Mission Investing:

A FRAMEWORK FOR FAMILY FOUNDATIONS

Michael & Susan Dell FOUNDATION

NYU | WAGNER

> **"IDEAS ARE A COMMODITY. EXECUTION OF THEM IS NOT."**
>
> **— MICHAEL DELL**

As Rahil Rangwala, Portfolio Director of Family Economic Stability at the Michael & Susan Dell Foundation, prepared to meet with his colleagues who work on the Mission Investing team to contemplate its investment strategy in India, he thought of the foundation's journey over the last 12 years during which the organization had made 40 investments — a pioneering move for a family foundation in India.[1] A graduate of New York University's Wagner School of Public Service, Rangwala brought a unique mix of philanthropic and corporate experience to the foundation, having made a transition into the development sector after seven years at Bridgewater Associates, a global macro hedge fund. He was drawn to the foundation because of its outcome-focused approach to addressing complex social problems. While most foundations have traditionally relied on grant-making to meet their programmatic objectives, the foundation had authorized its program teams to also utilize debt and equity instruments to make Program-Related Investments (PRIs).

PRIs allow a U.S. private foundation like the Michael & Susan Dell Foundation to make investments in enterprises to carry out charitable, tax-exempt initiatives through a range of financial instruments, including loans, equity investments, and guarantees. They are a special category of investments that are an exception to the tax law prohibiting private foundations from making "jeopardizing investments."[2] For an investment to qualify as a PRI, a foundation must ensure that the primary goal of the investment is to accomplish its charitable purposes, as opposed to prioritizing financial returns. These investments differ from Mission-Related Investments (or MRIs), which seek market returns on endowment investments while also pursuing a positive social or environmental impact and may be unrelated to programmatic goals. Despite the confusion in technical definitions, the foundation decided to call its PRI strategy "Mission Investing" — inspired by its relentless mission to transform the lives of children living in urban poverty around the world through better health and education that guides all of its programmatic activity. The foundation has been deploying PRIs, a subset of impact investments,[3] in the form of debt and equity since 2006 as a complement to its grant-making activity in an effort to maximize impact. It is, among foundations, a pioneer in India in the impact investing space where investors seek to create social impact alongside financial returns. In fact, the term "impact investing" was not even coined until 2007.

The foundation's latest impact investing opportunity was to make a follow-on equity investment in LabourNet, a leading social enterprise based in Bangalore that provides skills training and placement services to the informal workforce. This opportunity fit well within the foundation's Family Economic Stability program area with a focus on Jobs and Livelihoods. The foundation had first invested in LabourNet in 2013 and had seen this promising young organization through early-stage growing pains over the past few years. LabourNet had emerged stronger after working hard to stabilize its finances and now appeared poised for its next level of growth.

As Rangwala thought about the future of LabourNet, he took the opportunity to reflect on the foundation's history of impact investing in India and in the U.S. to gather key insights and decide on a recommendation to the foundation's Investment Management Committee.

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[1] This case is informed by interviews with more than twenty-five individuals from the foundation's management and program staff, investees, and co-investors.

[2] 26 U.S. Code § 4944; 26 CFR 53.4944-3. The fact that a PRI may earn a market-comparable or higher rate of return is not disallowed per se, however, it cannot be a motivating factor for the investment.

[3] The Global Impact Investing Network (GIIN) defines "impact investments" as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." PRIs are a subset of impact investments. Throughout this case, "impact investment(s)" refers to the foundation's PRI activity.

INTRODUCTION

Michael and Susan Dell founded their family foundation in 1999. Michael Dell famously started Dell, Inc. (later to become Dell Technologies) with only $1,000[4] in his dorm room at the University of Texas when he was 19 years old. In a little less than 10 years, his strategic vision disrupted the IT industry and his leadership led the firm to secure its place as one of the world's largest technology companies. The Dells entered the philanthropic space by creating the foundation's endowment with an initial contribution of $250 million and an early focus on underserved children in Texas and, specifically, Central Texas.

In its early days, the foundation embodied the Dell philosophy of innovation, entering into what Janet Mountain, executive director of the foundation, defines as "an early period of controlled experimentation." Mountain joined the foundation in 2003, having previously held various roles at Dell, Inc., including vice president and general manager of Dell's U.S. consumer and personal computer business. The Dells brought Mountain in to help them build a strategy to extend the charitable work of the foundation nationally and globally. Upon joining the foundation, she sought to bring "the tools, processes, and talent available to Fortune 50 companies to work in the social space and to address some of the most complex social problems."

In early discussions with the Dells, it became clear to Mountain that Michael and Susan Dell were not "looking for the biggest problems, but instead, looking for the problems with the biggest opportunities to make a difference." This important filter became a guiding principle for the foundation's work. "By jumping in and getting started, we learned about so many important realities in those early years, and the understanding we gained guided the development of our mission and our organization," describes Mountain. In those early years, the foundation invested in programs that ranged from children's health insurance to college counseling to charter schools to leadership training for school principals. "In the social impact space, it is often surprisingly difficult to identify baseline measures, set goals, and track against those goals, but it's so essential to making a true difference in human outcomes. So we set out to work alongside our partners to make this possible, and it remains a hallmark of our approach today," says Mountain. As the foundation matured, it narrowed and focused its mission to transforming the lives of children living in urban poverty through better education and health. Alongside this refined focus, the team brought on additional talent and expertise, and explored different structures and funding approaches in a relentless pursuit of positive impact.

Today, the foundation works in three geographies: the United States, India, and South Africa, with a local team in each country, and has committed over $1.5 billion toward achieving its mission. Its approach is focused on impact, scale, and sustainability. Channeling the same Dell spirit of innovation upon which it was founded, the foundation seeks to make a large-scale, sustainable impact in the world through four program areas: Family Economic Stability, Urban Education, College/University Success, and Health and Wellness.

[4] All dollar amounts are in USD unless otherwise noted.

"MICHAEL AND SUSAN DELL WERE NOT LOOKING FOR THE BIGGEST PROBLEMS, BUT INSTEAD, LOOKING FOR THE PROBLEMS WITH THE BIGGEST OPPORTUNITIES TO MAKE A DIFFERENCE"

— JANET MOUNTAIN, EXECUTIVE DIRECTOR, MICHAEL & SUSAN DELL FOUNDATION

ORIGINS OF THE MICHAEL & SUSAN DELL FOUNDATION'S IMPACT INVESTING

When the foundation started operations in India in 2006, its early programmatic work in education exemplified its focus on quality and commitment to transforming the lives of the urban poor. Through this work, the foundation came to recognize the link between financial stability and increased educational opportunities and started its Family Economic Stability program. The local market was ripe for impact investing because of its robust entrepreneurial culture combined with an opportunity to achieve impact at scale. However, very few investors were willing to take on the risk of developing products and services for the bottom of the pyramid. The foundation saw an opportunity to increase the penetration of urban microfinance in India and zeroed in on investment, alongside grants and technical assistance, as a tool to catalyze the market. The foundation was an early mover in this space and helped to spur the impact investing movement in the country, using impact investments as a funding tool to address its programmatic priorities. Around this time, the foundation and CARE India commissioned Intellecap, a research and consulting firm, to conduct a market analysis of the urban microfinance market. While most donors were investing in rural microfinance institutions (MFIs), the foundation saw a potential in adapting the group lending model to an urban context and was one of the first investors to take a risk on new ventures serving these customers. Between 2006 and 2011, the foundation invested around $12 million in eight urban-focused MFIs that have collectively impacted more than 12 million people.

The investment in urban microfinance aligned with the foundation's programmatic focus on creating economic stability for families living in urban poverty, which sat alongside a burgeoning program in urban education centered on promoting high-quality educational opportunities for children from low-income families. Since its initial investments, the India office of the foundation has expanded its impact investing activities to support investments in skills training and financial inclusion products to drive economic stability as well as innovative tools to increase learning outcomes in public schools and prepare urban students for college entrance exams. Similarly, the U.S. office made its first investment in 2013 in the educational technology sector and continues to explore opportunities in health and college preparation. The South Africa office is currently conducting a market analysis and is in the exploration stage of determining the feasibility of impact investing in the country.

ORGANIZATIONAL CAPABILITY

Key Organizational Attributes Supporting Mission Investing

STRATEGY	Adherence to a well-defined, long-term programmatic strategy that puts mission first and is strongly connected to investment decisions.
CONTEXT	Flexibility to meet unique operational and regulatory factors found across various markets and geographies.
RESOURCES	Access to financial resources to deploy innovative funding tools.
INFRASTRUCTURE	Establishment of an impact investing support function and requirement of high-level skill sets across the organization.
PROCESS	Use of internal tools and oversight functions to rigorously monitor and evaluate impact investments.
CULTURE	Commitment to opportunity, innovation, and collaboration to guide problem solving.

The foundation has unique organizational attributes that have contributed to its successful impact investing work. Some of these attributes have been garnered through experience, while others are inherent within its founding structure as an innovative hands-on partner in the philanthropic space. These attributes include programmatic strategy, geographic context, internal resources, infrastructure, processes, and organizational culture. In combination, these qualities allow the foundation to continue to make successful investment decisions while providing an environment to iterate on key learnings from each new venture.[5]

[5] Six of the foundation's investments have been highlighted throughout the case; they represent a diverse sampling from the foundation's portfolio over its decade-long history of impact investing. Each investment illustrates a key aspect of the foundation's organizational capabilities and the factors contained in the MISSION framework presented in this document. A more in-depth discussion of each investment can be found in Appendix 1.

STRATEGY

For the foundation, strategy is always "mission first." As explained by Mountain, the foundation's primary focus is on achieving additional, measurable social outcomes that are relevant to its mission. With this mindset, the foundation's program teams set strategies for each program area, based on market research and mapping, and define key goals to help track and measure accomplishments. Program strategies are evaluated annually and modifications are made depending on feedback from metrics and lead indicators or changes in context. Occasionally, strategic priorities shift as demand changes or value chains expand.

With program strategy well-defined and mission as the number one priority, the foundation approaches funding opportunities with the question: What tool can be used to achieve the desired impact, whether through grant making, investment, or some combination of both? PRIs are one of the many tools at the disposal of program teams and have resulted in program officers often feeling free to creatively experiment with investments and financial structures to increase impact. These financing tools also work in tandem to take a sectoral approach in funding different parts of the ecosystem to strengthen the overall sector. For example, the foundation invested in a community development finance institution (CDFI) in the U.S. to fund retailers selling fresh foods and also gave a grant to a local nonprofit to conduct related evaluation work in the region. Similarly, in India, the foundation made several simultaneous investments in urban microfinance in order to develop a market, not just scale one individual firm. Additionally, it developed a consortium of various microfinance- related organizations to support client protection advocacy work in the sector, alongside its MFI investments.

Funding opportunities are sought for each of the foundation's four broad program areas within specific initiatives, which vary by geography, as opposed to

MASTERYCONNECT

In 2011, the foundation's U.S. Data-Driven Education initiative sought to identify ways to provide high-quality formative assessment tools to teachers in high-need schools serving low-income students. In accordance with the foundation's mission of enabling data-based, personalized learning for students, the team aimed to heighten teachers' ability to track student progress in real time, with the goal of improving classroom instruction and learning outcomes. The foundation worked with MasteryConnect, an early-stage K-12 education technology company, because of its strong alignment with the foundation's mission. In 2009, MasteryConnect launched a platform that tracks students' progress in real time. The resulting assessment data enables teachers to identify student levels of understanding relative to any set of learning standards, target students for intervention and enrichment, and self-evaluate instructional practice. The business revolves around a set of "freemium" technology products for teachers, with additional offerings through premium fee-based and professional development products for schools and districts.

relying solely on soliciting requests for funding.[6] In some instances, program officers find opportunities through existing networks or by identifying projects that fill a white space within a portfolio. The strategy of the India-based Jobs and Livelihoods initiative initially focused on mobilization and training but has evolved to encompass a broader value chain, which now includes certification and job placement and has led to an investment in LabourNet.

