



Impact Investing: Doing Well by Doing Good

When Peace Corps volunteer Sam Goldman witnessed a child being badly burned by an overturned kerosene lamp in Benin, Africa, he knew something had to be done to prevent such a frequent tragedy in impoverished parts of the world. The answer was d.light, a San Francisco, CA-based startup that provides a safe, low cost, and ecologically friendly solar lighting alternative to poor households in emerging economies.



Founded in 2006 and launched with a \$1M grant from USAID, Goldman's startup quickly expanded over the following eight years, distributing durable solar-powered lighting solutions such as lanterns for home use along with small-scale power systems for homes and businesses, to more than 30 million people living without

access to electricity in Africa, India, and beyond. Its success caught the attention of a consortium of investors, who believed in the cause and collectively raised \$11M, one of the largest funding rounds for an off-grid solar company to date. As a result, d.light has been able to significantly accelerate product development and expand its reach across the developing world, with the goal of distributing its products to 100 million people over the next five years.

This level of funding might not have been possible if it weren't for the increasing popularity of a new type of investing known as impact investing. These investors are finding new ways to fund

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a growing number of companies that seek to solve the world's most pressing problems, including climate change, poverty, and human rights.

The term "impact investing" is said to have been first coined in 2007, although the actual investing category has been growing over the past decade or so. Unlike the larger universe of socially responsible investments (SRI), impact investing goes beyond "negative screens," which weed out undesirable practices or products such as tobacco, polluting, and firearms, and instead aims to actively solve economic and societal problems.



d.light plans to distribute solar-powered lighting to 100 million people in the developing world by 2018.

Some describe impact investing as moving from an old economy—in which corporations, at best, try to be good global citizens—to forging a new economy in which companies actively build a better world. Impact investing also addresses many of the limitations of charities and other not-for-profit entities, such as a lack of reporting standards or obligations, difficulty measuring or defining impact, and inefficiency in both raising and distributing funds.

While impact investing is unusual in that investors are often willing to take lower than optimal returns—sometimes called concessionary—several studies have found that impact investing often provides equal if not

better returns than standard portfolios. A 2014 [survey](#) by the Aspen Institute found that impact investments overwhelmingly exceeded both the financial *and* social impact goals set by institutional investors.

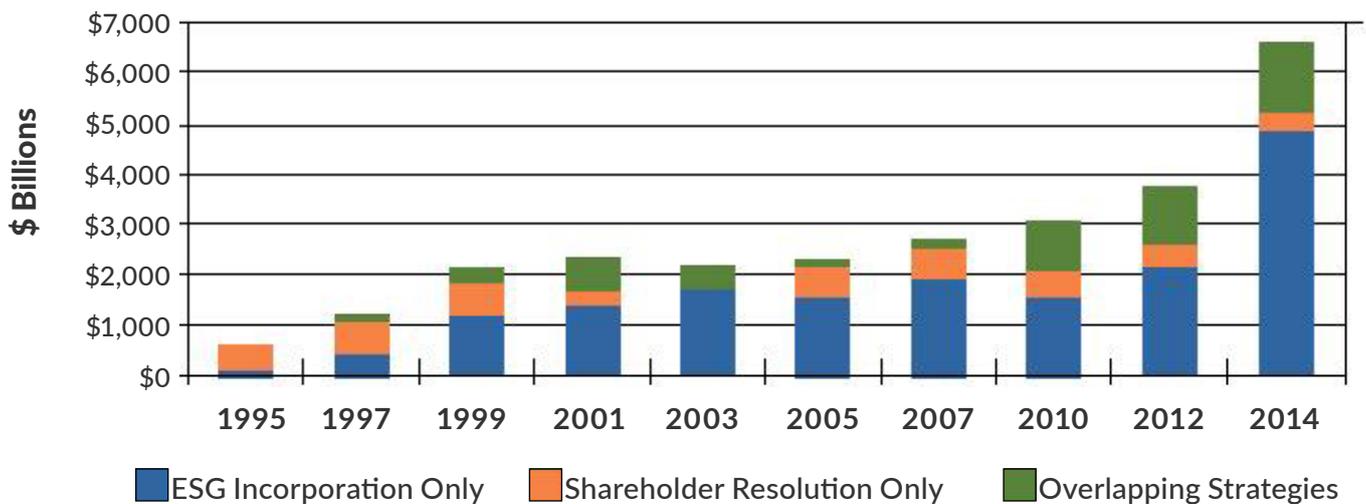
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—The Aspen Institute

Impact investing also offers investors the opportunity to become actively involved in the companies and solutions that they support, rather than simply making a donation to an associated foundation or cause.

