



EIGHTEEN EAST

# EVERYTHING YOU EVER WANTED TO KNOW ABOUT LISTING AN IMPACT CLOSED ENDED INVESTMENT COMPANY ON A MAJOR STOCK EXCHANGE

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In five easy steps.

CONFIDENTIAL

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***“There seems to be powerful but latent demand among retail investors for impact investments. But many investors are waiting for their clients to ask for it. My guess is if you build it, they will come.”***

Elizabeth Littlefield, President and Chief Executive Officer, Overseas Private Investment Corporation (OPIC), USA

# Introduction

## A listed closed-end investment company toolkit

### Background

In order for the United Nations' Sustainable Development Goals ("SDGs") to be achieved, trillions of dollars of additional capital will need to be brought to bear. Current public and philanthropic sources of development funding are insufficient to meet these needs and significant private capital must be catalysed to invest for development in order for the SDGs to be realised and the world's most intractable development challenges to be surmounted.

### Eighteen East Capital Ltd

Eighteen East Capital Ltd ("Eighteen East"), with the support of the Rockefeller Foundation has created this toolkit for the creation of a listed Closed End Investment Company ("CEIC") structure to allow all investor categories, to invest for impact in a highly liquid and regulated format, with a low investment minimum. This toolkit is based on Eighteen East's own experience of creating and managing the initial public offering of Impact Investment Trust PLC ("Impact PLC") on the London Stock Exchange ("LSE").

### Rockefeller Foundation

This toolkit forms part of the Rockefeller Foundation's Zero Gap initiative, that seeks to develop innovative financing mechanisms that can ultimately catalyse large-scale capital from institutional and individual investors to be invested for development. It is hoped that the production of this toolkit will provide the means for new CEIC's to be launched in the effort to close the funding gap needed for achieving the SDGs.



# Who is it For?

## A structure to allow individual investors to invest for impact

### Who should use this toolkit

This toolkit is designed for any business organisation or entrepreneur interested in understanding what is required to structure and list a CEIC. It contains a summary of the CEIC structure and its associated benefits and limitations. The toolkit also provides a step-by-step guide to the necessary stages one must follow, and a breakdown of the various stakeholders that need to be engaged. This toolkit is to be read in conjunction with the key template transaction documents provided.

### Target investors

The listed CEIC structure is adaptable to both the types of investors that it attracts and the nature of the assets to which it can deploy capital. In the context of impact investing a key advantage is its familiarity to the private banks, wealth managers, and retail platforms that represent the bulk of individual investor capital in the United Kingdom. This is due to the long history of CEICs (on the LSE in particular), their robust governance, the liquidity and small minimum investments they offer, and the strong regulatory oversight associated with major stock exchanges.

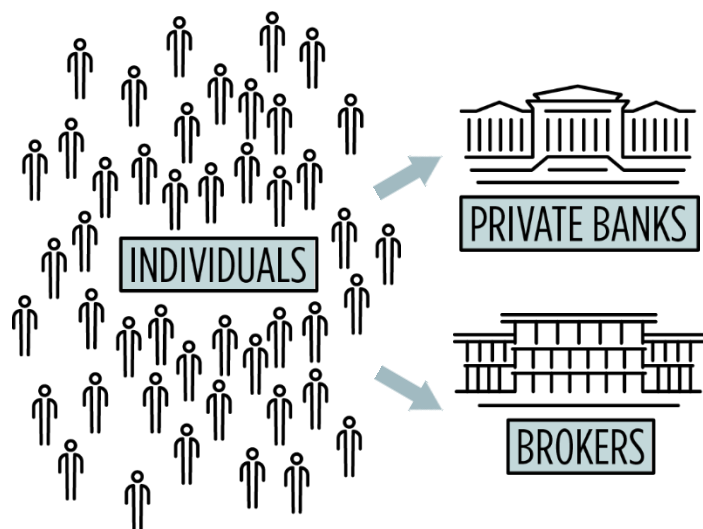
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# What is a Listed Closed-End Investment Company?

And why its useful

# Worlds Apart

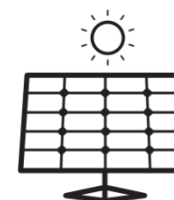
## Individual investors and impact investing fund structures



SRI funds growth strongly suggests there is growing appetite for impact investing products among individual investors. Private banks have been looking for ways to provide this exposure, but have to date not found a suitable solution.

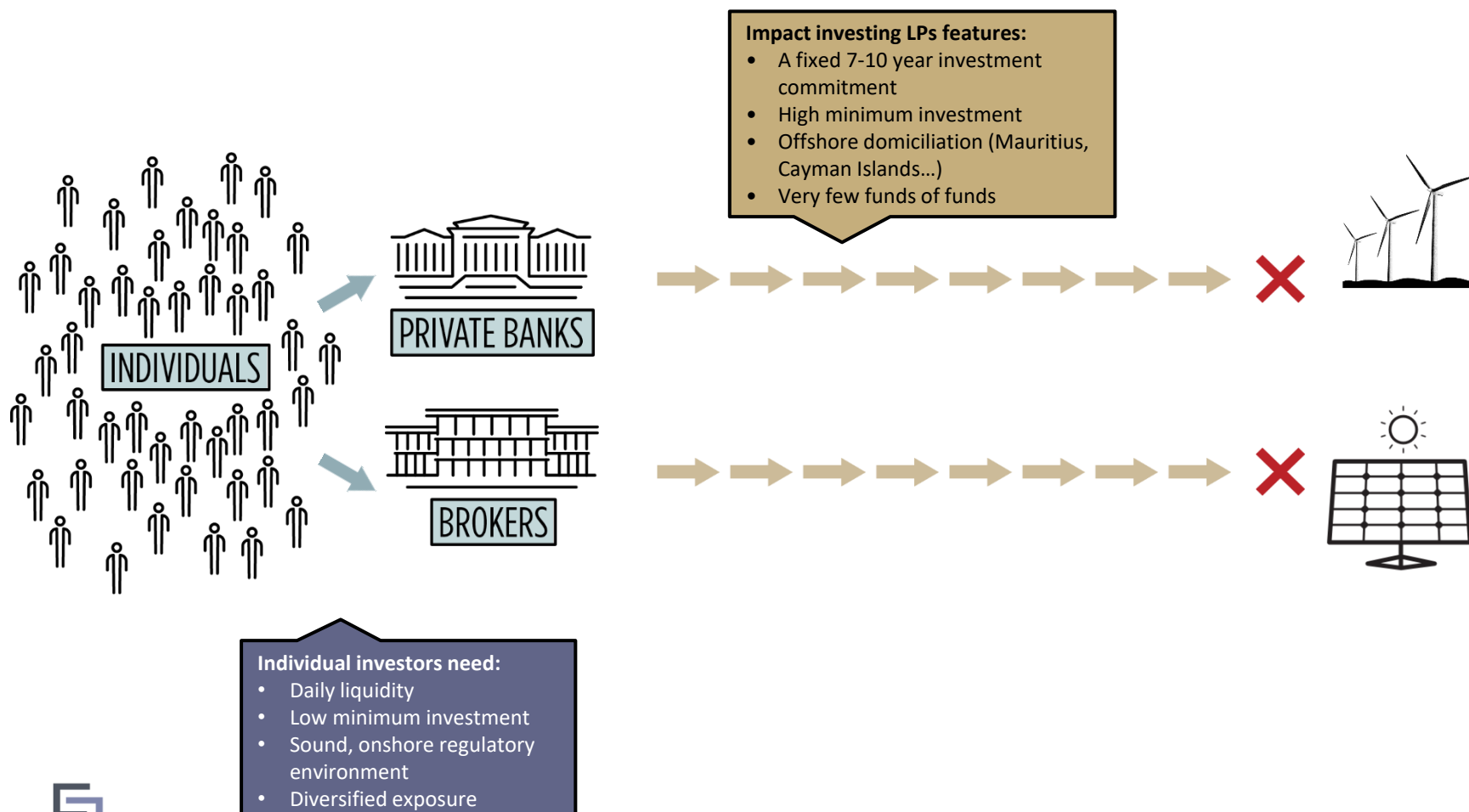
Most impact investments have very long term investment horizons and high minimum investments.

