Peter Bruce Clark of Social Impact Capital

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm 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. They were here with Peter Bruce Clark, partner at Social Impact Capital. Social Impact Capital specializes in impact investing, which they define as investments that can deliver top decile returns in addition to a positive social impact. Peter, thank you for joining us.

Speaker2: [00:00:56] And you for having me today.

Speaker1: [00:00:57] Oh, great, so tell us more about your background before investing in early stage companies.

Speaker2: [00:01:03] Yeah, of course. So before investing in early stage companies, I had a very non-linear, non-obvious way of getting into venture capital. I actually started my career in London working for macro advisory research firms like Oxford Analytica and Oxford Economics, as well as consulting firms like PwC, Mercer, cetera. I actually went to Mercer in New York and back then when I graduated, which was about 12 years ago, now there are very limited opportunities for for graduates like myself. You either went into investment banking or consulting, and then the joke was that you would end up in private equity. The irony is that's actually what I do right now, but I went into it in a very non-linear way. So flash forward, I had all this experience in London and I got the opportunity to go abroad, to go to Silicon Valley, to Stanford, actually in particular, where I work with these people called family offices and billionaires to basically design the structure of what could be a vehicle for delivering both impact and higher returns. And that was the remit that I'd been given as a research project. I also built a management consultancy called Celtics' Partners, which got acquired, which was kind of like the business management of institutional investment and asset ownership.

And flash forward. I then went through a very classic Silicon Valley narrative of joining different start ups. One of actually my startups I was part of called RCI got acquired by Adapt. More recently, a was now worth about two billion and is probably going to IPO in the next few years. And a lot of the research that I did, I kind of realized that it impact investing. We really ill defined what impact was. And part of my soapbox and the, I guess, sort of existential and philosophical question I've had today is how do we define impact? How do we measure it? How do we get there and how do we do that through investment management? And a lot of the research that I did at Stanford is actually now being very well quoted and widely quoted by both the Securities Exchange Commission as well as the G7 more recently in the Impact Taskforce. So all of my research today and all of my activity today is really led me to Social Impact Capital, which is a firm that I joined about four years ago now.

Speaker1: [00:03:18] Right, so what excites you right now?

Speaker2: [00:03:20] So many different things excite me. It's sometimes hard, I think in venture capital it's it's built for people like myself who may have borderline add, you know, the beauty of the asset classes that you get to learn about so many different sectors and so many different ways of being even or even ways of building a business and lots of different kinds of team compositions, et cetera. Thematically, what I'm really interested in is an array of different areas. We've got thirty seven portfolio companies to date. We have invested in global health and climate climate technologies, both on the sort of software side which enables companies to manage their carbon all the way to treating atmospheric carbon as an input. For instance, more recently, Prometheus Fuels, which is in our portfolio, became the first ever electro fuels unicorn. They're worth one point five billion. They start carbon out of the atmosphere and they create net zero fuel. It's very, very cool. And so thematically, what I'm really interested in is that in the 20th century, we talked about these things called externalities. And I think in the 21st century is we're going to be talking about externalities and inputs as actually economic units that go into industrial processes. And that's something I'm very excited about. I'm also very excited about the rise of mental health and a new kind of operating layer that I see in business, which is sort of designed to humanise the tools that we've developed through our iPhones and computers. I find that very interesting. And then finally, markets that are not the U.S. necessarily. So I'm very interested in distribution and partnerships where you can build companies with a really global view from the outset, understanding that these companies only make sense within their local or regional areas when you slightly adjust them to fit those, those markets. So there are a couple of countries in particular and continents that really excite me Southeast Asia, India as well as sub-Saharan Africa.

Speaker1: [00:05:23] Right. Well, you see a lot of startups and investors in the impact space. What's your advice for people investing in startups in the impact sector?

