

The Impact Class Concept

Initial Findings from the Navigating Impact Investing Project

November 17, 2016

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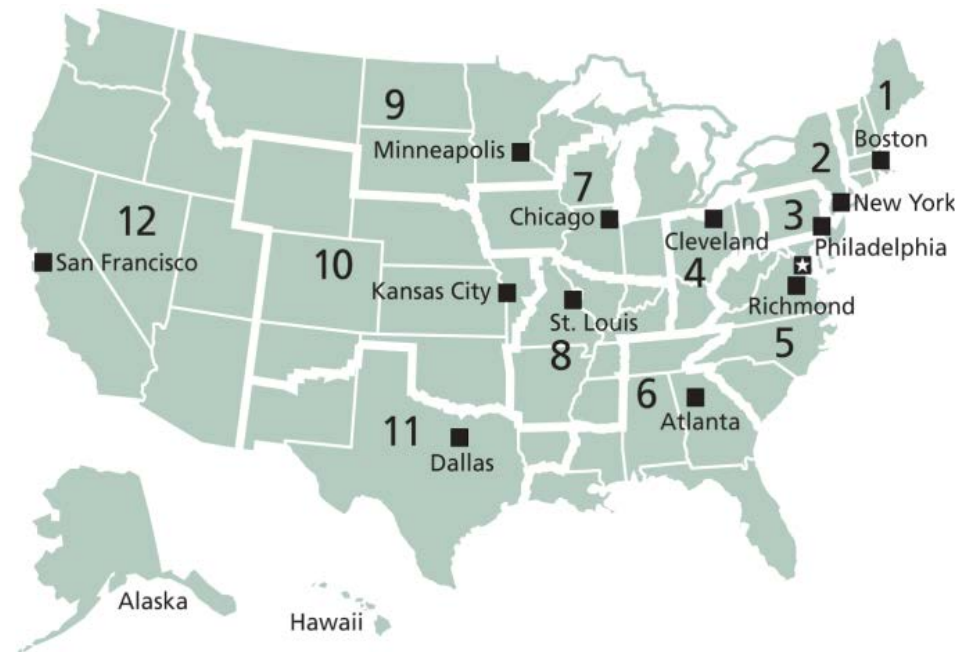
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Community Development (CD)

- The CD function within the Federal Reserve System—consisting of individual departments at each of the 12 Federal Reserve Banks and at the Board of Governors—promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters and Agenda

- **Cathy Clark**, Director, CASE i3 Initiative on Impact Investing, Durham, North Carolina
- **Ben Thornley**, Managing Partner, Tideline, San Francisco, California
- **Sasha Dichter**, Chief Innovation Officer, Acumen, New York, New York
- The following will be discussed:
 - The impact capital market
 - The case for impact classes
 - Reaction to the impact class framework

The Impact Capital Market

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What is Impact Investing?



