

IMPACT INVESTING INITIATIVE

STRATEGY OVERVIEW

Delivering social change at scale will require more capital than philanthropy and public resources can provide. While almost all of the trillions of dollars of assets around the world remain tied up in investments that seek only to maximize financial returns, a relatively small but rapidly growing industry is emerging that could unlock enough of this investment capital to complement philanthropy in addressing pressing social challenges. This industry, called “impact investing,” is comprised of investors seeking to generate both financial return *and* social and/or environmental value—while at a minimum returning capital, and, in many cases, offering market-rate returns or better.

Despite, and sometimes because of, a proliferation of activity, the impact investing industry stands at a delicate moment. On one hand, structural forces around the world are gathering to bolster the industry’s development, despite the recent market disruptions and economic contraction in much of the world. Wealth is increasingly concentrated in the hands of people attracted to private-sector solutions to social problems at the same time that a new generation of entrepreneurs is launching viable ventures across an array of geographies and sectors that address social challenges.

On the other hand, the nascent industry remains beset by inefficiencies and distortions that currently limit its impact in the areas of the Rockefeller Foundation’s strategic focus and threaten its future trajectory. Lack of coordination hampers collaboration to build the infrastructure the industry needs to flourish. Intermediation—the placement of money between investors and the businesses and projects that can use it productively—is generally sub-scale and specifically embryonic in sub-sectors of impact investing such as public health and agriculture. And basic market infrastructure and the investment ecosystem necessary to identify, vet, and monitor investments efficiently are missing.

The Rockefeller Foundation believes that the lack of intermediation capacity and leadership to generate collective action is currently the binding constraint on expanded investment. The Foundation’s Impact Investing initiative seeks to catalyze the leadership the emerging industry needs at this crucial stage in its development to build the intermediation capacity and investing infrastructure that can unlock the industry’s impact. In support of this objective, the initiative focuses on four primary change levers outlined below

CHANGE LEVERS

- **Incubating platforms for collective action.** The impact investing industry is currently inefficient, with duplication in some areas and gaps in others, as innovation occurs through uncoordinated activity responding to investor interest. Developing effective mechanisms for disseminating standards, sharing information, and collaborating on deals will be crucial. Among other things, this lever focuses its support for coordination and collective action on the development of a Global Impact Investing Network, which serves as a membership organization for a select but diverse group of impact investors, including pension funds, family offices, private banks, and foundations. The network is the vehicle through which these investors and intermediaries can launch initiatives, such as an independent standards-setting body, and ultimately undertake advocacy and marketing.

- **Supporting the development of intermediation vehicles.** The history of microfinance and U.S. low-income housing development investments, as well as the evolution of mainstream capital markets, demonstrates the centrality of intermediation capabilities in unlocking investment flows. The Rockefeller Foundation believes that substantial latent investment capital will flow once intermediation develops to help place it, so the Foundation: (1) supports investment vehicles that channel funds to companies and organizations operating in sectors related to other Rockefeller issue areas (e.g., public health, agriculture, urban housing in developing countries); (2) seeds a new cadre of scaled intermediaries by supporting proven intermediaries to achieve scale and fostering the entrance of new intermediaries into impact investment; and (3) demonstrates new approaches to combining grant funding, concessionary capital, and market-rate capital within a single investment or fund.
- **Building industry infrastructure.** A diverse ecosystem of public goods and services and private institutions are necessary to foster industry growth, effectiveness, and accessibility. Some of these goods and services require collective action, while others may be provided through individual entrepreneurial activity. This change lever supports efforts to develop infrastructure that enables broader and more effective participation in the impact investing industry, such as the launch of an independent standards-setting body to measure and monitor the social impact of investment, market clearinghouses, deal syndication facilities, retail platforms, and more effective impact investing banking services.
- **Supporting research and advocacy to promote the development of the impact investing industry.** Work in this category supports efforts to understand the nascent impact investing industry, to articulate the case for its growth and development, and to raise awareness and interest in the approach. Grants and other activities focus on generating a fact-based understanding of how impact investing is developing and on communicating to high-priority audiences the successes, failures and challenges that impact investors encounter. We also support research that identifies impact investing opportunities and conveys these findings to relevant audiences.

