Contracts with (Social) Benefits: The Implementation of Impact Investing

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Abstract

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Keywords: impact investing, venture capital, private equity, socially responsible investment, sustainable investing, corporate social responsibility, contracts

JEL Classifications: D64, D86, G24, G32, K12, M14

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ABSTRACT

We draw on new data and theory to examine how private market 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 directly to impact, and most retain traditional financial incentives. However, funds contract directly on impact in other ways and adjust aspects of the contracts like governance. In the cross-section of impact funds, those with higher profit goals contract more tightly around both goals. We propose an explanatory framework in which this feature results from hidden differences between agents’ preferences over impact.

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1. Introduction

The last two decades have seen impact investing emerge and rapidly grow as a sector of the private markets, exceeding 13,000 deals and $33 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.\(^2\) For example, an impact fund might finance the development of not just housing but housing affordable to those with incomes below a threshold, or not just food production but production with ‘sustainable’ agricultural supply chains. 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 useful setting to study contracting problems because participants encounter the canonical principal-agent problems addressed by the theoretical literature (Kaplan and Strömberg, 2003). There is the agency problem between investors and their funds, where investors (LPs) delegate capital to fund managers (GPs)\(^3\) to invest in deal opportunities, and between the funds and their portfolio companies (PCs), where the GPs are the principals providing capital to entrepreneurs. Empirical work on this setting, notably Kaplan and

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\(^2\) 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., 2018]). 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 in our notion of “social-benefit goal,” perhaps more in line with the “intentionality” framework used by the GIIN. https://thegiin.org/impact-investing/need-to-know/.

\(^3\) 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.
Strömberg (2003 and 2009), Gompers and Lerner (1996 and 1999), Metrick and Yasuda (2010), Gompers, Kaplan, and Mukharlyamov (2016), and Phalippou, Rauch, and Umber (2018), has shed much light on contracting practices among private investors. However, the empirical literature does not address the contracting practices of funds that target additional goals alongside profit. We fill this gap by investigating how the addition of impact goals change a fund’s contracts, both with its investors and with its portfolio companies, and relating our empirical findings to theory.

In the theoretical literature on contracting, the multiple goals of impact funds resemble the “multitasking” problem analyzed by Holmstrom and Milgrom (1991) (hereafter HM ‘91), in which the outcomes of the tasks within an agent’s job vary in measurability and complement or substitute for each other. The analysis highlights the danger of compensating more measurable outcomes when the tasks are substitutes. In our context, it raises the question whether paying impact-fund GPs for financial performance, as we find, detracts from the impact goal. The answer hinges on whether the task of increasing cash flows acts as a substitute for or complement to the task of increasing impact, and on the extent to which other contractual terms channel effort toward impact.

A related perspective on the difficulty of measuring impact outcomes, as well as the difficulty of specifying ex ante the form impact will take ex post, is the flexible-contracting theory of Hart and Moore (2008). Their model helps explain where to be flexible and where to be rigid to elicit consummate rather than perfunctory performance. Looking beyond the contract itself, the ‘braiding’ theory of Gilson, Sabel, and Scott (2010) highlights the importance of oversight committees and similar mechanisms in the implementation of goals that are easier to observe than to measure, which we find describes impact goals well.
We study the insertion of impact by analyzing a unique set of 214 legal documents struck by impact funds, representing 53 separate funds and 96 of their portfolio companies. These contracts include private limited partner agreements (LPAs), Private Placement Memoranda (PPMs), term sheets, letters of intent, and other legal documents governing the relationships between parties. The main opportunity to identify the effect of impact on contracting is the contrast between funds targeting market returns (market-rate-seeking, MRS, funds) and those with lower financial targets (non-market-rate-seeking, NMRS, funds), where the NMRS group’s willingness to forgo higher financial returns implicitly elevates the impact objective.4

Our first main result is that impact funds rarely tie compensation to impact outcomes. Instead, they generally tie compensation to financial performance with the usual waterfall compensation structure – though we document innovative alternatives too, especially among NMRS funds. From the HM ‘91 perspective, this focus on financial performance endangers effort toward impact unless effort toward financial performance reduces the cost of effort toward impact. We argue that this complementarity likely applies during the early days of PCs, when financial viability can be a high hurdle. We also document additional contracting practices that keep agents’ attention on impact when compensation might pull them toward financial performance.

Our second main result is that both MRS and NMRS funds contract directly on impact. Moreover, we observe a flow-through of impact contracting from a fund’s contracts with its

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4 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, or the GIIN Return Rate Spectrum at https://thegiin.org/impact-investing/need-to-know/). We split this spectrum into the two broad categories of MRS and NMRS to facilitate comparisons.
investors to its contracts with its PCs, in that more direct impact terms in a fund’s LP contracts correlates with more impact terms in its PC contracts. Together, these patterns show funds making enforceable commitments to non-financial goals, and thus suggest there is more to impact investing than ‘window-dressing’ or ‘greenwashing.’ There is a range of flexibility in impact terms, and MRS funds tend to have more rigid terms than NMRS funds. We relate this pattern to the ‘shading’ setting of Hart and Moore (2008), where MRS funds could have greater risk for shading because of divergence in preferences. To understand the role of preferences more fully, we sketch a model that shows how the relative flexibility of terms can result from the GP’s private knowledge about her preferences for impact, when her investors’ demand for impact is sensitive to its price.

We also find that impact funds emphasize governance terms. This aligns with the ‘braiding’ model of Gilson et al. (2010), who argue that the importance of governance rises when tasks are uncertain and hard to contract over ex ante. Almost all funds give LPs advisory roles that impart substantial oversight over deal selection, diligence process, and conflicts of interest, and this is true in impact funds of all sizes. Advisory committees can also wield control over investment approval, though this is less common among NMRS funds. At the PC level, the vast majority of funds contract for guaranteed board seats, a guarantee perhaps necessitated by what we find to be small voting shares. The combination of these contract adaptations – direct contracting on impact and emphasis on governance – combats the distortive effects of compensating for financial performance.

Our results on impact contracting contribute to the nascent literature on impact investing, where three recent papers explore the financial implications of impact-oriented strategies (Barber,
Morse, and Yasuda, 2019; Kovner and Lerner, 2015; Brest, Gilson, and Wolfson, 2018). The implications of our findings also extend beyond impact investing to the general problems of balancing the benefits and costs of creating enforceable rights and incentives through contracts (Bolton and Dewatripont, 2004), and of addressing agency problems with incomplete contracts (see e.g., Grossman and Hart, 1986; Hart and Moore, 1990).

The paper proceeds in five sections. We begin by outlining our sample and empirical approach in Section 2 to familiarize readers with both the field generally, and our sample specifically. We report on the empirical patterns in Section 3 before turning to a discussion of relevant theory in Section 4 and choose this order for two reasons. First, given the lack of existing information on impact funds, we lead with these data to fix ideas. Second, the aim of this paper is not to test theory but to use it to help understand the findings and to learn whether the findings shed light on nuances in the theory. Section 5 concludes.

2. Sample description

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, three 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 code contract terms using contract variables and coding procedures drawn 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.

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—and one of these contains a provision of interest, we report the fund has having this provision. In regressions, we control for the number of contracts available for the fund. We observe two GP-LP 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.

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).” In a few cases in which we lack survey 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. 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 LPAs and operating agreements, quasicontractual documents such as PPMs and fact sheets, and side letter agreements modifying existing contract terms. 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 ten 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

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5 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.

6 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 and are standardized for a given GP, although they can be modified by other documents including side letters. 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 (see Gompers et al., 2016).
recent than NMRS contracts (average 2010 versus 2005). Our results are robust to excluding contracts before 2000.7

[Insert Table 2 about here]

Appendix Table A-1 Panel A and Figures A-1 and 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. For example, one fund indicates that it will “invest in new, early stage and mature private businesses that provide living wage job opportunities …, profit sharing and employee ownership for low-income residents of [redacted].” This language exemplifies a distinctive attribute of impact investing: whereas life-cycle focus is a salient differentiator for non-impact funds (e.g.,

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7 The Internet Appendix further replicates analysis to control for time effects, restricting the sample to periods that match our comparison points when possible.
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.
seed funds are usually distinct from late stage funds), it is typical for impact funds to consider companies across stages to focus on the impact goal.\textsuperscript{10}

Half of the funds are domiciled in 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.

The targeted regions and industries illustrate embedded impact in operations. For example, investors can view a fund that supports sustainable agribusiness within a target region as generating direct social or environmental benefits, embedded in the nature and location of the business itself.\textsuperscript{11}  

\textsuperscript{10} Appendix Table A-3 further contrasts key features of PE, VC, and Impact funds. We are not the first to group private company investments into a common comparison point (Cumming and Walz, 2010). 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; see https://www.bain.com/contentassets/875a49e26e9c4775942ec5b86084df0a/bain_report_private_equity_report_2019.pdf.

\textsuperscript{11} Other examples of embedded impact business models in our contacts include clean energy and clean tech; community development; education; energy efficiency; healthcare/health-tech; minority-led business; websites that address social and/or environmental challenges; sustainable apparel; sustainable consumer products; sustainable food & beverages; sustainable infrastructure & materials; clean water-technology; and wellness.
Are the funds in our contract database representative of impact funds in general? There is no comprehensive repository of impact funds available 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 IRRs net of fees (net IRRs), represent similar time horizons, and have similar numbers of PCs (Panel A). 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 our attention 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. Reported investor types are similar between funds that did and did not provide contracts (Panel B).

[Insert Table 3 about here]

In Table 4, we compare information on LPs between MRS and NMRS funds using survey responses. We focus on three questions about LPs: Which class of investors invests in the fund? Which type constitutes the largest amount of committed capital? Lastly, does this class represent 50% or more of committed capital? We report on all available responses from MRS and NMRS funds in Panel A, and limit to our sample funds (those that provided contracts) in Panel B.

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12 We explored supplementing the survey responses about LPs with data from other sources, including regulatory filings, but our review of data in the public domain established that none of the participating funds are Registered Investor Advisors, none file 13Fs, and none of the GPs publicly disclose that they are ERISA fiduciaries. (We carefully reviewed firm websites, the SEC IAPD database, news databases, EDGAR filings, and databases provided by Pensions and Investments.) We also explored comparing the sample impact funds with non-impact funds from the same family, but while many of the sample funds have sibling impact funds, none reports having a sibling non-impact fund. We therefore rely on the funds’ survey responses and focus on the comparison between MRS and NMRS funds.
The most common investors across the board are foundations and high net worth individuals (76% for MRS and 73% for NMRS) and foundations (70% and 64%). Development finance institutions (DFIs) are common investors in MRS funds (58%) and less so in NMRS funds (27%), though this difference diminishes substantially in our sample funds (55% and 40%). Both MRS and NMRS funds identified some investment by pension funds, insurance companies, government agencies, and other institutional investors. However, pension funds, insurance companies, and government agencies are almost never the largest class of investors. Instead, high net worth individuals typically take on that role, and to a lesser extent foundations, DFIs, and other institutional investors. It is worth noting that, among the investor types we observe, pension funds are both the most likely to have traditional regulatory mandates as fiduciaries and the most likely to invest in MRS funds. Although we do not know specifically which investors are fiduciaries to others, individuals and some family offices and foundations are less likely to be held to this standard under federal or state laws. The survey responses regarding LPs echo PPM language targeting investors who satisfy private offering requirements. For example, one fund states, “The Membership Interests will be offered only to ‘Accredited Investors’ as defined in Rule 501(a) of Regulation D…”

How investors are identified and matched with funds is a separate matter. One fund shares in its PPM that “[i]creasingly the Company is relying on financial advisors of ‘socially

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13 Funds raised in non-US jurisdictions include language such as “In accordance with the SIF Law, subscription for Shares in the Company is exclusively limited to institutional investors, professional investors or any other investor that complies with the status of ‘Well-Informed Investor’ as defined by the SIF Law.”
responsible investing’ to procure new capital. In 2013 over half of new capital was sourced through such advisors. The Company has reached out to family foundations and offices.”