Addressing Barriers to Impact Investing

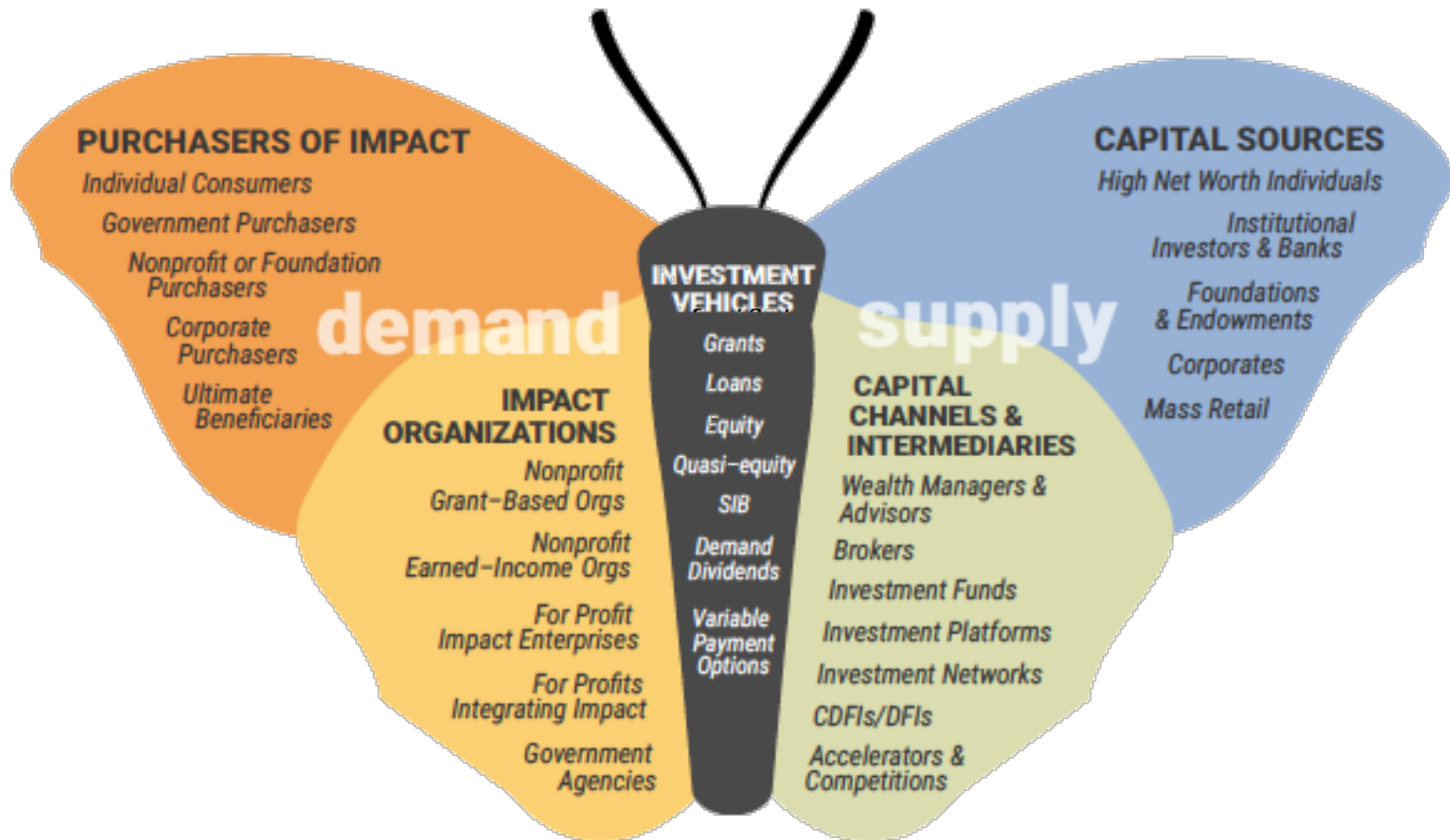


- Could defining the segments under the tent help address critical impact investing field obstacles to create:
 - Better market, program, product, and policy development?
 - Aligned expectations of risk, return, and impact?
 - Easier entry and efficiency for investors?
 - Stakeholder-supported performance evaluation?
 - More informed advocacy around what works?
 - More effective engagement with investees?

Navigating Impact Investing Project

- Objective:
 - Help optimize the process of matching an investor’s unique risk, return, and impact preferences with the right investment opportunities
- Approach:
 - Literature review of 200+ sources from diverse fields, extensive market outreach (over 1,000 pages of transcripts from 45 interviews), and 2 advisory group meetings (including an in-person event hosted by BlackRock in New York City)
- Audience:
 - Primary: asset owners and their advisors
 - Secondary: investment managers

