Contracts with (Social) Benefits:

The Implementation of Impact Investing‡

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ABSTRACT

We draw on new data and theory to examine how private equity contracts adapt to serve multiple goals, particularly the social-benefit goals that impact funds add to their financial goals. Counter to the intuition from multitasking models (Holmstrom and Milgrom 1991), few impact funds tie compensation to impact, and most retain traditional financial incentives. Funds contract on impact in other ways, using a combination of flexible and rigid terms consistent with Hart and Moore (2008). They also prioritize the formal oversight that fuels the braiding dynamic of Gilson, Sabel and Scott (2010). In the cross-section of impact funds, those with higher profit goals contract more tightly around both goals. We propose an explanatory framework where this results from hidden differences between agents' utilities from impact.

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I. Introduction

The last two decades have seen impact investing emerge and rapidly grow as a sector of the private markets, reaching at least 13,303 deals and $33.1 billion per year in 2019.[1] What sets impact investing apart from conventional private equity (PE) or venture capital (VC) investing is the addition of a social-benefit goal alongside the goal of financial performance.[2] This dual objective introduces a new dimension to an already challenging contracting problem for funds, investors, and portfolio companies. In this paper, we investigate how impact fund contracts adapt to reflect multiple goals, and how these practices relate to contract theory.

Private investment markets are a promising setting to study contracting problems because participants encounter the canonical principal-agent problems that the theoretical literature addresses (Kaplan and Stromberg 2003). In fund-level contracts, investors ("LPs") delegate capital to fund managers ("GPs")[3] to invest in deal opportunities, and in portfolio company (PC)-level contracts, GPs act as principals providing capital to entrepreneurs to undertake projects. This setting has led to important work shedding light on contracting practices in for-profit private investing, including Kaplan and Stromberg (2003 and 2009), Gompers and Lerner (1996 and 1999), Metrick and Yasuda (2010), Gompers, Kaplan and Mukharlyamov (2016), and Phalippou, Rauch

[1] See the 2019 report by the Global Impact Investing Network (GIIN), a network of impact investors founded in 2009, at https://thegiin.org/assets/GIIN_2019%20Annual%20Impact%20Investor%20Survey_webfile.pdf.
[2] There is ongoing debate about the definition of impact investing (see e.g. "The State and Future of Impact Investing," *Forbes*, February 23, 2012), with some arguing that impact investment should require an outcome that would not occur but for the investment (i.e., "additionality" (Brest et al., 2017)). The GIIN outlines its own core principles of impact investing at https://thegiin.org/characteristics. Here we accept a more general definition of impact investing, and include environmental goals as well in our notion of "social-benefit goal."
[3] With a slight abuse of language, but consistent with common practice, we refer to fund managers as GPs and fund investors as LPs regardless of the specific legal structure of a fund.

and Umber (2018). But no work yet exists on the contracting practices of funds that target additional goals alongside profit.

The addition of a social-benefit goal by impact funds is an analytical challenge because it fundamentally changes the contracting problem. This change invokes a different set of contracting theories, including Holmstrom and Milgrom's (1991) multitasking problem, Hart and Moore's (2008) theory of flexible contracting, and Gilson, Sabel and Scott's (2010) theory of contractual "braiding" in new markets. But besides this analytical challenge, impact contracting is ripe for exploration because it represents a broader movement incorporating social concerns into for-profit economic activities. This movement includes the legislation in many states enabling Benefit Corporations, whose charters bind for-profit companies to a social-benefit purpose (Geczy, Jeffers, Musto and Tucker 2015). In August 2019, the Business Roundtable advocated a commitment to all stakeholders, not just shareholders, in the management of corporations,[4] setting up a potential reckoning over how to manage these multiple goals concurrently.

In this paper we empirically analyze the contracts struck by impact funds, both at the fund-level with LPs and at the PC-level with entrepreneurs, and subsequently relate the patterns to contract theory. Our sample is a unique set of 214 legal documents pertaining to private market impact funds, representing 53 separate funds and 96 of their portfolio companies. These contracts include private limited partner agreements (LPAs), placement memoranda (PPMs), term sheets, letters of intent, and other legal documents governing the relationships between parties.

[4] Business Roundtable, Statement on the Purpose of a Corporation, August 19, 2019, https://opportunity.businessroundtable.org/wp-content/uploads/2019/09/BRT-Statement-on-the-Purpose-of-a-Corporation-with-Signatures-1.pdf.

Our analysis relies on two sets of comparisons. One comparison is between the impact funds in our sample and the non-impact PE and VC funds whose contracting practices are documented in the existing literature. The other comparison is within impact funds in our sample, setting those targeting market returns (market-rate-seeking (MRS) funds), against those prioritizing social benefit as a primary objective and accepting lower financial returns (non-market-rate-seeking (NMRS) funds).[5] The impact/non-impact contrast helps us understand how the industry handles the addition of some impact goal relative to no impact goal. The MRS/NMRS contrast sheds light on contracting from another direction, illuminating the role of the intended financial goal and relative intensity of expected trade-offs.

To systematize and streamline these comparisons, we develop a scoring methodology that quantifies the strength of each contract along distinct dimensions. For example, one dimension is *operational impact*, which summarizes the assignment of rights and duties on the basis of impact. Another dimension is *participatory governance*, which captures terms that facilitate oversight and participation in decisions. We capture seven dimensions at both the fund-level and PC-level. We also report on specific underlying terms within each dimension.

We find that few funds tie compensation to impact outcomes. Instead, most impact funds tie compensation to financial performance with the usual waterfall compensation structure – though we document innovative alternatives too, especially among NMRS funds. Pairing strong rewards for dollars with weak rewards for impact runs counter to the Holmstrom and Milgrom

[5] In reality, impact investing is better represented as a spectrum (see e.g. the Bridges Spectrum of Capital report, available at https://www.bridgesfundmanagement.com/wp-content/uploads/2017/08/Bridges-Spectrum-of-Capital-screen.pdf). We split this spectrum into the two broad categories of MRS and NMRS in order to facilitate comparisons.

(1991) analysis of multitasking, which posits that such an imbalance endangers the allocation of effort and attention to the less rewarded goal. However, we observe additional contracting practices that may explain this result.

Impact funds contract directly on impact. More direct impact terms in fund-level contracts with LPs flow through to more impact terms in PC-level contracts. Impact terms tends to be flexible, and the relative flexibility of terms bears out predictions from Hart and Moore (2008). Specifically, they predict rigid contracting around zero-sum quantities like compensation, but more flexible contracting around tasks where 'consummate' performance (as opposed to box-checking) is important. Consistent with this, we find that MRS funds, whose heightened financial goals present greater risk of conflict with impact goals, tend to have more rigid terms than NMRS funds.

Impact funds also emphasize governance, in line with the argument of Gilson, Sabel and Scott (2010) that the importance of governance rises when tasks are uncertain and hard to contract ex-ante. Almost all funds have advisory roles for LPs, giving them substantial oversight over deal selection, diligence process, and conflicts of interest, and this is true in impact funds of all sizes. At the PC level, the vast majority contract for guaranteed board seats. The combination of these contract adaptations – direct contracting on impact and emphasis on governance – reduces the extent to which financial incentives can distort effort allocation.

Finally, we sketch a model that can explain the relative extent of contracting in different types of impact funds. A distinguishing feature of our multiple goals setting, not accounted for in the existing theoretical models we discuss, is that both principals and agents may have different private preferences over the social-benefit and financial goals. We propose a model where

principals seek a balance of the two goals governed by their own preferences and the price of the tradeoff, making them vulnerable to expropriation by agents with private information about both the prevailing price and their own preferences. This framework can help explain why we observe MRS funds contracting as intensively on impact as NMRS funds at the fund level, and more often than NMRS at the PC level.

Beyond the specific world of private market contracts, our work relates more generally to the benefits and costs of creating enforceable rights and incentives through contracts (see Bolton and Dewatripont 2005), and to the question of addressing agency problems with incomplete contracts (e.g., Grossman and Hart (1986), Hart and Moore (1990)). It also contributes to the nascent literature on impact investing, where two recent papers explore the financial implications of impact-oriented strategies (Barber, Morse and Yasuda (2019), Kovner and Lerner (2015)).

The paper proceeds in five sections. We begin by outlining our sample and empirical approach in Section II to familiarize readers with both the field generally, and our sample specifically. We report on the empirical patterns in Section III before turning to a discussion of relevant theory in Section IV, and choose this order for two reasons. First, given the lack of existing information on impact funds, we find it important to lead with these data to fix ideas. Second, the aim of this paper is not to "test theory," but rather to learn whether theory helps us understand the findings and in turn whether the findings shed light on nuances in the theory. Section V concludes.

II. Empirical approach and summary statistics

A. Sample

Our data come from a database of impact funds compiled by the Wharton Social Impact Initiative ("WSII"). Since there is no comprehensive registry of impact funds, WSII created a list of funds via primary research, by working with organizations such as B Lab, the Emerging Markets Private Equity Association (EMPEA), and Anthos Asset Management, and by referring to lists such as ImpactBase and Impact Assets 50. At the time of our document review, 3 years after the first release of the WSII survey, 456 fund managers had been contacted and 85 had completed the WSII's survey, representing 108 separate funds and 1,295 portfolio companies. Of these, 45 funds provided contracts. Another 12 funds provided contracts without completing the associated survey. We drop funds with no LPA or equivalent information in other documents. The result is a set of contracts from 53 distinct funds and 93 distinct PCs. These contracts, supplemented by several survey questions, form the basis of our empirical review.

We categorize funds in the resulting sample as MRS or NMRS primarily on the basis of their answer to the survey question: "What is the statement that best describes the fund's financial return goals?" with the options being "Targeting competitive, market rate returns," "Targeting below market, but close to market returns," "Targeting below market, close to capital preservation returns," and "Not Applicable (Explain)."[6] In a few cases in which we lack survey

[6] It is of course possible that the funds we designate as MRS do not place as much emphasis on financial returns as their non-impact counterparts, let alone achieve similar returns. For our purposes, what is important is that MRS funds have a relatively higher emphasis on financial returns than do NMRS funds.

answers, but the answer is clear from the fund's documents or public information, we use that information.

Tables 1 and 2 summarize our samples of participating funds and impact contracts.[7] Panel A of Table 1 describes the 118 GP-LP contracts provided by the 53 participating funds, and Panel B describes the 96 GP-PC contracts with the 93 portfolio companies. GP-LP contracts establish the contractual relationships between fund managers and their investors and include foundational contracts such as limited partnership agreements (LPAs) and operating agreements, quasi-contractual documents such as Private Placement Memoranda (PPMs) and fact sheets, and side letter agreements. GP-PC contracts include term sheets, letters of intent, and investment agreements. We see few differences between MRS and NMRS funds in the type of documents provided.

[Insert Table 1 about here]

Participating funds have an average initial term of 9.3 years and a median of 10 years, with little difference between MRS and NMRS funds (Table 2). The contract dates in our sample range from 1988 to 2016, with the vast majority after 2000. The average vintage year for both GP-LP and GP-PC contracts is 2009, and the median 2010. MRS contracts are somewhat more recent than NMRS contracts (average 2010 versus 2005). The Internet Appendix replicates analysis to control for time effects, restricting the sample to time periods that match our comparison points when possible.

[Insert Table 2 about here]

[7] We use the term contract to describe the legal documents we reviewed in our sample, including PPMs and term sheets. PPMs are not negotiated like traditional contracts but are quasi contracts subject to fraud and disclosure claims after investment. Second, consistent with prior studies we treat preliminary agreements such as term sheets and letters of intent as a contract because performance mitigates enforceability concerns and elevates the contractual nature of the documents (GKM 2016).

Appendix Table A-1 Panel A and Figures A-1 to A-2 report additional descriptive fund statistics. Participating impact funds are small: the target assets under management (AUM) for our sample ranges from under $10 million to over $500 million, with close to half under $50 million and 17% under $10 million. Our sample mirrors smaller fund size in the impact investment market generally.[8] Since on average MRS funds are larger than NMRS funds, we replicate our analysis with MRS and NMRS funds under $30 million AUM to verify that our results are not driven by differential size. We also report results for large impact funds above $100 million. All of these results appear in the Internet Appendix.[9]

The life-cycle focus is wide, with half the funds indicating that they invest at several stages. Half of the funds come from the US, though the investment focus is often elsewhere. Target industries are diverse and include agribusiness, finance, social/poverty alleviating services, health, and technology (note that funds can have multiple industry and geographic areas of focus).

Appendix Table A-1 Panel B and Figure A-3 report PC summary statistics, which are less robust because they come primarily from term sheets with abbreviated or zero descriptions of PC operations. Of the identifiable industries, finance- and agriculture-focused PCs comprise nearly 40% of the sample and match the identified industry focus of the funds. Popular industries include technology/business services and manufacturing, and popular regions of operation include Africa and South Asia.

[8] The 2018 GIIN Investor Survey reports the median impact fund manages $92 million. Report available at https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf.
[9] The $30 million subsample cutoff is chosen as a natural cutoff to get the most MRS and NMRS funds within a similar size. The $100 million cutoff is chosen to be above the median reported by the GIIN (see previous footnote). Only two NMRS funds fall in the large bucket, so we are unable to report MRS-NMRS comparisons for that sample.

The targeted regions and industries illustrate the embedding of impact in operations. For example, investments in agribusiness in Africa may be viewed by investors as generating direct social or environmental benefits, embedded in the nature of the business itself.

Are the funds in our contract database representative of impact funds in general? There is no comprehensive repository of impact funds for comparison, so instead we address this question in Table 3 by splitting the funds that filled out the WSII survey into two groups: those that provided contracts, and those that did not. Both contain about two-thirds MRS funds, with similar target net IRRs, and represent similar time horizons and have similar numbers of PCs. The firms providing contracts are smaller—a $99 million difference at the average due to outliers, but a difference that shrinks to $8 million at the median. As reported in the Internet Appendix, we find similar patterns overall when restricting to larger impact funds. The notable difference is that funds providing documents tend to be part of larger and more experienced firms, measured both by the total number of funds managed by the firm and by the number of funds previously managed by the most senior GP.

[Insert Table 3 about here]

In Appendix Table A-2 we summarize information on LPs from survey responses. The funds that provided contracts were also more likely to respond to this question, though the reported investor types are similar between funds that did and did not provide contracts (Panel A). Reported investor types are also largely similar between MRS and NMRS funds. The most commonly-observed specific investor types are foundations and high net worth individuals (70% and 67%, respectively), and DFIs (47%).

B. Comparison approach

Before choosing benchmarks to contrast specific contract provisions (Tables 10-12), we provide an overview comparison of PE, VC and Impact funds to situate impact funds relative to existing private markets research. We summarize this comparison in Appendix Table A-3. Impact funds share attributes with both PE and VC.[10] Where PE focuses on mature companies and VC on startups, especially in technology (Metrick and Yasuda (2010)), our sample funds target companies in a variety of stages (early and later) as well as multiple-stage investments focused on SMEs or sector. Industry focus displays similar variety with 15 industries represented in our sample, including technology and agribusiness. Where PE finances deals with debt and equity and VC generally with just equity (Coyle and Green (2014)), our sample funds use both, but focus on equity.[11] PE funds prefer full or at least majority ownership (Bratton, 2002), whereas our sample funds tend, like VC funds, toward minority stakes. The funds' exit rights resemble those of both VC and PE including registration rights, redemption rights, and an emphasis on finding a private buyer (Smith (2005)); GKM (2016)). In practice, however, impact investment fund exits may look different from both samples, with a greater emphasis on private sales to third party buyers and redemption rights where successful founder/company employees work to buy out the fund and regain control over the company (Geczy et al. (2015)).

[10] Appendix 1 reports data on our sample discussed in this paragraph. Further, we are not the first to group private company investments into a common comparison point. See Cummings and Walz (2010), "[W]e use the term "PE" as a generic term that encompasses all investments in private firms. Likewise, for ease of exposition, we use the term "PE funds" to include earlier-stage venture capital (VC) funds and both late-stage and mezzanine funds." Blending PE/VC also reflects market-wide trends as the two historically distinct fields move closer to a combined private markets approach. For example, consider in 2018, GPs raised $367 billion for funds investing in companies spanning the traditional private equity and venture capital spaces https://www.bain.com/contentassets/875a49e26e9c4775942ec5b86084df0a/bain_report_private_equity_report_2019.pdf.

[11] Just three of our funds hold any meaningful debt in their PCs.

Overall, we conclude that it is appropriate to compare our impact funds to both PE and VC. On a practical note as well, the paucity of empirical data on contracting norms for private companies necessitates us looking to both fields. We reference seven empirical projects, listed in Table A-4, to build our comparison. The projects span 1978 through 2016, with four projects covering VC, two covering PE and one covering both.

C. Contract coding

The list of contract variables and coding procedures draws from the legal and finance literatures. We hired, trained, and supervised law students to record the presence or absence of terms, record variations within provisions, and quote relevant language from the contracts. Text responses allowed us to verify coding entries, control for accuracy, and extract additional information on observable trends and nuances in contract provisions.

To make comparisons of contract terms easier to interpret and digest, we group the 500+ coded terms into broadly similar concerns. For example, funds use different terms to enable investor participation in governance: information rights, advisory committees, and so on. We group these related terms into a Participatory Governance score normalized to 100. In addition, we aggregate GP-LP terms into the remaining categories of Aspirational Impact, Operational Impact, Investor Return Protection, Limits to Manager Discretion, and other Manager Restrictions. Table 4 contains an overview of these categories, and a full list of terms and constituent components are in the Internet Appendix.