They are not structured to meet the needs of individual investors and do not fit in a UCITS framework.



# Barriers to Entry

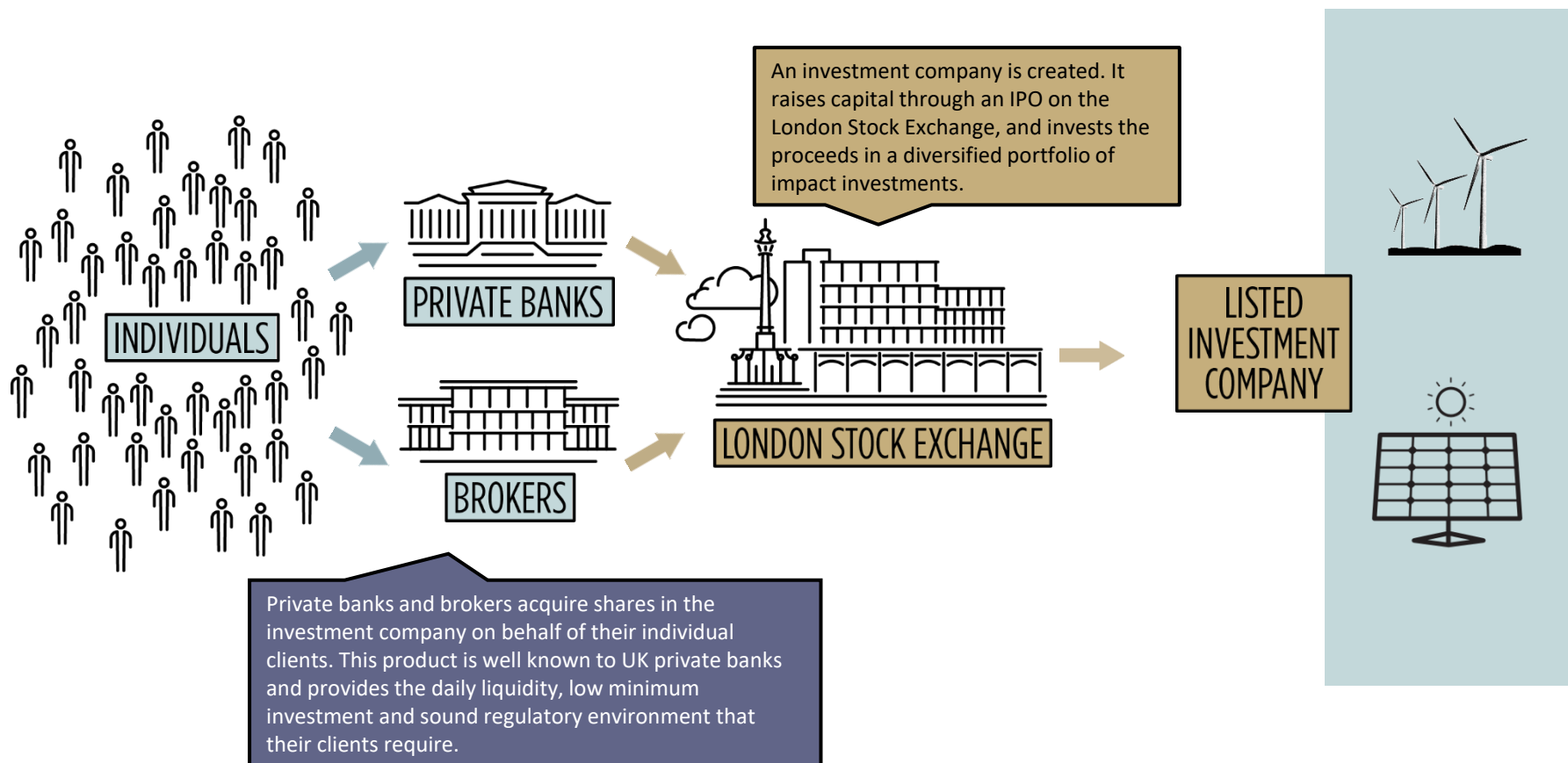
## Individual investors and impact investing fund structures





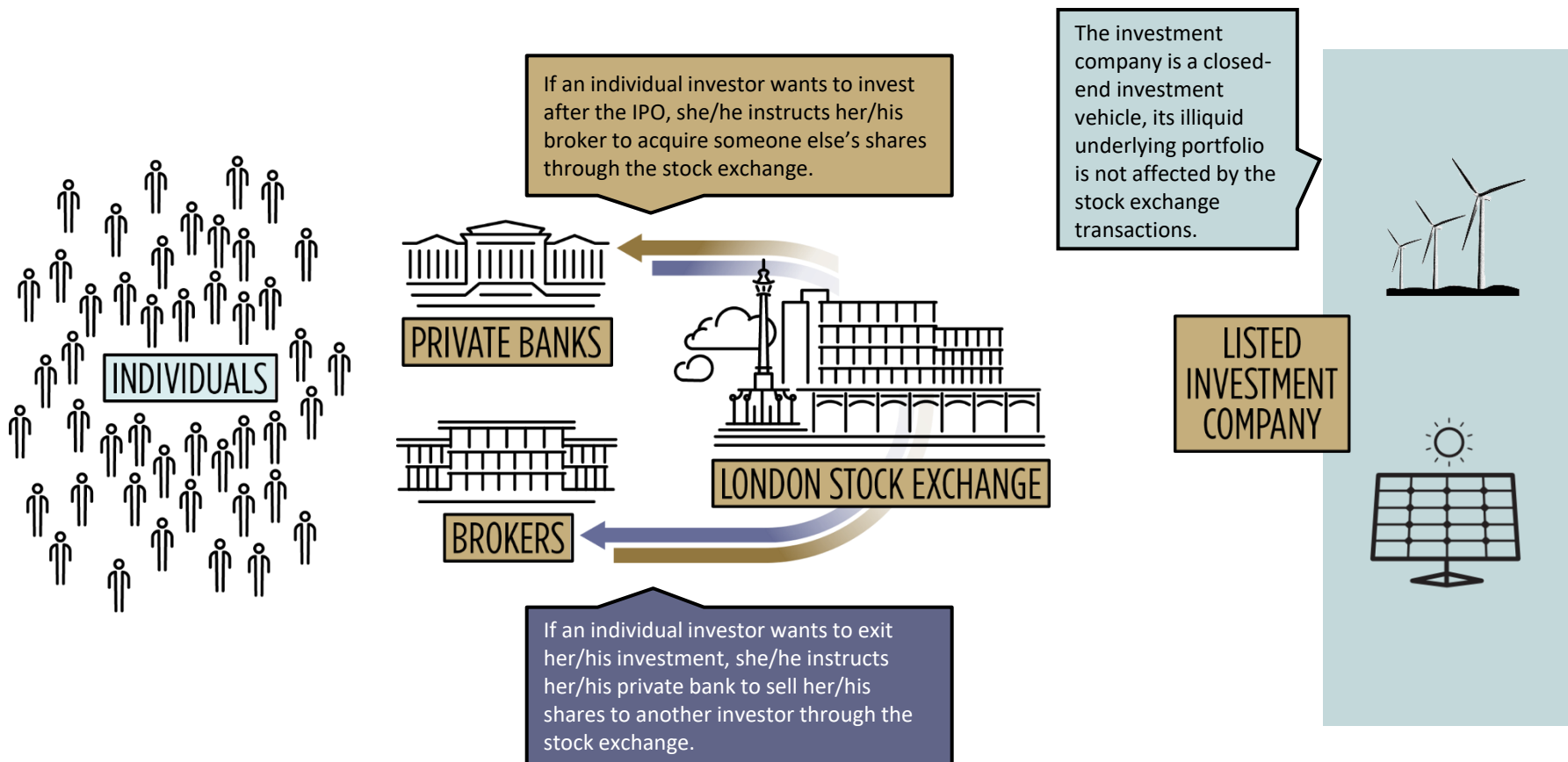
# Listed Closed-End Investment Company

An investment company holding a portfolio of impact investments listed and traded on a major stock exchange



