Ander Iruretagoyena of The Impact Engine

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview angel investors, venture capital, family offices, private equity and many other investors for early stage and growth companies. I hope you enjoy this episode. The. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website. Hello, this is Hall Martin with Investor Connect. Today, we're here with Ander Iruretagoyena, senior associate at the Impact Engine Impact Engine, is a women led and owned, Chicago based venture capital and private equity firm, investing in companies driving positive impact and education, economic empowerment, health and environmental sustainability Ander. Thank you for joining us!

Speaker2: [00:00:59] Oh, thanks so much for having me. Really happy to be here.

Speaker1: [00:01:02] Great. So tell us about your background before investing in early stage companies.

Speaker2: [00:01:07] Yeah, so to give you a quick intro to my background, so I'm really from Mexico, but have finished up growing up here in the U.S. and went to college here right out of college and went into the world of investment banking. I was both at Morgan Stanley and Bank of America, originally working in Latin America, in mergers and acquisitions from New York. But then I started focusing on equity capital markets in my associate years. I was there for a total of three and a half years. And even though it's a weird place to sort of start a career, I figured that that wasn't really something that was really, truly passionate. And so I wanted to pivot to something else. So I use two things to pivot to the world of impact investing, which is where I'm currently at. I used my MBA, which I just graduated last year from Chicago Booth. And I also spent a year and a half working with the Bill and Melinda Gates Foundation, working in financial inclusion strategies to find myself here in this new role.

Speaker1: [00:02:11] Right, so what excites you right now?

Speaker2: [00:02:14] Yeah. You know, it's funny, you should ask that all hearing an impact engine, you know, we have a tradition that every year during Thanksgiving and the holidays, we like to do a blog post about why we're optimistic. And so, you know, it's it's a great time to address that question. One of the things that that really excited me was one of our newest investments, which is a company called Work at Health. Now Work at Health was really special for me because in my transition of going from investment banking to impact investing, I was really looking to have a lot more meaning in the in the work that I was doing. And, you know, this particular year and covered with all the ups and downs, one of the biggest downs that I had was that a very close family member was struggling with addiction and with our investment in working health, I found a way to sort of really tie what I was going through and my emotions to to a potential solution and an improvement in the space. And it just shows the difference of having a sort of working in the service industry and and working on fixing footnotes of a two hundred pitch, 200 page deck versus sort of investing and helping drive growth in innovative companies to give you a little bit of background on work at health.
If you're not familiar with it, they're a virtual addiction to addiction treatment platform, but really geared towards a focus of efficacy and effectiveness. And their whole thesis in being is that currently the the market for treatment services, you can either sort of go to your traditional Alcoholics Anonymous and things like that that are effective, but they're effective and call it the 30 percent range. Or you could go to the expensive centers that require you for sort of like practice in your life for one to three months and you have to pay out of pocket. And so what's really exciting about work of health is that they're bringing the advent of telemedicine and telehealth to deliver an addiction treatment that has effectiveness rates of calling the 70 percent rate, which is unheard of in the industry. And so it's really, really awesome to hear that now this option is not only available for everyone due to the virtual nature of it, but that they've built this business with a real, purposeful intention of advocacy, but also in sort of building a business model really close to payers and making sure that it's a reimbursable cost. And we sort of think that that's going to be the difference and what makes this company succeed above all others.

Speaker1: [00:05:07] That's great. So you see a lot of startups out there and investors. What's your advice for people investing in startups in the impact sector? What do you tell them to do before they write that check?

Speaker2: [00:05:17] I think in our industry, a lot of people get hung up on on the metrics and just this focus about always trying to to measure and making sure you have the data to back it up. And there's a lot of scrutiny on that, and some of it is rightfully so. But I think at times it can be overdone, and if you focus just in the minute details, you end up missing on the overall picture. So if you're an investor in the impact space, I would challenge you to. Rather than focusing on what the specific metric, what specific data to focus a little bit more on the thesis of the company and the and sort of the nature of it. And if you do that job correctly, the metrics themselves will come very easily, right? For instance, in the example I just talked about and work it are in type metric is directly tied to their competitive advantage. And so it would be really strange for them to not be measuring those metrics that speak to the efficacy that speak to their coverage. Let's speak to the reimbursement rate. If that's not sort of tied to the business, right? And so it's sort of what can be a very daunting conversation as to how you measure the impact you're creating in your investments. It's time intensive. It's a very simple conversation. So I would urge investors to think that money's great.

