

# Morgan Lewis

## **IMPACT INVESTING DESKBOOK SERIES**

### **Responsible Exits in Impact Investing**

A fund manager may spend years building a mission-driven or socially responsible portfolio company, only to see its mission or culture of social responsibility eroded or abandoned upon the fund's exit from the company. The fund manager may have backed a community lender because it expands access to fair credit for small businesses and mom-and-pop borrowers, a renewable energy platform because it brings cleaner power to underserved communities, or a health care business because it lowers barriers to care. In each case, the exit can determine whether the impact thesis is reinforced by a buyer that understands and supports the mission, or weakened if the new owner changes pricing, the customer base, underwriting, branch locations, employment practices, or other core operating choices. Put differently, a buyer may continue to generate attractive returns, but do so in a way that may redirect value away from the people and places the investment was intended to serve.

As impact investing continues to mature, fund sponsors and investors are increasingly focused not only on how capital is deployed, but also on what happens when that capital is returned. Responsible exit planning therefore asks not only who pays the best price, but how the next owner is likely to earn its return and whether the original impact thesis can survive the transfer of control. An investor that carefully diligences a mission-driven company, negotiates impact covenants, and reports on impact metrics during the life of the investment may still undermine the intended impact if the exit results in mission drift, loss of stakeholder protections, or a buyer that is not aligned with the original mission.

#### **What Are Responsible Exits?**

In traditional private investments, exit planning generally focuses on liquidity, valuation, timing, and the availability of strategic or financial buyers. Those considerations remain relevant in impact investing, but responsible exits add an additional question: whether the exit will preserve, impair, or accelerate the impact thesis that justified the investment in the first place.

A “responsible exit” refers to the process by which an impact investor exits an investment in a manner designed to preserve, or at least avoid undermining, the social or environmental impact that the investment was intended to create. In practice, responsible exits require investors to consider the timing, structure, buyer, governance protections, stakeholder effects, and post-closing sustainability of their impact. Responsible exits are a way to ensure that liquidation of an impact investment remains accountable to the communities being served and intentional about continuing positive societal impact. The Global Impact Investing Network similarly emphasizes that impact

does not necessarily end when an investor exits, and that investors can take steps throughout the investment lifecycle to improve the likelihood that impact continues after their exit.<sup>1</sup>

Responsible exit principles, however, are not a guarantee that the originally intended impact will continue indefinitely. Nor do these principles mean that an impact investor may never sell to a traditional buyer, accept market pricing, or exit when fund life or liquidity needs require it. Rather, they provide a framework for evaluating the consequences of an exit and taking reasonable steps, where available, to protect the mission of the business and the communities, customers, employees, or other stakeholders that benefit from it.

### **Structural Options for Responsible Exits**

Responsible exits are most effective when planned before an exit is imminent. Responsible exit planning should be treated as a lifecycle exercise, beginning pre-investment and continuing through the time of investment, investment management, exit, and, in some cases, post-exit. In practice, this means considering responsible exit opportunities at each stage, including through:

1. Pre-investment planning. An investor can increase the likelihood of a responsible exit by investing in businesses whose impact is integral to the business model. Where impact is embedded in the company's revenue model, customer base, products, or operating strategy, the future buyer may have stronger incentives to preserve that impact because it is tied to the value of the business itself. Investors should also consider the company's likely growth trajectory, capital needs, and potential exit paths before investing. A business that will likely require a strategic acquirer, for example, may present different responsible exit considerations than a business that can grow through founder ownership, debt financing, or long-term cash flow. For example, if a company's impact depends on serving a lower-margin customer base, investors may need to consider from the outset whether likely acquirers will view that customer base as core to the business or as a cost to be rationalized.
2. Investment structure. The investment structure may affect responsible exit outcomes. Private equity and venture investments often create pressure to exit within a defined fund life, while debt or revenue-based instruments may allow investors to receive repayment without forcing a sale of the company. Convertible instruments, structured repayment rights, and self-liquidating features may provide flexibility, particularly where a premature sale could jeopardize mission continuity.
3. Governance and mission protections. Investors may seek to preserve the company's mission through governance rights, protective provisions, shareholder agreements, impact covenants, reporting obligations, consent rights, or founder veto rights over matters that could materially alter the company's impact strategy. In some cases, legal structures or certifications—such as public benefit corporations or B Corp certification—may also support mission alignment by requiring or signaling consideration of broader stakeholder interests. While these tools are not foolproof, they can help formalize expectations among founders, investors, and future buyers.

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<sup>1</sup> Global Impact Investing Network, *Lasting Impact: The Need for Responsible Exits*, GIIN Issue Brief (July 2018).

4. Buyer selection. At the time of exit, a responsible exit analysis often focuses on whether the buyer is aligned with the company's mission and capable of sustaining the impact. Relevant considerations may include the buyer's reputation, source of funds, track record, industry experience, commitment to the target's customer base or stakeholders, willingness to retain management or employees, and ability to provide capital for continued growth. For example, in a microfinance investment, the wrong buyer—such as a predatory lender—may change underwriting practices, increase pricing, reduce consumer protections, or shift the institution away from underserved borrowers. This example illustrates that buyer selection is not only a valuation question, but it can be central to whether the impact created during the investment period survives after exit.
5. Timing. Timing may be as important as buyer selection. An exit may be responsible where the investment has achieved its intended impact, the company needs a new capital provider to scale, or the investor's role has been completed. By contrast, an exit may be more problematic if unresolved environmental, social, governance, or customer protection issues remain, or if the exit would remove the investor's leverage before those issues are addressed. For instance, a delayed exit may be appropriate where additional time would allow a renewable energy project to stabilize operations, document emissions reductions, or secure community benefits that could be weakened by an immediate sale.