Finally, several observations situate impact funds relative to existing private market practices. Our sample funds focus on equity, whereas PE typically deals with debt and equity, and VC generally with just equity (Coyle and Green, 2014). PE funds prefer full or at least majority ownership (Bratton, 2002), whereas our sample funds tend, like VC funds, toward minority stakes. Impact 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; Gompers et al., 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, Jeffers, Musto, and Tucker, 2015).

3. Results: impact, compensation and governance contract terms

3.A. Introduction and overview

In this section, we analyze the sample contracts. This analysis addresses the effect of impact on contracting choices, and does so primarily by contrasting the MRS and NMRS funds in our impact sample. For context, we also report relevant statistics from existing studies of non-impact funds’ compensation, covenants, and participatory governance contract terms. We first address the GPs’ contracts with their LPs separately from their contracts with their PCs, and then address them jointly by testing, in the cross section of GPs, whether the terms in their LP contracts

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14 Just three of our funds hold any meaningful debt in their PCs.
relate to the terms in their PC contracts. Our findings can be grouped in three categories: (1) direct contracting on impact, (2) traditional compensation terms largely divorced from impact, and (3) contract terms that weave together the seemingly disconnected objectives of financial return and impact. Section 4 connects our results to theory and builds an explanatory model of impact terms’ role in revealing and protecting investor preferences in dual-goal contracts.

3.B. Direct contracting on impact

We begin with direct contracting on impact, covering GP-LP contracts in Table 5 and GP-PC contracts in Table 6. In each table, individual terms are addressed in Panel A and a total summary is provided in Panel B.

We distinguish between two types of impact terms at the fund level: aspirational terms, which describe intended impact without committing the fund to a specific action, and operational terms, which outline specific actions the fund will take to further the impact goal. The actions outlined in operational terms can still be relatively high-level, like incorporating impact into the due diligence process, but nonetheless create an enforceable duty that an investor could point to as being met or not. Examining how impact funds contract on impact, and how MRS and NMRS funds compare, is our first step to understanding how contracts incorporate impact goals, which we relate to contract theory in Section 4. It also sheds light on the extent of window-dressing in impact funds. Because we do not observe impact outcomes, we do not connect impact language to impact realizations. Still, the presence of operational impact terms sets an empirical baseline of efforts toward impact.

Table 5 summarizes the impact terms in GP-LP contracts. Panel A itemizes the impact terms that we encounter and groups them into aspirational and operational categories. Although
there is no guarantee that funds follow through with the objective, virtually all funds (98%) have aspirational terms announcing their intention to pursue impact, a characteristic commonly referred to as “intentionality.”¹⁵ Moreover, a majority of funds (60%) prohibit negative impact, and this rate is similar between MRS and NMRS. Social objectives are somewhat more common than environmental objectives (83% versus 62%), and MRS funds are somewhat more likely than NMRS funds to be explicit in this regard, though the difference is not statistically significant.

[Insert Table 5 about here]

The most common operational impact terms for both MRS and NMRS funds build impact into the due diligence process and require impact metrics, both being examples of flexible contracting dictating process, not outcome. These terms appear in roughly 70-80% of the contracts in the full sample. Example language includes:

Fund commits to “positive screening” to ensure investment meets Fund’s impact goals…. GP must indicate in “investment recommendation documents” if PC investments “fall into the following categories in their investment pipeline tracking tools (e.g., deal log, deal pipeline)” and must elaborate on specifics of nature of PC’s business (organic farming, hybrid products, use of fertilizers, reduction of spoilage of agricultural products etc). (MRS fund)

At all times, the Partnership and the General Partner shall use all reasonable efforts to ensure the continuing operation of the S&E [social and environmental] Management System to identify, assess and manage the social and environmental performance of the Partnership Operations in compliance with the S&E Requirements. (NMRS fund)

Less common (employed roughly a third of the time) yet still significant is a commitment to third-party measurement of impact and to environmental, social, and governance (ESG)

¹⁵ See https://thegiin.org/characteristics.
standards. Contracts occasionally call for impact committees (17%), and rarely connect impact to compensation (9%). The biggest contrast between the MRS and NMRS contracts is in commitments to international ESG standards,16 which are required for 32% of MRS funds but only 15% of NMRS funds, and in due diligence to address portfolio company impact, which is required for 77% of NMRS compared to 58% of MRS funds. These contrasts still hold when we control for fund size. We provide examples for all impact terms in the Appendix.

We summarize the extent of direct contracting on impact with a score that aggregates operational impact terms in GP-LP documents.17 Scoring helps track variation across funds and fund types in the extent of their direct contracting on impact, and it is also useful in Table 7, in which we gauge the flow of GP-LP contracting on impact through to contracts with PCs. Panel B summarizes this score for MRS and NMRS funds. The distributions are close: as groups, MRS and NMRS funds have similar rates of operational terms in their contracts with LPs. Overall, 94% of funds include operational impact terms in their GP-LP contracts.

Impact terms play a smaller role in PC contracts. One might expect all impact funds to contract on impact with their PCs; however only 70% of MRS funds’ contracts with PCs include impact terms, and this proportion is significantly higher than the 46% in NMRS funds’ contracts (Table 6 Panel B). Fund size does not drive this pattern: PC direct contracting patterns are even more salient when we restrict our sample to funds of similar size. Lack of direct impact terms does not have to mean less attention to impact; impact could be baked into the PCs’ operations

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17 In creating this score, we reflect that some impact terms are secondary to others by giving them a lower weight (for example, using a third-party reporting system is an add-on to measuring impact, so it receives a half weight). The weights are provided in Panel A and described in the Appendix. We aggregate the weighted terms into a score and normalize it to 100. We repeat this process for impact in GP-PC contracts.
or their industries in a way that obviates the need to contract, as with the example of embedded impact described earlier. That embedding of impact would help explain why most funds do not use impact terms in all PC contracts, but 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 A, which shows significantly fewer NMRS funds retaining veto rights over PCs’ business plans (27% versus 49%), and also (marginally) significantly fewer NRMS funds specifying a PC’s impact (12% versus 29%). 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 6 about here]

3.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 these questions 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, with one observation per PC contract. Details for the construction of these variables are provided in the Appendix. The results, in Table 7, show a positive correlation between operational impact at the fund level and impact at the PC level, at least for MRS funds. In other words, MRS funds that make more operational commitments to their LPs also tend to have more impact terms in their contracts with PCs. In the subset of NMRS fund contracts, the coefficient is negative but statistically insignificant, so we do not draw a conclusion for these funds.
3.D. Compensation structure

Table 5 finds little direct influence of impact on compensation. What, then, determines compensation? Table 8 reports the funds’ compensation choices, with analogous statistics from the non-impact literature for context. As Metrick and Yasuda (2010) document, the compensation practices of PE/VC funds have settled on a ‘waterfall’ structure, in which cash flows first compensate investors, then managers, then divide between the two, with a carried-interest rate specifying the manager’s share. Typically, LPs earn back their investment plus potentially a ‘hurdle rate,’ and then cash flows enter a ‘catch-up’ period during which the managers receive most or all of the cash until a target, typically the carry rate, is met, and all remaining cash splits according to the GP’s carry rate. GPs also typically enjoy management and other fees separate from these payments.

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, and then, what structural parameters they choose. For reference we include the analogous numbers from Metrick and Yasuda (2010), both VC and PE, and 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.

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18 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 finds that most funds use a waterfall, with MRS funds using them somewhat more frequently (87%) than NMRS funds (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%) terms, while fewer NMRS funds do (69% for carry, just 46% for catch-up). Hurdle rate incidence is higher for MRS funds (61%) than for NMRS funds (46%). Larger MRS funds drive many of these differences. We provide additional context for the role of size in the Internet Appendix.

Impact funds in our sample have management fees 81% of the time, short of what Metrick and Yasuda (2010) report for non-impact private market funds, and we find that these fees vary substantially. Higher fees appear more in NMRS than in MRS funds, and are higher even controlling for size and year. So MRS funds stay close to non-impact compensation standards but NMRS funds are further afield. Higher fees could be a way for NMRS investors to offset either or both higher costs and lower returns faced by NMRS fund managers, so that investors, rather than 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, similar to Phalippou et al. (2018). The results suggest that NMRS PCs are more likely than MRS PCs are to pay fees to the fund.

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19 In the Internet Appendix, Table IA-15, we restrict our sample to the same window (1993-2006) as Metrick and Yasuda (2010) and find similar results. We also provide a size breakdown in Tables IA-9 and IA-10.

20 Within the size controlled sample, high frequency of management fees persist, but with more NMRS (89%) than MRS funds (70%).

21 Our numbers tend to be higher than Metrick and Yasuda (2010) and 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.
3.E. Covenants

Contracts use covenants to target specific concerns about actions the other side might take. Do MRS and NMRS funds use them differently? We explore this in Table 9, 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 generally enforce diversification by limiting the percentage investment in a company or an industry. The main disparity between MRS and NMRS funds is that 16% of MRS contracts limit conflict-of-interest transactions, but none of the NMRS funds do.22 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: among small funds, most of the 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.23 In general, large funds tend to have more limits on manager discretion.

[Insert Table 9 about here]

Among the other managerial restrictions, the main difference we find between MRS and NMRS impact funds concerns manager co-investment rights with the fund: NMRS managers are restricted 23% of the time, compared to 61% for MRS managers and the 73% for non-impact managers found by Gompers and Lerner (1996). Co-investment rights affect compensation by

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22 We provide examples of both of these terms in the Appendix.
23 Impact fund managers can 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/.
allowing other related funds, investors, or the manager to invest alongside the fund, usually at the manager’s discretion but under constraints negotiated with LPs (see Metrick and Yasuda, 2010). Other compensation restrictions include limits on reinvestment of fund profits—a covenant appearing in nearly 70% of impact funds—and restrictions on the manager’s outside fundraising activities, a term more common in MRS (29%) than NMRS (15%) contracts. These managerial restrictions affect total compensation and managerial attention to the fund, striking a balance between fixed compensation incentives and impact objectives.

GPs’ contracts with their PCs also make use of the terms found by Kaplan and Strömberg (2003) in VC contracts, though generally at a lower intensity. The main difference between the types of impact funds is that NMRS funds are significantly less likely, 58% versus 76%, to require anti-dilution protection, and significantly more likely, 81% versus 37%, to require liquidation rights, consistent with their profit motives. Exit rights are similar between MRS and NMRS funds. We find a higher frequency of registration rights for NMRS funds, but this difference is not statistically significant.

3.F. Participatory governance

The last contract terms we address are the governance rights of LPs over GPs and of GPs over PCs. We call this group of terms participatory governance to emphasize their active nature, in contrast with more passive, latent terms like covenants. Impact funds’ use of participatory governance terms, along with matching statistics on non-impact funds from Gompers et al. (2016)
and from Kaplan and Strömberg (2003), are reported in Table 10, with GP-LP usage in Panel A and GP-PC usage in Panel B.

Impact funds, we find, give their LPs formal advisory committee roles 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.\textsuperscript{24} 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.

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). ... Such 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). (MRS)

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. Example language includes:

[Advisory Council may] provide technical and policy guidance to the General Partner on an “as-needed” basis . . . [and] may meet with the [GP] to review investment strategy and to advise regarding relations with portfolio companies on an annual basis . . . [may give] professional advice concerning the management and/or operations of portfolio companies. (NMRS)

\textsuperscript{24} Tables IA-13 and IA-14 report participatory governance statistics for small and large funds separately.
These cross-sectional patterns hold controlling for size. As we discuss in the next section, impact funds’ emphasis on governance is consistent with the theory developed in Gilson et al. (2010) and helps explain our results on compensation.

The funds in our sample exercise governance without majority control: they never have a majority of the votes, 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 and just 9% for NMRS funds. Perhaps because of the weaker control over the PC imparted by their voting power, impact funds and MRS funds in particular frequently contract for guaranteed PC board seats. When controlling for size, we see more governance at the GP-PC level for MRS relative to NMRS funds: 93% of MRS funds below $35 million contract for guaranteed board seats, relative to 69% for similarly small NMRS funds. The same MRS funds have an average voting position of 24%, relative to just 6% for NMRS funds.

