

# Improving investor engagement for the social services sector

## GUIDANCE PAPER

## Introduction

Investors can play an important role in tackling complex social issues and can bring a number of benefits.

They are a key party in the Partnerships Addressing Disadvantage (PADs)<sup>1</sup> initiative and have helped the Department of Treasury and Finance (DTF) to establish five PADs to date.

Feedback from the social services sector to the 2022 PADs consultation paper indicated that there is more appetite for PADs, but that the sector has limited investor engagement capabilities.

This DTF guidance document and complementary case studies/experiences are our response to this feedback, and we see them as a first step toward building deeper investor engagement capabilities to improve future PADs and encourage future collaborations that increase social impact investments.

**This guidance paper aims to provide a starting point for service providers looking to engage investors as part of PADs.** However, the general principles may be broadly applicable to other investor engagements on social investments.

DTF commissioned Anglicare Victoria (Anglicare) and Social Ventures Australia (SVA) to share their engagement experiences as case studies to complement this guidance paper.

Anglicare's report provides insights on their experience in directly engaging investors to support the COMPASS PAD. SVA's report provides insights into their experience as an intermediary that has supported PADs and social impact investments across Australia.

This paper should be read in conjunction with both reports.

## Investors and PADs

Investors describe a diverse range of organisations and entities that include fund managers, banks, philanthropic organisations, other financial institutions, superannuation funds, families and individuals.

They all have different motivations and strategies for investing, which typically guide the projects they invest in.

PADs rely on investors to play two key roles:

- **Provide working capital** to the service provider to deliver the PAD (until the target outcomes are achieved and paid by government).
- **Share the financial risk (and return)** with the service providers and government.

Investors can also bring additional benefits to PADs and other social investments as they can:

- stimulate innovation and creativity
- uncover new opportunities to service unmet needs
- scale up effective investments
- encourage impact measurement.

Anglicare observed that many of these benefits were realised by engaging investors in the COMPASS PAD.

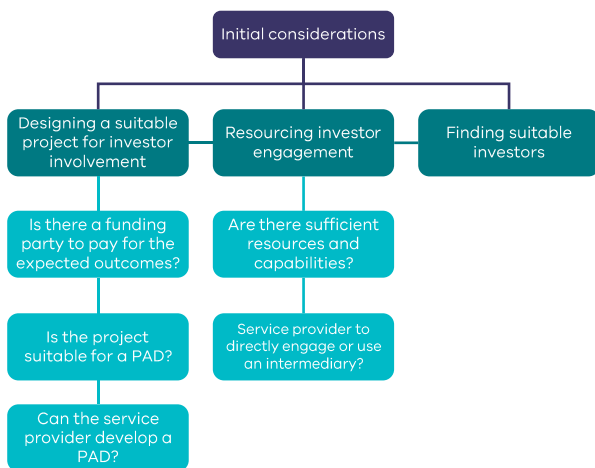
## Pre-engagement

Before considering whether investors need to be engaged, service providers should always **first consider if your project is suitable for a PAD.**<sup>2</sup> For example:

- Is there a funding party to pay for the expected outcome?
- Is there sufficient data and evidence to support investor’s decisions?

If there is a suitable project, service providers will then need to consider if they have the resources and capabilities to engage with investors. This will also inform the decision of whether to directly engage investors or to use an intermediary for support in finding suitable investors (Figure 1).

**Figure 1: Key pre-engagement considerations**



Source: SVA, *Guidance for the social services sector on engaging investors*, August 2024.

An intermediary provides specialist services to service providers including investor engagement, capital raising, project development, negotiation support and financial structuring.<sup>3</sup>

Service providers should consider various trade-offs of directly engaging investors compared to using an intermediary. For example, while intermediaries may be more proficient at engaging investors, their services include costs that will need to be factored in (Table 1).

