Laying the foundations

Learnings from establishing the Growth Impact Fund

February 2023

This report details learnings from the first six months of the Growth Impact Fund. An investment fund delivered by UnLtd and Big Issue Invest with the support of learning partner, Shift. Big Issue Invest Fund Management (BIIFM) is the fund manager for the Growth Impact Fund, and the fund is addressed to professional investors only. Capital at Risk. BIIFM Ltd is authorised and regulated by the Financial Conduct Authority (FCA) FRN 610618.

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Acknowledgements

Investing in something that looks and acts different in the investment sector takes a leap of faith. We are a small team with big ambitions, and we cannot do this work alone. We've been joined by funders, colleagues, partners and founders who all share our vision for an investment sector that works for everyone, particularly those who have been locked-out so far. Investing in something that promises transformation through continuous learning and improvement takes a leap of faith.

The learnings captured and shared in this report would never have been possible without the support and contributions of our funders, colleagues and partners. We'd like to thank everyone who has been involved in the development of the Fund to date, and look forward to welcoming others as we continue to learn as we go. Get in touch with us by using this contact form on our website.

Executive Summary

Why we exist

The Growth Impact Fund (GIF) is a social investment fund, helping high potential early-stage social businesses to grow their impact. We exist to make social investment better for founders from underrepresented backgrounds and their teams.

The Fund believes that by investing in diverse led social purpose organisations (SPOs) with the right combination of lived and learned experience, we can enable high potential businesses with the support they need to grow. By investing in these organisations, they will be able to deliver their social mission, whether looking to improve employment, wellbeing, or delivering new products and services, and in-turn support some of the UK's most diverse and under-invested communities. As these businesses continue to grow, we hope these efforts will start moving the dial on the root issues that contribute to and deepen social and economic inequality in the UK.

The urgency for a fund of this kind couldn't be greater. The UK currently faces a number of pressing challenges with prices rising 11% in the year to January 2023, exacerbating the current cost of living crisis, and deep income disparities. The pandemic also highlighted the social inequalities that continue to limit opportunity and progress. We know that achieving our goal is going to take time, but we're determined to do something that the market has previously failed to support or unwittingly ignored. There is no roadmap and we're working with finite resources across our partnership.

The success of the Growth Impact Fund requires resources, collaboration and a commitment to learning and improving. To achieve our mission, we need to be transparent and share openly to collectively re-think the norms and principles that have guided UK venture investment over the last 30+ years. We have to be honest with ourselves when things are and aren't working and adapt and improve. We also recognise that we can't solve this problem alone and we're committed to bringing others along with us. We hope, in time, that this fund is the first of many, and we become a small collaborator in a much wider movement, set of resources, and infrastructure designed and delivered for and alongside diverse led SPOs.

Our first learning report is only the beginning of this process. The report shares our learning in how to set up the Fund, as we have set out to build the foundations for long-term success. These learnings are a snapshot in time, a work in progress, and an invitation for others to help us build, shape, and learn and unlearn.

What we've done

Over the last six months the Fund has focused on setting up activity for its first round of investments in ventures. Across the partnership we've increased capacity to bolster the representation of the Funds' investment and portfolio management team, as well as our investment advisory committee (IAC) and impact advisory group (IAG). We've also developed a dedicated website and a new investment process for social purpose organisations enquiring about the fund, aimed to increase access and inclusive practices. Having opened up initial fund enquiries, we've received over 400 applications from a range of under-represented and early stage SPOs. We've committed our first grants to support a small number of eligible applications in their journey to apply for investment and most recently, we have provisionally approved our first two investments.

Headline learnings

We've spent time as a team collecting our headline learnings from the first six months of the Fund.

1. **There is unmet demand for investment from diverse led social purpose organisations.** When we first set out to develop this fund, there were concerns about whether there was a 'pipeline' of diverse led SPOs interested in raising investment. The volume of initial fund enquiries for GIF highlights the scale of demand for early stage investment capital in the sector. However, just a small proportion of our applicants are ready to progress through our process without pre-investment support. This is a reminder of how under-invested diverse led social purpose organisations and their wider networks have been to date. We're learning that more sustained infrastructure and community partnership building with the fund is required to help SPOs build investment capability and confidence to apply for investment.

2. We must further adapt our processes to support diverse social led SPOs navigate raising investment. We've designed a process that has reduced some access barriers for founders typically excluded from investment. However, there is more to do. We are learning that the Fund's investment process requires further adaptation to strengthen capacity for fair candidate assessment. Continuing to tailor our processes to meet individual applicant needs will be critical to this.

3. Providing revenue funding and equity alongside debt products requires additional education and support not currently visible in the wider sector. SPOs need to be able to choose the right investment product for them, understanding the long-term implications of their choice. We are seeing SPOs interested in the range of different products, but not able to make fully informed decisions due to poor access to relevant information.

4. A fund designed to increase equity, diversity, and inclusion means developing new approaches to assessing investment risk. We're learning that it's going to take time to embed an approach to assessing risk that can factor in the lived and learned experience of the leadership team as well as the systemic barriers they may be experiencing in their own sector. To achieve this, the Fund will need to focus on the areas where our support is best placed to help social purpose organisations mitigate any barriers to growth and social impact.

