

INFORM. INSPIRE. DEVELOP CIVIC LEADERS.

THE POLICY CIRCLE

IMPACT INVESTING





WHAT IS IMPACT INVESTING?

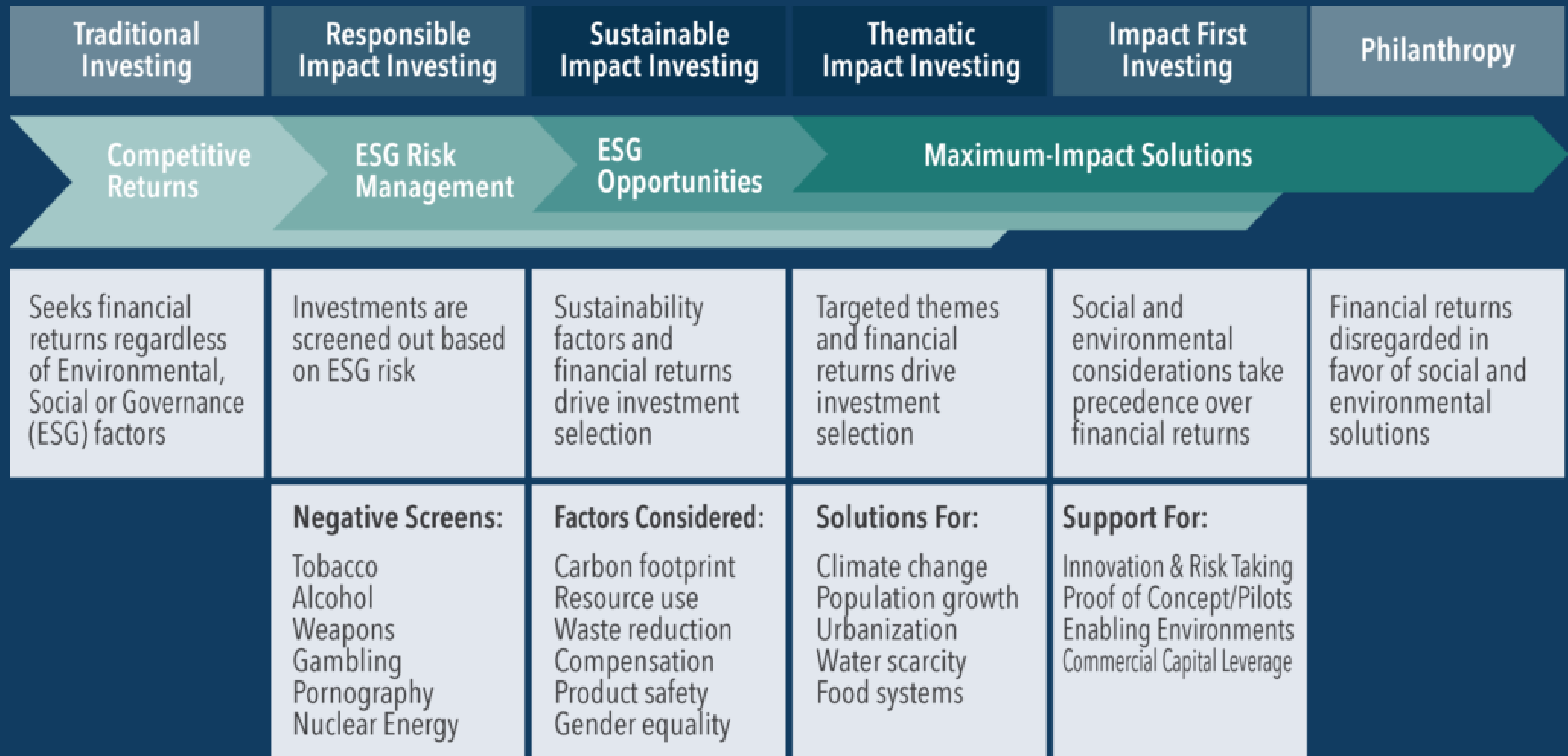


INVESTING IS THE ACT OF ALLOCATING RESOURCES, USUALLY MONEY, WITH THE EXPECTATION OF GENERATING A PROFIT. IMPACT INVESTING FOCUSES ON THE COMBINATION OF PROFITS AND SOCIAL TRANSFORMATION. THIS TYPE OF INVESTING COMBINES THE PHILANTHROPIC GOALS OF ADDRESSING A PARTICULAR SOCIAL ISSUE WITH THE EFFICIENCY AND SCALE OF MARKET-BASED ACTIVITIES.

