



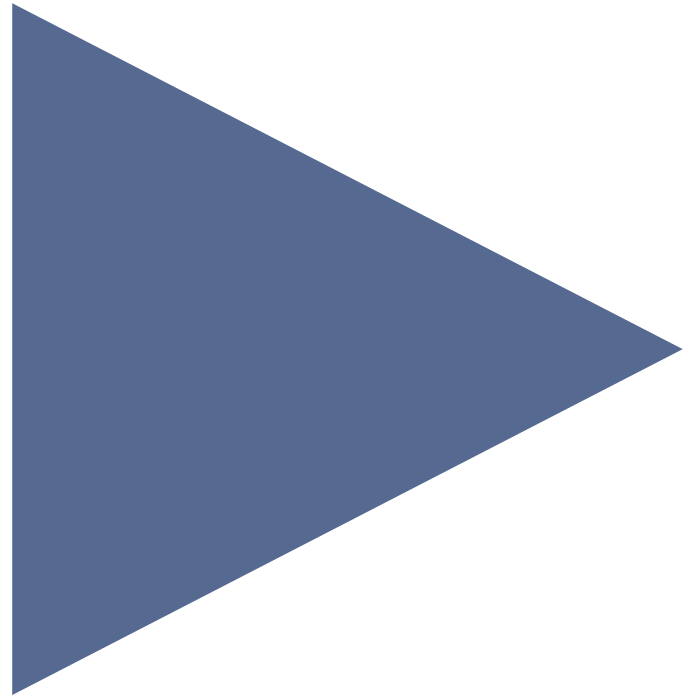
SOCIAL FINANCE FIRM UPDATE & NFP SIB STRUCTURING OPTIONS

August 2013

Confidential and Proprietary

77 Summer Street, 2nd Floor, Boston, MA 02110

ABOUT SOCIAL FINANCE



▶ MISSION AND VALUES

We believe that everyone deserves the opportunity to thrive, and that social impact financing can play a catalytic role in creating these opportunities.

Who We Are

Our mission is to mobilize investment capital to drive social progress

We structure and manage impact investments that will unlock capital to fund effective solutions and drive an outcomes-focused social sector.

Social Finance is a registered 501(c)(3) organization.

History

Our sister firm, Social Finance UK, launched the world's first Social Impact Bond in 2010. We work closely together but are independently funded, managed and governed.

- SF US: Launched operations in 2011
- SF UK: Founded in 2007
- Common mission, model and knowledge platform

Core Values

- **People:** People are our mission and our inspiration; we are committed to our team, our partners, and the individuals we serve.
- **Performance:** Our work demands rigorous thought, inquiry, and analysis; we pride ourselves on the depth and quality of our endeavors.
- **Collaboration:** We build strong, enduring relationships across sectors to align diverse interests and advance our collective mission.
- **Integrity:** The highest standards of accountability and transparency underpin all of our work.

▶ OUR PHILOSOPHY

Sustainable Access to New Capital is Critical to Delivering Long-Term Impact

Sustainable Access to New Capital

- **Our Ultimate Goal:** Develop an efficient marketplace to enable effective non-profits to access the capital markets and solve our social problems.
- Facilitate scale by developing a platform that allows governments and social service organizations to tap new pools of investment capital (non-grant dollars) over the long-term

Outcomes-Focused Financing

- Social Finance was founded on the belief that investment capital should flow to social service providers with:
 - a proven track record to deliver outcomes
 - a strong leadership and operational management team
 - data and evidence-driven decision making
 - an unyielding drive to maximize impact and achieve their mission

Better Allocation of Government Resources

- Increase governmental accountability to taxpayers by arranging outcomes-based contracts where the government pays only if social service programs are effective
 - Impact investors, not governments, take on the financial risk associated with expanding social programs
- Focus on outcome evaluation (on the social service program and service providers) will arm government with data to better inform policy decisions, budget allocations, and procurement decisions.