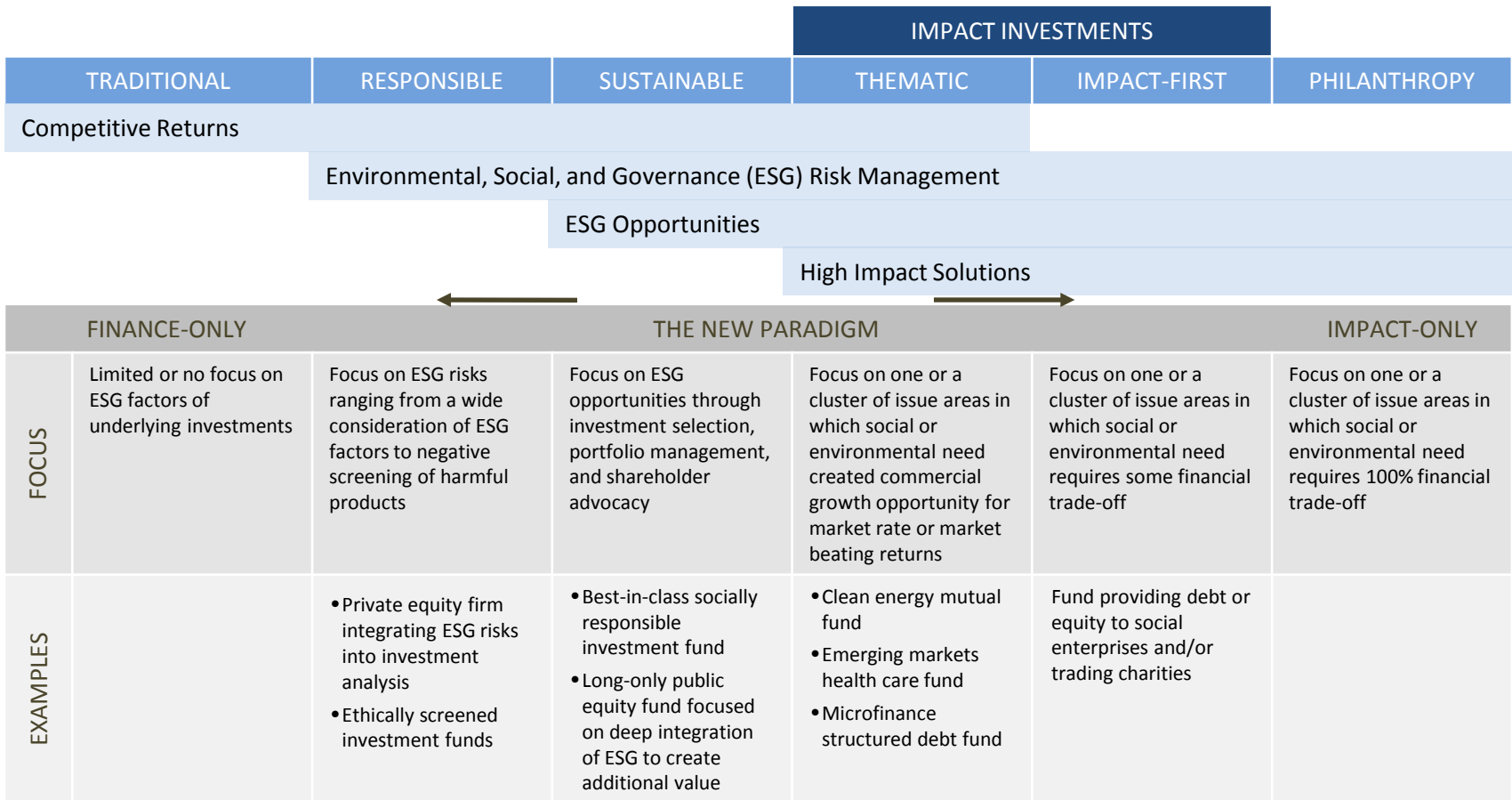
Impact Capital Market



Source: CASE Smart Impact Capital, © Duke University 2016

Spectrum of Capital

This is one of the more prominent, widely adopted frames for the market, which places impact investing within a broader spectrum ranging from traditional investment to philanthropy. This highlights an important evolution in thinking about the market: that the impact-first and finance-first distinction is not enough.



Source: Ten Year Report: A decade of investing for impact and sustainable growth. Bridges Ventures. January 2013.

Linking Asset Classes and Impact Themes

This chart is by far the most commonly cited by investors in describing their intentions, mapping investments by sector and asset class. The goal of impact classes is to be additive by providing an understanding of the approaches to impact investing that transcends sector and asset class.

	LIQUIDITY	INCOME AND WEALTH PRESERVATION			CAPITAL APPRECIATION AND WEALTH GROWTH			INFLATION PROTECTION	
	Cash/Cash Alternatives	Notes/ Other Debt Obligations	Bonds	Absolute Returns/ Low Equity Correlations	Public Equity	Equity Long/ Short	Private Equity	Real Estate	Commodities and Other Real Assets
CLIMATE CHANGE	Green Deposit Bank		Tax-Exempt Green Bonds	Carbon Trading	Positive and Negative Screening		Clean Tech Venture Capital	Green Real Estate Investment Trusts	
ENERGY			Screen Corporate Bonds	Alternative Energy Project Finance	Exchange Traded Funds	Renewable Energy	Energy Efficient Venture Capital		Sustainable Feedstocks
WATER			Corporate Infrastructure Bonds	Water Treatment Project Finance	Unit Investment Trust, Closed End Funds	Water Funds	Water Technology Venture Capital		
COMMUNITY DEVELOPMENT	Community Bank Certificates of Deposit	Foreclosure Repair		Microfinance Institutions Debt	Shareholder Proxy Voting		CD Venture Capital	Transportation Smart Dev. Funds	
SOCIAL ENTERPRISES		Social Enterprise Credit			Micro-Cap Listed Social Companies		Small and Medium Enterprise	Conservation/ Eco-tourism	
HEALTH AND WELLNESS		Bridge Financing		Structured Public Note			Consumer Product Venture Capital	Organic Farming	
SUSTAINABLE DEVELOPMENT	Trade Finance Guarantee/ Deposit		Smart Growth Municipal Bonds	Blended Debt Equity Hybrid Structures	Thematic Screening			Ranchland, Agriculture	Sustainable Timber
EDUCATION	Linked Deposit/ Guarantee		Charter School Bonds				Education Private Equity	University Green Building	

Source: "Illustrative Landscape of Impact Themes with Asset Class Exposures" Solutions for Impact Investors: From strategy to implementation. Rockefeller Philanthropy Advisors. November 2009.

This version: Essentials of Impact Investing: A guide for small-staffed foundations. Arabella Advisors; Exponent Philanthropy; Mission Investors Exchange. September 2015.

The Case for Impact Classes

Ben Thornley

Managing Partner, Tideline

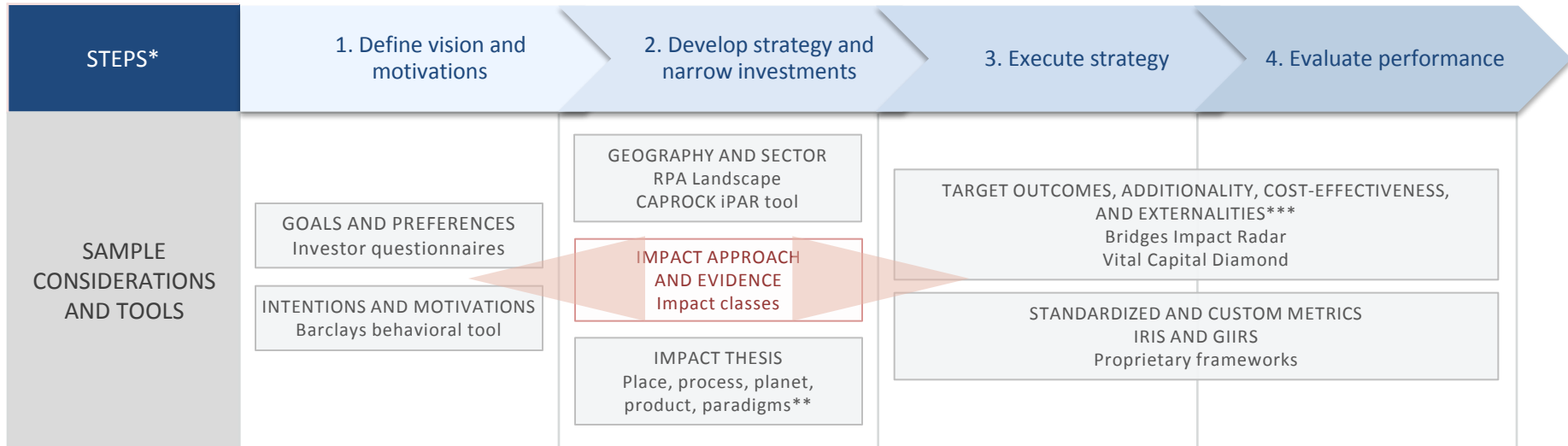
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Role in the Investment Process