[Insert Table 4 about here]

We primarily report statistics on GP-LP contracts at the fund level, aggregated across contracts. For example, if Fund A has three contracts—a PPM, an operating agreement, and a side

letter—we report the maximum of contracting terms across these three documents. In regressions, we control for the number of contracts available for the fund. We observe two contracts for the majority of our funds. For GP-PC contracts, we never observe more than one contract for a given GP-PC pair, although a handful of companies have agreements with more than one fund. We report contract-level data for the GP-PC documents, acknowledging that funds negotiate different deals with different portfolio companies.

Table 5 summarizes non-impact scores for GP-LP contracts in our sample and breaks out MRS from NMRS funds.[12] By both means and medians, MRS funds score higher in 3 of 4 categories, the categories pertaining to governance (participatory governance, limits on manager discretion, and manager restrictions). The NMRS funds have an average participatory governance score of 70.94 (66.67 median) while MRS funds have an average (median) score of 79.68 (88.89). Mean differences persist when controlling for fund size, and scores tend to be higher in larger funds. Participatory governance provides LPs with tools, such as information rights or advisory committees, to monitor the GPs' choice of investments. Limits on manager discretion provide a complementary safeguard in the form of investment caps and prohibitions on types of investments. With respect to manager restrictions, which reflect covenants regarding other managerial activity, NMRS funds score lower, in both the full and size-controlled samples, which means that the LPs of MRS funds enjoy more control over investment choice and manager behavior. We do not have equivalent summary scores for non-impact private market funds, but provide a comparison of underlying terms in Tables 11 and 12 Panel A.

[12] Tables 5 and 6 report measures developed specifically for our sample and thus offer no comparison to prior PE/VC findings. Rather, these measures establish a baseline for future work in the emerging impact investment literature. Results by size are reported in the Internet Appendix, Tables IA-1 and IA-2.

[Insert Table 5 about here]

Table 6 summarizes the non-impact scores for GP-PC contracts, breaking out the MRS and NMRS funds. Accounting for standard deviation, we observe subtle differences. Governance, information rights, and exit controls are higher on average for MRS than NMRS-held PCs, while investment protection is higher on average for NMRS-held PCs. These patterns become even stronger when comparing funds of equal size, and scores are somewhat lower when restricting to larger impact funds. We compare underlying terms to non-impact funds in Tables 11 and 12 Panel B.

[Insert Table 6 about here]

III. Results: Impact, Compensation and Governance Contract Terms

A. Introduction and Overview

In this section we document and analyze the sample contracts. This analysis addresses the effect of impact on contracting choices, and does so by exploiting the contrasts between our impact funds and the non-impact funds in the samples of existing studies, and between the MRS and NMRS funds in our impact sample. We address high-level patterns using the scoring and grouping described in the previous section, and we also address individual contract terms by decomposing these groups into their constituents. The GPs' contracts with their LPs are first addressed separately from their contracts with their PCs, and then addressed jointly by testing, in the cross section of GPs, whether the terms in their LP contracts relate to the terms in their PC contracts.

B. Direct Contracting on Impact

We begin with direct contracting on impact, covering GP-LP contracts in Table 7 and GP-PC contracts in Table 8. In each table, thematic groups of terms are addressed in Panel A and individual terms in Panel B. In Panel A of Table 7 we see that contracting with LPs on impact is widespread: virtually all the GP-LP contracts include aspirational impact, and over 90% of both types include operational impact.

While it is perhaps not surprising to see that impact funds contract on impact, it is interesting to see *how* they do so, and how MRS and NMRS funds compare. In the Panel B breakout of operational terms, the most common for both MRS and NMRS are building impact into the diligence process and measuring impact, both examples of flexible contract terms. These terms are employed in roughly 70-80% of the contracts in the full sample. Less common, employed roughly a third of the time, is a commitment to third-party measurement of impact and to ESG standards. There is occasional use of impact committees (17%), and little connection between impact and compensation (9%). The biggest differences between the types are that 32% of MRS funds commit to international ESG standards,[13] but only 15% of NMRS funds do this; and 77% of NMRS funds' due diligence addresses *portfolio company* impact, while this is true for just 58% of MRS funds. Results persist when comparing equally sized funds.

[Insert Table 7 about here]

Impact terms play a smaller role in PC contracts. One might expect all impact funds to contract on impact, however only 70% of MRS funds' contracts with PCs include impact terms, and this is significantly higher than the 46% in NMRS funds' contracts. This pattern is not driven

[13] ESG standards are increasingly set in reference to the UNPRI Sustainable Development Goals (SDGs). See https://www.unpri.org/sdgs.

by fund size: PC direct contracting patterns are even more salient when we restrict our sample to funds of similar size. Lack of direct impact terms doesn't have to mean less attention to impact; impact could be baked into the PCs' operations in a way that obviates the need to contract. That would help explain why over 80% of both MRS and NMRS funds use impact terms in at least one PC contract: contracting on impact with PCs may be relevant only in some cases. This is also consistent with what we see in Panel B, which shows significantly fewer, 27% versus 49%, NMRS funds retaining veto rights over PCs' business plans, and also (marginally) significantly fewer, 12% versus 29%, NRMS funds specifying a PC's impact. We find a large minority, 39%, of both types referencing impact generally in the contracts but light use of the other individual terms.

[Insert Table 8 about here]

C. Pass-through from LP Contracts to PC Contracts

How does a GP's contracting with investors relate to its contracting with its investments? Do a fund's commitments to its LPs encourage it to extract commitments from its PCs? We address this question with cross-sectional regressions: on the left-hand side we have the extent of impact contracting in a GP's PC contract, and on the right-hand side the extent of impact contracting in the GP's LP contracts, both operational and aspirational, with one observation per PC contract. The results, in Table 9, show the two types of impact entering oppositely, with operational impact positive and aspirational impact negative. In other words, funds that contract with LPs by making operational commitments also tend to have impact terms in their contracts with PCs; funds that use more aspirational terms in contracts with LPs have fewer impact terms in contracts with PCs.

[Insert Table 9 about here]

D. Compensation Structure

We saw in Table 7 that impact has little direct influence on compensation. So what does determine compensation? In Table 10 we document the funds' compensation choices, and for these choices we have some direct comparisons from the non-impact literature. As Metrick and Yasuda (2010) document, the compensation practices of PE/VC funds have settled on a 'waterfall' structure, where cash flows are first used to compensate investors, then managers, then split between the two with a carry rate specifying the manager's share. For example, a typical compensation scheme allocates cash flows first to LPs until their contributed capital, plus a 'hurdle rate' if applicable, has been returned. After this is met, managers have a 'catch-up period' where they receive most or all cash flows until a 'catch-up target' has been met (in non-impact funds, this target is typically the carry rate). Any remaining profits divide between LPs and GPs according to the GP's 'carry rate'. Funds also typically have management and other fees separate from this compensation structure.

We analyze the impact funds with this framework in mind, first asking whether they follow this waterfall structure, i.e. one which pays LPs at least their committed capital before paying GPs,[14] and then, what structural parameters they chose. For reference we include the analogous numbers from Metrick and Yasuda (2010), both VC and PE, and also from Gompers and Lerner (1999). Recent scholarship by Hüther, Robinson, Sievers and Hartmann-Wendels (2019) also finds similar numbers for carried interest when calculated on a deal-by-deal basis.

[Insert Table 10 about here]

[14] In one situation in our sample, LPs receive 99% of cash flows until their contributions are returned (the GP receives the remaining 1%). We classify this as a waterfall structure because LP compensation is clearly prioritized.

Our analysis shows that impact funds usually follow the waterfall structure, though more so for MRS than NMRS funds, 87% versus 77%. Examples of non-waterfall arrangements include annual dividends of fixed amounts, and pro-rata distributions that do not prioritize LPs. The incidence of carry and catch-up terms reflects this pattern: most MRS funds have positive carry (87%) and catch-up (66%), while fewer NMRS funds do (69% for carry, just 46% for catch-up). Hurdle rate incidence is somewhere between the rates reported by Metrick and Yasuda (2010) for PE and VC, and is also higher for MRS funds (61%) than for NMRS funds (46%). These results persist when restricting our sample to the same window (1993-2006) as Metrick and Yasuda (2010).[15] When these terms appear in impact funds they distribute more widely: modes are similar, but ranges often reach lower. Figure A-6 in the Appendix provides further detail on the distribution of these terms.

We provide additional context for the role of size in the Internet Appendix. Larger impact funds are more likely to have a waterfall compensation structure, and to have hurdle, carry and catch-up rates, though incidence is still below 100%. Among the smaller impact funds, waterfalls are still common but the difference between MRS and NMRS reverses. Small MRS and NMRS funds are similar in their use of carry and hurdle terms, so it is larger MRS funds that are the source of variation in their usage. However, large and small MRS funds are similar in their greater use, relative to NMRS funds, of catch-up rates.

Whereas Metrick and Yasuda (2010) find that *all* PC/VC funds use management fees, impact funds do so 81% of the time, fewer still (77%) for NMRS funds.[16] But of those impact funds

[15] We provide these results in the Internet Appendix, Table IA-15, and a size breakdown in Tables IA-9 and IA-10.
[16] Within the size controlled sample, high frequency of management fees persist, but with more NMRS (89%) than MRS funds (70%).

with management fees, 70% charge more than two percent, which compares to 10% of VC funds (10%) and 51% of PE funds in the Metrick and Yasuda sample. In this sense, the numbers are more consistent with Hüther et al. (2019), who find that VC funds charge initial management fees equal to 2.5% in more than half of their sample. The higher fees in our sample come more from NMRS than from MRS funds, and are higher even controlling for size and year. So MRS funds stay close to the non-impact standard but NMRS funds are further afield. This may be a way for NMRS investors to offset higher costs, or lower returns, faced by NMRS fund managers – so that investors, not fund managers, pay for the higher impact/lower return tradeoff.

There is little information on PC financial terms; in the Internet Appendix we provide one point of comparison on PC fees paid to the fund by contrasting to the findings of Phalippou et al. (2018). NMRS PCs are more likely than MRS PCs to pay fees to the fund.

We find strong incentives for financial performance, which as Holmstrom and Milgrom (1991) argue, risks underinvestment in impact. Funds can however address this risk elsewhere in the contract, a possibility we explore below.

E. Covenants

Contracts use covenants to target specific concerns about actions the other side might take. Is the use of covenants any different in impact funds, or in MRS compared to NMRS funds? We explore this in Table 11, with GP-LP usage in Panel A, and GP-PC usage in Panel B.

We subdivide the GP-LP covenants into those limiting the managers' investment discretion, and those placing other restrictions on managers. By far the most common of the former are asset restrictions, which for example enforce diversification by limiting the percentage investment in a company or an industry. The main disparity uncovered between MRS and NMRS

funds is that 16% of MRS contracts limit conflict-of-interest transactions, but none of the NMRS funds do. MRS funds are also somewhat more likely to place caps on investments in a given region (13% versus none). This is driven by larger funds: when restricting to small funds, most MRS funds do not have region caps. At the same time, nearly a quarter of both MRS and NMRS managers are required to invest solely within a specified geographic region.[17] In general, large funds tend to have more limits to manager discretion.

[Insert Table 11 about here]

Among the other managerial restrictions, we find a reversal of patterns found by Gompers and Lerner (1996) in non-impact funds. Non-impact funds show infrequent restrictions on reinvesting fund profits, and frequent restrictions on outside fundraising, but impact funds show the reverse. This pattern holds in large impact funds, though we do see more restrictions on outside fundraising than in small funds. Between MRS and NMRS impact funds, the main difference we find concerns the manager co-investing with the fund: NMRS managers see restrictions 23% of the time, but MRS managers see this 61% of the time, and the non-impact incidence is 73%. Overall, NMRS managers see fewer restrictions than MRS managers, 2.9 covenants on average, compared to 3.7, although this result may be related to MRS funds being larger.

The GPs' contracts with their PCs make use of the terms found by Kaplan and Stromberg (2003) in VC contracts, though generally at a lower intensity. The main differences between the types of impact funds is that NMRS funds are significantly less likely, 58% versus 76%, to require

[17] Impact fund managers may be regionally constrained due to investment restrictions imposed by DFI LPs. For example, CDC Investment work, a UK-backed DFI, only invests in Africa and South Asia. See https://www.cdcgroup.com/en/how-we-invest/investment-strategy/where-we-invest/.

anti-dilution protection, and significantly more likely, 81% versus 37%, to require liquidation rights. The exit rights in Panel B are again similar but at lower intensity to what was found by Kaplan and Stromberg (2003) and by Smith (2005) with respect to rights to redeem or require registration.

F. Participatory Governance

The last group of contract terms we address are the governance rights of LPs over GPs, and of GPs over PCs. We call this group *participatory governance* to emphasize the active nature of these terms, in contrast with more passive, latent terms like covenants. The impact funds' use of participatory governance terms, along with matching statistics on non-impact funds from GKM and Kaplan and Stromberg (2003), are reported in Table 12, with GP-LP usage in Panel A and GP-PC usage in Panel B.

Impact funds, we find, give their LPs a formal advisory committee role over 90% of the time. This is not driven by small size: all of the large impact funds have these advisory committees, with meaningful roles.[18] Between MRS and NMRS funds, the overall result in Panel A is that the MRS LPs have more oversight in a number of ways: investment strategy, due diligence, investment approval and compliance. Oversight of NMRS funds is significantly higher only for loan evaluation, which does not even come up in the MRS contracts, and technical assistance to the GP. These cross-sectional patterns hold controlling for size. As we discuss in the next section, this emphasis on governance in impact funds is consistent with the theory developed in Gilson et al (2010), and helps explain the compensation results.

[18] Tables IA-13 and IA-14 report participatory governance statistics for small and large funds separately.

[Insert Table 12 about here]

Whether control of PCs facilitates financial return and/or benefit production is an important question, but we cannot answer it with our sample. What we can do is contrast the control we observe among impact funds to the control wielded by non-impact funds, and we see in Panel B that, unlike the non-impact funds, impact funds do not invest for control. In our sample, impact funds never have voting control, and the average initial vote, i.e. the fund's percentage of votes at the time of its investment in the PC, is 25% for MRS funds, compared to 54% for the non-impact funds, and just 9% for NMRS funds. When controlling for size, governance and information rights at the GP-PC level is statistically significantly higher for MRS funds. Perhaps as a consequence of the weaker control over the PC imparted by their voting power, impact funds frequently contract for guaranteed PC board seats, MRS funds more than NMRS funds.

IV. Discussion

In this section we examine the underlying economic tensions addressed by the impact-fund contracts, and relate our empirical results on contracting practices to key insights from contract theory, by examining: (1) direct contracting on impact for multi-tasking agents, (2) flexible versus rigid contracting preferences in the face of uncertain outcomes, (3) unenforceable aspirational contract expressions to set reference points, (4) participatory governance as "braided" rights to observe otherwise unverifiable outcomes, and (5) impact as a utility function

of the contract. We also sketch a theory that focuses on an impact-specific tension that the literature has yet to analyze.

A. Relation of Results to Existing Theory

The canonical problem for contract theory is efficient allocation of costly effort by an agent on behalf of a principal. In the case of GP-LP contracts, we can think of LPs collectively as the principal, investing their money, with GPs collectively as the agent. GPs invest the money in PCs, thereby determining the fate of LPs' investment. The classic contract-theory question is then: how do GPs allocate their efforts across the tasks relevant to determining this fate?

Since the defining characteristic of impact investing is the simultaneous pursuit of multiple goals – a social or environmental benefit as well as a financial return – a natural place to turn is the literature on contracts with multi-tasking. Holmstrom and Milgrom's (1991) seminal paper makes the point that when an agent is responsible for multiple tasks, trying to reward only the measurable activities leads to the agent spending too much time on rewarded activities, and not enough on other desired activities. Prendergast (1999) makes a similar argument, arguing that complex tasks should be rewarded in a `holistic' way rather than tied to piecemeal metrics of performance. The implication for impact investing is that if impact performance is hard to measure and therefore hard to contract on, it might be sub-optimal to tie compensation to financial performance, because doing so would risk inattention to impact.

Our finding that impact funds tie compensation to financial performance appears at odds with this reasoning. However, the risk of inattention to impact could be addressed through other contractual constraints – in effect, the contracts could focus on making impact easier to measure and monitor in order to lessen the multi-tasking risk. Supporting this view, the contracts in our

sample show widespread use of terms pointing management's attention toward impact (through direct impact terms) and allowing investors to monitor management's behavior (through governance). So the contracts augment agent constraints to balance financial incentives. The strong incentives for financial performance in MRS funds may necessitate correspondingly strong controls in PC agreements on the pursuit of impact. This may explain why MRS funds use operational impact terms so often. This view also helps explain the positive relationship between financial incentive and operational impact terms in Table A-5.

The aspirational impact terms we document do not hold the same threat of legal action as operational impact terms, but help to set reference points as part of the total mix of impact terms. In the view of Hart and Moore (2008), these reference points play an important role by setting the parties' expectations and thereby determining whether they perform well or just adequately under the contract. And as in Prendergast (1999), they serve as screening devices that select for counterparties truly committed to impact.

