THE BUSINESS OF IMPACT INVESTING

From Philanthropy to Strategy

Rhia Bakshi
University Honors
Spring 2012

Advisor
Richard Linowes
Kogod School of Business

Image Source: GIIRS.org

Abstract:

In recent years, the concept of impact investment has gained immense popularity amongst investors across multiple sectors. The impact investment model aims at creating positive social and environmental impact beyond financial returns. The underlying idea is that investments can pursue financial returns while also *intentionally* addressing social and environmental challenges.

Mainstream investment psychology revolves around the idea that social impact need not be factored into investment decisions and that it is solely the responsibility of governments and charities. However, government resources and charitable donations are no longer sufficient to solve the complex problems we face as a global society. Impact investing provides a new alternative that seeks to combine philanthropy with sustainability, resulting in a model of *blended value* for businesses.

This paper explores the field of impact investment from the perspective of corporate social responsibility. As corporations assume an increasingly proactive role in pursuing social change, impact investment serves as a strategic way of merging the economic and social aspects of a company’s core operations. Examining the use of this model by companies like J.P. Morgan, this paper demonstrates the role of impact investment as a *rising asset class* that is both economically and socially sustainable.

TABLE OF CONTENTS

THE BUSINESS OF IMPACT INVESTMENT
From Philanthropy to Strategy

I. BACKGROUND

In recent years, there has been a massive surge of innovation in the field of international development. The failure of traditional models to tackle society's complex problems has led to the creation of new institutions that are redefining the way we pursue social change. Evidence suggests a growing need for integrating systems and mindsets in a "world where a different system dominates."[1] The key to achieving this shift is enabling people from different sectors to collaborate and "combine existing ideas into new possibilities."[2] These ideas are starting to emerge in the intersection and hidden spaces within the *defined* areas we know.[3]

The field of impact investment is an ideal manifestation of this emerging trend. Born out of the need for innovation within the financial sector, impact investment is gradually moving from a periphery of activist investors to the core of mainstream financial institutions. As corporations assume an increasingly proactive role in pursuing social change, impact investment serves as a strategic way of merging the economic and social aspects of a company's core operations.

---

1 "Impact Investing: Transforming How We Make Money While Making a Difference." Pg. 251.
2 *Ibid.* pg. 251
3 *Ibid*. Pg. 257

II. IMPACT INVESTMENT: An Emerging Industry

The concept of impact investment is increasingly popular amongst investors across multiple sectors. The impact investment model aims at creating positive social and environmental impact beyond financial returns. As the concept gains popularity, social investors are recognizing the value of impact investments and their ability to unlock the market potential at the bottom of the economic pyramid.

The core concept behind impact investment is that investments can pursue financial returns while also *intentionally* addressing social and environmental challenges. It is important to note the emphasis on "intentional" while evaluating this approach. As mentioned earlier, corporate social responsibility is at a crossroads where it is undergoing a transformation from a reactive to a proactive approach. Corporations are beginning to realize the importance of scaling their philanthropic efforts to a more engaged model that fits their core strategic goals.

To this end, it is important to note that impact investment is different from simply investing in developing markets without a clear strategy. Impact investment encompasses funds that form a strategy by which they intentionally uplift the communities they operate in.[4]

Defining Impact Investment

Impact investments seek to create positive social and environmental impact, in addition to seeking traditional financial returns. They actively seek to place capital in businesses and funds that can provide solutions at a scale that purely philanthropic interventions usually cannot reach. As is becoming increasingly apparent, the field of impact investment has the potential to

[4] "Impact Investing: Transforming How We Make Money While Making a Difference." Pg. 10

complement philanthropy and government intervention as a potent force for addressing global challenges at scale.[5]

The field of impact investment encompasses a broad range of perspectives and possibilities. The concept has origins in the idea of blended value, which states that our investments can have an impact on the broader world beyond financial returns. A prevailing notion is that impact investments are "below-the-market investments" that trade off financial return for social impact.[6] There are several ways in which mainstream investors can have an impact. For instance, social investors can place a portion of their portfolios in impact-oriented public equity funds. Alternatively, investors can place capital directly into companies by means of loans and private equity investments. This type of impact investment focuses on specific ventures and functions much like venture capital and is known to have immense potential for social impact.

III. CORPORATE SOCIAL RESPONSIBILITY: From Philanthropy to Strategy

Research indicates that corporate social responsibility (CSR) traditionally constitutes an area of minimal concern amongst many corporate executives. In 2011, The National Association of Corporate Directors (NACD) Public Company Governance Survey asked about the highest priorities for their companies. The highest priority at 72% was strategic planning and oversight and amongst the lowest was CSR at

Figure 1: Corporate Involvement in Society. Source: Porter, Michael E. & Mark R. Kramer

[5] Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry, pg. 5
[6] "Impact Investment: Transforming How We Make Money While Making a Difference" pg. 9

2%. This data demonstrates the massive gap between for-profit and nonprofit aspects of business practices and the subsequent need to integrate CSR into a company's core strategy.

This trend can be largely attributed to the lack of tangibility in the field of CSR. Since factors relating to social responsibility are "absent" from financial reports and their benefits are spread over the long-term, companies typically overlook their importance.[7] Impact investment allows companies to integrate this financial aspect with their social responsibility practices, hence creating a model of increase value.

In their article, "The Link Between Competitive Advantage and Corporate Social Responsibility," authors Michael E. Porter and Mark R. Kramer highlight some critical challenges faced by corporations in carrying out CSR practices. According to the authors, the prevailing approaches in the field are fundamentally flawed in that they:

a) Pit business against society, when clearly the two are interdependent
b) Push for generic models, thereby undermining the firm's overall strategy

As a result of these challenges, the concept of corporate social responsibility remains more of a liability to companies rather than an opportunity. The article expresses an urgent need for reconciliation within the field, whereby CSR serves as a mutually beneficial strategy rather than a "zero-sum game."[8] In order to achieve this, CSR practices must account for the broad interrelationship between business and society, and at the same time be embedded in strategies and practices of individual companies.