▶ OUR ORGANIZATION

Building an Organization with the Longevity to Accomplish Our Mission

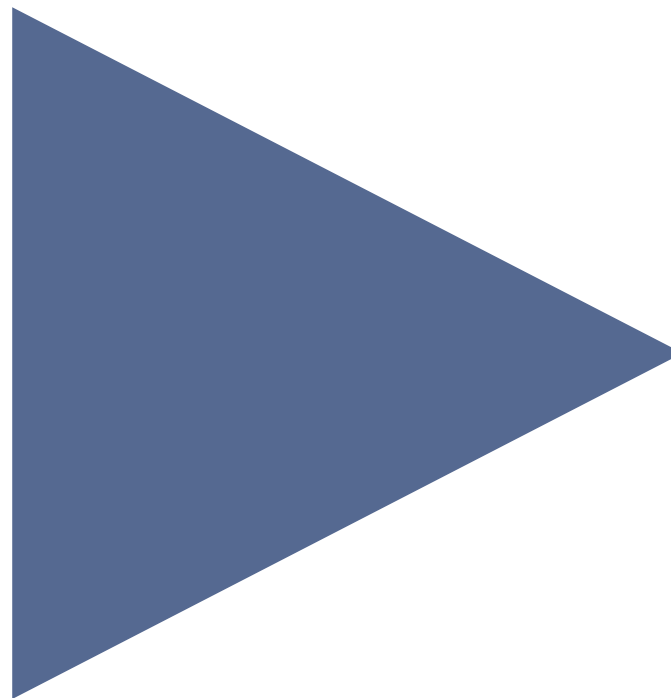
Organizational Stability

- Our Board of Directors represent leaders from government, finance and the non-profit sectors
- Our Advisory Board members provide us with sector-specific expertise
- We have a team of 12 with the cross-sector experience needed to successfully bring SIBs to market
- Our financial position is sufficiently strong. We have raised >\$7 million to fund our operations
- We are a registered 501(c)(3) organization and have received clean audits since our founding

Leveraging Social Finance UK

- The UK has 14 SIB projects underway across various social sectors
- While the SIB market is less developed in the US, we are able to leverage years of on-the-ground, hands-on experience from our UK sister organization
- We benefit from direct access to the SF UK team, who have extensive expertise in:
 - Capital raising
 - Transaction negotiations
 - Partnership management

▶ SERVICE OFFERINGS AND SIB DEVELOPMENT PROCESS



▶ OUR SERVICE OFFERINGS

Our Current Focus is the Social Impact Bonds* and Outcomes-Based Financing

Advisory Work

- Feasibility studies
- Development and implementation of proof-of-concept projects
- Develop SIB design and implementation process for governments

Transaction Execution

- Cost benefit analysis
- Social service provider due diligence
- Financial structuring
- Outcome metric selection and evaluation design
- Contract development
- Identifying sources of capital

Post Transaction Support

- Performance and fiscal management
- Accounting and compliance
- Investor relations

Field Building

- Market education, thought leadership, research and advocacy to support the development of a strong and sustainable Social Impact Bond and broader impact investment market