This section documents the distinctive features of impact-investing contracts. In the next section, we relate these findings to theories of contracting to help bring out the economic considerations underlying the contracting choices.

4. Discussion

In this section, we use contract theory to identify the economic tensions underlying the impact-fund contracts. First, we tackle the puzzling results of financial incentives for multitasking agents, drawing on HM ’91. Second, we explore the role of other contract terms by drawing on the braiding theory of Gilson et al. (2010) and the flexible contracting theory of Hart and Moore
(2008), among others. Finally, we sketch a theory that outlines how heterogeneous preferences among parties to the contract could drive the role of impact terms.

4.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 determine the fate of the LPs’ investment by vetting, selecting, and then engaging with the PCs. 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. The seminal HM ’91 paper considers an agent allocating effort across tasks of varying measurability and shows that rewarding only the measurable activities tends to lower effort on the other activities, when these are substitutes. 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, i.e., that most impact funds reward GPs for financial performance but not impact, seems at odds with the theory and could suggest that funds are risking low effort toward impact. We posit two ways out of this puzzle.
The first is that the focus of compensation on financial performance reflects the positive effect of effort toward financial performance on the marginal cost of effort toward impact. Contract language reflects this idea: “The General Partner believes that financial return maximization and sustainable development are complementary objectives.” The positive effect arises from the high likelihood that a PC never achieves financial viability. A PC has to be financially viable to survive and generate its impact, so a GP’s effort toward a PC’s viability (and therefore the fund’s returns) lowers the cost of effort toward impact. This puts the impact-investing contracting problem in the case described by HM ‘91, where the tasks are complementary in the agent’s cost function. Complementarity, they show, reduces the efficiency loss from compensating just the measurable task. Thus, while the investors could be risking low effort toward impact when they do not pay for it directly, the effect of financial viability on the cost of producing impact may offset much of this risk.

After financial viability, or alternatively, in a world in which impact and return are never complementary, other contractual constraints channel effort toward impact. At the extreme, a contract could constrain the manager so tightly to a particular embedded impact, for example a contract limiting the fund to wind farms, that the quantity and quality of the fund’s impact are a foregone conclusion. Short of fixing the impact at the outset, the contracts can lay the groundwork for oversight. To this end, the GP/LP contracts show widespread use of terms pointing management’s attention toward impact (through direct impact terms) and allowing the LPs to

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25 PC financial viability is a first-order concern in non-impact funds too, but in the impact space it is a necessary hurdle to cross for both financial returns and generating impact.

26 We assume here that if financial and impact tasks are not complementary, they are substitutes. There is of course the option that the two are independent – that more effort toward the financial goal does not affect the impact goal either way. In that case, financial compensation would be irrelevant to the impact goal.
monitor management’s behavior (through participatory governance). In PC contracts, MRS funds in particular often use operational impact terms, consistent with the MRS funds’ stronger bias toward financial performance. This view, that operational impact terms address the risk arising from compensating only financial performance, also helps explain the positive relationship between financial incentive and operational impact terms in Table A-4.

The braiding theory of Gilson et al. (2010) sheds further light on the governance patterns we observe. This theory highlights the role of contract terms that allow parties to observe outcomes that are not verifiable, but important in achieving the desired ends of a contract. In the braiding dynamic, formal mechanisms in contracts, such as information rights and participatory governance, provide the data necessary for informal components of contract performance, such as trust and willingness to problem solve. For example, one MRS contract provides for

annual sustainability interviews between Investor and named Key Persons, quarterly telephone calls with Investor and at least two named Key Persons to provide an update and status report for the Fund and Portfolio Companies. (MRS fund)

The participatory governance results in Table 10 show an abundance of terms forging feedback loops between GPs and LPs. 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 process that Gilson et al. (2010) argue is crucial to adapting to evolving circumstances. They can

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27 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.
also help address the risk of low effort toward impact, since this effort might be more observable in real time than measurable ex post.

The aspirational impact terms we document do not hold the same threat of legal action as operational impact terms, but rather help to set reference points as part of the total mix of impact terms. Contracts’ reference points may also help explain relative flexibility in contracting for impact where parties care not only about perfunctory performance, i.e. box-checking, but also about consummate performance, i.e. going the extra mile. For example, one fund has the following language: “While not required, the Partnership intends to operate as a GIIRS-rated fund.” 28 In the view of Hart and Moore (2008), such avowals are reference points that play an important role by setting the parties’ expectations and thereby determining whether they perform well or just adequately under the contract. Furthermore, as in Prendergast (1999), they can serve as screening devices to select for counterparties truly committed to impact.

We find that contracting on impact is more flexible than contracting on compensation. For example, the language in one contract in which terms set goals and require “best efforts” without creating a threshold on outcome states:

Partnership agrees to use its best efforts to promote ‘community development’ within the meaning of the CRA [Community Reinvestment Act] for the purpose of and to the extent that it supports permanent job creation, retention, and/or improvement for persons who are currently low-or moderate income or in low-or moderate-income areas or areas targeted for redevelopment by federal, state, local or tribal governments; or activities that revitalize or stabilize low-or moderate-income geographies. (MRS fund)

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28 GIIRS is a third-party sustainability rating system: https://b-analytics.net/content/giirs-fund-rating-methodology.
Hart and Moore (2008) warn that this flexibility risks shading: after signing the LPA, both the LPs and the GPs face uncertainty about consummate performance as the partnership plays out. Since the shading worsens as a party’s utility falls short of the highest utility the party could have gotten within the limits of the flexibility, the risk increases with misalignment between the parties’ preferences. To put it another way, if the parties prefer similar impact choices, the shortfall is small, and shading is light. The Hart and Moore (2008) analysis associates the flexibility of impact terms with alignment of preferences over impact.29

In our setting, this logic 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 (more flexible terms).30 We see this in our sample. MRS funds, where LP impact preferences may not align, tend to use relatively more rigid forms of contracting, like veto rights and ESG standards (boxes to check). With impact-prioritizing NMRS funds, shading costs are smaller. We revisit LP impact preferences in Section 4.B.

The contracts shed light on not only whether but also how impact enters the contracting parties’ utility. The investors and managers of a fund could get utility from the world becoming a better place, but they could also get utility from making the world a better place. The view

29 There could 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.
30 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.
embodied in the theory of Hart and Zingales (2017) is the latter instrumental view rather than the former, and it is consistent with much of what we see in the contracts. 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 that 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.

The existing theories on multitasking, flexible contracts, and braiding help explain many of our findings among the impact contracts. These theories are not built to explain the difference between types of impact funds, specifically the more extensive impact contracting in MRS than in NMRS funds. The next section addresses this difference with a model in which investors and managers sort into funds with different tradeoffs between financial returns and impact.

4.B. Matching impact preferences through contract terms

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 tend to have more oversight of investment opportunities through specific advisory committee roles. MRS funds, on the other hand, contract on impact with PCs 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 map easily to 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 we address concern the tradeoffs between expected return and impact, both in the contracting parties’ preferences and in their investment opportunities. We build on two assumptions: that people privately know their utility functions, in particular the utility they get from expected return vs impact, and that a GP privately knows the tradeoff between expected return and impact afforded by her best investment opportunities. For convenience, we describe the 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 PC’s manager as the agent.

Suppose for simplicity that a portfolio can have zero, one, or two units of impact, and that impact preferences sort GPs and LPs 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., if it 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.\(^\text{31}\)

\(^\text{31}\) The following is contract language signaling High preferences: Fund “does not aim to maximise profits for its shareholders, but has a clear social objective. The emphasis is on the social component, with [redacted] shareholders’ investments contributing to socio-economic development in [redacted].”
funds. However, this matching is frustrated for MRS funds by the opacity of preferences and corresponding incentives.

The MRS fund’s manager takes investment from Medium-type investors, 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-type, but if she is Low-type masquerading as Medium-type, she will buy one unit and say that impact was expensive. If she is High-type, 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 never buy impact no matter what, so they would not buy impact or else would be exposed as managers who had 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. However, Medium-type MRS investors are vulnerable to their managers’ true types (Low, Medium, or High), and at times may need extra oversight to 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. Impact contract terms facilitate matching GP-LP impact preferences and protecting price-sensitive LPs.

32 The following is contract language signaling Medium preferences: "The goal of the Fund will be to create a positive rate of return for its limited partners ('LPs') while achieving significant social and environmental impact."
5. Conclusion

The essence of impact investing is the service of two goals at once: the traditional goal of profits combined with an additional goal intended to deliver a social benefit. The additional goal presents new challenges for the layers of contracting that address the agency problems among investors, funds, and portfolio companies. We use a new database of impact funds’ legal documents to explore these challenges by first identifying the effect of impact on contracting choices, and then using contract theory to surface the tensions underlying these choices. The identification is primarily through the variation across funds in the intensity of impact, between funds seeking market-rate financial returns and those aiming lower.

We find that impact funds generally choose not to tie compensation to impact, opting instead for the waterfall compensation for financial performance chosen by their non-impact peers. Rewarding only financial performance appears contrary to the analysis of multi-tasking agency problems in HM ‘91, but not if effort toward financial performance complements effort toward impact, which we argue it does, and not if the funds adapt other elements of the contract to channel effort toward impact, which we find that they do. So the framework of HM ‘91 highlights both the positive effect of financial viability on impact and the potential for non-compensation terms to counteract distortions from compensation.

Contracting for impact is likely to be less complete than contracting for dollars because the parties know little about the nature of the best impact opportunities until the fund is well underway. The funds adapt to this incompleteness, we find, with both direct contracting on impact and participatory governance terms. Contract terms devoted to impact often take a more flexible form, focusing on process and reporting. Participatory governance terms likewise allow
the LPs to implement their impact goals dynamically, braiding what they learn from monitoring into the funds’ operational decisions along the lines of Gilson et al. (2010). In this way, impact elevates the role of informal governance in the financing of innovation.

Contracting for private investment is challenging enough when everyone is just in it for the money. The additional goal of social impact adds a new dimension to the challenge, and the new database of impact-investing contracts shows us how this growing sector has risen to it. The existing theory on contracting helps us understand the contracting choices, but the economics of this sector could be both different and important enough to merit contracting theory of its own. This is a promising area for future research.
Bibliography


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 describe the relationship between the LP and the GP comprehensively. 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

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<th>NMRS funds</th>
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<td>Additional documents</td>
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Panel B: GP-PC contracts

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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.

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Table 3: 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.

Panel A: General Characteristics

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<th>Did Not Provide Contracts</th>
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<tr>
<td>Vintage year</td>
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<tr>
<td>Fund's initial term (yrs.)</td>
<td>40</td>
</tr>
<tr>
<td>Committed capital ($M)</td>
<td>47</td>
</tr>
<tr>
<td>Num. companies in which fund has invested</td>
<td>45</td>
</tr>
<tr>
<td>Num. funds currently managed by firm</td>
<td>31</td>
</tr>
<tr>
<td>Num. funds managed by most senior firm GP</td>
<td>29</td>
</tr>
</tbody>
</table>

Panel B: LPs invested in fund

<table>
<thead>
<tr>
<th>Provided Contracts</th>
<th>Did Not Provide Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Mean</td>
</tr>
<tr>
<td>Investor type:</td>
<td></td>
</tr>
<tr>
<td>High net worth individuals</td>
<td>21</td>
</tr>
<tr>
<td>Foundations</td>
<td>21</td>
</tr>
<tr>
<td>Dev. finance institutions</td>
<td>15</td>
</tr>
<tr>
<td>Government agencies</td>
<td>7</td>
</tr>
<tr>
<td>Pension funds</td>
<td>8</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>7</td>
</tr>
<tr>
<td>Other institutional investors</td>
<td>17</td>
</tr>
</tbody>
</table>
Table 4: Investor Types, MRS v. NMRS Funds

This table presents information on investor types for MRS funds compared to NMRS funds. Panel A reports statistics for all available MRS and NMRS funds, including both funds that did and did not provide contracts. Statistically significant differences are reported with stars in the NMRS portion of the panel, with * for p <0.10, ** for p<0.05, and *** for p<0.01. Panel B reports statistics only for MRS and NMRS funds that provided contracts and are in the sample. Not all sample funds provided data on investor types. We report on three sets of questions: Who are investors in the fund? What is the largest class of investors? Lastly, does this class represent more than 50% of the committed capital in the fund? N indicates the number of funds who answered affirmatively, and % the corresponding percent of funds.