[7] Investing for Change: Profit from Responsible Investment, pg. 87
[8] "The Link Between Competitive Advantage and Corporate Social Responsibility" pg. 80

A potential obstacle in achieving this goal is the excessive focus amongst corporations on "mitigating harm" rather than actively pursuing social progress. Traditionally, corporate social responsibility has been more of reactive and involuntary measure in companies that experience a community backlash as a result of questionable business practices. This trend has reinforced the age-old perception that the two entities are intrinsically at odds. By "reinforcing corporate strategy *through* social progress" businesses can not only counter this antagonism but also reap the benefits of a healthy society. The *Social Dimensions of Competitive Context* presented in Figure 1 demonstrates what the shift to a more "strategic approach" would look like.

The following sections will explore how impact investment fits the aforementioned model of strategic CSR.

Redefining value

The idea of value creation lies at the core of all business practices. As impact investment increasingly becomes a mainstream option for asset owners and investors, we will need to redefine value and what it means for the corporate sector.

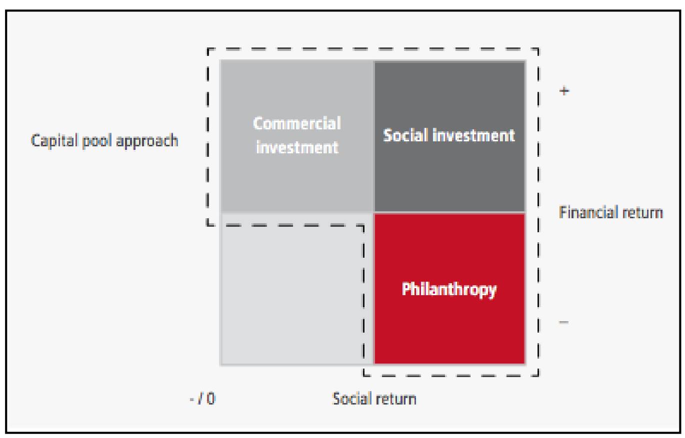


Figure 2: The social-financial return matrix

Mainstream investment psychology revolves around the idea that social impact need not be factored into investment decisions and that it is solely the responsibility of governments and charities.[9] However, in a world where problems are becoming increasingly complex government resources and charitable donations are no longer sufficient. Impact investing provides a new alternative that seeks to combine philanthropy with sustainability, resulting in a model of *blended value* for businesses and communities. The idea of blended value seeks to bridge the existing divide between economic and social value, which tend to be strictly compartmentalized. Most business managers fail to realize the "total value potential" of their investments, especially on an international stage.[10] Most importantly, blended value recognizes the importance of the triple bottom line – the idea that capital, community and commerce can create more than their sum in business practices.

In pursuing a strategy of blended value, it is essential that investors from multiple sectors participate in the emerging practice. Only when investors across the board adopt a blended value approach will the field of impact investment be able to fully flourish.[11]

The Global Philanthropy Forum, held in April this year, brought forth some key issues with traditional models of philanthropy. The conference featured experts in the space of impact investment, who shed some light on challenges and opportunities inherent within the field. Jed Emerson, an internationally recognized Thought Leader in strategic philanthropy, brought forth a key issue facing the current structure of philanthropy. Most companies pursue social impact along side traditional business practices, leading to a disaggregated value proposition.[12] Alternatively, the impact investment model allows companies to pursue the two goals

---

9 "Impact Investing: Transforming How We Make Money While Making a Difference." Pg. 5

10 "Impact Investing: Transforming How We Make Money While Making a Difference." Pg. 10
11 "Impact Investing: Transforming How We Make Money While Making a Difference." Pg. 220
12 "A Different Kind of ROI: The Role for Private Capital." Global Philanthropy Forum 2012

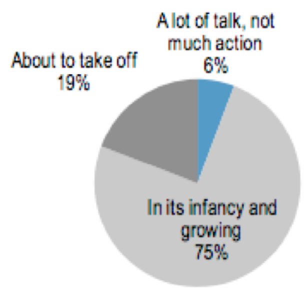
simultaneously, leading to higher levels of efficiency and sustainability. To this end, Emerson states the need to re-envision corporate responsibility and the way private entities define value.

IV. THE CASE FOR IMPACT INVESTMENT

i. Growing interest amongst investors

Figure 1: The state of the current impact investment market

52 respondents chose one answer



Source: GIIN, J.P. Morgan.

As research reveals, there is a growing interest amongst shareholders and investors in the impact investment market. An increasing number of investors are demanding impact investment products to be included in their portfolios. A survey of top private bankers reveals some interesting data on this trend. While the general desire to engage in social good existed far before the crisis, it was mostly restricted to piecemeal philanthropic measures by wealthy clients. After the crisis, however, clients have expressed an unprecedented interest in impact investment. This was substantiated by a 2010 survey of high-net-worth investors in the United States, which found that more than half were interested in exploring impact investing.[13]

A recent report released by J.P. Morgan, *Insight into the Impact Investing Market*, reveals current and future trends of the impact investing industry. The report presents an in-depth analysis of investor perspectives and over 2,200 transactions. Of the 52 investors surveyed, 94 percent indicated that the impact investment industry is either "in its infancy and growing" or

[13] "Impact Investment: Transforming How We Make Money While Making a Difference" p. 225

"about to take off." The investors indicated that they planned to invest a total of $3.8 billion over the course of 12 months.[14]

Additionally, impact investments are expected to constitute 5% – 10% of portfolios in a period of 10 years. These figures bring us to an important conclusion: the industry of impact investment is likely to experience massive growth in the coming years and simulateneously transform the financial services industry, redefining the very nature of the value we seek to create.

Consequently, the important role of high net worth investors in the impact investment market cannot be stressed enough. Trends show that high net-worth individuals are not only interested in impact investments but also better equipped to participate in the sector. In addition to their financial leverage, these individuals are free from fiduciary or regulatory constraints, an aspect that makes them essential players in the fast-emerging field.

ii. Joining the Financial Innovation Movement

The blending of different sectors and mindsets has led to a great deal of innovation within the financial sector. Traditional thinking is increasingly being replaced by fresh ideas and innovative approaches. And as research reveals, an increasing number of mainstream financial institutions are integrating this change into their core structure. While these institutions constitute a small minority, they have an undisputed advantage over their competitors who remain detached from the groundbreaking industry.