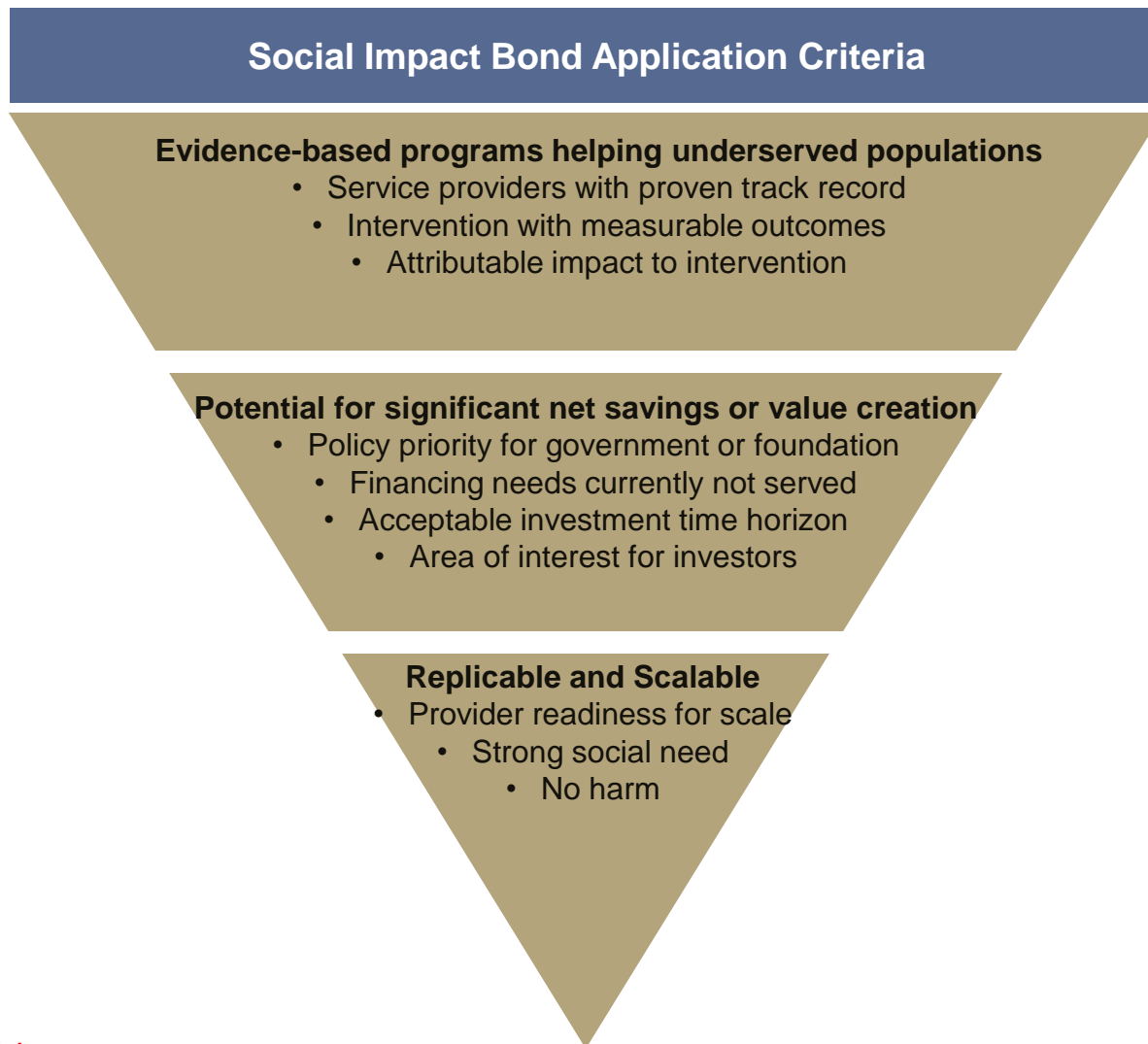
*Social Impact Bonds are not traditional government issued bond and are also referred to as pay for success, pay for performance, social innovation financing, or outcomes-based financing

► OUR PERSPECTIVE ON SIB DEVELOPMENT

Each policy challenge is unique; Social Finance begins every SIB development by thoroughly understanding the issues and structuring a custom arrangement that meets the needs of all stakeholders

- 1) **Assess the Problem:** First, we dive into the situation and explore four questions: What is the problem? How big is the unmet need? Is there an intervention that can improve results? Can impact investing play a role?
- 2) **Identify a Social Outcome Financing Solution:** If a social impact investment strategy is appropriate, we identify promising ways to finance the expansion of programs with a track record of performance and a focus on outcomes. We develop studies and economic models to establish an optimal foundation for the project.
- 3) **Shape the Partnership:** We create performance-based structures that align the incentives of government, investors and service providers to provide mutually beneficial, measureable results.
- 4) **Identify Sources of Capital:** We identify private investors who want to align their investment portfolio with their social consciousness.
- 5) **Collaborate through Completion:** We work over the investment life with all stakeholders to ensure close collaboration among the participants; to devise and implement midcourse corrections when needed; and ultimately to ensure that social and financial goals are met.

