2,710	$ 2,628	$ 1,710	$ 7,048
60%	$ 282	$ 30	-	$ 312
Market Rate	-	-	-	-
Total	**$ 5,500**	**$ 5,242**	**$ 2,773**	**$ 13,515**

Table 7: Annual Projected Impact Return

The net annual projected impact return is calculated by subtracting the projected vacancy from the gross projected monthly impact and multiplying the resulting net monthly impact benefit by 12.

Annual Projected Impact Return		
Gross Projected Monthly Impact	$ 13,515	
Vacancy (Based on 3% Vacancy Rate)	($ 405)	-3%
Net Monthly Impact	$ 13,110	
Net Annual Impact Return	**$ 157,315**	***x12***

Element 5: Hurdle Rate (r)

The **hurdle rate (r)**, or cost of capital, is the minimum required rate of return an investment must meet to be deemed a good investment. This rate is based on the projected return of the capital if it were invested in a comparable market investment. The hurdle rates for below-market-rate impact capital (BIC) and market-rate impact capital (MIC) are based on the following:

- **For BIC:** A BIC investor is willing to forgo a market-rate return to produce an outcome or impact. Therefore, the hurdle rate for BIC is calculated as the **opportunity cost** of not investing that capital in the market.
- **For MIC:** A MIC investment has already priced its risk and return according to the market. Thus, the hurdle rate is the investment's projected return.

➜ **Case study example:** The Fictitium Foundation is a concessionary capital investor (another term for a BIC investor and estimates that the projected rate of return for the $1.6M if invested in the market (its opportunity cost) is **6%**. Therefore, the hurdle rate **(r) = .06** (see Equation 5 and Table 7).

Equation 6: Hurdle Rate Calculation

$$INPV = \sum_{t=1}^{10} \frac{32k + 157k\,(1.6M/D)}{(1 + .06)^t} - 1.6M$$

Table 8: Hurdle Rate Each Year

0	1	2	3	4	5	6	7	8	9	10
(1.6M)	32k+ 157k / 1.06^1	32k+ 157k / 1.06^2	32k+ 157k / 1.06^3	32k+ 157k / 1.06^4	32k+ 157k / 1.06^5	32k+ 157k / 1.06^6	32k+ 157k / 1.06^7	32k+ 157k / 1.06^8	32k+ 157k / 1.06^9	32k+ 157k+ 1.6M / 1.06^{10}

Element 6: Attribution & Deadweight

Attribution is defined as the pro-rated share of impact return associated with the amount of the investor's capital within the same tier (the three tiers are described in Table 8). It is achieved by summing the discounted impact returns and then multiplying that by the value of the investment divided by the total amount invested in the same tier.

Table 9: Tier Categories

Tier 1	Tier 2	Tier 3
BIC debt and equity	Equity & equity-like investments, preferred stock	Debt & debt-like investments, common stock

Deadweight is defined as the cost to society created by market inefficiency. In this context, it refers to "surplus" investment capital in a specific tier that yields no additional economic or impact returns. If an investment is considered deadweight, the potential impact return share can be reduced or proportionally distributed among other investors in that tier.

➜ **Case study example:** The Fictitium Foundation is interested in making a **$1.6M program-related investment (PRI)** that will be the **only below-market-rate impact capital (BIC) in the deal**. The investment is classified as Tier 1. Therefore, its attribution is 100%. The calculation is **(Co / D) = $1.6M / $1.6M = 1** (see Equation 6 and Table 9).

Equation 7: Attribution and Deadweight Calculation

$$INPV = \sum_{t=1}^{10} \frac{32k + 157k\,(1.6M/1.6M)}{(1 + .06)^t} - 1.6M$$

Table 10: Attribution and Deadweight Each Year

0	1	2	3	4	5	6	7	8	9	10
(1.6M)	32k+ 157k x (1.6M / 1.6M) 1.06^1	32k+ 157k x (1.6M / 1.6M) 1.06^2	32k+ 157k x (1.6M / 1.6M) 1.06^3	32k+ 157k x (1.6M / 1.6M) 1.06^4	32k+ 157k x (1.6M / 1.6M) 1.06^5	32k+ 157k x (1.6M / 1.6M) 1.06^6	32k+ 157k x (1.6M / 1.6M) 1.06^7	32k+ 157k x (1.6M / 1.6M) 1.06^8	32k+ 157k x (1.6M / 1.6M) 1.06^9	32k+ 157k x (1.6M / 1.6M) +1.6M 1.06^{10}

Element 7: Catalytic Opportunity

A **catalytic opportunity** is an investment designed to generate or enhance impact by attracting market-rate investors who would not otherwise invest. This can unlock new sources of capital and provide evidence to realign market assumptions.

- **Catalytic BIC:** This is the most common form and includes guarantees, debt at below-market rates, and equity with asymmetrical returns. By definition, most BIC is catalytic.
- **Catalytic MIC:** This includes financial instruments priced at market rates, where an investor is willing to take on first-mover risk (sometimes with an added premium) to prove market viability.

An impact investment deal does not require catalytic capital.

➜ **Case study example:** The Fictitium Foundation's **$1.6M program-related investment (PRI) is the only below-market-rate impact capital (BIC) in the deal**. Its presence was necessary to induce the market-rate impact debt to participate. Therefore, the foundation's investment is **catalytic BIC**.

Final Calculations & Recommendations

Once you've entered all seven elements into the formula, you can easily calculate the Impact NPV and Impact IRR. The Impact IRR is determined by finding the rate, r, that makes the Impact NPV equal to zero (see Equation 7).

