



Investing for Environmental and Social Impact (B40.3148) – Syllabus

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Office Hours: By Appointment and Before and After Class

Dates and Time: September 27 – November 1 (6 – 9 PM)

Classroom: KMC 5-140

Course Description:

Impact investors seek to generate environmental and social impacts in addition to financial returns. This emerging investment strategy has been applied across asset classes and seeks to address critical issues such as energy, water, climate change, community development, social enterprises, health, sustainable development and education. The class will draw upon principles of finance, microeconomics, statistics, public policy and investment management to evaluate specific cases and investment tools in areas such as environmental markets and climate change, public finance and investing in the base of the pyramid market. This course targets students seeking careers in financial services who want to better understand the interaction of capital markets and policy issues. The format will be a combination of readings, lectures, case discussions, guest speakers and team presentations. The course will be a 1.5-credit class offered in the first half of the 2010 Fall Semester. Foundations of Finance is a prerequisite for the class.

Course Philosophy:

The fields of investment and environmental and social policy development have operated separately despite the fact that many challenges facing the world will require integrated solutions that can successfully combine the capital markets with policy objectives. Traditional models describing the interaction of the private and public sectors do not capture the complexity of how private investors, philanthropists, non-governmental

institutions (NGOs) and the public sector are now working together. We will consider how capital markets, asset management and investment and commercial banking can be harnessed to create positive environmental and social impacts.

Course Objectives:

- Provide students with the concepts, frameworks and models to source, analyze and fund impact investments across asset classes and impact themes.
- Introduce students to the theoretical basis for impact investing, e.g. externalities, financial and social trade-offs, behavioral finance, market failures and blended value investing.
- Provide access to industry-specific resources including industry experts and research.
- Introduce students to theories of change / impact evaluation frameworks and how these can be integrated into traditional risk and return models. How can social and environmental impact be evaluated and used to drive future investment decisions?
- Analyze the effectiveness of the range of impact tools and tactics currently available to impact investors. These include direct and fund investments, guarantees and credit enhancements, below-market subsidized investments, screening and shareholder engagement.
- Map impact investing opportunities against existing product offerings and explore the gaps. What lessons and structures can be applied from traditional capital markets to impact investing?
- Understand the segmentation and distinct roles of specific impact investors: institutional (pension funds, foundations and endowments), corporations, public sector (multi-laterals, federal, state, local), high net-worth and family offices, and retail investors. Who are these investors and how do they approach investment decisions?
- Explore the role of funds and other intermediaries and vehicles in impact investing.
- Identify impact investment structures and models (e.g. patient capital model, Grameen's social business model, community development financing, credit enhancement and tiered-capital funds.) In which situations do these models work and where might they fail?
- Provide student teams the opportunity to create and structure new impact investment vehicles which meet the sector and financial requirements of specific

investors. Students will map the existing investment landscape and develop new impact investment products.

- Increase the amount of impact investment product offerings and capital available in the field and provide students with access to innovative practitioners and organizations.

Course Schedule and Sessions:

Session		Class Format
Sept. 27th	<p>Introduction to Course and Concepts The Case for Impact Investing from the Investor’s Prospective</p> <p><u>Required Readings:</u> Bishop, Matthew, and Michael Green, <u>The Road from Ruin: How to Revive Capitalism and Put America Back on Top</u>, Crown Publishing Group, 2010. (Introduction and Part II.)</p> <p>Baker, Malcolm and Aldo Sesia, “Behavioral Finance at JP Morgan Chase,” HBS Case 9-207-084, 2007.</p> <p>Godeke, Steven and Raul Pomares, <u>Solutions for Impact Investors: From Strategy To Implementation</u>, Rockefeller Philanthropy Advisors, 2009. (Introduction and Chapter 4.)</p> <p>Emerson, Jed, Tim Freundlich and Shari Berenbach, ‘Where Money Meets Mission: Toward a Unified Investment Strategy,’ 2007, PDF.</p>	Readings, Case Study and Formation of Project Teams
Oct. 4th	<p>Impact Investing Opportunities Across Asset Classes; Theories of Change and Impact Evaluation</p> <p><u>Required Readings:</u> Ebrahim, Alnoor and V. Kasturi Rangan, “Acumen Fund: Measurement in Impact Investing (A) and (B),” HBS Cases, 9-310-011 and 9-106-043, 2010.</p> <p>Foundation Center, Tools and Resources for Assessing Social Impact (TRASI), http://trasi.foundationcenter.org/</p> <p>Freireich, Jessica and Katherine Fulton, <u>Investing for Social & Environmental Impact</u>, Monitor Institute, 2009, PDF.</p>	Readings and Case Study