Authors Rudd-Levine and Emerson equate the impact investment movement to "the next Google or Facebook" of the capital market structure. Companies currently engaged in impact

[14] J.P. Morgan "Impact Investments: An Emerging Asset Class" p.5

investment have already experienced the field's immense potential for growth. This includes some of the biggest financial services firms like J.P. Morgan that are contributing massively to the blended value model of social finance.

The impact investment movement is an outcome of an era of *financial innovation* that is redefining the way financial services are delivered. As social finance merges with the mainstream financial sector, organizations will find it increasingly difficult to detach themselves from the field. Companies that detach themselves from the formative stages of this rising industry are likely to be at a severe disadvantage in coming years. On the contrary, forward-thinking companies like J.P. Morgan that have integrated the field into their core strategy are already ahead of their competitors.

Ultimately however, it will take the combined efforts of both innovative start-ups and established players to bring the industry to scale. The innovative drive of social enterprises cannot be materialized unless we harness the "immense resources and established position of existing capital market leaders."[15]

iii. Business Opportunity in Emerging Markets

In *The Fortune at the Bottom of the Pyramid,* author C.K. Prahalad explores the role of underserved consumers and markets in boosting global economic growth. As demonstrated in Figure 2, at the top of the pyramid are the

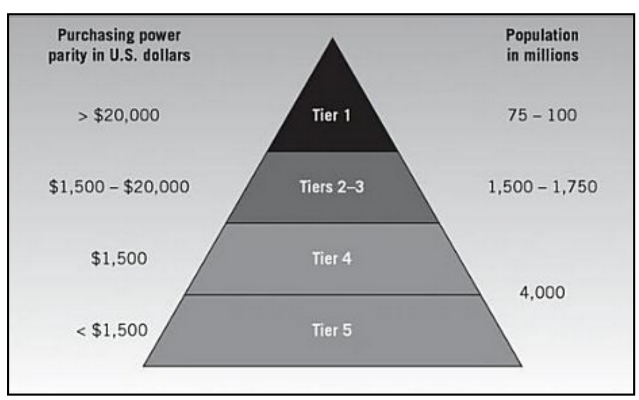


Figure 3 The Economic Pyramid. Source: C.K. Prahalad

[15] "Impact Investment: Transforming How We Make Money While Making a Difference" p. 221

wealthy, who have numerous opportunities to generate high levels of income. The bottom of the pyramid (BOP) consists of a significant portion of the population that has traditionally been excluded from the formal economy. As Prahalad contends, by allowing the four to five billion people at the bottom of the pyramid to participate in a system of "inclusive capital," we can create opportunities for everyone involved, including corporations and private entities.[16]

As is becoming increasingly apparent, the BOP consists of resilient and creative entrepreneurs and value-conscious consumers. The wide success of the microfinance movement demonstrates the resilience of this economic sector, hence substantiating its market value.

Traditional perceptions of the poor serve as a major obstacle in the pursuit of this strategy. The poor have long been considered as *victims* and a burden to society, which has caused them to be excluded from the traditional market structure. In defining this obstacle, Prahalad refers to the "dominant logic" of private-sector businesses that restricts their ability to see the vibrant market opportunity at the BOP. This dominant logic includes some core assumptions; for instance, companies believe that given their cost structure, the BOP does not fall within their target market. They believe that the poor simply do not *need* the technological innovations and products offered in developed markets, and hence do not generate adequate demand. Most importantly, they believe that the BOP market is not critical to the long-term growth and vitality of their companies, and at best serve as an "attractive distraction." [17]

These assumptions not only pose a significant challenge to the field of impact investment, but also widen the existing rift between the corporate and philanthropic sectors. There is enough evidence to counter the assumption that the BOP does not constitute a viable market opportunity.

[16] The Fortune at the Bottom of the Pyramid, Preface xv
[17] The Fortune at the Bottom of the Pyramid, pg. 8

With its immense size and untapped potential, the GDP of the developing world is known to surpass the combined GDP of the developed world. This makes it a market that cannot be ignored.[18]

A recent report released by J.P. Morgan shed valuable insight on the untapped market potential at the base of the economic pyramid. These opportunities extend beyond sectors like microfinance that have been traditionally associated with social enterprise. Increasingly, business models are emerging in fields like health, housing and energy, thereby redefining the role of private enterprise in the field. The report estimates an investment opportunity of between $400 billion and $1 trillion and profit opportunity of between $183 billion and $667 billion over the next decade in five sectors – housing, water, health, education, and financial services – serving global populations earning less than $3,000 annually.

Table 1: Potential invested capital to fund selected BoP businesses over the next 10 years
$ bn

Sector	Potential invested capital required, USD bn	Potential profit opportunity, USD bn
Housing: Affordable urban housing	$214–$786	$177–$648
Water: Clean water for rural communities	$5.4–$13	$2.9–$7
Health: Maternal health	$0.4–$2	$0.1–$1
Education: Primary education	$4.8–$10	$2.6–$11
Financial Services: Microfinance	$176	Not measured

Source: J.P. Morgan.

An increasing number of private philanthropists are entering the impact investment industry, as a means of "amplifying their capital."[19] In fact, portfolio companies in Africa and Asia have been found to generate more than $1.5 billion in annual revenues.

[18] The Fortune at the Bottom of the Pyramid pg. 10
[19] "Impact Investment: Transforming How We Make Money While Making a Difference" pg. 24

Interestingly, there have been several instances where impact investments outperformed traditional investments. The International Finance Corporation, for instance, has an emerging market equity portfolio that outperformed traditional emerging market venture capital and private equity benchmarks for investment vintages from 1989 to 2006.[20]

As Jane Wales, CEO and President of the Global Philanthropy Forum states: “We are seeing a great growth of the entrepreneurial sector, and of SMEs that are both generating economic activity – which in itself is a positive thing – but also providing products and services and income-generating opportunities for the poor.”[21] This reiterates the potential of emerging markets in generating valuable business opportunities, and the subsequent need to draw attention towards this trend.