# Investing (and Divesting)

Investors can do so regardless of the liquidity of the underlying assets



# Benefits and Limitations

The structure fits the requirements of individual investors

## Benefits

- Low minimum investment
- Bridge the liquidity gap to underlying impact investing funds
- Public listing guarantees accessibility, as individual investors from most countries can share traded on a major stock exchange.
- Suitable for tax friendly wrappers
- High level of governance
- Suited to multi-manager portfolios

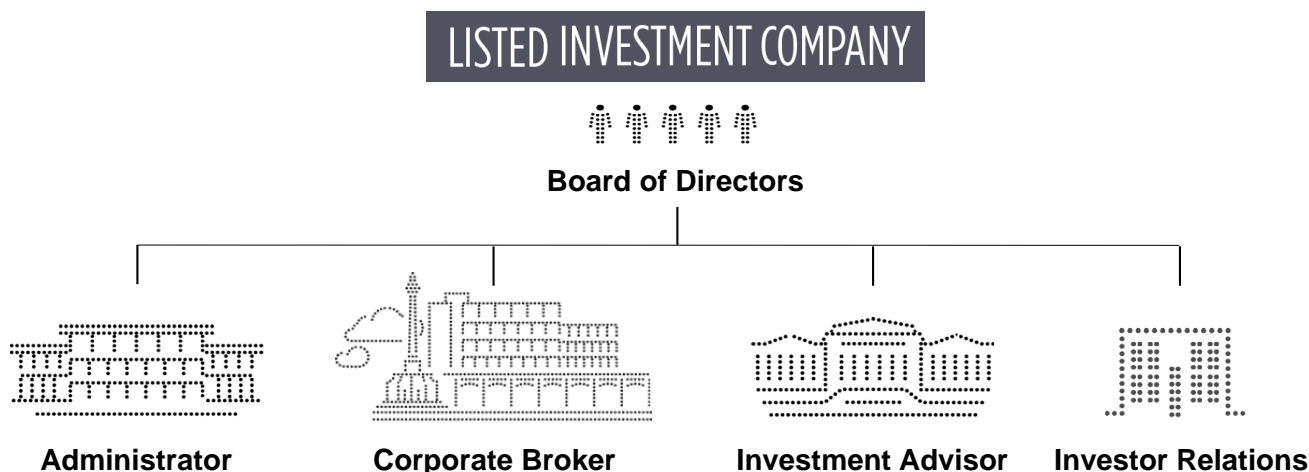
## Limitations

- Liquidity is market driven, not guaranteed
  - Mitigated by market maker system
- Share price is demand/supply driven, not directly linked to the NAV, premiums and discounts are to be expected
  - Tried and tested discount control mechanisms are available



# Governance and Oversight

A fully independent board of directors



- The listed CEIC's independent board acts on behalf of shareholders to ensure the company's impact investing mission, as built into the prospectus, is immune to mission drift.
- The CEIC's investment adviser does not control the company and must provide services in line with the investment advisory agreement and prospectus.
- The CEIC can be registered and domiciled in the same country in which it is listed. Onshore, transparent, cost effective.
- Financial regulations, listing authority, and stock exchange rules apply. Individual investors are protected by multiple layers of regulation

# The Toolkit

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What's required and where to start

# The Toolkit

## A summary of the components

### **How it comes together**

The creation of a CEIC, from inception to listing requires considerable collaboration between its various stakeholders and service providers. As a first step it is crucial that CEIC's promoter has a firm grasp on all elements of the structuring project – this is the role that Eighteen East has played in the development of Impact PLC. This toolkit will provide potential promoters with a detailed list of required stakeholders and a step-by-step guide to managing the project.

### **The stakeholders**

Key stakeholders include a deal sponsor, independent board members, a full suite of service providers, and a source of funding to cover the structuring and launch costs. Of the service providers the investment adviser is the most crucial. It is based on their capabilities and track record that the CEIC will primarily be evaluated by investors and the broader market, and it will be through their services that returns and impact will primarily be derived.

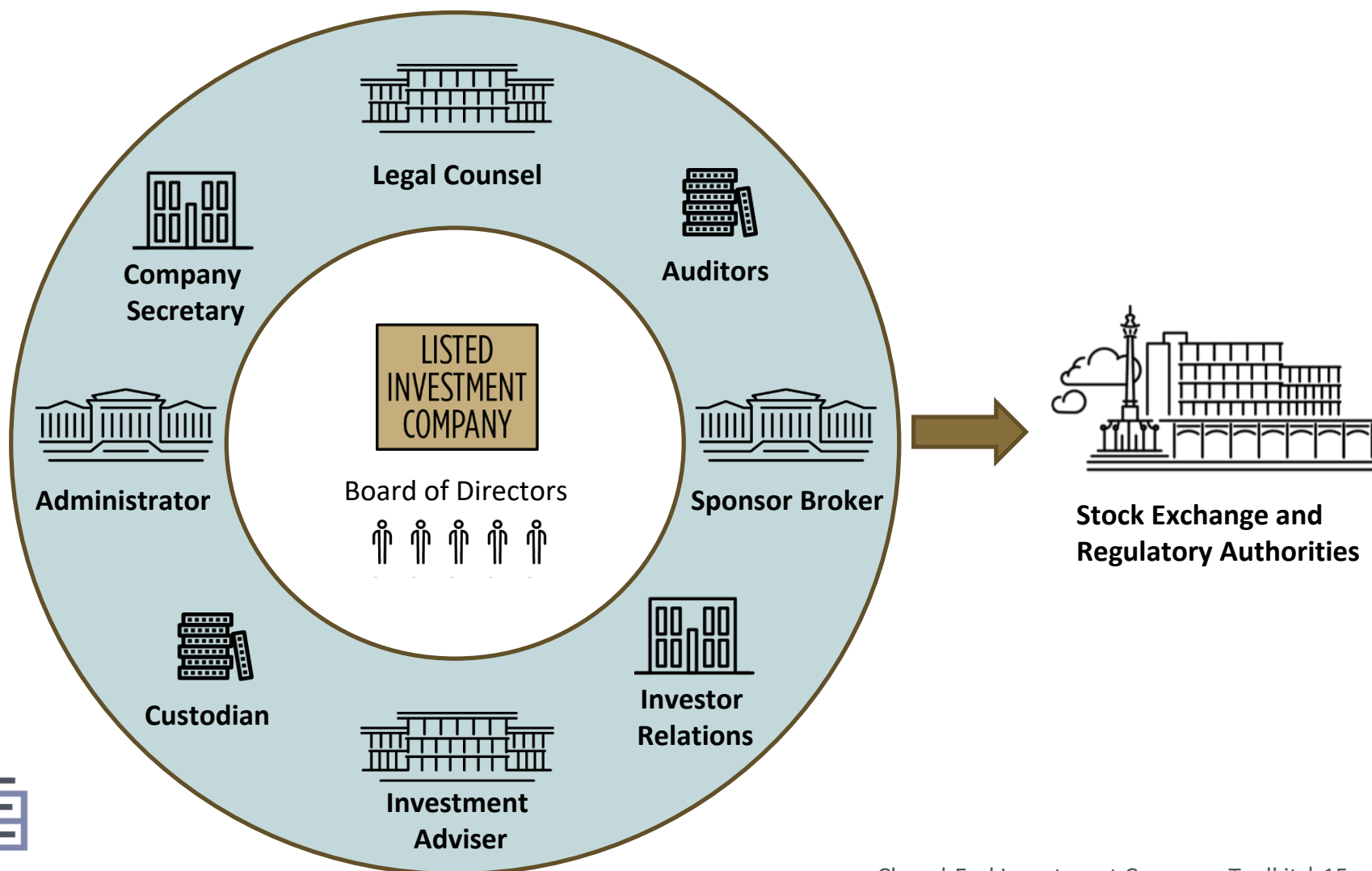
### **Five steps to market**

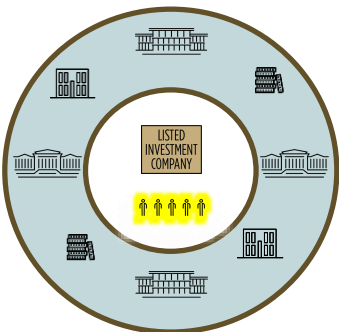
The structuring and launch of a CEIC follows a logical progression of overlapping activities. These five major steps to launch are outlined in detail below and provide a roadmap to launch, highlighting roles and responsibilities, costs, and opportunities and risks to be aware of.



