

Investing for Environmental
and Social Impact
–DRAFT Syllabus–

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Office Hours: By Appointment and Before and After Class

Dates and Time: Tuesdays October 3rd – December 19th (6 – 9 PM)
Classroom: KMEC 3-60

Course Description:

Impact investments are made with the intention of generating social and environmental impact in addition to a financial return. While this approach has long existed within the public sector and NGOs, major investors such as BlackRock and Merrill Lynch are now expanding their efforts to integrate ESG factors into their investment processes and products in order to successfully address challenges such as energy, water, community development, health, sustainable development and education. Innovative design of financial instruments like pay for success financings and microfinance guarantee funds are opening up new sources of funding and new ways to incentivize performance in both public sector entities and NGOs while simultaneously attracting commercial capital.

This course targets students who want to better understand how investment mechanisms can be structured to solve critical social and environmental challenges and be well positioned to work in the expanding impact investing industry. The class will draw from the fields of finance, microeconomics, theories of change, public policy, impact measurement and investment management to evaluate specific cases and investment tools in areas such as environmental markets and climate change, public finance, microfinance, health and poverty alleviation. We will also explore the proliferation of ESG data sources and their applications. The format will be a combination of readings, lectures, case discussions, guest speakers and team presentations. Experts will join the class to share their current experiences in this quickly evolving field. Student teams will perform financial due diligence and present impact investing strategies in specific sectors as part of a semester long project. Foundations of Finance or an equivalent course 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 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, systems analysis, market failures, shared value and blended value investing.
- Provide access to current industry-specific resources including industry experts and research.
- Introduce students to theories of change and impact evaluation frameworks and how these can supplement 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, the role of subsidy, positive and negative screening and shareholder engagement. In which situations do these models succeed and where might they fail?
- 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 impact investment decisions?
- Explore the role of funds, fund managers and other intermediaries and vehicles in impact investing.
- Provide student teams the opportunity to create and structure new impact investment vehicles that 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	
<p>Session 1: (10/3)</p>	<p>Introduction to Course and Concepts: The Case for Creating Impact from the Investor’s Perspective</p> <p><u>Required Readings:</u> Porter, Michael E. and Mark Kramer, “The Big Idea: Creating Shared Value,” <u>Harvard Business Review</u>, January-February 2011, Course Pack.</p> <p>Short Guide to Impact Investing, Case Foundation, 2015, PDF on NYUC.</p> <p>US SIF Foundation, The Impact of Sustainable and Responsible Investment, June 2016, Executive Summary and Introduction, PDF on NYUC.</p> <p><u>Recommended Readings:</u> <i>(Note: These are background readings on impact investing that you may want to revisit throughout the semester.)</i></p> <p>Emerson, Jed and Lindsay Smalling, “Construction of an Impact Portfolio: Total Portfolio Management for Multiple Returns,” ImpactAssets Issue Brief #15, 2015, PDF on NYUC.</p> <p>Global Impact Investing Network Research: https://thegiin.org/knowledge-center/</p> <p>Godeke, Steven and Raul Pomares, Solutions for Impact Investors: From Strategy To Implementation, Rockefeller Philanthropy Advisors, (Introduction and Chapter 4), 2009, PDF on NYUC.</p> <p>JP Morgan and Global Impact Investing Network, “Spotlight on the Market, The Impact Investor Survey,” May 2016, PDF on NYUC.</p>
<p>Session 2: (10/10)</p>	<p>Theories of Change and Impact Measurement</p> <p><u>Required Readings:</u> Jackson, Edward T., Interrogating The Theory of Change: Evaluating Impact Investing Where It Matters Most, <u>Journal of Sustainable Finance & Investment</u>, 3:2, 95-110, 2013, PDF on NYUC.</p> <p>Grantcraft, The Ford Foundation, “Mapping Change: Using a Theory of Change to Guide Planning and Evaluation,” PDF on NYUC.</p>