Beginning each year with an annual allocation of funding, program teams have quantified program goals and a certain number of dollars to deploy, but are otherwise agnostic about grants versus impact investments. As program teams formulate objectives and identify opportunities, they also decide which funding vehicle will best serve the strategic program goals. Some strategic goals are better suited for investments than grants. For example, under the foundation's Data-Driven Education initiative in the U.S., a component of the program strategy related to personalized learning seeks to equip educators with tools to ensure quality instruction and improved learning outcomes for students. As many of these tools are being developed by early-stage, market-facing education tech startups (like MasteryConnect), foundation funding via an equity investment is more appropriate. Through both its grant and PRI activity, the foundation leverages partnerships with a diverse set of players in order to maximize the impact of its philanthropic capital. In the impact investing space, it focuses on where there is a role for incubating markets. Barun Mohanty, managing director, international operations, notes that when dealing with governments or grantees, there may be opportunities to magnify impact through investment. Through its existing networks, as well as by incubating new firms through funding, the foundation is able to financially support these complementary initiatives and create an ecosystem that provides greater impact than a single grant or PRI would achieve in isolation.

UJJIVAN

In 2006, the foundation identified a significant market gap in urban microfinance in India and made several investments in MFIs that targeted urban clients, including the startup Ujjivan. Ujjivan began in 2005 in Bangalore as an MFI serving the urban poor and the unbanked. The foundation made a seed investment in 2006, along with UNITUS and Bellwether Microfinance Fund. Ujjivan designed its product offering based on extensive market research and customer surveys. Its initial target segment included households earning $20-$150 per month, among the poorest in the city. At the time of investment, Ujjivan had approximately 2,500 customers. With the initial seed capital and subsequent rounds of follow-on investments, it grew to serve several million. The foundation eventually exited, recouping its investment with a healthy return. Ujjivan currently serves 3.6 million customers in 24 states, making it one of India's leading microcredit providers, and recently started working as a small finance bank.

[6] See Appendix 2 for an overview of all the foundation program areas and initiatives in the U.S., India, and South Africa.

CONTEXT

Variations in the contexts of the U.S. and India informed the evolution of the foundation's impact investing activity. Market factors, including economic conditions and the robustness of the philanthropic sector, greatly influence the decision to make an impact investment or a grant.

In the case of India, economic conditions create a unique operating environment for an impact investor. India's per capita GDP is $1,700; almost 70 percent of India's population has a monthly household income of less than $300. However, the bottom of the pyramid is ready and able to pay for goods and services, representing a large market opportunity. Leading market researcher Rama Bijapurkar notes that many successful companies in India are already focusing on this segment. AT Kearney in its report on "Serving the Low-Income Consumer" notes that roughly 45 percent of smaller 50 gram tea packs are sold in rural markets and that Hindustan Lever, Unilever's Indian subsidiary, sells 5 billion pieces of penny candy each year.[7] Research from McKinsey & Company shows steady growth and burgeoning public policy support for social enterprises in India trying to tackle issues in a range of areas from agriculture to education.[8] The entrepreneurial context offers impact investors a rich opportunity to invest in startups with quality management and leadership teams. For example, the foundation was an early investor in urban MFIs, helping to catalyze this market. In the last few years, it has begun to invest in earlier-stage firms through the creation and support of third-party funds that provide seed capital to a number of education startups. The foundation has also supported social enterprise incubators and accelerators in order to develop a strong pipeline of startups that can potentially lead to future impact investment opportunities.

LABOURNET

Under the Jobs and Livelihoods initiative of the foundation's Family Economic Stability program, the foundation made an equity investment in LabourNet in December 2013, alongside co-investor, Acumen. LabourNet has established itself as the largest independent vocational training provider for informal sector jobs in India, having trained and certified over 600,000 students cumulatively since the foundation's investment. It continues to be recognized by blue-chip corporate clients and government agencies as a trusted brand in the skilling space for the underserved segment. LabourNet won the 2017 ASSOCHAM award for best vocational training partner in India and its co-founder, Gayathri Vasudevan, has been recognized as one of the best entrepreneurs in the social impact space.

[7] P. Pfeiffer, et al. "Serving the Low-Income Consumer: How to Tackle This Mostly Ignored Market," A.T. Kearney, 2007, Web, October 2017.

[8] V. Pandi, and T. Tamhane, "Impact investing: Purpose-driven finance finds its place in India," McKinsey and Company, September 2017, Web, October 2017.

Traditionally, U.S. philanthropists have favored grants as the go-to philanthropic tool. The U.S. has a robust (and highly regulated) nonprofit ecosystem in which nonprofits are able to access grant funding from both the general public with disposable income and a large philanthropic sector. Private foundations in the U.S. have typically deployed PRIs via loans to CDFIs. Over the past seven to ten years, as impact investing has gained momentum, foundations have started to use other financial vehicles and instruments, including equity, guarantees, and pay-for-success models. (The foundation did not have a history of lending to CDFIs but was an early pioneer in direct investment, making its first PRI with equity investments in urban MFIs in India in 2006.) As impact investing gained momentum in the last decade, an increasingly large number of foundations began to pursue programmatic goals through impact investing (the Bill & Melinda Gates Foundation made its first PRI in 2009; the Omidyar Network entered the space in 2007). In the well-developed capital market and venture investing industry in the U.S., the foundation has been very selective in its direct investments. It has supported catalyzing white spaces in the market, which are important for its mission, rather than investing in well-proven models or markets.

RESOURCES

The foundation's unique combination of financial and human capital resources reinforces its organizational capability as an impact investor. The foundation is fortunate to have an extensive endowment support by contributions from its co-founders of more than $2 billion to date. In a typical year, the foundation contributes around $100 million in charitable distributions. The foundation's considerable financial resources provide its staff with a broad set of tools within the PRI toolbox to create innovative financial instruments beyond traditional debt and equity investments. In the most recent reported year, 2015, 11 percent of its charitable distributions were in the form of impact investments.

Using these resources, the foundation has employed a wide range of leading-edge, catalytic approaches to further its mission, including structuring pay-for-success models and combining debt instruments with grants.

In 2016, the foundation's U.S. Health and Wellness team designed its investment in HOPE Enterprise Corporation, a CDFI, as a unique blended capital approach of both interest-bearing and forgivable loans to catalyze the opportunity for other funders to make equity investments.

Another recent investment in India, made in early 2017, was in the form of a "pay-for-success" education impact bond. Designed to pilot an impact- linked debt instrument, the foundation's nonconvertible debenture to the Indian School Financing Company ties repayment to improved learning outcomes across twenty affordable private schools in four cities. Schools that demonstrate meaningful learning improvements are eligible to receive a rebate of their loan amount as a reward.

Alongside its vast financial resources, the foundation has built a deep cadre of talented human resources and continues to attract top talent from both the financial and social sectors. The foundation encourages the development of the skill sets necessary to evaluate the financial and operational metrics of an investee as well as possibly take on a board seat or work directly

HOPE ENTERPRISE CORPORATION (HOPE)

In 2016, the foundation's U.S. Health and Wellness team added its first PRI to its portfolio with combined grant and debt financing for Hope Enterprise Corporation (HOPE), a nonprofit community development financial institution (CDFI) serving low-income communities in Alabama, Arkansas, Louisiana, Mississippi, and Tennessee. The foundation s Health and Wellness work centers around reducing barriers to healthy choices, particularly for low-income families, in order to foster healthy children and increase student success. Drawing on research that shows a link between community health and access to healthy food, the investment in HOPE is designed to increase access to and the demand for healthy food in the region at scale (through its the Mid-South Healthy Food Initiative [MSHFI], a public-private partnership that provides affordable financing to food retailers, e.g., local grocery stores). MSHFI allows these retailers to access capital to support the creation, renovation, or expansion of space to accommodate a larger selection of fruits, vegetables, and other fresh foods.

with CEOs and management teams. The dual grant-maker/investor role of program officers broadens the creativity, institutional knowledge, and level of innovation of the program team. The foundation's strong infrastructure and skill sets were key in helping LabourNet through a cash crisis in 2015. As lead program officer, Rangwala worked closely with the company's management to implement a turnaround plan that has since proven successful.

INDIAN SCHOOL FINANCING COMPANY (ISFC)

Founded in 2008 in Hyderabad, ISFC provides schools, especially those with limited access to credit, with financial resources to improve infrastructure and increase the quality of education offered. In 2016, the foundation worked with ISFC to create a new financing mechanism that linked learning outcomes to financial incentives for affordable private schools. The foundation lends to ISFC, which, in turn, provides a three- to six-year loan at a variable interest rate to a school. At the beginning of the loan, an independent agency assesses learning outcomes and sets a baseline for the school. After two years, an endline assessment is conducted. If the school meets its targets, it can realize interest rate rebates of 5 percent or 10 percent of the loan amount. This reward payment is adjusted in accordance with ISFC's interest payments to the foundation (i.e., the foundation absorbs the cost of the reward only when there is a demonstrated achievement of learning targets), while the principal gets repaid fully. Its innovative design ensures that the foundation pays only for demonstrated outcomes, while incentivizing the affordable private school sector to prioritize learning improvements.

INFRASTRUCTURE

In 2012, six years after the foundation began impact investing in India and as it was beginning to expand its U.S. impact investment portfolio, it commissioned a thorough analysis of the impact philanthropy space to learn best practices from its peers and design an impact investing infrastructure best suited to the organization. Considering options ranging from a separate impact investing arm to an embedded role within each program team, the foundation ultimately decided to position its impact investing staff as a dedicated "functional team" on the administrative side of the organizational chart to support program teams on the front line of investments. This structure enables the program teams to deploy grants or investments as the need warrants and reinforces the foundation's philosophy that impact investing is a tool, not a goal in itself.

Today, Geeta Goel, based in the foundation's Delhi office, leads the foundation's global Mission Investing work. After joining the foundation in 2007, she ran the Family Economic Stability work (where she was instrumental in developing the foundation's India investment strategy) and, prior to that, spent more than 12 years in corporate finance at PricewaterhouseCoopers. As head of Mission Investing, Goel has built a small team charged with co-sponsoring new impact investment proposals alongside program teams, taken the fiduciary responsibility lead on PRI balance sheet oversight to monitor appropriate use of charitable assets, and set up internal systems and processes geared to improving the effectiveness and management of investments. To ensure the foundation's capital is deployed strategically and innovatively, the Mission Investing team works collaboratively with program teams to optimize investment opportunities; both the Mission Investing and program teams have the necessary skill sets to balance philanthropic and market-based perspectives. While program officers are fully accountable for the financial and social health of each investment, they benefit from having additional support from the Mission Investing team to evaluate financial and operational metrics and actively manage each investment with the rigor required to ensure that the foundation's funding has optimal impact.

PROCESSES

The foundation has strong internal processes and tools in place to guide its impact investing function. The foundation's Investment Management Committee, comprising of six members of senior leadership team, thoroughly reviews all impact investing opportunities after they have been vetted by program, Mission Investing, and legal teams. The Investment Management Committee plays an active role in evaluating each new investment and follow-on proposal as well as exits and dilutions from a social impact, mission-fulfillment, and risk-management perspective prior to making a final recommendation to the Board of Directors[9] for approval.

On the financial and operational side, the foundation uses a reporting tool (see sample screenshot below) that relies on investees entering financial data on a variety of indicators, either on a monthly or quarterly basis. Once the data starts flowing through Prequin Solutions, monitoring becomes seamless and both the foundation and investees can view current data through the same dashboard tools (see sample screenshots below). Prequin Solutions also empowers investees to be able to report on why financial decisions are made and what operational changes drive them, thus increasing transparency in the investor-investee relationship and minimizing surprises between parties. While Prequin Solutions does not incorporate all impact and operational data together, the foundation is working to integrate social metrics into the platform. The foundation's internal processes and tools and rigorous monitoring and evaluation not only help to inform impact investing activity, but also enhance and create organizational competencies and shared learnings across programmatic and functional teams.