IMPACT INVESTING CHALLENGES CONVENTIONAL ASSUMPTIONS ABOUT THE DIFFERENCE BETWEEN PHILANTHROPY AND BUSINESS ACTIVITY. SUCCESSFUL BUSINESSPEOPLE FREQUENTLY PRACTICE GIVING BACK TO THEIR COMMUNITIES, BUT THE IDEA OF SIMULTANEOUSLY ACHIEVING SOCIAL GOALS AND RETURNING A PROFIT IS NEW.

IMPACT INVESTING ALSO CHALLENGES THE IDEA THAT THE SOLE OR MAIN PURPOSE OF A BUSINESS OR INVESTMENT ASSET IS TO TURN A PROFIT. IMPACT INVESTING USES MARKET ACTIVITY AS AN EFFICIENT TOOL TO ADDRESS SOCIETAL PROBLEMS.

➤ HOW IMPACT INVESTING WORKS ◀



➤ FACTS ABOUT IMPACT INVESTING ◀

IMPACT INVESTING IS NEW TO THE FINANCIAL SECTOR, AND INVESTORS ARE LOOKING FOR MORE MARKET RESEARCH TO HELP THEM IDENTIFY HIGH-IMPACT, HIGH-RETURN INVESTMENT OPPORTUNITIES.

PRECISE ESTIMATES AND DEFINITION OF IMPACT INVESTING VARY, BUT THE WALL STREET JOURNAL ESTIMATED THAT IMPACT INVESTMENT FUNDS IN THE U.S. AMOUNT TO \$400 BILLION DOLLARS. BLOOMBERG ESTIMATED THAT AROUND \$35 TRILLION IS INVESTED IN IMPACT INVESTING WORLDWIDE.

IMPACT INVESTING HAS 3 MAIN COMPONENTS:

1. HAVING THE **INTENTION** TO MAKE POSITIVE SOCIAL OR ENVIRONMENTAL IMPACT THROUGH INVESTING;
2. GAINING **FINANCIAL RETURN** ON CAPITAL, OR AT LEAST A RETURN OF CAPITAL;
3. **MEASURING IMPACT** BY TRACKING THE SOCIAL AND ENVIRONMENTAL PERFORMANCE OF INVESTMENTS THROUGH TRANSPARENCY AND ACCOUNTABILITY METRICS AND TARGETS.

IMPACTING INVESTING IS A 3-STEP PROCESS. IMPACT FUNDERS SUCH AS PENSION FUNDS, GOVERNMENTS, AND INDIVIDUAL INVESTORS PROVIDE INITIAL FUNDING. THEN, IMPACT MANAGERS LIKE VENTURE CAPITALISTS AND BANKS PROVIDE THESE FUNDS TO THE IMPACT MAKERS, SUCH AS SOCIAL ENTERPRISES. THESE IMPACT MAKERS CONNECT THE FUNDING TO BENEFICIARIES, TAKING INTO CONSIDERATION WORKERS, CUSTOMERS, SUPPLIERS, COMMUNITIES AND THE ENVIRONMENT.

THE ROLE OF GOVERNMENT

IN 1977, CONGRESS PASSED THE COMMUNITY REINVESTMENT ACT (CRA) TO ENCOURAGE BANKS AND OTHER FINANCIAL INSTITUTIONS THAT HOLD DEPOSITS TO PROVIDE CREDIT OPPORTUNITIES TO BUSINESSES AND INVESTORS IN THE COMMUNITIES WHERE THEY OPERATE.

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND (CDFI) PROMOTES ECONOMIC DEVELOPMENT IN LOW-INCOME COMMUNITIES BY INVESTING FEDERAL DOLLARS ALONGSIDE PRIVATE CAPITAL.

GOVERNMENT CAN DIRECTLY INTERVENE IN THE MARKET AS AN INVESTOR. FOR EXAMPLE, THE CITY OF SEATTLE CREATED A REGIONAL EQUITABLE DEVELOPMENT FUND TO WORK WITH INVESTORS IN ORDER TO OFFSET THE COST OF BUILDING AFFORDABLE HOUSING, WITH A RATIO OF ONE TAXPAYER DOLLAR TO FIVE DOLLARS IN PRIVATE INVESTMENT.

THE FEDERAL GOVERNMENT CAN USE TAX POLICY TO MAKE IMPACT INVESTING MORE FINANCIALLY ATTRACTIVE, BUT THE FEDERAL GOVERNMENT LACKS THE LOCAL KNOWLEDGE NECESSARY TO FUND PROGRAMS LIKE SEATTLE'S. LOCAL AND STATE GOVERNMENTS CAN PARTNER WITH INVESTMENT CAPITAL IN A TARGETED WAY TO ADDRESS SOCIAL PROBLEMS OR INCREASED ECONOMIC OPPORTUNITY.

