Impact Investing: applying financial innovation to address environmental and societal issues/opportunities.

This class will explore the breadth of investment & fund strategies in the emerging field of Impact Investing.

- Can capital markets and financial innovations be applied to catalyze & solve social & environmental opportunities?
- What if the financial creativity that created the CDO (collateralized debt obligations) and ABS (asset back securities) was directed at addressing the massive market opportunities in climate change, resource constraint, and bottom-of-the-pyramid?
- Can an investment strategy focused on impact (creating positive change in the environment and society) also generate superior financial returns?
- How are institutional investors responding or catalyzing these strategies?

Course Description

Institutions globally are experimenting with new forms of "impact" investment designed to generate both market rate returns and positive social and environmental impact. The idea of using profit-seeking investment for this dual purpose is moving from the periphery of activist investors to the core of mainstream financial institutions.

This course intends to explore the progress of and challenges to this trend from the vantage point of institutional money managers.

The 5 week course will examine several impact investment asset classes including:

- Renewable energy financing
- Clean tech venture capital
- Micro-finance
- Carbon credits and environmental service
- Green/sustainable real estate
- Forestry, natural resources, and agriculture
- Implications of sustainability on public equities portfolios

Each week, we will invite leaders in each of these asset classes into our class and explore the following:
Discuss their fund, their investment strategies & the impact component of their strategy in that asset class
  - Their criteria & process for evaluating the fit of an asset to their strategy
  - How they value and structure deals
  - The economics of investment
  - Their returns targets (financial, social, environmental) & how they measure this

Can an investment strategy focused on generating superior financial return also create positive change in the environment and society? How are they executing this in their asset class and portfolio strategy?

Review the challenges they face or progress they have made attracting institutional investors while integrating financial return with social and environmental impact.

- How do investors evaluate, value and structure deals for renewable energy projects, clean tech venture capital, energy efficiency projects, micro-finance, and carbon and environmental service investment strategies?
- Are institutional investors incorporating financial instruments designed to generate market rate returns and positive social / environmental impact into their portfolios? Why or why not?
- What additional development needs to take place in order to have broader adoption by investors?

Class Project

On the 5th week (March 10th), each team (4-5 students each) will present their team project. The format is a 30 minute presentation: 20 minutes formal material with 10 minutes Q&A.

Create a financial vehicle (e.g. investment firm, fund or instrument) capable of fitting within an asset allocation of institutional investor portfolios (public equities, fixed income, hard assets, private equities, alternative assets, etc) while delivering social / environmental impact. The choice is left to your creativity and your sense of the market and opportunity. Example could include:
  a. Water / wastewater
  b. Green affordable housing
  c. Small enterprise lending for the bottom of pyramid or developing countries
  d. Forest carbon

Students will be expected to present the following in a power-point to the class:
  a. What asset class the vehicle fits in
  b. Clear definition of market opportunity
  c. Target investment criteria
  d. Investment hypothesis
     i. Process by which financial return will be generated
ii. Process by which environmental/social impact is created

Due diligence process
f. Financial modeling to substantiate investment hypothesis
g. Identification of critical risks
h. Deal selection process
i. Monitoring protocols for environmental and social impact