**Table 1: Trade-offs between directly engaging investors versus using an intermediary**

Direct engagement	Intermediary
Build in-house capability to engage investors	More experience engaging investors
Greater control over engagement	Greater investor access
Greater work continuity	Greater knowledge of investor expectations
Potentially less costs	Existing investor relationships

Service providers may also find it worthwhile to start considering **where and how to find potential investors** as part of pre-engagement.

While this can be undertaken at any stage of the PAD prior to ‘implementation’, both SVA and Anglicare found sourcing interested investors challenging, especially in the later stages.<sup>4</sup> So there may be benefits to early commencement.

# How and when to engage with investors

After determining that investor involvement is needed and suitable, the next step is to consider how to engage with investors during each stage of the development of a PAD.

Investor engagement occurs throughout a PAD’s lifecycle and SVA has outlined the typical activities at each stage (Figure 2).

It should be noted that PADs may not necessarily follow this path linearly or one for one.

**Figure 2: Sample PAD development stages**

	Stage	Key output	Investor engagement
1	<b>Conceptualisation</b> <i>(or pre-request for proposal)</i>	Documented SIB or PAD concept and clarity of investor expectations	Early conversations with potential investors to gauge appetite and understand return expectations
2	<b>Request for proposal</b> <i>~ 3 months</i>	Submitted proposal with proposed contracting arrangements, investor terms and risk sharing arrangement	Early conversations with investors to understand return expectations can also occur during RFP stage
3	<b>Joint Development Phase</b> <i>~ 6-18 months</i>	Agreed commercial terms and executed implementation agreement	Keep potential investors updated on timing of capital raise and any changes to commercial terms
4	<b>Capital raise preparation</b> <i>~ 3 months</i>	Finalised investment offer document, draft investor contracts and launch of PAD/SIB	Conversations with other potential new investors to gauge interest in upcoming PAD or SIB
5	<b>Capital raise</b> <i>~ 6 months</i>	Capital secured from investors and implementation agreement conditions precedent satisfied	Detailed due diligence activities and finalisation of contracts with investors
6	<b>Implementation</b> <i>~ 4-10 years</i>	Service commencement; ongoing service delivery and outcomes measurement	Ongoing reporting, payment and other contractual obligations to investors

Source: SVA, *Guidance for the social services sector on engaging investors*, August 2024, p. 10.

## Conceptualisation, Request for Proposal and Joint Development Phase

These stages (Stages 1 to 3) are where PADs are conceptualised and developed, and key commercial terms largely finalised.

Investor engagement is informal and SVA expects them to focus on:<sup>5</sup>

- finding potential investors
- understanding investor interests, needs, expectations and goals
- incorporating investor expectations into the project
- balancing between investor expectations and goals with those from other stakeholders.

Stage 3 is particularly important as this is where key commercial terms are finalised when the service provider signs an implementation agreement (the main contract with government).

Anglicare's survey of current PADs found that investor engagement at these stages contributed additional innovation that has improved project viability and lowered implementation risk and cost.<sup>6</sup>

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*For example, [for the COMPASS PAD], investors provided a capital component to the program that provided capacity to increase housing supply for our cohort of clients. That would [otherwise] not have been possible.*

*[For the Living Learning PAD, Melbourne City Mission's model] included philanthropic grants contributing to the project, which reduced the 'at risk' component of funding that was needed.*

*In the case of [the Journey to Social Inclusion PAD,] philanthropic organisations acted as guarantors for the main lender, thereby sharing some of the project risk and reducing the cost of capital, taking the investment cost from unsecured debt to secured debt. [Sacred Heart Mission] also provided a first loss guarantee, reducing the risk for guarantors.*

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Source: Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 11.

Anglicare also found potential additional value from engaging investment advisors. They can assist project inception and development by providing general advice 'about what investors are and aren't looking for' from their awareness of investor sentiment, preferences and motivation.<sup>7</sup>

## Capital raise

The most intensive (and formal) investor engagement typically occurs leading up to and during the capital raise (stages 4 and 5). This is where investment documents are prepared, projects are marketed to investors, due diligence completed, and investment decisions made.<sup>8</sup>

Both SVA and Anglicare found the offer document and due diligence to be critical elements of the capital raise.