The Hart and Moore (2008) analysis of contracts' reference points may also help explain relative flexibility in contracting for impact. In the model, parties care not only about perfunctory performance, i.e. box-checking, but also about consummate performance, i.e. going the extra mile. This distinction may be a first-order concern in the case of social or environmental goals: parties truly committed to impact may care less about clearing a hurdle that was set ex-ante than about making the most meaningful impact that the realized circumstances allow.[19] With this in mind,

[19] There may be parties who care only about box-checking to give the appearance of impact ("virtue signaling"). We derive predictions assuming that most principals care about meaningful impact, because this is the more interesting conceptual problem and the one in line with Hart and Moore (2008). If LPs are only motivated by virtue-signaling, we should expect only box-checking measures that are relatively "cheap" and strong compensation terms to avoid diversion. Section IV-B speaks to this a bit more.

parties can choose to write flexible or rigid contracts regarding a future trade. The benefit of flexible contracts is that they allow adjustment to future uncertainty, but their downside is that they can lead to inefficient "shading," or shirking on the consummate task.

For example, a flexible contract could allow for impact goals to depend on the deal opportunities that materialize. The benefit of this flexibility is that it allows for more possible situations where a mutually-beneficial trade (investment) occurs, but the downside is that there could be ex-post disagreement over the appropriate level of impact to pursue, and the agent could shirk on effort if they feel aggrieved by how the terms of trade play out. Within this framework, Hart and Moore predict that parties are more likely to put ex-ante restrictions on variables over which there is an extreme conflict of interest, such as compensation (which is "zero sum"), than on variables over which conflict is less extreme, such as the specific type of impact to pursue.

In our setting, this suggests more rigid contracting around financial terms, and less around the nature of impact, which is consistent with what we observe. Funds typically do not specify hard quotas for impact (a rigid way of contracting), but instead emphasize incorporating impact into due diligence, measurement, and reporting (flexible terms).[20] Among impact funds, MRS funds tend to use relatively more rigid forms of contracting, like veto rights and ESG standards (boxes to check), consistent with the idea that greater financial emphasis creates relatively more potential for disagreement over the balance of goals. This potential for disagreement elevates the need to balance goals through contracting on impact.

[20] For example, the UNPRI delisted six signatories for failing to participate in the reporting and assessment process in the 2017/2018 reporting cycle. https://www.unpri.org/annual-report-2018/how-we-work/new-and-delisted-signatories.

The models described above help explain our results on impact terms and compensation, but have less to say about governance. A separate theory advanced by Gilson et al. (2010) sheds light on the governance patterns we observe.[21] According to this theory, which they call "braiding," an important role of contract terms is to allow parties to observe outcomes that are not verifiable, but that play an important role in achieving the desired ends of a contract. More specifically, Gilson et al. (2010) propose that formal mechanisms in contracts, such as information rights and participatory governance, provide necessary data on informal components of contract performance, such as trust and willingness to problem-solve; and that these terms are especially important in rapidly evolving environments. The participatory governance results in Table 12 show an abundance of terms that serve this purpose. There are advisory roles for LPs giving them oversight over deal selection, the diligence process, conflicts of interest, and several other aspects of GPs operations. In the PC contracts, there are guaranteed board seats. These provisions can drive the feedback loop that Gilson et al. (2010) argue is crucial to adapting to evolving circumstances.

Finally, contracting parties' preferences should be evident in the terms of the contract. Contracting preferences modeled by the literature have historically focused on money and effort. Impact adds a new dimension of preferences, and one of the questions the contracts can help answer is how impact enters the utility function. An investor in a fund, and the management of a fund, could get utility from a company delivering clean water in a distressed part of the world, but they could also get utility from being *instrumental* to the company delivering that water. The

[21] Gompers and Lerner (1996) also highlight the importance of covenants, especially in GP-LP contracts, but their work offers no clear predictions for impact funds.

view embodied in the theory of Hart and Zingales (2017) is the latter rather than the former. The contract terms, especially the operational impact terms, show a high incidence of contractual duties through which the LPs enjoy significant oversight over the GPs, and the GPs enjoy significant oversight over the PCs. This oversight likely serves a functional and productive role, as emphasized by Gilson et al. (2010), but to the extent oversight imparts a sense of instrumentality, earned or not, from the Hart and Zingales (2017) perspective it creates value as direct utility to the participants.

Taken together, theories on multitasking, flexible contracts, and braiding thus help explain a broad cross-section of the patterns we observe in impact contracts. However, none of these theories provides a unified framework to explain the overall extent of contracting in impact funds, and in particular the relative contracting practices between MRS and NMRS impact funds.

B. Focusing Theory on Impact-Specific Issues

What level of contracting on impact is optimal, and in which contracts? In GP-LP contracts, NMRS funds contract on impact slightly more than MRS funds, though MRS LPs have more oversight of investment opportunities through advisory committees overseeing investment strategy, due diligence, and approval of investments. MRS funds, on the other hand, contract on impact in PC contracts substantially more often than NMRS funds do, though average impact scores end up being similar across both types of impact funds. These puzzling results seem to conflict with NMRS funds' stated intention to pursue impact at a potentially greater cost, which could motivate more contracting on impact and oversight in NMRS funds. The observed patterns do not appear to follow from existing theory, but maybe the existing theory has not addressed the relevant underlying issues because they are specific to impact investing, and most contract

theory predates the rise of impact investing. Here we sketch a theory that focuses on impact-specific issues and predicts this seemingly anomalous pattern.

The impact-specific issues concern the tradeoff between expected return and impact. Suppose the tradeoff in a person's utility between expected return and impact is privately known to the person, and the tradeoff between expected return and impact afforded by a fund's deal flow is privately observed by the manager. Similarly, the tradeoff afforded by a portfolio company's opportunities could be privately observed by the entrepreneur. For convenience, we lay out the following problem in terms of GP-LP contracts, but a parallel argument could be made for GP-PC contracts by thinking of the GP as the principal and the entrepreneur as the agent.

Suppose for simplicity that a portfolio can have one or two units of impact, and that impact preferences sort people into three groups: Low, Medium and High. Low types do not value impact, and High types value impact greatly. Medium types are price-sensitive: they will trade for two units of impact if it is cheap, i.e. comes at a small expected-return concession, and one unit if it is expensive, i.e. comes at a big concession. Ideally, Low types would be the investors and the managers of non-impact funds, High types would be the investors and managers of NMRS funds, and Medium types would be the investors and managers of MRS funds. But this matching is frustrated for MRS funds by the opacity of preferences and corresponding incentives.

The MRS fund's manager takes investment from Medium types, hears pitches from startups, and from the pitches learns the tradeoff between expected return and impact afforded by the best deals. If impact is cheap, the investors want two units, but if it is expensive, they want just one. The manager wants this too if she is also Medium, but if she is Low she will buy one unit and say that impact was expensive, and if she is High she will buy two units and say it was cheap,

regardless of whether it was actually cheap or expensive. Managers of non-impact funds would not do this; it is understood that non-impact funds buy one unit no matter what, so they do this or are exposed as managers who misbehaved. Similarly, managers of NMRS funds buy two units no matter what. Thus, some MRS funds may need additional oversight on impact in PC investments. MRS funds cater to investors sensitive to the price of impact, so they are exposed to their managers' true types, and at times may need extra oversight so that investors can learn the true tradeoff between expected return and impact along with the manager. This mechanism could explain why we observe MRS funds contracting as intensively on impact as NMRS funds at the fund level, and more often at the PC level.

V. Conclusion

Impact investing is a rapidly emerging force in capital markets, at the tip of a broad movement to incorporate social concerns into traditional profit ventures. Its essence is the service of two goals at once: a financial goal as well as a social-benefit goal. The addition of the latter objective complicates an already challenging contracting problem and raises important questions about how contracting practices can adapt for this emerging space.

To answer these questions, we investigate a unique set of 214 legal documents pertaining to impact funds, including both forward to portfolio companies and back to impact investors. We observe several novel contracting patterns that inform our understanding of how contract theory applies to practice.

Most impact funds do not tie compensation to impact. Instead, many impact funds use waterfall incentive compensation similar to their non-impact counterparts. Carry and catch-up

rates are less common however than in non-impact private market funds, and less common still in NMRS funds, which also tend to be smaller. An overall high rate of financial incentive compensation initially appears at odds with multi-tasking theory (Holmstrom and Milgrom 1991), which suggests that strong incentives on one goal (e.g. financial) could distort the allocation of effort away from the second goal (e.g. social-benefit). However, we show that funds adapt other aspects of the contracts that could mitigate the potential distortive effect of financial incentives. In practice, compensation practices may be difficult to change, pushing parties to adjust other parameters of the problem where possible.

We find that impact fund contracts contain both aspirational and operational impact terms. The economic tensions lie in how they do this, and how their choices change with the relative importance of the financial goal. MRS funds choose more rigid terms when contracting on impact than NMRS funds, at both fund and PC levels. This is consistent with theories of flexible and rigid contracting (Hart and Moore 2008). We also find that more operational impact terms in the GP-LP relationship correspond with more impact terms in contracts with PCs. This is a flow-through of impact which undercuts the concern that impact investing is just greenwashing (i.e. aspirational impact with no operational impact), a concern which many still hold.[22] . However, future work should examine the effectiveness of these terms.

Finally, we observe higher participatory governance, e.g., monitoring, information rights, and other collaborative supports, in impact compared to non-impact funds, especially in MRS funds. We observe advisory committees at the fund level and board seats at the PC level and

[22] See for example https://us.allianzgi.com/en-us/institutional/sustainability/sustainable-ideas/impact-investing-grows and https://www.morningstar.com.au/Funds/article/beware-greenwashing-as-esg-momentum-builds/170434.

overall high scores on this dimension, consistent with the importance of governance to support flexible contracting (Gilson et al. 2010). The combination of more MRS impact terms in PC contracts and greater LP participatory governance helps reconcile this new data to the theory and suggests new explanations unique to impact.

This paper is the first analysis of impact goals' effect on contract terms, so its findings naturally raise more questions for this and similar databases. Among these questions are the role of GP power in shaping impact investment contracts, the potentially dilutive effects of the growing impact-investing deal flow, and the tradeoff or complementary nature of profit and social-purpose benefits. These are promising topics for further work on impact investing.

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Tables

Table 1: Summary Statistics for Sample of Impact Funds & Documents

This table presents summary statistics for the types of GP-LP and GP-PC contracts we analyze. We are unable to categorize as MRS or NMRS five of the funds in our GP-LP sample, and two of the funds in our GP-PC sample. At the GP-LP level, foundational agreements include Limited Partnership Agreements, Operating Agreements, Investment Agreements, Issue Documents, and similar documents. Fund legal structure dictates the specific foundational agreement title – for example, a fund organized as an LLC will have an Operating Agreement as opposed to an LPA. Quasi-contractual agreements include PPMs and Fact Sheets, and additional documents refer to Side Letters. We include in our sample a few funds with quasi-contractual agreements and not foundational agreements, but only when there is significant detail around contractual rights, such as financial rights, sufficient to comprehensively describe the relationship between the LP and the GP. We exclude funds for which we only have Side Letters or Quasi-contractual agreements with insufficient detail. At the GP-PC level, foundational agreements include Term Sheets (the vast majority), Investment Agreements, Loan Agreements, and similar documents. Deal structure dictates the specific foundational agreement title – for example, debt will generate a Loan Agreement, and equity an Investment Agreement or term sheet.. At the GP-PC level, each document refers to a unique GP-PC relationship (three PCs are owned by different funds in our sample).

Panel A: GP-LP contracts

	All funds	MRS funds	NMRS funds
Number of funds	53	38	13
Number of documents	118	86	30
Foundational agreements	43	32	10
Quasi-contractual agreements	50	38	11
Additional documents	25	16	9

Panel B: GP-PC contracts

	All funds	MRS funds	NMRS funds
Number of funds	15	9	6
Number of unique PCs	93	68	25
Number of documents	96	70	26
Foundational agreements	89	63	26
Quasi-contractual agreements	7	7	0

Table 2: Horizons and Years for Sample of Impact Funds & Documents

This table presents summary statistics for the horizon of the funds in our sample, as well as document years. Total term is the initial term of the fund in years plus number of years the fund has been extended, if any (note this will only apply to old enough funds). Term information is unfortunately unavailable for some funds. Likewise, document years are missing or redacted from some documents.

				Percentile					
	N	Mean	Min	10th	25th	50th	75th	90th	Max
Initial term (years)									
All	37	9.27	4	5	8	10	10	12	12
MRS	28	9.46	4	5	8.50	10	10	12	12
NMRS	9	8.67	5	5	7	10	10	10	10
Total term (years)									
All	37	9.74	5	6	9.50	10	10	12	14
MRS	28	9.91	5	7	9.75	10	11	12	14
NMRS	9	9.22	5	5	8	10	10	12	12
GP-LP doc. year									
All	112	2008.7	1996	2001	2007	2010	2012	2014	2016
MRS	80	2009.9	1999	2007	2008	2010	2013	2015	2016
NMRS	31	2005.4	1996	1999	2001	2002	2012	2013	2016
GP-PC doc. year									
All	78	2008.7	1988	2003	2005	2010	2012	2015	2016
MRS	59	2009.9	2003	2004	2007	2010	2013	2016	2016
NMRS	19	2005.0	1988	2000	2002	2004	2011	2012	2014

Table 3: Comparison of Survey Responses, Sample v. Non-Sample Funds

This table presents survey answers from funds that replied to the WSII survey and provided contracts, compared to funds that replied to the survey (however briefly) and did not provide contracts.

	Provided Contracts			Did Not Provide Contracts			Difference
	N	Mean	Median	N	Mean	Median	t-statistic
Market-rate seeking	50	70%	1	48	71%	1	0.09
Target net IRR	37	15%	15%	22	15%	15%	-0.07
Vintage year	50	2008	2009	39	2006	2009	-0.94
Fund's initial term (yrs)	40	9.0	10	25	9.2	10	0.38
Committed capital ($M)	47	100.0	31.8	36	199.4	40	1.50
Num. companies in which fund has invested	45	14.9	8	47	14.2	11	-0.14
Num. funds currently managed by firm	31	3.6	2	29	2.1	2	-1.52
Num. funds managed by most senior firm GP	29	8.1	4	25	3.7	3	-1.82*

Table 4: Contract Dimensions ("Scores")

This table summarizes the contract dimensions that we score at the GP-LP and GP-PC levels. Full detail is available in the Internet Appendix.

GP-LP contract dimensions	
1- Aspirational impact	Terms which describe intended impact. *E.g. social or environmental impact addressed, negative impact prohibited.*
2- Operational impact	Terms which incorporate impact goals into contract in actionable way. *E.g. commitment to ESG standards, impact committees.*
3- Investor return protection	Direct contract rights that protect investors' investment in the fund. *E.g. investor call/put options, tag along/drag along rights, liquidation cash flow rights.*
4- Participatory governance	Indirect contract rights that may protect investors' investment. *E.g. information rights, presence and role of advisory committee.*
5- Limits to manager discretion	Limits on the discretion afforded to fund managers in choosing investment opportunities. Made up of two sub-categories: asset restrictions, and prohibitions. *E.g. investment cap in PCs, sectors, regions; prohibition on investment in harmful substances, prohibition on hostile transactions.*
6- Manager restrictions	Restrictions imposed on managers' duties or other activities. *E.g. fiduciary duty, ability to reinvest funds, restriction on manager's outside activities.*
GP-PC contract dimensions	
1- PC impact	Terms which incorporate impact goals into PC contract. *E.g. impact definition, impact measurement, mission lock.*
2- Exit control	Fund's exit paths from the investment in the portfolio company. *E.g. put option in PC securities, tag along/drag along rights, termination rights.*
3- Investment protection	Fund's direct contract rights to protect its investment in the portfolio company. *E.g. ROFR in other PC securities, preemptive/anti-dilution rights, liquidation cash flow rights.*
4- Governance	Fund's ability to participate in the going operation of a portfolio company. *E.g. ownership, board seats, veto rights.*
5- Information rights	Fund information rights. This is a possible subset of governance rights. *E.g. quarterly or annual information rights, form of information shared.*
6- Fund restrictions	Restrictions imposed on fund. *E.g. ROFR on fund securities, non-compete with PC.*

Table 5: Non-impact Contracting Scores at the GP-LP Level

This table presents summary statistics for fund-level governance and control contract provisions outlined in Table 5, except for impact dimensions which are reported in Table 8. It is reproduced for small and large funds in Tables IA-1 and IA-2.