5. There are additional and often invisible costs to delivering an investment fund focused on more equitable investment. Delivering a fund of this kind requires additional support not traditionally costed into fund investment models. For example, there are significant investment gaps to support under-represented SPOs from accessing and engaging in investment. We have recruited a range of expertise and support to help design and deliver this fund, which has presented a number of 'hidden' costs not typically embedded in traditional fund structures. This reinforces the need for a range of blended finance instruments to address these gaps across the spectrum of investment and philanthropic capital, and we'll need to learn more about how to get the right blend of finance to ensure a sustainable and replicable fund model for the future.

The Fund's focus moving forward

Our learnings give us much to be encouraged by in our first 6 months as a Fund. Our changes to Fund processes, partnership building and governance have validated some of our initial assumptions about working and operating differently as an investment fund. We're particularly excited about the fact that 73% of enquiries to the Fund have not applied for investment previously and felt encouraged by our Fund offer and messaging.

The findings in this report are also a keen reminder of how much the Fund and sector still need to do. We will use these learnings to:

- Continue to invest in adopting further inclusivity and accessibility practices.
- Explore new models to assess social purpose organisations, ensuring our assessment process is fair and transparent.
- Access and engage with new partnerships across the UK with trusted community and entrepreneur networks.
- Ensure we're investing both our grant and investment funding as efficiently and effectively as possible, creating a sustainable blueprint for future investment funds of this kind.

The learnings open up a number of opportunities for us to experiment, test, and learn. Some of these will deliver quick wins, while others will be long-term journeys that will progress gradually throughout the lifetime of the fund. Some approaches will work and others will fail, and we will be transparent about both. We believe that the whole system has to work together and invite social purpose organisations, fund managers and institutional investors to collaborate with us to help to redress the imbalance.

Introduction

The Growth Impact Fund exists to provide more patient and flexible investment to social purpose organisations (SPOs) previously excluded from social investment. As an evergreen social investment fund, we want to support and invest in founders with lived and learned experience of the issue they aim to tackle and founders from communities that social investment hasn't reached to date. The fund believes that these SPOs are an overlooked investment opportunity, and that by excluding these founders the sector continues to fail some of the people best placed to deliver economic growth and social impact within the communities most affected by UK inequality.

To address this issue, the fund is actively exploring what combination of capital and capacity support can best enable under-represented SPOs to develop sustainable business models able to tackle UK inequality. To do that, we need to change how investment currently operates. We've ripped up parts of the playbook. We're taking risks. We're committed to learning and sharing what works and what doesn't - acknowledging our flaws and embedding continuous improvement as the fund progresses.

This learning report summarises the key findings from our first 6 months of setting up as a fund. As the fund has not officially made its first investments, this learning focuses on the ways we've set ourselves up to deliver an investment fund that meets our desired principles, while still providing impact and financial returns to our investors.

The remainder of this report is broken down into the following sections:

1. A fund designed differently
2. 5 key learnings from our first 6 months
3. Our learning focus moving forward

The report is supplemented with an appendix which provides further detail on our learning approach.

A fund designed differently

Traditional venture investment is exclusionary by design, and applying these principles of early stage venture investment for under-represented and early stage SPOs cannot work:

1. **Venture funds actively restrict access.** Conventional investment processes exclude those without the knowledge and awareness of venture investment from making credible applications. Even finding a venture investor to talk to can be difficult. Many venture funds only interact with elite institutions or networks, often in high income, affluent regions. The fund managers typically come from highly privileged backgrounds that rarely reflect the founders that start social purpose organisations across the UK.

2. **Venture funds discriminate via approaches to risk assessment.** Venture funds assess ventures via a traditional blueprint to identify whether they can deliver a desired financial return commensurate to the high risk associated with early stage investing. To do this, they rely on historic information or 'rules of thumb' that may or may not be relevant to the SPOs' ability to deliver their plans for growth. For example, they look for 'sector leading credentials' from management teams, often disregarding or de-prioritising other lived or learned experiences. They also 'pattern match' existing investments with what they've seen work previously. Considering venture capital remains largely white, male, and well educated in the UK, this approach relies on a 'similar to me' bias and can actively discriminate against anyone deemed as 'other'. You can read more about this in our blog, The case for change: why we need a fund dedicated to underrepresented founders.

For the reasons outlined above, traditional venture investment is poorly equipped to assess risk, return, and impact potential of the social purpose organisations the Growth Impact Fund aims to invest in. So, we have to do things differently, while also acknowledging that changing the status quo will take time.