Impact classes provide an additional layer of information, supplementing other factors related to impact.



Sources:

*Process adapted in part from: Impact investing: A primer for family offices. World Economic Forum. December 2014.

**Making Sense of the Many Kinds of Impact Investing. Brian Trelstad. HBR. January 2016.

***Variables drawn from Bridges Ventures' Impact Radar framework

Designing Impact Classes

Impact classes are a clustering of investments with similar impact characteristics.

DESIGN OBJECTIVES	CHALLENGES
Limited set of high-level classes	How to characterize impact without getting into the cornucopia of impact goals and objectives
Simple and compelling construct	How to best articulate or layer information and resist the urge to over-complicate
Meaningful and objective	How to incentivize managers to self-categorize, while leaving open the possibility of third-party verification
Neutral on the degree or quality of impact	How to ensure the framework has value without making value judgments
Categorical and exhaustive	How to create classes that include all impact investments, without precluding new innovations

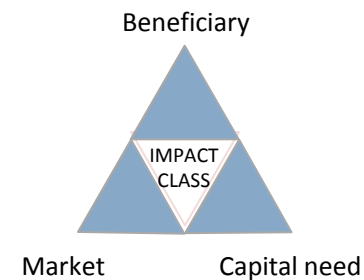
Impact Class Concept

PROSPECTIVE ELEMENTS	
Type of impact evidence	Inputs, outputs, outcomes, impacts
Role of impact investing capital	Pioneering, scaling, influencing
Market and beneficiary characteristics	Level of market development, nature of beneficiary, capital need

MODEL FRAMEWORK #1

	IMPACT EVIDENCE			
ROLE OF CAPITAL				

MODEL FRAMEWORK #2



Framework #1: Landscape

This preliminary example of an impact class framework combines two variables: role of impact capital and type of impact evidence. This approach allows clustering based on why impact investing is needed (role of impact capital) and how the resulting impact is demonstrated (type of impact evidence). The impact classes in this case may be each individual cell in the matrix or could be groups of cells with overarching characteristics in common.

		TYPE OF IMPACT EVIDENCE			
		THESIS-ALIGNED Have investment practices aligned with impact intentions and report high-level data on investee PRACTICES AND ACTIVITIES	STRATEGIC OUTPUTS Report a selection of relevant investee OUTPUTS CONSISTENT WITH IMPACT GOALS	OUTCOME DATA Track output and outcome data on an ongoing basis and can provide DATA DEMONSTRATING POSITIVE CHANGE for target beneficiaries	IMPACT DATA Can provide data that explicitly informs assessment of ADDITIONALITY AND/OR COST-EFFECTIVENESS
ROLE OF IMPACT CAPITAL	INFLUENCING PROMPTING the impactful actions of mature businesses	A	A	B	-
	SCALING GROWING proven, impactful business models or sectors	A	B	B	C
	PIONEERING SEEDING new or early stage impactful business models and financial innovations	B	B	C	C

Please note that these frameworks are preliminary and are still undergoing testing and development.

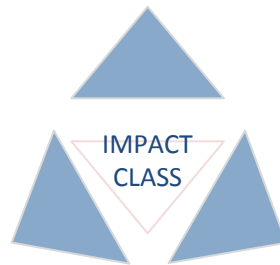
Framework #2: Elemental

Below is another preliminary example framework defined by three variables—the nature of beneficiaries, nature of the market, and degree of capital need—that in combination describe the approach to impact. For the purpose of arriving at high-level impact classes, each of the three variables has two discrete settings (defined below), which is indicated according to light or dark shading of the triangles in the graphic.

Please note that these frameworks are preliminary and are still undergoing testing and development.

BENEFICIARY

Vulnerable	Undefined
Benefits are targeted primarily to people, places, or systems that are disadvantaged, under threat, and/or lack access to resources and opportunity.	Benefits are primarily broad-based and are not targeted toward people, places, or systems that are demonstrably vulnerable.