This changing mindset toward emerging markets is crucial to the impact investment movement. Impact investors have recognized the latent potential of emerging markets and are proactively pursuing opportunities in emerging industry segments not yet “ripe” for mainstream investments. Fund management companies serve a critical unmet need in these areas, and hence provide a valuable business opportunity for impact investors. Contrary to regular investor psychology that involves *responding* to opportunities as they arise, impact investors take a more proactive approach by creating opportunities in previously untapped markets.

The Role of Capital Markets

Research indicates that capital markets not only have a lot to give but also a lot to gain from the impact investment industry. At a fundamental level, capital markets seek to “take capital from its

---

[20] J.P. Morgan “Impact Investments: An Emerging Asset Class” p.19
[21] Tracy Elsen “At GPF 2012, Business and Philanthropy Mingle 'Toward a New Social Contract'” < http://www.nextbillion.net/blogpost.aspx?blogid=2747>

owners and place it with enterprises that can use it productively to create greater value than either the investor or the enterprise could generate alone."[22] Capital markets are essentially responsible for connecting investor to investment and facilitating the flow of resources to areas of need.

This point is best demonstrated in the evolution of the microfinance movement. Microfinance is, to this day, one of the most concrete and successful examples of impact investment. What started as a mere experiment by social entrepreneur, Muhammad Yunus to measure creditworthiness is now a vast burgeoning industry serving over 100 million customers around the world. The movement has been through decades of evolution, which involved the massive participation of traditional capital markets. It involved numerous financial engineers who built valuable bond structures for microfinance institutions to avail of. To this end, one cannot possibly discredit the role of capital markets and the private sector, in unlocking the potential of impact investment.

V. CURRENT MARKET LANDSCAPE

The expanding need for social investment, coupled with the variety of available investment avenues, make impact investing an attractive proposition for investors across multiple sectors.

Impact investors range from individuals to institutions and typically include:

- **Development finance institutions** or DFIs have evolved from government-financed donor agencies to independent entities that sustain their operations from earned income. These include the International Finance Corporation and regional banks and investment organizations including the US Overseas Private Investment Corporation.

[22] "Impact Investment: Transforming How We Make Money While Making a Difference" pg. 219

- **Large-scale financial institutions** such as J.P. Morgan and Citigroup that are positioning themselves to expand impact investing businesses beyond their minimal regulatory obligations
- **Commercial banks** that tap into retail customer pools and lend to charities
- **Private wealth managers** such as Capricon Investment Group that are beginning to integrate impact investmnts into their traditional asset portfolios
- **Companies** like General Mills and Starbucks that are diversifying their supply chains and expanding fair trade operations through impact investment

The growing need for impact investment has led to the emergence of several innovative institutions in the social sector that are propelling the movement forward. These institutions were born out of the need to "overcome traditional donation-based philanthropy" and serve as valuable support to their counterparts in the traditional capital market.[23] The image presented in Figure 3 is part of a recent study conducted by the Schwab Foundation on Social Entrepreneurship and demonstrates this alternative sector of social investment institutions.

[23] Social Investment Manual: An Introduction for Social Entrepreneurs, Schwab Foundation for Social Entrepreneurship & Technical University of Munich, 2011." pg. 2

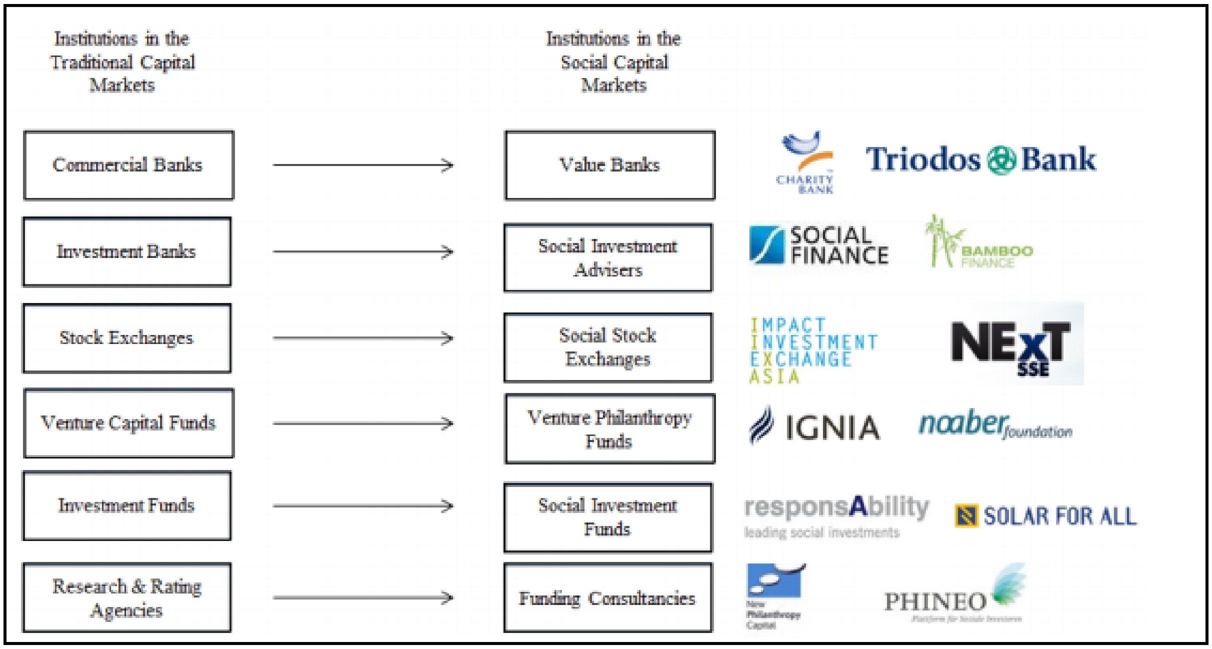


Figure 4. Social Capital Markets
Source: "Social Investment Manual: An Introduction for Social Entrepreneurs. Schwab Foundation for Social Entrepreneurship & Technical University of Munich, 2011."