They do this by choosing companies that are addressing issues they care about, such as environmental degradation or income inequality, and monitoring their performance along targets the investees set, using standardized metrics wherever possible.

Total Assets using “new SRI” Strategies



SOURCE: US SIF Foundation

Excitement is building around this new type of investment, driven to a large extent by Millennials —those born between the early

1980s and 2000. This generation is projected to inherit at least [\\$41T](#) in the coming years as wealth is transferred from their Baby Boomer parents and grandparents, and as such will be a formidable force in the investing world.

How we manage our money has to reflect our values and vision for a better world. As a young couple, this is part of our planning for our family’s future legacy—to set an example that wealth is a privilege to be managed for more than personal gain.”

— Ian Simmons and Liesel Prizker Simmons
Blue Haven Initiative
Source: [Impact Assets](#)

A U.S. Trust [survey](#) of investors with at least \$3M to invest found that 67% of Millennials view investing as a way to express their social, political, or environmental values, vs. only 36% of Baby Boomers. Meanwhile, the World Economic Forum [reports](#) that Millennials ranked “to improve society” as the number one priority for business.

BANKS JUMPING IN

Assets under management that incorporate sustainability investment strategies make up 10% of all investments, or approximately [\\$21.1T](#) globally, according to the Global Sustainable Investment Alliance. Some consider impact investing to be equivalent to this general category, while others focus the definition more narrowly on investments in companies that have a core mission of social responsibility. These tend to be smaller companies like d.light that are funded by such asset classes as private equity, venture capital, fixed income and cash equivalents.

However it’s defined, leading investment houses, banks and private wealth managers

are jumping on the trend in response to broad-based interest. Goldman Sachs, J.P. Morgan, Morgan Stanley, UBS, Credit Suisse, Blackrock, Merrill Lynch and many others offer impact investing portfolios.

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“If you’re unwilling to talk to a client [about impact investing], it’s highly likely someone else will,” says Raúl Pomares, Senior Managing Director with [Sonen Capital](#), a San Francisco,

CA-based investment management firm specializing in social and environmental impact.

As interest spreads, multiple organizations and services are starting to include impact investing in their offerings. Silicon Valley is also seeing a spike in startups that aim to

make a difference in society while earning returns for their investors, and the Valley is

fast becoming a vibrant center for impact investing.

MAKING A DIFFERENCE

Until now, impact investing has been largely limited to high net worth individuals, family foundations and other larger scale investors. With word catching on about the potential for this new type of investing, many are looking for ways to bring more investors on board.

Hedgeable, one of the new crop of wealth management “robo-advisor” startups, was one of the first to leap in with an impact investing option for its customers. The company, based in New York, NY, calls itself a “private bank for the underinvested,” and offers sophisticated strategies with a focus on risk management (thus the name) that were pre-

sign-up process. The program was initiated in May 2015 and, Shane Hampton, “Investing Samurai” at the company, says it has been steadily gaining traction among its customer base, mainly Millennials.

Hedgeable customizes each client’s impact investing portfolio based their stated values.

Hedgeable customizes and curates each client’s impact investing portfolio based on

how they answer a sign-up questionnaire, custom building a basket of socially responsible stocks to fit their stated values. The stocks belong to one of four categories: female leadership, clean energy, low carbon emissions, and workplace equality (for LGBT employees). Impact companies include elec-

tronic carmaker Tesla Motors, solar systems provider SolarCity, renewable energy company TerraForm Power, and Universal Display Corporation, a manufacturer of energy efficient OLED technology. Hedgeable plans to offer support for even more social causes in the future.

