

Impact Investing: History and Trends

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History of Socially Responsible Investing

History

- Jewish Law mandated ethical investing 1500-1300 BC
- Qur'an forbids certain types of investments 609-632 CE
- Methodists resisted certain investments 18th Century
- Quakers no investment in slavery or war 1898
- Boston – first publicly offered fund – Pioneer Fund in 1928 (now, Amundi Pioneer)
- Vietnam protestors in the 1960s demanded university endowments no longer invest in defense contractors
- 1970s Progression: avoid slave trade, war, apartheid, support fair trade, ethical impact of environment social and corporate governance (ESG)

Public Policy
1953-2017

Federal Legislation

- Small Business Administration created in 1953
- Small Business Investment Companies 1958
 - 1960s 1,000 SBICs focused on real estate with minimal investment
 - Small Business Equity Enhancement Act 1992
 - Federal Leverage 1999
 - Incentives to invest in low- and moderate-income zones
 - Community Reinvestment Act – SBIC “qualified investment”
- Appalachian Regional Development Act 1965
- Tax Reform Act of 1986 – Low-Income Housing Tax Credits

Federal Legislation

- Civil Rights Act of 1964
- Voting Rights Act of 1965
- Housing and Community Development Act of 1974 – Community Development Block Grants
- Fair Lending laws and The Community Reinvestment Act

The fair lending laws and the Community Reinvestment Act view lending through two different lenses: one focused on protected classes and one focused on income level. The laws work in concert to promote more equal access to credit.

- Housing and Urban Development Act of 1965
- Fair Housing Act of 1968
- Fair Credit Reporting Act of 1970
- Equal Credit Opportunity Act of 1974
- Home Mortgage Disclosure Act of 1975
- Community Reinvestment Act of 1977

Federal Legislation

- Access to Capital
Riegle Community Development and Regulatory Improvement Act of 1994
 - Community Development Financial Institutions
 - New Markets Tax Credits \$8:\$1 private to federal
 - Bank Enterprise Award Program
 - Native Initiatives
 - CDFI Bond Guarantee Program
- 1993, 1997, 1999, 2000 – Empowerment Zones, Enterprise Communities, Renewal Community Programs
- 2017 Tax Cuts and Jobs Act – Opportunity Zones
- Social Impact Partnerships to Pay for Results Act (SPPRA) of 2018

**Investment Awareness:
Environmental and Social**

1980s: Chernobyl and Three Mile Island Nuclear Accidents; Apartheid

- Environment and Climate Change
- U.S. Sustainable Investment Forum 1984
 - Non-profit hub for the sustainable, responsible and impact investment sector in the U.S. Represents > \$3 trillion in assets under management. Annual survey of trends.
- Student Protests 1985 – Apartheid and cease corporate investment in South Africa
- UN Principles for Responsible Investment - 2006

1898

Quakers Friends Fiduciary corporation founded and adopts no weapons, alcohol or tobacco investment policy

1960

Political turbulent evolved SRI because of Vietnam war and civil rights

1977

- Congress passes CRA Act to reduce discriminatory credit practices against low income neighborhoods
- Pax World launched first socially responsible investing mutual fund

1984

US S.I.F. founded, the sustainable investing industry association

2000's

Norway Government Pension and U.S.'s largest pension, CalPERS, commit to 100% integration of sustainability over 15 years

2006

Rockefeller Foundation launches major Impact Investing approach and the term emerges globally
UN Principles for Responsible Investment launched – assets under management by signatories is \$4 trillion

2009

Bloomberg adds significant sustainability news and ESG data coverage

2010

Harvard launch's IRI (Initiative for Responsible Investment) previously at Boston College

2012

Morgan Stanley launches Investing with Impact Platform

2013

Prime Minister of England gives Social Impact Investing Speech that receives lots of attention

1928

First public offering of a screened investment fund when an ecclesiastical group in Boston established the pioneer fund

1980

Accidents like Chernobyl & other industrial activities which led to climate change and ozone depletion occur

2007

US Congress passes Sudan Accountability and Divestment Act of 2007

1993

\$625 billion screened to exclude investment in South Africa as a result of apartheid

2011

White House convenes investors, policy makers, entrepreneurs, focused on impact investing

2014

UN principles for Responsible Investment assets under management by signatories reach \$45 trillion

1973

Interfaith Center on Corporate Responsibility founded and files first shareholder resolution

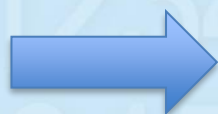
1990

Domini Social Index created (now MSCI KLD 400 Social Index)

2012

US S.I.F. Trends reports \$3.74 trillion in US sustainability managed assets

Sources: Thomson Reuters, "History of socially responsible investing in the U.S.", August 2013, and Envestnet research.