					Percentile					
	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% ≠ 0
Investor return protection											
All	53	30.35	18.85	0.00	8.33	16.67	33.33	41.67	50.00	66.67	90.57
MRS	38	30.04	21.18	0.00	0.00	8.33	33.33	41.67	66.67	66.67	86.84
NMRS	13	32.69	11.52	8.33	16.67	25.00	33.33	41.67	41.67	50.00	100.00
Difference NMRS-MRS		*2.65*									*13.16*
Participatory governance											
All	53	77.88	19.04	22.22	55.56	66.67	83.33	94.44	100.00	100.00	100.00
MRS	38	79.68	19.81	22.22	55.56	66.67	88.89	94.44	100.00	100.00	100.00
NMRS	13	70.94	16.54	50.00	55.56	61.11	66.67	83.33	100.00	100.00	100.00
Difference NMRS-MRS		*-8.74*									*0*
Limits on manager discretion											
All	53	20.25	16.47	0.00	3.33	6.67	16.67	26.67	43.33	80.00	92.45
MRS	38	20.70	18.23	0.00	3.33	6.67	15.00	30.00	46.67	80.00	92.11
NMRS	13	17.44	11.15	0.00	6.67	13.33	13.33	23.33	33.33	40.00	92.31
Difference NMRS-MRS		*-3.27*									*0.20*
Manager restrictions											
All	53	25.19	32.76	-17.65	-11.76	0.00	17.65	52.94	76.47	88.24	90.57
MRS	38	24.46	32.21	-17.65	-11.76	-5.88	17.65	52.94	76.47	88.24	94.74
NMRS	13	19.46	31.25	-17.65	-5.88	0.00	5.88	29.41	76.47	76.47	76.92
Difference NMRS-MRS		*-5.00*									*-17.81**
Num. contracts per fund											
All	53	2.26	1.95	1.00	1.00	1.00	2.00	2.00	4.00	13.00	
MRS	38	2.26	2.05	1.00	1.00	1.00	2.00	2.00	4.00	13.00	
NMRS	13	2.46	1.81	1.00	1.00	1.00	2.00	3.00	5.00	6.00	
Difference NMRS-MRS		*0.20*									

Table 6: Non-impact Contracting Scores at the GP-PC Level

This table presents summary statistics for PC-level governance and control contract provisions outlined in Table 5, except for impact dimensions which are reported in Table 9. It is reproduced for small and large funds in Tables IA-3 and IA-4.

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% ≠ 0
Governance in PC											
All	96	37.27	18.29	0.00	4.71	23.53	41.18	49.71	58.82	66.47	92.71
MRS	70	38.50	17.83	0.00	8.24	28.82	41.18	50.00	60.59	66.47	94.29
NMRS	26	33.96	19.44	0.00	0.00	14.71	38.53	48.24	55.88	61.76	88.46
Diff. NMRS-MRS		*-4.55*									*-5.82*
Information rights											
All	96	55.90	34.37	0.00	0.00	33.33	66.67	66.67	100.00	100.00	77.08
MRS	70	57.14	34.59	0.00	0.00	33.33	66.67	66.67	100.00	100.00	78.57
NMRS	26	52.56	34.22	0.00	0.00	0.00	66.67	66.67	100.00	100.00	73.08
Diff. NMRS-MRS		*-4.58*									*-5.50*
Exit control											
All	96	28.65	17.24	0.00	6.25	17.19	28.13	43.75	50.00	62.50	90.63
MRS	70	29.96	18.16	0.00	3.13	15.63	34.38	43.75	50.00	62.50	90.00
NMRS	26	25.12	14.18	0.00	6.25	18.75	21.88	40.63	43.75	46.88	92.31
Diff. NMRS-MRS		*-4.84*									*2.31*
Investment protection											
All	96	33.96	21.77	0.00	0.00	18.18	30.30	54.55	60.61	84.85	86.46
MRS	70	32.99	21.54	0.00	0.00	18.18	30.30	54.55	60.61	84.85	85.71
NMRS	26	36.60	22.59	0.00	0.00	18.18	37.88	60.61	60.61	66.67	88.46
Diff. NMRS-MRS		*3.61*									*2.75*

Table 7: Direct Impact Terms at the GP-LP Level

This table presents summary statistics for fund-level impact terms. Because there are only 13 NMRS funds, the 10th and 90th percentile are interpolated from the 2nd and 3rd, and 11th and 12th ranked funds for each term. It is reproduced for small and large funds in Tables IA-5 and IA-6.

Panel A: Scores by fund type

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% > 0
Aspirational impact											
All	53	81.1	24.9	0.0	33.3	66.7	100	100	100	100	98.1
MRS	38	79.0	26.2	0.0	33.3	66.7	100	100	100	100	97.4
NMRS	13	84.6	22.0	33.3	66.7	66.7	100	100	100	100	100.0
Difference NMRS-MRS		*5.67*									*2.63*
Operational impact											
All	53	41.5	22.7	0.0	18.2	27.3	45.5	54.6	72.7	100	94.3
MRS	38	40.0	24.3	0.0	9.1	27.3	36.4	54.6	72.7	100	92.1
NMRS	13	44.8	19.1	18.2	18.2	27.3	45.5	54.6	72.7	81.8	100.0
Difference NMRS-MRS		*4.80*									*7.90*

Panel B: Break-out of impact terms

	Score weight	Incidence (% funds) All	MRS	NMRS	Difference NMRS-MRS
Aspirational impact terms					
Social impact addressed in agreement	1	94%	92%	100%	7.9%
Agreement generally prohibits negative impact	1	60%	58%	62%	3.6%
Fund commitment to social impact	1 if either	83%	84%	77%	-7.3%
Fund commitment to environmental impact	1 if either	62%	63%	54%	-9.3%
Operational impact terms					
Fund commitment to international ESG standards	0.5	30%	32%	15%	-16.2%
Fund GP/Manager compensation tied to benefit/impact performance	1	9%	8%	15%	7.5%
Fund investment due diligence policy addresses impact generally	0.5	77%	79%	77%	-2.0%
Fund investment due diligence policy addresses portfolio company impact	1	62%	58%	77%	19.0%
Fund measures social impact	1	72%	71%	69%	-1.8%
Fund uses external, third party monitor or reporting system	0.5	28%	29%	31%	1.8%
Fund has an impact committee	1	17%	13%	23%	9.9%

Table 8: Direct Impact Terms at the GP-PC Level

This table presents summary statistics for PC-level impact terms. "% funds with >0" refers to the fraction of funds in the group that have at least one PC contract with a positive impact score. It is reproduced for small and large funds in Tables IA-7 and IA-8.

Panel A: PC impact score

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% > 0	% funds with >0
All	96	10.9	13.5	0.0	0.0	0.0	8.5	12.8	31.9	53.2	63.5	87%
MRS	70	10.9	12.5	0.0	0.0	0.0	8.5	12.8	29.8	53.2	70.0	89%
NMRS	26	11.1	16.2	0.0	0.0	0.0	0.0	12.8	40.4	42.6	46.2	83%
Diff. NMRS-MRS		*0.17*									*-23.85***	

Panel B: Break-out of impact terms

	Score weight	Incidence (% funds) All	MRS	NMRS	Difference NMRS-MRS
PC's mission locked in at the fund's exit	1	3%	4%	0%	-4.3%
Fund exit right if change in location or business model or benefit	0.5	1%	0%	4%	3.8%
Fund veto right on deviations from the business plan of the PC	1	43%	49%	27%	-21.7%*
PC has an impact committee	0.5	0%	0%	0%	0.0%
Fund participates in PC impact committee	0.5	0%	0%	0%	0.0%
Fund information rights include impact information	1	9%	10%	8%	-2.3%
PC environmental or social benefit is measured	1	20%	17%	27%	9.8%
Internal impact measurement	0.5	2%	3%	0%	-2.9%
External impact measurement	0.5	9%	7%	15%	8.2%
PC impact performance is reported	1	13%	10%	19%	9.2%
Impact performance reporting done annually	0.25	8%	7%	12%	4.4%
Compensation tied to benefit/impact performance	1	2%	1%	4%	2.4%
Impact addressed generally	0.25	39%	39%	39%	-0.1%
Impact identified	0.25	24%	29%	12%	-17.0%*
Additional social impact channels (e.g. ESG standards)	1	13%	14%	8%	-6.6%
Document specifies impact performance reporting	0.25	13%	10%	19%	9.2%

Table 9: Correlation of PC Impact Score with GP-LP Impact Terms

This table presents the estimates of a simple correlation of the impact score at the GP-PC level with impact scores at the GP-LP level, controlling for the number of contracts at the fund level. The observation level is a GP-LP contract. The exact equation estimated is:
$PC\ impact\ score_i = \beta\ fund\ impact\ score_i + \gamma\ num.contracts_i + \epsilon$
Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

	(1) PC Impact	(2) PC Impact	(3) PC Impact
Fund aspirational impact	-0.1936**		-0.2231**
	(0.0898)		(0.0865)
Fund operational impact		0.1880***	0.2078***
		(0.0699)	(0.0683)
Num. contracts fund-level	✓	✓	✓
Observations	94	94	94
R-squared	0.099	0.122	0.183

Table 10: GP Compensation

This table presents a comparison of the compensation terms observed for impact funds, relative to non-impact funds documented by Metrick & Yasuda (2010) (MY) and Gompers & Lerner (1999) (GL '99). The incidence rate is defined as the percent of funds with a non-zero value for the term in question. The mode and range are only reported for these non-zero values. For the management fee break-outs, funds with no management fees are counted in the "<2%" group. It is reproduced for small and large funds in Tables IA-9 and IA-10, and for the Metrick & Yasuda time period in Table IA-15.

	Non-impact		Impact			Difference
	Reference	Non-impact	All	MRS	NMRS	NMRS-MRS
Waterfall						
Incidence	MY (VC+PE)	100%	85%	87%	77%	-9.9%
Hurdle rate						
Incidence	MY (VC)	45%	58%	61%	46%	-14.4%
	MY (PE)	92%				
Mode	MY (VC)	8%	8%	8%	10%	
	MY (PE)	8%				
Range	MY (VC+PE)	6-10%	3-10%	5-10%	3-10%	
Carried interest						
Incidence	MY (VC+PE)	100%	83%	87%	69%	-17.6%
Mode	MY (VC)	20%	20%	20%	20%	
	MY (PE)	20%				
	GL '99	20%				
Range	MY (VC)	17.5-30%	10-25%	10-25%	10-20%	
	MY (PE)	all at 20%				
	GL '99	0-45%				
		(81% in 20-21%)				
Catch-up target	MY (VC+PE)	99%	62%	66%	46%	-19.6%
Incidence	MY (VC+PE)	20%[23]	17%	20%	10%	
Mode	MY (VC+PE)	16.5-20%	1-25%	1-25%	10-25%	
Range						
Management fee						
Incidence	MY (VC+PE)	100%	81%	82%	77%	-4.7%
Range			1.5-3.6%	1.5-3.5%	2.5-3.6%	
% of funds:						
< 2%	MY (VC)	43%	26%	29%	23%	
	MY (PE)	8%				
=2%	MY (VC)	47%	4%	5%	0%	
	MY (PE)	41%				
> 2%	MY (VC)	10%	70%	66%	77%	
	MY (PE)	51%				

[23] MY uses 100% to represent that the GPs get 100% of their profit allocation under the contract before the remaining profits are split between the manager and the investors, where that profit allocation is usually 20%. We express that number directly as a catch-up target of 20%.

Table 11: Covenants

This table presents a comparison of covenant terms for impact funds relative to statistics on non-impact funds from Gompers and Kaplan (1996) (GL '96), Kaplan and Stromberg (2003) (KS), and Smith (2005) (S). It is reproduced for small and large funds in Tables IA-11 and IA-12.

Panel A: Fund Limits to Manager Discretion and Manager Restrictions at the GP-LP Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
Limits to Manager Discretion						
Limits to manager discretion – total score			*20.3*	*20.7*	*17.4*	-3.27
Asset restrictions	n/a		92%	92%	92%	0.2%
Conflict of interest transactions	n/a		11%	16%	0%	-15.8%
Fund family co-investment prohibition	n/a		4%	3%	8%	5.1%
Region investment cap	n/a		9%	13%	0%	-13.2%
No outside region investment	n/a		23%	24%	23%	-0.6%
No outside sector investments	n/a		9%	11%	8%	-2.8%
Industry restrictions y/n	n/a		19%	16%	15%	-0.4%
Industry cap	n/a		6%	5%	0%	-5.3%
Manager Restrictions						
Manager restrictions – total score			*25.2*	*24.5*	*19.46*	-5.00
Reinvesting fund profits	GL '96	21%	70%	68%	69%	0.8%
Coinvesting with fund	GL '96	73%	49%	61%	23%	-37.5%**
Outside fundraising	GL '96	58%	28%	29%	15%	-13.6%
Outside activities			36%	32%	38%	6.9%
Combined						
Average number of covenant classes	GL '96	5.6	3.6	3.7	2.9	-0.76

Panel B: Investment Protection and Exit at the GP-PC Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
Investment protection						
Investment protection – total score			*34.0*	*33.0*	*36.6*	3.61
Anti-dilution of fund investment	KS	95%	*71%*	*76%*	*58%*	-18.0%*
Full ratchet preemption	KS	22%	*19%*	*16%*	*27%*	11.2%
Weighted average preemption	KS	78%	*13%*	*14%*	*8%*	-6.6%
Founder/entrepreneur non-compete	KS	70%	*50%*	*49%*	*54%*	5.3%
Fund liquidation rights	KS	71%	*49%*	*37%*	*81%*	43.6%***
Exit						
Exit control – total score			*28.7*	*30.0*	*25.1*	-4.84
Fund put/redemption right	KS	79%	*52%*	*53%*	*50%*	-2.9%
	S	43%				
Registration rights	S	90%	*45%*	*41%*	*54%*	12.4%

Table 12: Participatory Governance

This table presents a comparison of participatory governance terms for impact funds relative to statistics on non-impact funds from Gompers, Kaplan and Mukharlyamov (2019) (GKM), and Kaplan and Stromberg (2003) (KS). It is reproduced for small and large funds in Tables IA-13 and IA-14.

Panel A: Participatory governance at the GP-LP Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
Participatory governance – total score			*77.9*	*79.7*	*70.9*	-8.74
Advisory committee incidence		n/a	94%	95%	92%	-2.4%
Advisory committee role:						
Generally advise GP or BOD		n/a	64%	63%	69%	6.1%
Technical assistance to GP or BOD		n/a	9%	5%	23%	17.8%*
Policy assistance to GP or BOD		n/a	13%	11%	23%	12.6%
Evaluate loans		n/a	4%	0%	15%	15.4%**
Investment strategy		n/a	43%	50%	31%	-19.2%
Due diligence		n/a	40%	47%	23%	-24.3%
Approve investments		n/a	43%	53%	15%	-37.3%**
Investment financial performance review		n/a	8%	11%	0%	-10.5%
Investment impact review		n/a	6%	5%	8%	2.4%
Approve conflict of interests		n/a	40%	39%	46%	6.7%
Asset valuations		n/a	32%	32%	31%	-0.8%
Approve exit scenarios		n/a	23%	24%	15%	-8.3%
Approve reports and audits		n/a	8%	11%	0%	-10.5%
Approve budgets, reserves, draw downs and/or fees		n/a	17%	18%	15%	-3.0%
Fund compliance		n/a	26%	34%	8%	-26.5%*
Fund life: terminate or extend the fund		n/a	8%	11%	0%	-10.5%
No description		n/a	8%	5%	15%	10.1%

Panel B: Governance at the GP-PC Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
Governance – total score			*37.3*	*38.5*	*34.0*	-4.55
Information rights – total score			*55.9*	*57.1*	*52.6*	-4.58
Investor board seats guaranteed		n/a	80%	84%	69%	-15.1%
Number of guaranteed seat?	GKM	2.80	1.4	1.3	1.7	0.38***
PC board size	GKM	5-7 mem.	6.0	6.1	5.9	-0.11
	KS	6 mem.				
Investor majority control	KS	25.4%	0%	0%	0%	0%
Investor min. voting %	KS	53.6%	21%	25%	9%	-16.3%***

Appendix

Tables

Table A-1: Additional Summary Statistics for Sample of Impact Funds & Documents

Panel A: GP-LP contracts

	All funds		MRS funds		NMRS funds	
Panel A: GP-LP contracts	N	%	N	%	N	%
Number of funds	53		38		13	
Number of documents	118		86		30	
Fund Size						
< $10 M	9	17%	8	21%	1	8%
$10-50 M	15	28%	9	24%	5	38%
$50-100 M	3	6%	3	8%	0	0%
$100-500 M	10	19%	8	21%	2	15%
> $500 M	2	4%	1	3%	0	0%
Unknown	14	26%	9	24%	5	38%
Stage focus						
Early	11	21%	8	21%	3	23%
Later	9	17%	6	16%	3	23%
Multiple	26	49%	19	50%	5	38%
Sector focus	5	9%	4	11%	1	8%
SME focus	5	9%	3	8%	1	8%
Undefined	15	28%	11	29%	3	23%
Stage unknown	7	13%	5	13%	2	15%
Geographic focus						
Undefined	5	9%	5	13%	0	0%
United States and Canada	17	32%	12	32%	5	38%
Africa	14	26%	7	18%	5	38%
Latin America	10	19%	6	16%	4	31%
South Asia	6	11%	6	16%	0	0%
Europe	6	11%	2	5%	4	31%
Asia - Other	6	11%	3	8%	3	23%
Southeast Asia	3	6%	3	8%	0	0%
Global	5	9%	5	13%	0	0%
Other	3	6%	3	8%	0	0%
Industry focus						
Agribusiness/Farming	17	32%	13	34%	4	31%
Finance and Microfinance	13	25%	9	24%	4	31%
Social/Poverty	13	25%	12	32%	1	8%
Health	13	25%	9	24%	4	31%

