



Investing for Environmental and Social Impact –Syllabus–

Steven Godeke

NYU Stern School of Business

44 West 4th Street

New York, NY 10012

E-mail: sgodeke@stern.nyu.edu

Office Hours: By Appointment and Before and After Class

Dates and Time: Mondays September 19th – October 24th (6 – 9 PM)

Classroom: KMC-585

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. This course targets students seeking careers in financial services who want to better understand the interaction of capital markets and policy issues. The class will draw upon principles of finance, microeconomics, 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 at the base of the pyramid. 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 2011 Fall Semester. Foundations of Finance or an equivalent course is a prerequisite.

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, the role of subsidy, 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, fund managers 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 succeed and where might they fail?
- 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		Class Format
Session 1: Sept. 19	<p>Introduction to Course and Concepts: The Case for Impact Investing from the Investor’s Prospective; Roles of Investors, Policymakers and Donors</p> <p><u>Required Readings:</u> Emerson, Jed, Tim Freundlich and Shari Berenbach, ‘Where Money Meets Mission: Toward a Unified Investment Strategy,’ 2007, PDF.</p> <p>Freireich, Jessica and Katherine Fulton, <u>Investing for Social & Environmental Impact</u>, Executive Summary, Monitor Institute, 2009, PDF.</p> <p>Godeke, Steven and Raul Pomares, <u>Solutions for Impact Investors: From Strategy To Implementation</u>, Rockefeller Philanthropy Advisors, 2009. PDF. (Introduction and Chapter 4.)</p> <p>Insight at Pacific Community Ventures and The Initiative for Responsible Investment at Harvard University, “Impact Investing: A Framework for Policy Design and Analysis,” 2011, pp. 1-30, PDF.</p> <p>Nicholls, Alex, “The Institutionalization of Social Investment: The Interplay of Investment Logics and Investor Rationalities,” <u>Journal of Social Entrepreneurship</u>, 1.1, pp. 70-100, Coursepack.</p> <p>Porter, Michael E. and Mark Kramer, “The Big Idea: Creating Shared Value,” <u>Harvard Business Review</u>, January-February 2011, Coursepack.</p>	Readings, Class Discussion, Formation of Project Teams

<p>Session 2: Sept. 26</p>	<p>Theories of Change and Impact Evaluation: Integrating the Impact Investing Cycle and Risk within Investment Vehicles</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, Coursepack.</p> <p>JP Morgan Global Research and The Rockefeller Foundation, “Impact Investments An Emerging Asset Class,” 2010, PDF.</p> <p>Grantcraft, The Ford Foundation, “Mapping Change: Using a Theory of Change to Guide Planning and Evaluation,” PDF.</p> <p>Tuan, Melinda, “Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches, 2008, PDF.</p> <p><u>Guest Speaker:</u> Shuaib A. Siddiqui, Portfolio Manager, Acumen Fund</p> <p><u>Related Resources:</u></p> <p>McKinsey Learning for Social Impact Website: http://lsi.mckinsey.com/</p> <p>Foundation Center, Tools and Resources for Assessing Social Impact (TRASI), http://trasi.foundationcenter.org/</p> <p>Global Impact Investing Network (GIIN)’s Impact Reporting and Investment Standards: http://iris-standards.org/</p>	<p>Readings, Case Studies, Class Discussion and Guest Speaker</p>
<p>Session 3: Oct. 3</p>	<p>Environmental Finance: Eco-System Services, Real Assets & Water, Climate Change</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>Readings, Case Studies and Guest Speaker</p>

	<p>Lyme Timber and Beartooth Capital Case Studies, PDF.</p> <p>Pons, Elena and Maud-Alison Long with Raul Pomares, “Promoting Sustainable Food Systems through Impact Investing,” Springcreek Foundation, 2011, PDF.</p> <p>“Investing in Climate Change in 2011,” DB Climate Advisors, February 2011, PDF.</p> <p><u>Guest Speaker:</u> Peter Stein, Managing Director, The Lyme Timber Company</p>	
<p>Session 4: Oct. 10</p>	<p>Theories of Development and Investing at the Base of the Pyramid</p> <p><u>Required Readings:</u></p> <p>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>Marco Arosio, Impact Investment in Emerging Markets, Responsible Research, May 2011, PDF.</p> <p>Microfinance Compartamos Case Study: Chu, Michael and Regina Garcia Cuellar, “Banco Compartamos: Life After the IPO,” HBS Case 9-308-094, 2008, Coursepack.</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>Compartamos, “A Letter to our Peers.”</p> <p><u>Guest Speaker:</u> Patricio Dies de Bonilla, CFO, Compartamos</p> <p>Preliminary Outline of Team Project Due</p>	<p>Readings, Class Discussion and Guest Speaker</p>

<p>Session 5: Oct. 17th</p>	<p>Innovations in Impact Investing and Market Infrastructure</p> <p><u>Required Readings:</u> Village Capital: Using Peer Support to Accelerate Impact Investing, Case Study, University of Michigan, Coursepack.</p> <p>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>Social Finance US: http://www.socialfinanceus.org/</p> <p>ImpactAssets: http://www.impactassets.org</p> <p>Mission Markets: http://missionmarkets.com/</p> <p>WRI New Ventures: http://www.new-ventures.org/</p> <p><u>Guest Speaker (TBC):</u></p> <p>2 Page Prospectus of Team Presentation Due</p>	<p>Readings, Class Discussion & Guest Speaker</p>
<p>Session 6 October 24th:</p>	<p>Team Project Pitches to Impact Investors</p> <p>Written Report and Presentation Due</p> <p>Take-Home Exam Distributed (Due October 31st)</p>	<p>Class Presentations</p>

Breakdown of Course Requirements:

Activity	% of Total Grade
Investment Team Presentations and Final Report	40%
Class Participation & Written Case or Reading Analysis	40%
Final Exam	20%
Total	100%

Course Readings:

All required textbooks and cases should be purchased or downloaded. An electronic coursepack has been created for some of the case studies and articles. The Required Readings listed as PDFs will be posted on Blackboard. The Recommended Reading List is optional and includes materials which will supplement your knowledge in a specific area. These should also be helpful for the Team Projects.