Panel A: Including Non-sample Funds (Both Provided and Did Not Provide Contracts)

<table>
<thead>
<tr>
<th>Investor (LP) type:</th>
<th>Invested in fund</th>
<th>MRS</th>
<th>Invested in fund</th>
<th>NMRS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>High net worth individuals</td>
<td>33</td>
<td>76%</td>
<td>33</td>
<td>76%</td>
</tr>
<tr>
<td>Foundations</td>
<td>25</td>
<td>76%</td>
<td>10</td>
<td>30%</td>
</tr>
<tr>
<td>Dev. finance institutions</td>
<td>23</td>
<td>70%</td>
<td>9</td>
<td>27%</td>
</tr>
<tr>
<td>Government agencies</td>
<td>6</td>
<td>18%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Pension funds</td>
<td>10</td>
<td>30%</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>6</td>
<td>18%</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>Other institutional investors</td>
<td>22</td>
<td>67%</td>
<td>8</td>
<td>24%</td>
</tr>
</tbody>
</table>

Note: Statistically significant differences are reported with stars, with * for p <0.10, ** for p<0.05, and *** for p<0.01.
<table>
<thead>
<tr>
<th>Investor (LP) type:</th>
<th>MRS</th>
<th></th>
<th>MRS</th>
<th></th>
<th>NMRS</th>
<th></th>
<th>NMRS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Invested in fund</td>
<td>Largest class</td>
<td>Invested in fund</td>
<td>Largest class</td>
<td>50%+ of capital</td>
<td>Invested in fund</td>
<td>Largest class</td>
<td>50%+ of capital</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>High net worth individuals</td>
<td>15</td>
<td>75%</td>
<td>9</td>
<td>45%</td>
<td>8</td>
<td>40%</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>Foundations</td>
<td>14</td>
<td>70%</td>
<td>2</td>
<td>10%</td>
<td>1</td>
<td>5%</td>
<td>7</td>
<td>70%</td>
</tr>
<tr>
<td>Dev. finance institutions</td>
<td>11</td>
<td>55%</td>
<td>4</td>
<td>20%</td>
<td>3</td>
<td>15%</td>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td>Government agencies</td>
<td>5</td>
<td>25%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Pension funds</td>
<td>5</td>
<td>25%</td>
<td>1</td>
<td>5%</td>
<td>0</td>
<td>0%</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>3</td>
<td>15%</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td>Other institutional investors</td>
<td>13</td>
<td>65%</td>
<td>4</td>
<td>20%</td>
<td>3</td>
<td>15%</td>
<td>4</td>
<td>40%</td>
</tr>
</tbody>
</table>
Table 5: 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-1 and IA-2.

<table>
<thead>
<tr>
<th>Panel A: Impact terms by fund type</th>
<th>Incidence (% funds)</th>
<th>Difference NMRS-MRS</th>
<th>Score Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>MRS</td>
<td>NMRS</td>
</tr>
<tr>
<td><strong>Aspirational impact terms</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social impact addressed in agreement</td>
<td>94%</td>
<td>92%</td>
<td>100%</td>
</tr>
<tr>
<td>Agreement generally prohibits negative impact</td>
<td>60%</td>
<td>58%</td>
<td>62%</td>
</tr>
<tr>
<td>Fund commitment to social impact</td>
<td>83%</td>
<td>84%</td>
<td>77%</td>
</tr>
<tr>
<td>Fund commitment to environmental impact</td>
<td>62%</td>
<td>63%</td>
<td>54%</td>
</tr>
<tr>
<td>Any of the above</td>
<td>98%</td>
<td>97%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Operational impact terms</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund commitment to international ESG standards</td>
<td>30%</td>
<td>32%</td>
<td>15%</td>
</tr>
<tr>
<td>Fund GP/Manager compensation tied to benefit/impact performance</td>
<td>9%</td>
<td>8%</td>
<td>15%</td>
</tr>
<tr>
<td>Fund investment due diligence policy addresses impact generally</td>
<td>77%</td>
<td>79%</td>
<td>77%</td>
</tr>
<tr>
<td>Fund investment due diligence policy addresses portfolio company impact</td>
<td>62%</td>
<td>58%</td>
<td>77%</td>
</tr>
<tr>
<td>Fund measures social impact</td>
<td>72%</td>
<td>71%</td>
<td>69%</td>
</tr>
<tr>
<td>Fund uses external, third party monitor or reporting system</td>
<td>28%</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>Fund has an impact committee</td>
<td>17%</td>
<td>13%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Panel B: Total operational impact by fund type

<table>
<thead>
<tr>
<th>Operational impact</th>
<th>N</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>10th</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>90th</th>
<th>Max</th>
<th>% &gt; 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>53</td>
<td>41.5</td>
<td>22.7</td>
<td>0.0</td>
<td>18.2</td>
<td>27.3</td>
<td>45.5</td>
<td>54.6</td>
<td>72.7</td>
<td>100</td>
<td>94.3</td>
</tr>
<tr>
<td>MRS</td>
<td>38</td>
<td>40.0</td>
<td>24.3</td>
<td>0.0</td>
<td>9.1</td>
<td>27.3</td>
<td>36.4</td>
<td>54.6</td>
<td>72.7</td>
<td>100</td>
<td>92.1</td>
</tr>
<tr>
<td>NMRS</td>
<td>13</td>
<td>44.8</td>
<td>19.1</td>
<td>18.2</td>
<td>18.2</td>
<td>27.3</td>
<td>45.5</td>
<td>54.6</td>
<td>72.7</td>
<td>81.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Difference NMRS-MRS</td>
<td>4.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7.90</td>
</tr>
</tbody>
</table>
Table 6: 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-3 and IA-4.

Panel A: Impact terms by fund type

<table>
<thead>
<tr>
<th>Term</th>
<th>Incidence (% funds)</th>
<th>Difference</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>MRS</td>
<td>NMRS</td>
</tr>
<tr>
<td>PC’s mission locked in at the fund’s exit</td>
<td>3%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Fund exit right if change in location or business model or benefit</td>
<td>1%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Fund veto right on deviations from the business plan of the PC</td>
<td>43%</td>
<td>49%</td>
<td>27%</td>
</tr>
<tr>
<td>PC has an impact committee</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Fund participates in PC impact committee</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Fund information rights include impact information</td>
<td>9%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>PC environmental or social benefit is measured</td>
<td>20%</td>
<td>17%</td>
<td>27%</td>
</tr>
<tr>
<td>Internal impact measurement</td>
<td>2%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>External impact measurement</td>
<td>9%</td>
<td>7%</td>
<td>15%</td>
</tr>
<tr>
<td>PC impact performance is reported</td>
<td>13%</td>
<td>10%</td>
<td>19%</td>
</tr>
<tr>
<td>Impact performance reporting done annually</td>
<td>8%</td>
<td>7%</td>
<td>12%</td>
</tr>
<tr>
<td>Compensation tied to benefit/impact performance</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Impact addressed generally</td>
<td>39%</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>Impact identified</td>
<td>24%</td>
<td>29%</td>
<td>12%</td>
</tr>
<tr>
<td>Additional social impact channels (e.g., ESG standards)</td>
<td>13%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>Document specifies impact performance reporting</td>
<td>13%</td>
<td>10%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Panel B: Total PC impact by fund type

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>10th</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>90th</th>
<th>Max</th>
<th>% &gt; 0</th>
<th>% funds with &gt;0</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>96</td>
<td>10.9</td>
<td>13.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.5</td>
<td>12.8</td>
<td>31.9</td>
<td>53.2</td>
<td>63.5</td>
<td>87%</td>
</tr>
<tr>
<td>MRS</td>
<td>70</td>
<td>10.9</td>
<td>12.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.5</td>
<td>12.8</td>
<td>29.8</td>
<td>53.2</td>
<td>70.0</td>
<td>89%</td>
</tr>
<tr>
<td>NMRS</td>
<td>26</td>
<td>11.1</td>
<td>16.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>12.8</td>
<td>40.4</td>
<td>42.6</td>
<td>46.2</td>
<td>83%</td>
</tr>
<tr>
<td>Diff. NMRS-MRS</td>
<td>0.17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-23.85**</td>
<td></td>
</tr>
</tbody>
</table>
Table 7: 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:

$$ \text{PC impact score}_i = \beta \text{fund impact score}_i + \gamma \text{num. contracts}_i + \epsilon $$

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>MRS</td>
<td>NMRS</td>
</tr>
<tr>
<td>Fund operational impact</td>
<td>0.1880***</td>
<td>0.3910***</td>
<td>-0.2699</td>
</tr>
<tr>
<td></td>
<td>(0.0699)</td>
<td>(0.0704)</td>
<td>(0.1728)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.122</td>
<td>0.335</td>
<td>0.218</td>
</tr>
<tr>
<td>Num. contracts fund-level</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>N</td>
<td>94</td>
<td>70</td>
<td>24</td>
</tr>
</tbody>
</table>
Table 8: GP Compensation

This table presents compensation terms observed for impact funds. We include for reference compensation terms observe in non-impact funds by Metrick and Yasuda (2010) (MY) and Gompers and 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 breakouts, funds with no management fees are counted in the “<2%” group. It is reproduced for small and large funds in Tables IA-5 and IA-6, and for the MY period in Table IA-11.

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

33 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 9: Covenants

This table presents covenant terms for impact funds. We include for reference statistics on non-impact funds from Gompers and Lerner (1996) (GL ‘96), Kaplan and Strömberg (2003) (KS), and Smith (2005) (S). This table is reproduced for small and large funds in Tables IA-7 and IA-8.

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

<table>
<thead>
<tr>
<th>Limits to Manager Discretion</th>
<th>Non-impact Reference</th>
<th>Incidence</th>
<th>Impact All</th>
<th>MRS</th>
<th>NMRS</th>
<th>Difference NMRS-MRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset restrictions</td>
<td>n/a</td>
<td>92%</td>
<td>92%</td>
<td>92%</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>Conflict of interest transactions</td>
<td>n/a</td>
<td>11%</td>
<td>16%</td>
<td>0%</td>
<td>-15.8%</td>
<td></td>
</tr>
<tr>
<td>Fund family co-investment</td>
<td>n/a</td>
<td>4%</td>
<td>3%</td>
<td>8%</td>
<td>5.1%</td>
<td></td>
</tr>
<tr>
<td>Parenthood prohibition</td>
<td>n/a</td>
<td>9%</td>
<td>13%</td>
<td>0%</td>
<td>-13.2%</td>
<td></td>
</tr>
<tr>
<td>No outside region investment</td>
<td>n/a</td>
<td>23%</td>
<td>24%</td>
<td>23%</td>
<td>-0.6%</td>
<td></td>
</tr>
<tr>
<td>No outside sector investments</td>
<td>n/a</td>
<td>9%</td>
<td>11%</td>
<td>8%</td>
<td>-2.8%</td>
<td></td>
</tr>
<tr>
<td>Industry restrictions y/n</td>
<td>n/a</td>
<td>19%</td>
<td>16%</td>
<td>15%</td>
<td>-0.4%</td>
<td></td>
</tr>
<tr>
<td>Industry cap</td>
<td>n/a</td>
<td>6%</td>
<td>5%</td>
<td>0%</td>
<td>-5.3%</td>
<td></td>
</tr>
</tbody>
</table>

Manager Restrictions

| Reinvesting fund profits                                 | GL ‘96               | 21%       | 70%        | 68% | 69%  | 0.8%                |
| Co-investing 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

<table>
<thead>
<tr>
<th>Investment protection</th>
<th>Non-impact Reference</th>
<th>Incidence</th>
<th>Impact All</th>
<th>MRS</th>
<th>NMRS</th>
<th>Difference NMRS-MRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-dilution of fund investment</td>
<td>KS</td>
<td>95%</td>
<td>71%</td>
<td>76%</td>
<td>58%</td>
<td>-18.0%*</td>
</tr>
<tr>
<td>Full ratchet preemption</td>
<td>KS</td>
<td>22%</td>
<td>19%</td>
<td>16%</td>
<td>27%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Weighted average preemption</td>
<td>KS</td>
<td>78%</td>
<td>13%</td>
<td>14%</td>
<td>8%</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Founder/entrepreneur non-compete</td>
<td>KS</td>
<td>70%</td>
<td>50%</td>
<td>49%</td>
<td>54%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Fund liquidation rights</td>
<td>KS</td>
<td>71%</td>
<td>49%</td>
<td>37%</td>
<td>81%</td>
<td>43.6%***</td>
</tr>
</tbody>
</table>

Exit

| Fund put/redemption right                               | KS                   | 79%       | 52%        | 53% | 50%  | -2.9%               |
| Registration rights                                     | S                    | 43%       | 45%        | 41% | 54%  | 12.4%               |
Table 10: Participatory Governance

This table presents participatory governance terms for impact funds. We include for reference statistics on non-impact funds from Gompers et al. (2016) (GKM) and Kaplan and Strömberg (2003) (KS). This table is reproduced for small and large funds in Tables IA-9 and IA-10.

