TIEDEMANN INSIGHTS

Catalyzing change with your capital with an impact-first approach

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Impact investors are increasingly recognizing the power of their capital to catalyze change through new innovations or markets in overlooked and underestimated communities. As the impact investing industry has evolved, so too have the ways in which investors are deploying this capital – where they begin with the question, "What problem are we trying to solve?" and then ask, "What is the appropriate type of capital that will support a solution?" Catalytic capital is intentionally structured to be more patient, risk-tolerant, innovative, or flexible than conventional capital and can be invested across a range of private investment types. These investments prioritize social and environmental impact over financial return, seeking the appropriate return for the desired impact.

		Impact Investing				
	Conventional Investing	ESG-Integrated	Values-Aligned	Private Thematic	Catalytic	Philanthropy
DEFINITION	**Profit-Only Investing** Limited regard for impact	**Impact Risk & Opportunity** Mitigate risk and enhance value	**Passive Impact** Investing based on ethical guidelines	**Equal Priorities** Seeking positive impact in a particular theme & competitive return	**Impact over Return** Prioritizing social and environmental impact over financial return	**Redistributing Wealth** Seeking positive impact with no expectation of financial return
EXAMPLE	**"Business as Usual"**	Reduce exposure to E&P oil and gas companies and invest in renewables	Screen out GMOs and tilt the portfolio towards environmental stewards	Investing in education technology	Investing in patient low-cost capital into CDFIs and innovative investment models	Gifting capital to causes aligned with your impact goals

Table: *Inspired by MIE, Fundamental Terms & Concepts in Impact Investing*

These include providing loan guarantees and low-cost capital to enable affordable micro lending in frontier markets, patient and flexible capital to transition farmland from conventional to regenerative practices, and higher risk capital into innovative early-stage climate tech companies. Catalytic investments generally fall into two categories: 1) those that entail taking on higher perceived or real risk to support emerging fund managers and innovative impact strategies, and 2) those deploying low-cost capital into community-centered solutions.

As an example, we work with a foundation whose mission is centered on environmental sustainability and a just society. Untethered by the goal of maintaining assets into perpetuity, this organization instead focuses their private market investments in key, highly aligned strategies, many of which are catalytic in nature. Together, we invested in a Black-led, first-time venture capital fund, whose mission it was to invest in early-stage companies with diverse founder teams. Despite a very limited track record, we trusted the team's skill, mission and approach, and after demonstrating success, we have since expanded our investment in their second fund. On the other side of the catalytic spectrum, the same foundation provides low-cost financing to a Northwest-based Community Development Finance institution to support their work extending consumer and commercial debt to underserved BIPOC, Tribal, Veteran and rural communities in the region, supporting environmental projects like solar installations, land preservation, agriculture, or septic conversions. While these two examples will likely have disparate financial outcomes, the foundation sees them both as equally supportive of their mission.

We at Tiedemann approach this work guided by a few key principals. The first is that this kind of capital should be necessary, driven by the notion of additionality, in that the solution would not be possible without this kind of investment. We understand this kind of capital is scarce, so we want to reserve it for only those solutions where intentional, right-sized capital is the only kind appropriate. We also only invest in teams with strong ethical character, who reflect solidarity with the desired impact goals of the strategy.

Given that catalytic investments often require more flexible, patient, creative capital, we acknowledge that these investments aren't for every impact investor. However, for those with the desire and capacity to prioritize the outcomes their capital can achieve over a traditional framework of risk and return, catalytic investing offers another approach.