As demonstrated above, there is a wide range of players and instruments involved in impact investment, making it a highly adaptable strategy that can be tailored to the vision of individual companies. The next section contains specific tools and instruments that companies can use in designing their impact investment strategies.

VI. PROCESS AND IMPLEMENTATION

This section is based on the Schwab Foundation's "Social Investment Manual," which provides a comprehensive look into the different aspects of impact investment for social enterprises.[24] As outlined in the report, there are a number of tools that companies can use to engage impact investors with different needs and priorities.

[24] Social Investment Manual: An Introduction for Social Entrepreneurs.

Grants constitute a traditional method of financing in the social sector and are provided by foundations and individuals looking for no return. Although they serve as a valuable source of funding, they constitute the "philanthropic element" of CSR and have several shortcomings. These include their short-term and unsustainable nature and the high transaction cost for recipients.

Equity capital is a viable financing instrument, although it holds the highest risk for the investor. The social investor gives the social enterprise a certain sum in exchange for a share in the company and receives a share of the profits generated by the social enterprise.

Debt capital involves long-term investments or project financing that promise stable and predictable cash flows. This is necessary as debt capital investors expect annual interest payments. Loans are provided on a temporary basis, typically between five to seven years.

Mezzanine capital combines elements of debt and equity capital and presents a convenient means of alternative financing. The interest payment can be linked to the company's profits, whereas the total amount is repaid after a fixed time period of converted into equity capital. This is a particularly attractive option for social enterprises as it allows for increased flexibility in structure.

Hybrid capital refers to a wide umbrella of financing tools containing elements of grants, equity and debt capital. This category includes recoverable grants, forgivable loans, convertible grants and revenue share agreements. Each of these tools incorporates different levels of risk and return, thus providing a variety of options for investors to choose from.

Figure 4 presents a framework for social enterprises looking to leverage different avenues of funding. The “External financing” section pertains to impact investors and can be used to determine which financial tool best suits their needs and expectations.

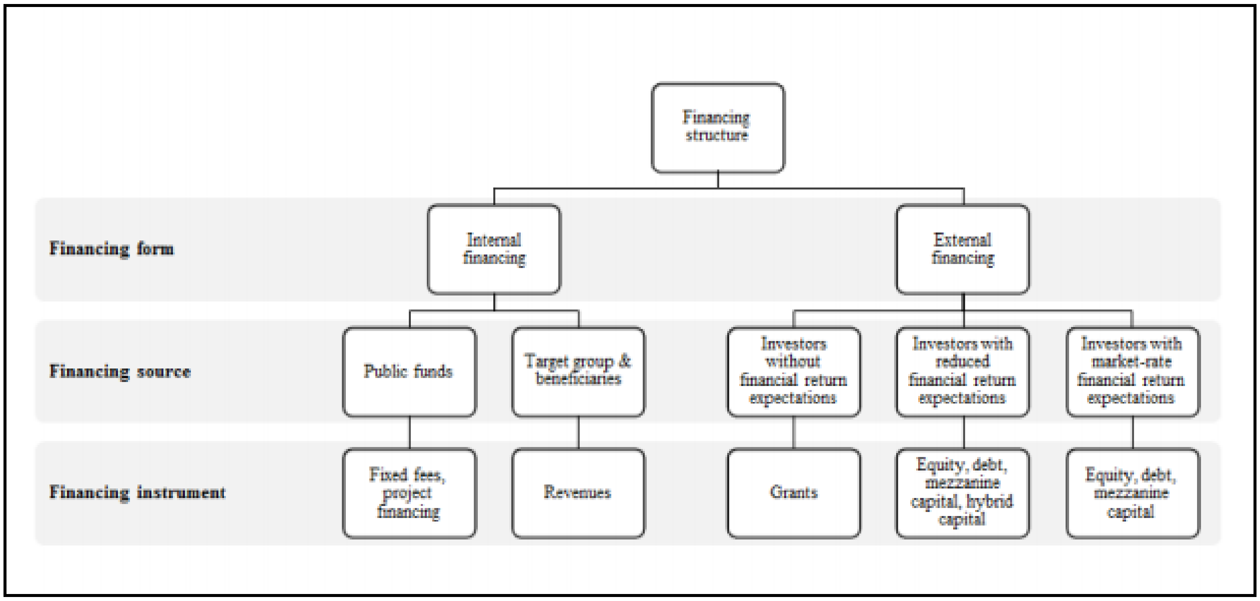


Figure 5. Classification of the Financing Structure
Source: “Social Investment Manual: An Introduction for Social Entrepreneurs. Schwab Foundation for Social Entrepreneurship & Technical University of Munich, 2011.”

As demonstrated above, the field of impact investment is extremely broad and allows for a high level of flexibility for investors with different priorities and expectations. Appendix A provides a framework for engaging investors across a spectrum of needs. The image provides a process flow chart and can be used to determine which tool best suits the needs of an investor. Based on the investor’s intent, the proposed investment goes through several stages of evaluation to determine the perfect fit.

VII. CHALLENGES

The impact investing industry is still largely in its nascent stage. As a result, investors face several challenges.

Liability to client investors – in the bifurcated world, the primary responsibility of financial institutions is to maximize returns on clients' investments. Mainstream institutions often have to fulfill a regulated, fiduciary duty to generate risk-adjusted returns that compete with traditional investments. The challenge stems from varying perceptions of value creation – with different degrees of expected financial returns, social impact and risk. The idea of blended value seeks to merge these conflicting interests and is likely to become the dominant model as the industry matures.

Slow Return, High Risk – Impact investments are often described as "below-market investments" indicating that there is ultimately a trade-off between financial and social return. The degree of this trade-off is difficult to assess due to the lack of comprehensive measurement tools. The idea of patient capital provides a viable alternative to investors interested in social impact. It indicates the long-term and often high-risk nature of their investments. Despite these challenges however, impact investment makes for a good value proposition based on its holistic perspective of business operations.