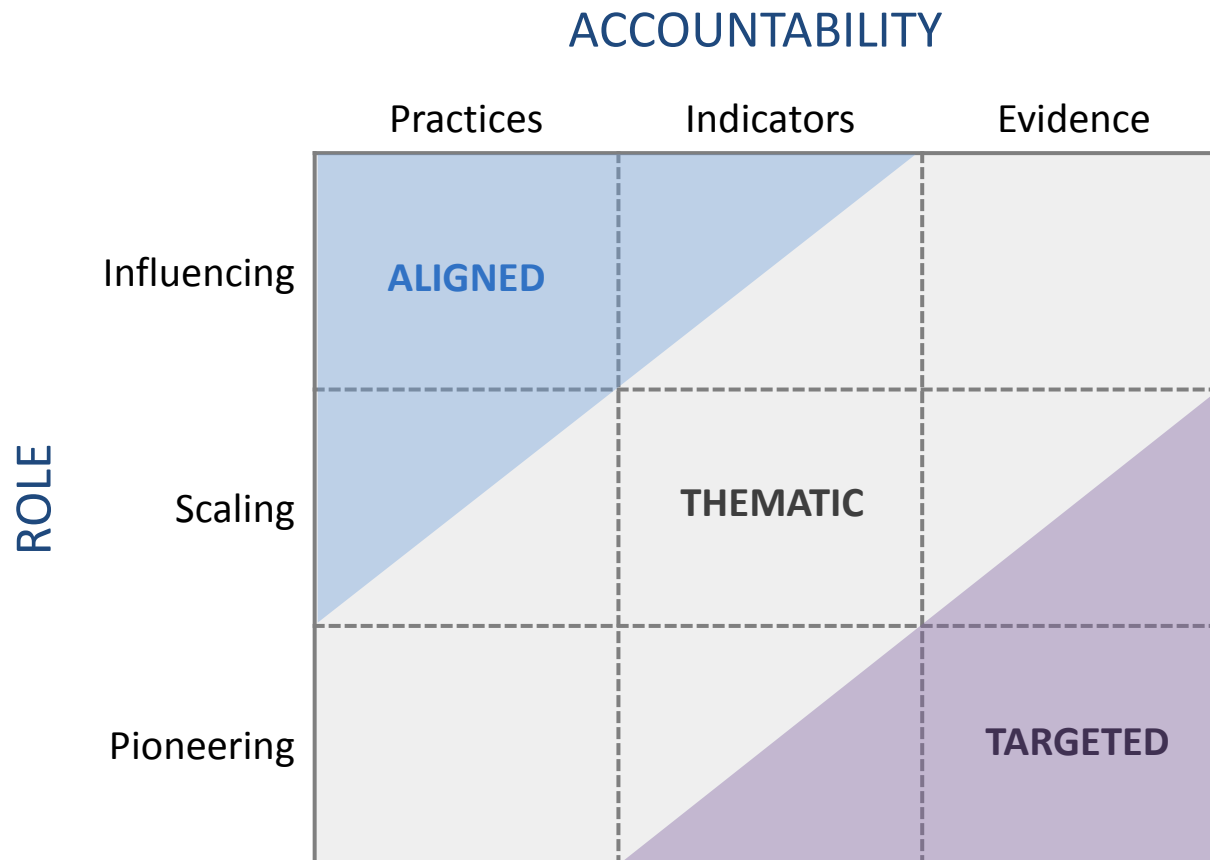
MARKET

Underdeveloped	Established
The investment's market is relatively new, emerging, or subject to systemic challenges.	The investment's market is relatively proven, efficient, and well-functioning.

CAPITAL NEED

Critical	Supplemental
Limited opportunities are available for the investee to access capital, implying that capital provided plays a key role in making the impact possible.	Access to capital is generally available in the investee's market. Additional capital provided is of a supplemental nature.

Most Recent Framework

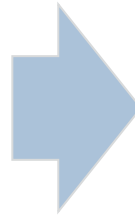


Example of Investment Process

Impact classes in practice: Categorizing hypothetical investments

The following example illustrates how impact classes could help diverse investors match their specific preferences to suitable investments.

A government enters into a pay-for-success contract that encourages private investors to provide the initial funding for an intervention aimed at reducing recidivism.



Sector/impact theme	Prisoner rehabilitation
Asset class	Pay-for success contract
Geography	United Kingdom
Impact class	TARGETED

A foundation makes a program-related investment into a fund that provides financing for community clinics.



Sector/impact theme	Health care delivery
Asset class	Fixed income
Geography	United States
Impact class	THEMATIC

A high-net-worth investor invests in a mutual fund that invests in public equities and files shareholder resolutions or engages with public companies on environmental issues.



Sector/impact theme	Environment
Asset class	Public equity
Geography	International
Impact class	ALIGNED