	<p>Global Impact Investing Network (GIIN)’s Impact Reporting and Investment Standards: http://iris-standards.org/</p> <p>Grantcraft, The Ford Foundation, “Mapping Change: Using a Theory of Change to Guide Planning and Evaluation.”</p> <p>McKinsey Learning for Social Impact Website: http://lsi.mckinsey.com/</p> <p>Miller, Gregory et al, “When Investing and Social Objectives Meet,” HBS Case 9-106-43, 2006.</p>	
<p>Oct. 11th</p>	<p>Environmental Finance – Climate Change and Real Assets</p> <p><u>Required Readings:</u> Emerson, Jed, Joshua Spitzer and Jacob Harold, “Blended Value Investing: Real Estate, Skoll Centre for Social Entrepreneurship Working Paper, 2007, PDF.</p> <p>Levitt, James N., <u>From Walden to Wall Street, Frontiers of Conservation Finance</u>, Island Press, 2006.</p> <p>LaVoie, Valerie and David Wood, <u>Handbook on Climate-Related Investing Across Asset Classes</u>, Initiative for Responsible Investment, 2009, PDF.</p> <p>“The Green Economy: The Race is On,” DB Climate Advisors, April 2010, https://www.dws-investments.com/EN/docs/research/green_economy.pdf</p> <p><u>Guest Speaker:</u> Peter Stein, Managing Director, The Lyme Timber Company</p>	<p>Readings and Guest Speaker</p>
<p>Oct. 18th</p>	<p>Poverty Alleviation – Microfinance and The Base of The Pyramid</p> <p><u>Required Readings:</u> Chu, Michael and Regina Garcia Cuellar, “Banco Compartamos: Life After the IPO,” HBS Case 9-308-094, 2008.</p> <p>Patricof, Alan J. and Julie Sunderland, “Venture Capital for Development,” Prepared for the Brookings Blum Roundtable: The Private Sector in the Fight Against Global Poverty,</p>	<p>Readings, Case Study and Guest Speaker</p>

	<p>August 4, 2005, PDF.</p> <p>Rosenberg, Richard, “CGAP Reflections on the Compartamos Initial Public Offering: A Case Study on Microfinance Interest Rates and Profits,” CGAP Economic Development Unit, PDF.</p> <p><u>Guest Speaker:</u> Enrique Majós, Business Executive Officer, Compartamos Banco</p>	
Oct. 25th	<p>New Impact Investing Structures and Approaches</p> <p><u>Required Readings:</u> Yunus, Muhammad, <u>Creating a World Without Poverty, Social Business and the Future of Capitalism</u>, Public Affairs, 2007. Paperback Edition 2009.</p> <p>Bolton, Emily and Louise Savell, Social Finance, <u>Towards A New Social Economy, Blended Value Creation Through Social Impact Bonds</u>, 2010, PDF.</p> <p><u>Guest Speaker:</u> Rosanne Haggerty, Founder and CEO, Common Ground Communities</p>	<p>Readings and Guest Speaker</p> <p><u>Preliminary Team Reports Due</u></p>
Nov. 1st	Team Project Team Presentations	Class Presentations
	<p>Written Team Project Report Due Nov. 8th</p> <p>Take-Home Final Due Nov. 18th</p>	

Breakdown of Course Requirements:

Activity	% of Total Grade
Impact Investment Preliminary Theme Analysis and Strategy	20%
Investment Team Presentations and Final Report	20%
Class Participation & Written Case and/or Reading Analyses	40%
Final Exam	20%
Total	100%

Course Readings: All Required textbooks and cases should be purchased or downloaded. The Required Readings listed as PDFs will be posted on Blackboard. The Recommended Reading List is optional for each week and includes materials which would supplement your knowledge in a specific area. These should also be helpful for the Team Projects.

Course Deliverables:

Class Participation:

The course will use the case method with students coming to each class prepared to be called upon to discuss the case study and required readings. Some sessions will combine guest speakers from specific sectors with related cases studies. Students will also be required to prepare two written case and/or required reading analyses to be submitted prior to the class via email.

Team Project:

Impact Theme and Investor Profile Landscape: Seven teams (maximum of 5 students each) will be assigned to a specific impact theme topic such as health, education or climate change along with an investor profile (e.g. pension fund, high net worth family office or retail individual). Based on these assignments, the teams will develop an investment strategy based on investment products currently in the market and the type of impact which the investor is targeting. In addition to the topics proposed below, students are encouraged to propose impact themes where they bring interest and/or experience. Student teams will be formed during the first class and will combine diverse experience and backgrounds. These profile landscapes will include possible policy approaches, a theory of change, return expectations, social and environmental metrics and impact measurement, possible co-investors and partners. It may also identify gaps in the market's current product offering. These preliminary background reports are due on Week 5 of the course (October 25th.) Each team will make a 20-minute presentation in class on Week 6 of the course (November 1st.)