Course Deliverables:

Class Attendance and Participation:

The course will use the case method with students coming to each class prepared to be cold-called 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 required to prepare one written case or required reading analysis during the course to be submitted prior to the class via email.

Team Investment Project:

Teams (maximum of 5 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 which 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 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 should combine diverse experience and backgrounds. Preliminary outlines will be due on Week 5 of the course with a 2-page Prospectus. Each team will make a 20-minute presentation in class on Week 6 of the course.

A group of impact investors will attend the final presentations and will provide comments. The top teams will be encouraged to participate in the International Impact Investing Challenge (www.internationalimpactinvestingchallenge.org) in Spring 2012.

Sample 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.

- Investment in Sustainable Development: Pharmaceutical Research and Products for the Base of the Pyramid – Malaria, GAVI, International Immunization Fund.
- Addressing Maternal Mortality Rates through Proven and Scalable Solutions
- Climate Change and Shareholder Engagement (Proxy Voting, Corporate Resolutions) and Climate Change: The Carbon Disclosure Project, CERES.
- Beyond Coffee: Fair-Trade Investments Across Commodities
- Microfinance & Small and Medium Enterprises Development as a Tool for the Empowerment of Women and Girls in Developing Countries.
- The Church as Economic Being: Community-based Economic Development
- Affordable U.S. Housing Development, Preservation and Foreclosure Prevention, Transit-Oriented Development.
- The Role University Endowments Can Play in Sustainable Investing
- Water as Investment Strategy and Human Right
- Land Trusts for Farmland Preservation, Sustainable Forestry, Sustainable Fisheries and Financing Biodiversity.
- Impact Investing Through a Gender Lens
- Monetizing Eco-System Services: The Role of Land Trusts
- Impact Investment and Corporate Structure: What legal and governance structures are needed to align financial, social and environmental incentives?
- Bankable Business Models for Social Enterprises at the Base of the Pyramid
- 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.

Final Examination:

A take-home final exam will consist of a current impact investment analysis which will incorporate key principles of the course and draw upon learning from the team project. The exam will be due on October 31st.

Recommended Additional Readings:

Anderson, Jamie and Costas Markides, “Strategic Innovation at the Base of the Pyramid,” MITSloan Management Review, Vol. 49 No. 1, Fall 2007, PDF.

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.

Banjo, Shelly, “Rockefeller Foundation Sees Social-Change Dividend, The Wall Street Journal, February 15, 2011.

Barton, Dominic, “Capitalism for the Long Term,” Harvard Business Review, February 2011.

Bugg-Levine, Anthony and Jed Emerson, Impact Investing: Transforming How We Make Money While Making a Difference, Wiley, 2011 (Forthcoming).

Bugg-Levine, 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.

Canadian Task Force on Social Finance, “Mobilizing Private Capital for Social Good,” 2010, PDF.

Centre for the Study of Financial Innovation, “Microfinance Banana Skins 2010, The CSFI Survey of Microfinance Risk,” 2011, PDF.

Cortese, Amy, Locavesting: The Revolution in Local Investing, Wiley, 2011.

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>.

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.

Herman, R. Paul, The HIP Investor, Wiley 2010.

International Association of Microfinance Investors “Charting the Course, Best Practices and Tools for Voluntary Restructurings in Microfinance,” 2011, PDF.

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

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

LaVoie, Valerie and David Wood, Handbook on Climate-Related Investing Across Asset Classes, Initiative for Responsible Investment, 2009, PDF.

Levitt, James N., From Walden to Wall Street, Frontiers of Conservation Finance, Island Press, 2006.

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

Schwab Foundation, “Social Investment Manual: A Guide for Social Entrepreneurs,” 2011, PDF.

Sheehy Cates, Rosalie & Chris Larson, “Connecting CDFIs to the Socially Responsible Investor Community,” Ford Foundation, 2010, PDF.

Sikken, Bernd-Jan, “Accelerating the Transition towards Sustainable Investing,” The World Economic Forum, 2010, PDF.

Social Investment Forum Foundation, “Report on Socially Responsible Investment Trends in the U.S.”, 2010, PDF.

Warren, Deborah B. and Steve Dubb, “Growing a Green Economy for All,” June 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.

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

Additional Resources:

Competitions and Conferences:

- International Impact Investing Challenge
- World Resources Institute New Ventures
- Take Action Conference
- SoCap Conference
- Impact Investment Summit

- TBLI Conference
- Slow Money National Gathering

Websites, Blogs, Etc.:

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

Global Impact Investing Network (www.globalimpactinvestingnetwork.org)

TONIIC: (<http://www.toniic.com>)

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)

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 (<http://www.investorscircle.net>)

Net Impact <http://www.netimpact.org>

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

Social Investment Forum (www.socialinvest.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)

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. In addition to teaching Impact Investment at Stern, Steven is an adjunct professor at NYU'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.