Reaction to the Impact Class Framework

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CATALYZING ENTREPRENEURSHIP TO CREATE A WORLD WITHOUT POVERTY

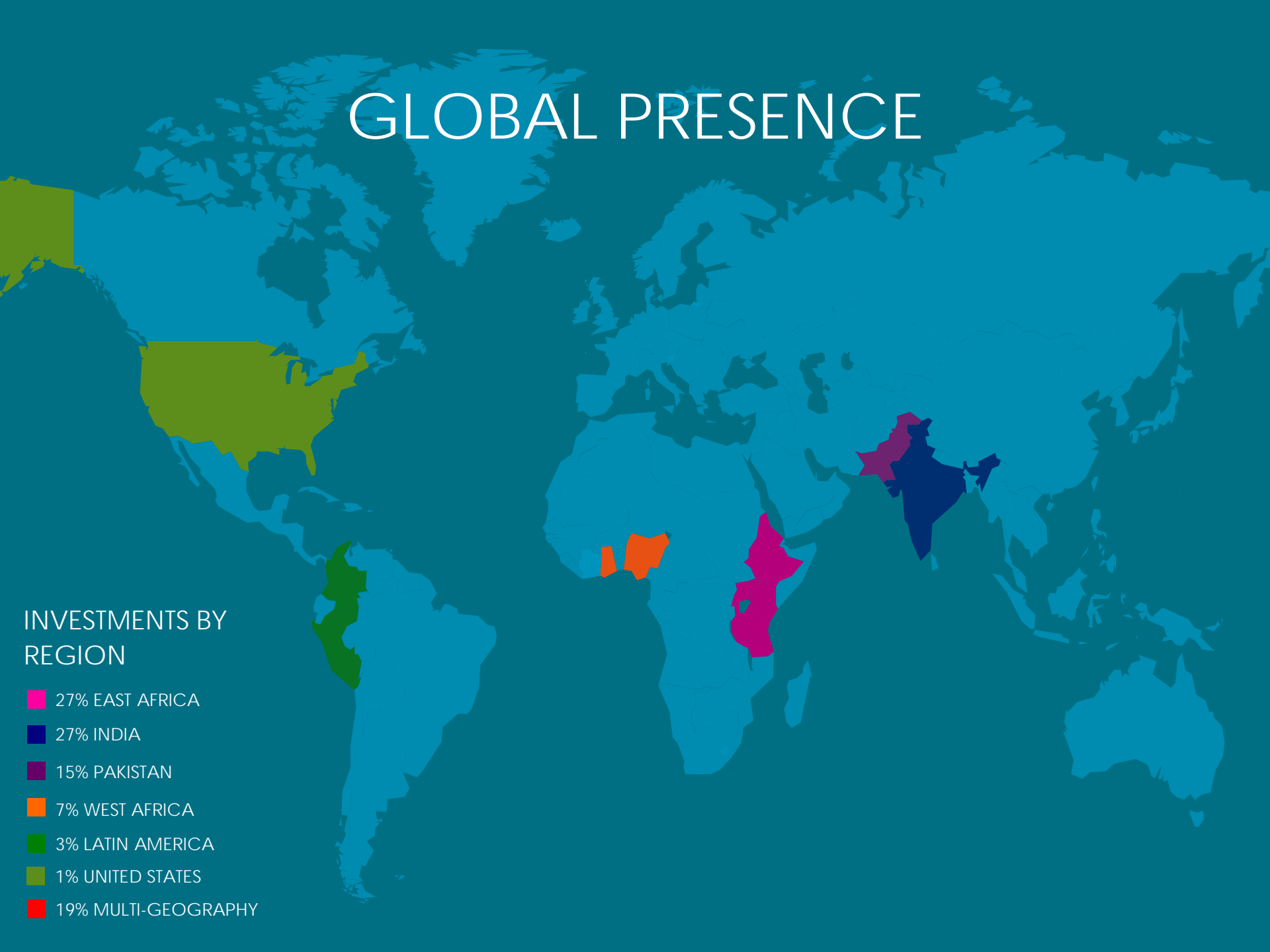


ACUMEN
CHANGING
THE WAY
THE WORLD
TACKLES
POVERTY

GLOBAL PRESENCE

INVESTMENTS BY REGION

- 27% EAST AFRICA
- 27% INDIA
- 15% PAKISTAN
- 7% WEST AFRICA
- 3% LATIN AMERICA
- 1% UNITED STATES
- 19% MULTI-GEOGRAPHY



OUR IMPACT TO DATE

\$103M 96 189M 322 16 430K

CUMULATIVE
INVESTED*

COMPANIES*

LIVES
IMPACTED

LEADERS
DEVELOPED

+ACUMEN
CHAPTERS

COURSE
SIGN-UPS

*SINCE 2001



ACUMEN INVESTS PIONEER AND EARLY GROWTH CAPITAL WHERE THERE IS THE BIGGEST FINANCING GAP

WHERE MOST
GRANTS ARE
GIVEN



BLUEPRINT



VALIDATE



PREPARE



SCALE

Risk capital is scarce for early-stage
social enterprises.
Acumen fills this critical

"PIONEER" FUNDING GAP.