KEY OUTCOMES

The Foundation seeks to achieve the following measurable outcomes over the life of the Initiative:

Outcome Area 1 - Catalyzing collective action platforms

Platforms exist for impact investing industry leaders to coordinate investment and promote the infrastructure, activities, education, research and collaboration needed for the impact investing industry to tackle a wider range of social challenges more efficiently. The Global Impact Investing Network is recognized by industry participants as the industry's leading voice and, by its active members, as an organization that facilitates more efficient and scaled impact investment.

Outcome Area 2 – Developing industry infrastructure

Organizations, processes and capabilities exist that can sustainably support impact investors to tackle a wider range of social challenges with for-profit investment efficiently and to understand and improve the performance of the industry.

Outcome Area 3 – Supporting scaling of intermediaries

Organizations and structures (such as private equity funds and investment clubs) exist and are widely used to aggregate institutional-scale impact investments and place them

efficiently with investees who use this capital to improve the lives of poor and vulnerable people in a range of areas (including improving agricultural productivity and enhancing access to healthcare and decent housing) and geographies.

Outcome Area 4—Contributing to fundamental research and advocacy

“Impact investing” is a term widely used and understood by relevant constituents while an improved fact-base to understand the extent and influence of impact investors facilitates accelerated adoption of impact investment practices by institutional investors and supportive policy reforms by targeted governments in both countries whose investors are a major source of impact investing capital as well as those whose enterprises are major users.

IMPACT – Our Vision of Success

In the longer term we expect to contribute to improvements in the lives of poor and vulnerable people as a result of the availability of affordable products and services, expanded income-generating activities and a better physical environment that have been enabled by for-profit impact investment. We hope to see an “ecosystem” develop that supports the efficient placement of for-profit impact investments and that aims to improve social and/or environmental conditions.

This market infrastructure will enable investors to work together to place capital with those institutions best able to create solve social and/or environmental challenges at scale. This ecosystem will facilitate more resources being allocated to impact investments. These additional resources will come both from increased investment by existing impact investors and the entrant of new investors, especially larger-scale, institutional investors. These impact investors will also be more effective in helping to solve a wide range of social challenges with investments that, for example, provide low-income housing loans, finance the expansion of private health care delivery to poor people, broaden availability of clean water and sanitation, and facilitate trade access for poor producers.

UPDATE

With the unfreezing of credit markets and the return of confidence and a risk-taking appetite among some investors, we are seeing a noticeable uptake in entrepreneurial activity among impact investors. Ideas and partnerships formed during the past 18 months are starting to surface as funded business ideas. There is also a renewed interest in—and a capacity for—the development of strategic plans for impact investing by institutional investors. Greater clarity about the public goods that will be required by the impact investing industry—and about the partners available to share this work—has given the Rockefeller Foundation Impact Investing team clearer direction for our work. We have recently added a fourth pillar of activity—supporting research and outreach—in recognition of the important role that path-breaking analysis and communication have served and can continue to serve in developing the industry.

Catalyzing Collective Action

Global Impact Investing Network (the GIIN) Launched

The GIIN was officially launched by Judith Rodin and Jamie Dimon (CEO of JPMorgan Chase) with President Bill Clinton at the Clinton Global Initiative in New York in late September. Initially incubated within the Rockefeller Foundation before it was spun out as an independent NGO, the GIIN is dedicated to building the infrastructure that will enable the impact investing industry to flourish. It is operating five program areas: an Investor's Council focused on supporting collaboration among industry leaders, the IRIS standards work (described below), education, public policy outreach, and industry research.

Twenty institutions joined the Rockefeller Foundation as founding members of the GIIN's Investor's Council. Other members include private foundations such as the Bill and Melinda Gates Foundation and the Annie E. Casey Foundation; major banks such as JPMorgan Chase and Citibank; institutional asset managers such as Prudential and Triodos; family offices including Wolfensohn and Capricorn; and pioneering impact investors (and Rockefeller Foundation grantees) such as the Acumen Fund and Root Capital. We are providing a grant to support the GIIN's operations and have worked to secure additional funding commitments from the Bill and Melinda Gates Foundation, the JPMorgan Chase Foundation, Sainsbury Family office, and the United States Agency for International Development. With this support, the GIIN is hiring a team of eight professionals in its New York headquarters, from where it will support global operations.

