THE IMPACT INVESTOR

Lessons in Leadership and Strategy for Collaborative Capitalism

CATHY CLARK  JED EMERSON  BEN THORNLEY

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The Impact Investor
Lessons in Leadership and Strategy for Collaborative Capitalism

CATHY CLARK is director of the CASE Initiative on Impact Investing (CASE III) and a professor at Duke University’s Fuqua School of Business. She also co-organized the Duke Social Entrepreneurship Accelerator at Duke, part of USAID’s Higher Education Solutions Network. She is a leading authority on for-profit social entrepreneurship, impact investing, and impact assessment.

JED EMERSON is senior advisor to three family offices, each of which is executing 100% impact investing and investment wealth management strategies. He is also chief strategist of ImpactAsks and a senior fellow with the Centre for Social Investment at Heidelberg University.

BEN THORNLEY is the founder and managing director of IAP Partners and a strategic advisor to REDF and Heidelberg University. He created the Impact Investing Policy Collaborative at PCV, with partners from Harvard University, and consults with CalPERS and other leading financial institutions on the social and economic impacts of over $25 billion of targeted investments.

CONCRETE LESSONS FOR IMPACT INVESTORS

The impact investor is simply a must-read for those interested in the fast-growing field of impact investing and its emergence as a new and distinct approach to asset and wealth management. The book provides a definitive and integrative guide for the seasoned entrepreneur, policy maker, investment professional, and MBA student alike.

“...This book comes at a critical juncture in the development of impact investing. A growing set of global investors are excited about impact investing yet remain uncertain about performance and how to achieve it. Fortunately we can now learn practical lessons from those in the trenches. If you are about to invest your first $100 on vested.org or place a client’s $10 million in impact products, you need to read this book.”

—Antony Bugg-Levine, CEO, Nonprofit Finance Fund, coauthor, Impact Investing: Transforming How We Make Money While Making a Difference

“The authors—all longtime leaders in the impact investing space—provide valuable insights for a new class of investors.”

—Ron D. Cordes, Executive Cochairman, AssetMark

“A ‘must-have’ for all interested in impact investing.”

—Jean Case, CEO, Case Foundation

“A must-have for all interested in impact investing.”

—Cathy Clark, Jed Emerson, Ben Thornley

“The authors of this book are all of the above and more. Their new book takes the field of impact investing from theory to proven best practices, demonstrating not only that ‘the train has left the station’ but also that the destinations along the journey are proving quite attractive for both commercially and socially focused investors.”

—Ron D. Cordes, CEO, AssetMark, A
corporate cochairman, AssetMark

“This is a significant contribution to the development of impact investing. It moves the debate from well-meaning rhetoric to the challenges faced by real managers making real investment decisions to solve real problems.”

—Nick Dimson, CEO, Big Society Capital, London

“In these times of global transformation, aligning business and investment with our goals for positive social change is not merely a matter of preference, it is an absolute necessity. The impact investor introduces us to the innovations on the front lines already making change happen in markets across the globe.”

—Barren Walsh, president, Ford Foundation

“Cathie, Jed, and Ben are leaders in the impact investing space and with this book offer an opportunity to understand the field from every vantage point — offering real examples of funds that have more than proven the theory that you can do well by doing good. In a short period of time, impact investing has transformed from a new concept to a robust sector, with investment opportunities available to every type of investor.”

—Judith Rodin, president, The Rockefeller Foundation

The Impact Investor: Lessons in Leadership and Strategy for Collaborative Capitalism is a hands-on resource that details the practices and performance of a new class of savvy investors delivering positive social and environmental outcomes alongside competitive financial returns. The book is accessible to business and financial professionals at all levels and highlights a new form of economic leadership that is more cross-sectoral, transparent, and outcomes-oriented, and in which impact investors excel.

The authors offer investors, financial advisors, corporate leaders, foundations, policymakers, and students the tools needed to engage in a generational shift to a new era of Collaborative Capitalism.

The Impact Investor reveals the types of investments that can be profitable and impactful for individuals and the strategies that will enable asset managers and clients alike to achieve the long-term financial, social, and environmental goals they desire. It also provides an unprecedented level of detail on innovative structures and approaches of impact investing funds, providing invaluable guidance for financial institutions on how to create impact investment products or include them in client portfolios.