Speaker1: [00:06:46] Then on the other side of that table, what's your advice for founders raising funding? What do you tell them to do before they go out to launch that campaign?

Speaker2: [00:06:55] Yeah. Before you sort of. And if you're a company raising funds in this space and you're pitching on impact investor. It used to be that right impact and impact investing, you sort of had a lens of it having to be a concessionary investment that if you're positioning yourself as that impact company or as a social enterprise, you're not necessarily a market rate company. And so I would really, if you're a company investing in the space and you want to pitch to investors, I would first of all know that at least in the case of impact and I hope others in this space, we take the view that impact is not concessionary and we're going to hold you to the same sort of level and rigor of being a viable business model. And so to be prepared to not only be able to say the impact we're having, but really sort of connect the dots to us and show us how. Because you're having an impact, you're having a competitive edge out there. And if you can prove that, then it becomes a much more compelling opportunity.

Speaker1: [00:08:06] Great. Let's talk about the state of impact investing. How do you see the industry evolving from here?

Speaker2: [00:08:11] Yeah, I mean, it's it's interesting, and I think we have a little bit of a unique view on it because at Impact Engine, we're not only investing in companies, but we also invest in funds. And you know, it used to be that you could count the number of market rate, pure play impact investing firms in the palm of your hand. But right now, I mean, obviously, there's clear gaps, especially at the growth stage, but it's good to see momentum and more and more firms evolving there. And so as being a sort of an investor in funds, also, you get to sort of start being able to not just. Apply goalposts and surf invest in the companies that need them, but really, sort of now you have a menu of firms that you can stack up against each other and even have more conviction on the ones that you invest in. And so you'll have, I think, how you'll appreciate this, right? In venture capital, when you're dealing seeing a company, you see some really aggressive hockey stick revenue projections and you know that the path to to get to those numbers, it won't be easy and there's going to be delays and it's going to be messy. And you're probably right. If you're a good investor, you're going to take those predictions with a grain of salt. Well, in the case of impact, investing in 2011, when it was just on the verge of becoming an industry and a word and something, I mean, in fact, in ourselves, we were founded in 2012. In 2011, there was a study by JP Morgan, the Rockefeller Foundation and the Global Impact Investing Network, otherwise known as Jin, who published a report claiming that impact investing would reach in total in assets under management would reach anywhere between four hundred billion and one trillion dollars by the year of 2020. Well, just this past year on the IFC just published a report that puts a figure above two point one trillion dollars. So it was great to sort of see the industry surpass that figure, and sort of it speaks to the momentum.

Speaker1: [00:10:28] It's great. So what do you think is the biggest change we'll see in impact investing in the next 12 to twenty four months?

Speaker2: [00:10:36] Yeah, the biggest change. It will sort of have to be, I think, in the impact, measurement and management space. Nowadays, it's really hard to see any startup pitch that does not have an at least a used to use slide that sort of speaks to how they're thinking about managing their own footprint. Private equity firms can't go and raise money from pensions or LPs without having sort of a policy in place of DNI policy in place. And right now, we're in sort of in a weird mix of. Of people knowing it's important, but they're not being a standardized standard and market. And so I think that's a problem that's going to have to be addressed and solved. And there's starting to be some convergence in things like this has these standards and things like that. But I think in the next 18 to 24 months, you sort of see a big push to to try to clear that uncertainty.

Speaker1: [00:11:42] Right? Well, let's talk about your investment thesis. It's in the impact sector. But can you give us more detail about what your criteria is?