Lack of established measures and procedures – The vast scope of the impact investment industry makes it relatively difficult to create standards for measuring performance. The market currently lacks a comprehensive data analysis on investment performance, which results in varying expectations from potential investors.[25]

[25] J.P. Morgan "Impact Investments: An Emerging Asset Class" p.21

As outlined in the following section, there is an emerging industry of institutions that are working toward creating reliable measures based on imminent trends and insights from leaders in the industry.

VIII. MANAGING RISK

In response to the existing gaps, there has been a massive surge in institutions that are building the market infrastructure necessary to support impact investors. The Global Impact Investing Rating System (GIIRS) was established in 2009 specifically for the purpose of expanding the scale and effectiveness of the impact investing industry. As stated in a recent report, GIIRS is to impact investments and funds what Morningstar is to mutual funds.[26] The services provided by GIIRS include:

- **IRIS**: Impact Reporting and Investment Standards is a language and framework for measuring social performance of impact investments. IRIS seeks to provide tools for measuring, comparing and tracking impact investments.
- **Investors' Council**: comprised of leading impact investors who share information, latest research and collaborate to develop the industry
- **ImpactBase:** This is a global database of impact investment funds that seeks to create a coherent marketplace for impact investors. On ImpactBase, fund managers can create profiles for their funds visible to a global set of mission-aligned investors.[27]

[26] "Investing for Impact: How social entrepreneurship is redefining the meaning of return." Pg. 34
[27] Impact Base website <http://www.impactbase.org>

Ratings for Impact

As the impact investment industry expands, there will be an increasing amount of data and information available to create a comprehensive ratings system. In response to the growing market, new approaches are emerging to integrate outputs and impacts that will allow investors to make intelligent investment decisions.

Currently, GIIRS provides funds with an impact rating, giving them between one to five stars based on their companies' impact performance and practices.[28] In addition, GIIRS is using metrics to select, monitor and adjust portfolios, thereby providing investors with a convenient means of measuring impact.

In January 2012, GIIRS released a new product that has been essential in facilitating measurability: GIIRS Analytics. GIIRS Analytics allows investors, their advisers and fund managers to access, search and aggregate social and performance data and ratings for all companies and funds in the GIIRS database.[29] Appendix B provides an image of what an impact portfolio looks like on GIIRS Analytics.

These existing tools have helped the impact investment landscape serve as a coherent and viable strategy for investors. These tools have paved the way for a surge in innovative support services for impact investors – a trend that is only likely to strengthen the movement in coming years.

[28] "Investing for Impact: How social entrepreneurship is redefining the meaning of return." Pg. 34
[29] "Investing for Impact: How social entrepreneurship is redefining the meaning of return." Pg. 34

IX. CASE STUDIES

JP Morgan's Social Finance Unit

J.P. Morgan, which is a one of the largest commercial banks in the country, recently took the lead on experimenting with impact investment. Upon conducting extensive research, the company set up a Social Finance unit in 2007 with a double-bottom line objective of achieving positive impact on low-income and excluded populations around the world, while simultaneously earning a reasonable rate of return. By engaging social enterprises, investment funds and interested investors, the Social Finance Unit has helped scale the impact investment movement while positively transforming its CSR strategy.[30] The initiative has been extremely successful and serves as a model that can be replicated by other companies.

It is important to note that the Social Finance Unit runs as a business rather than a part of the corporate foundation. This is because philanthropy and grant making requires skills and systems that are vastly different from impact investment initiatives that have expected returns. Furthermore, this model allows the company to establish impact investments as *a recognized asset class* among investors.

In addition to committing J.P. Morgan capital to impact investments, the group provides investment services to several clients including:

- Investors seeking both positive impact and financial returns
- Social enterprises and impact investment funds
- Foundations and NGOs

[30] "Impact Investment: Transforming How We Make Money While Making a Difference" p. 246

- Development financial institutions

The company initially tapped the fast-emerging microfinance sector by investing in a highly reputable microfinance equity fund. The program was not only attractive to investment bank clients but also garnered the support of several thousand employees. The group's success revealed the growing demand for such programs as well as the business opportunity it holds.

Acumen Fund's *Patient Capital* Model

Acumen Fund is a nonprofit organization that is pioneering the impact investment movement through the innovative concept of *patient capitalism.* The key idea behind this model is to use philanthropic capital to make *disciplined investments* – primarily loans and equity – that yield both financial and social results. Investments made within the patient capital model have the following characteristics:[31]

- Long time horizons for the investment
- Risk tolerance
- A goal of maximizing social, rather than financial, returns
- Providing management support to new social enterprises in emerging markets

Since its inception in 2001, the organization has facilitated investments in 65 enterprises, impacting over 86 million lives and creating 55,000 jobs in developing countries. The company has $73 million in its portfolio and continues to attract investments from the private sector and