Speaker2: [00:05:30] I think there's a variety of different things about what we do. We invest in the best ideas and impact. It's highly generalist. We're investing at the very early stages, so we're taking the origination risk. We really pride ourselves on finding fantastic companies that are just overlooked for whatever reason at the early stages by traditional venture capital. And we combine that strategy with what we call impact arbitrage, whereby we basically help coach repackage part of the company, as well as help with early kind of portfolio support to get the companies to look and feel like normal companies at this areas. So my advice to anyone who is building in this area, a company that is mission driven, is really think about your pitch, really understand what you're delivering in terms of your value offering as a business and be very careful to weight the narrative of your business towards the commercial opportunity. I think that sometimes an overindex thing to feeling good, and we can all agree that we want to invest in businesses that make the world better. But like the general and message should be, what is the commercial opportunity?

Speaker1: [00:06:40] And then what's your advice for people running start ups in the impact sector? What do you tell the founders to do before they go out to raise funding?

Speaker2: [00:06:47] We love to run very competitive fundraising processes. The reason why that is is that there is a lot of capital in the market. It's very competitive right now. But investors really need to know that you're a strong operator, particularly if you're a CEO or, you know, depending how you design the firm, you need to have a function where you can prove to investors that you can really sell your company. And I think it's really important to get the best deal in the market. I think that entrepreneurs never set aside enough time to really run a very methodical process, and if they did, they would end up getting better valuations, better terms and more favorable ownership structures.

Speaker1: [00:07:35] Right, well, let's talk about the state of impact investing. How do you see the industry evolving from here?

Speaker2: [00:07:42] So it's quite interesting right now, for instance, in ESG markets, just on the public side, just to touch upon that briefly, there are loads of managers now coming into the market saying ostensibly that their ESG managers, you know, it's for us, it's very interesting to watch and the degree to which those managers a truthful in the way in which they're marketing the firms really varies. I think it's very fashionable to be an ESG manager. But what I really pay attention to is materiality. And that also presents itself in the private markets and private equity and venture capital. I'm seeing excitedly and I'm very excited about this. Lots of new managers coming in as impact investors or impacts focused venture capitalists, and I wish we had more of them. It's only just a drop in the ocean. So it's really depressing. Sometimes actually, to see that the fact that there are very, very few and far between managers who actually invest in things that matter. And outside of that, I would say investors should also be very cautious because there's a lot of rebranding going on, a lot of repositioning. And I really care about accountability just first and foremost, accountability and really putting your money where your words are. There are lots of venture capital firms out there who I can lean thousands of my hands who talk about well changing companies, but they don't really define what they mean by that. It's not even is the world getting better? So that's that's the thing that I like to pay attention to.

Speaker1: [00:09:19] So what is the biggest change you think we'll see and say the next twelve to twenty four months in the impact space?

Speaker2: [00:09:25] So it's very curious right now, the last quarter was probably the biggest capital flight away from the US market in terms of venture financing. So it's been a very curious year. That's partly because there's so much competition in US venture markets at the moment, so valuations have gone insane. And that's partly because you've got lots of other ways investors who have been playing and real estate or different asset classes on the private side who are non-institutional non venture investors moving into the venture space. So it's actually heating up valuations. It's making it way more competitive, which makes it very unappealing for a seed investor sometimes to get really decently valued companies. And so what you're noticing is a big shift towards countries where the valuations tend to be more reasonable at seed and the growth prospects of those companies are less fraught. So the interesting thing about venture is obviously you've got a illiquidity premium for basically holding onto something for a long period of time and letting it mature without being sort of beholden to quarterly valuation cycles that impact your stock market price. Right? What's quite interesting about that is that in this market right now, in this time where we're in a very overheated market, particularly in the states, it's a way of actually like weathering what could be a storm in the next few years. So I think that's kind of what is probably in store for private markets. There's a lot more capital flight and looking for opportunities further afield and an impact in particular. I think you'll see a lot of impact funds emerge that also are investing in these regions that have been historically or developmentally called emerging markets. So I think that's what you'll also see.

Speaker1: [00:11:25] Great. Let's talk about your investment thesis for your fund. What exactly is it and what's your criteria for making an investment?