# Ingredients List

## Multi-stakeholder structure





# Board of Directors

## The Head

The role of the CEIC's board is to ensure that the shareholders' rights are protected and that the company carries out its activities in line with the prospectus; this includes adherence to the impact mission.

### Responsibilities

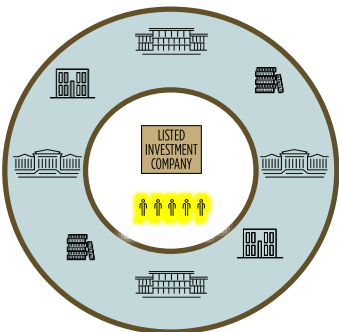
#### *Pre-IPO:*

- Approving the creation of the CEIC and admission to the stock exchange.
- Engagement with various service providers to understand roles and responsibilities, as the board will delegate most of its operational and investment management functions to third party service providers

#### *Post-IPO:*

- Focussing on delivering the highest level of governance, acting on behalf of shareholders to ensure the company fulfils its investment mandate, and ensuring the investment adviser follows the impact mandate and the investment restrictions defined in the investment advisory agreement.
- Has ultimate responsibility for approving all investments for the portfolio, incorporating the advice given by the investment adviser.
- Evaluating impact measurement and reporting to shareholders.
- Managing the liquidity and issuance of stock in conjunction with the broker. This can for example incorporate discount control through buying back shares, or deciding to proceed with a secondary offering of shares.
- Conducting Board meetings, either annual or extraordinary meetings as required by regulators.
- Managing cash flows within the company, be it where the CEIC may borrow for short-term bridge financing purposes, for the purpose of satisfying capital calls.





# Board of Directors

## The Head

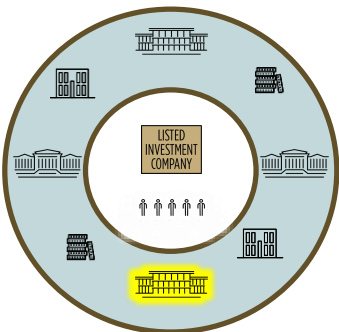
### Requirements

- A high profile independent chairman, preferably with solid prominent impact investing credentials and experience of public, listed companies' boards will enhance investors' confidence.
- Independent board members with highly relevant impact investing credentials and independent directorship experience.
- Independent board members with relevant CEIC trading and financial markets experience.
- At least one independent board members with audit committee experience.

***Note:*** It is typically the role of the promoter, in conjunction with the sponsoring broker, to identify, undertake due diligence, and appoint the company's board. A typical CEIC board should comprise of approximately five directors with a balance of skills and expertise.

### Remuneration

- Independent board members' remuneration should not be linked to the size and economics of the CEIC, ensuring their governance oversight responsibilities are not conflicted.
- Each director is paid a modest fixed annual salary.
- The chairman and chairs of key committees could receive small premiums to account for additional workload.



# Investment Adviser

## The Legs

The investment adviser is the most important service provider. They will source investments, carry out due diligence on behalf of the board, manage investee relationships, and help manage and monitor the CEIC's portfolio.

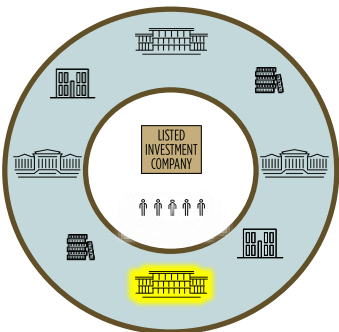
### Responsibilities

#### *Pre-IPO:*

- Conducting test marketing meetings.
- Determination of impact and investment strategies in conjunction with the board and deal sponsor.

#### *Post-IPO:*

- The CEIC will enter into an investment advisory agreement with the investment adviser, giving it a detailed impact investing mandate and leading to the construction of a bespoke portfolio.
- The investment adviser's responsibilities will include managing relationships with and conducting due diligence on potential underlying impact investing managers, and facilitating the investment company's investments.
- The investment adviser will issue the board with an in-depth quarterly report on the company's investments.
- The investment adviser will also work with the investor relations adviser to publish a quarterly letter to shareholders and the annual impact report.
- The investment adviser will also be required to manage the CEIC's cash position and investment and reinvestment cycle.



# Investment Adviser

## The Legs

### Requirements

- Lengthy track record of investments in executing similar mandates to the CEIC's.
- Institutional level of assets under management, and a proven ability to deploy meaningful amounts of capital and reinvest proceeds.
- Experience in working within similar governance structures, i.e. reporting to an independent board of directors.
- Specific impact reporting resources including the proven ability to work with investees to accurately capture and report impact both quantitatively and through case studies.

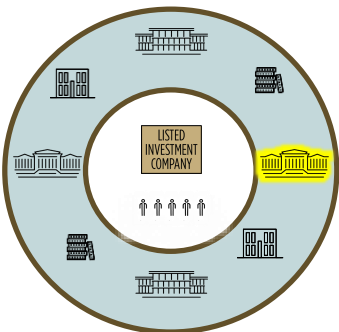
***Note: Of all the service providers, investors will pay the closest attention to the investment adviser. Given that private banks in particular require long track records, it is therefore crucial to retain the services of an adviser with strong experience and capacity in executing similar mandates to the CEIC's. A good example, in the context of a developing countries mandate, would be the investment manager of a DFI.***

### Remuneration

- Fixed annual investment advisory fee as a percentage of the CEIC's NAV. Fee level will depend on the investment strategy and required capacity.
- Performance fees are heavily scrutinised by investors and should only be considered if it can be clearly shown that the investment adviser has the clear ability to add value to returns.

### Sample documentation

- See "Sample Investment Advisory Agreement" for insight into the necessary contractual elements to be covered by an agreement between the CEIC and the investment adviser.



# Sponsor and Broker

## The Money Guys

The sponsor and broker roles are typically carried out by the same institution. The sponsor role is to assess the CEIC's suitability for listing, while the broker function includes the placing of shares.

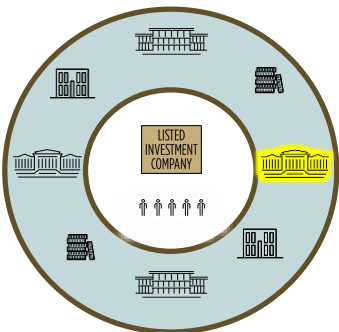
### Responsibilities

#### *Pre-IPO:*

- The broker acts as the sponsor and placing agent during the company's listing process and CEIC creation
- The broker is responsible for conducting test marketing, compiling marketing material and planning a road show. The promoter and the investment adviser typically assist the broker in identifying potential investors and provide support during the road show.
- The broker also completes the fundraising process by making all necessary submissions and required announcements with respect to intention to float, publication of the prospectus, results of the issue, admission and directors dealings.

#### *Post-IPO:*

- The broker manages the relationship between the CEIC and the stock exchange and regulatory authorities.
- It also advises the company's board on market movements and how to manage the company's share price (i.e. through share buy backs, discount control mechanisms, secondary share issues etc...).
- It is expected, in conjunction with other brokers, to make a market in the CEIC's shares and be responsible for being the primary market maker in the stock of the company after listing.
- The broker is responsible for delivering ongoing roadshows in conjunction with the investor relations adviser.