## **Challenges and Risks**

Even with thoughtful planning, responsible exits are difficult because investors must often balance impact goals against commercial, fiduciary, legal, and practical constraints. These tensions tend to arise in several recurring ways:

1. Financial return versus impact preservation. The first tension is often between accepting the highest offer and selecting a buyer more likely to preserve the company's mission. In some cases, the most aligned buyer may not be the highest bidder; the buyer with the strongest financial offer may have the resources to scale the business, but may not share the same impact objectives. The responsible exit analysis does not automatically require an investor to sacrifice returns, but it does require the investor to understand how exit economics interact with impact outcomes.
2. Limited buyer universe. Sometimes the constraint is the market itself; there may be few buyers with the right mix of capital, industry expertise, mission alignment, and willingness to maintain the company's impact practices. This is especially true in emerging markets, specialized sectors, or mission-driven businesses serving low-income or otherwise vulnerable communities.
3. Difficulty enforcing post-closing covenants. Even where investors seek covenants requiring a buyer to maintain impact practices, these provisions can be difficult to negotiate and even harder to enforce after closing. Once the investor has sold its stake, it likely will have limited leverage, limited monitoring rights, and little practical incentive to bring litigation.

4. Co-investor constraints. Control can be another constraint. In club deals or syndicated investments, a single-impact investor may not control the exit process. Co-investors may have different return expectations, liquidity needs, or views on buyer suitability, which can limit the investor's ability to prioritize mission alignment in buyer selection.
5. Fund constraints. Separate from co-investor dynamics, closed-end fund structures can make responsible exits harder because they are built around finite investment periods, fund terms, and distribution timelines. A ten-year fund model, for example, may require a sale before the most responsible exit path is available, such as waiting for a more aligned buyer or giving the company more time to mature before a change of control. Sponsors may seek to mitigate this tension through extension rights, follow-on capacity, continuation vehicles, or evergreen fund structures, although each approach raises its own liquidity, valuation, fiduciary, and investor-expectation considerations.
6. Reputational risk. An investor that exits to a buyer perceived as inconsistent with the investment's mission may face reputational consequences with limited partners, founders, communities, regulators, and future portfolio companies, including the potential to impair future fundraising or deal sourcing.

### **Building Responsible Exit Flexibility into Fund Documents**

Because responsible exits involve judgment calls rather than bright-line rules, fund sponsors should consider addressing the topic clearly in fund disclosures and governing documents rather than leaving the analysis to the moment of exit. For example:

1. Investment strategy disclosure. A fund pursuing an impact strategy should describe the nature of the impact strategy and whether responsible exit considerations are part of the investment process. Disclosures may explain that the sponsor may consider the expected durability of impact, buyer alignment, stakeholder effects, management continuity, and the likelihood that the portfolio company's impact objectives will continue after exit.
2. Risk factors. Offering materials should also avoid suggesting that impact will necessarily continue after a sale. Appropriate risk disclosures may state that the fund may be unable to identify a mission-aligned buyer, that the highest-value exit may not be the most impact-aligned exit, that contractual protections may be unavailable or unenforceable after closing, and that market conditions, fund life, co-investor rights, fiduciary obligations, or liquidity needs may require an exit that does not fully preserve the original impact thesis.
3. Manager discretion. The limited partnership agreement or similar governing document should give the manager sufficient discretion to consider impact-related factors in investment and exit decisions, consistent with the disclosed strategy. Where the fund is marketed as an impact fund, the governing documents should align with the offering materials so that investors understand how financial return and impact considerations may be weighed.
4. Impact policies and reporting. Funds may adopt impact policies that describe how impact is diligenced, monitored, and considered at exit. Reporting may include not only impact

metrics during ownership but also qualitative discussion of exit considerations, such as buyer profile, mission alignment, expected continuity of impact, and any limitations on post-closing oversight.

5. Portfolio company documents. At the portfolio company level, responsible exit protections may include mission statements, impact covenants, reporting obligations, consent rights over mission changes, transfer restrictions, founder or investor protective provisions, redemption or put rights triggered by mission drift, or requirements that certain impact metrics be tracked. These provisions should be drafted with an understanding that overly restrictive rights may make future financings or exits more difficult, while overly aspirational provisions may have limited practical value.
6. Side letters and investor expectations. Some limited partners may seek side letter rights related to impact reporting, ESG or impact policies, or notice of material mission-related events.

## Conclusion

Responsible exits reflect a simple but important point: in impact investing, the exit is not a footnote to the impact strategy—it is part of the impact strategy. Investors cannot always control what happens after they sell, and responsible exit planning does not eliminate the commercial realities of fund life, valuation, buyer availability, or fiduciary obligations. However, investors can improve the likelihood of sustained impact by planning early, selecting appropriate instruments, embedding the mission where feasible, maintaining useful governance rights, diligencing buyers, and clearly disclosing the limits of what can be promised.

Responsible exits are therefore less about promising a perfect post-closing outcome and more about disciplined process. A fund sponsor should be able to show that it considered whether the timing, structure, buyer, and terms of exit were reasonably aligned with the fund’s impact objectives. As the impact investing market continues to grow, responsible exit practices will likely become an increasingly important part of both investment discipline and investor expectations.

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For more information on the issues discussed here, please contact your Morgan Lewis [Impact Investing](#) attorney.

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Morgan Lewis has one of the nation’s leading Impact Investing practices and is ranked Band 1 by *Chambers* in its annual rankings for Impact Investing in the United States.

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