Proposed Team Project Topics:

- Growing Regional & Local Food Systems: Urban Agriculture, Community Supported Agriculture and Food Security.
- Fighting The Childhood Obesity Epidemic: Healthy Foods and Healthy Communities, Healthy Food in School Programs, Food Deserts and Food Equity.
- Private Equity Investment in Sustainable Development: Pharmaceutical Research and Products for the Base of the Pyramid – Malaria, GAVI, International Immunization Fund.
- Climate Change and Shareholder Engagement (Proxy Voting, Corporate Resolutions) and Climate Change: The Carbon Disclosure Project, CERES.

- Beyond Coffee: Fair-trade Investments Across Commodities – Root Capital
- Microfinance & Small and Medium Enterprises Development as a Tool for the Empowerment of Women and Girls in Developing Countries.
- Affordable U.S. Housing Development, Preservation and Foreclosure Prevention, Transit-Oriented Development.
- Land Trusts for Farmland Preservation, Sustainable Forestry, Sustainable Fisheries and Financing Biodiversity.
- Commercial Education Solutions for the Base of the Pyramid.

Please email me at sgodeke@stern.nyu.edu prior to the first session if you would like to sign up for one of the proposed topics or would like to propose another team project topic.

Impact Investment Proposal and Presentations:

The next step will be for the teams to undertake due diligence on the range of existing products and to then propose an existing investment(s) or the creation of a new investment product such as a fund or direct investment to address the investor's impact goals. Presentations will be made during the last class session. Final team reports will be due on November 8th.

Final Examination:

A take-home final exam will consist of a case study analysis which will incorporate key principles of the course and draw upon learning from the team project. The exam will be due on November 18th.

Recommended Additional Readings:

Session 1 - September 27th:

Akerlof, George A. and Robert J. Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*, 2009.

Bishop, Matthew and Michael Green, *Philanthro-Capitalism*, Bloomsbury Press, 2008.

Bleiberg, Rob et al, "\$650 Million Ain't What It Used To Be: The Meyer Memorial Trust Considers Mission Related Investing," Harvard Kennedy School Case Program, May 2010, PDF.

Bugg-Levin, Anthony and John Goldstein, "Impact Investing: Harnessing Capital Markets to Solve Problems at Scale," *Community Development Investment Review*, Federal Reserve of San Francisco, 2009, PDF.

Godeke, Steven and Doug Bauer, Philanthropy's New Passing Gear: Mission-Related Investing. A Policy and Implementation Guide for Foundation Trustees, Rockefeller Philanthropy Advisors, 2008, PDF.

Mackay, C., Extraordinary Popular Delusions and the Madness of Crowd. Ware: Wordsworth, 1995.

Schleifer, Andrei, Inefficient Markets: An Introduction to Behavioral Finance, Oxford University Press, 2000.

Soros, George, The Crash of 2008 and What It Means, PublicAffairs, 2009.

Session 2 - October 4th:

Chan, Hui Wen, Vera Makarov and Sarah Thompson, "Beyond the 'Tradeoff' A New Analytical Framework for the Social Impact Investing Industry," Working Paper, Harvard Business School, 2010, PDF.

IJ Partners, "What is Ahead for Social Investment?" 2010, PDF.

Wong, Simon C.Y., "How Institutional Investors Should Step Up as Owners," McKinsey Quarterly, September 2010, PDF.

Wood, David and Belinda Hoff, Handbook on Responsible Investment Across Asset Classes, The Initiative for Responsible Investing, 2007, PDF.

Session 3 - October 11th:

Kramer, Mark, Adeb Mahumud, Serah Makka, "Maximizing Impact: An Integrated Strategy For Grantmaking and Mission Investing in Climate Change," FSG Social Impact Advisors, 2010, PDF.

Session 4 – October 18th:

Anderson, Jamie and Costas Markides, "Strategic Innovation at the Base of the Pyramid," MIT Sloan Management Review, Vol. 49 No. 1, Fall 2007, PDF.

De Soto, Hernando, "The Mystery of Capital, Finance and Development," IMF, March 2001, <http://www.imf.org/external/pubs/ft/fandd/2001/03/desoto.htm>.

Financial Access Initiative & McKinsey & Company, "Half the World Is Unbanked," PDF.

