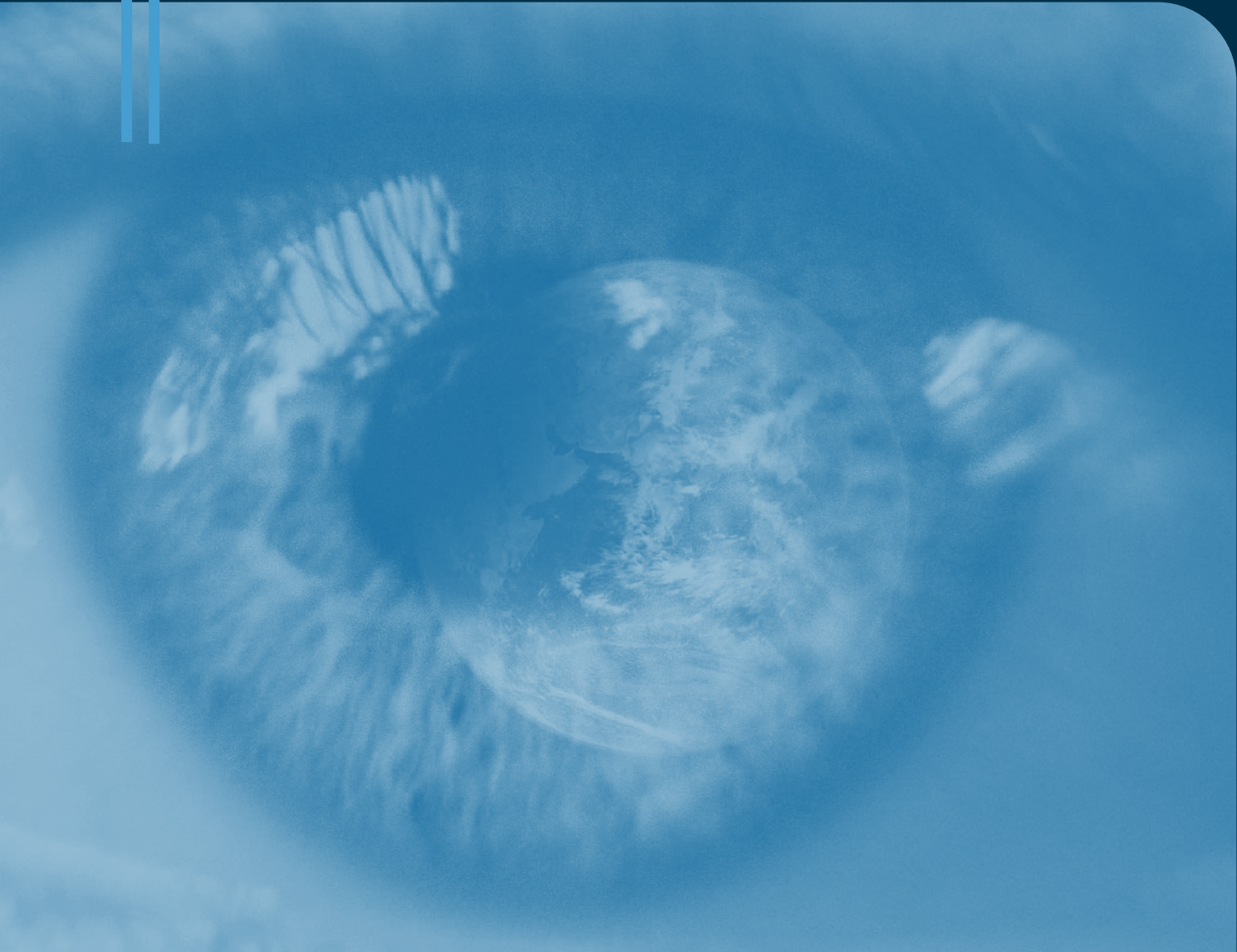


CASE STUDY

Impact Measurement and Management Spotlight: Builders Fund

MARCH 24, 2023



The Builders Fund is a private equity fund with an **AUM of \$180 million** that makes structured equity investments into growth-stage businesses with revenues between **\$15-100 million**. Builders invests across two broad thematic areas: Sustainable Systems and Human Elevation. Impact Management and Measurement (IMM) and ESG are fully integrated into Builders investing approach, with expertise and accountability embedded across the four-person investment team, with oversight by a dedicated Director of IMM.

IMM Fundamental #1: define clear impact objectives for the portfolio and its investments

The Builders Fund has distinct impact objectives for both of its investment themes: Sustainable Systems and Human Elevation. Investment themes are framed in terms of an unsustainable economic system affecting people and planet, and Builders' corresponding impact objectives target business models that drive change towards a more equitable and sustainable alternative to these systems. These models include Climate Solutions, Regenerative Food Systems, Equity & Social Justice, and Health & Wellness.