Tech. & Business Services	11	21%	7	18%	4	31%
Water and Sanitation	10	19%	8	21%	2	15%
Sustainable Development	9	17%	7	18%	1	8%
Essential Individual Products	9	17%	8	21%	1	8%
Education	9	17%	9	24%	0	0%
Manufacturing	9	17%	6	16%	3	23%
Energy	8	15%	8	21%	0	0%
Environment	7	13%	6	16%	1	8%
Housing	5	9%	4	11%	1	8%
Employment	3	6%	3	8%	0	0%
Handicrafts	1	2%	1	3%	0	0%
Other	10	19%	7	18%	3	23%
Undefined	6	11%	5	13%	0	0%
Country of origin						
Belgium	1	2%	0	0%	1	8%
Botswana	2	4%	1	3%	0	0%
British Virgin Islands	1	2%	1	3%	0	0%
Canada	4	8%	4	11%	0	0%
Cayman Islands	5	9%	5	13%	0	0%
India	1	2%	1	3%	0	0%
Luxembourg	5	9%	1	3%	4	31%
Mauritius	3	6%	2	5%	1	8%
Netherlands	2	4%	2	5%	0	0%
London	1	2%	1	3%	0	0%
South Africa	2	4%	1	3%	0	0%
United Kingdom	2	4%	0	0%	2	15%
United States	24	45%	19	50%	5	38%

Panel B: GP-PC contracts

	All funds		MRS funds		NMRS funds	
	N	%	N	%	N	%
Number of funds	15		9		6	
Number of PCs	93		68		25	
Number of documents	96		70		26	
Industry focus						
Agribusiness/Farming	21	22%	12	17%	9	35%
Finance and Microfinance	16	17%	14	20%	2	8%
Tech. & Business Services	9	9%	8	11%	1	4%
Manufacturing	5	5%	5	7%	0	0%
Health	5	5%	5	7%	0	0%
Handicrafts	3	3%	3	4%	0	0%
Water and Sanitation	2	2%	2	3%	0	0%
Energy	2	2%	2	3%	0	0%
Housing	2	2%	2	3%	0	0%
Essential Individual Products	1	1%	0	0%	1	4%
Education	1	1%	1	1%	0	0%
Social/Poverty	1	1%	1	1%	0	0%
Sustainable Development	0	0%	0	0%	0	0%
Environment	0	0%	0	0%	0	0%
Employment	0	0%	0	0%	0	0%
Other	3	3%	2	3%	1	4%
Undefined	40	42%	25	36%	15	58%
Geographic focus						
United States and Canada	4	4%	1	1%	3	12%
Europe	2	2%	1	1%	1	4%
Latin America	6	6%	5	7%	1	4%
Africa	16	17%	7	10%	9	35%
South Asia	11	11%	11	16%	0	0%
Southeast Asia	3	3%	3	4%	0	0%
Asia - Other	0	0%	0	0%	0	0%
Global	2	2%	2	3%	0	0%
Undefined	53	55%	41	59%	12	46%
Fund investment position						
0-10%	6	6%	2	3%	4	15%
10-25%	29	30%	27	39%	2	8%
25-50%	22	23%	18	26%	4	15%
50%+	7	7%	7	10%	0	0%
Unknown	32	33%	16	23%	16	62%

Table A-2: Investor Types in Sample Funds

Panel A: Comparison of Investor Types, Sample v. Non-Sample Funds

	Provided Contracts		Did Not Provide Contracts		*Difference*
	N	Mean	N	Mean	*NMRS-MRS*
Responded to LP question	50	60%	58	41%	*-0.186**
Is the following class of investor invested in your fund?					
Foundations		70%		67%	*-0.033*
Government agencies		23%		17%	*-0.067*
Dev. finance institutions		47%		38%	*-0.092*
High net worth individuals		67%		79%	*0.125*
Pension funds		27%		25%	*-0.017*
Insurance companies		23%		21%	*-0.025*
Other institutional investors		57%		58%	*0.017*

Panel B: Comparison of Investor Types, MRS v. NMRS Funds (Including Non-Sample)

	MRS Funds		NMRS Funds		*Difference*
	N	Mean	N	Mean	*NMRS-MRS*
Responded to LP question	68	49%	27	78%	*0.292***
Is the following class of investor invested in your fund?					
Foundations		70%		67%	*-0.030*
Government agencies		18%		24%	*0.056*
Dev. finance institutions		55%		24%	*-0.307***
High net worth individuals		73%		71%	*-0.013*
Pension funds		30%		19%	*-0.113*
Insurance companies		18%		29%	*0.104*
Other institutional investors		67%		43%	*-0.238**

Panel C: Comparison of Investor Types, MRS v. NMRS Funds in Sample

	MRS Funds		NMRS Funds		*Difference*
	N	Mean	N	Mean	*NMRS-MRS*
Responded to LP question	35	57%	13	77%	*0.198*
Is the following class of investor invested in your fund?					
Foundations		70%		70%	*0.000*
Government agencies		25%		20%	*-0.050*
Dev. finance institutions		55%		30%	*-0.250*
High net worth individuals		70%		60%	*-0.100*
Pension funds		25%		30%	*0.050*
Insurance companies		15%		40%	*0.250*
Other institutional investors		65%		40%	*-0.250*

Table A-3: Characteristics of PE, VC, and Impact Spaces

This table outlines similarities and differences between PE and VC, to put into context our choice to compare to both literatures and the results that we report in Tables 10-12.

	PE	VC	Impact
Similarities			
Function	Raise capital to invest in private companies		✓
Compensation	Compensation structures including management fees and waterfall structures at the fund level		✓
Operational Focus	Fund involvement with PC operations to promote growth		to some degree
Differences			
Industry & Stage	All industries, mature companies	Technology startups such as biotech, clean tech, apps, etc.	Both
Control	Majority control or 100% investment in PC	Minority control/investment in PC	Minority control
Investment	Debt and equity investments in PC	Equity in PC	Debt and equity, preference for equity
Fund Exit	Private company sale, spin off, relisting a company, etc.	Private company sale, IPO, later stage financing redemption	Sale or redemption

Table A-4: Comparison Points From Literature on VC/PE

Author/Date	Sample size	Input	VC/PE	Data date range	Abbreviation
Gompers & Lerner (1996)	140	Partnership agreements	VC	1978-1992	GL '96
Gompers & Lerner (1999)	419	Fund fee contracts	VC	1978-1992	GL '99
Kaplan & Stromberg (2003)	213	Portfolio company investments	VC	1986-1999	KS
Metrick & Yasuda (2010)	238	Funds (contracts + fund research)	VC/PE	1993-2006	MY
Gompers, Kaplan & Mukharlyamov (2016)	79	Investor surveys	PE	2011-2013	GKM
Gompers, Gornall, Kaplan & Strebulaev, NBER 2016 paper	885	Investor surveys	VC	2016-2016	GGKS
Smith (2005)	367	Registration statements of venture-backed IPO's	VC	1997-2002	S

Table A-5: Correlation of Impact and Compensation Terms at the GP-LP Level

This table presents the estimates of a simple correlation of different compensation terms with the impact scores, controlling for the number of contracts at the fund level. The exact equation estimated is:

$$compensation\ term_i = \beta\ fund\ impact\ score_i + \gamma\ num.contracts_i + \epsilon$$

Compensation terms are in percentage points (e.g., 8 for an 8% hurdle rate). Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Panel A: Aspirational impact

	(1) Hurdle rate	(2) Carry rate	(3) Catch-up target	(4) Management fee
Aspirational impact	0.1280	-0.2910	2.7129	0.5447
	(2.1926)	(4.3889)	(5.4812)	(0.6359)
Num. contracts fund-level	✓	✓	✓	✓
Observations	53	53	53	53
R-squared	0.061	0.039	0.006	0.016

Panel B: Operational impact

	(1) Hurdle rate	(2) Carry rate	(3) Catch-up target	(4) Management fee
Operational impact	0.8132	1.2818	5.2155	0.8969
	(2.4417)	(4.8896)	(6.0808)	(0.7028)
Num. contracts fund-level	✓	✓	✓	✓
Observations	53	53	53	53
R-squared	0.063	0.040	0.016	0.033

Table A-6: Operational Impact in GP-PC Contracts and GP-LP Indirect Terms

This table presents the estimates of correlations between impact at the PC level with other scores at the fund level, controlling for the number of contracts at the fund level. The exact equation estimated is:

$$PC\ impact_i = \beta\ fund\ score_i + \gamma\ num.contracts_i + \epsilon$$

Each cell represents the result of a separate regression. The coefficient on number of contracts is omitted for brevity. Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

	All	MRS	NMRS
Investor (LP) return protection	**-0.1376***	-0.1205	**-1.1206***
	(0.0748)	(0.0725)	(0.6030)
Participatory (LP) governance	**0.3012*****	**0.4595*****	-0.0643
	(0.1065)	(0.1170)	(0.2320)
Limits to manager (GP) discretion	**0.4448*****	**0.5846*****	-0.1303
	(0.1339)	(0.1415)	(0.5808)
Manager (GP) restrictions	0.0909	**0.1542****	-0.0736
	(0.0583)	(0.0641)	(0.1293)
N	94	70	24