To guide our approach, we've developed fund principles that capture our values and ethos. We've used these over the last 6 months to design a Fund that will increase access to investment, operate in an inclusive way, and build the foundations for continuous improvement. Our activities to date include:

Increasing access to the Fund

- Designed tools and resources to support outreach across the UK
- Developed a brand to present social investment in a clear and simple way
- Worked with Scope to audit and improve website accessibility
- Live-tested our website and enquiry form with SPOs, making adjustments from their feedback
- Deployed £110k of capacity funding to 10 SPOs to support their readiness for social investment

Developing a more inclusive approach to investment decision-making

- Recruited an investment committee and impact advisory group that that represent the lived experience of receiving investment and the learnt experience of the sectors we're investing in
- Providing training to our investment teams on unconscious bias, and developing a tailored curriculum focused on addressing Equality, Diversity and Inclusion (EDI) within the investment process
- Working with our advisory group to explore adaptations to the investment process that can help reduce bias in investment decision-making

Developing the foundations for continuous improvement

- Developing our approach to continuous learning within the fund and building a culture of learning within the delivery team
- Hiring additional team members across our partnership to ensure we're addressing knowledge or experience gaps as we grow
- Working with EDI partners to help us understand how to embed inclusivity and more equitable practices into fund activity

After six months of fund activity, we're confident that we're on the right track. We also know that there are still questions we need to answer and areas we need to improve. The following sections share more about what we've learned through fund activity, what's worked well and where we need to focus our efforts over the next 6 months.

5 key learnings

1. There is unmet demand for investment from diverse led social purpose organisations.

Headline: The volume of initial fund enquiries highlights the scale of demand for early stage investment capital in the sector. However, just a small proportion of our applicants are ready to progress through our process without pre-investment support. We're learning that more sustained infrastructure is needed to help SPOs build investment capability and confidence to apply for investment.

Key stats :

- The Fund accepted 400 enquiries from May- September 2022
- 73% of enquiries were from founders who have not applied for investment before
- 63% of all enquiries were for pre-investment capacity support, with a further 21% unsure whether this was needed
- 3% of enquiries are currently receiving grant-funded capacity building support from the fund

Emerging insights

1.1 The number of enquiries from SPOs too early for the fund to invest in, suggests 'access' infrastructure for early-stage organisations is ineffective. We're seeing high levels of enquiries from SPOs with non-existent or minimal trading income. They are enquiring about investment because they want to have a trusted and non-judgemental conversation about what social investment is, their investment options and what's required before starting an official application. This suggests we need to provide more information and resources upfront to help SPOs better 'self select' their eligibility for the fund. However, it also suggests the current networks, resources, and infrastructure available in the sector is either a) not reaching these SPOs or b) not providing trusted support to identify well-suited investment options. In response, we're developing new resources alongside our partner organisations to offer investment 'matching' support before enquiries are made.

1.2 Capacity building needs to develop internal capability in SPOs, rather than filling an 'application gap'. Traditionally, 'investment readiness' support provides general learning curriculums (e.g. accelerators) or support from external consultants to help SPOs plug specific gaps in their investment application. We're learning that if SPOs don't have the time and resources to internalise the expertise they receive, this capability quickly diminishes when the support discontinues. In response, we are opening up funding from our grant facility to backfill Founder/ team time to engage in support to embed capacity internally.

We’re also allocating a budget to cover childcare or travel costs to reduce any personal barriers that could limit SPOs from engaging fully in the process.

1.3 In order to meet the unmet demand for capacity support in the sector, the Fund must reassess how we signpost and refer SPOs into sector-wide support. The Fund does not have the resources to provide tailored support to every SPO that makes an inquiry. We want to steer SPOs towards appropriate support already available in the sector. To do this, we need to partner with other funders and capacity builders willing and better placed to support SPOs not eligible for the Fund. We’re in the process of building referral processes with these partners to refer in and out of the fund across all stages of our investment process. Doing this work, we’re learning there is an additional cost to providing effective referral processes and we need to explore cost effective approaches that can better link the Fund with the wider sector.

Spotlight: Demand for in-house fund capacity building

Demand for our pre-investment capacity building support has been of particular interest for first time applicants. 63% of all applicants have requested some form of pre-investment support, of which nearly 80% are first time applicants. The fact that nearly 21% were unsure of whether this was something they needed, suggests that we can better articulate what pre-investment support is and who is best placed to benefit from this support..

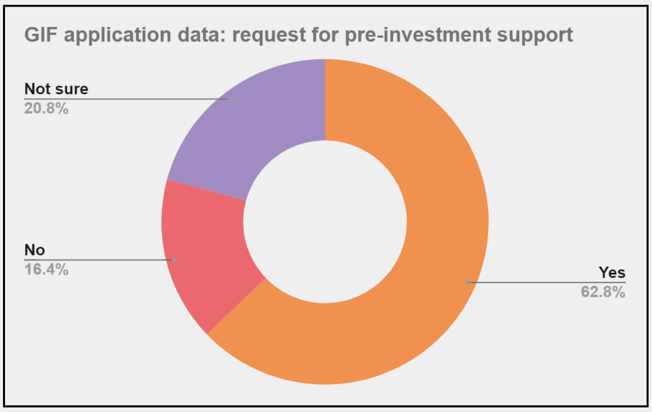

Image 1. Application data for pre-investment support. 16% of applicants did not want pre-investment support, compared to 21% who were unsure, and 63% who requested it.