The offer document (also called the 'information memorandum' or 'prospectus') is a critical gateway document that typically provides the first formal set of information as part of capital raising. It is a key input into investors' interest and investment decision on the PAD.

Anglicare's COMPASS experience is that an information memorandum should:

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*Clearly articulate the need: Impact investors want to understand the positive difference their investment can make.*

*Outline the evidence: Prospective investors may not be familiar with your target group, your methods or the language used in your field.*

*Be transparent about the offer: Investors need to understand the nature of the offer and the distribution of risk.*

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Source: Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, pp. 6–8.

### Examples of past PADs information memorandums

[COMPASS PAD information memorandum](#)

[Side by Side PAD information memorandum](#)

## Capital raise (*continued*)

**Due diligence** can commence before or after investors have reviewed the prospectus. It is where investors conduct detailed assessment to verify the PAD and determine whether they should invest.

Due diligence typically centres around four key activities required for investors to investigate a project's risks, returns and objectives.

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*Reviewing underlying contracts and financial models*

*Reviewing data and evidence supporting the performance targets*

*Conducting interviews with the service delivery organisations (and similar organisations) and potential program beneficiaries*

*Reviewing additional information*

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Source: SVA, *Guidance for the social services sector on engaging investors*, August 2024, p. 17.

Service providers should be prepared for an intensive due diligence process as both Anglicare and SVA found investors can request a significant amount of information with short response times.

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*For example, one organisation submitted a list of nearly fifty detailed questions seeking further written information across all aspects of the proposal (operations, evidence, governance, financial modelling etc).*

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Source: Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 10.

## Implementation and beyond

Investor engagement does not end once funding has been raised and become available for project use.

There are ongoing engagement matters such as periodic implementation updates, performance reporting and outcome payments. Anglicare's experience was that sufficient resources should be allocated to these activities to ensure effective project operation and build investor trust in the project.<sup>9</sup>

These activities also present opportunities to highlight successes which may pave the way for future collaborations and opportunities.

Service providers may also find benefits from staying in communication with investors once a PAD is complete. This builds connections with potential benefits including:

- Feedback and suggestions to improve current and future PADs
- Gauging interest in future PADs
- Early alert to potential changes in investor expectations
- Potential efficiency gains from working with the same investors in the future
- Referral to other potential investors.

## Good engagement practices

Due to the diversity of investors as well as the bespoke nature of PADs, engaging with investors is not a one-sized-fits-all activity. Learnings from Anglicare and SVA can help provide insights into good engagement practices, which include:

- Different engagement approaches
- Flexibility to respond to diverse requirements
- Use of independent consultants to provide added assurances for investors.

## Employing different approaches

Service providers may wish to consider diversifying avenues for approaching investors. This is where Anglicare has found success with a multi-pronged approach that included:

- *A launch event including speakers and an outline of the bond*
- *Direct mail [to] Anglicare Victoria donors to advise them of the bond and offering to provide further information*
- *[Establishing] a website containing contact details and enabling download of basic information*
- *[Briefing] investment advisors with a demonstrate interest in our work and/or impact investing*
- *Directly [contacting] (cold calling) institutional investors with a public commitment to impact investing or a publicly promoted impact investing fund*
- *Directly [contacting] philanthropic Trusts with a mission or objective aligned with the COMPASS objectives.*

Source: Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 9.

Anglicare has also found investment advisors particularly worthwhile as 'a significant proportion of [the final] 55 investors learned about the investment opportunity via investment advisors with whom they had a prior relationship.'<sup>10</sup>

## Being responsive to diverse requirements

It is important to note that **engagement can vary significantly depending on the investor.**<sup>11</sup> Service providers should be prepared to be flexible and adaptable to investors' unique requirements.