Panel A: Participatory governance at the GP-LP Level

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Incidence</td>
<td>All</td>
</tr>
<tr>
<td>Advisory committee incidence</td>
<td>n/a</td>
<td>94%</td>
</tr>
<tr>
<td>Advisory committee role:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generally advise GP or BOD</td>
<td>n/a</td>
<td>64%</td>
</tr>
<tr>
<td>Technical assistance to GP or BOD</td>
<td>n/a</td>
<td>9%</td>
</tr>
<tr>
<td>Policy assistance to GP or BOD</td>
<td>n/a</td>
<td>13%</td>
</tr>
<tr>
<td>Evaluate loans</td>
<td>n/a</td>
<td>4%</td>
</tr>
<tr>
<td>Investment strategy</td>
<td>n/a</td>
<td>43%</td>
</tr>
<tr>
<td>Due diligence</td>
<td>n/a</td>
<td>40%</td>
</tr>
<tr>
<td>Approve investments</td>
<td>n/a</td>
<td>43%</td>
</tr>
<tr>
<td>Investment financial performance review</td>
<td>n/a</td>
<td>8%</td>
</tr>
<tr>
<td>Investment impact review</td>
<td>n/a</td>
<td>6%</td>
</tr>
<tr>
<td>Approve conflict of interests</td>
<td>n/a</td>
<td>40%</td>
</tr>
<tr>
<td>Asset valuations</td>
<td>n/a</td>
<td>32%</td>
</tr>
<tr>
<td>Approve exit scenarios</td>
<td>n/a</td>
<td>23%</td>
</tr>
<tr>
<td>Approve reports and audits</td>
<td>n/a</td>
<td>8%</td>
</tr>
<tr>
<td>Approve budgets, reserves, draw downs and/or fees</td>
<td>n/a</td>
<td>17%</td>
</tr>
<tr>
<td>Fund compliance</td>
<td>n/a</td>
<td>26%</td>
</tr>
<tr>
<td>Fund life: terminate or extend the fund</td>
<td>n/a</td>
<td>8%</td>
</tr>
<tr>
<td>No description</td>
<td>n/a</td>
<td>8%</td>
</tr>
</tbody>
</table>

Panel B: Governance at the GP-PC Level

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Incidence</td>
<td>All</td>
</tr>
<tr>
<td>Investor board seats guaranteed</td>
<td>n/a</td>
<td>80%</td>
</tr>
<tr>
<td>Number of guaranteed seats?</td>
<td>GKM</td>
<td>2.80</td>
</tr>
<tr>
<td>PC board size</td>
<td>GKM</td>
<td>5-7 mem.</td>
</tr>
<tr>
<td></td>
<td>KS</td>
<td>6 mem.</td>
</tr>
<tr>
<td>Investor majority control</td>
<td>KS</td>
<td>25.4%</td>
</tr>
<tr>
<td>Investor min. voting %</td>
<td>KS</td>
<td>53.6%</td>
</tr>
</tbody>
</table>
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.”

Alternatives to waterfall compensation

"The Management Board, by unanimous decision, shall decide to allocate the profits of the LLP between the Members in accordance with the Ownership Proportion set out in Schedule [x]."

“Except as provided in Section [x] regarding liquidating distributions, Net Cash Flow shall be determined by the General Partner in accordance with Section [x] and shall be distributed to the Partners annually in proportion to their capital interest.”

Manager Co-investment provision

"Where possible and appropriate, the General Partner may, in its discretion, provide co-investment opportunities to Limited Partners, including the Founding Investor, before making such opportunities available to non-Limited Partners. The General Partner may also in its discretion offer co-investment opportunities to other parties that are non-Limited Partners that the General Partner believes may facilitate the consummation of a Portfolio Investment.”
Manager Re-investment provision

"All or any portion of any Funded Commitments used to make an Investment that, at any time within 24 months of the date on which the Investment was completed, is disposed of by, or repaid or returned to, the Partnership, together with the amount of any income received by the Partnership within such 24-month period in respect of such Investment (but, in each case, net of all costs and expenses related thereto), may, at the option of the General Partner, be retained by the Partnership, for a period of up to 12 months from the date the Investment is disposed of, or repaid or returned, for the purpose of making additional Investments prior to the date that the Investment Period has ended or is deemed to have been ended. The amount retained shall not exceed the aggregate Funded Commitments used to make such Investment that has been disposed of, repaid or returned together with any income received thereon during such 24 month period."

Conflict of Interest Transaction Provision

"Without the consent of a majority of the members of the Investment Committee, the Partnership shall not purchase or otherwise acquire any securities from, or transfer any assets to, (i) a Managing Member, including members of his or her immediate family and entities over which any such Managing Member has investment control (ii) the General Partner or its Affiliates, or (iii) any other investment fund managed by the GP or its Affiliates"

Asset Restrictions

Example 1: "The Fund will not, without the prior approval of the Advisory Board, invest more than 15% of Commitments in any one Portfolio Company or more than 35% of Commitments in any one business sector alone."

Example 2: "The GP…without written consent or ratification of the specific act by the Advisory Committee, cause or permit the Partnership to (1) invest more than 20% of the Partners' aggregate Capital commitments in the securities of any one Portfolio Company, including guarantees and bridge financings; (2) invest in any Portfolio Company whose primary source of income is derived from real estate investment, oil and gas exploration and production, or mining…"

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.”
## Tables

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

This table presents extended summary statistics for the funds and documents in our sample. Panel A presents information from GP-LP contracts, and Panel B presents information from GP-PC contracts.

#### Panel A: GP-LP contracts

<table>
<thead>
<tr>
<th>Panel A: GP-LP contracts</th>
<th>All funds</th>
<th>MRS funds</th>
<th>NMRS funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Number of funds</td>
<td>53</td>
<td>38</td>
<td>13</td>
</tr>
<tr>
<td>Number of documents</td>
<td>118</td>
<td>86</td>
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</tr>
<tr>
<td>Fund Size</td>
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</tr>
<tr>
<td>&lt;$10 M</td>
<td>9</td>
<td>8</td>
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</tr>
<tr>
<td>$100-500 M</td>
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<td>8</td>
<td>2</td>
</tr>
<tr>
<td>&gt;$500 M</td>
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<td>14</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Stage focus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early</td>
<td>11</td>
<td>8</td>
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</tr>
<tr>
<td>Later</td>
<td>9</td>
<td>6</td>
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</tr>
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<td>Multiple</td>
<td>26</td>
<td>19</td>
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<tr>
<td>Stage unknown</td>
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<td>2</td>
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<td>Geographic focus</td>
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<tr>
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<td>0</td>
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<td>United States and Canada</td>
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<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Africa</td>
<td>14</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Latin America</td>
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<td>6</td>
<td>4</td>
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<tr>
<td>South Asia</td>
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<td>Asia - Other</td>
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</tr>
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<td>Other</td>
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<tr>
<td>Industry focus</td>
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</tr>
<tr>
<td>Agribusiness/Farming</td>
<td>17</td>
<td>13</td>
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</tr>
<tr>
<td>Finance and Microfinance</td>
<td>13</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Social/Poverty</td>
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<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Health</td>
<td>13</td>
<td>9</td>
<td>4</td>
</tr>
</tbody>
</table>

<p>| Total                     |           |           | 50         |</p>
<table>
<thead>
<tr>
<th>Category</th>
<th>Country or territory of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech. &amp; Business Services</td>
<td>Belgium</td>
</tr>
<tr>
<td></td>
<td>Botswana</td>
</tr>
<tr>
<td></td>
<td>British Virgin Islands</td>
</tr>
<tr>
<td></td>
<td>Canada</td>
</tr>
<tr>
<td></td>
<td>Cayman Islands</td>
</tr>
<tr>
<td></td>
<td>India</td>
</tr>
<tr>
<td></td>
<td>Luxembourg</td>
</tr>
<tr>
<td></td>
<td>Mauritius</td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
</tr>
<tr>
<td></td>
<td>London</td>
</tr>
<tr>
<td></td>
<td>South Africa</td>
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<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td>United States</td>
</tr>
</tbody>
</table>

**Country or territory of origin**

<table>
<thead>
<tr>
<th>Country</th>
<th>Belgium</th>
<th>Botswana</th>
<th>British Virgin Islands</th>
<th>Canada</th>
<th>Cayman Islands</th>
<th>India</th>
<th>Luxembourg</th>
<th>Mauritius</th>
<th>Netherlands</th>
<th>London</th>
<th>South Africa</th>
<th>United Kingdom</th>
<th>United States</th>
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</thead>
<tbody>
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<td>2</td>
<td>1</td>
<td>4</td>
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<td>1</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>2%</td>
<td>4%</td>
<td>2%</td>
<td>8%</td>
<td>9%</td>
<td>2%</td>
<td>9%</td>
<td>6%</td>
<td>4%</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>3%</td>
<td>3%</td>
<td>11%</td>
<td>13%</td>
<td>3%</td>
<td>3%</td>
<td>5%</td>
<td>5%</td>
<td>3%</td>
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<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td></td>
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<td>1</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>1</td>
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<td>1</td>
<td>2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>8%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
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</tbody>
</table>
### Panel B: GP-PC contracts