Hedgeable uses a variety of indices to determine the stocks for each category, including the MSCI KLD 400 Social Index and The Barclays Women in

Leadership Total Return Index, which is made up of public companies with a female CEO, or at least 25% female representation on its board of directors. (See sidebar for more information on MSCI.)

While previously this field [socially responsible investment] was dominated by a doom-and-gloom approach, primarily using negative screens, NextGens are saying we need to look at opportunities; investing, rather than divesting. This is a positive opportunity ... It’s an empowered mindset.”

— Phillippe Cousteau, 35, Founder
GlobalEcho Investment Fund

Source: Impact Assets

viously available only to clients of major Wall Street investment houses like Goldman Sachs.

Hedgeable allows investors to choose impact investing right from the start as part of its

Meanwhile, [Swell Investing](#), a Newport Beach, CA-based initiative of insurance company Pacific Life, has introduced its own approach to impact investing. Partnering with San Mateo, CA-based robo-advisor [Motif Investments](#),

Swell offers its clients the opportunity to focus investment on companies that maintain foundations working to end poverty, fight cancer, uphold human rights, and improve education.

As part of its arrangement with Motif, Swell receives royalties for bringing in new customers. For every \$1 it earns in the recruiting effort, it puts \$.20 into donations to non-profit organizations that directly support these causes.

Courting investors who want to get directly involved in smaller scale efforts that may be

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even more directly impactful, the [Calvert Foundation](#) recently launched [Vested.org](#). The site allows investors to pony up as little as \$20 for interest-bearing notes that pay up to 3% and support the foundation's

efforts in “creating affordable housing, promoting education, protecting the environment, and creating numerous other impacts.”

The brainchild of President and CEO, Jennifer Pryce, Calvert's new venture is catching on, particularly with Millennials.

A good example of Calvert's initiatives, the “Invest in India” fund supports small businesses that are making a difference. This includes Jaipur Rugs, which provides loans and other assistance to artisan rug makers, creating economic opportunities for more than 200,000 low income individuals in India, over 60% of whom are women.

SILICON VALLEY MAKES AN IMPACT

Silicon Valley, as the world's innovation center, has drawn some of the best and brightest

Tesla Motors, for example, is fast becoming the world's most recognized name in electric cars, and is challenging the auto industry to keep up. Nancy Pfund, an early Tesla backer, leads San Francisco, CA-based venture firm [DBL Investors](#), which is one of the best-kept secrets in the Valley's impact investing ecosystem.

I grew up in a family that believed people can make money and do good at the same time. Financial and social return are both important to me.”

— Anonymous, 24-year-old impact investor

Source: [Impact Assets](#)

seeking to change the world through new ideas and companies. Palo Alto, CA-based

DBL has funded online music site [Pandora Media](#), solar power company [Powerlight Corp.](#) (now part of [SunPower](#)), luxury consignment company

The [RealReal](#), which provides high quality employment in the low-income San Francisco Hunter's Point District, and other socially conscious enterprises. DBL Investors raised a \$400M fund in June 2015 to continue their journey of doing well and doing good.

Pfund, who spun the firm from a J.P. Morgan impact fund in 2008, believes that companies must show a solid business model as well as doing good in the world. The acronym DBL stands for "double bottom line."

DBL Investors requires that startups report twice a year on social goals, which they set themselves. DBL, for its part, helps the startups reach them.

Pandora has kept its headquarters in downtown Oakland, CA, even after a major expansion. This provides good jobs in a city with a significant working-class African-American population, and has helped revitalize the downtown area, now becoming a thriving tech hub supporting a host of restaurants, cafes, and other businesses. In 2006, with help from DBL, Pandora launched a program to teach music in local East Bay schools.

Across San Francisco Bay in Redwood City is [Omidyar Network](#), one of Silicon Valley's

largest impact investing powerhouses. Co-founded by [eBay](#) founder Pierre Omidyar and his wife Pam in 2004, the organization calls itself a "philanthropic investment firm." One of the first impact investing organizations in Silicon Valley, it's known for pushing the envelope by investing in companies and organizations that help the poorest of the poor.

By funding non-profits through its foundation and for-profits through its LLC, the network has thrown its weight behind

some of the most impactful companies and organizations, including [Kiva](#), [Change.org](#), and many others. It also was part of the funding group for [d.light](#), and its Managing Partner, Matthew Bannick, took a board seat in the company.