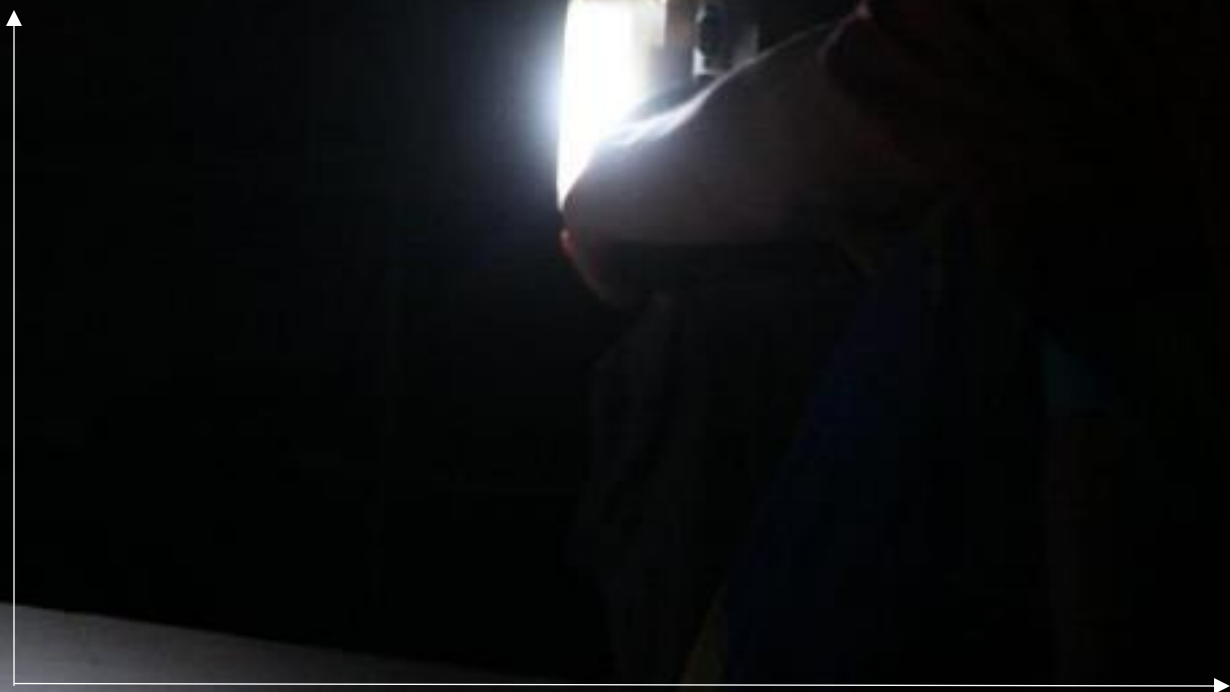
WHERE MOST
IMPACT FUNDS
INVEST





This is Sam and Ned.
In 2007 they set out to
eradicate kerosene.