► SOCIAL IMPACT BOND ASSESSMENT CRITERIA



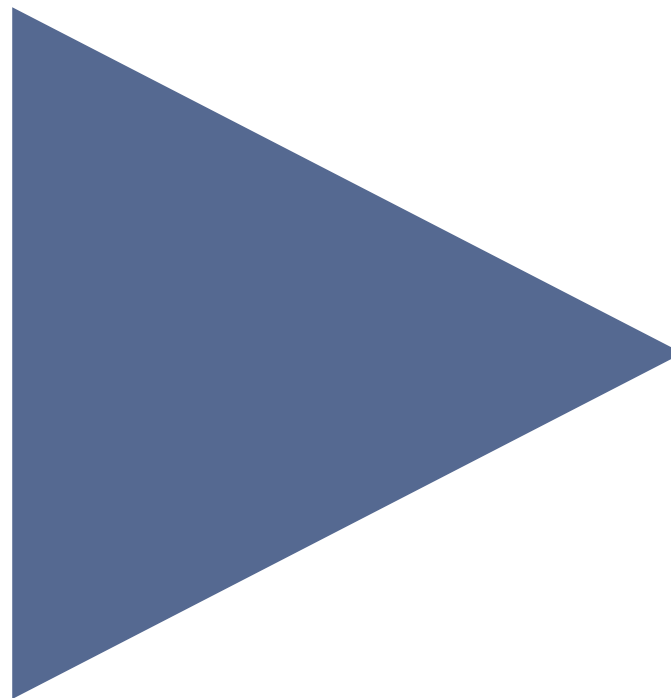
PROMISING APPLICATIONS FOR SOCIAL IMPACT BONDS

Preliminary Assessment

		Evidence-based intervention	Sufficient net savings within time horizon	Replicable and scalable
CRIMINAL AND JUVENILE JUSTICE				
Prisoner Recidivism	Post-incarceration programs to reduce recidivism	✓	✓	✓
Juvenile Justice / Disconnected Youth	Post/pre-adjudication intervention services to reduce out-of-home placements	✓	✓	✓
HEALTH CARE				
Aging in Place / Long-term Care	Supportive housing and care coordination to reduce out-of-home healthcare usage	✓	✓	✓
School-based Health Clinics	In-school primary care to reduce medical costs and improve outcomes	✓	✓	✓
Asthma Prevention	Education and home retrofits to reduce asthma-related emergencies	✓	✓	✓
Nurse Home Visiting Programs	Prenatal and early childhood support for first time, low-income mothers to improve family success	✓	✓	✓
OTHER				
Chronic Homelessness	"Housing first" supportive housing to reduce emergency health care and shelter usage	✓	✓	✓
Adult Education	Job training for hard-to-employ populations to fill skill gaps	✓	✓	✓
Early Education	Providing all children with the tools necessary to begin school ready to learn	✓	✓	✓