# Sponsor and Broker

## The Money Guys

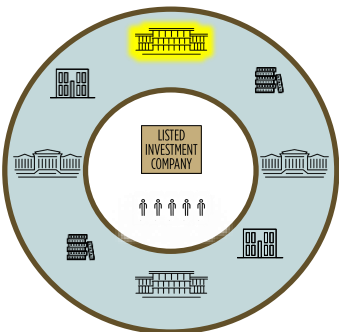
### Requirements

- A dedicated investment companies sales team with strong connections to target investors and the capacity to handle a large number of investor meetings in the pre-IPO fundraising period.
- Strong corporate broking functionality; this includes resources to produce marketing material, interact efficiently with regulatory bodies, and a good working relationship with the legal counsel.
- A healthy balance sheet to provide investors with comfort that they will be able to support secondary market liquidity.
- A strong brand to provide the CEIC's IPO with added credibility.

***Note:*** While most brokers will have the ability to ensure that the necessary corporate finance work is carried out efficiently, it is essential to the success of a CEIC IPO that the brokers' sales credentials are well established. Specifically in the case of an impact investing CEIC a broker must have the ability to market to a wider range of investors than might be necessary for a traditional CEIC.

### Remuneration

- The broker's corporate finance fee is generally charged on a success basis. The sponsoring broker will also expect their legal counsel's costs to be covered, subject to an abort fee.
- The placing fee for monies raised should also be on success and will be in the region of 1.5%.



# Legal counsel

## The Voice of Reason

The legal counsel's guidance on regulatory and compliance elements is crucial in the pre-IPO structuring phase. This includes drawing up the prospectus and the various contractual documents.

### Responsibilities

#### *Pre-IPO:*

- The legal counsel will formalise the relationships with all service providers through the provision of engagement letters and material contracts.
- Along with the sponsoring broker they will draft, submit and publish the company's prospectus. This includes liaising with sponsoring broker's separate legal adviser.

#### *Post-IPO:*

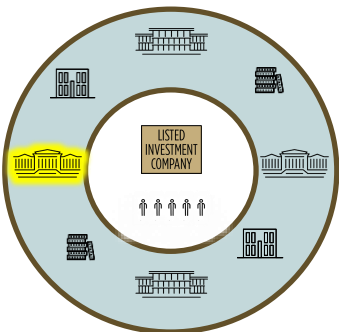
- The legal counsel will advise the board with regards to its tax, regulatory and legal compliance duties on an ongoing basis.

### Requirements

- In depth understanding of, and experience in advising CEIC listings.
- Good working relationships with the various service providers and regulatory bodies.

### Remuneration

- Legal counsel will generally work for a fixed fee with a maximum abort amount should the IPO be unsuccessful.
- It is possible to negotiate a proportional success fee associated with a lower fixed fee.



# Administrator

## The Number Crunchers

The administrator's primary function is to calculate the CEIC's NAV on a quarterly basis.

### Responsibilities

#### ***Pre-IPO:***

- Manage a timely set up process to ensure smooth transition post-IPO.

#### ***Post-IPO:***

- The administrator is responsible for fund accounting and maintenance of the CEIC's accounting records. This includes the preparation of management accounts for quarterly board meetings, and the preparation of semi-annual and annual unaudited and audited accounts.
- Calculating the NAV for the CEIC on a monthly basis; this includes the unaudited estimated NAV of the company and the unaudited estimated NAV per ordinary share on a monthly basis.
- Treasury services including the settling of investment activity and the payment of the CEIC's expenses.

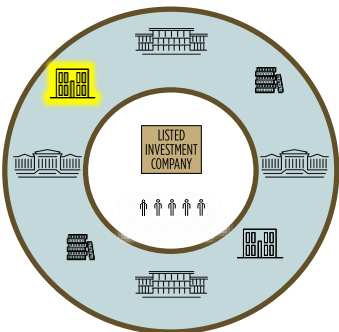
### Requirements

- Strong experience in providing administrator services to other CEICs investing in similar asset classes.

***Note: Efficiencies can be created if the administration and company secretary services are undertaken by the same institution.***

### Remuneration

- The Administrator is generally entitled to receive a fixed annual fee and/or a basis points consideration subject to a minimum.
- Certain variable and additional activity fees such as tax advice and desktop publishing may also apply.



# Company Secretary

## Keeping it Together

The company secretary maintains the corporate calendar and provides the official record of board meetings and decisions taken by the CEIC.

### Responsibilities

#### *Pre-IPO:*

- Incorporation of the CEIC as a public company.
- Arrangement of board meetings for year one and establishing board papers procedures
- Advice on establishing board and committee governance structures and processes.
- Liaising with other providers in connection with IPO process, including the preparation of template board minutes and resolutions and review of IPO documentation.

#### *Post-IPO:*

- Maintenance of the corporate calendar, including reporting deadlines and coordination of quarterly board and committee meetings.
- Attending Board and Committee meetings in a minute taking / advisory capacity.

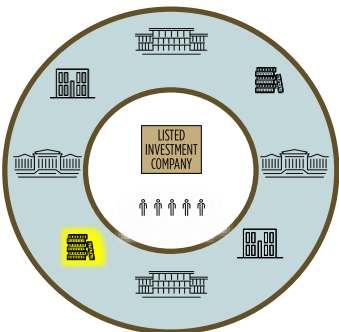
### Requirements

- Strong experience in providing administrator services to other, similarly structured CEICs.

### Remuneration

- The company secretary is generally entitled to receive a fixed annual fee.





# Custodian and Depository

## The Bank

The custodian bank is responsible for the safekeeping of the CEIC's assets. Where the CEIC falls under the full AIFMD regime, the bank is required to play the compliance driven depository role.

### Responsibilities

#### ***Pre-IPO:***

- Managing a timely set up process to ensure smooth transition post-IPO.

#### ***Post-IPO:***

- The depository's duties include the monitoring of the company's cash flows, and the verification of the ownership of its assets.
- The depository can act as global custodian and delegate the safekeeping of the assets of the CEIC.

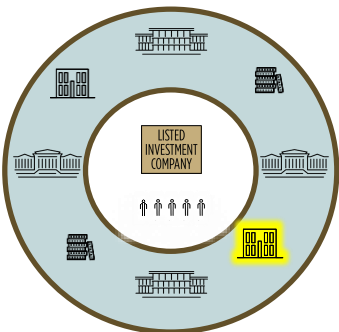
### Requirements

- Strong experience in providing custody services to other CEICs investing in similar asset classes.

***Note: Investors will more favourably view the CEIC if a large multinational bank provides these services.***

### Remuneration

- A depository fee is typically calculated as an annual percentage of NAV. Minimum fees may apply for smaller CEICs.
- In the event that the custodian also fulfils the depository function an additional fee will also apply, dependant on NAV.



# Investor Relations

## Reporting and Liaising

Reporting on the activities of an impact investing CEIC to the broader public is essential. This is the responsibility of the investor relations service provider.

### Responsibilities

#### *Pre-IPO:*

- Working with the deal sponsor and broker to ensure that the CEIC has maximum investor exposure through the pre-IPO fundraising window.

#### *Post-IPO:*

- Maintaining the CEIC 's website and contributing to and reviewing all investor communications.
- Impact reporting based on inputs provided by the investment adviser.
- Participating in new investor road shows in cooperation with the corporate broker.

### Requirements

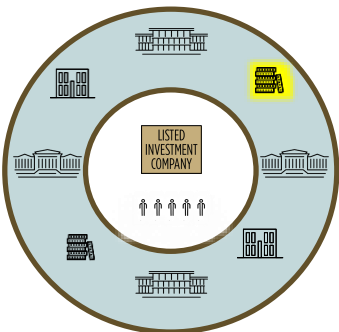
- An understanding of and the ability to communicate the impact message effectively.
- Experience in working with listed CEICs, and a deep knowledge of the investor base.