For example, Anglicare and SVA both found that some investors prefer to be engaged earlier in the PAD process, while others will prefer to wait until the investment opportunity is fully developed and the capital raise is 'live'. Investors also have different ways of working. Anglicare's COMPASS experience is that:<sup>12</sup>

- some investors preferred that all engagement with the program was managed via their financial advisors. Others were frequently in touch with Anglicare with queries or interested in an update.
- the way smaller investors operated can also differ to that of larger investors (Table 2).

**Table 2: Engagement of smaller investors versus larger investors**

Smaller investors	Larger investors
May be more willing to take a risk in the interest of client outcomes	Greater ability to absorb financial risk
More agile decision making	Capacity to conduct comprehensive due diligence – but with longer decision-making time frames
May need to work with more investors to reach funding target due to smaller investments	Ability to provide program promotion and attract other investors
Ability to fund smaller projects and investment amounts	Potentially larger investments so less investors to manage

Source: Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, pp. 9–10

## Leveraging independent consultants

Investor engagement requires substantial commitment across a range of specialist matters.

Service providers should consider if they have sufficient resource and capabilities to undertake activities 'in-house' or retain the services of independent consultants.

This is especially the case for financial and legal matters where service providers may not always have the necessary expertise to develop financial models and legal documents.

Anglicare found that the involvement of an independent financial consultant in COMPASS was also a source of assurance to the investor group, especially those smaller investors who had less capability to carry out a thorough due diligence investigation.

DTF provides funding to service providers to support their engagement on the Joint Development Phase, and this funding could be used to procure independent consultants.

## Further resources

DTF has prepared this paper drawing on the insights from reports by Anglicare and SVA which is listed below along with a list of useful links and tools.

### Useful links and tools

Anglicare	<a href="#">Impact investment - The COMPASS Experience (PDF)</a> <a href="#">Impact investment - The COMPASS Experience (WORD)</a>
Social Ventures Australia	<a href="#">Guidance for the social services sector on engaging investors (PDF)</a> <a href="#">Guidance for the social services sector on engaging investors (WORD)</a>
DTF PADs web page	<a href="#">DTF PADs web page</a>
Past PADs information memorandums	<a href="#">COMPASS PAD information memorandum</a> <a href="#">Side by Side PAD information memorandum</a>
Investor database	<a href="#">Impact Investing Hub – impact investing directory</a>
Intermediary database	<a href="#">Impact Investing Australia – impact funds and impact investor advisors</a>

**For more information on PADs or this guidance document, please contact [pads@dtf.vic.gov.au](mailto:pads@dtf.vic.gov.au) or Matt Donoghue, Director – Early Invention and Reform ([matt.donoghue@dtf.vic.gov.au](mailto:matt.donoghue@dtf.vic.gov.au))**

## Notes and references

<sup>1</sup> The Victorian Government's Partnerships Addressing Disadvantage (PADs) initiative are social impact investments that establish partnerships between government, service providers and investors to tackle complex social issues through outcomes-based partnerships.

<sup>2</sup> SVA, *Guidance for the social services sector on engaging investors*, August 2024, p. 8; Anglicare, *Impact Investment: the COMPASS Experience*, June 2024.

<sup>3</sup> SVA, *Guidance for the social services sector on engaging investors*, August 2024, p. 18.

<sup>4</sup> Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 9; SVA, *Guidance for the social services sector on engaging investors*, August 2024, p. 9.

<sup>5</sup> SVA, *Guidance for the social services sector on engaging investors*, August 2024, pp. 9–14.

<sup>6</sup> Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 11.

<sup>7</sup> Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 10.

<sup>8</sup> Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, pp. 6–12; SVA, *Guidance for the social services sector on engaging investors*, August 2024, p. 9.

<sup>9</sup> Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 14.

<sup>10</sup> Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 10.

<sup>11</sup> SVA, *Guidance for the social services sector on engaging investors*, August 2024, p. 9; Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 8.

<sup>12</sup> Anglicare, *Impact Investment: the COMPASS Experience*, June 2024, p. 14.