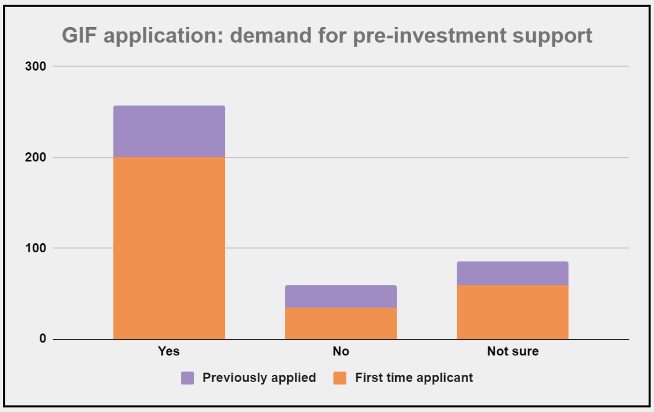

Image 2. Pre-investment support for those applying for investment for the first time. 68% of first time applicants requested support, compared to 11.6% who didn't, and 20% who were not sure whether they needed support before investment.

A key focus of support has been helping founders to translate their ambitions into more structured plans, that enable them to feel confident about how future investment could help them achieve business and impact growth:

> "What we're trying to do with this fund is figure out if investment is the right route for us, and if so, what does that look like? How does that fit into the bigger plan? What does the longer term financial strategy and business plan look like? It's all in my head right now, so working with someone to get that out of my head and make it more formal [has been helpful]. It's the things we need in place to go from a start up to scaling phase" - GIF technical assistance recipient

A key barrier we've encountered in these conversations is ensuring founders have the time to engage and embed the support:

> "I think time is a huge one for me. You know, some of the funding for this fund has provided funding for my son to go to nursery. What has been amazing, which I didn't think was possible, has come from the support identifying what the barriers are [for me]. You really need time to focus on the business strategy and the finances. We've only just started, but I think this will be huge." - GIF technical assistance recipient

As many organisations are still in their early stages of support, we're keen to keep learning alongside these SPOs to understand how well our capacity building has enabled them to progress into an investment process within GIF or with another investor in the future.

2. We must further adapt our processes to support diverse social led SPOs navigate raising investment.

Headline: Reducing access barriers during the Fund application process has led to enquiries from founders previously under-represented in investment. We're learning there is more we need to do to ensure both the Fund and SPOs have capacity throughout the process to ensure fair assessment of candidates.

Key Stats:

- Over 100 outreach partners were engaged with the initial fund announcement
- 58% of 12,000+ visitors coming into the website have come from partner referrals
- 71% of sample enquiries identify as racialised minorities, 63% identify as female, and 50% have lived experience of the social issue they are tackling.

2.1 Partnership outreach and engagement is essential to reach audiences previously excluded from investment promotion. Partner engagement is currently our most effective referral route into the Fund, out-performing organic search, social media, and word of mouth. These partnerships have significantly increased our access to female and racialised founders, and those with lived experience of the issue they are seeking to solve. However, we're learning that our current partnerships are still concentrated in London and the South East. As a result, we're working to expand our partnership engagement across the UK to make sure we're reaching as many audiences as possible.

2.2 Reducing barriers to access leads to fund capacity challenges. Our tailored website simplifies the fund application process. We've reduced jargon when explaining our offer, run website audits to increase accessibility, and removed anything from our enquiry form that would require additional work or delay for the applicant. These efforts led to high enquiry conversion rates, proving how increased access can stimulate market demand. However, demand spikes have placed strain on the Fund investment team. Given our desire to provide SPOs with early opportunities for conversation with the investment team, high enquiry numbers have impacted our response time significantly, despite bringing in additional team capacity. Many enquiries have also come from candidates who are currently ineligible for the Fund. As a consequence, we had to pause applications to overcome the backlog, and make changes to our application form that will enable us to be more responsive to those not eligible for the Fund, and provide a more relational and efficient application experience for those we do progress.

2.3 Increasing access will not translate into more equitable investment outcomes without adapting processes for assessing candidates. Traditional investors tend to use 'proxy' measures to help them streamline which SPOs to focus on for more detailed due diligence (e.g. please provide your accounts, financial plans or pitch decks before you can apply).

We're finding that many early stage SPOs are unfamiliar with, or unsure of, what exactly is required from these documents, particularly at their stage of the investment journey. This is especially the case given that a majority of our applicants have never applied for investment before. However, we recognise that having information in a particular format is not a fair measure to assess eligibility for the fund or immediately deem them as 'bad' investments. We're learning how to adapt our processes to provide candidates greater opportunities to present only the essential information required for us to make a fair and transparent assessment at each stage of the process. This will be an area of ongoing focus.