<table>
<thead>
<tr>
<th></th>
<th>All funds</th>
<th></th>
<th>MRS funds</th>
<th></th>
<th>NMRS funds</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>Number of funds</td>
<td>15</td>
<td>0.12</td>
<td>9</td>
<td>0.07</td>
<td>6</td>
<td>0.05</td>
</tr>
<tr>
<td>Number of PCs</td>
<td>93</td>
<td>0.76</td>
<td>68</td>
<td>0.56</td>
<td>25</td>
<td>0.20</td>
</tr>
<tr>
<td>Number of documents</td>
<td>96</td>
<td>0.77</td>
<td>70</td>
<td>0.56</td>
<td>26</td>
<td>0.21</td>
</tr>
<tr>
<td>Industry focus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture/Farming</td>
<td>21</td>
<td>0.16</td>
<td>12</td>
<td>0.10</td>
<td>9</td>
<td>0.35</td>
</tr>
<tr>
<td>Finance and Microfinance</td>
<td>16</td>
<td>0.13</td>
<td>14</td>
<td>0.11</td>
<td>2</td>
<td>0.08</td>
</tr>
<tr>
<td>Technology &amp; Business Services</td>
<td>9</td>
<td>0.07</td>
<td>8</td>
<td>0.06</td>
<td>1</td>
<td>0.04</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5</td>
<td>0.04</td>
<td>5</td>
<td>0.04</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Health</td>
<td>5</td>
<td>0.04</td>
<td>5</td>
<td>0.04</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>3</td>
<td>0.02</td>
<td>3</td>
<td>0.02</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>2</td>
<td>0.02</td>
<td>2</td>
<td>0.02</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Energy</td>
<td>2</td>
<td>0.02</td>
<td>2</td>
<td>0.02</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Housing</td>
<td>2</td>
<td>0.02</td>
<td>2</td>
<td>0.02</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Essential Individual Products</td>
<td>1</td>
<td>0.01</td>
<td>0</td>
<td>0.00</td>
<td>1</td>
<td>0.04</td>
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<tr>
<td>Education</td>
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<td>0.01</td>
<td>1</td>
<td>0.01</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Social/Poverty</td>
<td>1</td>
<td>0.01</td>
<td>1</td>
<td>0.01</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Sustainable Development</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Environment</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>0.00</td>
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<td>Employment</td>
<td>0</td>
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<td>0</td>
<td>0.00</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>0.02</td>
<td>2</td>
<td>0.02</td>
<td>1</td>
<td>0.04</td>
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<tr>
<td>Undefined</td>
<td>40</td>
<td>0.31</td>
<td>25</td>
<td>0.20</td>
<td>15</td>
<td>0.58</td>
</tr>
<tr>
<td>Geographic focus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States and Canada</td>
<td>4</td>
<td>0.03</td>
<td>1</td>
<td>0.01</td>
<td>3</td>
<td>0.12</td>
</tr>
<tr>
<td>Europe</td>
<td>2</td>
<td>0.02</td>
<td>1</td>
<td>0.01</td>
<td>1</td>
<td>0.04</td>
</tr>
<tr>
<td>Latin America</td>
<td>6</td>
<td>0.05</td>
<td>5</td>
<td>0.04</td>
<td>1</td>
<td>0.04</td>
</tr>
<tr>
<td>Africa</td>
<td>16</td>
<td>0.13</td>
<td>7</td>
<td>0.06</td>
<td>9</td>
<td>0.35</td>
</tr>
<tr>
<td>South Asia</td>
<td>11</td>
<td>0.09</td>
<td>11</td>
<td>0.09</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Southeast Asia</td>
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<td>0.02</td>
<td>3</td>
<td>0.02</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Asia - Other</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Global</td>
<td>2</td>
<td>0.02</td>
<td>2</td>
<td>0.02</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Undefined</td>
<td>53</td>
<td>0.42</td>
<td>41</td>
<td>0.32</td>
<td>12</td>
<td>0.46</td>
</tr>
<tr>
<td>Fund investment position</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-10%</td>
<td>6</td>
<td>0.05</td>
<td>2</td>
<td>0.02</td>
<td>4</td>
<td>0.15</td>
</tr>
<tr>
<td>10-25%</td>
<td>29</td>
<td>0.24</td>
<td>27</td>
<td>0.22</td>
<td>2</td>
<td>0.08</td>
</tr>
<tr>
<td>25-50%</td>
<td>22</td>
<td>0.18</td>
<td>18</td>
<td>0.15</td>
<td>4</td>
<td>0.15</td>
</tr>
<tr>
<td>50%+</td>
<td>7</td>
<td>0.06</td>
<td>7</td>
<td>0.06</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Unknown</td>
<td>32</td>
<td>0.25</td>
<td>16</td>
<td>0.13</td>
<td>16</td>
<td>0.62</td>
</tr>
</tbody>
</table>
Table A-2: 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 8-10.

<table>
<thead>
<tr>
<th>Similarities</th>
<th>PE</th>
<th>VC</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Function</strong></td>
<td>Raise capital to invest in private companies</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td>Compensation structures including management fees and waterfall structures at the fund level</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>Operational Focus</strong></td>
<td>Fund involvement with PC operations to promote growth</td>
<td></td>
<td>to some degree</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Differences</th>
<th>PE</th>
<th>VC</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry &amp; Stage</strong></td>
<td>All industries, mature companies</td>
<td>Technology startups such as biotech, clean tech, apps, etc.</td>
<td>Both</td>
</tr>
<tr>
<td><strong>Control</strong></td>
<td>Majority control or 100% investment in PC</td>
<td>Minority control/investment in PC</td>
<td>Minority control</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>Debt and equity investments in PC</td>
<td>Equity in PC</td>
<td>Debt and equity, preference for equity</td>
</tr>
<tr>
<td><strong>Fund Exit</strong></td>
<td>Private company sale, spin off, relisting a company, etc.</td>
<td>Private company sale, IPO, later stage financing redemption</td>
<td>Sale or redemption</td>
</tr>
</tbody>
</table>
Table A-3: Comparison Points from Literature on VC/PE

This table summarizes characteristics of the papers we use as references for the statistics we present in Tables 8-10.

<table>
<thead>
<tr>
<th>Author/Date</th>
<th>Sample size</th>
<th>Input</th>
<th>VC/PE</th>
<th>Data date range</th>
<th>Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metrick &amp; Yasuda (2010)</td>
<td>238</td>
<td>Funds (contracts + fund research)</td>
<td>VC/PE</td>
<td>1993-2006</td>
<td>MY</td>
</tr>
<tr>
<td>Gompers, Kaplan &amp; Mukharlyamov (2016)</td>
<td>79</td>
<td>Investor surveys</td>
<td>PE</td>
<td>2011-2013</td>
<td>GKM</td>
</tr>
<tr>
<td>Gompers, Gornall, Kaplan, &amp; Strebulaev (2020)</td>
<td>885</td>
<td>Investor surveys</td>
<td>VC</td>
<td>2016-2016</td>
<td>GGKS</td>
</tr>
<tr>
<td>Smith (2005)</td>
<td>367</td>
<td>Registration statements of venture-backed IPO’s</td>
<td>VC</td>
<td>1997-2002</td>
<td>S</td>
</tr>
</tbody>
</table>
Table A-4: Correlation of Operational 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:

\[ \text{compensation outcome}_i = \beta \text{fund impact score}_i + \gamma \text{num. contracts}_i + \epsilon \]

In Panel A, the compensation outcome is an indicator for the presence of the term. In Panel B, the outcome is the level of the compensation term in percentage points (e.g., 8 for an 8% hurdle rate, 0 if none). Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Panel A: Presence of compensation terms

<table>
<thead>
<tr>
<th></th>
<th>(1) Hurdle rate</th>
<th>(2) Carry rate</th>
<th>(3) Catch-up target</th>
<th>(4) Management fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational impact</td>
<td>28.0881</td>
<td>6.7099</td>
<td>25.7800</td>
<td>11.7435</td>
</tr>
<tr>
<td></td>
<td>(31.2208)</td>
<td>(23.8851)</td>
<td>(31.1833)</td>
<td>(25.1542)</td>
</tr>
<tr>
<td>Num. contracts fund-level</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Observations</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.061</td>
<td>0.039</td>
<td>0.006</td>
<td>0.016</td>
</tr>
</tbody>
</table>

Panel B: Levels of compensation terms

<table>
<thead>
<tr>
<th></th>
<th>(1) Hurdle rate</th>
<th>(2) Carry rate</th>
<th>(3) Catch-up target</th>
<th>(4) Management fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational impact</td>
<td>0.8132</td>
<td>1.2818</td>
<td>5.2155</td>
<td>0.8969</td>
</tr>
<tr>
<td></td>
<td>(2.4417)</td>
<td>(4.8896)</td>
<td>(6.0808)</td>
<td>(0.7028)</td>
</tr>
<tr>
<td>Num. contracts fund-level</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Observations</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.063</td>
<td>0.040</td>
<td>0.016</td>
<td>0.033</td>
</tr>
</tbody>
</table>
Figures

Figure A-1: Fund Size and Stage

Figure A-2: Fund Geography and Industry Focus
Figure A-3: PC Geography and Industry Focus

![Geographic Focus](image1)

![Industry Focus](image2)

Figure A-4: Impact Score Distribution

![Fraction of Funds and PCs with Impact Contract Terms](image3)

![Range of Impact Scores](image4)
Figure A-5: Most Frequent Operational Impact Terms

Figure A-6: Distribution of Financial Incentive Terms
Internet Appendix

Table IA-1: 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 5), restricted to small funds below $30 million in assets.

Panel A: Impact terms by fund type

<table>
<thead>
<tr>
<th>Aspirational impact terms</th>
<th>Score weight</th>
<th>Incidence (% funds)</th>
<th>Difference NMRS-MRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social impact addressed in agreement</td>
<td>1</td>
<td>97%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Agreement generally prohibits negative impact</td>
<td>1</td>
<td>50%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Fund commitment to social impact</td>
<td>1 if either</td>
<td>84%</td>
<td>-24.6%*</td>
</tr>
<tr>
<td>Fund commitment to environmental impact</td>
<td></td>
<td>69%</td>
<td>-2.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational impact terms</th>
<th>Score weight</th>
<th>Incidence (% funds)</th>
<th>Difference NMRS-MRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund commitment to international ESG standards</td>
<td>0.5</td>
<td>25%</td>
<td>-19.3%</td>
</tr>
<tr>
<td>Fund GP/Manager compensation tied to benefit/impact performance</td>
<td>1</td>
<td>13%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Fund investment due diligence policy addresses impact generally</td>
<td>0.5</td>
<td>81%</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Fund investment due diligence policy addresses portfolio company impact</td>
<td>1</td>
<td>63%</td>
<td>21.3%</td>
</tr>
<tr>
<td>Fund measures social impact</td>
<td>1</td>
<td>81%</td>
<td>-20.3%</td>
</tr>
<tr>
<td>Fund uses external, third party monitor or reporting system</td>
<td>0.5</td>
<td>34%</td>
<td>-16.9%</td>
</tr>
<tr>
<td>Fund has an impact committee</td>
<td>1</td>
<td>19%</td>
<td>-10.6%</td>
</tr>
</tbody>
</table>

Panel B: Total operational impact by fund type

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>10th</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>90th</th>
<th>Max</th>
<th>% &gt; 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>32</td>
<td>44.6</td>
<td>23.4</td>
<td>0.0</td>
<td>18.2</td>
<td>27.3</td>
<td>45.5</td>
<td>54.6</td>
<td>81.8</td>
<td>100</td>
<td>96.9</td>
</tr>
<tr>
<td>MRS</td>
<td>23</td>
<td>45.5</td>
<td>25.0</td>
<td>0.0</td>
<td>18.2</td>
<td>27.3</td>
<td>45.5</td>
<td>54.6</td>
<td>81.8</td>
<td>100</td>
<td>95.7</td>
</tr>
<tr>
<td>NMRS</td>
<td>9</td>
<td>42.4</td>
<td>19.8</td>
<td>18.2</td>
<td>18.2</td>
<td>27.3</td>
<td>45.5</td>
<td>45.5</td>
<td>81.8</td>
<td>81.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Difference NMRS-MRS</td>
<td>-3.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.3</td>
</tr>
</tbody>
</table>
Table IA-2: 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 5), restricted to large funds above $100 million in assets.