N.B. Below is sample data from the Prequin Solutions reporting system and does not represent actual investment information.

9 For a complete list of board members, please visit https://www.msdf.org/teams/board-directors/.

On the social impact side, the Performance Insights team works with program officers to create goals and corresponding measurement metrics, both tied to the overall programmatic strategy, in order to measure strategic success in a given portfolio. The team is involved in the planning process from the beginning and works to guide the discussion around developing success measures within a portfolio. The foundation is actively working to align investment and grant metrics since both funding tools are ultimately informed by the same programmatic strategy. However, across portfolios, metrics are customized based on the programmatic strategy. Complex strategies, early-stage investment portfolios, and geographic context all require different impact metrics. Over the years, the foundation has moved away from collecting a large amount of data, often using disparate metrics across portfolios, to a more streamlined and customized evaluation approach for stakeholder and strategy planning, with PI playing a consulting role to track social outcomes. The foundation also works with external vendors to create studies or evaluation strategies for impact that require more in-depth monitoring or long-term study.

In addition, underscoring its emphasis on fiscal discipline, the foundation has instituted regular (usually monthly or quarterly) financial and operational review meetings with investee management. LabourNet's CFO reported that these periodic reviews are helpful because the management team can look at operations from a macro perspective, then dive deeper into specific metrics. Internally, the foundation holds quarterly Mission Investing review meetings with senior leadership to assess the performance of each investment. These reviews have a financial and operational focus and allow the foundation leadership to make strategic decisions as needed.

AVANTI

To achieve the programmatic goal of improving professional education college entrance rates for children from low income families in India, the foundation invested in the coaching startup Avanti. Headquartered in Mumbai and Delhi, Avanti was founded in 2012 and has been providing affordable, high-quality coaching for math and engineering college entrance exams since 2013. Avanti employs a "flipped learning" model, specially designed to match the needs of students at an affordable cost. In a traditional learning model, teachers lecture students for close to 80 percent of classroom time, often being required to speak from memory, write on a board, and engage students as a group. Avanti's use of video content and collaborative activities allows teachers to focus on working individually with students in the classroom to teach them problem-solving skills. With support from the foundation, Avanti has experienced rapid growth and currently serves more than 2,200 students in 48 locations across nine states.

CULTURE

Michael and Susan Dell's vision to always look for the next opportunity has created a unique organizational culture, across geographies, that facilitates the foundation's impact investing. The management team is motivated to reevaluate continuously to ensure that it is optimizing impact and staying relevant. Mountain, a graduate of Harvard Business School, applies her previous experience as an executive overseeing various business units at Dell, Inc. to make this vision a reality. "We tend not to take the path of least resistance on principle in all matters, including mission investing," Mountain explains. That does not mean the foundation tries to reinvent the wheel, but she sees its journey as a learning process — with ups and downs, successes and failures — on a path to trying to get it right.

Placing a premium on collaboration also sets the foundation apart. Particularly over the past three to four years, the foundation has built collaborations to get things done, from partnerships with government to other philanthropic investors like Omidyar Network and the Bill & Melinda Gates Foundation.

Motivated by its mission-first mindset, the foundation recognizes the important role it plays in bringing other like-minded family offices and foundations into the space and bolstering the community by sharing lessons learned. Susan and Michael Dell affirmed their dedication to innovative social impact solutions in the foundation's May 2017 publication, *A Philanthropist's Guide to the Future*, a report detailing trends in the field and outlining the foundation's commitment to adapting philanthropic strategies to achieve impact. Built on learnings from the foundation's experience as well as fellow nonprofits and collaborators, the report distills eight guiding social impact principles[10] that help inform the foundation's work and that can be used to promote effective philanthropic practices and maximize social impact in the sector.

ANALYZING INVESTMENT OPPORTUNITIES: MISSION FRAMEWORK

Based on its previous impact investment experience in both the U.S. and India, the foundation uses several filters to evaluate the most appropriate funding tool when presented with a new investment opportunity. These considerations can be categorized into a MISSION framework that includes the following dimensions: Market, Impact, Scale, Sustainability, Incrementality, Organization, and Next. The MISSION framework may also be a helpful tool for other family foundations and philanthropic organizations looking to begin or expand their impact investing activity.

Prior to analyzing investments through the MISSION framework, the foundation first asks: Does this opportunity align with the foundation's programmatic strategies? Above all, the foundation operates with a mission-first approach. A new investment opportunity may present itself offering financial returns and/or social impact, but if the focus of the potential investee is not aligned with the relevant programmatic strategy, then it is a nonstarter. If there is a programmatic fit and the investment addresses the salient questions of the MISSION framework, the foundation's mission may be best served through an impact investment rather than a grant. The six investments featured in this case have been used to illustrate the MISSION framework in practice.

[10] See Appendix 4 for the complete list of The Dell Social Impact Principles.

MISSION FRAMEWORK

	DEFINITIONS AND GUIDING QUESTIONS	AVANTI
MARKET	Ability to create new markets, test innovative products and services, or serve new demographics through the use of patient capital and/or fund investments. Objective is to prove a business model's long-term financial sustainability and demonstrated demand (aka product/market fit) in order to attract traditional capital and spur competition. **► Will the investment unlock an opportunity for a service or product that provides utility to a beneficiary population with the ability to pay?**	While there are many personalized coaching services, they tend to be concentrated in large metro areas and are unaffordable for low-income students. The foundation's investment in Avanti (along with Edutel and Online Tyari) helped to move a product to a different demographic by providing affordable, high-quality coaching to low-income students.
IMPACT	Use of a PRI may induce organizational growth, programmatic scale, or similar effects that can lead to widespread, demonstrable outcomes in a relatively short time. The investee should be able to produce measurable outcomes that are clearly connected to programmatic strategies. **► Is the investee delivering measurable impact to the target segment and can the quality of this impact be maintained and/or improved with scale?**	Avanti's business model proved successful at a small scale. With an infusion of capital, it was able to greatly increase not only the number of service sites and students served, but also expand into other business lines, such as managing math and science curricula within a school.
SCALE	Investment can scale a nascent market to serve low-income customers or move an existing market to have a higher proportion of low-income customers. **► Will the opportunity expand the reach of the product or service as a result of both the foundation's investment and the leveraging of traditional investors?**	Avanti experienced rapid growth and proved its ability to replicate and scale its model. The foundation's investment furthered this effort. Alongside the Avanti investment, the foundation invested in similar coaching firms (Edutel and Online Tyari) in order to build a coaching ecosystem for low-income students.
SUSTAINABILITY	Long-term financial health increases the likelihood of an investee's success and the achievement of social impact at scale. A deep understanding of organizational risk factors, operational metrics, exit path strategies, and scenario planning helps to mitigate firm-level risk. Relationships with top management and other investors, along with ongoing data collection and analysis, are additional tools for ensuring sustainability. **► Will the investee arrive at a financially sustainable model, thereby increasing the likelihood of the investee's long-term success, through a strong focus on financial and operational metrics?**	Over time, Avanti has been able to gain key market insights from its on-the-ground operations, using a "hub-and-spoke" model to replicate and scale quickly. The strong consulting and business management background of its founders provides a focus on operational efficiency. The foundation also maintains a board seat and has strong relationships with co-investors. Avanti's current business plan is on track to break even by FY 2020.
INCREMENTALITY	The investment adds value and is an opportunity beyond the scope of, not a replacement of, mainstream capital. **► Would the opportunity, and related additionality, be realized without the foundation's investment?**	The exam coaching industry in India is well-established and growing, but few providers and investors operate in the low-income student segment. The foundation's investment helped to prove that serving low-income students can be profitable and can therefore help to eventually attract mainstream capital.
ORGANIZATION	The entrepreneur/promoter and other capital providers need to be committed to both the market and charitable objectives of the investment and be open and supportive of the philanthropic investors' role, including board representation, reporting requirements, and operational target analysis. **► Does the investee have the appropriate leadership capacity and commitment to manage the investment and enforce strong corporate governance principles?**	Avanti's founders hold degrees in both engineering and business management and bring this expertise to Avanti. The strong consulting and business management background of its founders provides a focus on operational efficiency. Board members include impact investors and the managing director of the Pearson Affordable Learning Fund.
NEXT	The investment has a logical path to scale market sustainability through a capital strategy or recycling of capital. The inherent sustainability of the model should enable it to attract new forms of capital to allow significant scale up of the outreach and impact. There is a steadfast commitment to accountability by the investee, driven by expectations of capital recovery. **► Are there follow-on investment opportunities and is there an acceptable timetable estimated for the repayment of capital and any expected return?**	Avanti is rapidly distinguishing itself as a low-cost gold standard provider; it is experiencing growth in all business lines. Avanti is on track to have continued financial success while serving low-income students, with good prospects for investment from mainstream capital and eventual returns for the foundation.

	HOPE	ISFC
MARKET	The mix of grant and loan financing from the foundation enabled HOPE to support earlier-stage enterprises. By providing this flexibility and increasing MSHFI's risk profile, HOPE is able to create a healthy food retail sector in a region, proving the profitability of serving low-income customers, which can be attractive to investors.	The pay-for-performance investment structure that the foundation is piloting in its support of ISFC creates an opportunity to catalyze a new market of impact financing that uses financial incentives to promote positive student outcomes.
IMPACT	Through the complementary grant to The Food Trust (TFT), the foundation will support consumer demand generation, mapping and prospecting of new locations, and the coordination of activities such as the development of marketing materials, in-store food demonstrations, and other community engagement events. TFT will be responsible for the ongoing evaluation efforts of the entire MSHFI and will monitor issues like ensuring that new projects are culturally appropriate and do not unintentionally promote gentrification.	Endline assessments for the first round of loans are scheduled for early 2018, thus outcomes are unknown at the time of publication. However, the pilot program has garnered significant interest from participating schools and has helped foster a greater dialogue about quality of education.
SCALE	HOPE's MSHFI provides financing to help enlarge the fresh food options available to low-income communities by either expanding existing retailers or investing in new enterprises. By simultaneously providing funding for technical assistance and initiatives to address consumer buying behavior, the foundation's investment will help to build both demand and supply of fresh food in the region to scale more rapidly.	A robust and growing affordable public school sector has emerged as an alternative to government schools for low-income families in India. ISFC is among the largest school financing companies in the affordable public school sector.
SUSTAINABILITY	The foundation's debt investment provides HOPE with a financial imperative to fund retailers that meet rigorous financial and operational standards. HOPE's existing experience in community investment, complemented by the foundation's grant to build internal capacity, ensures that it has the organizational competencies to properly screen fund applicants and manage its own risk portfolio.	The debt financing provided by the foundation increases ISFC's lending capacity and its ability to incentivize better performance in the schools it serves, thereby (and ultimately) having stronger social impact. ISFC's financial history is strong — there is little chance of it not being able to repay the relatively short-term loans with interest. Should the financed affordable public schools achieve the targeted learning outcomes, such a result would improve their financial health; in addition, both lenders in the chain (ISFC and the foundation) would recoup their investments.
INCREMENTALITY	The foundation's combination of grant and loan funding to HOPE translates to greater financial flexibility to build a healthy food retail ecosystem more rapidly, hold investees accountable, and help to prove a business model to future investors seeking a return (aka long-term financing beyond government funds). In addition, the foundation's investment has catalyzed additional non-foundation investment by approximately 12.5 times its investment.	By funding ISFC, the foundation is able to provide low-interest-rate loans and can help to prove the business case for incentive-based lending; the outcome should attract other forms of capital.
ORGANIZATION	HOPE's work as a CDFI providing financial services to underserved markets, combined with TFT's added expertise, community engagement, and evaluation experience, aligns with the social and financial goals of the investment. HOPE and TFT have extensive relationships with community organizations, nonprofit groups, and others working on food justice issues.	ISFC was founded with the objective of assisting affordable public schools in capacity building through infrastructure improvements, which has the benefit of giving students access to quality education. Providing loans to schools in the affordable public school sector since 2009 with a focus on improvement in quality of education, ISFC's business model uniquely aligns with the foundation's programmatic strategic priorities.
NEXT	The foundation will have its loan fully repaid by 2028. HOPE will "exit" its loans to the retail outlets as they are repaid. The retail outlets will become self-sustaining enterprises.	The investment in ISFC is still in its early stages, but loan terms are relatively short with limited risk of default.