Figures

Figure A-1: Fund Size and Stage

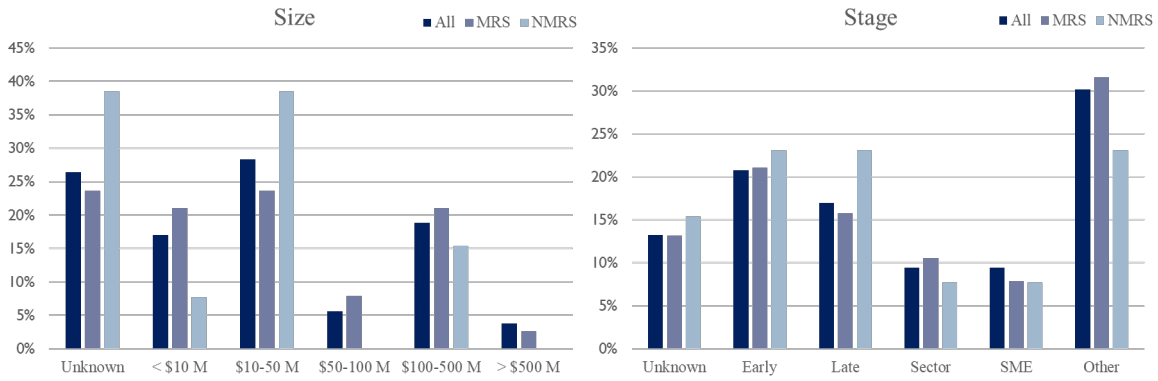


Figure A-2: Fund Geography and Industry Focus

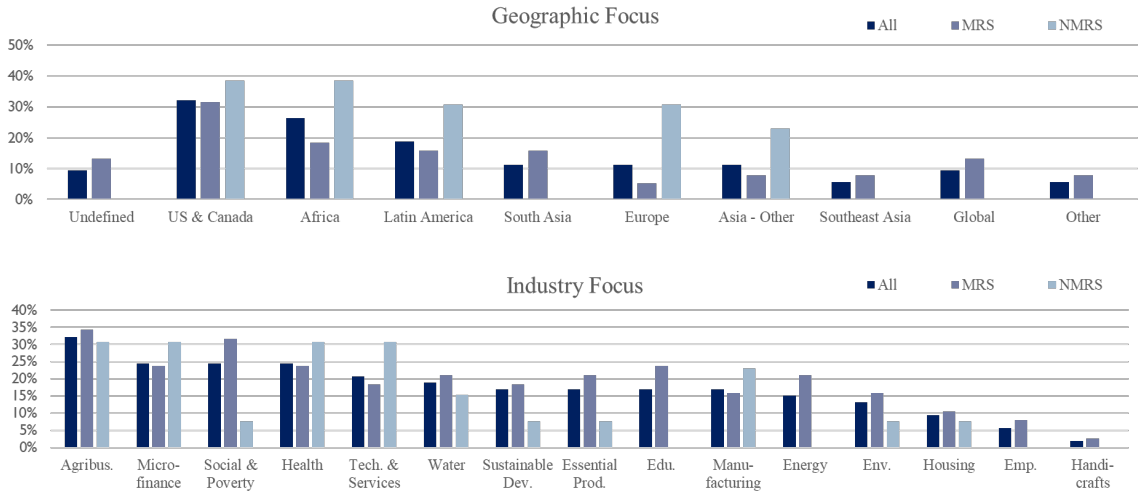


Figure A-3: PC Geography and Industry Focus

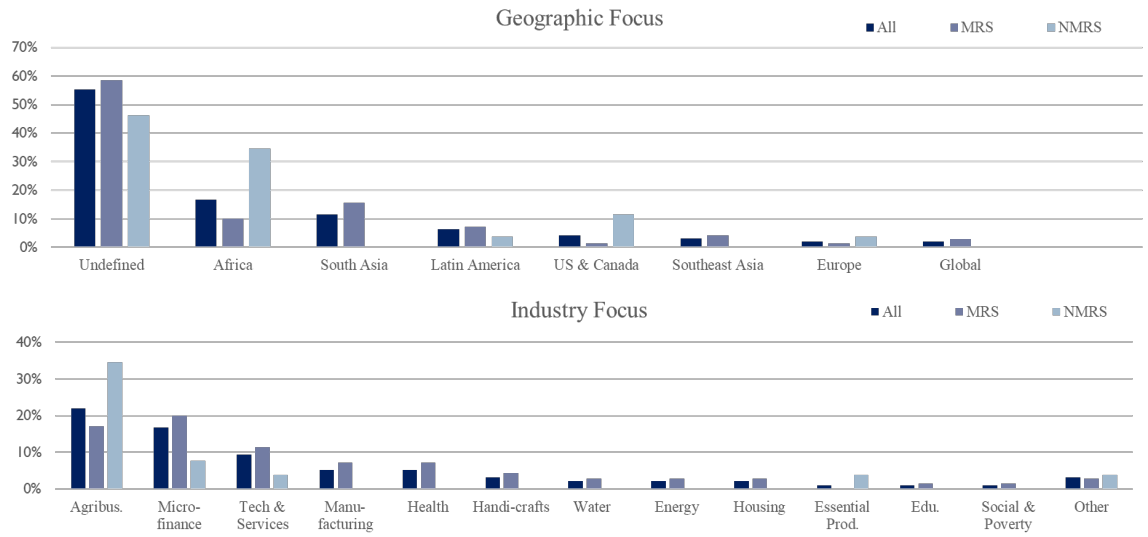


Figure A-4: Impact Score Distribution

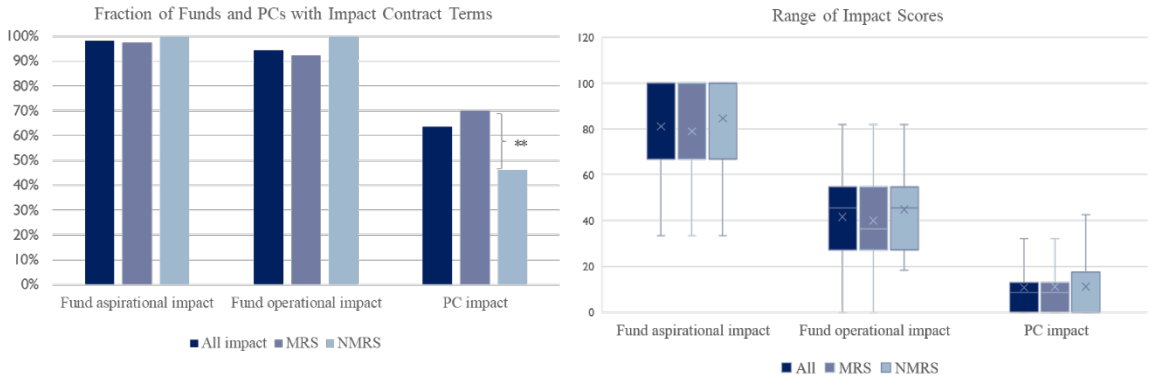


Figure A-5: Most Frequent Operational Impact Terms

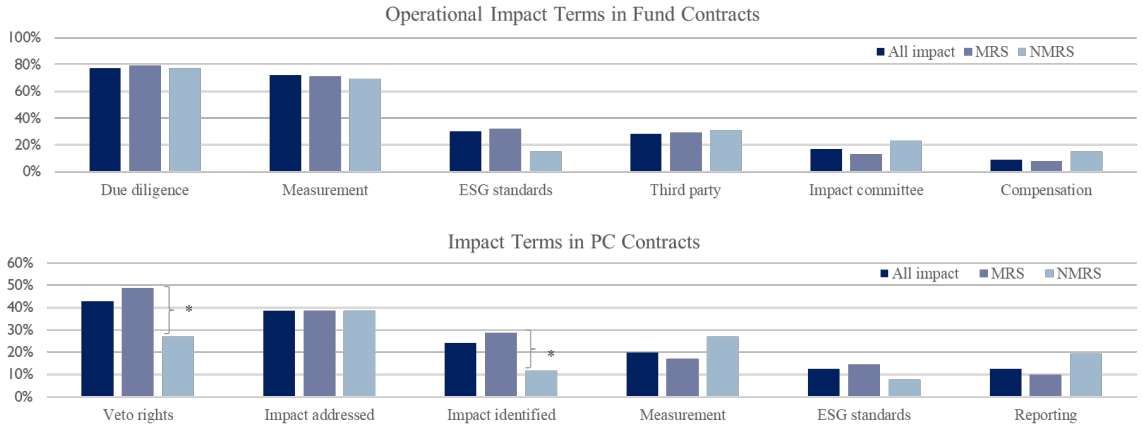


Figure A-6: Distribution of Financial Incentive Terms

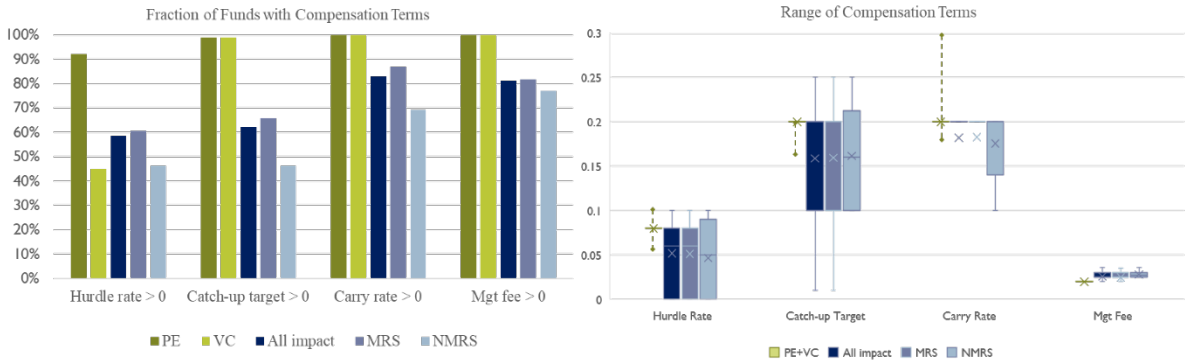


Figure A-7: Distribution of Key Restrictive Provisions

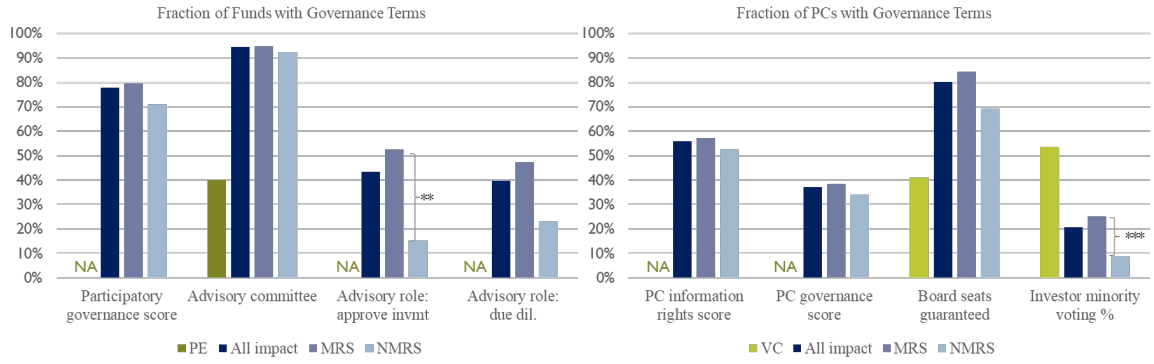
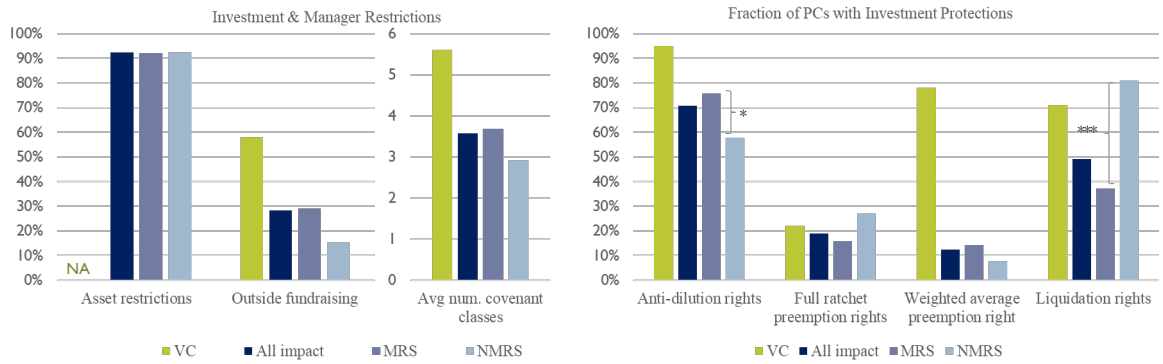


Figure A-8: Distribution of Key Governance Provisions



Internet Appendix

Sample Contract Language

Fund Level (GP-LP documents)

Aspirational impact (impact addressed)

"The Partnership's primary objective is to invest in and operate affordable and workforce multifamily housing Properties in the Target Markets where the need for affordable, safe and well-maintained housing is particularly acute, and also to achieve an investment return consistent with other socially-responsible investments."

Due diligence

Example 1: "The Fund will conduct comprehensive due diligence on all potential investments in order to ascertain their financial situation, management practices, operational procedures, market potential and/or social impacts."

Example 2: "In order to ensure that the Company's funds are invested in businesses that offer the opportunity for growth and development in the Region, the Company, similar to ECD, requires that any applicant for a loan or an investment demonstrate that at least 50% of the jobs created or retained as a result of the proposed loan or investment will be in a county in a region that (1) county median for family income is less than 80% of national median; (b) 20% or more of county residents live at or below the poverty level; (c) the county rate of unemployed exceeds the national rate by 50% or more; (d) the rate of decline in county population between the years 1980 and 1990 was 10% or more."

Impact measurement

"… on a per-rental unit basis taking into account all rental units in all Properties, at least 40% of all tenants in all Properties are at or below 60 % of the area median income applicable to the Property in which their rental units are located, and/or at least 20% of all tenants in all Properties are at or below 50% of the area median income applicable to the Property in which their rental units are located, and "area median income" as to each Property shall be determined by reference to accepted low income housing industry data references."

Adherence to ESG standards

"The Fund and any related fund shall procure that each Investee Company over which it has Effective Control signs an undertaking confirming that It will operate in accordance with the ESG Investment Code. … representatives of the Shareholders shall have the right to visit, upon

a reasonable notice, any of the premises where the business of such Investee Company is conducted and to have access to its books of account and records to the extent reasonably necessary to monitor compliance with the ESG Investment Code."

Impact committee

"The duties of the Impact Committee shall be those enumerated in the Investors' Agreement, including, without limitation, screening of early stage investment opportunities pursuant to the Terms of Reference (including ensuring alignment with the Investor Charitable Goal Requirements) … investment opportunities must be approved by the Impact Committee on a no objections basis (i.e., each voting member must either affirmatively approve or state that they have no objection to such investment opportunity). Any investment opportunity that does not meet the screening criteria set forth in the Terms of Reference shall not be presented to the Investment Committee."

Compensation tied to impact

Example 1: "The closing of the escrow account for the distribution of the Carried Interest in favour of the Participating Shareholders will be subordinated on the achievement of the Social Returns on the basis of the favourable opinion of the Advisory Committee. In case of negative opinion the Carried Interest will contribute to the Fund for the distribution to Limited Shareholders."

Example 2: "The Manager shall further be entitled to an annual incentive fee calculated at fifty basis points (0.5%) of invested capital at the end of each year, which fee shall be based upon the social and developmental returns achieved as a result of the Company's investment in the Portfolio Companies."

PC Level (GP-PC documents)

Veto on change in business plan

"For as long as Investor owns an interest in the Company, and promptly after submission to Investor of each draft annual budget, the Promoter and Investor shall discuss the business plan, and any material change from the previously approved business plan shall require written approval by the investor..."

Impact addressed

"The Final Agreements will include language assuring adherence to the US Foreign Corrupt Practices Act and the Investor's Investment Codes, which require compliance with environmental covenants, IFC Performance Standards, ILO Core Conventions and the UN Declaration of Human Rights, among other aspects."

Impact defined

"[PC] shall utilize the proceeds of the Offering in furtherance of its primary objective to make available regular, reliable and efficient financial services to the economically active urban and rural poor, enabling them to become self reliant and meet their aspirations for a better and secure future."

Adherence to ESG standards

Example 1: "[PC] shall comply with the Social and Environmental Guidelines of the International Finance Corporation."

Example 2: "The Company undertakes to comply with all [country] legal provisions on all applicable environmental laws as well as the ESG."

Impact measurement and reporting

Example 1: "The Company hereby agrees to request and secure an impact certification on behalf of the Global Impact Investing Rating System ("GIIRS") within 3 (three) months post-Closing."

Example 2: "Purchasers will be provided with … a series of measures of social impact as agreed by the Company and Purchasers, as Purchasers may reasonably request. Purchasers will be entitled to inspection rights of the books and registers maintained by the Company."

Example 3: [PC must] "(vi) Deliver to Investor not later than forty-five (45) days, or such longer period as Investor deems reasonably appropriate following the end of the Company's fiscal year, data on the number and nature of jobs created during the fiscal year."

Table IA-1: Non-impact Contracting Scores at the GP-LP Level for Funds Under $30 Million

This table presents summary statistics for fund-level governance and control contract provisions (as in Table 6), restricted to small funds below $30 million in assets.

					Percentile					
	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% ≠ 0
Investor return protection											
All	32	27.60	18.02	0.00	8.33	8.33	29.17	41.67	50.00	66.67	90.63
MRS	23	25.36	19.54	0.00	0.00	8.33	25.00	41.67	50.00	66.67	86.96
NMRS	9	33.33	12.50	8.33	8.33	25.00	33.33	41.67	50.00	50.00	100.00
Difference NMRS-MRS		7.97									13.04
Participatory governance											
All	32	72.92	19.99	22.22	50.00	61.11	75.00	88.89	100.00	100.00	100.00
MRS	23	73.67	21.60	22.22	44.44	66.67	77.78	88.89	100.00	100.00	100.00
NMRS	9	70.99	16.14	50.00	50.00	61.11	66.67	83.33	100.00	100.00	100.00
Difference NMRS-MRS		-2.68									0
Limits on manager discretion											
All	32	15.42	12.14	0.00	3.33	5.00	13.33	21.67	33.33	43.33	90.63
MRS	23	14.49	12.78	0.00	0.00	3.33	13.33	20.00	33.33	43.33	86.96
NMRS	9	17.78	10.67	6.67	6.67	13.33	13.33	23.33	40.00	40.00	100.00
Difference NMRS-MRS		3.29									13.04
Manager restrictions											
All	32	18.57	32.74	-17.65	-11.76	-5.88	5.88	38.24	76.47	88.24	93.75
MRS	23	19.44	34.14	-17.65	-11.76	-11.76	5.88	52.94	76.47	88.24	95.65
NMRS	9	16.34	30.68	-17.65	-17.65	-5.88	5.88	23.53	76.47	76.47	88.89
Difference NMRS-MRS		-3.10									-6.763
Num. contracts per fund											
All	32	2.00	1.02	1.00	1.00	1.00	2.00	2.00	3.00	5.00	
MRS	23	1.78	0.60	1.00	1.00	1.00	2.00	2.00	2.00	3.00	
NMRS	9	2.56	1.59	1.00	1.00	1.00	2.00	3.00	5.00	5.00	
Difference NMRS-MRS		0.773*									

Table IA-2: Non-impact Contracting Scores at the GP-LP Level for Funds Over $100 Million

This table presents summary statistics for fund-level governance and control contract provisions (as in Table 6), restricted to large funds above $100 million in assets.

					Percentile					
	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% ≠ 0
Investor return protection	13	33.33	19.84	0.00	0.00	25.00	41.67	41.67	50.00	66.67	84.62
Participatory governance	13	85.90	13.91	61.11	66.67	77.78	88.89	100.00	100.00	100.00	100.00
Limits on manager discretion	13	26.15	12.83	6.67	6.67	20.00	26.67	33.33	43.33	46.67	100.00
Manager restrictions	13	36.20	30.36	-5.88	-5.88	17.65	29.41	64.71	76.47	76.47	92.31
Num. contracts per fund	13	2.15	1.57	1.00	1.00	1.00	2.00	2.00	4.00	6.00	

Table IA-3: Non-impact Contracting Scores at the GP-PC Level for Funds Under $30 Million

This table presents summary statistics for PC-level governance and control contract provisions (as in Table 7), restricted to small funds below $30 million in assets.

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% ≠ 0
Governance in PC											
All	58	41.65	16.56	0.00	14.71	35.29	44.12	53.53	60.59	66.47	96.55
MRS	42	45.06	15.00	0.00	23.53	41.18	45.29	57.65	61.76	66.47	97.62
NMRS	16	32.72	17.59	0.00	2.35	19.12	37.94	44.71	55.88	55.88	93.75
Diff. NMRS-MRS		-12.34***									-3.87
Information rights											
All	58	63.22	31.03	0.00	0.00	66.67	66.67	66.67	100.00	100.00	86.21
MRS	42	69.05	24.85	0.00	33.33	66.67	66.67	100.00	100.00	100.00	95.24
NMRS	16	47.92	40.31	0.00	0.00	0.00	66.67	66.67	100.00	100.00	62.50
Diff. NMRS-MRS		-21.13**									-32.74***
Exit control											
All	58	30.06	15.96	0.00	6.25	21.88	29.69	43.75	50.00	62.50	96.55
MRS	42	33.78	15.97	0.00	6.25	21.88	35.94	46.88	50.00	62.50	97.62
NMRS	16	20.31	11.47	0.00	6.25	10.94	21.88	25.00	37.50	43.75	93.75
Diff. NMRS-MRS		-13.47***									-3.87
Investment protection											
All	58	31.92	17.36	0.00	12.12	18.18	30.30	42.42	57.58	66.67	93.10
MRS	42	31.75	14.42	0.00	18.18	18.18	30.30	42.42	54.55	60.61	95.24
NMRS	16	32.39	24.01	0.00	0.00	12.12	24.24	59.09	60.61	66.67	87.50
Diff. NMRS-MRS		0.64									-7.74

Table IA-4: Non-impact Contracting Scores at the GP-PC Level for Funds Over $100 Million

This table presents summary statistics for PC-level governance and control contract provisions (as in Table 7), restricted to large funds over $100 million in assets.

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% ≠ 0
Governance in PC	36	29.67	18.78	0.00	0.00	14.71	35.59	47.65	51.76	55.88	86.11
Information rights	36	43.52	37.22	0.00	0.00	0.00	66.67	66.67	100.00	100.00	61.11
Exit control	36	26.22	19.31	0.00	0.00	6.25	28.13	40.63	53.13	56.25	80.56
Investment protection	36	36.28	27.44	0.00	0.00	6.06	42.42	60.61	63.64	84.85	75.00

Table IA-5: Direct Impact Terms at the GP-LP Level for Funds Under $30 Million

This table presents summary statistics for fund-level impact terms (as in Table 8), restricted to small funds below $30 million in assets.

Panel A: Scores by fund type

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% > 0
Aspirational impact											
All	32	79.2	25.0	0.0	66.7	66.7	83	100	100	100	96.9
MRS	23	78.3	25.8	0.0	66.7	66.7	67	100	100	100	95.7
NMRS	9	81.5	24.2	33.3	33.3	66.7	100	100	100	100	100.0
Difference NMRS-MRS		3.2									4.3
Operational impact											
All	32	44.6	23.4	0.0	18.2	27.3	45.5	54.6	81.8	100	96.9
MRS	23	45.5	25.0	0.0	18.2	27.3	45.5	54.6	81.8	100	95.7
NMRS	9	42.4	19.8	18.2	18.2	27.3	45.5	45.5	81.8	81.8	100.0
Difference NMRS-MRS		-3.0									4.3

Panel B: Break-out of impact terms

	Score weight	Incidence (% funds) All	MRS	NMRS	Difference NMRS-MRS
Aspirational impact terms					
Social impact addressed in agreement	1	97%	96%	100%	*4.3%*
Agreement generally prohibits negative impact	1	50%	48%	56%	*7.7%*
Fund commitment to social impact	1 if either	84%	91%	67%	*-24.6%**
Fund commitment to environmental impact	1 if either	69%	70%	67%	*-2.9%*
Operational impact terms					
Fund commitment to international ESG standards	0.5	25%	30%	11%	*-19.3%*
Fund GP/Manager compensation tied to benefit/impact performance	1	13%	9%	22%	*13.5%*
Fund investment due diligence policy addresses impact generally	0.5	81%	83%	78%	*-4.8%*
Fund investment due diligence policy addresses portfolio company impact	1	63%	57%	78%	*21.3%*
Fund measures social impact	1	81%	87%	67%	*-20.3%*
Fund uses external, third party monitor or reporting system	0.5	34%	39%	22%	*-16.9%*
Fund has an impact committee	1	19%	22%	11%	*-10.6%*

Table IA-6: Direct Impact Terms at the GP-LP Level for Funds Over $100 Million

This table presents summary statistics for fund-level impact terms (as in Table 8), restricted to large funds above $100 million in assets.

Panel A: Scores by fund type

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% > 0
Aspirational impact	13	84.6	25.9	33.3	33.3	66.7	100	100	100	100	100.0
Operational impact	13	36.4	22.3	0.0	9.1	27.3	27.3	54.6	72.7	73	92.3

Panel B: Break-out of impact terms

	Score weight	Incidence (% funds)
Aspirational impact terms		
Social impact addressed in agreement	1	92%
Agreement generally prohibits negative impact	1	85%
Fund commitment to social impact	1 if either	77%
Fund commitment to environmental impact	1 if either	54%
Operational impact terms		
Fund commitment to international ESG standards	0.5	31%
Fund GP/Manager compensation tied to benefit/impact performance	1	8%
Fund investment due diligence policy addresses impact generally	0.5	77%
Fund investment due diligence policy addresses portfolio company impact	1	62%
Fund measures social impact	1	46%
Fund uses external, third party monitor or reporting system	0.5	15%
Fund has an impact committee	1	23%

Table IA-7: Direct Impact Terms at the GP-PC Level for Funds Under $30 Million

This table presents summary statistics for PC-level impact terms (as in Table 9), but restricted to small funds below $30 million in assets. "% funds with >0" refers to the fraction of funds in the group that have at least one PC contract with a positive impact score.

