

TO: All IIC Members & Partners
FROM: Amit Bhatia, CEO- IIC
DATE: 29 October 2015

IIC AUGUST-OCTOBER 2015 UPDATE

Dear All,

Seasons Greetings! Here's wishing you all the very best for the Diwali season. It gives me great pleasure in enclosing for you the August-October 2015 Update for IIC members. The highlight of the last quarter was clearly the EC meeting, the Member's Convention (MC meeting) and the K-12 Education Event, we jointly hosted with MSDF. Most importantly, IIC completed its first year of operation and I am enclosing for you a one-page summary of our first year Report Card. Therefore, this update is organized as follows:

- I. Key Takeaways of EC Meeting on 10 September
- II. Key Takeaways of Research Sub-Committee Meeting on 21 September
- III. Key Takeaways of Advocacy Sub-Committee Meeting on 1 October
- IV. Key Takeaways of EC Meeting on 14 October
- V. Key Takeaways of K-12 Education Event on 14 October
- VI. Key Takeaways of MC Meeting on 15 October
- VII. Events & Speaking Engagements
- VIII. Upcoming Events, Next Members' Convention & Significant Dates
- IX. Annexure: First Year Report Card

The rest of the memo details these key headings.

I. KEY TAKEAWAYS OF EC MEETING ON 10th SEPTEMBER

We discussed three things at the EC meeting on 10th September: IIC Data Collection Template, McKinsey Study and 15th October Members' Convention.

¶ IIC Data Collection Template

- We agreed that Investment data should be collated quarterly and Returns data annually
- Funds agreed that some self-reporting and hygiene is critical to the success of our collective
- We will cover both Equity and Debt
- We will need to customise the current Data Collection Model for Debt which will be completed and circulated by end-November
- We have not and will not ask Funds for Round-Level Valuation Data
- It was suggested to go "MIX" Model way (for MFIN) and IIC is discussing possibilities of collaboration with "PRISM" for data collection going forward
- Finally, it was agreed that Beneficiary Data is critical to demonstrate collective Impact

¶ McKinsey Study

- It was agreed that the Study was a good idea and that we indeed needed an iconic study to make our industry presence known
- The Board thankfully took on record McKinsey's offer for a pro-bono study and offers from Omidyar, MSDF and GIIN to underwrite all out-of-pocket expenses for the study

- It was agreed that we will have three big objectives of the study in addition to McKinsey objectives
 - Demonstrate Impact
 - Analyse Returns Empirically
 - Build a business case of our uniqueness as an Industry vis-à-vis Venture Capital (it was argued by one Board Member that we should not build a case for a separate asset class as this fund's goal is to show there is no discernible difference between venture investing and impact investing; although the member agreed that we build a case for a separate industry due to beneficiary focus)
- Finally, it was agreed that while Funds will try their best to get last 12 months sales and profits at time of investment, we should be prepared to have only audited financial year revenues and profits in multiple cases
- ¶ Members' Convention
 - The Board finalized the agenda for the members' convention with focus on
 - Updating members on all IIC initiatives
 - Sensitizing Members on Sustainability of IIC and a new Fee Model linked with Assets under Management
 - Organizing an annual LP-GP meeting either in Spring or Fall in a compelling destination (e.g., Goa)
- ¶ Miscellaneous Discussion Points
 - More interaction with external stakeholders like Niti Aayog, GIIN & IICA
 - Engage new firms like Dalberg and Capstone for further research studies

The EC meeting was held at The Taj Palace Hotel and Sandeep, Vishal, Ajit and Amit attended in person. Mona joined on a call.

II. KEY TAKEAWAYS OF RESEARCH SUB-COMMITTEE MEETING ON 21 SEPTEMBER

The Research Sub-Committee took a detailed look into the Equity Data Collection Template to resolve the issues highlighted by the EC and setup a meeting of Finance Leads of Caspian, MSDF and Omnivore to work with IIC and McKinsey to finalize the template. They incrementally revisited the scope and suggested ideas for the final research objectives. Finally, they discussed the upcoming K-12 Education Meet and topics/speakers to make it compelling for IIC members. IIC Research Sub Committee also discussed the following matters in details:

- ¶ Consider GIIN Cambridge study for international benchmarking
 - ¶ Consider Intellectap's PRISM for Impact Investment data collection tool
 - ¶ TiE & Indonesia conferences- invite members for a self-pay panel talk
 - ¶ Involving Institutes like IIMA for ecosystem development. Amit to be introduced/invited for the IIMA conference
 - ¶ We will only show aggregated data only for the McKinsey study
 - ¶ Millennium Alliance under FICCI to be considered as a Partner (or Member) or both
- The Research Sub-Committee was held at the MSDF office and was attended by Geeta and Amit in person. Mona joined the meeting on phone.