### Remuneration

- Depending on the level of responsibility undertaken by the investor relations provider a fixed fee or a calculated percentage of NAV may apply.

### Sample documentation

- See “Sample Investor Relations Advisory Agreement” for insight into the necessary contractual elements to be covered by an agreement between the CEIC and the investment adviser.



# Reporting Accountants and Auditors

## Well, the Auditors

The reporting accountant and auditor functions are typically carried out by the same firm. The reporting accountant role is forward looking and ensures investors that the CEIC's financial projections are sound.

### Responsibilities

#### *Pre-IPO:*

- The reporting accountant is responsible for confirming that the CEIC has will have sufficient initial working capital post-IPO.
- Confirming that the CEIC has established procedures that enable the board to make proper judgments as to the financial position and prospects on an ongoing basis.

#### *Post-IPO:*

- Conducting an audit of the investment company's accounts.

### Requirements

- A firm with experience and credentials in the impact space, preferably with a strong brand.

### Remuneration

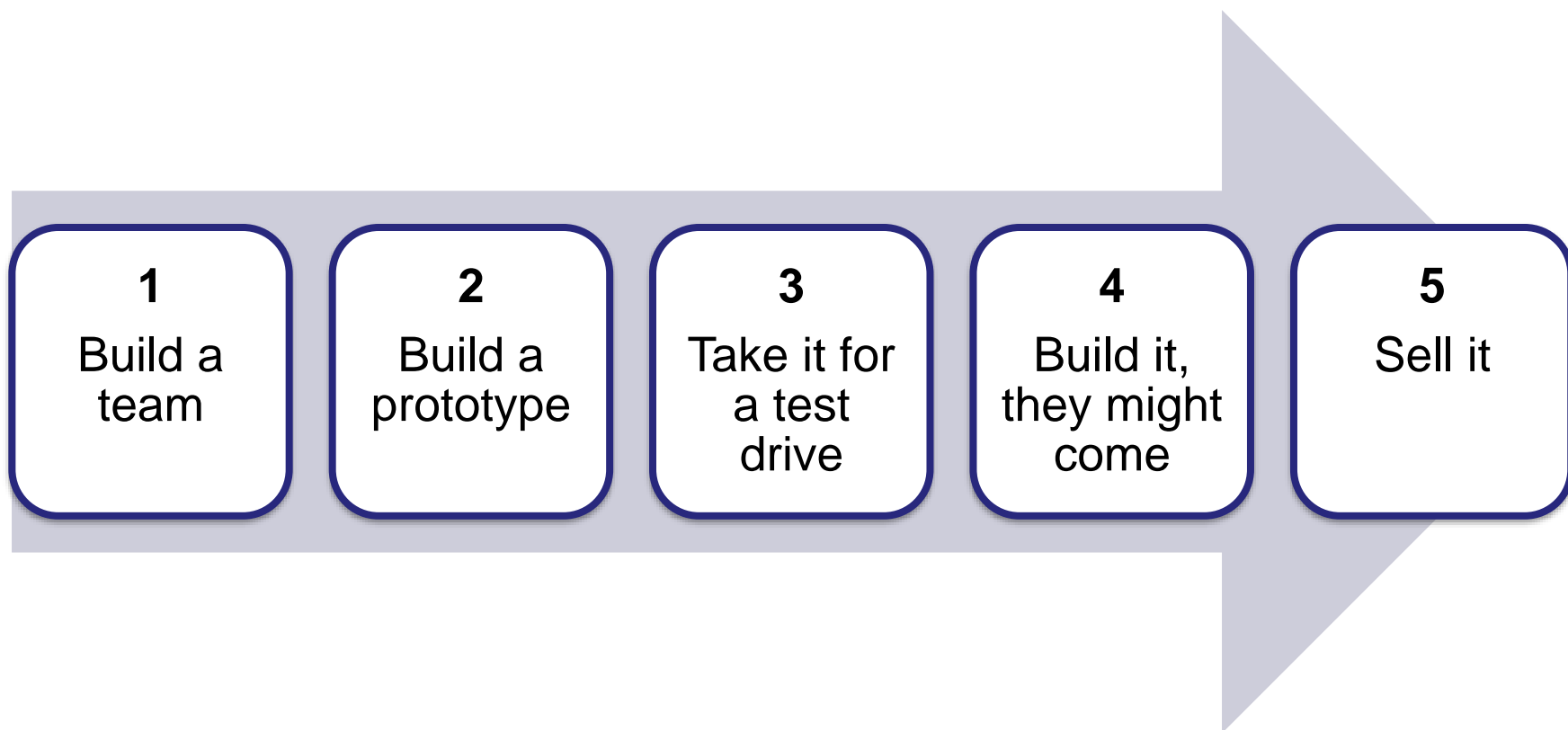
- Reporting accountant and audit fees are typically fixed amounts that are dependent on a CEIC's proposed activities and complexity.
- A once-off pre-IPO fee to be expected for reporting accountant services.
- Annual audit fees vary according to the CEIC's size and strategy.

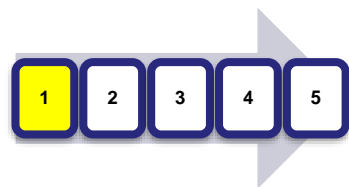
# The Toolkit

Steps to follow

# Five steps to Market

There are no shortcuts





# Step 1 – Build a Team

With the right mix of skills and experience

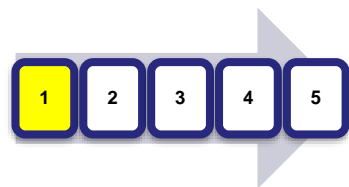
## Purpose:

- A promoter is necessary to drive the structuring process, retain the services of the necessary providers, and undertake due diligence on and appoint board members.
- A CEIC promoter should ideally be independent of the investment adviser, as this creates a strong additional layer of governance in facilitating the implementation of a truly independent board.
- The creation of an impact investing CEIC requires a diverse set of skills and experience on the part of the promoter.
- As they will be ultimately responsible for directing all necessary elements of the structuring and launch exercise team members must have abilities across several functions.
- These include legal design and structuring, contractual negotiations, the functioning of public markets, marketing, PR, and investment sales.

***Note: Given the structuring costs involved it will be necessary for the promoter to source funding. Grant funding is useful as it avoids the creation of a direct incentive on the promoter to monetise its involvement in the CEIC structuring through some form of control of the vehicle. This is crucial in ensuring that the CEIC remains independent and best positioned to defend its impact mission.***

## Who's involved:

- A promoter organisation to direct the structuring and launch process.
- Early partner organisations, such as grant funders, and impact industry influencers whose input can be useful in conceptualising the CEIC from an early stage.



# Step 1 – Build a Team

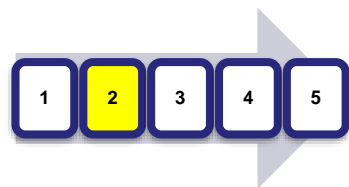
With the right mix of skills and experience

## How it works:

- This toolkit is primarily intended for potential promoters who are interested in better understanding what is required to structure and launch a CEIC.
- Such an organisation needs to consider several things at the outset, these include;
  - Who the team members will be and their abilities and time availability
  - How the project will be funded
  - What the broad impact mission and investment strategy should look like
  - Where will the CEIC be domiciled and listed
  - Where the team members will be based
  - Which organisations will be engaged to assist with conceptualisation
- The above questions must all be given due consideration before progressing to building a prototype “Step 2” and incurring costs.

**Note:** For a promoter the creation of an impact investing CEIC from inception to launch should be assumed to take 9 to 12 months and require 2 or 3 professionals working full time.

**Note:** It is possible for the investment adviser to also act as promoter, and historically this has happened in many CEIC launches on the London Market. The adviser themselves can initiate the concept and drive the structuring process, with the sponsoring broker usually taking on the additional role of project coordinator in such cases. Investors would still expect the board to be independent of the adviser. In the case of impact, given that the mandate and strategy is also defined in terms of more qualitative and non financial objectives, there is a stronger case for an independent promoter than in most other launches.