Speaker2: [00:11:32] Yeah, so a general thesis is that at present in the developed western world, there's an economic, very basic economic set of arguments to be made about why investing in companies that are addressing the essentials of human need as goods and services is a really smart and profitable one right now. And that's because over the last few decades, there's basically been wage stagnation since the seventies, 70s and 80s. Right? And in addition to that, you've also had the astronomical appreciation in prices to essential needs, goods and services. So if you look in health care or energy or education or transport in any of these sectors, you've seen massive price appreciation. And that's also since the early 90s. So when you have this decoupling of both productivity with wage stagnation plus the increasing of price for average goods and services that you need that are essential to your human flourishing, that creates an amazing opportunity for businesses to come in and disrupt legacy companies. So you see a concentration of wealth and resources in a very oligopolistic way, I think, in a lot of Western nations, and that just makes it ripe for disruption.

Speaker1: [00:12:59] Greg, can you talk about one or two startups, perhaps portfolio companies that fit that thesis?

Speaker2: [00:13:05] Yeah, absolutely. So we really care about democratization and democratization, looks and feels in different ways. It presents itself in a variety of different guises. One guy's, for instance, is milk run milk run. Actually, that lost Series A was led by Spark

Capital, which is one of the preeminent funds in Silicon Valley. There was super interesting is Julia Nero. She's the founder. It's female led film. She has built a platform, a marketplace that helps local and regional farms sell their produce to the average person without being price gouged. So typically small to medium farms, 90 percent of which they feed America, the distribution channels you usually get it is either locally you sell it yourself. Will you go to Whole Foods or these large supermarket chains chains that take a large percentage of your profits? The challenge is that all of these farms are under immense duress, and the trajectory is really not looking pretty in terms of their long term prospects. And so Judy has figured out a way that she can put more money in the pockets of our local farms and regional farms, and at the same time you as a consumer get fresh farm to table delivered directly to your door. And we think that's an amazing play on economic empowerment, democratization of logistics and your ability to actually get the goods at the the end consumer. And it makes the world better. It makes actually America stronger and our farming system more resilient.

Speaker1: [00:14:41] Great. Well, there's lots of challenges in the start of the space. What's the main challenge that impact startups face in today's market?

Speaker2: [00:14:48] I think it's slightly asynchronous and discontinuous, depending on the sector and depending on the type of impact desired. Right. So what you often see right now in climate technology is there's a massive glut of capital coming into the market. Last quarter was the largest financing in terms of volume of of start ups financed. I think we can all agree that climate technology and some of them have actually become economic. I remember when I started Silicon Valley a decade ago when I was doing the research about these investment vehicles, the lens was actually focused on the environment specifically. So a lot of these technologies weren't economic while I was researching, and it was interesting more recently with the advent of some carbon nanotube membranes. New technologies that, for instance, we've got one company called Charm Industrial. They basically take biomass and create a high priorities as biofuel and basically inject it back into the ground as a carbon offset. A lot of these technologies didn't have a commercial purpose or more recently, with changes and maybe existential changes within big business as well as the government. There's now more push towards those those kinds of innovations tackling that kind of impact. What's harder is themes like education. Education is really difficult to solve for mainly because it's not just about developing some ed tech solution and assuming that that will change everything. It's a very complex challenge system challenge. So if you really want to fix education, you have to fix both nutrition, family dynamics, ventilation. And then we also have to agree on what is the purpose of education to begin with. So it's a very fraught topic. And what else would I'd say about that? Yeah, I would just say it really depends on the sector and and the impact that's targeted.

Speaker1: [00:16:50] Well, then on the other side of that table, what's the challenge the impact investor faces in today's market?

Speaker2: [00:16:56] I think there are two challenges that impact managers face. One is kind of backlash from the peer group, the traditional sort of set of investors that you're investing alongside. So if you're a private equity or venture, it's other venture capital firms or other private equity firms or real estate, for instance. There's a backlash, I think, around whether or not impact funds can be sincere or really do what they say on the tin. There's a lot of skepticism about what's possible through capitalism, particularly in the states. I think it's very different in Europe. The conversation is is way more developed in that regard and discrediting, I think of what people are able to achieve. That comes from peers. I think a big challenge for new managers. Building impact funds outside of that are the fact that there are so many institutions that want to invest in impact. But because of the size of funds relative to the check sizes that a lot of these institutions want to rate into these funds, there's a structural mismatch in terms of supply and demand. So if you go out and to market, you think you're being very reasonable, like we did with one hundred million or one hundred and fifty million. Unfortunately, you still represent a massive concentration risk for funds that want to write checks to $50 million into your fund. So there's this really strange gulf between the smaller funds and the larger funds. And yet there's all this pent up demand from pension funds and sovereign wealth funds to invest in managers like ourselves.