	<p>Watch Video: Bridgespan, “Intended Impact and Theory of Change,” YouTube, October 15, 2012: https://www.youtube.com/watch?v=_NSIINWfFAk</p> <p><u>Guest Speaker:</u> Michael Weinstein, Chief Program Officer, Robin Hood</p> <p><u>Recommended Readings:</u> Accelerating Impact Investing Initiative, Financing Social Innovation: Analyzing Domestic Impact Investing Policy in the United States, 2015, PDF on NYUC.</p> <p>Weinstein, Michael, Ralph M. Bradburd, <u>The Robin Hood Rules for Smart Giving</u>, Columbia University Press, 2013.</p>
<p>Session 3: (10/17)</p>	<p>Applying Impact Measurement Models: Acumen and Systemic Frameworks</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, Course Pack.</p> <p><u>Guest Speaker:</u> William Burckart, The Investment Integration Project.</p> <p><u>Recommended Readings and Resources:</u> Morgan, Will and Danielle Ginach, Sonen Capital 2015 Annual Impact Report, April 2016. PDF on NYUC.</p> <p>Foundation Center, Tools and Resources for Assessing Social Impact (TRASI), http://trasi.foundationcenter.org/</p> <p>Review GIIN’s IRIS Metrics website and video: https://iris.thegiin.org/</p>
<p>Session 4: (10/24)</p>	<p>Theories of Development and Investing at the Base of the Pyramid</p> <p><u>Required Readings:</u> 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.</p> <p>Chu, Michael and Regina Garcia Cuellar, “Banco Compartamos: Life After the IPO,” HBS Case 9-308-094, 2008, Course Pack.</p> <p><u>Recommended Readings:</u> Rosenberg, Richard, “CGAP Reflections on the Compartamos Initial Public Offering: A Case Study on Microfinance Interest Rates and Profits,” CGAP Economic Development Unit, PDF on NYUC.</p> <p>Compartamos, “A Letter to our Peers,” PDF on NYUC.</p> <p>Bamboo Finance, 2015 Impact Report</p>

	<p><u>Guest Speaker</u>: Ana Demel, Board Member of Pro Mujer and Adjunct Professor of Law at NYU.</p>
<p>Session 5: (10/31)</p>	<p>Climate Change and Divestment</p> <p><u>Required Readings</u>: Mercer, Investing in a Time of Climate Change, 2015, PDF on NYUC.</p> <p>Mercer, How Low Can Your Go? Introducing Low-Carbon and Fossil- Free Passive Equity Options, 2016, PDF on NYUC.</p> <p>Review Divest / Investment Campaign Site: http://divestinvest.org/</p> <p><u>Guest Speaker</u>: Bruce Kahn, Ph.D., Portfolio Manager, Sustainable Insight Capital Management</p> <p>Preliminary Outline of Team Project Due</p>
<p>Session 6: (11/7)</p>	<p>Environmental Finance: Eco-System Services, Real Assets & Water, Climate Change</p> <p><u>Required Readings</u>: Conservation Finance From Niche to Mainstream: The Building of an Institutional Asset Class, Credit Suisse, 2016.</p> <p>Stein, Peter, "Conservation Easements," Silviculture Magazine, Winter 2010, PDF on NYUC.</p> <p><u>Guest Speaker</u>: Peter Stein, Lyme Timber</p>
<p>Session 7: (11/14)</p>	<p>Structuring Impact Investments</p> <p><u>Required Reading</u>: Michael Chu and Lauren Barley, "Omidyar Network: Pioneering Impact Investment," HBS Case 9-303-090, Course Pack.</p> <p>Global Impact Investing Issue Brief, "Catalytic First-Loss Capital," 2013.</p> <p>Group Project Working Session</p>
<p>Session 8: (11/21)</p>	<p>Impact Investment Advisors and Fund Managers</p> <p>Jessie Smith Noyes Foundation Letter of Interest and Request for Proposals as Case Study for Social Justice Investing.</p>
<p>Session 9: (11/28) Class held</p>	<p>Pay for Success Financing, Social Impact Bonds and Public Private Partnerships</p>