Spotlight: Assessment proportional to investment stage

Our initial attempts to increase fund access were designed to ensure that SPOs didn't have to provide any documentation or details around their growth plans in order to apply for the fund upfront. However, we quickly learned that this set up false expectations around what would happen as they progressed through the investment process, or how realistic investment was for them:

> "We say we won't make you do work for us until you get through to due diligence, but then we ask them for materials. They [applicant] had got to this later stage and then [was] suddenly asked to pull new documents together." - Fund investment team

To ensure a more reasonable gradient of "asks" through the process, we've been providing support to help SPOs gather essential information required at each stage to help us make an assessment. However, we've found that this highlights an inherent tension in our fund setup, in which we act as both assessor and capacity builder for early-stage SPOs:

> "There is a complexity in our roles - we want to build a relationship so we can share honestly. We want to feel like we are in a team together [through this process]. It's hard to manage this line between having a supportive relationship and assessing them at the same time. Lots of other funds separate relationship manager and assessor." - Fund investment team

To manage this, we're exploring better ways to surface the information we need to assess candidates that's truly proportional, relevant, and fair at each stage of the investment journey.

> "We now request information to assess eligibility to make sure that a higher proportion of applications are eligible for the fund before taking them further into our process. We also request documents [earlier on in the process], but we provide sessions for eligible applicants to support them with this. We may [now] receive a lower number of applications, but [we] are expecting more of them to be GIF eligible. However, we will need to continue to assess whether the additional [asks] are reasonable and aim to get the right balance." - Fund investment team

3. Providing revenue funding and equity alongside debt products needs additional education and support not currently visible in the wider sector.

Headline: The range of product demand for the Fund validates the need for a portfolio of early stage investment products available in social investment. We're learning that increased product choice needs to be paired with additional support at the point of access, setting the foundation for ensuring SPOs can select a product that meets their needs and reduce information asymmetry between us and the SPO when negotiating investment terms in the later stages of the investment process.

Key Stats

- For those that knew what product they were looking for, 67% requested equity, 15% requested debt, and 18% requested a revenue participation agreement.
- 35% of people did not know what investment product they would like
- 35% of people requested £250 - 100k, 29% of people applied for investment £100 - 250k, 24% of people requested between 50-100k, and 13% requested one million pounds or above.

Emerging insights

3.1 Investment products beyond debt in demand from early stage SPOs. Of those SPOs who knew what investment product they were looking for when enquiring for the fund, two thirds of the demand (in £) was for equity investments. The demand was particularly high from SPOs based in London and the South East, and looking for investment over £250,000, and from companies Limited by Shares and Community Interest Companies (CICs). Demand for debt made up around 15% and RPA 18%. This supports our assumption that early stage SPOs are more likely to request non-debt products when made aware of meaningful alternatives. However, the demand for investment products varies significantly by stage, region and demographic. Further engagement with SPOs will help us learn more about the underlying reasons for this, ensuring we can continue to align our product offer to sector, regional, and demographic needs.

3.2 Continued sector education required for early stage investment products. Our enquiry data has shown SPOs requesting investment accounts or product types not suited to their stage or legal type. For example, some companies limited by guarantee have applied for equity funding despite not being eligible, and some SPOs have requested debt despite not currently making any trading revenue to be able to pay it back. 35% of all investment requested from the Fund came from enquiries that did not know what investment product they wanted. A majority (57%) of those that 'didn't know' which product they wanted requested between £50-100,000. This reinforces the knowledge barrier for stimulating future social investment demand from early stage SPOs seeking lower amounts. It also suggests using caution when considering application data for investment products from early stage SPOs. As a result, we're developing additional learning resources and support processes around the funding types available for these early stage SPOs, especially on product suitability in terms stage, legal type, risk appetite, flexibility, repayment cycle, and degree of control each product offers.

3.3 Increased transparency around sector benchmarks for investment terms and equity valuations required to reduce power imbalances. Typically, when negotiating investment terms (particularly for equity investment) investors have more power based on a) providing the capital, b) setting the terms and c) having access to 'market standard' valuation and term benchmarks. As a fund focused on early stage investment, we have a vested interest in supporting SPOs to access future funding beyond our initial investment and reaching 'fair' terms. As a result, we are providing SPOs new to investment access to pro-bono support via impartial and independent investment and legal expertise. Initial learnings on negotiating terms suggests the Fund needs to provide more transparency around the benchmarks we're using to set investment terms, and the methods used to value the organisation. We hope by increasing transparency over these areas earlier in the investment process, we can reduce the 'information asymmetry' between us and the investee, which can ultimately lead to ongoing power imbalances when negotiating investment.

Spotlight: Navigating equity investment valuations

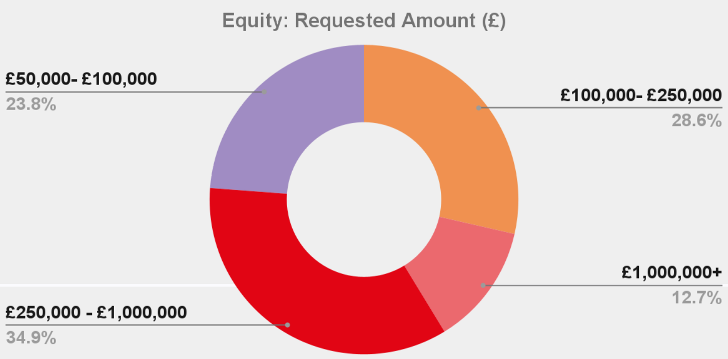

Image 3: A pie chart of the requested investment amount from GIF. 35% of people requested £250 - 100k, 29% of people applied for investment £100 - 250k, 24% of people requested between 50-100k, and 13% requested one million pounds or above.