Foundations will discover innovative ways that for-profit and nonprofit investors can partner to amplify the potential impacts of philanthropic and market-rate investments. Public sector officials and policy advocates will learn how government is harnessing the power of capital markets to pioneer innovative new solutions to social and environmental challenges. In addition, the authors include essential advice on the way businesses — and must — responding to a new generation of millennial clients and customers focused on a more sustainable form of blended value creation in all aspects of their lives.

Designed as an informative and practical resource, The Impact Investor highlights strategies for making sound impact investments, offers illustrative case studies, and presents concrete lessons that will build skills and enhance prospects for professional and organizational success.
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Foreword

When I reflect on impact investing and its prospects of growth to a size somewhere between the $100 billion of microfinance and the $3 trillion invested in private equity and venture capital worldwide, I often think back to the origins of venture capital—the starting point of my professional life.

Venture capital was a response to the needs of tech entrepreneurs, just as impact investing is a response to the needs of a new generation of social entrepreneurs who seek to make a meaningful difference in improving people’s lives.

No one had thought of creating ten-year, illiquid funds, investing in small companies with very limited track records of performance, led by young people with no business experience. The response came because people sat around a table and said, “We see the future, and we have to provide the tools for it.” When I set up what became Apax Partners in 1972, few in Europe knew what an entrepreneur was, and fewer still believed that entrepreneurs would achieve much of consequence for our daily lives. Forty years later, they have completely transformed our world.

The microchip, the PC, the mobile phone, and the Internet, with its search engines and instant access to information and people, have revolutionized the way we live. They have brought a transformation as momentous as that which followed the creation of the alphabet and the invention of printing. Entrepreneur-led companies have overtaken those that led their fields for nearly a century. IBM was overshadowed in the space of a couple of decades by a start-up named Apple, which is now the largest company in the world by market cap; Microsoft, Amazon, Google, and Oracle made
it from start-up to being among the world’s top thirty companies in just three decades.

The tech entrepreneurial revolution was driven by innovation and risk taking. It transformed the mind-set of governments about how economic growth should be achieved. In the United States, in the space of twenty-five years, it has been estimated that fifty million jobs were lost by smokestack industries, while sixty million jobs were created by new companies.

Our prospect now is to provide social entrepreneurs with the financing they require, and in this important book, Cathy Clark, Jed Emerson, and Ben Thornley provide the first detailed insight into how that financing has—and widely ought to be—provided.

However, even as the outstanding funds profiled in *The Impact Investor* work tirelessly to pioneer a new “Collaborative Capitalism,” there is much work to do building market and public policy infrastructure to help a new generation of entrepreneurs replicate their success.

**The Social Impact Investment Taskforce and the Role of Government**

Understanding this need for infrastructure and the paths to its creation has been the charge of the Social Impact Investment Taskforce, announced by UK prime minister David Cameron in June 2013 and established by the G8. By the time this book is published, this group, which I have been privileged to chair, will have just concluded its deliberations and published its report.

The Taskforce included a private and a public sector member from seven G8 countries and the European Union (EU), and observers from Australia and development finance institutions; it held hearings in different countries and created four working groups and seven National Advisory Boards to advise on the enabling infrastructure for impact investing in various local contexts. In total, the Taskforce has engaged more than two hundred of the world’s foremost experts on impact investing in responding as vigorously as possible to the social challenges we face.
The Taskforce has played a particularly valuable role, clarifying the role of government in impact investing and informing the approaches of its different member countries by sharing examples and lessons from efforts in each jurisdiction.

For the United Kingdom’s part, Bridges Ventures, which is featured in this book, provides one of the earliest examples. Bridges Ventures was created as an outcome of the UK Social Investment Task Force fourteen years ago, which I was also privileged to lead, and, after securing half of the funding for its first fund from HM Treasury, has gone on to become one of the largest impact investors in the world, with more than £400 million under management in both the United Kingdom and soon in the United States—an exemplar of what this book calls “Policy Symbiosis.”

Another piece of enabling infrastructure in the United Kingdom that is particularly powerful is Big Society Capital, an investment “wholesaler” with £600 million of equity capital to invest in social investment intermediaries, comprising £400 million that has sat unclaimed for fifteen years in bank and building society accounts, and an additional £200 million from the United Kingdom’s four largest commercial banks.

Big Society Capital has already put the United Kingdom in the lead in terms of its market structure and number of social impact investment participants. Two dozen social impact investment intermediaries of significant size exist: Big Issue Invest, Bridges Ventures, Charity Bank, ClearlySo, Impetus-PEF, LGT-Berenberg, NESTA, Social Finance, Social Investment Business, and Unlimited, to name but a few. Virtually all of these have been backed by Big Society Capital, which is building capital flows to these and other social organizations through equity, social impact bonds (SIBs), and unsecured and secured debt. At the start of 2013, £25 million was in impact investment managers’ hands in the United Kingdom; at the start of 2014, the sum was over £150 million.