Equation 8: Example Investment: Final Calculations & Recommendations

$$\text{INPV} = \sum_{t=1}^{10} \frac{32\text{k} + 157\text{k}\,(1.6\text{M}/1.6\text{M})}{(1 + .06)^t} - 1.6\text{M} = 696\text{k}$$

$$\text{INPV} = 0, \text{ Then: } \sum_{t=1}^{10} \frac{32\text{k} + 157\text{k}\,(1.6\text{M}/1.6\text{M})}{(1 + r)^t} - 1.6\text{M} = \text{IIRR} = r = \sim 12\%$$

Due Diligence Summary

The Fictitium Foundation's $1.6M program-related investment (PRI) has a 10-year term and a 2% annualized financial return. Its 6% hurdle rate (opportunity cost) results in a positive Impact NPV of $696k.

The investment's combined financial and impact returns produce an **Impact IRR of approximately 12%**. This 12% Impact IRR is significantly higher than the 6% hurdle rate, indicating that the investment's blended return (financial + impact) strongly exceeds the foundation's minimum requirements, making it a compelling impact investment.

Key Takeaways

- The **Impact Internal Rate of Return (IRR) / Impact Net Present Value (NPV) methodology** integrates financial and impact returns into a single formula to assess the total value of an investment.
- The framework is built on **seven core elements**: Term (T), total initial investment (C_o), projected financial return (C_t), projected impact return (I_t), hurdle rate (r), attribution, and catalytic opportunity.
- **Projected impact return (I_t)** is the monetized value of an investment's resultants (outputs, outcomes, and impact) and must account for **impact variability** and **levels of evidence**.
- The **hurdle rate (r)** is critical. For below-market-rate impact capital (BIC) investors, it represents the **opportunity cost** of forgoing a market-rate return. For market-rate impact capital (MIC) investors, the hurdle rate is the investment's projected return.
- **Attribution** calculates an investor's proportional share of the impact, while **catalytic opportunity** investments are those that unlock additional capital from other market-rate investors.

APPENDIX 2

ENDNOTES, FURTHER READING, BIBLIOGRAPHY, AND SMART CITATIONS

MODULE 1: OVERVIEW OF IMPACT INVESTING

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MODULE 2: IMPACT INVESTMENT STRATEGY

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SMART CITATIONS

Smart citations are QR codes that link directly to sources in the preceding *Endnotes and Further Reading* and Bibliography sections. These links are maintained for long-term access.

Endnotes and Further Reading

Organized sequentially by module using these abbreviations:

- **N:** Endnote
- **FR:** Further Reading

Bibliography

Arranged alphabetically by author surname or institutional name.

MODULE 1 ENDNOTES AND FURTHER READING

N1

Sizing the Impact Investing Market 2024

N2

GIIN Impact Investing Guide: A Guide to This Dynamic Market

N3

Core Characteristics of Impact Investing

N4

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N5

Portfolio Selection

N6

An Intro. to Investment Theory: Chapter II - The Geography of the Efficient Frontier

N7

The Efficient Impact Frontier

N8

A Refresher on Internal Rate of Return

N9

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N10

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N11

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N12

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N13

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N14

Financial Instrument

FR1

Innovative Finance Playbook

FR2

The Social Responsibility of Business Is to Increase Its Profits

FR3

An Introduction to Responsible Investment

MODULE 2 ENDNOTES AND FURTHER READING

N1

Investment Thesis

N2

Writing a Credible Investment Thesis

N3

Investment Impact Index: A Short Guide

N4

Impact Performance Reporting Norms: Version 1

N5

Theory of Change: UNDAF Companion Guidance

N6

Inputs

N7

Activities

N8

Qualitative Research & Evaluation Methods

N9

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

FR 1

Applying Evaluation Criteria Thoughtfully

FR 2

Impact Performance Norms

MODULE 3 ENDNOTES AND FURTHER READING

N1

User Journey Maps

N2

What's the Difference Between Human-Centered Design and Design Thinking?

N3

Total Addressable Market (TAM)

N4

Total Addressable Market (TAM)

N5

Archetypes and Personas

N6

Community Stakeholders

N7

Competitive Advantage: Creating and Sustaining Superior Performance

FR1

The Customer-Centered Innovation Map

FR2

How to Analyze a Case

FR3

Choosing the Right Customer

MODULE 4 ENDNOTES AND FURTHER READING

N1

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N2

The Investor's Guide to Impact

N3

Intentional Governance Guides

N4

Hurdle Rate

N5

Capitalization Table

N6

New Frontiers in Value Creation

N7

What Do Private Equity Firms Say They Do?

FR 1

Capitals Coalition

FR2

Business Life Cycle

FR3

Private Equity and the Value Creation Playbook

FR4

IRIS+ System

FR 5

Norms

FR 6

International Foundation for Valuing Impacts

FR 7

Capital Investment

FR 8

The Investment Integration Project

FR 9

TAM/SAM/SOM and the Beachhead Marke

FR 10

Value Balancing Alliance

FR 11

Sources and Uses Table

MODULE 5 ENDNOTES

N1

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N 2

Impact IRR: Leveraging Modern Portfolio Theory to Define Impact Investments

N 3

Primary, Secondary, and Tertiary Sources

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IDEO

Impact Frontiers

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Kenton, Will

Markowitz, Harry

The Motley Fool

Neighborhood Economics

Next Generation

Patton, Michael Quinn

Porter, Michael E.

Soliman, Daniel

Tideline

United Nations Sustainable Development Group

University of Minnesota Crookston

Yale University

Yale University

APPENDIX 3

INDEX

INDEX

A

B

C

D

E

F

G

H

I

K

L

M

Q

R

S

T

U

V

W

WWW.IMPACTBLUEPRINT.IO