Demand for equity investment has been popular across all funding amounts available within the Fund. In particular, we're seeing demand from SPOs who've started to develop trading revenue after developing a product or service, but now need capital to scale business and impact growth (often known as 'seed' investment).

Many of the SPOs applying to the Fund for equity are providing realistic growth projections in financial models that are unlikely to meet expectations of traditional venture investment. This means we have to consider the implications for different 'return potential' across our fund portfolio for equity investments.

> "The founder has projected they are going to give us two or two and a half times our money back. In our portfolio model, what we're targeting is that most of our equity investments have the capability to get three to five times our money back. This is not the venture capital approach of 10 to 20 times, but more than what the founder is saying. We think they are doing something really good here. But how could we fit this [type of investment] into our portfolio?" - GIF investment team

A key consideration that arises for our work is how these SPOs will be able to access funding in the future, as well as how we manage investment risk within the Fund as our investment returns are predicated on the SPO accessing future investment.

> "If they presented their financial model as it is right now to VC investors, they wouldn't invest. A big risk is where they are going to get their next round of funding from. It's also a big risk for the fund. We're investing in companies that we know are not yet bankable by VCs. How should we be factoring in that [future fundraising] risk?" - GIF investment team

One of the key challenges here is whether or not the embedded impact of an SPO is in direct conflict with how a venture fund might value the business.

> "Traditionally you might assume a 20% dilution at each round of investment. But how does this reflect the smaller market size of these business models? We think other investors will want to see higher dilution at each round and give them a lower valuation. Essentially, that means we are decreasing valuation because of

> their targeted social impact. It makes me feel uncomfortable that there is a tension between giving these organisations the best chance to continue fundraising in the future, but diluting them more highly than other organisations. I’m not sure a lot of equity funds in the sector are talking about this.” -GIF investment team

To help address this complexity, the Fund is working to develop its own approach to valuation in order to navigate challenges surfacing with standard approaches.

4. A fund designed to increase equity, diversity, and inclusion means developing new approaches to assessing investment risk.

Headline: While conventional methods used to assess risk often serve to reinforce inequity, our emerging portfolio suggests we are beginning to think about and assess investment risk differently. This supports our aim of investing in organisations overlooked by traditional venture funds and social investors. We're learning that it's going to take time to embed an approach to assessing risk that can factor in both the lived experience and needs of the leadership team as well as the systemic barriers they may be experiencing in their own sector. To achieve this, the fund will need to focus on the sectors where our support is best placed to help SPOs mitigate any barriers to growth and social impact.

Key Stats:

- Two investments have been approved by the investment committee.
- We have approved 1 RPA and 1 Equity deal
- Both investments have gone to organisations who have never previously received investment, and are diverse led - characteristics which may have previously been seen as unsurmountable investment risks.

4.1 We're learning how to better factor lived experience and the value of underserved markets into our investment decision making. Traditional approaches to investment decision-making often fail to factor in how lived and learned experience can differentiate a business case and mitigate less relevant risks associated with this experience. For example, individuals lacking a university degree are often assessed in ways that neglect how their more informal expertise, experience and market understanding can make them especially well placed to deliver on their growth plan. To help us assess risk more fairly, we've recruited a more representative investment committee, better placed to determine what should be perceived as investment risk or opportunity. We've also provided training focused on reducing bias during decision making. We're learning that, despite this work, we need to continue adapting our risk-assessment approaches to better capture when and how SPOs with different types of experience are well-placed to deliver on financial growth and social impact.

4.2 Focusing on SPOs previously under-represented in investment requires additional vigilance to ensure a fair process. Evidence suggests that investment funds are at highest risk of unfair bias when decision-makers have limited exposure to a sector or market, or when applicants simply don't match what investors are used to seeing. Given that our fund is actively pursuing investments in SPOs with atypical backgrounds or without the conventional characteristics of founders, we need to be especially mindful of fair-process. For instance, we are learning that traditional approaches to assess candidates naturally can encourage "risk-focused" as opposed to "opportunity-focused" scrutiny of SPOs, which evidence suggests can skew investment decisions in a less equitable direction (see here). As a result, we are starting to explore new processes to ensure that any

SPO's investment potential is fairly assessed, including a wider range of observations at different stages of our process, so we can map what happens, and compare against what we think is appropriate questioning at each stage.

4.3 The fund will need to prioritise investing in SPOs where it's best placed to provide support beyond investment. Venture investors typically use more than their capital to help early stage organisations grow, in turn increasing the chance they'll realise investment and impact return. While we can provide value to SPOs in a similar fashion, we are learning that we need to prioritise those SPOs for which the fund has access to resources and expertise that can mitigate growth and impact risks in ways that other funds cannot. This may mean exploring new ways to target and utilise our wrap around support as the fund progresses. However, we are learning that we are not always well placed to mitigate the barriers to growth under-represented SPOs face - many of these are firmly entrenched and embedded in how our audience is perceived more broadly in the investment world (i.e. as "inherently more risky", which can stifle future or simultaneous capital raises). This means that we need the sector to partner with us in reducing cultural barriers that limit growth for diverse led early-stage organisations, while prioritising what we can do ourselves.