From the United States we have much to learn from the experience with the Community Reinvestment Act and the New Markets Tax Credit, which together bring more than $20 billion of investment a year to poorer areas of the United States. The US federal government has also provided outcomes funding for SIBs and is actively engaged in promoting impact investment through the White House Office of Social Innovation and Civic Participation.
Preface

Picture . . .

. . . making an investment recommended by the local broker managing your retirement savings and then pulling up an app on your phone that shows the affordable housing development in your community that the investment is helping finance.

. . . seeing a news article on the need for more employment opportunities offering sustainable wages, benefits, and professional training for the people of your region and then reviewing the investment report from a local fund quantifying the precise number of jobs it had supported with your capital.

. . . collaborating with your start-up team to launch the business you’ve been planning for the past few years—and knowing there are investors on the other side of the term sheet as interested in the social relevance and intentional impact of your venture as they are in its financial health.

Over recent years, the world has been witness to an accelerated process of economic evolution coming simultaneously from the fringe and the mainstream. It is a fusion of previously disparate areas of expertise and a vision emerging out of traditional finance, community and economic development, environmental finance, and social entrepreneurship. Following two years of in-depth research, case-studying the experience and track records of twelve of the leading impact investment funds operating in markets around the world, The Impact Investor offers a window through which to view this larger transformation.
The work of the twelve funds has been significant. Among other things, they

- Created and sustained more than 1.3 million jobs in underserved markets
- Provided more than seventeen million people with access to finance previously beyond their reach
- Managed portfolios of impact investment with more than 40 percent of their investments going into women-led firms and 60 percent of their funds invested in businesses operated by individuals from racial and ethnic groups historically excluded from mainstream financial markets
- Have raised and invested in excess of $1.3 billion in impact capital

The funds represent but a snapshot of larger trends under way around the world—trends we believe have the potential to transform business and finance as we know them today. Although in some ways the managers of these funds are simply taking traditional business practices and applying them to new markets, they bring a profound new investment perspective that integrates economic opportunity within a social and environmental context. This investment perspective is a new analytic mind from which all financial professionals may learn. As you will see explored in the pages to come, these investors operate with what we call a “multilingual” skillset—with the capacity to speak profit and purpose, financial return and social impact.

If you take nothing else away from *The Impact Investor*, consider this:

*There is a new way of investing that is in the process of deep evolution and no longer sits on the edge of mainstream economics and capital markets.*

These managers do not think in terms of “do well and then do good” or “financial-social trade-offs.” Rather, they think in an integrated way that intuitively seeks to capture the full nature of value through their investment strategies, seeking financial return with impact. They do not see impact as the unique domain of traditional channels of the public and nonprofit sectors. These actors and the funds they bring to market extend
the work of previous investment pioneers and represent a potentially powerful force integrating numerous worlds into a single, sustainable whole.

These new approaches to investing are not being forced on markets, but are drawn into them at the same time as they are emerging out of them. The world is changing as we confront the shortcomings of an “either-or” understanding of capital—either you make money or you give it away—in favor of an integrated investment practice that rejects the short-term approach to managing long-term goals, with no consideration of off-balance-sheet factors such as worker health or the availability of water or the environmental sustainability of a company’s supply chain. Some of the change under way in our world is about simple self-preservation (if you’re a beverage company operating in emerging markets and are not taking water issues into account, perhaps you will be in a different line of work five years from now!); other parts come from those intentionally seeking to use investment capital to drive positive social and environmental impacts.

This book is just the latest stepping-stone in a growing body of research across the fields of social entrepreneurship, blended value, community development finance, microfinance, workforce development, impact assessment, sustainability, corporate responsibility, and socially responsible investing. In the past five years, more has been written about the purpose, scope, and activity of these fields than ever before, with increasing speed and regularity, from more diverse and global voices.¹

What we add to the nearly daily drumbeat of new blogs and reports is a deeper empirical look at what is being done and accomplished by funds that have established a tangible track record, in order to understand this emerging field with fresh eyes and to more confidently predict what will come next.