➤ FRAMING THE ISSUE ◀

RETURNS ON INVESTMENT

BECAUSE IMPACT INVESTING IS SUCH A NEW FIELD, RESEARCH IS STILL UNCLEAR AS TO WHETHER IMPACT INVESTMENTS ARE AS PROFITABLE AS MORE TYPICAL, PROFIT-BASED INVESTMENTS. THE DUAL GOALS OF MAKING AN IMPACT AND TURNING A PROFIT MAKE THE PROCESS OF MEASURING A SOCIAL IMPACT INVESTMENT'S SUCCESS MORE COMPLICATED THAN OTHER INVESTMENT ASSETS.

CORPORATE GOVERNANCE

ACCOUNTABILITY AND TRANSPARENCY OF THE WAY A BOARD OF DIRECTORS GOVERNS A CORPORATION IS CRUCIAL TO HELP IMPACT INVESTORS IDENTIFY POTENTIAL INVESTMENT OUTLETS. A TYPICAL CORPORATION'S BOARD OF DIRECTORS ONLY HAS A LEGAL RESPONSIBILITY TO PROVIDE A PROFIT FOR SHAREHOLDERS, BUT A B CERTIFIED CORPORATION IS ALSO REQUIRED TO TAKE SOCIAL IMPACTS OR A SPECIFIC PHILANTHROPIC MISSION INTO ACCOUNT.

STANDARDIZED METRICS

NOT ALL COMPANIES PROVIDE REGULAR REPORTS ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE INDICATORS, AND THOSE THAT DO TEND NOT PROVIDE THESE REPORTS IN A STANDARDIZED WAY. BLACKROCK CEO LARRY FUNK, WHO RUNS THE WORLD'S LARGEST ASSET MANAGEMENT FUND, HAS BEEN VOCAL ADVOCATE OF USING PRIVATE INVESTMENT TO ADDRESS CLIMATE CHANGE, AND PRESSING COMPANIES TO PROVIDE STANDARD REPORTS ON HOW THEIR BUSINESS MODEL CAN BE COMPATIBLE WITH A NET-ZERO CARBON ECONOMY.

FILLING THE GAPS IN THE ECONOMY

IMPACT INVESTING CAN COMPLEMENT CONVENTIONAL MARKET ACTIVITY BY PROVIDING ACCESS TO FOOD, HOUSING, HEALTHCARE, OR BANKING SERVICES. WOMEN ENTREPRENEURS FACE MAJOR DISADVANTAGES IN NETWORKING AND FUNDRAISING FOR THEIR BUSINESSES. INITIATIVES, LIKE THE ASHOKA'S WOMEN'S INITIATIVE FOR SOCIAL ENTREPRENEURSHIP, ARE ADDRESSING THIS PROBLEM BY PROVIDING FELLOWSHIPS FOR FEMALE SOCIAL ENTREPRENEURS.

➤ SOLUTIONS ◀

MAKE IMPACT INVESTING A MORE COMMON PORTFOLIO ITEM

A VARIETY OF INVESTORS, FROM INDIVIDUALS TO LOCAL AND STATE PENSION FUNDS, CAN MEET THEIR FINANCIAL GOALS WHILE POSITIVELY IMPACTING THEIR COMMUNITY OR STATE. THE PRIVATE SECTOR, RETAIL BANKS, AND FINANCIAL ADVISORS CAN ALL MAKE POTENTIAL IMPACT INVESTORS AWARE OF THIS GROWING FIELD

IDENTIFY INVESTMENT OUTLETS FOR CAUSES YOU ARE PASSIONATE ABOUT

COMMUNITIES ACROSS AMERICA FACE A VARIETY OF SOCIAL PROBLEMS, ENVIRONMENTAL CHALLENGES, AND SOCIAL INEQUITIES THAT CAN BE ADDRESSED BY IMPACT INVESTING. IF YOU ARE PASSIONATE ABOUT EXPANDING OPPORTUNITIES FOR WOMEN-OWNED BUSINESSES, THEN A SOCIAL IMPACT INVESTING COULD ALLOW PRIVATE INDIVIDUALS OR EMPLOYER-MATCHED EMPLOYEE CONTRIBUTIONS TO ADDRESS A SOCIAL PROBLEM IMPORTANT TO THEM.

IDENTIFY ECONOMIC GAPS WHERE LOCAL GOVERNMENT CAN COOPERATE WITH INVESTORS

WHAT GAPS IN YOUR CITY OR COMMUNITY ARE CURRENTLY UNFILLED BY MARKET-BASED ECONOMIC ACTIVITY AND GOVERNMENT SOCIAL PROGRAMS? YOUR LOCAL GOVERNMENT CAN PARTNER WITH PRIVATE INVESTORS TO EXPAND ACCESS TO HEALTHCARE, AFFORDABLE HOUSING, OR HEALTHY FOODS BY TAPPING INTO THE POTENTIAL OF IMPACT INVESTING.