Speaker2: [00:11:49] Yeah, I mean, right, and in fact, the engine we're we're generalists, we we invest across three different sectors. We invest in environmental sustainability, health equity and economic opportunity. And a real edge in sort of investing in this is to be experts and in fact to be experts, not only the measure and management of it, but in helping companies guide certifications through narratives and sort of stories. And really to sort of be a voice that helps the company sort of tell their story and be like, Hey, we took it to the next level that in our own cap table, we have people that validate our mission and the impact that we're creating here. And so our our our main investment thesis is exactly that. The companies who are intentional in the impact they're creating in the long run are going to overperform companies that do not. I'll give you an example of this. A perfectly illustrates sort of what we're about. Another one of our portfolio companies is a company called Positon Passage and focuses on doing solar energy in the rooftops homes, but really with an eye towards lower and middle income households. And that's really different in appreciating the market because traditionally solar rooftops are sort of more for the solar cities of the world. The higher income houses, you know, the the homes in Bale and Park City, the ones that sort of cater to have a Tesla out in their driveway.
And the reason why that's happened is because usually in in order to install a solar panel in your roof, you really need a lot of financial underwriting to go behind it, right? You're usually leasing that product and its 20 year lease and then you're selling part of the energy you generate back to the grid. But in the case of pathogen, they're doing all that financing. But to the LMI community. And so there's a very significant sort of risk in sort of providing that type of service to that community. But they built a company does that is from that community, the people they employed, the leadership sort of comes from there and they've sort of figured out someone that nobody else has been able to, which is how to cater to that community. And they're getting people with credit scores in the five and six hundreds behaving like people in the seven hundreds and hundreds and having those same repayment rates. And sort of when you really think because they're being so intentional. And that's a clear aspect of their differentiation that this is why they're sort of having the prove they're having, right?

Speaker1: [00:14:54] Well, let's talk about the challenges in this space. What do you see as the main challenger starting space in today's market?

Speaker2: [00:15:01] Yeah. I mean, the Charleston, I think we talked about this a little bit, sort of. They will they will have to be a little bit more definition of sort of a differentiation between being a social enterprise and a valuable business model that is sort of right for impact investing capital and sort of a little bit more distinction between what philanthropy is and what impact investing is. And in the middle of that, you have to sort of navigate the world of very confusing reporting and how you sort of help startups have the data to back up their mission intentionality. But at the same time, right there, they're scrappy teams. They have a million things going on. They're trying to scale a business and sort of, how do you help them and support them and sort of having those metrics, but without without it getting in the way of doing running a business?

Speaker1: [00:15:55] Right, and then what do you think is the main challenge investors face in today's market?

Speaker2: [00:16:00] Yeah. I mean, it's I think it's greenwashing is a big challenge in the space for sure. I feel like there will definitely be a reckoning that will come when there's a little bit more of a standard and definition across the market. People also going to understand the definition, the distinction between ESG and impact ESG impact in ESG. We like to think. Um, yes, this more about how you manage risks versus impact, the sort of the actual outcomes you're creating. People also have to understand that this is, for instance, you're a private equity firm investing in education and health care that in and of itself doesn't make you an impact investing firm. You have to take it to the next level and really be focused on the outcomes and the quality of the products that you're delivering. You also emerging managers are trying to establish their own impact investing firms, right? And we talked about it a little bit. You're fighting legacy. So where people see, oh, you're raising an impact investing fund. Oh, so I'll put you in a different bucket because you're going to be below market rate returns, but that's not the case. And then right? And then lastly, it's it's a it's a new industry that has a lot of momentum, but it's a new industry that's going to have a lot of emerging people in it. And the people that are coming to it don't necessarily have the establishment or the track record sort of being in it. And so there's going to be a sort of hurdle of having to overcome that.

Speaker1: [00:17:44] Great. Well, there are many sectors and applications in the impact investing space. If you had to pick one or two that are good immediate opportunities to pursue, what would you call out?