What this track record of research points toward is the reality that impact investing is moving from anecdote to analysis, from the whipsaw opinion of hopeful pundits to perspectives informed by sharp experience and insights grounded in practice. Our research is drawn from the concrete experiences of twelve funds precisely because that level of in-depth analysis is what is now required to move our collaborative efforts from the initial questions of “Impact Investing 1.0” to the next level of informed execution.
It is no accident that Morgan Stanley, Goldman Sachs, UBS, Deutsche Bank, RBC, Bank of America, National Australia Bank, all of the High Street banks in the United Kingdom, and dozens of other major financial institutions throughout the globe are making strong plays in the impact investing arena. Other investors should take heed:

The train has left the station.
The tremors are being felt.

Mainstream investors are reframing assumptions governing traditional investing just as traditional philanthropists and socially responsible investors are reconnecting with their initial motivations to effectively manage assets and make use of capital to create a changed world—at the levels of individual, community, company, and market.

The rise of impact investing takes place against a larger backdrop of innovation within mainstream capital markets and newly emerging visions of the future of business. And much of this is now being driven by shifts in “consumer” demand, whether at the neighborhood level of individuals seeking to better the possibilities before them; the customer level of those seeking to align the power of their dollars with the world they seek to create; or the consumers of investment strategies and vehicles who are demanding greater transparency, less financial leverage, and expanded understandings of potential value creation generated by their capital.

The funds profiled in this book show us, concretely, what this collaborative new world looks like—in the emerging era of Impact Investing 2.0. The work of the twelve funds stands as a testament to the fact that capital can be structured to change the economic conditions of those who remain largely outside the economic mainstream.

While a great deal has been achieved, a great deal more must be done. We do not pretend to offer “the answer” to the many debates and discussions currently taking place in regard to the ability of capital and companies to advance positive change in the world; nor do we provide a template or defined road map. What we offer in the following pages is a set of organizational data points,
experiences, and analysis to inform our next steps as we move forward together. We owe a great deal to these funds willing to open their balance sheets and reflections to outside researchers. And we are pleased to bring their lessons to all those committed to investing with impact to help advance the world to which we aspire.

August 2014

Cathy Clark
Durham, North Carolina

Jed Emerson
Granby, Colorado

Ben Thornley
Oakland, California
Introduction

You don’t need a weatherman to know which way the wind blows.
—Bob Dylan, “Subterranean Homesick Blues”

There was probably no point in history when life was truly simple and uncomplicated. Every age, every time, every life has its challenges, its complexities, its moments of uncertainty and change. Yet, in the midst of each age’s challenges comes a moment of clarity: the need to engage in the Civil War, the ultimate validity of battling the Axis powers, the compelling righteousness of the civil rights movement.

Our moment is no different than others that have come before, save that the clarion call is for a new generation—figuratively and literally, as the Millennials step into new leadership roles—to advance new thinking with regard to the nature of capital and the practices of investing. We now live in a world where injustice and poverty, down the street or across the world, may be felt in an instant. One where environmental degradation threatens not just some future generations we’ll never know, but the quality of life of our children. And what’s being demanded, more clearly than ever, across generations, is the opportunity to align every facet of our lives with making a positive difference, with a broader vision of a life well lived.

In this respect, in a world that technology renders increasingly open and interconnected, capital markets remain one of the last bastions of imperviousness. Even though capital flows around the globe are one of the most powerful forces shaping our societies and economies, most of us still invest under the pretense that the impact of capital is divorced from its uses.
Yet even as our moment in history demands nothing less than a full accounting of the positive and negative outcomes of capital, a thorough understanding of our role in bending environmental and social systems toward justice, there will be those who continue their efforts to play the role of pundits on the sidelines as our modern Rome devolves into seeming chaos. Even as trillions of dollars continue to be invested with the sole consideration of financial return, and even as companies continue to be managed with an eye to a single, supposedly unencumbered bottom line of financial performance, the majority will see that larger forces are being unleashed in the form of a new capitalism—capitalism focused on the generation of financial returns, yes, but a larger, more holistic economic system operated with reference to previously “off-balance-sheet” factors, such as stakeholder interests and carbon footprint—and a host of additional factors increasingly understood to have influence on long-term value generation and financial return to investors, as well as to our well-being on the planet.