## Step 2 – Build a Prototype

It must stand up to scrutiny

### Purpose:

- It is crucial for the success of the test marketing phase “Step 3” that a clearly articulated prototype or blueprint of the intended CEIC is created.
- Given that an impact investing CEIC will be a novel concept to most investors, such a prototype is necessary to elicit meaningful feedback and must therefore be comprehensive and carefully thought through.
- A well defined prototype CEIC will provide the broader market, including potential investors and other stakeholders, with useful additional time to better understand the impact proposition.

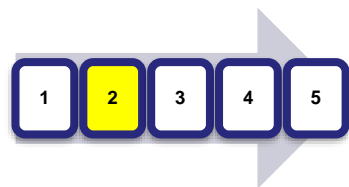
***Note: A CEIC prototype must provide potential investors with an understanding of the impact context and a firm outline of how both returns and impact will be generated, and risks will be mitigated. It should however not be so rigid that investor feedback cannot be digested and where appropriate incorporated in the final structure.***

### Who’s involved:

- Not all service providers need to be retained in order to build a prototype, but it will be necessary to partner with legal counsel to create the initial structuring documentation and with the investment adviser to formulate the impact strategy and investment mandate.
- As described in “Step 1” it is useful to engage partner organisations, such as grant funders, and impact industry influencers in defining the key features of the prototype.

***Note: The prototype’s impact strategy and investment processes will need to be clearly articulated and should be strongly supported by the investment adviser’s track record and institutional capacity.***





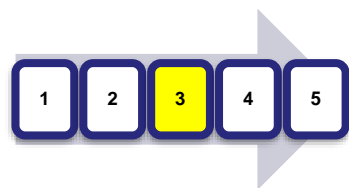
## Step 2 – Build a Prototype

It must stand up to scrutiny

### How it works:

- The promoter should have a clear initial vision for the nature of the CEIC and the particular problem it seeks to address. In this regard listed CEIC's are particularly useful in providing individual investors with access to alternative, illiquid asset classes such as private equity, real estate, and renewable energy; many of which can be used in impact strategies.
- The specific impact strategy and investment mandate must be developed in conjunction with key early stakeholders, and in particular the investment adviser.
- It may also be useful to get early stage feedback from potential cornerstone investors at this stage regarding any broad parameters, prior to wider sampling at the test market stage.
- Legal counsel is retained to ensure that all compliance elements are considered up front. It can also be helpful to have initial draft structuring documentation draw up to give investors clear insight into the proposed CEIC, and therefore illicit the best feedback possible.
- Consideration should be given to both launch costs and ongoing costs at this point. To this end it will be necessary to engage with all other service providers outlined in the "Ingredients List" in order to establish indicative fee levels.

**Note:** *Whilst input from a sponsor broker is not strictly necessary in developing the prototype it is important that potential brokers are engaged once a clear articulation of the prototype is available. There are two main reasons for this; firstly because brokers work on a success basis they are typically very selective when agreeing to join a CEIC launch, and secondly because of their position in the market they are well placed to provide feedback and offer suggestions regarding investor requirements and preferences.*



## Step 3 – Take it for a Test Drive

### Test the market

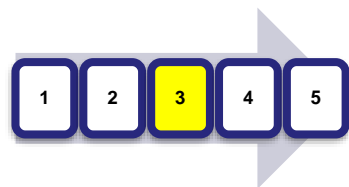
#### Purpose:

- The costs of listing a CEIC on a major stock exchange are not insignificant. With the exception of the success based broker's placing fee, these are not however in absolute terms materially higher than those associated with the launch of a Luxembourg SICAV or a limited partnership.
- The binary nature of the outcome does mean that the level of risk is higher. One can for example launch a SICAV solely with seed capital and grow the assets over a long period of time, and the first and second close cycle of limited partnerships allows for humble beginnings. For CEICs it is crucial to reach critical size at the first attempt.
- The road to IPO of a CEIC therefore invariably involves a formal test marketing phase. The idea is to gather real-life feedback from real investors, to ensure that the product's strategy and structural features elicit interest.

**Note:** *It is in the interest of investors to lend themselves to this exercise, as they should want to ensure that the marketplace continues to deliver the products they need to satisfy their clients' evolving investment needs and preferences.*

#### Who's involved:

- The sponsoring broker is responsible for organizing this set of meetings, but input from the promoter and the investment adviser can be useful in ensuring that the appropriate panel of investors will be approached for test marketing.
- The investors selected need to have a good relationship with the broker or one of the other parties to ensure that the feedback is honest, constructive and can be used as a basis for decision making.
- The panel needs to be wide enough to deliver meaningful results, but test marketing should be a brief, snapshot like exercise, and should not result in protracted ongoing marketing.



## Step 3 – Take it for a Test Drive

### Test the market

#### Who's involved cont.:

- One should aim to have a representative panel in terms of the eventual investor categories targeted (private wealth, fund managers, pension funds, etc...) as well as from a geographical standpoint.

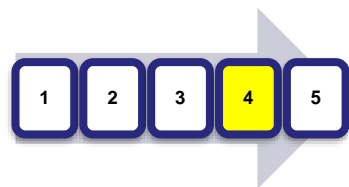
***Note: Given the niche nature of any impact strategy, it can be useful for the promoter or the investment adviser to suggest one or two investors. Focusing on easy targets would however deliver a flawed sample, and provide the basis for equally flawed decision making.***

#### How it works:

- Face to face meetings are the preferred format, as they allow for a higher quality interaction. The broker and the investment adviser need to be present.
- These meetings should be approached as real life fund raising meetings. Investors will not expect the legal documentation to be ready, but will expect all the crucial aspects of the strategy and the structure to be defined, if not irreversibly so.
- The goal is to get a concrete indication of interest and constructive criticism from investors. A half-baked plan will not allow them to provide either. As with any fund raising interaction, getting to understand the investor's requirements and preferences is key.
- The feedback, whether some is volunteered at the end of the meeting or not, needs to be collected by the broker at a later stage, and should include a purely indicative range of investment size, and whether this would take the form of a discretionary lump-sum investment or the aggregation of underlying advisory clients' orders.

***Note: Feedback is non-negotiable. Although it is perfectly natural to be protective of one's opening gambit, adapting the offering accordingly is crucial.***





## Step 4 – Build it, They Might Come

### Building the set of documents that is the CEIC

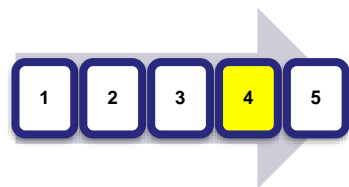
#### Purpose:

- There are a large number of documents required to structure and list a CEIC. These documents cover the CEIC's regulatory and listing authority submissions, marketing materials, service provider engagements, the functioning of the board, and accounting sign-offs.
- The full set of documents are required to (a) adhere to the high levels of regulatory oversight placed on a listed CEIC, (b) ensure all stakeholders, and investors in particular, that the company's activities will be undertaken as advertised, and (c) provide a solid foundation for the smooth operations of the CEIC post-IPO to be carried out by various services providers and overseen by the board.
- The prospectus for the CEIC is the most important document in the process – see "*Sample Prospectus*". It is the primary tool used by investors to understand the CEIC, and it describes in detail the company's governance, service provider relationships, impact strategy and investment mandate.

#### Who's involved:

- Documents are required to record and define all of the CEIC's engagements.
- Whilst the legal counsel and sponsor broker hold the pen on the important investor documents, including the prospectus, all service providers are required to either draw up or contribute to the documents underpinning their respective functions.