	LABOURNET	MASTERYCONNECT
MARKET	This investment allows for growth of a new training model targeting impoverished youth in the unorganized, informal labor sector, with an emphasis on practical vocational training and job placement to fulfill the foundation's mission to increase access to employment and entrepreneurship for Indian youth. At the time of investment, LabourNet was one of the only training companies that focused on the informal labor market.	The foundation undertook a rigorous market-mapping analysis that revealed the formative data needs of teachers. Recognizing that a market-based approach was optimal to devising innovative technological solutions for educators, the foundation made an equity investment in MasteryConnect to further the foundation's Data-Driven Education strategy of opening up the market to reach the foundation's targeted low-income student demographic.
IMPACT	LabourNet has provided high-quality training to more than 290,000 students since the foundation's first investment in 2014. The company has been recognized by partners, external institutions, and government agencies for its work in skills training and social enterprise.	The company reports serving 2.5 million teachers and 21 million students across the U.S. and internationally as of July 2017. In addition, more than 70 percent of the schools that have purchased the MasteryConnect product have a Free and Reduced Lunch (FRL) population of 50 percent or more.
SCALE	LabourNet began as a nonprofit-based initiative and launched as a for-profit social enterprise after developing scalability. Since launching as a separate entity, the company has continued to evolve its business model in on-site and livelihood center-based trainings and has benefited from a government-funded skills training initiative that provides financial incentives for youth skills training. The foundation's investment has helped LabourNet position itself to attract traditional commercial funding while achieving growth targets.	By leveraging its "freemium" user base, offering educator professional development services, and entering into strategic distribution partnerships, MasteryConnect has had tremendous success in meeting growth targets.
SUSTAINABILITY	The foundation has helped LabourNet meet its working capital needs while maintaining its accelerated growth by providing an INR 60 million ($924,000) bridge loan in the form of non-convertible debt as well as a follow-on equity investment of up to INR 100 million ($1.5 million). This loan and investment are tied to key operational efficiency improvements, including strengthening finance team leadership, reducing operational costs, and instituting a management committee to approve new contracts.	The foundation regularly assesses MasteryConnect's financial and operational sustainability. It further emphasizes financial sustainability through its seat on the board. The foundation's decision to participate in subsequent funding rounds has been based on the company's ability and willingness to pursue financial sustainability.
INCREMENTALITY	The foundation's investment seeks to catalyze the market for informal workforce skills training in India. The goal: train large numbers of employable youth to improve their economic opportunities.	The foundation's philanthropic investment was made as a catalyst to allow MasteryConnect to expand its potential reach and impact on student learning to a degree that may not have been possible with traditional investment capital upfront.
ORGANIZATION	LabourNet has a strong management team with a unique combination of social impact and commercial experience and extensive backgrounds in staffing and vocational training. Its startup phase as a nonprofit initiative strengthened its position as a separate, sustainable entity with a deep commitment to social impact. In addition, co-investor Acumen shares the foundation's commitment to improving the economic opportunities of workers in the informal sector.	MasteryConnect's founding team brings a strong combination of entrepreneurial, education, and software development skills. Its belief in the impact of formative assessments and its like-minded philosophy contributes to its mission alignment with the foundation and commitment to impact. Co-investors include the Chan Zuckerberg Initiative and Catamount Ventures, a venture capital firm with a focus on mission-driven companies.
NEXT	The foundation's original equity and two follow-on debt and equity investments have allowed LabourNet to achieve profitability and pay down debt, with an eye toward creating a healthier balance sheet and setting up the company for a successful external equity raise. The foundation's support has contributed to LabourNet's growth to date and to its becoming a market leader in informal sector skills training. In evaluating the next equity raise, the foundation will consider the amount of equity raised, potential shareholder dilution, and progress toward accomplishing strategic program goals in its Jobs and Livelihood portfolio.	MasteryConnect is considered a leader in what is now becoming a mature ed tech market in the U.S. The foundation's focus on financial prudence and good governance has ensured that MasteryConnect has a range of follow-on options available to it, including IPO or acquisition.

	UJJIVAN
MARKET	Rural microfinance had proven successful, but traditional capital was apprehensive about funding enterprises offering financial services to the urban poor — a population thought to be transient and unable to adhere to traditional group lending models. The foundation undertook a rigorous market research study (in partnership with Intellecap) that revealed the potential of a microfinance market serving urban customers. To test this hypothesis, the foundation invested in several microfinance startups, including Ujjivan, a Bangalore-based MFI.
IMPACT	Data from the Microfinance Industry Network shows that the share of urban microfinance clients grew from 33 percent of the overall market in 2012 to 67 precent in 2015. Much of this growth is attributable to market forces, which were catalyzed by the foundation's early investments in urban MFIs. Ujjivan alone was able to provide comprehensive financial services to India's urban poor in three cities, growing from 2,500 customers in its early years to currently serving more than 3.6 million.
SCALE	At the point of initial investment, Ujjivan served 2,500 customers in the Bangalore area but had plans to scale to 500,000 within six years and to expand to other metropolitan areas. Within the first 18 months of investment, Ujjivan added two cities and an additional 20,000 customers to its base. Ujjivan currently serves 3.6 million customers in 24 states — making it one of India's leading small finance banks.
SUSTAINABILITY	Ujjivan has been one of India's most successful MFIs, and one of the few to have a successful IPO. Because microfinance borrowers typically have high repayment rates but are costly to serve, the key to profitability is low margins at scale. Ujjivan was able to expand quickly with support from the foundation and other investors because of its investments in strong back-end solutions and an experienced senior management team; it reached breakeven by 2008.
INCREMENTALITY	As there were very few other investors in the urban microfinance space, the foundation was able to support several key MFIs serving urban clients, thus catalyzing a market. Its focus on social impact ensured that the products offered fit with customers' needs. Thus, the foundation was able to take risks investing in startups while continuing to focus on ensuring that the operating environment kept customers' interests in mind before mainstream investors also came on board.
ORGANIZATION	Ujjivan was founded by Samit Ghosh, who had a long career in India's banking sector. His initial management team and board also came from the banking sector. In addition to founding Ujjivan, Ghosh spent many years advocating for the microfinance sector in general. Under his leadership, Ujjivan achieved rapid growth while maintaining a sharp focus on mission and organizational strategy.
NEXT	During its relationship with Ujjivan, the foundation completed three rounds of investment. By 2012, the foundation's microfinance portfolio had weathered the Andhra Pradesh crisis and significant commercial capital was flowing in the sector. The foundation then executed its exit plans, ultimately achieving a reasonable rate of return on its initial investment in Ujjivan.

MARKET

Will the investment unlock an opportunity for a service or product that provides utility to a beneficiary population with the ability to pay?

According to Mountain, philanthropic capital has to operate in the gaps between government, private sector actors, and nonprofits that require patient capital and flexibility. In the foundation's view, it can close some of these gaps by unlocking market forces through the support of social enterprises. Mountain also notes that while social entrepreneurship is not a silver bullet, it "is an incredibly important aspect to provide services and support" for the bottom of the pyramid. By creating a new market or moving an existing market to a previously underserved segment, enterprises compete for the business of those at lower socioeconomic levels. When social enterprises compete for business, they must understand the needs of lower-income populations and develop affordable products or services that customers view as valuable. These new markets establish iterative feedback loops between enterprises and their customers, allowing firms to gather data on what approaches can create the greatest social impact while maintaining profitability.

This market-based approach is predicated on the assumption that a market exists — that there is unmet demand for a product or service and customers who have some willingness to pay for that product or service. For example, before the foundation decided to invest in urban MFIs, it commissioned market research that found that the urban poor had both the ability and willingness to pay for credit. MFIs in rural areas had already proven the financial sustainability of the group lending model.

Often, newly formed enterprises focus on revenue projections and business models without having addressed the basic question: Is there a product/market fit? Will customers' ability to pay allow for long-term financial stability? (For impact investments, there is the additional question of whether an enterprise will generate social impact.) If the answer to these questions is no, then debt and equity finance may not be appropriate. If there is an interested consumer base without an ability to pay, services may best be deployed with grant support. The chart below, developed by the foundation, illustrates a useful framework when analyzing the market potential and appropriate funding tools for new or existing enterprises.

Potential for a Market-Based Solution

WILLINGNESS TO PAY		
	PHILANTHROPIC SOLUTION Beneficiary ▪ Product/impact fit ▪ Funder diversification ▪ Potential to empower beneficiaries to become customers **Grant**	**MARKET-BASED SOLUTION** Customer ▪ Product/market fit ▪ Unit economics ▪ Financial sustainability **Debt/equity financing**
	NO SOLUTION Disinterested Customer/Beneficiary ▪ Market research required **No appropriate financing instrument**	**CATALYTIC SOLUTION** Potential Customer ▪ Test product/market fit ▪ Usage/engagement metrics **Pay for success/blended finance**
		ABILITY TO PAY

If a market exists and there is an appropriate product/market fit, then impact investors may be key to market development. In early stages of market development, commercial capital is limited. To attract mainstream investors, philanthropic capital can be useful to:

- Demonstrate the economic value proposition of serving populations that have modest and irregular incomes;
- Incubate firms that are designed to meet lower-income customers' needs;
- Create markets that are functional and correct market distortions.

Philanthropic capital also helps to test and prove the long-term sustainability of a business model. In addition to proving profitability, philanthropic investors at the nascent stage of market development can also help establish sector norms. For example, the foundation worked with its urban MFI investees in their earlier stages to establish internal procedures such as credit checks and client interaction guidelines to help promote client protection, an approach that helped investees better weather the negative impacts of the 2010 microfinance crisis in Andhra Pradesh in India.[11]

Despite the success of investees like Ujjivan, it is important to note that it is difficult to pioneer new markets in any sector, particularly when there is a social impact focus. As Mountain notes, "We know [markets] are tough and know the difficulty doesn't go away with a for-profit model." However, a philanthropic investor can leverage its advantage of having patient capital to work with entrepreneurs to ensure the approach to serving those in need and maintaining profitability is done with the largest impact possible before there are opportunities to scale through future fund-raising rounds. Goel summarizes the foundation's approach to market development when she notes, "The tools are there. So are the opportunities. We owe it to our principals, and to the families and children we're seeking to help, to step up and take on higher risks and to shape markets in ways that others will not."

MISSION Analysis — Ujjivan

MARKET	Ability to create new markets, test innovative products and services, or serve new demographics through the use of patient capital and/or fund investments. Objective is to prove a business model's long-term financial sustainability and demonstrated demand (aka product/market fit) in order to attract traditional capital and spur competition.	Rural microfinance had proven successful, but traditional capital was apprehensive about funding enterprises offering financial services to the urban poor — a population thought to be transient and unable to adhere to traditional group lending models. The foundation undertook a rigorous market research study (in partnership with Intellecap) that revealed the potential of a microfinance market serving urban customers. To test this hypothesis, the foundation invested in several microfinance startups, including Ujjivan, a Bangalore-based MFI.

[11] In the wake of allegations of widespread over-indebtedness in Andhra Pradesh, the Reserve Bank of India passed strict reforms for MFIs operating in the state. As a result, many MFI operations ceased abruptly, and the state experienced a microcredit crisis in October of 2010.

IMPACT

Is the investee delivering measurable impact to the target segment and can the quality of this impact be maintained and/or improved with scale?

Impact investments are motivated by the desire to catalyze widespread, demonstrable outcomes at scale. Hand in hand with impact is the concept of measurability. An impact investment is expected to produce measurable outcomes that are clearly connected to programmatic strategies.[12] While delivering impact is fundamental, measuring impact can be challenging for a variety of reasons, not the least of which is that social performance often lags financial returns and there are no universally adopted standardized metrics for "impact."