week of Thanksgiving	<p><u>Required Readings:</u> Goldberg, Steven, Early Childhood Education and Child Abuse Prevention Social Impact Bond Case Studies, 2013, PDF on NYUC.</p> <p>Godeke, Steven and Lyel Resner, "Building a Healthy and Sustainable Social Impact Bond Market: The Investor Landscape," Rockefeller Foundation, 2012, PDF on NYUC.</p> <p>Gustafsson-Wright, Emily, "The Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide," Brookings, 2016.</p> <p><u>Guest Speaker:</u> Steven Goldberg, Caffeinated Capital</p>
Session 10: (12/5)	<p>Integrating ESG into Public Markets, Standards and Reporting</p> <p><u>Required Readings:</u> Sandra J. Sucher, Matthew Preble, "Generation Investment Management," HBS Case 9-613-002, Course Pack.</p> <p>Global Impact Investing Network (GIIN) and the Impact Reporting and Investment Standards (IRIS) Initiative, "Data Driven: A Performance Analysis for the Impact Investment Industry," 2012. PDF on NYUC.</p> <p><u>Guest Speaker:</u> Lenora Suki, Sustainability Initiative, Bloomberg LP</p>
Session 11: (12/12)	<p>Innovations in Impact Investing and Market Infrastructure</p> <p><u>Required Readings:</u> Impact Investing 2.0 – The Way Forward: Insight from 12 Outstanding Funds, November 2013, NYUC.</p> <p>Case Studies of 6 Funds from Impact Investing 2.0 Report, NYUC</p> <p>Impact Investing 2.0 Video: https://www.youtube.com/watch?v=8Hv0Xs--gnc&feature=youtu.be</p>
Session 12: (12/19)	<p>Team Project Pitches to Impact Investors</p> <p>Presentations and Written Reports Due</p>

Breakdown of Course Requirements:

Activity	% of Total Grade
Investment Team Presentations and Final Report	50%
Class Participation & 2 Written Cases or Reading Analysis	50%
Total	100%

Course Readings:

All required readings are either available on the NYU Classes site or part of an electronic coursepack that has been created and available through the NYU Bookstore. On the NYU Class site, the readings are in folders for each week. Study questions will be provided for most of the cases the week before the case is discussed in class. The Recommended Readings each week and at the back of this syllabus are optional and include materials which will supplement your knowledge in a specific area. These should also be helpful for the Team Projects. Relevant materials and articles are also posted on my blog: <http://www.godekeconsulting.blogspot.com>

Course Deliverables:

Class Attendance and Participation:

The course will use the case method with students coming to each class prepared to discuss the case study and required readings. Students are required to attend all classes. Unexcused absences will negatively affect grades.

Some sessions will combine guest speakers from specific sectors with related cases studies. Students will also be encouraged to sign up to coordinate the guest speakers' visits and to then introduce the guest speaker. Each student will also be assigned two case write-ups at the first class session. These 4-page case analyses should not simply summarize the information, but should present specific questions and issues and take a point of view. The case should be submitted via email prior to the class in which the material is covered.

Team Investment Project:

Teams (maximum of 4 students each) will select specific impact theme topics such as health, education or climate change and an investor profile (e.g. pension fund, high net worth, family office or retail individual). The teams will then develop an investment strategy based on investment products currently in the market and the type of impact that the investor is targeting. The impact investing strategies should include possible policy approaches, a theory of change, return expectations, social and environmental metrics and impact measurement, and possible co-investors and partners. It may also identify gaps in the market's current product offering. In addition to the topics suggested below, students are encouraged to propose projects where they bring interest and/or experience. Student teams will be formed during the first class and should combine diverse experience and backgrounds. Preliminary outlines will be due on Week 5 of the course.

Team Deliverables:

Each team will make a 20-minute presentation in class on Week 12 of the course. A group of impact investors will attend the final presentations and will provide comments.

In addition to the presentation, each team will submit a 15-page investment prospectus that outlines the team's investment strategy, theory of change and target investments.

Part of the team evaluation will include a team peer review of team members.