Schedule Overview

<table>
<thead>
<tr>
<th>Dates</th>
<th>Topic</th>
<th>Guest Speaker (being scheduled)</th>
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| 2/10  | Define impact investing<br>• Frame the continuum of impact investing<br>• Risk management, new value creation, & the economics of impact<br>• Develop a framework for a multi-asset class sustainability portfolio<br>Discussion of class project<br>Reading:<br>• Impact Investments: An Emerging Asset Class, by J.P. Morgan, November 29, 2010<br>• Beyond Good versus Evil: Hedge Fund Investing, Capital Markets and the Sustainability Challenge by Jed Emerson, December 2009<br>• Money For Good – Impact Investing Overview by Hope Consulting, May 2010<br>• Money For Good – The US Market for Impact Investments and Charitable Gifts from Individual Donors and Investors by Hope Consulting, May 2010<br>• Investing for Impact – Case Studies Across Asset Classes by Bridges Ventures, The Parthenon Group and GIIN<br>• Deutsche Bank Investing In Climate Change 2010: A Strategic Asset Allocation Perspective by DB Climate Change Advisors, Deutsche Bank Group, January 2010 | ![Guest Speaker options](https://example.com/guest-speak-options.png)  ![Options](https://example.com/option-icons.png)
| 2/17  | The economics of impact<br>• Renewable energy financing<br>• Green real estate<br>• Land & Timber<br>• Water<br>• The role of public policy to catalyze markets | ![Options](https://example.com/option-icons.png)  ![Options](https://example.com/option-icons.png)
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<th>Reading:</th>
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<tr>
<td>• Unlocking Energy Efficiency in the US Economy, by McKinsey &amp; Co. 2009 (full report)</td>
<td>• Matt Donegan, Forest Capital</td>
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<td>• Rebuilding America: A National Policy Framework for Investment in Energy Efficiency Retrofits, by the Center for American Progress, 2009.</td>
<td>• Grant McCargo, Biological Capital</td>
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<td>• Norway fund giant outlines ESG criteria for real estate billions - Property portfolio could reach €16bn. By Responsible Investor</td>
<td>• Matt Diserio, Water Asset Mgmt, LLC</td>
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<td>• Property Assessed Clean Energy: Policy Framework for PACE Financing Programs</td>
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<td>2/24 Creating Markets from social &amp; environmental factors</td>
<td>Options:</td>
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<tr>
<td>• Carbon</td>
<td>• Ben Vitale, Climate Trust</td>
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<td>• Micro Finance</td>
<td>• Chris Brookfield, Elevar</td>
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<td>• Water Credits</td>
<td>• Joe Whitworth, FWT</td>
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<td>Reading:</td>
<td>• Mike Van Patten, Mission Markets</td>
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<td>• A new look at carbon offsets by Marcel Brinkman, McKinsey Quarterly, February 2010</td>
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<td>• UN REDD (Forest carbon credits). <a href="http://www.un-redd.org">www.un-redd.org</a> [<a href="http://www.un.org/esa/forests/">www.un.org/esa/forests/</a>]</td>
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<td>• A New Idea in Banking for the Poor, by McKinsey &amp; Company (Social Sector Practice), November 2010</td>
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<td>• Commercial Returns at the Base of the Pyramid by Michael Chu, Harvard University, 2007</td>
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<td>• “Counting the World’s Unbanked” by Alberto Chaia, Tony Goland, and Robert Schiff McKinsey Quarterly, March 2010</td>
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<td>• “Half the World is Unbanked” full report by Financial Access Initiative, October 2009</td>
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<td>3/3 Environmental, Social, and Governance (ESG) implications for value and risk</td>
<td>Options:</td>
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<td>• Public equities values</td>
<td>• Bruno Bertocci, UBS</td>
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<td>• Adam Seitchik, Auriel</td>
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The importance of governance

Reading:
- “Climate Change From The Investor’s Perspective” by Adam Seitchik.
- MSCI buys RiskMetrics for $1.55bn by Responsible Investor
- Excerpts from “European SRI Study 2010”, published by Eurosif in October 2010
- Eurosif – European SRI Study 2010
- Visit the site: http://responsible-investor.com

Optional reading (not included in pack) will be available on blackboard.

- Canadian Task Force on Social Finance – Mobilizing Private Capital for Public Good, November 2010
- An Overview of Impact Investing - by Phillips Hager & North Investment Management, November 2010
- Impact Investing: Harnessing Capital Markets to Drive Development at Scale By Antony Bugg-Levine, Beyond Profit magazine May/June 2009
- Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry, by The Monitor Institute, January 2009 Executive Summary
The Global Impact Investing Network (GIIN) reference page: 
http://www.globalimpactinvestingnetwork.org/cgi-bin/iowa/resources/research/index.html

Minlam Microfinance Fund - One Page (example)

Minlam Microfinance Fund Presentation (example)

Risk Metrics Group
The Impact of ESG Integration: A Roundup of Research on Risk and Returns
By Alan Petrillo on March 26, 2010
http://blog.riskmetrics.com/esg/2010/03/research-roundup.html
(collection of links to reports on ESG and relationship to risk and return)

Book List (optional)

- Natural Capitalism by Paul Hawken
- Investing for Change by Vinay Nair
- Ecology of Commerce by Paul Hawken
- Sustainable Investing: The Art of Long-Term Performance by Cary Krosinsky and Nick Robins
- Just Another Emperor by Michael Edwards