In Regenerative Food Systems, for example, the Builders Fund began by identifying the consequences for people and planet of our current food production systems, such as soil degradation, obesity, inflammatory diseases, food deserts, and water shortages. The Fund's impact objectives in this theme correspond to these symptoms: invest in companies that offer scalable alternatives to current food production practices which mitigate the consequences of current practices and drive the transition to a more environmentally sustainable and socially equitable food production system.



As a Fund, our impact objective is to build systemically responsible B Corps, integrating environmental, social, and financial value. Systems-thinking requires a holistic approach to company building and B Corp certification is a useful tool that helps Builders and portfolio companies look at impact comprehensively, from the business model, to operations, sourcing, and governance.”

KEY TAKEAWAYS

- Evaluate current systems and structures, identifying elements that are unsustainable and exploitative
- Use this evaluation to identify investment opportunities that provide solutions to these ineffective systems at scale



IMM Fundamental #2: establish an IMM process

The Builders Fund’s IMM process follows pipeline generation, due diligence, and portfolio management stages of the investment process.

Builders’ objective of creating systems-aware B Corps, combined with core thematic focus areas, drives deal flow and sourcing and helps the Fund identify investment opportunities where impact is core to the business model. The Fund implements an initial “impact prioritization rating” during due diligence to identify companies with outsized impact potential across environmental (GHG emissions reduction potential), social (underserved beneficiaries), and governance (including diverse management teams and boards) factors.

The Fund uses B Lab’s Impact Assessments as a tool in diligence and to measure ESG improvement from baseline at entry. This process provides a holistic perspective of a company’s impact and a common framework to compare across investment opportunities and ultimately the portfolio. Prior to investment, the Builders Fund collaboratively develops an Operating Blueprint with company management, which involves identifying 3-4 growth strategies that enable the company to scale its impact alongside scaling the business. Builders defines company-level impact objectives and key performance indicators (KPIs), which are reported quarterly.



Impact is embedded into the entire lifecycle of every deal at Builders. We partner with purpose-driven companies with impactful business models to ensure that their impact scales as they grow. Getting clear on the impact business model from the early stages of partnership provides a blueprint for us to follow and measure against throughout the duration of our investments.

KEY TAKEAWAYS

- An initial “impact prioritization rating” during due diligence helps to identify companies with outsized impact potential
- B Lab’s Impact Assessments can be used as a tool during diligence

IMM Fundamental #3: establish manager’s contribution

The Builders Fund’s partnership model is designed to co-create value with management teams, and the Fund sees manager contribution, or ‘additionality,’ as a core element of its investment strategy. Portfolio companies are paired with a “Builder” from the Fund’s network who brings prior experience scaling and operating businesses in the same sector. These “Builders” often serve on

portfolio companies' boards as active strategic advisors and help investees execute the business growth strategies that will scale their impact performance.

The Builders Fund has a 14-year time horizon from inception, which supports more exit flexibility than typical in private equity. This flexible time horizon allows the Fund to make ongoing determination of what is best for value creation and the long-term health of the company. The Fund creates options or long-term incentive programs to share equity value creation with management teams and employees. These profit pools create and maintain economic value for those who are most integral to the success of the company and add value on top of portfolio-wide living wages, health care coverage, paid parental leave and other bonuses and benefits.



We have seasoned former operators as partners that help execute on impactful growth strategies. Approximately 50% of our investors are former C-Suite executives and founders who are committed to investing both financial and intellectual capital. This bench of 'Builders' is a uniquely well-resourced group of operating partners for us and our portfolio companies that serve as executive chairs, as board members, and as advisors."

KEY TAKEAWAYS

- Identify experts in your network to serve as strategic advisors to portfolio companies and/or take board seats
- Maintain a flexible exit timeline and share value creation with management teams and employees

IMM Fundamental #4: measure the impact of each investment

At the time of investment, the Builders Fund collaborates with portfolio companies to establish a core set of impact KPIs used to measure impact performance on a quarterly basis. These KPIs include existing metrics already used by the company, metrics highlighted by the B Impact Assessment performed in diligence, and new metrics that measure progress towards the Fund's Impact Thesis and Theory of Change. KPIs are measured annually, cumulatively and since investment and collected via Proof's impact platform.