As the foundation's impact investing strategy has evolved, the foundation continues to place a premium on impact. The program teams pursue investments that have impact as a fundamental part of the organization's DNA, not just as a byproduct, according to the foundation's Mission Investing Program Manager, Neeraj Aggarwal. Nevertheless, the foundation grapples with the tension between financial and social returns and questions how to define the right measure of success. Mountain acknowledges that it is easy to rationalize certain returns that may not make a great investment financially but may still look like success through a social impact lens. Scrutinizing the set of returns is important to ensure that the foundation is not justifying an investment because of its social impact in situations where the financial benefit of the investment is less compelling.

The foundation has started a pilot program linking social impact more directly to financial performance. A debt investment in ISFC, which provides loans to low-cost schools around India, is a recent example. The foundation made a $1.8 million loan to ISFC in the form of a three-year nonconvertible debenture with an assessment-linked reward mechanism. With foundation funding, schools can apply for loans from ISFC and voluntarily participate in an assessment program wherein any school meeting certain learning-level targets earns a financial reward in the form of an interest payment rebate (equal to roughly 10 percent of the total loan). A baseline assessment by an independent agency (paid for by the foundation) sets objective learning targets and does an endline assessment after two years to measure success. In instances of improved learning outcomes, the foundation absorbs the cost of the reward on the back end through adjustments to ISFC's interest payments. Endline assessments for the first round of loans are scheduled for early 2018, thus outcomes are unknown at the time of publication. However, the foundation is optimistic that the pilot program has garnered interest from schools and has helped foster a greater dialogue about quality of education.

Sustainable impact at scale is the ultimate goal. The foundation's U.S. Data-Driven Education Program Director Micah Sagebiel describes programmatically aligned impact as the first screen in evaluating a PRI opportunity. If impact is there, the team looks for indicators of scale, like good management and financial discipline, for the company to expand the reach of its products or services. With this focus on impact, the foundation has often taken a market or sectorial approach to its work, explains Goel, in instances where the foundation views catalyzing a market or group of organizations (rather than an individual investee) as the more relevant "unit of change."

MISSION Analysis — ISFC

IMPACT	Use of a PRI may induce organizational growth, programmatic scale, or similar effects that can lead to widespread, demonstrable outcomes in a relatively short time. The investee should be able to produce measurable outcomes that are clearly connected to programmatic strategies.	Endline assessments for the first round of loans are scheduled for early 2018, so outcomes are unknown at the time of publication. The foundation will only provide the interest rebate should schools achieve their impact targets. However, the pilot program has garnered significant interest from participating schools and has helped foster a greater dialogue about quality of education.

[12] From a legal perspective, impact is also critical as charitability standards must be in place under IRS requirements for PRIs.

SCALE

Will the opportunity expand the reach of the product or service as a result of both the foundation's investment and the leveraging of traditional investors?

The power of impact investing lies in its ability to leverage market forces to solve complex social issues at scale by growing nascent markets to serve more low-income customers or move an existing market to have a higher proportion of low-income customers. Because the commercial marketplace has natural incentives to scale, impact investments have a strong advantage over more traditional philanthropy. Investee companies that are poised to scale are prepared to undertake growth activities like expansion (either geographically or into new segments), investment in assets and talent, development of enhanced systems and processes, exploitation of scale efficiencies, and strategic planning around competition to successfully achieve scale.

MasteryConnect is one such opportunity for the foundation. A primary goal of the foundation's Data-Driven Education initiative was to grow organizations that provide tools and services to improve classroom instruction and student learning outcomes in schools serving low-income students (measured by the percentage of students eligible for free and reduced lunch). The foundation had previously used its grant funding to make it easier for schools and districts to adopt technological solutions in the classroom. MasteryConnect represented a best-in-class technological solution that schools and districts could incorporate into their classrooms to improve learning outcomes.

When the foundation initially invested in MasteryConnect's Series A round in 2013, the company, having already gained momentum in the market as a provider of formative assessment products, was poised to scale through an aggressive sales growth plan to increase its user base and deepen the functionality of its core product. A major reason for the foundation to invest in MasteryConnect was the lack of scalable innovative solutions in the marketplace at that time. While some early innovative school districts had built custom platforms and some large ed tech companies were active in the space, there were no widely available, low-cost solutions to reach educators and schools serving low-income students. MasteryConnect's founders had close connections to the classroom, a nimble and iterative product development cycle, and a focus on teachers and students. By 2016, when the foundation and other investors invested in the Series C round, MasteryConnect had successfully expanded its user base to 2.5 million teachers serving millions of students (including 2.3 million paid students), had acquired the popular assessment app Socrative, and implemented significant enhancements to its core product.

The foundation recognizes that the urge to provide immediate relief for social problems is powerful; its endgame is to address these issues at scale through impact investments to achieve replicable, long-term changes that benefit more people during and beyond the investment.

MISSION Analysis — MasteryConnect

SCALE	Investment can scale a nascent market to serve low-income customers or move an existing market to have a higher proportion of low-income customers.	By leveraging its "freemium" user base, offering educator professional development services, and entering into strategic distribution partnerships, MasteryConnect has had tremendous success in meeting growth targets.

SUSTAINABILITY

Will the investee arrive at a financially sustainable model, thereby increasing the likelihood of the investee's long-term success, through a strong focus on financial and operational metrics?

While a grant recipient may have a plan to diversify funding sources or eventually wean off of grant funding, the foundation has a defined impact investment exit strategy, which includes required repayment, hopefully with additional returns. Nascent organizations, or those dealing with capacity issues, may not be in a position to accept the additional financial burdens of debt and equity financing and may be best served by a grant. (Although grants can also help organizations grow to the point of being in a position to receive investment.)

Ensuring financial sustainability, therefore, begins at the initial investment stage through investigation of unit economics and growth prospects to forecast the break-even point of an investee. However, this process is not static and continues through investment management. Even as the foundation saw LabourNet surpass some of its growth and profitability targets in the first 18 months of its initial investment, it did not lose sight of the company's cash flow management and worked closely with the executive team to streamline working capital cycles.

Financial sustainability affects not only profitability, it also increases the likelihood of an investee's achievement of social impact goals at scale. For Avanti, a provider of affordable college entrance test preparation, growth equates to increased impact. During its first year of operation, Avanti focused on aggressive growth of learning centers to achieve scale but later revamped this strategy when it realized that its learning center occupancy was not ramping up at the expected pace. Avanti began to partner with schools to reduce the capital expenditure on learning centers as well as to gain direct access to students as potential new clients.

By employing a more cost-efficient "hub-and-spoke" model, in which Avanti relies on one stand-alone center in a city and expands through schools, it has grown rapidly in the last few years while maintaining occupancy. As it continues to scale, Avanti is on the path to break even and become profitable in the near future. The continued growth means it can serve more lower-income students, providing high-quality coaching services at a reduced cost. Avanti's services provide opportunities for students to access elite engineering and technical universities, ultimately leading to high lifetime earning potential. In fact, in 2015, an Avanti graduate was admitted to and received a full scholarship to attend the Massachusetts Institute of Technology. Avanti's mission is to make coaching affordable; the company's growth, financial success, and achievement of its social mission are all inseparable.

MISSION Analysis — Avanti

SUSTAINABILITY	Long-term financial health increases the likelihood of an investee's success and the achievement of social impact at scale. A deep understanding of organizational risk factors, operational metrics, exit path strategies, and scenario planning helps to mitigate firm-level risk. Relationships with top management and other investors, along with ongoing data collection and analysis, are additional tools for ensuring sustainability.	Over time, Avanti has been able to gain key market insights from its on-the-ground operations, using a "hub-and-spoke" model to replicate and scale quickly. The strong consulting and business management background of its founders provides a focus on operational efficiency. The foundation also maintains a board seat and has strong relationships with co-investors. Avanti's current business plan is on track to break even by FY 2020.

INCREMENTALITY

Would the opportunity, and related additionality, be realized without the foundation's investment?

While the foundation views its role as a catalytic investor, it does not wish to subsidize or substitute for mainstream capital. Impact investing that seeks to open new markets or customer segments often requires a high tolerance for risk and a willingness to invest in early-stage firms or unproven business models. Investors typically want some evidence that a business model will be successful in the long term, based on initial pilots or market testing of prototypes. Therefore, mainstream investors, particularly those who may be skeptical about the potential return on investment (ROI) of a social enterprise, may be more likely to invest in a slightly more mature firm that has already achieved scale.[13]

Philanthropic investors can play a role in the space between seed funding and later-stage investments, but they need to have a clear investing goal, one that sits alongside financial returns. Often, this is known as incrementality or additionality, referring to the "beneficial social outcomes that would not occur but for [an] investment in a social enterprise."[14] One goal could be to bake in social impact into an organization's business model so that, as the organization grows, impact can no longer be separated from operations. There would be less of a risk of mission drift if the social goals of the enterprise are integral to its model, even if return-first, mainstream capital expressed interest in later funding rounds or the enterprise experienced changes to the top management team. The foundation can also help the management team navigate difficult conversations with investors around social impact, using sector knowledge and evaluation data it has acquired over time.

As Goel notes, philanthropic capital can be structured to limit returns with a clearly defined social ROI in order to avoid subsidizing or displacing commercial capital. This approach could mean providing concessionary capital or offering more favorable loan terms to guide the firm through its initial growth stage. It could also mean simply being willing to invest in a product or service that has the potential for measurable social impact but has yet to be tested at scale in the market.

For example, the U.S. Health and Wellness team decided to make an investment in HOPE. The foundation's vision was to replicate the successes of other healthy food financing initiatives, at the same time ensuring financial sustainability through its lending model and catalyzing investment activity. After the foundation's initial $3 million funding (split between a $1.5 million grant and $1.5 million interest-bearing loan), the foundation hoped that other investors would follow suit. To date, this initiative has been very successful. Banks began providing additional debt, the city provided funding, and private investors provided equity. The goal was to leverage $3 million to catalyze this market; so far, a total of $20 million has been unlocked. As a philanthropic investor, the foundation is uniquely positioned to deploy various financial tools. Its combination of a grant and loan funding to HOPE translates to greater financial flexibility to build a healthy food retail ecosystem more rapidly, hold investees accountable, and help to prove a business model to future investors seeking a return (aka long-term financing beyond government funds).

[13] H. Koh, et al., "From Blueprint to Scale: The Case for Philanthropy in Impact Investing," Monitor Group, April 2012, Web, October 2017.

[14] P. Brest, and K. Born, "When Can Impact Investing Create Real Impact?" Stanford Social Innovation Review, Stanford University, Fall 2013, Web, October 2017.

In addition to patient capital and assistance on developing social impact metrics, another form of incrementality that a philanthropic investor can provide is fostering an enabling environment. The foundation has resources to offer technical assistance to its investees to reach greater capacity and more sophisticated revenue streams. In the case of HOPE, the foundation also made a grant to a local nonprofit to conduct monitoring and evaluation of fresh food retailers as well as provide marketing and research support. The foundation can also help facilitate conversations with other impact investors in order to create a network of funding sources in the early growth stages when the impact model still needs proving. By taking a long-term, limited-return view, a philanthropic investor can work to ensure the enterprise is set up for growth and stable enough to eventually attract other investors.

MISSION Analysis — HOPE

INCREMENTALITY	The investment adds value and is an opportunity beyond the scope of, not a replacement of, mainstream capital.	The foundation's combination of grant and loan funding to HOPE translates to greater financial flexibility to build a healthy food retail ecosystem more rapidly, hold investees accountable, and help to prove a business model to future investors seeking a return (aka long-term financing beyond government funds). In addition, the foundation's investment has catalyzed additional non-foundation investment by approximately 12.5 times its investment.

ORGANIZATION

Does the investee have the appropriate leadership capacity and commitment to manage the investment and enforce strong corporate governance principles?