Panel A: PC impact score

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% > 0	% funds with >0
All	58	11.6	13.7	0.0	0.0	0.0	8.5	12.8	31.9	53.2	69.0	100%
MRS	42	13.7	14.2	0.0	0.0	4.3	8.5	23.4	31.9	53.2	78.6	100%
NMRS	16	5.9	10.3	0.0	0.0	0.0	0.0	8.5	12.8	40.4	43.8	100%
Diff. NMRS-MRS		*-7.88***									*-34.82****	

Panel B: Break-out of impact terms

	Score weight	Incidence (% funds) All	MRS	NMRS	Difference NMRS-MRS
PC's mission locked in at the fund's exit	1	3%	5%	0%	-4.8%
Fund exit right if change in location or business model or benefit	0.5	2%	0%	6%	6.3%
Fund veto right on deviations from the business plan of the PC	1	45%	55%	19%	-36.0%**
PC has an impact committee	0.5	0%	0%	0%	0.0%
Fund participates in PC impact committee	0.5	0%	0%	0%	0.0%
Fund information rights include impact information	1	12%	14%	6%	-8.0%
PC environmental or social benefit is measured	1	21%	24%	13%	-11.3%
Internal impact measurement	0.5	3%	5%	0%	-4.8%
External impact measurement	0.5	7%	10%	0%	-9.5%
PC impact performance is reported	1	14%	17%	6%	-10.4%
Impact performance reporting done annually	0.25	9%	12%	0%	-11.9%
Compensation tied to benefit/impact performance	1	2%	2%	0%	-2.4%
Impact addressed generally	0.25	36%	38%	31%	-6.8%
Impact identified	0.25	17%	19%	13%	-6.5%
Additional social impact channels (e.g. ESG standards)	1	17%	21%	6%	-15.2%
Document specifies impact performance reporting	0.25	14%	17%	6%	-10.4%

Table IA-8: Direct Impact Terms at the GP-PC Level for Funds Over $100 Million

This table presents summary statistics for PC-level impact terms (as in Table 9), but restricted to large funds above $100 million in assets. "% funds with >0" refers to the fraction of funds in the group that have at least one PC contract with a positive impact score.

Panel A: PC impact score

	N	Mean	S.D.	Min	10th	25th	50th	75th	90th	Max	% > 0	% funds with >0
All	36	9.3	12.5	0.0	0.0	0.0	3.2	12.8	31.9	40.4	55.6	80%

Panel B: Break-out of impact terms

	Score weight	Incidence (% funds)
PC's mission locked in at the fund's exit	1	3%
Fund exit right if change in location or business model or benefit	0.5	0%
Fund veto right on deviations from the business plan of the PC	1	39%
PC has an impact committee	0.5	0%
Fund participates in PC impact committee	0.5	0%
Fund information rights include impact information	1	3%
PC environmental or social benefit is measured	1	17%
Internal impact measurement	0.5	0%
External impact measurement	0.5	14%
PC impact performance is reported	1	11%
Impact performance reporting done annually	0.25	8%
Compensation tied to benefit/impact performance	1	0%
Impact addressed generally	0.25	42%
Impact identified	0.25	33%
Additional social impact channels (e.g. ESG standards)	1	3%
Document specifies impact performance reporting	0.25	11%

Table IA-9: GP Compensation for Funds Under $30 Million

This table presents a comparison of the compensation terms observed for impact funds relative to non-impact funds (as in Table 11), restricted to small funds below $30 million in assets. The incidence rate is defined as the percent of funds with a non-zero value for the term in question. The mode and range are only reported for these non-zero values. For the management fee break-outs, funds with no management fees are counted in the "<2%" group.

	Non-impact		Impact			Difference
	Reference	Non-impact	All	MRS	NMRS	NMRS-MRS
N			32	23	9	
Waterfall						
Incidence	MY (VC+PE)	100%	84%	83%	89%	6.3%
Hurdle rate						
Incidence	MY (VC)	45%	47%	48%	44%	-3.4%
	MY (PE)	92%				
Mode	MY (VC)	8%	6%	5%	10%	
	MY (PE)	8%				
Range	MY (VC+PE)	6-10%	3-10%	5-8%	3-10%	
Carried interest						
Incidence	MY (VC+PE)	100%	81%	83%	78%	-4.8%
Mode	MY (VC)	20%	20%	20%	20%	
	MY (PE)	20%				
	GL '99	20%				
Range	MY (VC)	17.5-30%	10-25%	10-25%	10-20%	
	MY (PE)	all at 20%				
	GL '99	0-45%				
		(81% in 20-21%)				
Catch-up target						
Incidence	MY (VC+PE)	99%	56%	61%	44%	-16.4%
Mode	MY (VC+PE)	20%[24]	10%	10%	10%	
Range	MY (VC+PE)	16.5-20%	1-25%	1-25%	10-20%	
Management fee						
Incidence	MY (VC+PE)	100%	75%	70%	89%	19.3%
Range			2-3.6%	2-3.5%	2.5-3.6%	
% of funds:						
< 2%	MY (VC)	43%	25%	30%	11%	
	MY (PE)	8%				
2%	MY (VC)	47%	3%	4%	0%	
	MY (PE)	41%				
> 2%	MY (VC)	10%	72%	65%	89%	
	MY (PE)	51%				

[24] MY uses 100% to represent that the GPs get 100% of their profit allocation under the contract before the remaining profits are split between the manager and the investors, where that profit allocation is usually 20%. We express that number directly as a catch-up target of 20%.

Table IA-10: GP Compensation for Funds Over $100 Million

This table presents a comparison of the compensation terms observed for impact funds relative to non-impact funds (as in Table 11), restricted to large funds above $100 million in assets. The incidence rate is defined as the percent of funds with a non-zero value for the term in question. The mode and range are only reported for these non-zero values. For the management fee break-outs, funds with no management fees are counted in the "<2%" group.

	Non-impact		Impact
	Reference	Non-impact	≥ $100 M
N			13
Waterfall			
Incidence	MY (VC+PE)	100%	92%
Hurdle rate			
Incidence	MY (VC)	45%	77%
	MY (PE)	92%	
Mode	MY (VC)	8%	8%
	MY (PE)	8%	
Range	MY (VC+PE)	6-10%	6-10%
Carried interest			
Incidence	MY (VC+PE)	100%	92%
Mode	MY (VC)	20%	20%
	MY (PE)	20%	
	GL '99	20%	
Range	MY (VC)	17.5-30%	20-20%
	MY (PE)	all at 20%	
	GL '99	0-45%	
		(81% in 20-21%)	
Catch-up target			
Incidence	MY (VC+PE)	99%	77%
Mode	MY (VC+PE)	20%[25]	17%
Range	MY (VC+PE)	16.5-20%	3-25%
Management fee			
Incidence	MY (VC+PE)	100%	100%
Range			1.5-3%
% of funds:			
< 2%	MY (VC)	43%	23%
	MY (PE)	8%	
2%	MY (VC)	47%	0%
	MY (PE)	41%	
> 2%	MY (VC)	10%	77%
	MY (PE)	51%	

[25] MY uses 100% to represent that the GPs get 100% of their profit allocation under the contract before the remaining profits are split between the manager and the investors, where that profit allocation is usually 20%. We express that number directly as a catch-up target of 20%.

Table IA-11: Covenants for Funds Under $30 Million

Panel A: Fund Limits to Manager Discretion and Manager Restrictions at the GP-LP Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
N			32	23	9	
Limits to Manager Discretion						
Limits to manager discretion – total score			*15.4*	*14.5*	*17.78*	*3.29*
Asset restrictions	n/a		91%	87%	100%	13.0%
Conflict of interest transactions	n/a		16%	22%	0%	-21.7%
Fund family co-investment prohibition	n/a		3%	0%	11%	11.1%
Region investment cap	n/a		3%	4%	0%	-4.3%
No outside region investment	n/a		13%	13%	11%	-1.9%
No outside sector investments	n/a		6%	4%	11%	6.8%
Industry restrictions y/n	n/a		13%	9%	22%	13.5%
Industry cap	n/a		0%	0%	0%	0.0%
Manager Restrictions						
Manager restrictions – total score			*18.6*	*19.4*	*16.34*	*-3.10*
Reinvesting fund profits	GL '96	21%	59%	52%	78%	25.6%
Coinvesting with fund	GL '96	73%	53%	61%	33%	-27.5%
Outside fundraising	GL '96	58%	22%	26%	11%	-15.0%
Outside activities			28%	26%	33%	7.2%
Combined						
Average number of covenant classes	GL '96	5.6	3.1	3.0	3.1	0.0676

Panel B: Investment Protection and Exit at the GP-PC Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
N			58	42	16	
Investment protection						
Investment protection – total score			*31.9*	*31.8*	*32.4*	*0.64*
Anti-dilution of fund investment	KS	95%	78%	88%	50%	-38.10%***
Full ratchet preemption	KS	22%	19%	19%	19%	-0.3%
Weighted average preemption	KS	78%	5%	5%	6%	1.5%
Founder/entrepreneur non-compete	KS	70%	43%	43%	44%	0.9%
Fund liquidation rights	KS	71%	41%	29%	75%	46.43%***
Exit						
Exit control – total score			30.1	33.8	20.3	-13.47***
Fund put/redemption right	KS	79%	55%	64%	31%	-33.04%**
	S	43%				
Registration rights	S	90%	53%	60%	38%	-22.0%

Table IA-12: Covenants for Funds Over $100 Million

Panel A: Fund Limits to Manager Discretion and Manager Restrictions at the GP-LP Level

	Non-impact		Impact
	Reference	Incidence	≥ $100 M
N			13
Limits to Manager Discretion			
Limits to manager discretion – total score			*26.2*
Asset restrictions	n/a		100%
Conflict of interest transactions	n/a		0%
Fund family co-investment prohibition	n/a		0%
Region investment cap	n/a		15%
No outside region investment	n/a		46%
No outside sector investments	n/a		8%
Industry restrictions y/n	n/a		23%
Industry cap	n/a		8%
Manager Restrictions			
Manager restrictions – total score			*36.2*
Reinvesting fund profits	GL '96	21%	92%
Coinvesting with fund	GL '96	73%	38%
Outside fundraising	GL '96	58%	38%
Outside activities			54%
Combined			
Average number of covenant classes	GL '96	5.6	4.2

Panel B: Investment Protection and Exit at the GP-PC Level

	Non-impact		Impact
	Reference	Incidence	≥ $100 M
N			36
Investment protection			
Investment protection – total score			*36.3*
Anti-dilution of fund investment	KS	95%	*61%*
Full ratchet preemption	KS	22%	*19%*
Weighted average preemption	KS	78%	*25%*
Founder/entrepreneur non-compete	KS	70%	*58%*
Fund liquidation rights	KS	71%	*58%*
Exit			
Exit control – total score			*26.2*
Fund put/redemption right	KS	79%	*47%*
	S	43%	
Registration rights	S	90%	*31%*

Table IA-13: Participatory Governance for Funds Under $30 Million

Panel A: Participatory governance at the GP-LP Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
N			32	23	9	
Participatory governance – total score			*72.9*	*73.7*	*71.0*	*-2.68*
Advisory committee incidence		n/a	94%	91%	100%	8.7%
Advisory committee role:						
Generally advise GP or BOD		n/a	69%	65%	78%	12.6%
Technical assistance to GP or BOD		n/a	9%	4%	22%	17.9%
Policy assistance to GP or BOD		n/a	9%	4%	22%	17.9%
Evaluate loans		n/a	3%	0%	11%	11.1%
Investment strategy		n/a	44%	48%	33%	-14.5%
Due diligence		n/a	38%	43%	22%	-21.3%
Approve investments		n/a	47%	61%	11%	-49.8%**
Investment financial performance review		n/a	3%	4%	0%	-4.3%
Investment impact review		n/a	6%	4%	11%	6.8%
Approve conflict of interests		n/a	38%	35%	44%	9.7%
Asset valuations		n/a	25%	22%	33%	11.6%
Approve exit scenarios		n/a	22%	22%	22%	0.5%
Approve reports and audits		n/a	9%	13%	0%	-13.0%
Approve budgets, reserves, draw downs and/or fees		n/a	19%	17%	22%	4.8%
Fund compliance		n/a	22%	26%	11%	-15.0%
Fund life: terminate or extend the fund		n/a	6%	9%	0%	-8.7%
No description		n/a	3%	0%	11%	11.1%

Panel B: Governance at the GP-PC Level

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
N			58	42	16	
Governance – total score			*41.7*	*45.1*	*32.7*	*-12.3****
Information rights – total score			*63.2*	*69.1*	*47.9*	*-21.1***
Investor board seats guaranteed		n/a	86%	93%	69%	-24.1%**
Number of guaranteed seat?	GKM	2.80	1.4	1.3	1.5	0.12
PC board size	GKM	5-7 mem.	5.9	6.0	5.6	-0.40
	KS	6 mem.				
Investor majority control	KS	25.4%	0%	0%	0%	0%
Investor min. voting %	KS	53.6%	19%	24%	6%	-17.8***

Table IA-14: Participatory Governance for Funds Over $100 Million

Panel A: Participatory governance at the GP-LP Level

	Non-impact		Impact
	Reference	Incidence	≥ $100 M
N			13
Participatory governance – total score			*85.9*
Advisory committee incidence		n/a	100%
Advisory committee role:			
Generally advise GP or BOD		n/a	69%
Technical assistance to GP or BOD		n/a	0%
Policy assistance to GP or BOD		n/a	15%
Evaluate loans		n/a	0%
Investment strategy		n/a	46%
Due diligence		n/a	54%
Approve investments		n/a	31%
Investment financial performance review		n/a	23%
Investment impact review		n/a	0%
Approve conflict of interests		n/a	54%
Asset valuations		n/a	38%
Approve exit scenarios		n/a	15%
Approve reports and audits		n/a	8%
Approve budgets, reserves, draw downs and/or fees		n/a	15%
Fund compliance		n/a	31%
Fund life: terminate or extend the fund		n/a	8%
No description		n/a	15%

Panel B: Governance at the GP-PC Level

	Non-impact		Impact
	Reference	Incidence	≥ $100 M
N			36
Governance – total score			*29.7*
Information rights – total score			*43.5*
Investor board seats guaranteed		n/a	69%
Number of guaranteed seat?	GKM	2.80	1.4
PC board size	GKM	5-7 mem.	6.2
	KS	6 mem.	
Investor majority control	KS	25.4%	0%
Investor min. voting %	KS	53.6%	24%

Table IA-15: GP Compensation for 1993-2006

This table presents a comparison of compensation terms (as in Table 11), limited to the time period in the comparison sample from Metrick & Yasuda (2010). The incidence rate is defined as the percent of funds with a non-zero value for the term in question. The mode and range are only reported for these non-zero values. For the management fee break-outs, funds with no management fees are counted in the "<2%" group.

	Non-impact		Impact			Difference
	Reference	Non-impact	All	MRS	NMRS	NMRS-MRS
N			9	4	5	
Waterfall						
Incidence	MY (VC+PE)	100%	78%	75%	80%	5.0%
Hurdle rate						
Incidence	MY (VC)	45%	22%	25%	20%	-5.0%
	MY (PE)	92%				
Mode	MY (VC)	8%	7%	8%	6%	
	MY (PE)	8%				
Range	MY (VC+PE)	6-10%	6-8%	8-8%	6-6%	
Carried interest						
Incidence	MY (VC+PE)	100%	67%	75%	60%	-15.0%
Mode	MY (VC)	20%	20%	20%	20%	
	MY (PE)	20%				
	GL '99	20%				
Range	MY (VC)	17.5-30%	20-25%	20-25%	20-20%	
	MY (PE)	all at 20%				
	GL '99	0-45%				
		(81% in 20-21%)				
Catch-up target						
Incidence	MY (VC+PE)	99%	22%	25%	20%	-5.0%
Mode	MY (VC+PE)	20%[26]	25%	25%	25%	
Range	MY (VC+PE)	16.5-20%	25-25%	25-25%	25-25%	
Management fee						
Incidence	MY (VC+PE)	100%	89%	100%	80%	-20.0%
Range			2.5-3.5%	2.5-3.5%	2.5-3%	
% of funds:						
< 2%	MY (VC)	43%	11%	0%	20%	
	MY (PE)	8%				
=2%	MY (VC)	47%	0%	0%	0%	
	MY (PE)	41%				
> 2%	MY (VC)	10%	89%	100%	80%	
	MY (PE)	51%				

[26] MY uses 100% to represent that the GPs get 100% of their profit allocation under the contract before the remaining profits are split between the manager and the investors, where that profit allocation is usually 20%. We express that number directly as a catch-up target of 20%.

Table IA-16: PC Registration Rights for 2000-2003

This table presents a comparison of registration rights (as in Table 12 Panel B), limited to a time period similar to the comparison sample from Smith (2005). Smith uses data from 1997-2002. We do not have data for MRS funds during these 5 years, so we include 2003. We also do not have data from NMRS funds for 1997-1999, so our best comparison period is 2000-2003.