Capitalism will continue its evolution of past decades but increasingly turn outward, recognizing that economics and finance may no longer be viewed in isolation from those elements on which the capitalist engine itself draws. The new capitalism will continue to be revealed as the unifying backdrop against which innovations and refinements will emerge. The new capitalism will not pit asset owner against wage earner, or shareholder against stakeholder, or capitalist against community. Rather, the new capitalism clearly emerging through the mist of history is one of complements—not contradictions. It is a capitalism of integrated interests. It is a capitalism of shared futures and global markets played out in community contexts connected across the planet via the new wireless world and ultimate reality that value is a blend of environmental, social, and economic components—value is itself fundamentally whole and more than the sum of these parts. The legacy of the future will not be one of blind wealth creation but rather sustained value creation across generations. It is a capitalism of corporate and community commerce, of individual and societal change, and, ultimately, our undeniably common interests.

It is, at its core, a Collaborative Capitalism: the realization of a community’s highest economic and social aspirations through the
enterprising deployment of ideas, capital, and shared resources in pursuit of common impact.

It is within this broad flow of global collaborative capitalism that impact investing takes place.

As we will explore in the following chapters, impact investing is a banner under which a host of practices now gather:

- Mainstream, private equity investors seek to integrate environmental, social, and governance factors into their pursuit of financial returns.
- Pension fund fiduciaries invest with an eye to the health of the communities in which beneficiaries live, as well as their financial interests.
- Foundations seek not simply to make charitable grants but rather to draw on the full tool kit of capital under their control—grants, to be sure, but also program-related investments and public and private securities—all with an eye toward sustained portfolio performance and maximizing total impact.
- Individual investors gather on crowdfunding platforms, aggregating their hundreds into hundreds of thousands of dollars directed at various types of impact and multiple types of return.

In some ways, this is all new—yet in others, the song remains the same. Over a decade ago, following a presentation at the World Economic Forum in Davos that included a description of the vision and practices of what may now be defined as impact investing, an audience member rose to express how powerful he felt this new vision to be—and to point out that in many ways it was simply a return to the fundamental principles of the traditional, privately held family business managed not only for the benefit of the founding family but also for the community (if not the region) as a whole; the family’s prosperity could not be separated from the place they called home.

Impact investing is old-school, fundamental investing and economic development with a twenty-first century sustainability wrap. It is what good business practice was, is, and will ever be. It is earth economics and family values and profit with purpose. In short, it is the visible tip of the iceberg within the larger global system of Collaborative Capitalism.
In the research on which our partnership is based, the three of us (re)discovered a set of truths that communities and societies have forgotten:

- The most effective strategies operate with awareness not simply of the corporate or capital context but with linkage to the “great around” represented by the public sector and the enabling environment it creates.
- The strongest form of capital is a “stack” of all capital coming from a variety of private and public investors—each tranche of which buys down risk, and positions enterprise for optimal performance, thus enabling opportunity to be captured for the benefit of shareholder and stakeholder alike.
- The best teams are diverse, with leaders who build from past experience a complex future that transcends silos and singular disciplines or doctrines.
- The organizations—whether for-profit or nonprofit or hybrid—that are built to best stand the test of time are those that do not seek to artificially separate corporate mission from financial discipline, but rather maintain mission as the touchstone on which financial sustainability is grounded.

As harbingers of a new way of doing business generally—or, more accurately, a revitalized understanding of back-to-basics truths—these axioms offer significant challenges to those who continue to maintain the illusion that the interests of capital and impact are antithetical. Business models geared only to financial performance, with no consideration of impact, will be decreasingly effective in generating consistent profits. This trend, in concert with the preferences of Millennials, who more than any generation seek to blend meaning with their work and money, mean that these models will quickly become bad business in shrinking markets.

**Our Two-Year Study**

We have reached the insights and conclusions in the following pages as the result of a two-year process of observing best business practices in Collaborative Capitalism through our examination of
twelve outstanding impact investing funds that met or exceeded the expectations of their investors.

With a commitment to concurrently delivering attractive financial returns and intentional social outcomes, impact investors are at the cutting edge of Collaborative Capitalism, operating in markets often smaller, younger, and more idiosyncratic than mainstream investors have the stomach or capacity to tackle, and that demand cross-sector skills that many mainstream investors simply do not possess.

As a result, successful impact investing fund managers are extraordinarily creative, nimble, and resilient—all qualities we wanted to explore and learn from when we first culled an initial universe of 350 funds to 30 that were recommended by their investors.

We then decided on the final twelve funds, which were representative of the breadth of activity in impact investing, with track records of financial and social performance that were suitably robust and sharable. The twelve funds are listed here; their impact target areas are illustrated in Figure I.1. With the objective of understanding the key factors that had undergirded their success, we interviewed not only fund managers but also the investors in those funds, the recipients of investor capital, and the actors within their immediate peer group.