The future success of early-stage social enterprises is a function of the entrepreneur's skills, talent, and commitment. Strong organizational and entrepreneurial capacity and leadership are essential. The entrepreneur leading the investee company, as well as other capital providers, need to be committed to both the market and charitable objectives of the investment and be open and supportive of the philanthropic investors' role, including board representation, reporting requirements, and the operational target analysis that foundations require.

Across interviews with several program officers at the foundation, the importance of the quality of the entrepreneur emerged as a critical component in evaluating potential investment opportunities. The foundation spends a considerable amount of time upfront getting to know the entrepreneur and understanding his or her motivations — mostly through in-person meetings. Several staff members meet with investee companies to get a variety of perspectives and triangulate their assessments. The foundation also tries to get customer inputs and observe the investee's products and services in action (when possible) as additional, unfiltered feedback. In some instances, after extensive due diligence by the program team, the entrepreneur is asked to pitch to the foundation's Investment Management Committee as part of a final round of review. If the entrepreneur does not seem to be a good fit or there is not a convergence of opinion among staff and the Investment Management Committee, the foundation passes on the investment. The foundation also looks closely at each entrepreneur's background, as it has found that experienced entrepreneurs tend to be better suited to navigating the ups and downs of early-stage ventures. Having good working relationships is critical as well — if and when a crisis arises, the relationship between investor and investee helps weather those storms.

Entrepreneurial skill and organizational talent were key factors in the foundation's investment in Avanti. Founders Krishna Ramkumar and Akshay Saxena had roots in corporate consultancy and left their careers to launch Avanti with the goal of widening the availability of quality math and science test preparation to students across India. The co-founders' passion and commitment to the goal of offering a solution that works at scale for underserved, low-income youth set them apart. They also prioritized attracting and retaining strong talent to keep the company growing, investing in teacher and staff training and development. "The intent of our company is to create an engine that can make and deliver the best possible product to these kids, not to make super-size profits," says Saxena.

LabourNet's co-founders Gayathri Vasudevan and Rajesh A.R. also had significant experience in the labor industry prior to launching the social enterprise. Vasudevan had previously dealt with workers' issues at the International Labor Organization (an agency of the United Nations) for eight years. A.R. had an entrepreneurial background, and had helped launch TeamLease, one of India's largest staffing companies, in 2002. Their impressive combination of skills, on-the-ground experience, and policy knowledge made them optimal to lead one of the largest investments in the foundation's India portfolio.

Mindset alignment at the investee board level is also important from the outset. Getting venture capital co-investors familiar with the legal requirements of PRIs can be a hurdle. The foundation has found that its charitability clause and automatic buyout provision can cause friction with co-investors. Through experience, the foundation's Investment and Program teams, with support from legal, have learned that a lot of communication, backed up by data, helps to explain the PRI requirements and assure co-investors that the foundation's goal is to make every investment successful and sustainable.

MISSION Analysis — Organization

ORGANIZATION	The entrepreneur/promoter and other capital providers need to be committed to both the market and charitable objectives of the investment and be open and supportive of the philanthropic investors' role, including board representation, reporting requirements, and operational target analysis.	LabourNet has a strong management team with a unique combination of social impact and commercial experience and extensive backgrounds in staffing and vocational training. Its startup phase as a nonprofit initiative strengthened its position as a separate, sustainable entity with a deep commitment to social impact. In addition, co-investor Acumen shares the foundation's commitment to improving the economic opportunities of workers in the informal sector.

NEXT

Are there follow-on investment opportunities and is there an acceptable timetable estimated for the repayment of capital and any expected return?

The question of what is next, whether by exit or follow-on investment, is equally relevant at the outset of an investment as it is downstream. The investment should have a logical path to scale market sustainability through a capital strategy or recycling of capital. The inherent stability of the model should also enable it to attract new forms of capital for significant scale up of the outreach and impact and should demonstrate a steadfast commitment to accountability by the investee, driven by expectations of capital recovery. The foundation sets expectations around the potential investment period as early as during the due diligence phase, with a standard investment time frame of five to seven years.

Exits are important to the foundation in theory; less clear, however, is how an exit will play out in the expected time frame. Will the investee be primed for acquisition, thus making a viable exit possible? If not, what are the foundation's realistic options? Investees are held accountable to reach milestones, however, the foundation somewhat paradoxically does not consider a lack of exit to be a failure. In reflecting on successful exits, Goel remarks that typically the foundation has not taken the first opportunity presented. To ensure lasting impact, the foundation considers exiting only when the social impact is so ingrained in the company's fabric that it would be difficult to move away from it. Thus far, successful exits have been possible in a few investments in the India portfolio. The U.S. portfolio has yet to have an exit, having only four years of investment activity to date.

Before an exit is on the horizon, follow-on investments may be appropriate. Investments with long time horizons require the willingness to invest in subsequent funding rounds as the investee company progresses. However, an investee's ongoing need for capital can pose budgeting challenges. Either too much funding may be anticipated for a follow-on round that does not materialize in the predicted time frame or an unexpected need for capital arises outside of the original budget. Foundation Senior Director of Data-Driven Education, Jami O'Toole, notes that, on a year-to-year basis, her program team has to keep sight of the long-term nature of its investments to reserve money for future needs but also has to be flexible enough to handle a certain amount of unpredictability.

Occasionally, neither a follow-on investment nor an exit is possible. In one such instance, the foundation stepped back from an investment in a for-profit skills training provider, prior to investing in LabourNet, because of internal and external challenges that made the investment unviable. After several years of grant funding in the nonprofit skills training space, the foundation was convinced that employment-linked skills training for low-income youth could be developed as a large-scale, self-sustaining market in India. The foundation made its first equity investment of $2 million in a for-profit skills training provider in 2011, tranched to certain impact, scale, and sustainability milestones.

Initially, the company tracked close to projections but enrollments did not ramp up as expected. Within a year and a half of the foundation's investment, the government of India launched a program to provide skills training access to students at no cost. As competition from government-funded skills providers increased, the fee-based skills training market slowed. However, the investee had already committed to significant operational costs, causing substantial monthly losses. The company tried to modify its business model to adapt to the government-funded program, but the shift would have entailed an entirely different approach to financial planning, sales, and franchisee management that proved undoable. After sincere efforts by the company to make a transition and the release of two additional tranches of foundation-committed funds (after waiving the required milestones on growth and impact), the foundation determined that the timing was not right to continue to push the model and eventually opted to not pursue the investment any further.

Still interested in finding a way to impact the skills training industry in India, the foundation made its next investment in late 2013 in an alternative model of training low-income youth developed by LabourNet that incorporated the new government subsidy.

MISSION Analysis — LabourNet

NEXT	The investment has a logical path to scale market sustainability through a capital strategy or recycling of capital. The inherent sustainability of the model should enable it to attract new forms of capital to allow significant scale up of the outreach and impact. There is a steadfast commitment to accountability by the investee, driven by expectations of capital recovery.	The foundation's original equity and two follow-on debt and equity investments have allowed LabourNet to achieve profitability and pay down debt, with an eye toward creating a healthier balance sheet and setting up the company for a successful external equity raise. The foundation's support has contributed to LabourNet's growth to date and to its becoming a market leader in informal sector skills training. In evaluating the next equity raise, the foundation will consider the amount of equity raised, potential shareholder dilution, and progress toward accomplishing strategic program goals in its Jobs and Livelihoods portfolio.

NEXT FOR IMPACT INVESTING AND THE FUTURE OF PHILANTHROPY?

When the term "Impact Investing" was coined approximately ten years ago, arising from a meeting sponsored by the Rockefeller Foundation in Bellagio, Italy in 2007, it was contemplated that it would, over time, become its own asset class. Many have since refuted the merits of a separate asset class status, instead promoting the concept that impact investing should be considered as a means by which various asset classes can be deployed to achieve both financial and social return.

Where there is more commonality in impact or mission, the use of PRIs by nonprofit organizations is particularly efficient since 1) they are all governed by the same IRS regulation, 2) by definition they are not intended to seek market returns, and 3) they must align with charitable purposes of the nonprofit investor. Unlike other activities in the broad impact investing space, these PRIs have the most commonality across investors and could benefit from being grouped, studied, and analyzed to provide reference points for like investors.

The lack of information about these investments, including frameworks for designing the organizational structure and investment approach to successfully implement PRIs, has likely been one barrier to their deployment. The experience of the foundation and others can be used to provide guidance in this regard. Sharing of information about PRIs may buoy the confidence of the nonprofit sector in its use of these instruments; such sharing could also provide commercial partners with better insight into PRIs, and, finally, this information could help potential sponsors to find and address catalytic opportunities for impact.

Above all, the foundation's mission-first approach transcends all aspects of the foundation and is its motivating force. The foundation was one of very few socially minded investors when it got started in financial inclusion in 2006. The foundation did not set out to take a leadership role in impact investing; rather, it is contributing to developing the impact investing ecosystem as it evolves. Although the foundation is not specifically attempting to carry the banner of impact investing, because of its experience, it recognizes that it can play an important role in the space. This role compelled Goel in 2014 to help establish and undertake a leadership position for the Impact Investors Council (IIC) in

India, a member-based industry body formed to strengthen the impact investing community; she currently serves as its chair. This role contributes to driving the foundation's mission-first outlook forward.

Numerous other foundations have activities in Program-Related and Mission-Related investing, including the Bill & Melinda Gates Foundation, McKnight Foundation, Ford Foundation, MacArthur Foundation, Surdna Foundation, Kresge Foundation, Heron Foundation, David and Lucile Packard Foundation, and Annie E. Casey Foundation, among others. While these foundations may focus on various sectors, as more and more philanthropic organizations pursue programmatic goals through investment, the need for the sharing of best practices becomes more critical to the entire sector. To make large-scale changes, more investors have to be at the table and have to make "impact" a real part of impact investing. Creating a community of like-minded investors is hugely valuable to the foundation as it works to achieve its mission.

From the case writers' perspective, the impact investing space is extremely fragmented — ranging from financial service firms screening public equities for Environmental, Social, and Governance criteria to appeal to high-net-worth clients to Private Equity and Venture Capital firms seeking opportunities that will first and foremost provide market risk-adjusted returns while also demonstrating social impact to limited partners. Another subset of investors includes select private investors, nonprofits utilizing PRIs, and Development Finance Institutions whose primary goal in impact investing is social impact. These entities often assume a catalytic role or provide concessionary capital with the objective that their involvement will open up opportunities for more traditional investment to scale social impact that otherwise would not occur. The problem stemming from such fragmentation is no clear market offering is available across this spectrum. For an organization such as the foundation, which has integrated impact investing as a tool for its program officers, this has not posed a problem. Its steadfast and laser-focused programmatic objectives and related market expertise have made uncovering opportunities where investment makes sense an organic part of its operation. As such, integrating impact investing into the foundation's program strategy has provided capital efficiency — grants are used only where appropriate and debt or equity capital is deployed strategically, thus providing well-placed opportunities for capital recycling along with potential returns.

Unfortunately, other foundations with less-focused programmatic objectives and less market influence may have limited opportunities to even assess PRIs against the MISSION framework provided herein. One could foresee a path to segment opportunities that would be more applicable for consideration by those with a social-impact-first objective — perhaps even cataloging those "impact investments" evaluated by traditional investors that have been bypassed because of their stage of evolution, inability to generate market returns within a fund's time horizon, or concerns about the extent of technical assistance required by the prospective investee to scale.

The evolution of funds and incubators and accelerators that target social impact will also provide an opportunity for foundations to direct their PRIs to focused portfolios in a more accelerated manner without the level of due diligence effort required by individual enterprise investments. The foundation has begun to invest in these types of opportunities as a means of scaling its capital and market reach.