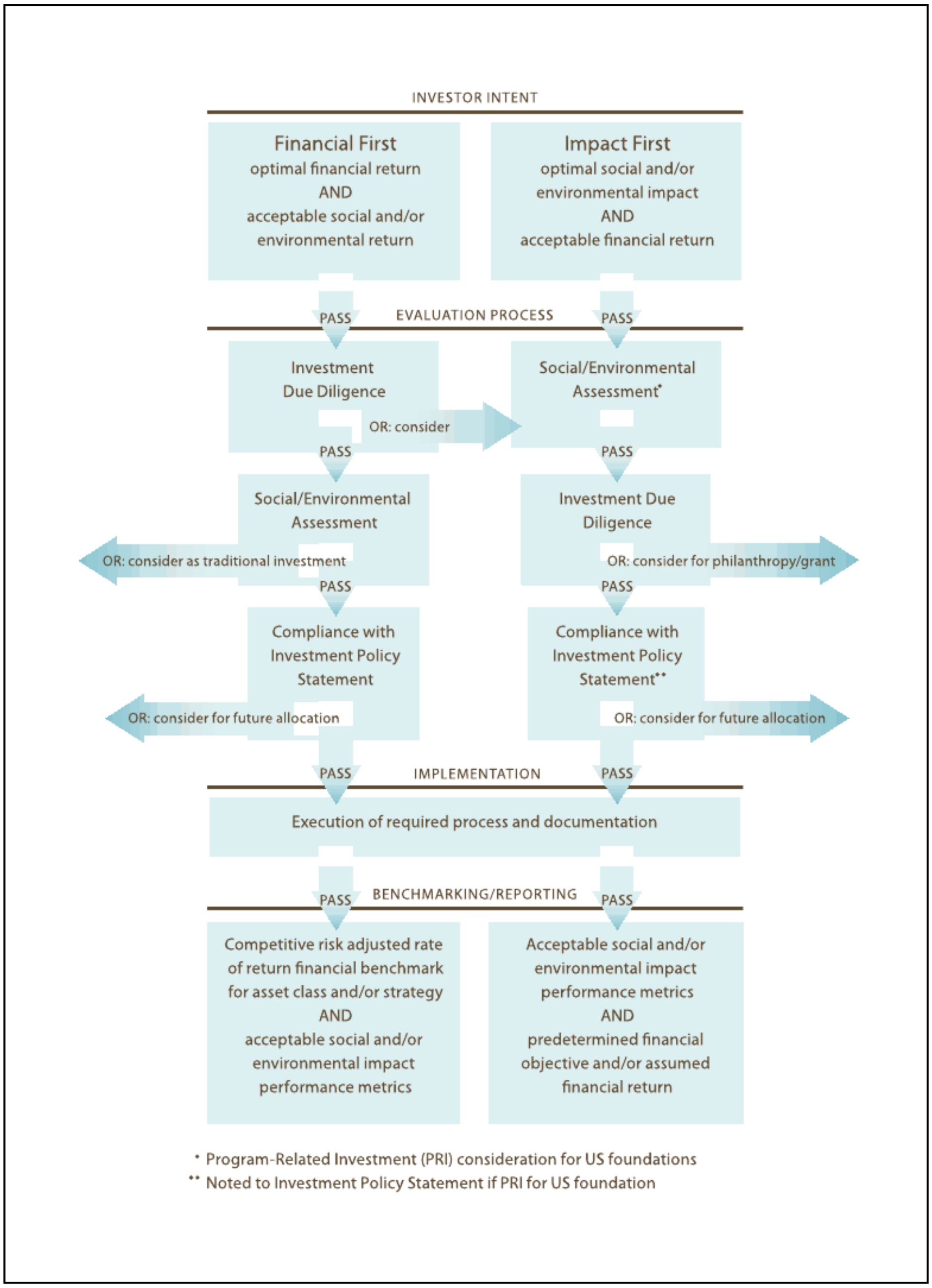
[31] Acumen Fund website <http://www.acumenfund.org/about-us/what-is-patient-capital.html>

individual investors looking to create social impact. The success of Acumen Fund demonstrates the vast and growing potential of the impact investment industry. The model of patient capital serves as a valuable means for corporations to create positive and sustainable impact through their investments. Appendix C outlines the cyclical and self-sustaining model adopted by Acumen and serves as a replicable framework for implementing similar programs both within and outside of the private sector.