***Note: In total something of the order of 60-80 documents will need to be compiled. Each of these will either be compiled by or reviewed in detail by the legal counsel. It is therefore crucial to ensure when selecting a service provider for this role that they have deep knowledge and understanding of what is required, and are therefore able to guide the deal sponsor and ultimately the board through the process. This is especially true in the event that team members have limited experience in listing CEICs.***



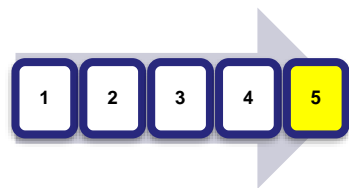
## Step 4 – Build it, They Might Come

### Building the set of documents that is the CEIC

#### How it works:

- Having worked with the legal counsel to develop the prototype the deal sponsor should already have good knowledge of the administrative work required to prepare the CEIC for its listing.
- Legal counsel can be relied upon to guide all parties, and the sponsor broker will ensure in particular that interactions with and submission to the regulatory bodies are handled.
- The structuring documents required fall into the following categories:
  - Preliminary: timetable, expense estimates, etc.
  - Marketing: Presentations and verification notes
  - Agreements: Prospectus, placing agreement, service provider contracts, etc.
  - Board: Minutes of initial and launch meetings
  - Company: Director documents, application to trade, etc.
  - Accountants: Working capital sign off, financial position and prospects procedures memo, etc.
  - Comfort letters: Provided by various service providers to the sponsor broker
  - Miscellaneous: Announcements, regulatory submissions, share certificate, etc.
- Once all of the necessary documents are in place the CEIC will be in a position to list, provided that sufficient capital is raised as escribed in “Step 5”.

**Note:** *The compilation of the full document pack requires significant work and coordination. The promoter should not rely entirely on the legal counsel and sponsoring broker to ensure that all necessary elements of the transaction are accounted for in their entirety. The promoter should independently seek to understand what each service provider will cover at the outset so as to avoid necessary work elements slipping through the cracks and resulting in unanticipated costs coming through later in the process.*



# Step 5 – Sell it

## Fund raising for an LSE-listed CEIC

### Purpose:

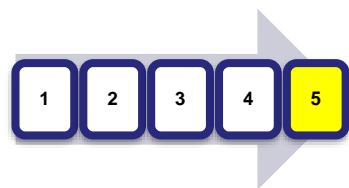
- The capital formation is a crucial stage of the life of a CEIC. The secondary market on which the model is based is a function of both the size and the diversity of the shareholder base at the IPO stage.
- The fund raising process is far more focused and time constrained than is the case for OEICs and LPs. This means that investors have a lot less time to conduct due diligence and approve an investment. This is an accepted fact in markets, like the United Kingdom, where CEICs are an established feature of the investment landscape.
- Because it is necessary to raise a critical mass of assets from a diversified client base, CEIC IPO road shows are typically much wider exercises than other fund raising processes.

**Note:** *The fund raising road show is a very resource intensive process. Key investment personnel must be made available at short notice for the duration of the exercise*

### Who's involved:

- The sponsoring broker is responsible for building up the road show and acting as liaison with prospective investors.
- Key investment professionals must attend every meeting. Investors are not satisfied with meeting only sales personnel in addition to the broker.
- It can be useful to involve top management from the investment adviser.
- Resources at the investment adviser must be earmarked to provide information on a timely basis.
- Board members are typically not directly involved in the fund raising process.

**Note:** *Because of the short fund raising cycle, the quality of the interaction during meetings is key. Carefully select the top presenters amongst the investment adviser team to make sure the message gets across.*



# Step 5 – Sell it

## Fund raising for an LSE-listed CEIC

### How it works:

- The process can start with a long ‘pre-marketing period’ to confirm market appetite ahead of the publication of the prospectus and the announcement of the intention to list, which signals the start, and defines the end, of the official fund raising window.
- Once again, face to face meetings are key. Conference calls are a very distant second best.
- Meetings are typically an hour long. The presentation material should be covered in 30 minutes to allow ample time for interaction and Q & A.
- Two, three, sometimes four meetings are sometimes necessary, in quick succession. Where possible it is useful to rotate personnel to demonstrate depth.
- The broker is there to address any questions around the structure, focus on the investment thesis.
- Impact investing is ill-defined at the best of times, and an unknown quantity for many traditional investors, use concrete investment examples to make sure they understand the strategy.
- It is easy to allow the conversation with potential investors to end at the end of the meeting. Make sure that the broker follows up regularly, and do so directly to build the relationship.
- The broker is responsible for collecting orders from each potential investor before the book closes on the date mentioned in the prospectus, a few days before the planned IPO. It is a good idea for the deal sponsor and/or the investment adviser to keep a parallel book to ensure no one is forgotten.

***Note: It is not always possible to gauge investor interest based on how pleasant the meetings were. Difficult questions are a feature of genuine interest, whilst compliments and well wishes, particularly in the context of impact investing, can be a cause for worry. Every potential investor has to be told very clearly that the wait and see strategy, consisting of waiting for the IPO to take place and buying in the secondary market, is wrong. If the CEIC is of interest to them, they need to help deliver a sizeable, liquid vehicle. This is a very difficult point to make, as many investors do not see it as their responsibility to help with capital formation. Sadly, the impact investing space is no exception.***



## Step 5 – Sell it

### Fund raising for an LSE-listed CEIC

#### Which investors to target:

- Attracting the correct mix of investors is crucial to the success of a CEIC post-launch.
- For a new theme such as impact investing it is crucial that an institutional cornerstone investor commits early on in the process to act as a credibility signal to the broader investor market.
- Such an investor needn't commit to more than 10 or 15% of the total raise.
- Ideal cornerstone investors for an impact investing CEIC are foundations, DFIs, and other large institutions that are supportive of the sector.
- Private banks, private wealth managers, and retail investor platforms are the most important investors in a CEIC, as they act as gatekeepers to large numbers of individual investors.
- These gatekeepers are naturally risk averse when introducing new products and themes to their clients, it is therefore important to build a high quality CEIC including an investment adviser with a long track record.
- It is the presence of a large and diverse contingent of individual investors, each making investment decisions for different reasons at different times, that drives the secondary market liquidity of a CEIC.
- Clearly identifying the product as impact investing is crucial to avoid being compared against the wrong peer group.

***Note: Institutional investors in the impact sector must be convinced of the catalytic potential of their investment into a CEIC. They do not need the CEIC structure to gain exposure to impact investing as they can easily do so through the LP route. An inherent challenge in designing a CEIC with a diversified offering is that it is unlikely to speak to the specific interests or impact themes of many philanthropic and development institutions.***





## Step 5 – Sell it

### Fund raising for an LSE-listed CEIC

#### Multi-jurisdiction marketing:

- LSE listed CEICs can be marketed to all categories of investors in the United Kingdom, through a placing, a public offer and/or an intermediaries offer.
- Theoretically, such an IPO can be ‘passported’ to other European Union jurisdictions. Local regulators in various countries have however erected barriers to entry. In many cases, only sophisticated investors can therefore be marketed to, depending on the level of compliance to the EU’s AIFMD.
- e.g. in Belgium, small AIFMs structured as CEICs can only be offered to the public if they fall within the very limited scope of strategies already approved by the Belgian regulator
- It is possible to market the shares of LSE listed CEICs to other jurisdictions, including the United States of America , but the legal costs associated can be daunting.

***Note: The United Kingdom has a long tradition of investing through CEICs, and the London Stock Exchange’s use of market makers is helpful for the provision of systemic liquidity. Exchange listed closed end investment companies do however exist in other markets (USA, Switzerland, Australia, South Africa, etc...). The structure as described in this toolkit can be adapted to local market requirements.***

# Example Documentation

## This is what it looks like

### **Template transaction documentation**

The following example legal structuring documentation is available to be read in conjunction with this toolkit. These documents have been referenced at certain points in the toolkit and provide a granular breakdown of the important technical elements of the major legal documents that underpin a CEIC. The example documents are meant to provide additional insight only, and should in no way be used as templates for the creation of a new CEIC.

### ***Model CEIC structuring documentation***

- Sample Prospectus
- Sample Investment Advisory Agreement
- Sample Investor Relations Advisory Agreement



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