Another consideration is the measurement of social impact for which there are numerous collaborative efforts under way to introduce standardized tools. These tools should also be thought of as a way to help with clearer segmentation such that levels of social impact returns can be ranked, allowing investors to make clear trade-offs between financial and social returns when their mandate allows for such decision making. By not investing for the sole purpose of investing, the foundation has, in many ways, been a pioneer in showing the value of PRIs as a means versus an end where the impact and outcome potential is the determinant for the type of capital used as opposed to the litmus test by which discrete investment opportunities are evaluated. Until the sector at large has such an integrated structure, the industry will need to provide clearer paths to identifying and evaluating opportunities, along with tools such as the MISSION framework, to scale PRIs to their full potential.

NEXT FOR LABOURNET?

By the fall of 2017, LabourNet was poised for growth. Co-founders Vasudevan and A.R. had candidly discussed the need for the company's next round of financing with Rangwala, noting the lack of reliable follow-on capital for companies that are above the typical angel investment range of $1-2 million and are trying to reach a mid-size $10-15 million level of scale. They argued that if social and business performance is on track and makes sense, follow-on capital should be readily available to enable companies like theirs to get to the next level. In India, they have observed, many impact investors are willing to fund the under $1 million segment and investments in the $1-5 million range are reasonably available, but, after that, funding resources are lacking from impact investors. In the informal skills training market, because the target population is so large (with 90 percent of the estimated 500 million strong workforce in the informal sector), LabourNet would need a substantial equity investment to reach the tipping point to create change. LabourNet's management team constantly debates whether they are at a stage in their life cycle where they should open themselves to mainstream commercial capital, and whether that would take them away from their mission. They are pleased that the social and financial returns in their business are now co-related; they can also see several examples of companies that have graduated from impact capital to mainstream capital without diluting the quality or depth of their impact and dedication to mission.

Rangwala considered his options, sensitive to the fact that with no acquisition or IPO on the horizon to attract commercial investors, LabourNet needed a much higher amount of responsible capital that it can tap from both social and mainstream investors to put it on a path of high growth and market leadership.

APPENDIX

APPENDIX 1 | **INVESTEE BACKGROUND INFORMATION**

AVANTI

One of the foundation's major principles encompassed in its education program is that quality educational opportunities can lead to increased earning potential for students. In India, many of the most promising job prospects are found in the science, technology, and engineering sectors and require degrees from top universities. To gain admission to these schools, students must score high marks on extremely competitive entrance exams.

Throughout India, there is a growing industry for after-school coaching, in both group and one-on-one settings, to help students prepare for these exams. Coaching services can be costly, however. Students who can afford these services are often those who graduate from private schools with strong science and math curricula. Accordingly, low-income students are at a double disadvantage — they may not receive a quality science and math education and cannot afford the coaching necessary to clear the exam, thus limiting their prospects of university admission and, ultimately, a high-paying job.

The foundation sought to have impact on expanding coaching opportunities for lower-income students by investing in Avanti, a Mumbai-based affordable coaching provider. Avanti was founded in 2012 and has been providing affordable, high-quality coaching for math and engineering college entrance exams since 2013. Avanti uses a "flipped learning" model, specially designed to match the needs of underserved students. A traditional learning model has teachers lecturing students for close to 80 percent of classroom time. Avanti's use of video content and collaborative activities allows teachers to focus on working individually with students in the classroom to teach them problem-solving skills.

With support from the foundation, Pearson Affordable Learning Fund, and other co-investors, Avanti experienced rapid growth (it currently serves more than 2,200 students in 48 centers in nine states). Avanti revamped its initial deployment strategy, creating a "hub-and-spoke" model in order to scale. In each city, Avanti established a hub of one community-based center and three in-school centers to decrease capital expenditure requirements and more efficiently use resources, including staff.

The strong focus on quality outcomes, supported by a technology-driven model, has ensured that this rapid growth has come with strong learning-level results. Avanti was able to outperform traditional coaching players, with 40 percent of its students clearing the IIT JEE-Main (the admission exam for the top engineering colleges in India) and 70 percent of its students placing in the top 20 percent on their grade 12 Board Exams. Avanti is also exploring school partnerships in order to offer science and math curricula in schools to complement its coaching program. The foundation estimates that with Avanti's growth trajectory, it should break even within the next year.

HOPE ENTERPRISE CORPORATION (HOPE)

In 2016, the U.S. Health and Wellness team provided a combination of grant and debt financing to Hope Enterprise Corporation (HOPE), a nonprofit community development financial institution (CDFI) serving low-income communities in Alabama, Arkansas, Louisiana, Mississippi, and Tennessee. The foundation's Health and Wellness work centers around reducing barriers to healthy choices, particularly for low-income families, in order to foster healthy children and increase student success. Drawing on research that shows a link between community health and access to healthy food, the investment in HOPE is designed to increase access to and demand for healthy food in the region at scale through its Mid-South Healthy Food Initiative (MSHFI), a public-private partnership that provides affordable financing to food retailers such as local grocery stores. MSHFI allows these retailers to access capital to support the creation, renovation, or expansion of space to accommodate a larger selection of fruits, vegetables, and other fresh foods.

The ultimate structure of the foundation's investment used a mix of funding tools and key partnerships to provide an innovative strategy to address this complex social problem. In February 2016, the foundation provided $3 million ($1.5 million in an interest-bearing loan and $1.5 million in grant funding) for HOPE's MSHFI. The foundation's investment acted as a match to $3 million in funding HOPE had already secured from the U.S. federal government's Healthy Food Financing Initiative — thus the foundation funded 50 percent of the overall program. HOPE uses the total $6 million to source and screen potential fresh food retailers in partnership with The Food Trust (TFT). After TFT and HOPE select an appropriate retailer, HOPE then structures a financing deal consisting of a low-interest loan, a forgivable loan, and/or grants. The flexibility of the foundation's impact investing allows HOPE to use its own mix of funding tools, as it deems necessary, to best meet the financial needs of the retailers and ensure long-term financial and programmatic success.

In addition to its financing activities, TFT helps to identify new retailers and to determine potential community impact by developing eligibility criteria and community needs assessments. TFT not only ensures loan applicants meet eligibility standards, it also helps retailers with technical assistance in the design and implementation of a fresh food program. In addition, TFT supports the consumer demand aspect of MSHFI, coordinating activities such as the development of marketing materials, in-store food demonstrations, and other community engagement events.

While the investment in HOPE is relatively new, it has already had early successes. After the program's official launch in April 2016, TFT completed a regional mapping of underserved communities and identified potential investees. As of this writing, HOPE has closed three deals with local retailers, with three more in the due diligence phase and one in a credit review. The closed deals will enable the development of 90,000 square feet of retail space serving 32,000 residents and creating 141 jobs.

INDIAN SCHOOL FINANCING COMPANY (ISFC)

One of the key components of the foundation's Urban Education programmatic strategy is a focus on improving learning outcomes, particularly for students in Affordable Private Schools (APS) — of which there are about 300,000 throughout India. APS are an alternative to government-run public schools and tend to attract low-income families, mainly in urban areas. While APS' fees may be lower than those of many Indian private schools, low-income parents often pay up to 10 percent of their income for school fees for a single child.

Despite being an alternative to the government system for poor families, APS often do not offer quality education. Recent research shows that reading levels and test scores are below average for APS students. APS cover costs through school fees and therefore operate on a limited budget. Also, access to capital for APS in India is limited — banks and financial institutions do not offer the sector affordable debt financing, a key to improving quality and promoting sector growth.

Accordingly, the foundation looked at ways to create debt markets in the APS space linked with improved learning outcomes for students. The result is an innovative financing mechanism created in partnership with the Indian School Finance Company (ISFC). ISFC, founded in 2008 and headquartered in Hyderabad, provides debt financing to schools throughout India. Its main product is a three to six year loan at an 18-20 percent interest rate intended to be used for infrastructure upgrades or other capacity improvements.

In 2016, the foundation made a $1.8 million loan to ISFC in the form of a three-year nonconvertible debenture with an assessment-linked reward mechanism. ISFC, in turn, provides a three to six year loan to the school at a variable interest rate. At the beginning of the loan period, an independent agency assesses learning outcomes and sets a baseline for the school. After two years, the agency conducts an endline assessment; if the school meets improvement targets, it can earn interest rate rebates of 5 percent or 10 percent of the loan amount. This reward payment is then adjusted; ISFC's interest payments to the foundation are modified (the foundation absorbs the cost of the reward, but only when there is a demonstrated achievement of learning-level targets), while the principal gets repaid in full. This innovative design ensures that the foundation pays only for demonstrated outcomes, while incentivizing the APS ecosystem to prioritize learning-level outcomes.

Endline assessments for the first round of loans are scheduled for early 2018, so outcomes are unknown at the time of publication. However, the foundation is optimistic because the pilot program has garnered interest from schools and has helped foster a greater dialogue about quality of education.

LABOURNET

LabourNet is a key investment in the foundation's Jobs and Livelihoods portfolio; it is the only investee company targeting skills training for the informal sector workforce (it is also among the largest non-financial services investments in the foundation's impact investment portfolio to date). The company provides vocational training to youth facing financial uncertainty in sectors such as construction, beauty, auto, retail, information technology, and agriculture. LabourNet's end goal is to help make such young people employable by providing on-site job training and school programs.

Its co-founders had significant experience in the labor industry prior to establishing LabourNet. Gayathri Vasudevan had previously handled workers' issues at the International Labor Organization (an agency of the United Nations) for eight years; Rajesh A.R. had an entrepreneurial background. In 2002, he helped launch TeamLease, one of India's largest staffing companies. Vasudevan and A.R. established LabourNet as a for-profit social enterprise in 2008, after piloting the program for two years under the nonprofit Movement for Alternatives for Youth Awareness.

LabourNet's unique business model relies significantly on corporate sponsorship revenue. Corporate clients that have a vested interest in providing training to this segment of the labor market also have the ability to pay for training programs. The company offers training programs either on-site for corporate clients (primarily in the construction sector) or in classrooms in its Livelihoods Centers. The business model also leverages opportunities created by government regulation and policy, including the annual mandated 2 percent corporate social responsibility spend requirement in place since 2014, and the launch of government programs to subsidize skills training for candidates (STAR) and to promote private players in the vocational training space by providing long-term, low-cost debt to companies like LabourNet.

In 2013, the foundation, with Acumen Fund as co-investor, made its first equity investment in LabourNet for a joint total of INR 120 million ($1.8 million) in two tranches over two years. Both investors took a board seat and required that at least 60 percent of students come from low-income households. Over the next two years, LabourNet entered an accelerated growth phase, increasing its revenue base substantially over target INR 34 million ($523,000) in FY13 to INR 180 million ($2.8 million) in FY14 against a target of INR 107 million ($1.6 million).

By late 2015, LabourNet realized that it would face a cash crisis in the coming fiscal year. The company's accelerated growth had resulted in higher working capital needs than anticipated. The firm's longer working capital cycle was attributable to invoicing being done once training had been completed; the collections' lag time stressed LabourNet's cash flow to support FY16's revenue target of INR 2,124 million ($32.7 million). The company needed either an immediate bridge loan or slower growth plans. Citing LabourNet's achievement of scale (and potential for continued growth), its catalytic role in the informal sector skills training market, and robust plan for the company to implement a more rigorous working capital management system, the foundation approved a 28-month loan of INR 60 million ($924,000) in the form of non-convertible debt to provide a working capital runway while LabourNet worked to secure additional funding to streamline management of its working capital.

During late 2015 and the first half of 2016, LabourNet and its investors focused on a restructuring plan to tightly manage the company's cash flows and profitability in order to build a sustainable business. The foundation, along with Acumen, worked closely with the co-founders and senior management to hire a new CFO, reduce costs (through staff reductions, training center closures, and tighter business expense policies), merge business verticals to reduce overhead, review existing contracts and renegotiate or terminate where not profitable, establish a "deal approval committee" to evaluate all new contracts, and improve the cash collection process. With these changes, and with the grit, resilience, and dedication of the company's leadership (as noted by the foundation's Program and Mission

Investing teams), LabourNet's financial health began to improve. The company achieved an increase in gross margins by the second half of FY16 and significantly reduced its working capital cycle by 25 percent.