Panel A: Scores by fund type

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>10th</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>90th</th>
<th>Max</th>
<th>% &gt; 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspirational</td>
<td>13</td>
<td>84.6</td>
<td>25.9</td>
<td>33.3</td>
<td>33.3</td>
<td>66.7</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100.0</td>
</tr>
<tr>
<td>Operational</td>
<td>13</td>
<td>36.4</td>
<td>22.3</td>
<td>0.0</td>
<td>9.1</td>
<td>27.3</td>
<td>27.3</td>
<td>54.6</td>
<td>72.7</td>
<td>73</td>
<td>92.3</td>
</tr>
</tbody>
</table>

Panel A: Impact terms

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

Panel B: Total operational impact

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>10th</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>90th</th>
<th>Max</th>
<th>% &gt; 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>13</td>
<td>36.4</td>
<td>22.3</td>
<td>0.0</td>
<td>9.1</td>
<td>27.3</td>
<td>27.3</td>
<td>54.6</td>
<td>72.7</td>
<td>73</td>
<td>92.3</td>
</tr>
</tbody>
</table>
Table IA-3: 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 6), 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 B: Impact terms by fund type

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

Panel B: Total PC impact by fund type

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>10th</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>90th</th>
<th>Max</th>
<th>% &gt; 0</th>
<th>% funds with &gt;0</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>58</td>
<td>11.6</td>
<td>13.7</td>
<td>0.0</td>
<td>0.0</td>
<td>8.5</td>
<td>12.8</td>
<td>31.9</td>
<td>53.2</td>
<td>69.0</td>
<td>69.0</td>
<td>100%</td>
</tr>
<tr>
<td>MRS</td>
<td>42</td>
<td>13.7</td>
<td>14.2</td>
<td>0.0</td>
<td>0.0</td>
<td>4.3</td>
<td>8.5</td>
<td>23.4</td>
<td>31.9</td>
<td>53.2</td>
<td>78.6</td>
<td>100%</td>
</tr>
<tr>
<td>NMRS</td>
<td>16</td>
<td>5.9</td>
<td>10.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.5</td>
<td>12.8</td>
<td>40.4</td>
<td>43.8</td>
<td>43.8</td>
<td>100%</td>
</tr>
<tr>
<td>Diff. NMRS-MRS</td>
<td>-7.88**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-34.82***</td>
</tr>
</tbody>
</table>
Table IA-4: 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 6), 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: Impact terms

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

Panel A: Total PC impact

<table>
<thead>
<tr>
<th>N</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>10th</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>Max</th>
<th>% &gt; 0</th>
<th>% funds with &gt;0</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>36</td>
<td>9.3</td>
<td>12.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>3.2</td>
<td>12.8</td>
<td>31.9</td>
<td>40.4</td>
</tr>
</tbody>
</table>

4
Table IA-5: GP Compensation for Funds under $30 Million

This table presents statistics on compensation terms (as in Table 8), 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.

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>All</td>
<td>MRS</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>23</td>
</tr>
</tbody>
</table>

**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%<sup>34</sup>  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%

<sup>34</sup> 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-6: GP Compensation for Funds over $100 Million

This table presents statistics on compensation terms (as in Table 8), 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.

<table>
<thead>
<tr>
<th></th>
<th>Non-impact Reference</th>
<th>Non-impact ≥ $100 M</th>
<th>Impact ≥ $100 M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waterfall incidence</td>
<td>MY (VC+PE)</td>
<td>100%</td>
<td>92%</td>
</tr>
<tr>
<td>Hurdle rate incidence</td>
<td>MY (VC)</td>
<td>45%</td>
<td>77%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>92%</td>
<td></td>
</tr>
<tr>
<td>Mode</td>
<td>MY (VC)</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>MY (VC+PE)</td>
<td>6-10%</td>
<td>6-10%</td>
</tr>
<tr>
<td>Carried interest incidence</td>
<td>MY (VC+PE)</td>
<td>100%</td>
<td>92%</td>
</tr>
<tr>
<td>Mode</td>
<td>MY (VC)</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GL ‘99</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>MY (VC)</td>
<td>17.5-30%</td>
<td>20-20%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>all at 20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GL ‘99</td>
<td>0-45%</td>
<td></td>
</tr>
<tr>
<td>Catch-up target incidence</td>
<td>MY (VC+PE)</td>
<td>99%</td>
<td>77%</td>
</tr>
<tr>
<td>Mode</td>
<td>MY (VC+PE)</td>
<td>20%&lt;sup&gt;35&lt;/sup&gt;</td>
<td>17%</td>
</tr>
<tr>
<td>Range</td>
<td>MY (VC+PE)</td>
<td>16.5-20%</td>
<td>3-25%</td>
</tr>
<tr>
<td>Management fee incidence</td>
<td>MY (VC+PE)</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Range</td>
<td></td>
<td>1.5-3%</td>
<td></td>
</tr>
<tr>
<td>% of funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 2%</td>
<td>MY (VC)</td>
<td>43%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>2%</td>
<td>MY (VC)</td>
<td>47%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>&gt; 2%</td>
<td>MY (VC)</td>
<td>10%</td>
<td>77%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>51%</td>
<td></td>
</tr>
</tbody>
</table>

<sup>35</sup> 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-7: Covenants for Funds under $30 Million

This table presents statistics on covenants (as in Table 9), restricted to small funds below $30 million in assets.

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

<table>
<thead>
<tr>
<th>Limits to Manager Discretion</th>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reference</td>
<td>Incidence</td>
<td>MRS</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>23</td>
<td>9</td>
</tr>
<tr>
<td>Asset restrictions</td>
<td>n/a</td>
<td>91%</td>
<td>87%</td>
</tr>
<tr>
<td>Conflict of interest transactions</td>
<td>n/a</td>
<td>16%</td>
<td>22%</td>
</tr>
<tr>
<td>Fund family co-investment prohibition</td>
<td>n/a</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Region investment cap</td>
<td>n/a</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>No outside region investment</td>
<td>n/a</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>No outside sector investments</td>
<td>n/a</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Industry restrictions y/n</td>
<td>n/a</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td>Industry cap</td>
<td>n/a</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Manager Restrictions

<table>
<thead>
<tr>
<th>Reinvesting fund profits</th>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>GL ‘96</td>
<td>21%</td>
<td>59%</td>
<td>78%</td>
</tr>
<tr>
<td>Co-investing with fund</td>
<td>GL ‘96</td>
<td>73%</td>
<td>53%</td>
</tr>
<tr>
<td>Outside fundraising</td>
<td>GL ‘96</td>
<td>58%</td>
<td>22%</td>
</tr>
<tr>
<td>Outside activities</td>
<td></td>
<td>28%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Combined

<table>
<thead>
<tr>
<th>Average number of covenant classes</th>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>GL ‘96</td>
<td>5.6</td>
<td>3.1</td>
<td>3.0</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Investment protection</th>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-dilution of fund investment</td>
<td>KS</td>
<td>95%</td>
<td>78%</td>
</tr>
<tr>
<td>Full ratchet preemption</td>
<td>KS</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Weighted average preemption</td>
<td>KS</td>
<td>78%</td>
<td>5%</td>
</tr>
<tr>
<td>Founder/entrepreneur non-compete</td>
<td>KS</td>
<td>70%</td>
<td>43%</td>
</tr>
<tr>
<td>Fund liquidation rights</td>
<td>KS</td>
<td>71%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Exit

<table>
<thead>
<tr>
<th>Exit</th>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund put/redemption right</td>
<td>KS</td>
<td>79%</td>
<td>55%</td>
</tr>
<tr>
<td>Registration rights</td>
<td>S</td>
<td>43%</td>
<td>53%</td>
</tr>
</tbody>
</table>
Table IA-8: Covenants for Funds over $100 Million

This table presents statistics on covenants (as in Table 9), restricted to large funds above $100 million in assets.

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

<table>
<thead>
<tr>
<th></th>
<th>Non-impact Reference</th>
<th>Impact ≥ $100 M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>N</strong></td>
<td>13</td>
<td></td>
</tr>
<tr>
<td><strong>Limits to Manager Discretion</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset restrictions</td>
<td>n/a</td>
<td>100%</td>
</tr>
<tr>
<td>Conflict of interest transactions</td>
<td>n/a</td>
<td>0%</td>
</tr>
<tr>
<td>Fund family co-investment prohibition</td>
<td>n/a</td>
<td>0%</td>
</tr>
<tr>
<td>Region investment cap</td>
<td>n/a</td>
<td>15%</td>
</tr>
<tr>
<td>No outside region investment</td>
<td>n/a</td>
<td>46%</td>
</tr>
<tr>
<td>No outside sector investments</td>
<td>n/a</td>
<td>8%</td>
</tr>
<tr>
<td>Industry restrictions y/n</td>
<td>n/a</td>
<td>23%</td>
</tr>
<tr>
<td>Industry cap</td>
<td>n/a</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Manager Restrictions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinvesting fund profits</td>
<td>GL '96</td>
<td>21% 92%</td>
</tr>
<tr>
<td>Co-investing with fund</td>
<td>GL '96</td>
<td>73% 38%</td>
</tr>
<tr>
<td>Outside fundraising</td>
<td>GL '96</td>
<td>58% 38%</td>
</tr>
<tr>
<td>Outside activities</td>
<td></td>
<td>54%</td>
</tr>
<tr>
<td><strong>Combined</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of covenant classes</td>
<td>GL '96</td>
<td>5.6 4.2</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Non-impact Reference</th>
<th>Impact ≥ $100 M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>N</strong></td>
<td>36</td>
<td></td>
</tr>
<tr>
<td><strong>Investment protection</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anti-dilution of fund investment</td>
<td>KS</td>
<td>95% 61%</td>
</tr>
<tr>
<td>Full ratchet preemption</td>
<td>KS</td>
<td>22% 19%</td>
</tr>
<tr>
<td>Weighted average preemption</td>
<td>KS</td>
<td>78% 25%</td>
</tr>
<tr>
<td>Founder/entrepreneur non-compete</td>
<td>KS</td>
<td>70% 58%</td>
</tr>
<tr>
<td>Fund liquidation rights</td>
<td>KS</td>
<td>71% 58%</td>
</tr>
<tr>
<td><strong>Exit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund put/redemption right</td>
<td>KS</td>
<td>79% 47%</td>
</tr>
<tr>
<td>Registration rights</td>
<td>S</td>
<td>43% 31%</td>
</tr>
</tbody>
</table>
Table IA-9: Participatory Governance for Funds under $30 Million

This table presents statistics on participatory governance (as in Table 10), restricted to small funds below $30 million in assets.

Panel A: Participatory governance at the GP-LP Level

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>N</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Incidence</td>
<td>MRS</td>
<td>NMRS</td>
</tr>
<tr>
<td>Advisories</td>
<td>32</td>
<td>23</td>
<td>9</td>
</tr>
<tr>
<td>Advisory committee incidence</td>
<td>n/a</td>
<td>94%</td>
<td>91%</td>
</tr>
<tr>
<td>Advisory committee role:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generally advise GP or BOD</td>
<td>n/a</td>
<td>69%</td>
<td>65%</td>
</tr>
<tr>
<td>Technical assistance to GP or BOD</td>
<td>n/a</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>Policy assistance to GP or BOD</td>
<td>n/a</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>Evaluate loans</td>
<td>n/a</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Investment strategy</td>
<td>n/a</td>
<td>44%</td>
<td>48%</td>
</tr>
<tr>
<td>Due diligence</td>
<td>n/a</td>
<td>38%</td>
<td>43%</td>
</tr>
<tr>
<td>Approve investments</td>
<td>n/a</td>
<td>47%</td>
<td>61%</td>
</tr>
<tr>
<td>Investment financial performance review</td>
<td>n/a</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Investment impact review</td>
<td>n/a</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Approve conflict of interests</td>
<td>n/a</td>
<td>38%</td>
<td>35%</td>
</tr>
<tr>
<td>Asset valuations</td>
<td>n/a</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>Approve exit scenarios</td>
<td>n/a</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Approve reports and audits</td>
<td>n/a</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>Approve budgets, reserves, draw downs, and/or fees</td>
<td>n/a</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Fund compliance</td>
<td>n/a</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>Fund life: terminate or extend the fund</td>
<td>n/a</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>No description</td>
<td>n/a</td>
<td>3%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Panel B: Governance at the GP-PC Level

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>N</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Incidence</td>
<td>MRS</td>
<td>NMRS</td>
</tr>
<tr>
<td>Investor board seats guaranteed</td>
<td>58</td>
<td>42</td>
<td>16</td>
</tr>
<tr>
<td>Number of guaranteed seats?</td>
<td>n/a</td>
<td>86%</td>
<td>93%</td>
</tr>
<tr>
<td>PC board size</td>
<td>GKM</td>
<td>2.80</td>
<td>1.4</td>
</tr>
<tr>
<td>KS</td>
<td>5-7 mem.</td>
<td>5.9</td>
<td>6.0</td>
</tr>
<tr>
<td>KS</td>
<td>6 mem.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor majority control</td>
<td>KS</td>
<td>25.4%</td>
<td>0%</td>
</tr>
<tr>
<td>Investor min. voting %</td>
<td>KS</td>
<td>53.6%</td>
<td>19%</td>
</tr>
</tbody>
</table>
Table IA-10: Participatory Governance for Funds over $100 Million

This table presents statistics on participatory governance (as in Table 10), restricted to large funds above $30 million in assets.