Spotlight: Interactions via the Fund

One interesting learning we've seen is how founder confidence in their suitability for investment can lead to some SPOs self-selecting out of the process:

> "I've spoken to a few enquiries from SPOs who got in touch about the fund. It's interesting that two of them that I've chatted to have been like, 'oh, yeah, I think [...] I'm too early for the Growth Impact Fund- I'm not developed enough.'" - Fund investment team

It may be the case that such people are actually right to self-select out, at their stage of development, but we've been reflecting on how founders' characteristics and previous experience might impact this decision, and the effects it has on our pipeline through the investment process:

> "[continuation of above quote] ... I think I probably agree with their assessments. [There] were quite a lot of things that they needed to pin down in their [business plan] What impact did they create? What demographic [were they] going after? So they were very much startups, and I don't think that they made the wrong decision. But I do worry that [...] if these two founders had been white men, they probably would have taken longer to realise that they need to work on their business. My hypothesis is that [in contrast to] the two individuals who self-identified that they were too early, we are probably going to have some people who have less diverse characteristics who end up getting taken all the way to deal screen and then get rejected, whereas the people who just self-reject [are] going to skew more diverse." - Fund investment team

Building on this, we are reflecting whether self-selection out of the Fund's process could be impacted by the types of questions asked during assessment. Some feedback we've had suggests that, while we are taking candidates through the process who are traditionally considered "riskier" - *unfairly so* in our eyes - we may be assessing them with a different (and higher) level of scrutiny.

> "We felt that they are investing [in individuals] who to them seem very risky and therefore they need[ed] to be sure of the investment - [that they were] backing people other people didn't want to back [and putting them] under more scrutiny" - Applicant to Growth Impact Fund

In consequence, we're understanding that fair assessments require us to be more aware of the kinds of questions we ask SPOs at each stage of the process, bearing in mind the impact that this could have on SPOs from different backgrounds. We're also exploring what it really means to develop an objective approach to risk assessment, given that many of these teams will by applying with different levels of privilege and affordances provided to them in their entrepreneurship journey so far.

5. There are additional and often invisible costs to delivering an investment fund focused on more equitable investment.

Headline: There are significant investment gaps to support under-represented SPOs from accessing and engaging in investment. To address these gaps, the fund has recruited a range of expertise and support to help design and deliver this Fund. This has presented a number of 'hidden' costs not typically embedded in traditional fund structures. This reinforces the need for a range of blended finance instruments to address these gaps across the spectrum of investment and philanthropic capital, and we'll need to learn more about how to get the right blend of finance to ensure a sustainable and replicable fund model for the future.

Key Stats

- We've now closed the first pool of investment for the Fund at £8.2m
- £3.6 million of grant funding has been blended into the investment fund
- £2.6 million of grant funding sits alongside the fund to offer support to SPOs alongside investment

Emerging insights

5.1 Additional support required to help adapt the fund in order to meet the unmet needs of early stage and under-represented SPOS. We've brought in a wide range of cross-functional expertise to help deliver this fund. We've utilised previous fund management, design, communication, fundraising, and capacity building experience. We're also accessing additional partners outside of the investment sector to address knowledge gaps as they emerge, particularly around EDI issues. We're learning optimising expertise across multiple partners requires fund infrastructure rarely factored into more standard approaches to fund management.

5.2 We need to value the 'hidden' costs associated with fund delivery of this kind to help others follow suit. We've learned there are a number of 'hidden costs' associated with delivering a fund that attempts to address gaps in a sector that's been heavily under-invested in. We're currently exploring how to quantify what these additional 'hidden' costs look like and how these can be sustainably embedded into fund delivery. We're aiming to be as transparent as possible about these costs so we can help shape replicable fund models in the future.

5.3 Given these additional costs, the fund will continue to require a blend of capital types to make the fund economics work. The cost and time associated with delivering an investment fund to address sector barriers does not marry with operational budget or management fees normally accepted by institutional investors. As a result, we've structured the Fund to utilise philanthropic and concessionary capital that is explicitly designed to fund the support to address sector gaps and help the Fund make adaptations as they arise. We'll be exploring the required balance of capital types in this Fund as we progress, sharing more about the value of a blended fund in helping to address market failure in the investment sector.

Our learning focus moving forward

Our learning reveals the challenges involved in setting up a fund dedicated to serving those individuals previously excluded from social investment. It also highlights the need for further funds innovating in this manner, testing what works and what doesn't, given the complexity of the barriers we're seeing. While our learnings give us confidence that we've got some things right, we recognise that we're by no means perfect. Insights from our first six months provide us a clearer blueprint on where we need to improve the Fund, testing and experimenting with new delivery approaches. Some of these will deliver quick wins, while others will be long-term journeys that will progress gradually.