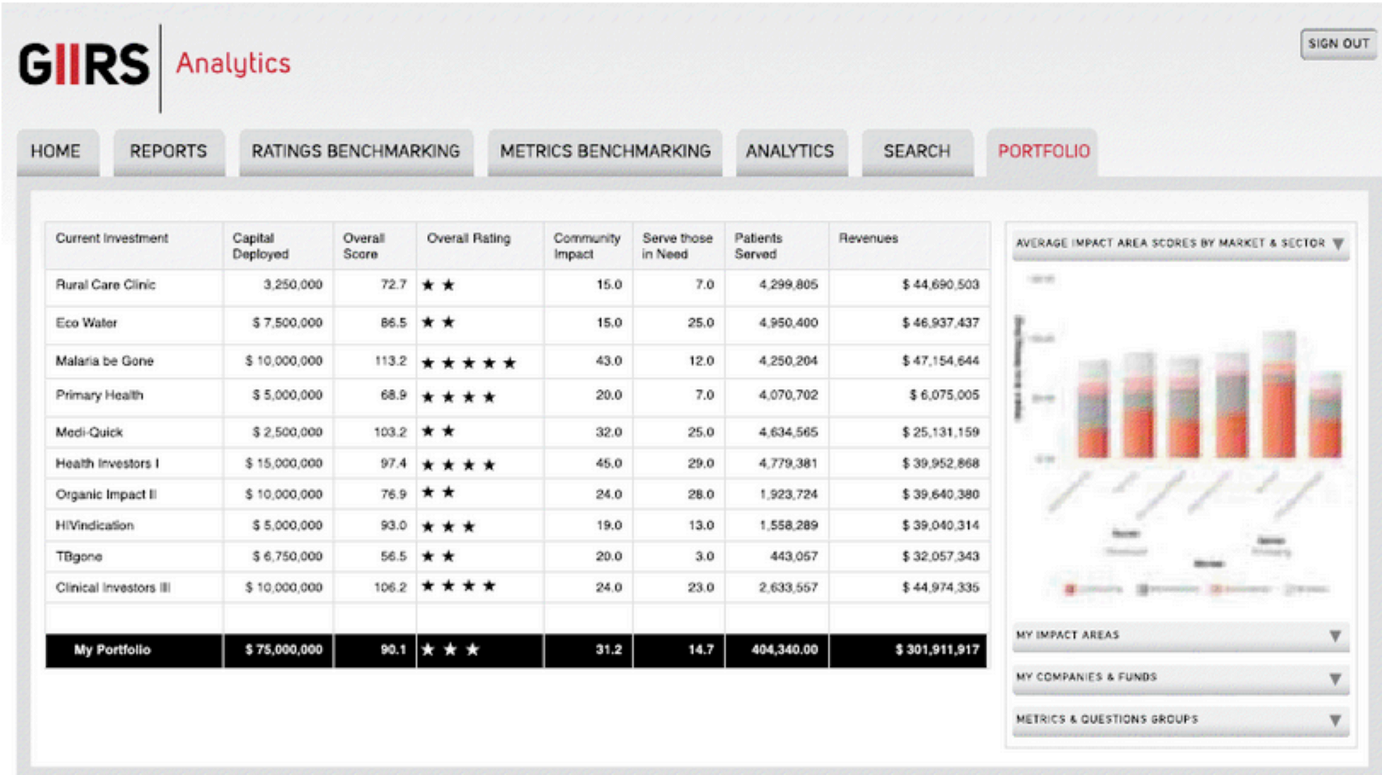
X. CONCLUSION

As the impact investing industry moves closer to mainstream finance, companies will inevitably have to embrace the model and respond to the changing landscape. Current trends reveal a growing interest amongst investors looking to incorporate social impact into their portfolios. This, coupled with the immense business potential of emerging markets, makes impact investing an attractive tool for companies. Many companies have demonstrated a deep commitment to creating positive social impact, but are yet to take advantage of the impact investment model. By incorporating impact investments into the strategic CSR model, companies could strengthen their market position while preparing for an imminent shift toward a more sustainable and holistic CSR sector.

Appendix A: Implementation Framework for Impact Investors

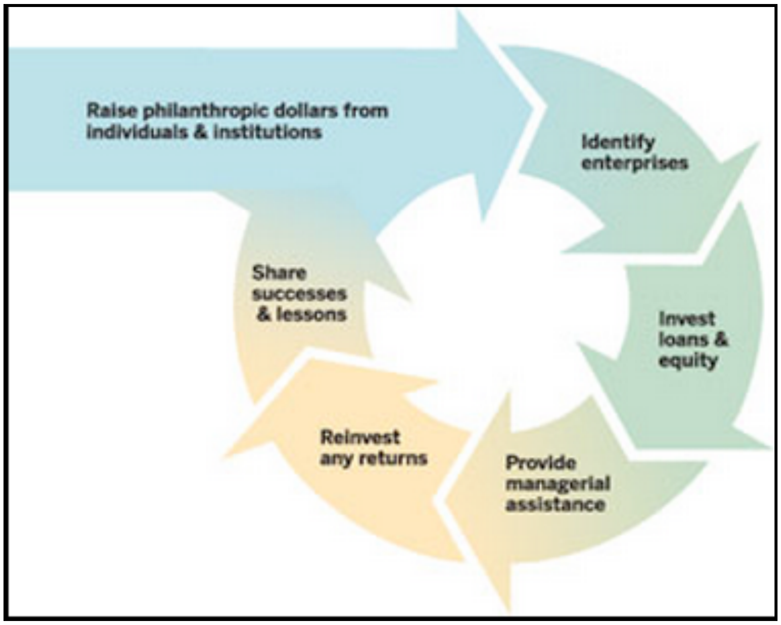


Appendix B: Sample portfolio on GIIRS Analytics



Current Investment	Capital Deployed	Overall Score	Overall Rating	Community Impact	Serve those in Need	Patients Served	Revenues
Rural Care Clinic	3,250,000	72.7	★ ★	15.0	7.0	4,299,805	$ 44,690,503
Eco Water	$ 7,500,000	86.5	★ ★	15.0	25.0	4,950,400	$ 46,937,437
Malaria be Gone	$ 10,000,000	113.2	★ ★ ★ ★ ★	43.0	12.0	4,250,204	$ 47,154,644
Primary Health	$ 5,000,000	68.9	★ ★ ★ ★	20.0	7.0	4,070,702	$ 6,075,005
Medi-Quick	$ 2,500,000	103.2	★ ★	32.0	25.0	4,634,565	$ 25,131,159
Health Investors I	$ 15,000,000	97.4	★ ★ ★ ★	45.0	29.0	4,779,381	$ 39,952,868
Organic Impact II	$ 10,000,000	76.9	★ ★	24.0	28.0	1,923,724	$ 39,640,380
HIVindication	$ 5,000,000	93.0	★ ★ ★	19.0	13.0	1,558,289	$ 39,040,314
TBgone	$ 6,750,000	56.5	★ ★	20.0	3.0	443,057	$ 32,057,343
Clinical Investors III	$ 10,000,000	106.2	★ ★ ★ ★	24.0	23.0	2,633,557	$ 44,974,335
My Portfolio	**$ 75,000,000**	**90.1**	★ ★ ★	**31.2**	**14.7**	**404,340.00**	**$ 301,911,917**

Appendix C: The Acumen Fund Model



References

"Acumen Fund: About Us." *Acumen Fund*. Web. 15 Apr. 2012. <http://www.acumenfund.org/about-us.html>.

Elsen, Tracy. "At GPF 2012, Business and Philanthropy Mingle 'Toward a New Social Contract.'" *NextBillion.net.* Web. 15 Apr. 2012. <http://www.nextbillion.net/blogpost.aspx?blogid=2747>.

"Global Impact Investing Rating System." *GIIRS.* Web. 15 Apr. 2012. <http://giirs.org/>.

"ImpactBase: Home." *ImpactBase.* Web. 16 Apr. 2012. <http://www.impactbase.org/>.

"Impact Investments: An Emerging Asset Class." J.P. Morgan & Rockefeller Foundation (2010).

"Investing for Impact: How Social Entrepreneurship is redefining the Meaning of Return." Credit Suisse & The Schwab Foundation for Social Entrepreneurship (2012).

"Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry." The Monitor Institute (2009).

Landier, Augustin, and Vinay B. Nair. *Investing for Change: Profit From Responsible Investment*. Oxford: Oxford University Press, 2009. Print.

Levine, Antony, and Jed Emerson. *Impact Investing: Transforming How We Make Money While Making a Difference.* San Francisco: Jossey-Bass, 2011. Print.

Porter, Michael E., and Mark R. Kramer. "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility." *Harvard Business Review* (2006): 78-92. Print.

Prahalad, C. K.. *The Fortune at The Bottom of the Pyramid*. Upper Saddle River, NJ: Wharton School Pub., 2005. Print.

"Social Investment Manual: An Introduction for Social Entrepreneurs." Schwab Foundation for Social Entrepreneurship & Technical University of Munich (2011).