**Twelve Top-Performing Impact Investing Funds**

- Aavishkaar
- ACCIÓN Texas Inc.
- Bridges Ventures
- Business Partners Limited
- Calvert Foundation
- Deutsche Bank
- Elevar Equity
- Huntington Capital
- MicroVest
- RSF Social Finance
- Small Enterprise Assistance Funds (SEAF)
- W.K. Kellogg Foundation

Chapter 2 provides additional insight into the research process, which, in 2013, led to the largest-ever public release of performance data in impact investing, despite the fact that most impact investing funds operate in private markets and, with only accredited investors, are under no obligation to share information publicly. Our top priority was building trust with the funds, and holding fast to a detailed process of engagement that would ensure that
financial performance was contextualized alongside the complete, detailed story of their creation, governance, strategy, deployment, and relationship with investors and investees over the entire life of the fund. The aggregate financial and social performance of the funds is presented in Figures I.2 and I.3.

What we discovered was a sophisticated marketplace that is much less haphazard than many have thought, and a pathway of practice and expertise we invite you to explore in the following chapters.
**Figure I.2** Fund Investors and Financial Performance of the Twelve Funds

**Fund Investors and Financial Performance**

**Who are the investors?**

- **7/12:** Funds received capital primarily from commercial investors seeking market rates of financial return
- **3/12:** Funds received capital primarily from individuals, philanthropic foundations, and banks driven by regulation

*Two of the twelve funds did not solicit external capital.

**What are they investing in?**

- Emerging Market Equity, Hybrid, and Debt Funds
- Developed Market Equity and Hybrid Funds
- Social Debt Funds

**How did their investments perform?**

- **3–22%**
- **10–14%**
- **0–3%**

*Net internal rate of return*
Audience

Our focus is impact investing—and practitioners in the field are certainly a core audience that will benefit particularly from new insights into the structural and strategic characteristics associated with high-performing impact investing funds. However, this book also has broader application, just as impact investing sits at the apex of Collaborative Capitalism. (We will discuss this in more detail in chapter 1.)

Although there are ongoing discussions regarding the nature and practice of impact investing, the concept really is quite straightforward:

*Impact investing is capital management in pursuit of appropriate levels of financial return with the simultaneous and intentional creation of measurable social and environmental impacts.*

What’s important to understand is that the lessons of impact investing are also the lessons of Collaborative Capitalism, a larger field of practice that encompasses everything from corporate social
responsibility (CSR) to operational and supply chain sustainability, public private partnership, and socially responsible investment (all in an effort to mitigate risk).

Increasingly, financial institutions and corporations around the world are using Collaborative Capitalism as a tool to proactively generate clear, positive social outcomes in addition to profits and wealth. This is a profound and transformational shift in what economic activity and capital make possible (adding an entirely new measure of extrafinancial performance). From the capital markets perspective, impact investing has the potential to forever change the way we consume financial services.

Consider this one data point from the World Economic Forum: Although just 6 percent of US pension funds reported in 2013 that they had made an impact investment, fully 64 percent expected to in the future.¹

Even if it takes these pension funds decades to follow through and just half pursue the opportunity, the ramifications are clear: impact investing is going mainstream, pushing those already engaged in “risk-mitigating” capitalism to think more clearly about outcomes, and those unfamiliar with Collaborative Capitalism to quickly get up to speed.

The Impact Investor speaks directly to numerous audiences touched by Collaborative Capitalism and provides some of the following important insights and easy-to-apply tools:

- **For mainstream investors**, including commercial institutions, fiduciaries, and individuals, The Impact Investor provides actionable insights into the characteristics and performance of a range of proven impact investing strategies. It also paints a picture of the unique skills of impact investors, and the right questions to ask when weighing a fund’s likelihood of delivering the financial and social value it promises. The Impact Investor also recommends concrete steps investors can take directly, in their own portfolios, to deliver positive social or environmental outcomes in addition to attractive rates of financial return.

- **For corporate executives**, The Impact Investor provides evidence a new era of Collaborative Capitalism is emerging—the next essential paradigm in business, building on CSR and other evolutions in thinking regarding the place of business in advancing social or environmental performance. By showcasing the
work of impact investing funds at the forefront of this trend, this book portends a set of practices that, in less than a decade, will become commonplace in all business settings. By studying the work of impact investors, business executives will gain material insight into a range of strategies for ensuring that their companies remain profitable and sustainable. Executives will also gain skills needed to be more successful operators in a world that is more sector agnostic than ever and populated by a new generation of Millennial customers.