B Lab's Impact Assessments are refreshed every three years in order to maintain certification as B Corporations. The Builders Fund also actively works with portfolio companies to improve ESG factors — as measured by the B Impact Assessment — because the Fund sees strong evidence that effective management of ESG factors drives better economic outcomes. The Fund itself has been a [certified B Corp](#) since 2015.

The Builders Fund maps each company's impact KPIs and B Impact Assessment metrics to the SDGs, enabling the Fund to roll-up company-level impact performance to measure portfolio-level impact performance. A core set of KPIs are measured across the portfolio, in addition to company-specific metrics tied to specific impact business models. Metrics are reported quarterly to LPs and disclosed publicly in the Fund's [annual Impact Report](#).



Builders' IMM process is built upon a foundation of iteration and continual learning. We combine our internal processes with best practices from impact partners like B Lab, Proof, ICM, and our peers to ensure we are taking a holistic approach to understanding and enhancing the impact of our investments."

KEY TAKEAWAYS

- Establish core KPIs with portfolio company leadership at time of investment
- Renew B-Lab Impact Assessment every 3-years to maintain certification

Appendix: ICM Fundamentals of Impact Measurement and Management (IMM)



Impact investors set themselves apart from traditional investors because of their objective to invest for both financial returns and impact. A successful IMM practice can enable investors to enhance their impact, increase their business value, and communicate more effectively.

The ICM Fundamentals of IMM were generated in 2020 by leaders in the ICM network to set a high but achievable bar for a variety of private capital fund managers seeking both superior returns and meaningful impact. Together they comprise a solid floor on which fund managers can build a more ambitious and effective practice over time.

The ICM Fundamentals of IMM:

- ✓ Helps investors define what is useful, practical, important
- ✓ Differentiates ICM members as market leaders
- ✓ Supports members to become more sophisticated and effective
- ✓ Ensures continued quality of ICM's best-in-class network, by embedding expectations for IMM in criteria for inclusion

THE ICM FUNDAMENTALS FOR IMM

	INVESTMENT PROCESS	IMM PRACTICE	THE ICM FUNDAMENTALS	GROWING YOUR IMM PRACTICE →
PRE-INVESTMENT	Investment strategy development 	A. Define clear impact objectives(s) for the portfolio and its investments	✓ Yes	
		B. Establish an IMM process	✓ Yes, informally	✓ Yes, more intentionally, consistently, and thoughtfully
		C. Establish Manager's contribution	✓ Yes, qualitatively (informal)	✓ Yes, qualitatively (formal narrative)
POST-INVESTMENT	Investment management 	E. Measure the impact of each investment (OPIM #6)	✓ Yes	

GROWING YOUR IMM PRACTICE

	INVESTMENT PROCESS	IMM PRACTICE	THE ICM FUNDAMENTALS	GROWING YOUR IMM PRACTICE →
PRE-INVESTMENT	Investment strategy development 	A. Define clear impact objectives(s) for the portfolio and its investments	✓ Yes	
		B. Establish an IMM process	✓ Yes, informally	✓ Yes, more intentionally, consistently, and thoughtfully
		C. Establish Manager's contribution	✓ Yes, qualitatively (informal)	✓ Yes, qualitatively (formal narrative)
		D. Assess expected impact of each investment	✗ No	✓ Yes, qualitatively (formal narrative) ✓ Yes, qualitatively through assessing alignment to impact thesis and establishing quantitative forecasts of impact
POST-INVESTMENT	Investment management 	E. Measure the impact of each investment	✓ Yes	
		F. Manage the impact of each investment	✗ No	✓ Yes, and leverage data to accelerate impact
		G. Assess, address, monitor, and manage potential negative impacts of each investment	✗ No	✓ Yes, informally ✓ Yes, formally
	Exit Planning 	H. Conduct exits considering effect on sustained impact	✗ No	✓ Yes, informally ✓ Yes, formally
	I. Review, document, and improve decisions and processes based on achievement of impact and lessons learned	✗ No	✓ Yes	

* The ICM Fundamentals of IMM are informed by the Impact Principles with some modifications to ensure they are fit for purpose by market rate private capital impact investors of a variety of sizes and strategies.

IMPACT CAPITAL MANAGERS

The Impact Capital Managers mission is to accelerate the performance of our members and to scale the private capital impact investing marketplace with integrity and authenticity. We do this through our membership association, which includes 100+ funds representing more than \$60B in impact-focused capital, and through field-building initiatives and partnerships supported by the ICM Institute. The ICM network of peers is engaged and collaborative by nature. As part of our commitment to grow the marketplace with integrity, members must meet certain criteria including standards on impact measurement and management. ICM is a proud organizer of the Mosaic Fellowship and with Achieve Partners, producer of the Better Money, Better World podcast.

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