III. KEY TAKEAWAYS OF ADVOCACY SUB-COMMITTEE MEETING ON 1 OCTOBER

The Advocacy Sub-Committee decided on the following at the 1 October meeting:

- ¶ Create round table with the help of Mckinsey in Jan or Feb 2016 ahead of the budget. Invite SEBI, RBI, IICA, MOF, MOCA, MMSME, NITI AAYOG, INDIA ASPIRATION FUND (FORMERLY INDIA INCLUSIVE INNOVATION FUND), MSME, GIIN, MILLENIUM ALLIANCE. Additionally invite research outfits like IFMR & NCAER
- ¶ Promote sectoral associations to assist us in sectoral agenda and ensure entrepreneurial representation at appropriate forums like MFIN and CLEAN. Both to be invited to next MC of IIC
- ¶ Invite to next MC meeting influential opinion builders like Mudra CEO, Alok Pande, Bibek Debroy, Nachiket Mor, etc.

The meeting took place at ON office in Mumbai and was attended by Anuradha, Ritu and Kartik, all in person.

IV. KEY TAKEAWAYS OF EC MEETING ON 14 OCTOBER

The EC meeting primary focused on sustainability of IIC and unanimously adopted the mission that after their first two years, as the Inaugural Board, they want to leave behind a sustainable IIC. They agreed to create a budget of INR 1.2 crores for 2016-17 and decided to move away from the fee model based and adopt a % of Aseets Under Management. Pegging the ratio at a little less than MFIN, they proposed 0.025% of AUM for Equity Funds and 0.015% of AUM for Debt Funds as the new fee formula. EC passed this onto the Membership Committee to finalize and circulate. Additionally, it was felt that we should move to finanacial year and therefore the next invoice for all members will be for 15 months, from January 2016 to March 2017.

V. KEY TAKEAWAYS OF MSDF-IIC K-12 EVENT ON 14 OCTOBER

The event, held at University of Chicago Centre in New Delhi was powered by Michael & Susan Dell Foundation (MSDF) and attended by around 60 members. It is hard to summarize a 4-hour deep dive into K-12 Education in a para so we will share with you “important bytes” from the speakers at the event:

- ¶ Schools feel disempowered when making purchase decisions since they have no way of assessing product efficacy
- ¶ Sales cycle is frustratingly slow for most product/ service providers to K-12 schools. However, it is easier to sell in high fee/ premium schools because of higher awareness and affordability
- ¶ The biggest hurdle in sale of new products is the quality of teachers and their adaptability to new products. With a packed curriculum, teachers/ schools have no extra time to include new products and/or teaching aids. For new products, this is always a challenging proposition, especially in schools where lesson plans and curriculum are finalized 6-12 months prior to start of the academic year. A recommendation from the group was that new products should not increase the workload of the teacher and try to integrate into the available classroom time. Another recommendation was to use technology as an enabler in the classrooms not as an independent facilitator looking to replace the teachers
- ¶ Investors see a sparse pipeline of investable opportunities
- ¶ Establishing a brand in the space takes 4-5 years
- ¶ The right quality metric for an education intervention may be very different from parents’ views and hence difficult to communicate its value accurately
- ¶ Lack of standard impact metrics makes it difficult to assess curriculum and pedagogy, thereby increasing risk perceptions of investors

- ¶ Mobile aided learning is still in nascent stages even though the technology already exists to facilitate it. Companies are expected to leverage it to build innovative solutions for early childhood learning.
- ¶ Return expectations and exit timelines need to be more realistic and education opportunities might find it difficult to compete with ecommerce companies in terms of exponential growth in business and valuations in the immediate to short term
- ¶ Patience and strong knowledge of the sector to invest and support the right set of opportunities will be the key determinants for success of education investors
- ¶ There is a business case for simple, cost-effective impact measurement in growing the affordable education sector. MSDF shared its experience on using assessments at an average cost of INR 100 per child, across mediums and geographies and plotting it on a national scale for comparison and benchmarking
- ¶ Making affordable tools available broadly will be helpful for impact investors and education entrepreneurs to initiate robust impact assessments
- ¶ A lot of work still needs to be done in communicating impact to schools and parents, currently, the measurement methods and reports are not simple enough to be easily understood

IIC agreed with members to do similar deep dive in all sectors and looks forward to members stepping forward to host a sectoral deep dive.

VI. KEY TAKEAWAYS OF MC MEETING ON 15 OCTOBER

The MC (Members Convention) meeting was attended by 21 members and we collectively spent half a day to discuss the following:

- ¶ McKinsey Study & Data Collection
- ¶ Sectoral Industry Associations of Impact Sectors – Discussion with Ms. Ratna Vishwanathan (CEO, MFIN) and Mr. Ashis Kumar Sahu (CEO, CLEAN)
- ¶ Long-Term Sustainability of IIC: Financial Planning for IIC, a session led by Sandeep Farias, Chairman- IIC
- ¶ Domestic Fund Raise featured again in the discussion
- ¶ More visibility and recognition for Impact Investors
- ¶ Members raised Ease of Doing Business and CSR as important issues for advocacy
- ¶ Other Ideas (Annual GP-LP event; Sectoral Round Tables, Financial Inclusion Research, etc.) and Members' Q&A

It was decided that our January event like in 2015 will be Advocacy focused and we will intimate a day to all based on the Finance Minister's availability.