Today, LabourNet has significantly improved operations and cash collection, budgeting and planning, information systems, and reporting. Currently, management is seeking to raise growth capital for the next phase of the business.

MASTERYCONNECT

The foundation's investment in MasteryConnect fits within the foundation's U.S. Data-Driven Education (DDE) initiative under the Urban Education program. The primary goal of Data-Driven Education is to scale high-quality formative assessment data tools — based on the theory of change that maintains that technology plays a fundamental role in helping teachers improve learning outcomes for low-income students by assessing students in real time, defining learning needs for each student individually, and creating and delivering learning content to meet each student's needs.

When the foundation explored opportunities in this area in 2012, Senior Director of Data-Driven Education Jami O'Toole recalls that it was the need for innovation in the space that made impact investing an attractive option when considering Salt Lake City-based MasteryConnect. With competition driving innovation, sustainability and scalability were seen to be more likely if market-based solutions were employed. In 2009, MasteryConnect launched a platform that tracks students' progress in real time. The resulting assessment data enables teachers to identify student levels of understanding relative to any set of learning standards, target students for intervention and enrichment, and self-evaluate instructional practice. The business revolves around a set of "freemium" technology products for teachers, with additional offerings through premium fee-based and professional development products for schools and districts.

The foundation first invested in MasteryConnect in 2013 as the second largest Series A funder with a 14 percent stake and a board seat. To meet charitability requirements, the foundation conditioned its funding on MasteryConnect's extending its reach to educators serving low-income students, determined by percentage of schools (calculated as a multiple of the foundation's equity stake) that have 50 percent or more students who qualify for federal Free and Reduced Lunch (FRL).

The investment has since charted the course of the ed tech market's ups and downs, where investor enthusiasm between 2010 and 2015 was followed by a slowdown in 2016. In 2014, the foundation participated in MasteryConnect's Series A-1 round to help accelerate expansion and serve as a bridge for an upcoming larger Series B round. Six months later, the foundation opted out of the Series B round, confident in the company's performance, growth potential, and interest from outside investors.

The momentum to scalability, however, did not last. By late 2016, MasteryConnect faced a cash crisis. Growth had come at a high cost. The product continued to do well in the market, but the company needed to focus on financial sustainability. The foundation co-led an inside investor-funded Series C round, while MasteryConnect underwent a significant workforce reduction and restored the founding CEO. The company has celebrated two consecutive profitable quarters and continues to expand its user base and feature offerings. The foundation has committed a significant amount of investment management time and resources during the past year to improve MasteryConnect's chances of successful scale and the foundation's possibility of achieving its impact investing goals.

UJJIVAN

In 2006, microfinance in India was a rapidly growing industry. However, Microfinance Institutions (MFIs) primarily focused on rural populations. At the time, as little as 5 percent of all microfinance clients were in cities, while 30 percent of India's low-income households were urban. The urban poor experience income volatility and have a need for affordable, readily available small-dollar credit just as their rural counterparts do. However, mainstream investors and MFIs were hesitant to invest in populations that were seen as transient. Because many urban poor live in informal settlements and often look for temporary work, there was a misconception that they would not be able to sustain the group lending model, the basis of most MFIs, which limits the risk of default through social ties and group accountability.

The foundation saw potential in adapting the group lending model to an urban context and was one of the first investors to take a risk on new ventures serving the poor of India's cities. Around this time, it partnered with CARE India and commissioned Intellecap, a research and consulting firm, to conduct a market analysis of the urban microfinance market. This research showed that many people living in informal settlements had been there for a generation or more, debunking the myth of the urban poor being highly mobile. The research also showed that, while the need for credit was high, the residents of these informal settlements borrowed extensively, mainly from moneylenders that could charge annualized interest in the thousands.

Seeing the opportunity for impact, the foundation invested in eight urban-focused MFIs with the goal of catalyzing the market, scaling the organizations in the space, and attracting mainstream capital once the MFIs were profitable. One of these earlier investees was Ujjivan, a Bangalore-based non-banking financial company. CEO Samit Ghosh had founded Ujjivan in 2005, leveraging his contacts from his career in the banking sector to secure initial seed capital of $800,000. Ujjivan focused on providing financial services to the urban poor, mainly targeting women borrowers. During the first year of the foundation's investment, Ujjivan served 2,500 clients.

During its relationship with Ujjivan, the foundation supported the MFI with three rounds of investment, totaling $1.92 million. UNITUS, a U.S.-based fund that supports capacity development in the microfinance sector, also joined as an early co-investor along with Bellwether Microfinance Fund, which provided critical domestic capital. The early funding helped Ujjivan invest in strong back-end systems and build a senior management team that helped it scale rapidly after the initial pilot phase. In just a few years, Ujjivan twice doubled its customer base, reaching self-sufficiency by 2009. It broadened its suite of products beyond group loans to include life insurance, housing loans, and education loans. Ujjivan gained a reputation for being socially and financially responsible that stood it in good stead as it weathered the effects of India's 2010 microfinance crisis.

As early as 2009, the foundation began to reevaluate its place in the microfinance market. It had successfully catalyzed the urban microfinance sector and thus decided not to make any new MFI investments. While it supported its investees through the 2010 crisis, it began to think about exits. The foundation exited Ujjivan in 2013 with a reasonable return on its investment. In 2016, Ujjivan had a 40x IPO, one of the most successful for a MFI to date. It was one of the ten institutions given a license by the Reserve Bank of India to transform to a specialized banking institution to promote financial inclusion and the organization completed its first year of successful banking operations in February 2018. Today, it serves more than 3.6 million active customers across 24 states. In five years, it aspires to be one of the major mass market banks in India.

APPENDIX 2 | MICHAEL & SUSAN DELL FOUNDATION PROGRAM AREAS BY GEOGRAPHY

	URBAN EDUCATION	COLLEGE SUCCESS	FAMILY ECONOMIC STABILITY	HEALTH & WELLNESS
INDIA 	• Data Assessment and Evaluation • School System Transformation • Education Innovation	• Dell Young Leaders Program	• Financial Inclusion • Jobs and Livelihoods • Social Performance	
SOUTH AFRICA 	• Collaboration Schools • Data-Driven Districts	• Dell Young Leaders Program	• Youth Employment	
UNITED STATES 	• Quality School Options • Data-Driven Education • Ed-Fi Alliance	• Dell Scholars Program • College Preparation and Completion • Enabling Innovations		• Childhood Health and Wellness • Central Texas Medical Community, Place-Based Health, and Primary Care and Prevention

APPENDIX 3 | MICHAEL AND SUSAN DELL FOUNDATION INVESTMENTS DATA TO DATE

MANAGEMENT STATUS	NAME OF ORGANIZATION	ORGANIZATION CATEGORY	AMOUNT (IN MILLIONS)	YEAR	COUNTRY
Active	MasteryConnect, Inc.	Data-Driven Education	3.5	2013	US
Active	Reach, LP	Data-Driven Education	3.2	2015	US
Active	Avanti Learning Centres Pvt. Ltd.	Education Innovation	2.7	2015	India
Active	Shiksha Finance	Education Innovation	2.5	2016	India
Active	BetterLesson	Data-Driven Education	2.5	2015	US
Active	LabourNet	Livelihoods	2.5	2013	India
Active	Kinara	Financial Services	2.3	2014	India
Active	Online Tyari	Education Innovation	2.3	2016	India
Active	Varthana	Financial Services	2.2	2017	India
Active	Edutel Technologies Pvt. Ltd.	Education Innovation	2.0	2014	India
Active	Micro Housing Finance Corporation Limited	Financial Services	2.0	2009	India
Active	Indian School Finance Company (ISFC)	Financial Services	1.8	2015	India
Active	Svasti Microfinance Private Limited	Financial Services	1.8	2010	India
Active	Arohan	Financial Services	1.7	2008	India
Active	India Educational Investment Fund, LLC	Seed Funds	1.7	2015	India
Active	Sub-K iTransactions Limited	Financial Services	1.7	2011	India
Active	BloomBoard	Data-Driven Education	1.5	2015	US
Active	iMerit Technology Services Private Limited	Livelihoods	1.4	2015	India
Active	Invest India Micro Pension Services	Financial Services	1.4	2011	India
Active	Gray Matters India Private Limited	Data Assessment and Evaluation	1.4	2013	India
Active	Sonata Finance Private Limited	Financial Services	1.3	2009	India
Active	Blowhorn	Livelihoods	1.3	2016	India
Active	iSTAR	Livelihoods	1.2	2015	India
Active	Unitus Seed Fund, LP	Seed Funds	1.2	2014	India
Active	Naandi Education Support and Training Private Limited	Education Innovation	1.2	2012	India
Active	Swadhaar FinServe Private Limited	Financial Services	1.1	2008	India
Active	ConveGenius Edu Solutions Private Limited	Education Innovation	0.9	2016	India
Active	Kings Learning	Education Innovation	0.8	2017	India
Active	Intellegrow	Financial Services	0.7	2013	India
Active	Hope Enterprise Corporation	Childhood Obesity Prevention	0.7	2016	US
Active	Affordable Central Texas, Inc	Community Support	0.6	2017	US
Active	SkillVeri India Pvt. Limited	Livelihoods	0.4	2016	India
Active	Nepris	Data-Driven Education	0.4	2016	US
Active	Samhita Community Development Services	Financial Services	0.3	2012	India
Active	Vindhya e-Infomedia Private Limited	Livelihoods	0.3	2011	India
Active	Education Catalyst Fund	Seed Funds	0.3	2017	India
Active	Menterra Social Impact Fund I	Seed Funds	0.2	2016	India
Active	Waterlife India Private Limited	Community	0.2	2010	India
Active	Andhra Pradesh State Skill Development Corporation (APSSDC)	Livelihoods	0.1	2016	India
Exits and Partial Exits	Ujjivan Financial Services	Financial Services	1.9	2012 (exit)	India
Exits and Partial Exits	Janalakshmi Financial Services	Financial Services	0.9	2013 (exit)	India
Exits and Partial Exits	Friends of Women's World Banking, India	Community	0.4	2014 (exit)	India
Exits and Partial Exits	GRAS Education and Training Services Limited	Livelihoods	1.1	2015 (exit)	India
Exits and Partial Exits	Intellegrow	Financial Services	1.0	2016 (exit)	India
Exits and Partial Exits	Swadhaar FinServe Private Limited	Financial Services	1.6	2016 (exit)	India
Exits and Partial Exits	LabourNet	Livelihoods	1.0	2016 (exit)	India
Exits and Partial Exits	Sonata Finance Private Limited	Financial Services	0.5	2016 (exit)	India
Exits and Partial Exits	Samhita Community Development Services	Financial Services	0.6	2017 (exit)	India
Exits and Partial Exits	Unitus Seed Fund, LP	Seed Funds	0.1	2017 (exit)	India
			Total: 63.5		

APPENDIX 4 | THE DELL SOCIAL IMPACT PRINCIPLES

If it looks easy, look closer.

The only way to solve the surface-level challenge is to address what's happening underneath. Use your passion and skills to dig deep and find the roots of the problem.

Take the risks your challenge deserves.

Our greatest challenges require doing some things differently. Push the boundaries and be willing to take risks where others won't.

Stay the course.

Behaviors change slowly. Time is often the most important investment you can make. It's going to take more than one try to make an impact, and it's going to take more than one success to make a difference.

Money alone doesn't solve problems.

Money doesn't solve problems, people do. A combination of talent, ideas, resources, and execution is the only way to create solutions that last.

Invest in people.

Collaboration among unlikely partners amplifies impact. Find people who challenge your thinking and invest in them.

Measure mindfully.

Evidence is the only way to know whether you're making a difference, but not all data is created equal. Always measure, but be smart about what you measure, and how.

If it doesn't work, tell everyone.

Your outcomes, both good and bad, are opportunities for others to learn and do better. We all win when we learn together.

This is worth it.

No one ever said that creating lasting change was easy. The work ahead is incredibly challenging. When you see the real-world impact your work has made, you'll know the effort was worth it.

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