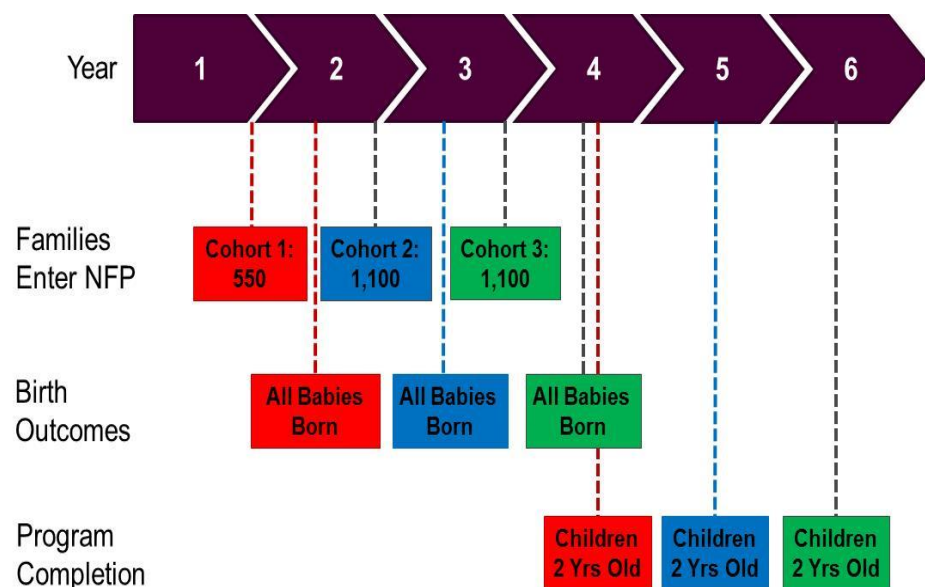


▶ NURSE FAMILY PARTNERSHIP SIB STRUCTURING OPTIONS



▶ STARTING POINT: i(CS) PAY FOR SUCCESS FEASIBILITY STUDY

Building off of Megan's SIB Design



i(cs)