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
N			11	7	4	
Registration rights	S	90%	82%	75%	86%	10.7%

Table IA-17: Board Seats and Size for 2011-2013

This table presents a comparison of guaranteed board seats and board size (as in Table 13 Panel B), limited to the time period of the comparison sample from Gompers, Kaplan and Mukharlyamov (2016).

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
N			18	14	4	
Number of guaranteed seat?	GKM	2.80	1.7	1.6	1.8	0.11
PC board size	GKM	5-7 mem.	6.3	6.4	5.7	-0.75
	KS	6 mem.				

Table IA-18: PC Fees Paid to Funds

This table presents a comparison of PC fees paid to funds. The reference sample comes from Phalippou, Rauch, and Umber (2018) (PRU), who examine the fraction of leveraged buyout (LBO) transactions in their sample that have a fee going from the PC to the GP.

	Non-impact		Impact			Difference
	Reference	Incidence	All	MRS	NMRS	NMRS-MRS
N			96	70	26	
Commission fee	PRU	84%	0.34	0.27	0.54	0.267**

Scoring Notes

Fund Scores

Investor return protection — This score captures direct contract rights that protect investors' investment in the fund.
Scoring notes: Questions were identified as high, medium or low importance. High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25. For liquidation rights, we take the maximum across breakout categories.

Question	Weight	Mean
Are securities issued in the fund convertible?	0.25	9.4%
Do fund investors have a "call" option?	0.25	5.7%
Do fund investors have a "put" option or redemption rights?	0.25	17.0%
Are there rights of first refusal (ROFR) on fund investors' securities?	0.25	17.0%
Are there other restrictions on 3rd party securities sales?	0.25	81.1%
Do fund Investors have "tag along" rights?	0.25	1.9%
Are fund Investors subject to "drag along" rights?	0.25	3.7%
Are fund investors' securities' subject to preemptive and/or anti-dilution rights?	0.25	20.8%
Breakouts of liquidation cash flow rights	*MAX of following*	
1. After debts, paid subject to waterfall	1	35.8%
2. LP receive liquidation priority in proportion to capital accounts	0.5	20.8%
3. Tiered payment of capital accounts then waterfall	0.5	9.4%
4. Pro rata distribution among all shares	0.5	7.5%
5. No guaranteed payments to LP in liquidation	0	13.2%
6. Redemption of shares upon liquidation	0.5	1.9%

Participatory governance — This score captures indirect contract rights that may protect investors' investment.
Scoring notes: High importance terms have a weight of1; medium importance terms a weight of .5; and low importance terms a weight of .25. Specified advisory committee roles receive a weight of .25, capped at a maximum of 1.

Question	Weight	Mean
Do fund investors have information rights to receive quarterly statements?	1	77.4%
Do fund investors have information rights to receive annual audited financials?	1	86.8%
Agreement restrictions on naming new GP/Managers?	0.5	41.5%

Does the fund have an investment committee or advisory committee?	1	94.3%
Advisory committee breakouts	*SUM of following, CAP at 1*	
1. Generally advise GP or BOD	.25	64.2%
2. Technical assistance to GP or BOD	.25	9.4%
3. Policy assistance to GP or BOD	.25	13.2%
4. Evaluate loans	.25	3.8%
5. Investment strategy	.25	43.4%
6. Due diligence	.25	39.6%
7. Approve investments	.25	43.4%
8. Investment financial performance review	.25	7.5%
9. Investment impact review	.25	5.7%
10. Approve conflict of interests	.25	39.6%
11. Asset valuations	.25	32.1%
12. Approve exit scenarios	.25	22.6%
13. Approve reports and audits	.25	7.5%
14. Approve budgets, reserves, draw downs and/or fees	.25	17.0%
15. Fund compliance	.25	26.4%
16. Fund life: terminate or extend the fund	.25	7.5%
17. No description	.25	7.5%

Limits to manager discretion — This score captures the discretion afforded to fund managers under the terms of the agreement. There are two subcategories.

A. **Asset restrictions —** This sub-score captures asset investment discretion, usually in the form of caps, limits and broad prohibitions.
Scoring notes: High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25.

Question	Weight	Mean
PC Investment Cap	1	43.4%
Sector Investment Cap	1	13.2%
Conflict of interest transactions	0.5	11.3%
Fund family co-investment prohibition	0.5	3.7%
Region Investment Cap	1	9.4%
No outside region investment	1	22.6%
No outside sector investments	1	9.4%
Industry restrictions	1	18.9%
Industry cap	1	5.7%
Are there capital limits on fund investment in Portfolio Companies?	1	73.6%

Is the fund prohibited from certain asset investments?	1	45.3%

B. **Prohibitions —** This sub-score captures specific asset allocation prohibitions. Scoring notes: Each prohibition receives a weight of .5, and the sum is capped at 5, i.e. half of the total possible for "Asset restrictions."

Question	Weight (Cap at 5)	Mean
No harmful substances	.5	11.3%
No real estate	.5	9.4%
No oil and gas	.5	11.3%
No mining	.5	3.8%
No media and movie productions	.5	7.5%
No gaming	.5	11.3%
No pooled investments / funds	.5	9.4%
No public companies	.5	7.5%
Other	.5	17.0%
No violation of tax code	.5	9.4%
No violation of SBA program	.5	3.8%
No hostile transactions	.5	7.5%

Manager restrictions — This score captures restrictions imposed on managers, such as fiduciary duty, ability to reinvest funds, and manager's outside activities.
Scoring notes: High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25. If the term *removes* restrictions for the manager (or gives explicit permission for discretion), then the score is negative.

Question	Weight	Mean
Does the manager have a non-compete with the fund?	0.5	43.4%
Did the manager sign a confidentiality agreement with the fund?	0.5	20.8%
Does the Manager owe fiduciary duties to the fund?	1	52.8%
Can the Manager co-invest with the fund?	-0.5	49.1%
Can Managers reinvest fund profits?	-0.25	69.8%
Is the fund GP/Manager restricted on outside fund raising?	1	28.3%
Is the GP/Managers prohibited from activity outside of the fund?	1	35.8%
Does the agreement restrict asset investments in which GP/Manager has little experience?	0.25	0.0%

Aspirational Impact — This score captures when fund documents describe intended impact, but where those statements are not reduced to contract terms between investors and the fund.
Scoring notes: All questions have a weight of 1. Commitment to impact and environmental impact are not additive – the maximum of the two is taken as a "commitment to impact" score.

Question	Weight	Mean
Social impact addressed in agreement?	1	94.3%
Does the agreement generally prohibit negative impact?	1	60.4%
Commitment to impact	*MAX of following*	
Does the fund have a commitment to social impact?	1	83.0%
Does the fund have an environmental impact commitment?	1	62.3%

Operational Impact — This score captures where fund documents incorporate impact goals into contract terms with fund investors.
Scoring notes: High importance terms have a weight of1; medium importance terms a weight of .5; and low importance terms a weight of .25. Consideration is given to "incremental" questions, e.g. around due diligence and measurement, such that if one question to that point is already given high importance the other is given medium importance.

Question	Weight	Mean
Is fund committed to international ESG standards?	0.5	30.2%
Is the fund GP/Manager's compensation tied to benefit/impact performance?	1	9.4%
Does the fund's investment due diligence policy address impact generally?	0.5	77.4%
Does the fund's investment due diligence policy address portfolio company impact?	1	62.3%
Does the fund measure social impact?	1	71.7%
If yes, does the fund use external, third party monitor or reporting system?	0.5	28.3%
Does the fund have an impact committee?	1	17.0%

PC Scores

Exit Control — This score captures a fund's exit paths from the investment in the portfolio company.
Scoring notes: Questions were identified as high, medium or low importance. High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25. For exit control, conditions on put rights — approval and no adverse effect — have a weight of -.25 to reflect a weaker put right than one without conditions. Termination right breakouts receive a weight of .25, capped at a maximum of 1.

Question	Weight	Mean
Does the fund have a "put" option or redemption rights on PC securities?	1	52.1%
Put Trigger: Years After Closing	0.5	36.5%
Put trigger: sale or change in control	0.25	2.1%
Condition: approval	-0.25	7.3%
Condition: no adverse effect	-0.25	1.0%
Alternative exit if PC can't buy back?	1	5.2%
Does the fund have "tag along" rights in PC securities?	0.5	71.9%
Are fund securities in the PC subject to "drag along" rights?	1	34.4%
Does the fund have registration rights in the PC securities?	0.25	44.8%
Is there an anticipated fund exit time frame?	0.5	55.2%
Can the fund terminate the investment (exit) under contingent scenarios?	1	36.5%
Breakouts of termination rights	*SUM, CAP at 1*	
Uncured default of material terms	.25	18.8%
No final agreement	.25	2.1%
Change of control	.25	2.1%
Fund election	.25	1.0%
Closing conditions not met	.25	1.0%
Expiration of investment term	.25	1.0%
Poor financial performance	.25	3.1%
Failure to pay the put option	.25	1.0%
Major business change like IPO or sale	.25	3.1%
Founder exit or termination	.25	3.1%
Insolvency of PC	.25	1.0%
Change in location or business model or benefit	.25	1.0%

Investment protection — This score captures a fund's direct contract rights to protect its investment in the portfolio company.

Scoring notes: High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25. Breakout responses to preemption rights were ranked to reflect the strength of the protection from high (.5), to medium (.25), to low (0). Breakout responses to other types of confidentiality agreements were ranked similarly but scored as high (1), medium (.5), and low (.25). With the preemption rights, funds received a score of 1 for having the right and additional values for stronger rights.

Question	Weight	Mean
Does the fund have option stock in the PC?	0.5	29.2%
Does the fund have a "call" option on PC securities?	0.5	22.9%
Does the fund hold a ROFR on other securities in the PC?	1	47.9%
Are there other restrictions on 3rd party securities sales?	0.5	37.5%
Is the fund's investment in the PC subject to preemptive and/or anti-dilution rights?	1	70.8%
Preemption: full ratchet	0.5	18.8%
Preemption: weighted average	0.25	12.5%
Preemption: Pay to play	0	0.0%
Does the fund have liquidation cash flow rights?	1	49.0%
Do portfolio company (PC) founders or key employees have a non-compete?	1	50.0%
Confidentiality – Other terms	0.25	0.0%
No sale to competitors	0.25	0.0%
NDA	0.5	6.3%
IP agreement	1	2.1%

Governance — This score captures a fund's ability to participate in the going operation of a portfolio company. We separate out information rights in the next score.
Scoring notes: High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25. Breakout responses receive a weight of .25, capped at a maximum of 1 for the total question.

Question	Weight	Mean
Fund Ownership % in PC - Coded Response	Fraction of 1	20.7%
Does the fund hold "one share, one vote" voting rights in the PC?	0.5	45.8%
Does the fund have a guaranteed seat on the PC's board of directors, advisory board or equivalent?	1	80.2%
Coded Response (Number of Seats)	.5 if answer > 1	14.1%
Majority of board?	0.5	0.0%
Does the fund have step in rights?	1	22.9%
Does the fund have approval (veto) rights?	1	74.0%

If PC has advisory board, will the fund participate in the advisory committee?	1	6.3%
Breakouts for fund step-in rights	*SUM, CAP at 1*	
Revenue benchmark	.25	7.3%
Performance benchmark	.25	1.0%
Operational and staffing benchmarks	.25	1.0%
Violation of agreement	.25	10.4%
No exit opportunities for Investor	.25	2.1%
Discretion of fund to appointment technical or management consultant	.25	3.1%
Breakouts for fund veto rights	*SUM, CAP at 1*	
If yes, does the Fund approve/ veto appointment of auditors?	.25	36.5%
If yes, does the Fund approve/ veto related party/ affiliated transactions?	.25	32.3%
If yes, does the Fund approve/ veto use of funds?	.25	27.1%
If yes, does the Fund approve/ veto significant charter document changes?	.25	58.3%
If yes, does the Fund approve/ veto budget or accounting changes?	.25	36.5%
If yes, does the Fund approve/ veto deviations from the business plan of the PC?	.25	42.7%
If yes, does the Fund approve/ veto large transactions or inccurance of significant new debt?	.25	61.5%
If yes, does the Fund approve/ veto dissolution, restructuring or sale of significant assets?	.25	59.4%
If yes, does the Fund approve/ veto shareholder stock sales and/or PC equity repurchases?	.25	47.9%
If yes, does the Fund approve/ veto issuing new equity (including IPOs)?	.25	53.1%
If yes, does the Fund approve/ veto BOD delegrations and committee appointments?	.25	18.8%
If yes, does the Fund approve/ veto executive or key personnel appointments or changes?	.25	36.5%
If yes, does the Fund approve/ veto payments to promoters or increased compensation to executives?	.25	35.4%
If yes, does the Fund approve/ veto promoter or employee equity plans (i.e., ESOPs)?	.25	22.9%
If yes, does the Fund approve/ veto other transactions?	.25	50.0%

Information rights — This score captures a fund's information rights.
Scoring notes: High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25. Breakout responses receive a weight of .25, capped at a maximum of 1 for the total question.

Question	Weight	Mean
Does the fund have information rights to receive quarterly statements from PC?	1	72.9%
Does the fund have information rights to receive annual audited financials from PC?	1	76.0%
Breakouts of other information rights in the PC	*SUM, CAP at 1*	
Reasonable requests	.25	29.2%
Inspection rights	.25	19.8%
Auditor communications	.25	3.1%
Monthly statements	.25	26.0%
Budgets	.25	31.3%
Strategic plans	.25	11.5%
Income statements and/or cash flows	.25	7.3%
Annual CEO narrative	.25	7.3%
Notice of material events	.25	3.1%
BOD minutes & papers	.25	18.8%
Other	.25	26.0%
Information rights include: Impact information	.25	9.4%

Impact — This score captures where fund investments in portfolio companies incorporate impact goals into contract terms.
Scoring notes: High importance terms have a weight of 1; medium importance terms a weight of .5; and low importance terms a weight of .25. Most breakout responses receive a weight of .25, capped at a maximum of 1 for the total question. Funds receive a maximum of .5 for an indication of ***either*** social or environmental impact. Funds receive a maximum of .5 for identifying ***either*** social or environmental impact. Breakout responses for impact measurements are capped at .5 for either internal or external measurement processing, which requires rolling up several different external measurement responses into a single score. Finally, impact reporting breakouts are combined into three categories: to whom the report is delivered, what report is delivered, and when is the report delivered. Responses in all three categories are scored at a maximum of .25.

Question	Weight	
Will the PC's mission be locked in at the fund's exit?	1	3.1%
Contingent fund exit scenarios include: Change in location or business model or benefit	0.5	1.0%
Veto rights: Does the Fund approve/ veto deviations from the business plan of the PC?	1	42.7%
Does the portfolio company (PC) have an impact committee?	0.5	0.0%
If yes, will the fund participate in the impact committee?	0.5	0.0%
Information rights include: Impact information	1	9.4%
Is PC environmental or social benefit measured?	1	19.8%
Internal impact measurement	.5	9.4%

Is the PC impact performance reported?	1	12.5%
Impact performance reporting done annually	.25	8.3%
Is compensation tied to benefit/impact performance?	1	2.1%
Address impact	*MAX of the following*	
Is social impact addressed in agreement?	.25	36.5%
Is environmental impact addressed in agreement?	.25	5.2%
Identify impact	*MAX of the following*	
Does the portfolio company (PC) have an identifiable social impact?	.25	24.0%
If yes, does the PC have an identifiable environmental impact?	.25	0.0%
Breakouts for social impact addressed through	*SUM, CAP at 1*	
Governance standards	.25	4.2%
International ESG standards	.25	3.1%
Compliance with laws	.25	8.3%
Employee safety	.25	1.0%
Employee nondiscrimination	.25	1.0%
Employee wages	.25	4.2%
Breakouts for prohibited activities	*SUM, CAP at 1*	
Prohibited activities (generally)	.25	9.4%
Child labor	.25	1.0%
Violation of international convention	.25	2.1%
Tobacco	.25	1.0%
Weapons	.25	2.1%
Natural resource development (i.e., oil, mining)	.25	0.0%
Gambling	.25	1.0%
Wildlife products	.25	1.0%
Radioactive materials	.25	2.1%
Commercial logging	.25	1.0%
Pesticide	.25	1.0%
Asbestos	.25	1.0%
Ozone depletion	.25	1.0%
Drift net fishing	.25	1.0%
Pornography	.25	1.0%
Inactive businesses	.25	0.0%
Indigenous people land infringement	.25	1.0%
Forced resettlement	.25	1.0%
Transboundary waste product	.25	2.1%
Business with anti-money laundering or terrorism groups	.25	2.1%
Breakouts for external benefit measurement	*MAX of the following*	
External count	.5	2.1%
External GIIRS	.5	1.0%

External: software	.5	0.0%
External other	.5	1.0%
Breakouts for impact performance reporting: Who	*MAX of the following*	
To: Fund Generally	.25	11.5%
To: Fund BOD	.25	1.0%
To: MBB	.25	2.1%
Breakouts for impact performance reporting: What	*MAX of the following*	
What: questionnaire	.25	1.0%
What: general report	.25	2.1%
What: impact numbers	.25	5.2%
What: CEO narrative	.25	1.0%