INVESTING TO SCALE: D.LIGHT DESIGN



INVESTING TO SCALE: D.LIGHT DESIGN



200K



2008
\$1M
equity




= 250,000 LIVES

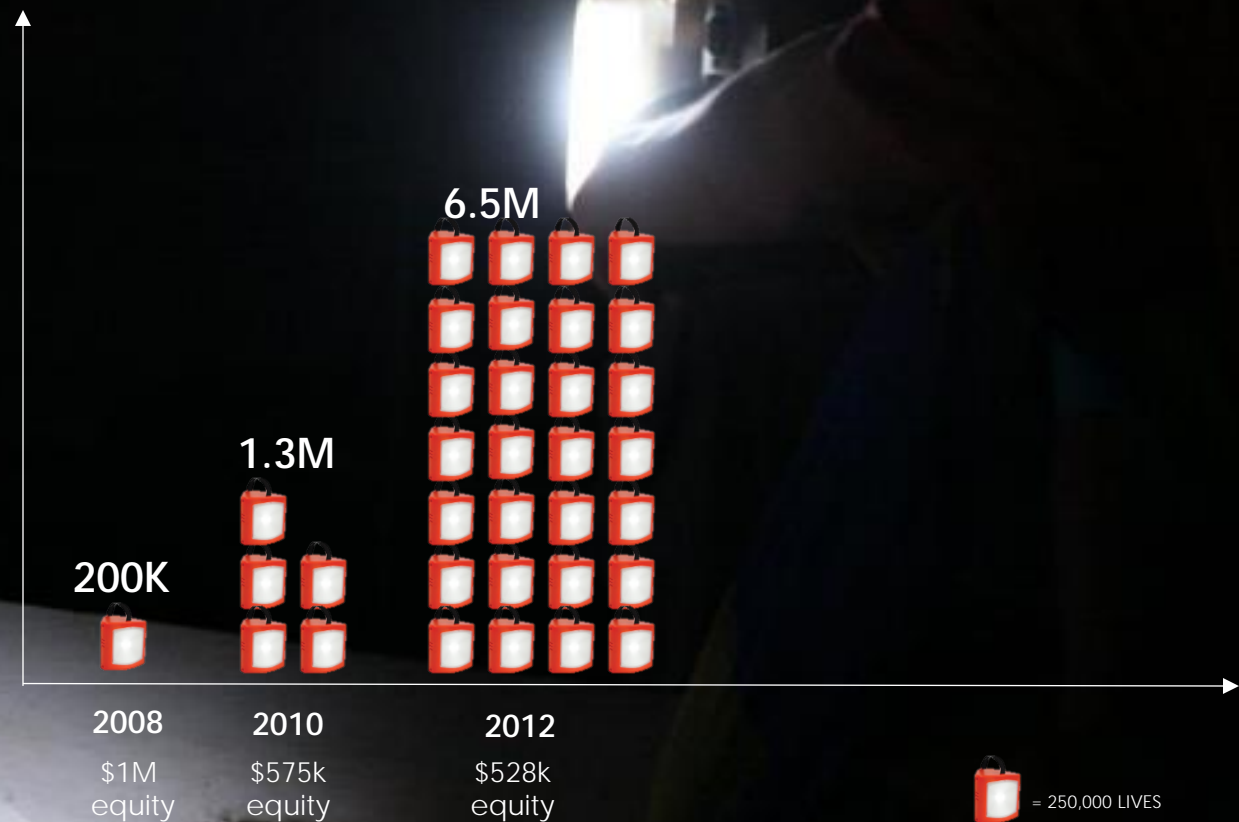
INVESTING TO SCALE: D.LIGHT DESIGN



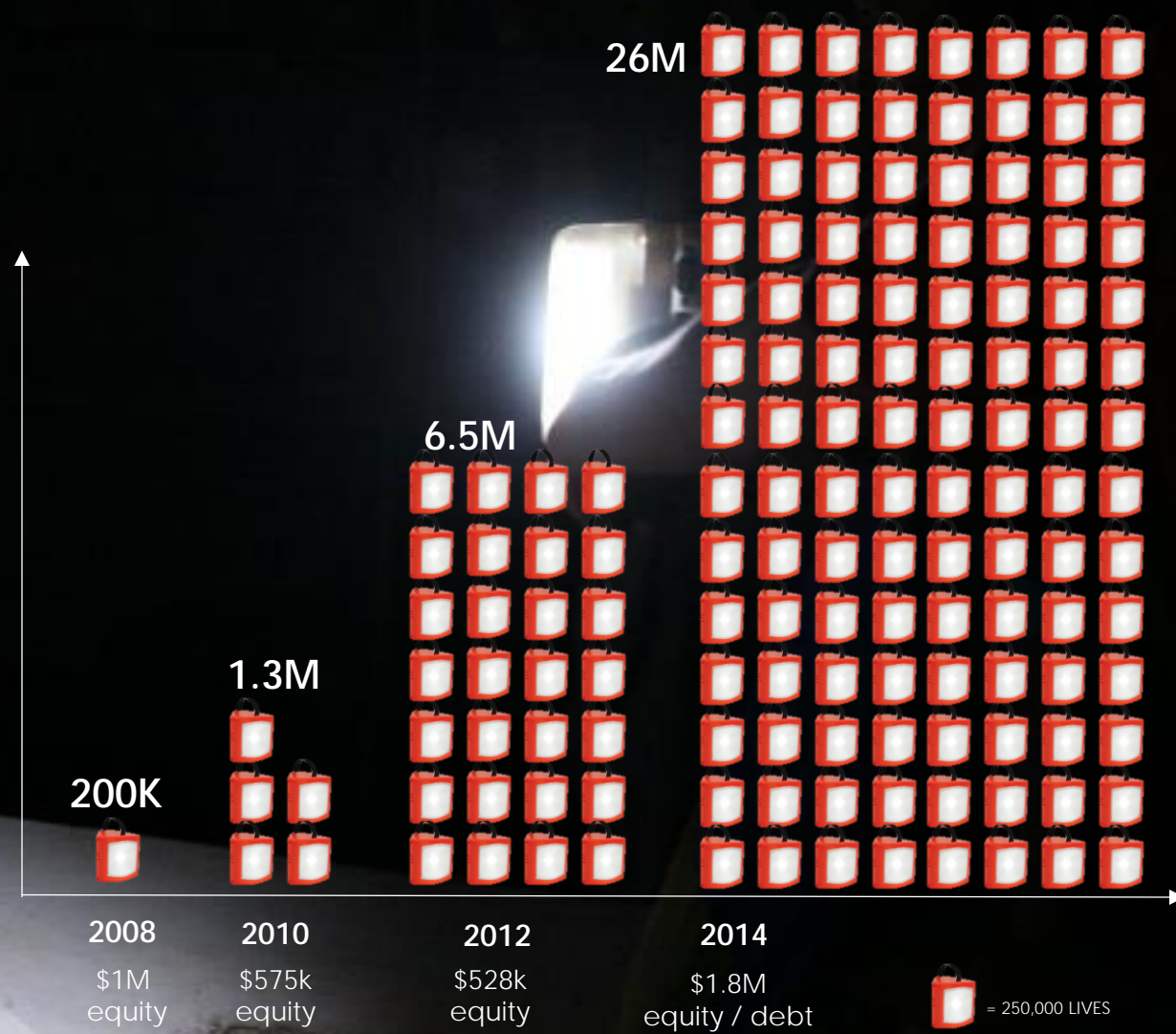
2008	2010
\$1M equity	\$575k equity

 = 250,000 LIVES

INVESTING TO SCALE: D.LIGHT DESIGN



INVESTING TO SCALE: D.LIGHT DESIGN



INVESTING TO SCALE: D.LIGHT DESIGN

\$3.9M
INVESTED



22 M
TONS OF CO
OFFSET

INVESTING TO SCALE: D.LIGHT DESIGN

\$3.9M
INVESTED



\$5 Billion
IN FUEL SAVINGS
FOR THE POOR

100
million



Questions?

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1. Email us at: communities@stls.frb.org
2. Type your question into the chat box of the webinar

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- Investing in Digital Inclusion Under CRA:
 - Thursday, December 08, 2016
 - 2-3 pm CT/ 3-4 pm ET
- Presenters:
 - Joanne Hovis, CTC Technology & Energy
 - Jordana Barton, Federal Reserve Bank of Dallas
 - Cathy Gates, Board of Governors of the Federal Reserve System

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website and in the next few days, we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/.

Related Resources



In connection with this session, you can find a variety of additional resources on this topic available at www.fedcommunities.org.

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