Panel A: Participatory governance at the GP-LP Level

<table>
<thead>
<tr>
<th>Non-impact Reference</th>
<th>Impact ≥ $100 M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory committee incidence</td>
<td>n/a</td>
</tr>
<tr>
<td>Advisory committee role: Generally advise GP or BOD</td>
<td>n/a</td>
</tr>
<tr>
<td>Technical assistance to GP or BOD</td>
<td>n/a</td>
</tr>
<tr>
<td>Policy assistance to GP or BOD</td>
<td>n/a</td>
</tr>
<tr>
<td>Evaluate loans</td>
<td>n/a</td>
</tr>
<tr>
<td>Investment strategy</td>
<td>n/a</td>
</tr>
<tr>
<td>Due diligence</td>
<td>n/a</td>
</tr>
<tr>
<td>Approve investments</td>
<td>n/a</td>
</tr>
<tr>
<td>Investment financial performance review</td>
<td>n/a</td>
</tr>
<tr>
<td>Investment impact review</td>
<td>n/a</td>
</tr>
<tr>
<td>Approve conflict of interests</td>
<td>n/a</td>
</tr>
<tr>
<td>Asset valuations</td>
<td>n/a</td>
</tr>
<tr>
<td>Approve exit scenarios</td>
<td>n/a</td>
</tr>
<tr>
<td>Approve reports and audits</td>
<td>n/a</td>
</tr>
<tr>
<td>Approve budgets, reserves, draw downs, and/or fees</td>
<td>n/a</td>
</tr>
<tr>
<td>Fund compliance</td>
<td>n/a</td>
</tr>
<tr>
<td>Fund life: terminate or extend the fund</td>
<td>n/a</td>
</tr>
<tr>
<td>No description</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Panel B: Governance at the GP-PC Level

<table>
<thead>
<tr>
<th>Non-impact Reference</th>
<th>Impact ≥ $100 M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor board seats guaranteed</td>
<td>n/a</td>
</tr>
<tr>
<td>Number of guaranteed seats?</td>
<td>GKM 2.80</td>
</tr>
<tr>
<td>PC board size</td>
<td>GKM 5-7 mem.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor majority control</td>
<td>KS 25.4%</td>
</tr>
<tr>
<td>Investor min. voting %</td>
<td>KS 53.6%</td>
</tr>
</tbody>
</table>
Table IA-11: GP Compensation for 1993-2006

This table presents statistics on compensation terms (as in Table 8), limited to the time period in the sample from Metrick and 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.

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Non-impact</td>
<td>All</td>
</tr>
<tr>
<td>N</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Waterfall</td>
<td>MY (VC+PE)</td>
<td>100%</td>
</tr>
<tr>
<td>Hurdle rate</td>
<td>MY (VC)</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>92%</td>
</tr>
<tr>
<td>Mode</td>
<td>MY (VC)</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>8%</td>
</tr>
<tr>
<td>Range</td>
<td>MY (VC+PE)</td>
<td>6-10%</td>
</tr>
<tr>
<td>Carried interest</td>
<td>MY (VC+PE)</td>
<td>100%</td>
</tr>
<tr>
<td>Incidence</td>
<td>MY (VC)</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>20%</td>
</tr>
<tr>
<td>Mode</td>
<td>GL '99</td>
<td>20%</td>
</tr>
<tr>
<td>Range</td>
<td>MY (VC)</td>
<td>17.5-30%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>all at 20%</td>
</tr>
<tr>
<td></td>
<td>GL '99</td>
<td>0-45%</td>
</tr>
<tr>
<td>(81% in 20-21%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Catch-up target</td>
<td>MY (VC+PE)</td>
<td>99%</td>
</tr>
<tr>
<td>Incidence</td>
<td>MY (VC+PE)</td>
<td>20%</td>
</tr>
<tr>
<td>Mode</td>
<td>GL '99</td>
<td>20%</td>
</tr>
<tr>
<td>Range</td>
<td>MY (VC+PE)</td>
<td>16.5-20%</td>
</tr>
<tr>
<td>Management fee</td>
<td>MY (VC+PE)</td>
<td>100%</td>
</tr>
<tr>
<td>Incidence</td>
<td>MY (VC+PE)</td>
<td>2.5-3.5%</td>
</tr>
<tr>
<td>% of funds:</td>
<td></td>
<td>&lt; 2%</td>
</tr>
<tr>
<td></td>
<td>MY (VC)</td>
<td>43%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>MY (VC)</td>
<td>47%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>MY (VC)</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>MY (PE)</td>
<td>51%</td>
</tr>
</tbody>
</table>

36 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-12: PC Registration Rights for 2000-2003

This table presents statistics on registration rights (as in Table 9 Panel B), limited to a time period similar to the sample from Smith (2005), who uses data from 1997-2002. We do not have data for MRS funds during these five 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.

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Incidence</td>
<td>All</td>
</tr>
<tr>
<td>N</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Registration rights</td>
<td>90%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Table IA-13: Board Seats and Size for 2011-2013

This table presents statistics guaranteed board seats and board size (as in Table 10 Panel B), limited to the time period of the sample from Gompers et al. (2016).

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Incidence</td>
<td>All</td>
</tr>
<tr>
<td>N</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Number of guaranteed seats?</td>
<td>GKM 2.80</td>
<td>1.7</td>
</tr>
<tr>
<td>PC board size</td>
<td>GKM 5-7 mem.</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>KS 6 mem.</td>
<td></td>
</tr>
</tbody>
</table>

Table IA-14: PC Fees Paid to Funds

This table presents statistics on PC fees paid to funds. The reference sample comes from Phalippou et al. (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.

<table>
<thead>
<tr>
<th>Non-impact</th>
<th>Impact</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>Incidence</td>
<td>All</td>
</tr>
<tr>
<td>N</td>
<td>96</td>
<td>70</td>
</tr>
<tr>
<td>Commission fee</td>
<td>PRU 84%</td>
<td>0.34</td>
</tr>
</tbody>
</table>
Scoring Notes

Fund 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 of 1; medium importance terms a weight of 0.5; and low importance terms a weight of 0.25. 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, then the other is given medium importance.

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

PC 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 0.5; and low importance terms a weight of 0.25. Most breakout responses receive a weight of 0.25, capped at a maximum of 1 for the total question. Funds receive a maximum of 0.5 for an indication of either social or environmental impact. Funds receive a maximum of 0.5 for identifying either social or environmental impact. Breakout responses for impact measurements are capped at 0.5 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 0.25.

<table>
<thead>
<tr>
<th>Question</th>
<th>Weight</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will the PC’s mission be locked in at the fund’s exit?</td>
<td>1</td>
<td>3.1%</td>
</tr>
<tr>
<td>Contingent fund exit scenarios include: Change in location or business model or benefit</td>
<td>0.5</td>
<td>1.0%</td>
</tr>
<tr>
<td>Question</td>
<td>Value</td>
<td>Percentage</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-------</td>
<td>------------</td>
</tr>
<tr>
<td>Veto rights: Does the Fund approve/veto deviations from the business plan of the PC?</td>
<td>1</td>
<td>42.7%</td>
</tr>
<tr>
<td>Does the portfolio company (PC) have an impact committee?</td>
<td>0.5</td>
<td>0.0%</td>
</tr>
<tr>
<td>If yes, will the fund participate in the impact committee?</td>
<td>0.5</td>
<td>0.0%</td>
</tr>
<tr>
<td>Information rights include: Impact information</td>
<td>1</td>
<td>9.4%</td>
</tr>
<tr>
<td>Is PC environmental or social benefit measured?</td>
<td>1</td>
<td>19.8%</td>
</tr>
<tr>
<td>Internal impact measurement</td>
<td>0.5</td>
<td>9.4%</td>
</tr>
<tr>
<td>Is the PC impact performance reported?</td>
<td>1</td>
<td>12.5%</td>
</tr>
<tr>
<td>Impact performance reporting done annually</td>
<td>0.25</td>
<td>8.3%</td>
</tr>
<tr>
<td>Is compensation tied to benefit/impact performance?</td>
<td>1</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>Address impact</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is social impact addressed in agreement?</td>
<td>0.25</td>
<td>36.5%</td>
</tr>
<tr>
<td>Is environmental impact addressed in agreement?</td>
<td>0.25</td>
<td>5.2%</td>
</tr>
<tr>
<td><strong>Identify impact</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the portfolio company (PC) have an identifiable social impact?</td>
<td>0.25</td>
<td>24.0%</td>
</tr>
<tr>
<td>If yes, does the PC have an identifiable environmental impact?</td>
<td>0.25</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Breakouts for social impact addressed through</strong></td>
<td>SUM, CAP at 1</td>
<td></td>
</tr>
<tr>
<td>Governance standards</td>
<td>0.25</td>
<td>4.2%</td>
</tr>
<tr>
<td>International ESG standards</td>
<td>0.25</td>
<td>3.1%</td>
</tr>
<tr>
<td>Compliance with laws</td>
<td>0.25</td>
<td>8.3%</td>
</tr>
<tr>
<td>Employee safety</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Employee nondiscrimination</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Employee wages</td>
<td>0.25</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>Breakouts for prohibited activities</strong></td>
<td>SUM, CAP at 1</td>
<td></td>
</tr>
<tr>
<td>Prohibited activities (generally)</td>
<td>0.25</td>
<td>9.4%</td>
</tr>
<tr>
<td>Child labor</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Violation of international convention</td>
<td>0.25</td>
<td>2.1%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Weapons</td>
<td>0.25</td>
<td>2.1%</td>
</tr>
<tr>
<td>Natural resource development (i.e., oil, mining)</td>
<td>0.25</td>
<td>0.0%</td>
</tr>
<tr>
<td>Gambling</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Wildlife products</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Radioactive materials</td>
<td>0.25</td>
<td>2.1%</td>
</tr>
<tr>
<td>Commercial logging</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Pesticide</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Item</td>
<td>Weight</td>
<td>Impact</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Asbestos</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Ozone depletion</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Drift net fishing</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Pornography</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Inactive businesses</td>
<td>0.25</td>
<td>0.0%</td>
</tr>
<tr>
<td>Indigenous people land infringement</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Forced resettlement</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>Transboundary waste product</td>
<td>0.25</td>
<td>2.1%</td>
</tr>
<tr>
<td>Business with anti-money laundering or terrorism groups</td>
<td>0.25</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

**Breakouts for external benefit measurement**

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>External count</td>
<td>0.5</td>
<td>2.1%</td>
</tr>
<tr>
<td>External GIIRS</td>
<td>0.5</td>
<td>1.0%</td>
</tr>
<tr>
<td>External: software</td>
<td>0.5</td>
<td>0.0%</td>
</tr>
<tr>
<td>External other</td>
<td>0.5</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

**Breakouts for impact performance reporting: Who**

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>To: Fund Generally</td>
<td>0.25</td>
<td>11.5%</td>
</tr>
<tr>
<td>To: Fund BOD</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>To: MBB</td>
<td>0.25</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

**Breakouts for impact performance reporting: What**

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>What: questionnaire</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
<tr>
<td>What: general report</td>
<td>0.25</td>
<td>2.1%</td>
</tr>
<tr>
<td>What: impact numbers</td>
<td>0.25</td>
<td>5.2%</td>
</tr>
<tr>
<td>What: CEO narrative</td>
<td>0.25</td>
<td>1.0%</td>
</tr>
</tbody>
</table>
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