- **Entrepreneurs** will learn what makes impact investors tick and the type of business approaches they typically invest in. This book will provide entrepreneurs with insights into partnering and working with investors, and the other multilingual skills and new approaches they should master (alongside impact investors) in order to be as effective as possible. Each of the impact investing funds we feature is also entrepreneurial in its own right. The lessons from the experience of these funds will be invaluable for any innovative business leader.

- **Community and social change agents** will gain insights into how capital can be used to drive social and environmental justice. The tools of finance are increasingly being appropriated to support community vehicles—nonprofits, businesses, cooperatives, social enterprises, and any number of other structures—delivering job creation and opportunities for expanding employment and development to those presently excluded from local and regional economies.

- **For teachers and students of business,** the book offers a range of new analytical frameworks for assessing the structure and rapid development of impact investing, created with the benefit of extensive primary data. These frameworks have broad business applications, and our research methods and approach to documenting performance can be applied in most markets. The book also presents clear paths for continuing research and opportunities for further academic and thought leadership. All students will benefit from understanding the operational approaches being applied by funds using cutting-edge financial instruments in pioneering markets.

- **For philanthropists,** the book presents a comprehensive overview of what it means to be “catalytic” by delivering a magnitude
of social value never before seen as an intentional outcome of private investment. The book highlights the involvement of a number of philanthropic leaders in the funds we researched, two of which are private foundations. The book will help philanthropists understand what it means to engage in impact investing, how to get started, and the kinds of approaches that will increase the probability of success.

- **Public officials** will recognize a range of private investment strategies in *The Impact Investor* that have already been utilized by policymakers to drive the delivery of social and environmental impacts at scale. The book describes an ideal form of public-private partnership and the steps needed, primarily on the part of impact investors, to actualize this heightened form of collaboration. Public officials will see a powerful, evolving role for government in the development of impact investing, and the opportunity to stretch limited resources in innovative new ways.

As essential partners in impact investing, public officials will benefit from the book’s broader insights into the future of finance and business and its relationship to diverse constituencies, a perspective already at the heart of government.

No book can be all things to all people. Readers should know that much of our data and real-life examples of Collaborative Capitalism are drawn directly from impact investing funds. The rest is drawn from the broader literature and our personal experiences in the fields of impact, philanthropy, policy, and investment. Two of us have been private impact investing fund managers, and two of us have been foundation executives making grants and program-related investments, a key form of impact investment. One of us has been a business and finance reporter; two of us have written guidebooks for practitioners that include models and frameworks that, more than a decade after they were published, continue to be widely used across the social enterprise and impact investing sectors. We have experience in successfully changing the way people think about and understand complex topics. Two of us have been publishing and teaching on these topics for more than fifteen years each. One of us coauthored the first book ever published on the topic of impact investing; one of us was a public official focused on economic development before advising the
largest pension fund in the United States on its impact assessment practice; and one of us helped create an emerging standard rating system for impact investing funds worldwide.

A Focus on Intermediaries

Through these experiences, we initiated our major collaborative research effort in 2011 with the strong belief that there is no better unit of analysis than impact investing funds for understanding the way capitalism is changing.

Why? Because funds interact directly with hundreds of enterprises and have ultimate responsibility for delivering the blended performance of financial as well as social and environmental returns on which the case for impact investing rests. They are the proverbial canaries in the coal mine of the larger sphere of Collaborative Capitalism. They are test beds and financial R&D labs, where in order to succeed, relationships and communication must be rock solid even while the work remains innovative.

Indeed, when impact investing funds succeed, many important results follow that may positively impact the development of Collaborative Capitalism: investors increase their investment, replicable financial structures emerge for new pools of fund capital, entrepreneurs have clear guideposts of what to expect of investment, and secondary markets more naturally emerge.

Finally, funds are also a crucible of accountability. As Bob Webster has written about the Grassroots Business Fund, where he is chief operating officer, the formal fund structure provides a “clear and transparent picture of fund financial flows,” including management fees, legal costs, portfolio investments, investment interest, dividend, and principal reflows; “clear expectations for financial and social returns and any tradeoffs thereof”; and an “active seat at the governance table.” They also “can incentivize the fund manager through some type of carried interest in the fund’s performance.”

What’s Ahead?

_The Impact Investor_ is presented in three parts that examine how we got here, the current state of the market and its emerging best practices, and future implications.
In part 1, “Key Practices and Drivers Underlying Impact Investing,” we describe the development and current state of Collaborative Capitalism and impact investing.