2017 Opportunity Zones Tax Cuts and Jobs Act

Trends

- Meaningful System Change
 - Accountability for positive and negative impacts of investment
- Individual and Community behavioral change
 - Intentional use of assets to make a difference
- Purpose is interconnected to profit
 - Profit primacy
 - Stakeholders and Shareholders
- Intention and Measurement replace simple risk and return
 - Impact Measurement
 - Initial and Long Term, Portfolio and Transaction
- Contribution, Additionality
- Impact Investing is not dependent on an asset class, structure, form or tool
- New Investors
- Business Roundtable
 - Purpose of a Corporation
 - Benefits to Stakeholders

Investing for Purpose: Do well while doing good

- Local, National, Global Change
 - Generate competitive returns
 - Market Size Potential
 - \$500 billion to \$12 trillion
 - The GIIN (Global Impact Investing Network)
 - Annual Impact Investor Survey 2019: Respondents collectively manage \$239 billion (total U.S. Market \$502 billion)
 - 56 percent of the respondents target social and environmental impact objectives; 36 percent target only social objectives; 7 percent only target environmental objectives
- www.thegiin.org (list of social impact investment entities)

New Investors

- **Generational wealth transfer**
 - \$30 trillion in wealth changing hands
- **Women investors**
 - control 60% of the wealth
- **Philanthropy and Policy**
 - systems change
- **Collaboration for a viable capital stack**
 - layer and leverage philanthropic, corporate and public tools

Systems Change

- Place Based: A specific geography, community
- People Based: Improve the conditions of a population
- Institution Based: Small Business start-ups, community college workforce, etc.

Impact

- Outcomes
- Stakeholders
- Geography
- Scale and Duration
- Contribution
- Risk

Cities and Regional Impact Investing

**JPMorgan Chase
to invest \$15M
in Detroit
neighborhoods**

DETROIT--(BUSINESS WIRE)--
-Feb 21, 2019

**Louisville Metro
Government, Cities
United and Kenan
Charitable Trust Launch
Russell: A Place of
Promise**

LouisvilleKy.gov
August 15, 2018

**Invest STL to link
private donors with
groups focused on
stabilizing,
strengthening
neighborhoods**

*St. Louis Post-Dispatch
February 12, 2018*

**PROPELLER LAUNCHES
SOCIAL VENTURE FUND
FOR NEW ORLEANS
ENTREPRENEURS**

*Silicon Bayou News
November 21, 2017*

Innovations

**Calvert Capital
Launches
Ours to Own
Small Dollar Investments
in City Initiatives**

Denver and Baltimore

**DC's First Inclusive
Innovation
Incubator Officially
Opens**

*The Washington Informer
April 27, 2017*

Innovations

- Invest St. Louis
- Reinvestment Baltimore Democratizing Development,
- NFG Chicago Community Loan Fund
- Invest Atlanta
- Invest Detroit
- Propeller Fund – New Orleans
- Inclusive Innovations Incubator – Washington, DC
- Bay Area Impact Investing
- Southern Impact Investing Alliance
- Kresge and Rockefeller Social Impact Opportunity Fund
- PNC Bank Social Impact Opportunity Fund
- ARC's Appalachian Community Capital
- Calvert Ours to Own – Baltimore, Denver