Speaker1: [00:18:41] Right? Well, there are several sectors and applications in the impact space, and you mentioned some of them so far. But if you had to pick one or two that you think are really good opportunities for investors to pursue today, what would you put at the top of the list?

Speaker2: [00:18:55] There are three themes that I'm really obsessed with. I should caveat all of this is that I am a heart beating millennial, and so in that way I maybe got a very skewed perception of where the world is heading. But thematically, I'm very interested in adaptation, resiliency and survival as themes. Survival is when I'm feeling particularly bombastic. Or maybe I've had a glass of wine, but with resiliency and adaptation, you know, what's happening with climate change is that it's not just that the world necessarily gets warmer or colder, per say, it's that there is climate volatility and volatile events that are unpredictable. So many start ups right now are trying to tackle predictability and projections around what might happen in a particular region. And the fact is it's a very freak. And so as I see the way we manage in terms of and the kinds of projects we get quite excited about are to do with safety and health and resilience. So one, for instance, is duty and our portfolio duty, our disaster preparedness brand. They create to go kits for your family and for individuals, which really range from 24 hours to 48 hours looking after yourself during a flash flood or a fire or a hurricane. We saw also what happened recently in Kentucky or what happened in Texas last year. So a lot of these events are going to be way more frequent and in some parts of the world, for instance, in the Philippines, typhoons are regular occurrence. Climate crisis is already there, and that's the new normal, right? And the America, we're already starting to see this. And so Judy, don't just provide these kinds of to go bags, and some of them are much larger for 72 hours for a family of six. But they also range up to even creating solar panelled generators for when your house loses power, and eventually they'll go into all of these other areas, like an insurance. So I think full stack solutions for adaptation and resiliency as platforms are going to be very, very important as well as amazing investment opportunities.

Speaker1: [00:21:17] Right? Well, in the last few minutes that we have here, well, should we cover that, we haven't.

Speaker2: [00:21:22] What I really love to talk about at the moment, which I don't think we do talk about at all, particularly in impact, is how we have impact magnitude. And what I mean by that is it's all very well that we do stuff in the states or it's all very well that we do stuff in Europe to try and combat climate change, but it's not enough. We've basically had years and years of both domestic and international government policy failure to address this humongous existential challenge. Private markets have come in to try and tackle that, and it's very admirable, for instance, with breakthrough energy or gates or, you know, with obvious ventures with financing beyond meat. We've got all of these amazing sort of interventions tackling climate and chipping away at it. But in some respects, it's a rounding error. What we do in our own locality, for instance, in Europe, you know, Europe is very, very progressed in clean energy and alternative energy and going to net zero. However, it represents a tiny, tiny attribution to the global emissions challenge, right? So if we're not thinking about China and we're not thinking about India, we're not thinking about Africa. It's totally irrelevant what we're doing in the U.S. or Europe. So what I mean by impact magnitude is how do we work together and private markets to get distribution across the world as fast as we possibly can? And that's where we'll have magnitude. And I think that the world looks like we can all believe that the world can be a much, much more habitable future, I think.

Speaker1: [00:23:15] Right. So how best for listeners to get back in touch with you?

Speaker2: [00:23:19] You can find me on all platforms if you can hunt me down on Instagram, good luck. I always love a good Easter egg hunt, but alternatively you can add me on LinkedIn, you can add me on Twitter and you can find us through our website. We do check those emails every day so you can contact us. How have you like?

Speaker1: [00:23:41] Great. We'll include those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:23:47] So much

Speaker1: [00:23:48] Already. Appreciate it. 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 Connect DAUG. 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.