We've already made some substantial changes to the way we work throughout our first six months. We've adapted our messaging, resourcing and processes to better reflect the needs of SPOs enquiring for the Fund. We've also had to make adaptations based on the operating realities of delivering a fund that does things differently.

Based on our learning and improvements to date, we are now in a position to deep dive priority areas of focus for the fund. Over the next 6 months we'll be:

- Learning about whether an adapted approach to applying for the Fund can provide us with more information to make an informed and fair assessment without reducing access
- Learning about whether tailored partnership resources with a set of trusted partners that focus on under-represented audiences can stimulate demand in areas where we've currently got gaps
- Whether additional DEI training and support can help us make further practical changes to increase inclusivity of the investment process for SPOs from a range of different backgrounds and needs.
- Working with our advisory and investment committees to explore how we're making assessments during due diligence and build out consistent processes to reduce any unfair bias
- Exploring product demand from different regions and demographics to learn more about and respond to a range of different preferences from earlier stage SPOs within our product offering

The Growth Impact Fund is keen to have conversations about all or any of the learning topics covered in this report, especially with those exploring or looking to explore similar areas. Please get in touch if you would like to share or discuss best-practice for more equitable social investment.

Appendix

A. Our approach to continuous learning

In the social investment sector, learning is often viewed as something that happens *retrospectively* - in the form of a summative evaluation of fund activity, or a lengthy impact report. While these are valuable ways of capturing insights and ensuring accountability, this approach is poorly suited to real-time innovation. It can take many years before learnings lodged in reports actually translate into practical changes in fund models. Meanwhile, learning remains remote from operational teams, who are unable to make small changes to refine ongoing activities.

Given that the Growth Impact Fund is self-consciously doing something new, we know that this won't be perfect from the start, and we need to learn more quickly and more leanly to adapt as we go. Instead, we are taking a rapid "test and learn" approach to surfacing insights and improvements, led by Shift.

We learn by identifying key assumptions that underpin our product/service, framing the most important of these as "hypotheses". We can then test these hypotheses concretely in the real world, along with the assumptions underpinning them. By testing directly with users and other stakeholders, we get real-time data (feedback) that we use to make rapid, iterative improvements throughout the fund's lifecycle.

Structuring our learning around key hypotheses also allows us to reorient quickly in our learning, so we can focus tests on riskiest assumptions and the areas of highest potential impact. Meanwhile, our data-driven approach to learning means that we can take bolder design steps, knowing that we can get quick feedback on these will limit the risks of negative/unintended effects.

To read more about our approach to continuous learning, see this blog.

B. Learning hypotheses for the fund

The below diagram outlines the hypotheses we've made when building the Growth Impact Fund.

1. **Our brand.** A dedicated, inclusive, and accessible brand for the fund will support increased trust and engagement with potential applicants
2. **Our user experience.** A simple, transparent, and relational user experience will ensure applicants can learn about social investment, access support and funding, and be fairly and equitably treated
3. **Our outreach partnerships.** Tapping into already existing and trusted networks with diverse led SPOs will allow the Fund to build a better supported and relevant pipeline of applicants for the fund
4. **Our support.** In-house pre-investment support for early stage founders, which takes into account personal and organisational context, adapting support accordingly, will help applicants to better access investment capital
5. **Our decision-making.** By working directly with the applicant throughout the process, the way investment risk is assessed will better take into account the realities for applicants from under-represented communities and as a result, the fund will back high potential SPOs that would previously have been discounted
6. **Our products.** By offering a wider and more flexible range of financial products, we will better serve the financing needs of early stage, diverse SPOs in the UK
7. **Our fund structure.** By developing an evergreen fund that utilises appropriate capital 'blends' we will be able to create a sustainable fund model that enables us to resource and support SPOs appropriately throughout the fund's lifetime.

C. Learning considerations

1. **Limitations to our data systems** - Given that we are in the early stages of our fund partnership, we have been working across multiple data-sets and data systems across the three organisations. As a result, we've been working to standardise our data collection to ensure we capture all appropriate monitoring and evaluation data. We envisage improved data quality, with full sample sizes and greater granularity over the coming months. This will be helped by the creation of a new live dashboard, allowing us to track and aggregate fund-wide data in H1 2023.

2. **Sector benchmarks for what "good" looks like are still unclear** - Since the Growth Impact Fund is treading new ground in its ambition to widen access to investment finance, we're unaware of sector benchmarks that help us compare to other investors in the sector. As a result, we've had to lean more on internal measures we are targeting on an annual basis. In the future, we'd like to work with the sector to agree appropriate or reasonable benchmarks to be aiming towards, sharing context and supporting shared accountability on public reporting.

3. **The early setup stages of a fund favour "internal sense making"** - Much of our learning-activity in the first cycle has surfaced insights into how to organise and structure a fund of this kind. While this report has evidenced a range of learnings that we feel are important and valuable to share externally, a big part of our learning this cycle has also been around internal "sense making" to develop appropriate tools and processes. We now need to ensure that we're building on these via external feedback and tests as we progress our learning for the Fund.