The Omidyar Network nurtures both non-profit and for-profit ventures in the same basic way —providing funding across the

entire organization and ensuring that they staff up with talented employees. The network's investments cover "five key areas that strengthen prosperous, stable, and open societies:

Consumer Internet and Mobile, Education, Financial Inclusion, Government Transparency, and Property Rights."

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Much of the glue that brings the impact investing community together is focused in the Silicon Valley region.

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the Silicon Valley region. The largest annual conference connecting impact investors and social entrepreneurs, [Social Capital Markets \(SOCAP\)](#), is held in San Francisco. Attended by over 10,000 participants, the conference is run by [Mission Hub](#), which is also behind co-working spaces for impact ventures in San Francisco, Berkeley, and cities around the U.S.

investors and galvanize support for the movement through research, recommendations, and conferences. Its name isn't an acronym, just a nod and wink to sister network the GIIN, making it "GIIN and Toniic." It also hosts [The 100%](#)



[Impact Network](#), a global peer-to-peer network of asset owners who have committed 100% of their investable assets to positive social and/or environmental investments. The community is managed by Charly Kleissner, a technology millionaire who, with his wife Lisa, funded and manages [The KL Felicitas Foundation](#), which puts 100% of its assets in early-stage social enterprises and

is actively encouraging other foundations to take the same step.

“As an economy, we’re past the point of either-or, revenues or philanthropy, making money or making good. Our economies and planetary ecosystems are now vastly intertwined.”

— Courtney Hull, 31, investor
Source: [Impact Assets](#)

[Toniic](#) based in San Francisco, is a global network for impact investors, open to accredited investors. Its role is to bring together impact

CONCLUSION

Impact investing is taking hold, particularly among Millennials, and is poised for growth. Even in its early days of ramping up, the enthusiasm of investors coupled with innovative companies and solid return in the space are auspicious signs that this trend will continue to grow.

Challenges for impact investing include a need for improved due diligence to increase the pipeline — something organizations such as Toniic are working to address — and difficulty meeting investor demands. For example, liquidity events such as IPOs and

acquisitions are more complicated and can take longer than they do for more typical commercial startups.

Even though it’s early days, there are signs this trend will continue to grow.

There is also the question of how investors should best judge socially conscious companies, as their value goes far beyond simple monetary calculation. Organizations are developing metrics to measure social impact and there is no single standard across the board. Several are being tried — for example, the GIIN has put into place Impact Reporting

and Investment Standards (IRIS), which covers a number of impact areas, including client, environmental, and employee organization metrics. IRIS has been adopted by 167 investors and companies, including leading investment banks.

Another approach has been to use a new classification for companies that are making an impact. One popular option is the “B Corp” (the “B” stands for “Benefit”), a new classification that signals a company’s commitment

to socially conscious practices. It has been granted to 1,328 companies in 41 countries around the world, including: d.light, DBL Investors, [Etsy](#), [Patagonia](#), and many others. Companies must meet rigorous standards in order to qualify.

As impact investing grows, governments worldwide are putting their support behind it, including the US, UK, Canada, India, Hong Kong, and South Africa.

Impact Investing Resources

[ImpactAssets 50](#)—List of impact investment fund managers.

[ImpactBase](#)—A searchable, online database of impact investment funds and products designed for investors.

[GIIN](#)—A non-profit dedicated to increasing the scale and effectiveness of impact investing.

[Toniic](#)—Global network of impact investors, providing education, research, conferences, and other services to drive investment in social enterprises.

[The Impact Investor Project](#)—A two-year research project to build data-driven and practitioner-guided knowledge for the rapidly growing field of impact investing.

[SOCAP](#)—Global impact investing conference, held annually in San Francisco.

[Invest With Values](#)—A directory of impact investing and forums for individual investors.

[IRIS](#)—Performance metrics used to measure the social, financial and environmental success of investments, evaluate deals and grow the credibility of impact investments (initiative of the GIIN).

[MSCI ESG Indexes](#)—The gold standard index of environmental, social and governance (ESG) investments for institutional investors (a program of Morgan Stanley Capital International).