Speaker2: [00:17:54] Yeah, right. So as I as I mentioned, we we invest in three main ones economic opportunity, environmental sustainability and health equity. I'll talk about the one that I know the most of which is economic opportunity, you know, impact investors. Our ultimate mission is to invest in those companies whose products positively impact the life of people here on the planet. And one of the main ways we can achieve that is by focusing on the needs of economic stability and mobility while investing in the necessary tools needed to achieve them. Now we know that these tools, they're not equitably distributed amongst society and that they spend a lot of different sectors, right? If you sort of break into economic opportunity, you're looking at things, looking at tech, fintech, affordable housing, poverty alleviation, diversity movements. And so when we look at that universe, we've chosen to focus on the most pressing subsectors and the ones where we think there's a clear path to improve the outcomes and those outcomes can be really demonstrated. So we focused on four different things. The first one has to do with hourly and gig workers who across the U.S. there's over eighty two million workers who are paid an hourly wage for their service. You're talking about close to 60 percent of the U.S. labor force. And you know, out of those workers, fewer than two in 10 have enough savings to pay for an unexpected $1000 expense. And so we seek to invest in companies reshaping how hourly and gig workers are managed, how they're paid and the career prospects that are offered to them.
Another subject that we liked is upskilling with with aspects of the digital economy and all the advancements in technology. We want to sort of focus on companies that help keep up with the rapid pace of change and help workers learn the skills and competencies that are required for the new jobs versus sort of falling victim to the widening skill gap that's already present. You know, currently, a recent survey found that nearly 60 percent of U.S. employers have an opening job openings that stay vacant for 12 weeks or longer. Really sort of speaking to that skill gap we have in this country. And then the last two sectors that we're focusing on. One is on digital financial services that really builds security and prosperity for individuals, but without sort of

having unchecked proliferation that can be extremely detrimental and predatory. And then lastly, student success, which we know is an important gateway to economic opportunity and a way for individuals to get the skills they need to live up to their potential. And we like to take a holistic approach to the life of the student, rather than just just focusing on a specific period of time, which is just early education. And so we we invest in companies really looking to improve the education system and who can tie their product or service to enhance life outcomes such as employment, increase wages or reduction in poverty rates.

Speaker1: [00:21:23] Great. Well, in the last few minutes that we have here, what else should we cover that we have in?
And I'm curious how I would I would love to actually as an outsider to the. To the industry of impact investing, and having seen that, you've had over 700 people like me come. What what is your take in this sort of momentum and an industry?

Speaker1: [00:21:49] I think it's growing. I think impact investing every year is includes more and more or greater percentage of the startups. There's a shift from non-profit to impact companies, and I think we're seeing that in the numbers itself. Now I see the financial industry getting involved as well. There's an effort to try to standardize what is impact and how can you measure it? I've heard many financial groups talk about, well, if you meet your impact, goals will decrease your interest rate by two percent. If you don't meet, your goals will increase your interest rate by two percent. And so I see more and more groups coming together to put more effort behind the impact effort because I think in in some years from now, you're going to not be able to just run a business for profit, you're going to have to be able to provide some something back to the community in addition to a profit. So I think that's where it's going. I don't know how fast it will get there, but I do see it increasing every year the number of companies that are impact and are starting to measure that impact to.And read more music to my ears.

Speaker1: [00:22:55] Ok, well, good, good, well. Appreciate your sharing that with us today. So how best for listeners? Get back in touch with you.

Speaker2: [00:23:04] Yeah. I mean, listeners can always get in touch with us and learn more by visiting our website at the Impact Engine. In there, you'll find the contact form. We're always have an open door policy to anyone interested in impact. Please fill it out and we'll make sure to respond right away. If you're a specific company which you think, you might be a good fit for either our venture strategy where we're investing in U.S. companies. You can reach us at Direct's, at the impact on income or if you're a group of people trying to raise together a fund and you have a strategy that you think might be a good fit for us. You can always reach asset funds at the impact engine dot com, right?

Speaker1: [00:23:49] We'll include those in the show notes. I want to thank you for joining us today, and we hope to have you back for a follow up soon, for sure.

Speaker2: [00:23:55] Thanks so much. Up.

Speaker1: [00:24:00] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Canaccord. Paul T. Martin is the director of Investor Connect, which is a 501c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.