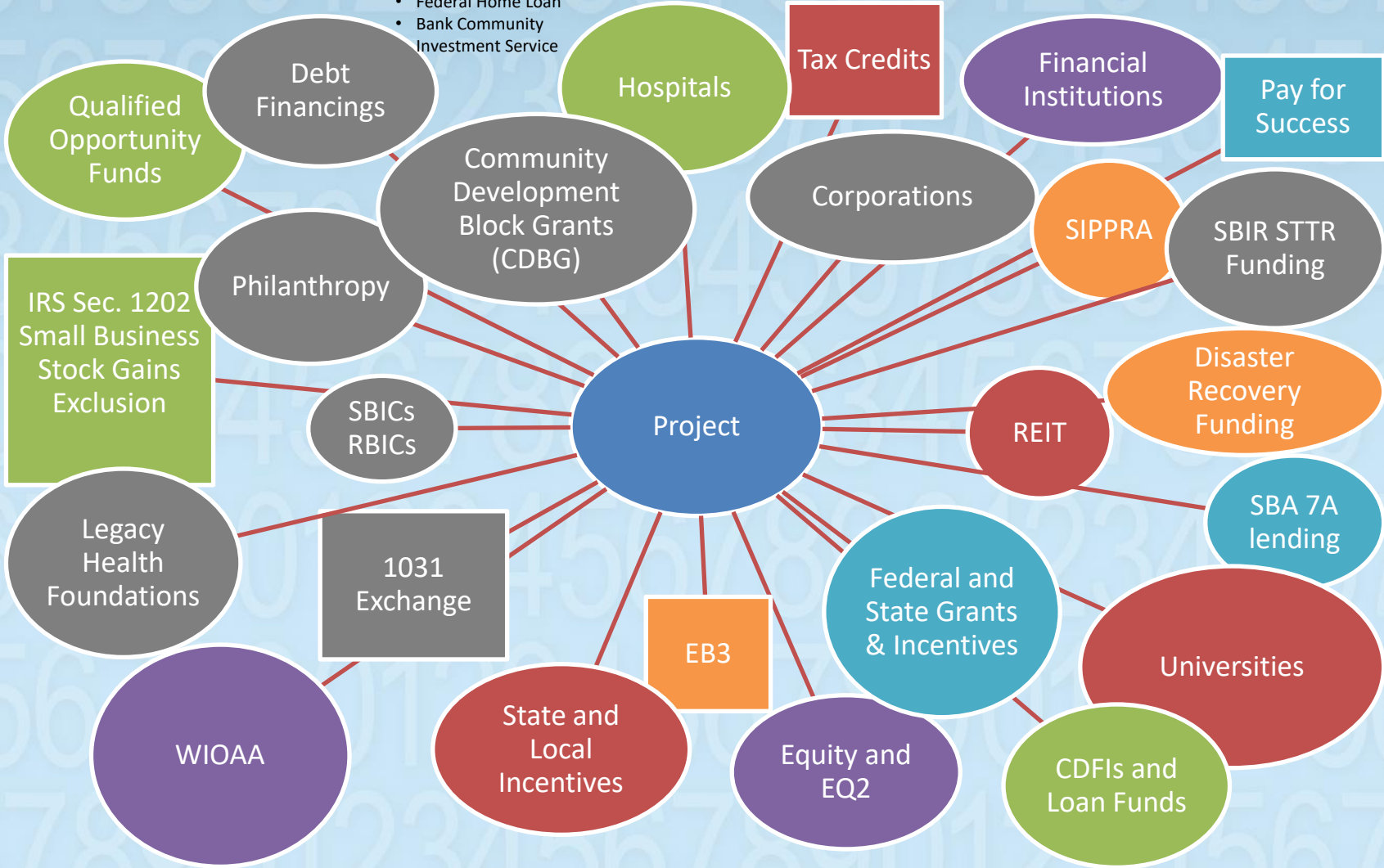
Growth

- Pay for Success, Pay for Performance, Social Impact Bonds
 - Partnerships between public authorities, social investors, and social-service providers with the goal of financing innovative prevention or diversion programs
 - Link financial success to the delivery of measured social outcomes
- Donor Advised Funds (DAFs)
 - \$121 billion in charitable assets at year-end 2018, DAFs are the fastest growing philanthropic vehicle
 - Offers donors a tax friendly way to contribute to causes over time

Partner for Impact

Layer and Leverage the Capital Stack

- Construction loans
- Permanent financing
- Equity Bridge loans
- Federal Home Loan
- Bank Community Investment Service



East Baltimore Redevelopment Phase 1

2000

- Lingering effects of a series of adverse housing policies
- Aging infrastructure
- High Housing Vacancy Rate
- Crime
- Infant Mortality
- High Unemployment
- CDBG focused on Inner Harbor/Diverted Funds
- CDC initially focused on rehab housing
- Anchor – Johns Hopkins U and Hopkins Medical



**Catalyst
2002**

A family of seven was killed by an arsonist. The East Preston Street home was set ablaze in retaliation for repeated calls to police to report drug sales. Created Momentum

Goal: \$1.8 billion transformation of 88 acres

Eager Park, a new five-and-a-half-acre, three-block linear park at the heart of the East Baltimore Development Initiative.

Surrounded by 2,100 units of mixed-income homeownership and rental housing units



1.7 million square feet of life sciences research and office space

A new seven-acre community learning campus with an early childhood center, and a public K–8 elementary school - public-private partnership between state and local government, the Johns Hopkins Institutions, and the Annie E. Casey Foundation

Oliver community, where the Reinvestment Fund has been steadily bringing a neighborhood once blighted by more than 600 abandoned houses back to viability, one row house at a time.