VII. EVENTS & SPEAKING ENGAGEMENTS

IIC will be represented in the following Speaking Engagements this month and IIC needs many more of these to build visibility for the organization:

- ¶ Ankur Annual Day- 3 August
- ¶ IIFT, New Delhi- Omnivore and Intelicap participated on 19 August
- ¶ India Health & Wellness Summit and Awards: Elevar and Acument participated at the event on 10 September @ Taj Palace, New Delhi
- ¶ Aavishkaar Annual Day- 1 October
- ¶ TiE Impact Investing RoundTable- Caspian and Ankur participated along with Avanti (an MSDf investee company) at the event on 17 October

Overall, it was an interesting quarter with three public engagements for IIC.

VIII. UPCOMING EVENTS, NEXT MEMBERS' CONVENTION & SIGNIFICANT DATES

IIC has the following significant meetings lined up for the next quarter:

- ¶ Sankalp in Jakarta, Indonesia (19-20 November)- Anuradha Ramachandran, ON to represent IIC
- ¶ Mellon Bank Event in Kochi (19-22 November)- Anurag Agrawal, Partner-Aavishkaar to represent IIC
- ¶ EC Meeting- 7 December (Bangalore)
- ¶ Individual one-on-one calls to determine our Budget 2016 Agenda
- ¶ Membership Committee- TBD
- ¶ Research Committee- TBD
- ¶ Advocacy Committee- TBD
- ¶ Members' Convention- January 2016 (New Delhi) with Finance Minister- Date expected from Finance Minister

I request all to please put the following dates on your calendar so that you can plan for the next 3-4 months without missing an IIC meeting.

IX. ANNEXURE: FIRST YEAR REPORT CARD

In the end, please find attached the first year report card of IIC. We have made a credible start on many fronts and in our second years, we not only hope to consolidate the good beginnings but build a sustainable institution and a team. We started the first month of our second year by brining on board our first team member, Neha Bhatnagar (neha.bhatnagar@iic.in). We will shortly complete our team and hope to give you a strong, sustainable, result-and-service-oriented IIC.

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In summary, IIC will next meet as a larger group on January in New Delhi. Please let EC / myself have your feedback if any. Also, we continue to post all materials on our website www.iic.in Please do visit our website and if your investee companies are missing, please urgently send me the details so we can update our website.

Thanks for all your support.

Regards,



Amit Bhatia
Chief Executive Officer

Annexure: 1st Year Report Card

Membership Initiatives

- Established Legal Entity (19 December), Branding, Website and operations
- 30 Members on date (23 Funds, 7 Partners)
- Conducted 4 Member Conventions, Elections, 1-2 Sub-Committee meetings each quarter
- Monthly Updates to Members
- Collected ~INR 75 Lacs for 2015; working on fee as % of AUM to raise INR 1.2 Cr for 2016

Advocacy Initiatives

- Tax Pass-Through to AIFs I&II (including SVFs)
- Allowing foreign investment into AIFs
- Extension of PSL to Water & Sanitation, Health
- Legal Definitions for SEs and IFs submitted to MoF
- Relationships with MoF, SEBI; RBI and Niti Aayog in works
- IIC created Joint Advocacy Forum with IVCA, TiE, NASE, IAN
- IIC working on building strong working relationships with all 9 Impact Industry Associations (or helping SEs create the same where none exist)

Research Initiatives

- Initiated pro-bono McKinsey Study (Need to pay INR 45L as out of pocket expenses for the 6-month study; INR 22.5L from Omidyar, INR 7L by GIIN; INR 15.5 Lacs- MSDF)
- Planning a Financial Inclusion Study
- Planning a Social Sector Mapping study with IndiaSpend
- Initiated in-house Impact Metrics Standardization Study
- Initiated dialogue with Abhijeet Banerjee on Social Impact Measurement
- Authored articles to be published in newspapers on Impact Investing

IIC Brand Building & PR

- >10 public speaking engagements + dedicated member-based IIC Panels (World Bank, OneGlobe, Sankalp, Entrepreneur, IVCA, IIFT, HealthCare, TiECON, etc.)
- K-12 Education Roundtable with MSDF
- Press Release on our Advocacy Agenda
- Seminal Industry Story in BT
- Several stories in ET

Special Initiatives

- Creating an Impact Analytics initiative as part of Industry Infrastructure
- Annual LP-GP conference work-in-progress
- Secured membership of G8+5 Special Task Force on Global Impact Investing
- Signed an MOU with GIIN for mutual collaboration
- Secretariat- One Resource on Board; Two more to hire
- Office in Gurgaon- work in progress