Chapter 1, “Inside Collaborative Capitalism,” explores some of the big-picture trends driving the shift from incidental to intentional impact, including the use of business approaches in solving social challenges, a growing awareness of environmental and economic sustainability, and demand from a new generation of more responsible consumers and investors.

Chapter 2, “Raising the Curtain on Impact Investing,” provides a comprehensive overview of this fast-growing market, introducing our twelve funds in detail, their performance, and the market of which they are a part. We also provide a new estimate of the total size of the global impact investing market, drawing on key subsectors, and propose a new method for categorizing impact investing funds.

In part 2, “Four Key Elements of Successful Impact Investing,” we analyze current practice and delineate the four key elements of successful impact investing—and by extension Collaborative Capitalism—and provide a range of tools for implementing these practices:

Chapter 3, “Impact DNA,” highlights successful funds’ core approach to impact investing: a process of establishing a clearly embedded strategy and structure for achieving mission prior to investment, enabling a predominantly financial focus throughout the life of the investment. We call this approach “Mission First and Last.” Knowing early and explicitly that impact is contained in a fund’s DNA allows all parties (investors, investees, and the fund itself) to move forward with the investment discipline akin to any other financial transaction, confident that any possibility of mission drift can be effectively managed.

Chapter 4, “Symbiosis as Strategy,” explores the ubiquitous role of government in impact investing, and the multidirectional relationships of trust and support that undergird effective public-private partnership. By nature, impact investors represent a marriage of public and private interests. They seamlessly
integrate a commitment to improving public welfare with the power and efficiency of capital markets. Policymakers—who have a vested interest in maximizing the social and environmental well-being of their constituencies and hold massive power to influence the market through laws and regulations—are natural partners for impact investors.

Chapter 5, “The New Deal,” focuses on the rigorous and creative strategies impact investors use to meet the diverse return objectives of a range of capital providers. By bringing different types of stakeholders to the table, cultivating “catalytic” investors, and doing the hard work of financial structuring, impact investors are able to support markets that would not otherwise be “investable,” providing access to capital in some of the most underserved places and sectors.

Chapter 6, “Multilingual Leadership,” discusses the inherently cross-sector nature of impact investing and the diversity of skillsets and strategic approaches needed if one is to succeed. Impact investors are expert at simultaneously seeing the world through the eyes of philanthropy (the “theories of change”), government (market failure and subsidy), and finance (the best use of capital; return on investment), which is a difficult but essential approach to master in the era of Collaborative Capitalism.

In part 3, “Looking Ahead: Trends and Challenges,” we take all that we have learned and pose a simple question about the future. We claim that Collaborative Capitalism is on the march. What then are the signs we should look for to indicate that Collaborative Capitalism is storming the castle? What might still hold it back?

Chapter 7, “The Writing on the Wall” outlines ten trends to watch that will signal the arrival of a broader practice of Collaborative Capitalism on a range of investment and business activities, both mainstream and niche.

Chapter 8, “Concluding Reflections,” brings together the themes and explores seven challenges the field must face to successfully bring forth this new vision.
Finally, we end with an “Impact Investor Resource Guide” that brings together all of the strategies and tools from chapters 3 through 6. This is an easy reference for those eager to move quickly to action.

Impact investing has been called a dark wood in which various new and exciting creatures bustle about and explore a new world of investing and impact. *The Impact Investor* points to the paths through the wood and confirms impact investors, social entrepreneurs, pension fund fiduciaries, and a host of other actors actually know a lot more about how to “do” impact investing than many have to this point believed. We do not have to wonder how impact investing may have the greatest impact—the fund managers and strategies in this book document how leading funds execute their strategies for high performance. We do not have to ask, “How does impact investing differ from traditional, mainstream investing?” The investors profiled in the following pages show how impact investing is not altogether “new” or different, but rather an extension of the fundamentals of sound investing practices. We do not need to ask, “What will it take for impact investing to go mainstream?” The practices and diverse pool of investors described in this book show that in fact impact investing has gone mainstream and that it is only a matter of time before we are truly able to see the depth and breadth of the adoption of impact investing practices within those mainstream markets.

Every era is an era of change. We need only to lift our heads or climb a nearby hill to gain a different perspective, to see the possibility of the changes taking place within our community, region, or market. This book provides an overview of promising investment themes and practices that portend a global economic transformation. The exponential growth of impact investing is well under way as we continue to see new ideas, strategies, and opportunities brought from the fringe to the center of capital markets the world over.
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