Financing Challenges

- Troubled neighborhood
- Speculative development plan
- P3 partnership
- Place-based and People-based
- Land Acquisition – Eminent Domain
- New non-profit lead
- Major family relocation (700+)
 - \$150,000 for renters
 - \$265,000 for homeowners
 - JHU and AECF
- Aging Infrastructure

P3 Reimagined

- \$450.4m public
- \$217.6m private
- \$173.5m philanthropic

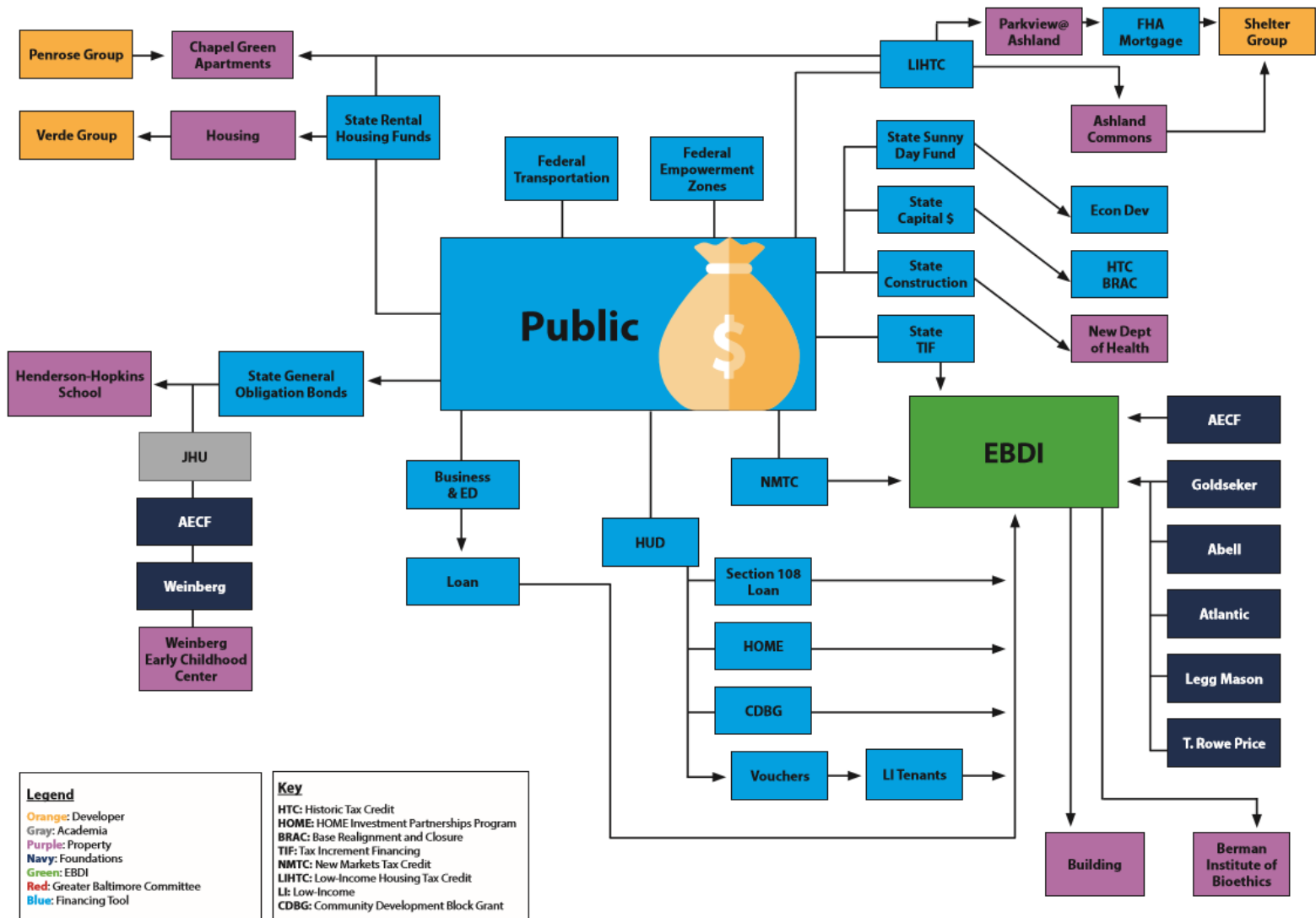
- Public funds purchase and demolish property, infrastructure
- Philanthropic funds for family support

Financing Tools

- New Markets Tax Credits for high poverty, low-income census tracts – housing, community facilities, school
- Federal Empowerment Zone
- State Enterprise Zone
- Philanthropy generated investor interest for NMTCs with a guarantee using a \$4b endowment (UPS stock)
- Philanthropic purchase of TIF Bonds in market slump
- CRA lending and investment
- LIHTC – multi-family rental housing (1986 Tax Reform)
- Tax Increment Financing
- JHU Purchase Power to incentive small business, real estate developer, branding
- Grants – CRA – workforce development

Annie E. Casey Foundation and JHU

- Endowed nonprofits like universities or foundations can be motivated to social investment by matching their resources with investment possibilities.
- The Tax Reform Act of 1969 allowed Program Related Investment (PRIs) so foundations can make below-market loans and investments.
- PRIs, like grants, count toward private foundations' federally mandated qualified distributions, so these instruments are especially attractive to foundations.



Questions