Fisher, Michael S. "Microfinance: Guaranteed," Wealth Manager, July/August 2009, <http://www.wealthmanagerweb.com/Issues/2009/July-August-2009/Pages/Microfinance-Guaranteed.aspx?k=microfinance+guarantee>.

Karamchandani, Ashish, Michael Kubzansky and Paul Frandano, “Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty,” March 2009, PDF.

Prahalad, C.K., The Fortune at the Bottom of the Pyramid, Wharton School Publishing, 2006.

Yago, Glenn, “Transatlantic Innovations in Affordable Capital for Small- and Medium-Sized Enterprises,” German Marshall Fund & Milken Institute, 2007, PDF.

Session 5 – October 25th:

Porter, Michael and Mark Kramer, “Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility,” Harvard Business Review, 2007.

Additional Resources:

Conferences:

- Take Action Conference Agenda
- SoCap Conference Agenda
- Impact Investment Summit
- TBLI Conference
- Slow Money National Gathering
- Herbert and Justice Rose Luttan Rubin International Law Symposium: Privatization of Development Assistance

Websites, Blogs, Etc.:

RSF Social Finance Reimaging Money Blog: <http://rsfsocialfinance.org/blog/>

Slowmoney.org

Tactical Philanthropy Blog

Global Impact Investing Network (www.globalimpactinvestingnetwork.org)

More for Mission (<http://www.moreformission.org>)

PRI Makers Network (www.primakers.net)

Microfinance Gateway: (<http://www.microfinancegateway.org>)

Ashoka: Innovators for the Public (www.ashoka.org)

Changemakers Journal and Resources (www.changemakers.net)

NYU Reynolds Program on Social Entrepreneurship:
(<http://www.nyu.edu/reynolds/index.flash.html>)

Venture Philanthropy Partners (www.venturephilanthropypartners.org)

The Skoll Foundation (www.skollfoundation.org)

Skoll Center for Social Entrepreneurship, Said Business School at Oxford University
(www.socialedge.org)

Social Enterprise Alliance (www.se-alliance.org)

Center for Effective Philanthropy (www.effectivephilanthropy.com)

Business for Social Responsibility (www.bsr.org)

Investors Circle (www.investorscircle.net)

Net Impact (www.net-impact.org)

Fast Company Social Capitalist Awards (www.fastcompany.com/social)

Center for Social Innovation at Stanford Graduate School of Business
(www.gsb.stanford.edu/csi)

Social Investment Forum (www.socialinvest.org)

Frontline World Heroes From a Small World (www.flworld.org)

Acumen Fund (www.acumenfund.org)

Microfinance Information Exchange (www.mixmarket.org)

MicoCredit Enterprises (www.mcenterprises.org)

Women's World Banking (www.swwb.org)

Accion International (www.accion.org)

XIGI Net (www.xigi.net)

NYU Wagner School: Financial Access Initiative: (<http://wagner.nyu.edu/fai>)

About the Instructor:

Steven Godeke is an independent investment advisor who works with foundations, corporations and non-profit organizations to integrate their financial and philanthropic goals. Based on the desire to link his financial expertise and public policy experience, he founded Godeke Consulting in 2001. Steven advises his clients on the creation and execution of impact investment strategies across asset classes and program areas. His services include strategy development, due diligence, structuring, negotiation, execution and performance measurement. His clients include The Rockefeller Foundation, Robin Hood, The Robert Wood Johnson Foundation, The Conference Board, The F.B. Heron Foundation, The John D. and Catherine T. MacArthur Foundation, Business Enterprises for Sustainable Travel, The Altman Foundation, Common Ground, The World Economic Forum and corporate clients in the financial services and pharmaceutical industries.

Steven is co-author of the recent publications Solutions for Impact Investors: From Strategy to Implementation and Philanthropy's New Passing Gear: Mission-Related Investing. A Policy and Implementation Guide for Foundation Trustees. Both monographs were published by Rockefeller Philanthropy Advisors, where he is an Affiliated Consultant. Steven is an adjunct professor at New York University's Center for Global Affairs where he currently teaches a course in Microfinance and Social Entrepreneurship.

Prior to establishing his own firm, Steven worked for twelve years in corporate and project finance with Deutsche Bank where he structured debt and equity products and advised corporate clients in the natural resources, telecommunications, media and real estate industries. In addition to his business line and client management responsibilities, he was also a member of the bank's strategic planning team. Steven grew up on a family farm in Southern Indiana, and attended Purdue University where he received a B.S. in Management and a B.A. in German. He studied as a Fulbright Scholar at the University of Cologne and earned an M.P.A. from Harvard University. He currently lives in New York City.