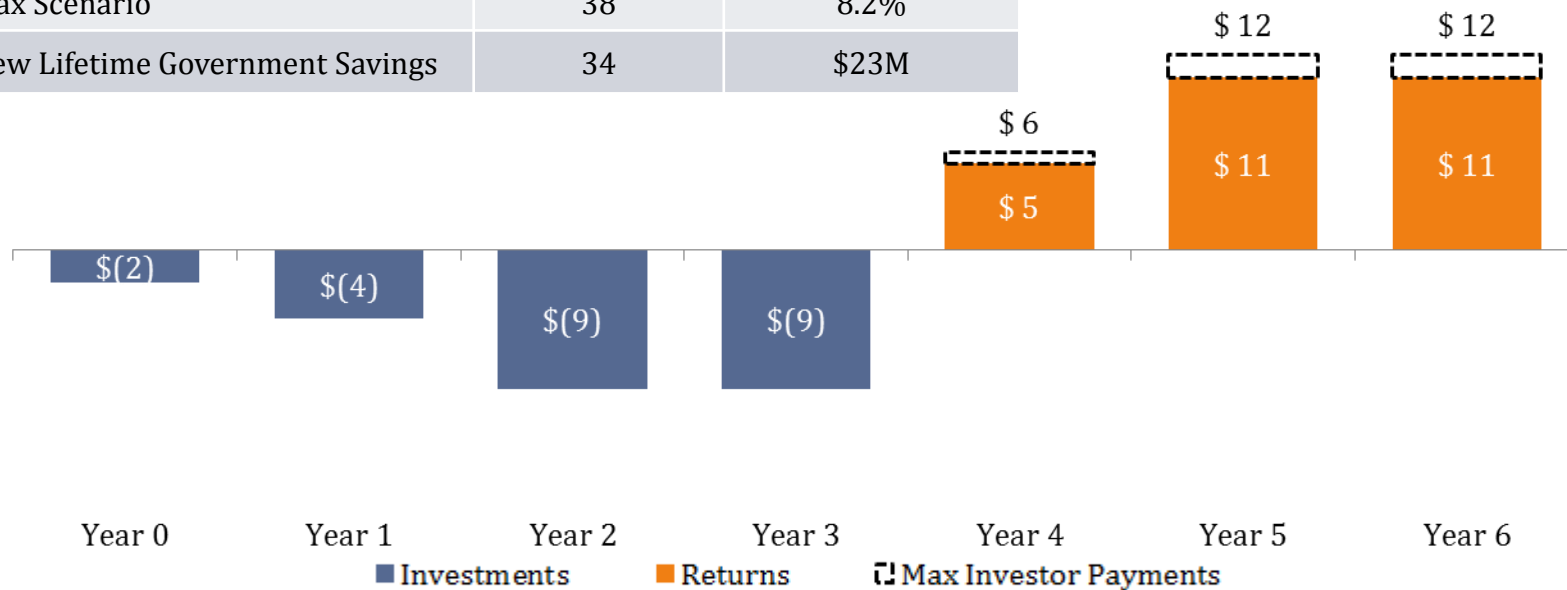
INSTITUTE for CHILD SUCCESS

Anchor SIB Assumptions

- 6 year SIB
- 3 cohorts of NFP families (2,750 families)
- Cost of NFP per family: \$7,754
- Total SIB Capital Raise: \$23 million (includes NFP service cost, as well as evaluation, legal, and administrative cost)
- South Carolina's budget for NFP SIB outcome payments: \$30 million
- Investor payments will be based on health-related outcomes that occur at-birth or within the first two-years of the program
 - For illustrative purpose, we use reduction in pre-term births as the outcome metric
- Key structuring decision: At what level of pre-term reduction will the investors breakeven?

► **i(CS) BASE CASE: ILLUSTRATIVE NFP SIB**
 Assumes \$30M Cap on Government Payout

	Pre-Term Birth Reduction	IRR / \$
Investor Loss Scenario	28	-2.1%
Breakeven Scenario	30	0.0%
Expected Scenario	34	4.0%
Max Scenario	38	8.2%
New Lifetime Government Savings	34	\$23M



► VARIABLES INFLUENCING THE SIB STRUCTURING

We Structure SIBs to Align Investors' Risk/Return with Government Objectives

Payment Schedule

- Price associated with outcome(s) achievement
- Cohort or aggregate level outcome(s) achievement
- Payment triggers
 - Minimum outcome achievement required to trigger payment from government to investors
 - Cap on returns to investors (i.e., government realizes all savings beyond certain outcome achievement)
- Historical level of outcome achievement in South Carolina

Cash Flows

- Timing of capital drawdown
- Timing of investor returns

Credit Enhancement and Capital Structure

- Principal protection
- Pari passu or tranching capital structure

ILLUSTRATIVE ANALYSIS TO CONSIDER RISK VS RETURN

Number of Outcomes Achieved vs. Breakeven Outcome Achievement Level

Proposed breakeven threshold (30) and expected reductions realized (34)¹

		Achieved Reductions in Pre-term Births Per 1,000				
		15	30	34	40	45
Breakeven Level of Outcome Achievement	15	0.0%	8.2%	8.2%	8.2%	8.2%
	30	(19.7)%	0.0%	4.0%	8.2%	8.2%
	34	(22.9)%	(3.9)%	0.0%	5.2%	8.2%
	40	(26.8)%	(8.7)%	(5.0)%	0.0%	3.8%
	45	(29.5)%	(12.0)%	(8.5)%	(3.6)%	0.0%

Depending on return profiles, supplemental philanthropy capital may be sought

¹Per Miller report; see appendix for derivation of this figure

▶ How Could Philanthropy Support Government Objectives?

Use Philanthropy to Either Minimize Risk, Increase Returns or Both

Minimize Investor Risk

1. Use philanthropic dollars to **establish a guarantee facility** (e.g., NYC Goldman SIB)
 - Minimize risk by protecting all or a portion of principal
 - Approach does not increase return potential which may be the biggest barrier to investor participation if government payout is capped at \$30 million
 - If guarantee facility is not tapped, foundation can recycle dollars into other investments

Boost Investor Returns

2. **Philanthropy supplements government outcome payments**, increasing the pool of outcomes payments to investors.
 - Using philanthropic dollars on an outcomes basis, which aligns with the SIB narrative
 - Philanthropy paying for “intangible”/social value of NFP that government cannot cover

Hybrid: Minimize Investor Risk and Boost Returns

3. Establish **tranching capital structure** where philanthropy invests directly in the SIB
 - Minimize commercial investors risk by putting philanthropic capital in first loss position
 - Boost commercial investors' return by capping philanthropy's return on SIB investment (i.e., philanthropic investors will receive a maximum 4% annualized return on their investment)

Government Objectives Can be Achieved by Properly Structuring the SIB and Investor Risk