Developing Intermediaries

Africa Healthcare Fund

We have provided a loan and secured an option on a potential investment in the Africa Healthcare Fund, a new private equity fund being raised by a South Africa-based management team. This fund seeks to raise \$100 million for investments in Africa-based companies whose growth will improve access to health-care products and services by poor people on the continent. If successful, the fund will provide an investment vehicle through which impact investors can put capital to work in African health care, an area that intermediaries currently cannot reach.

Social Finance

The Rockefeller Foundation has become the first private foundation in the United States to back the United Kingdom-based nonprofit Social Finance. Our three-year grant will support Social Finance's mission: developing creative investment products that can enable investors to fund innovative solutions to social challenges. The first pilot project of Social Finance is the creation of a social impact bond—a structured finance product that enables private investors to fund the delivery of preventative social services by nonprofit organizations. The savings produced by these services will create profits to be shared by investors and by the government.

Building Industry Infrastructure

Impact Reporting and Investment Standards (IRIS)

The Impact Reporting and Investment Standards (IRIS) project seeks to create a common framework to define, track, and report the social and environmental performance of impact

capital. IRIS was launched in early 2009 by the Rockefeller Foundation, the Acumen Fund, and B Lab, with support from Deloitte and PricewaterhouseCoopers. IRIS seeks to play a role in the impact investing industry that is similar to what the Generally Accepted Accounting Principles (GAAP) have done to facilitate financial reporting in mainstream investments.

More than 100 organizations in the impact investing industry were engaged in the development of version 1.0 of IRIS's framework and its underlying indicators. In June 2009, IRIS v1.0 was released, and over the summer, it was piloted among a select group of intermediaries in the Small and Growing Business (SGB) and Community Development Finance sectors. A governing body and advisory committees have been established to provide oversight to IRIS as it becomes institutionalized within the Global Impact Investing Network. A data warehouse has also been developed by Hitachi to provide industry benchmarks on the basis of IRIS-compliant social and environmental performance data. USAID has matched the Foundation's \$1 million commitment to IRIS over its first two years of operation. In addition, the GIIN recently completed the selection of the IRIS director, who will help oversee the release of IRIS v2.0 in January 2010.

Global Impact Investing Ratings System (GIIRS)

The Global Impact Investing Ratings System (GIIRS), LLC, was incorporated in September 2009 as a social and environmental impact rating system for investors. GIIRS is a critical piece of impact investing industry infrastructure and is designed to facilitate greater flows of capital into the impact investing marketplace. GIIRS will provide ratings and underlying data about the social and environmental performance of primarily private enterprises that are mission-driven, for-profit, and seeking investment capital. It will also rate funds and other investment vehicles that provide capital to these companies. This system will play a role analogous to that of Standard & Poor's and Moody's with respect to credit risk.

The incorporation and launch of GIIRS is the result of nearly two years of work on the part of the Foundation's Impact Investing team, our grantee B Lab, a steering committee of the GIIN, and other partner institutions. Each steering committee member contributed resources to the development of the business plan. Our grant to GIIRS will launch its business-building phase, but substantial additional fund-raising will be required to see it finally implemented.

Supporting Research and Outreach

Rockefeller Philanthropy Advisors Impact Investing Report

Following the success of an earlier monograph on mission-related investment by foundations, Rockefeller Philanthropy Advisors published a report, "Maximizing Impact: Strategy to Implementation—Solutions for Impact Investors." This monograph aims to provide potential impact investors—especially family foundations and family offices—with action-oriented advice on identifying, structuring, and monitoring impact investments. It features two grantees (Calvert Foundation and RSF Social Finance) and an informal partner of our initiative. We supported this report with editorial guidance and a grant to assist in its publication and dissemination.

Parthenon/Bridges "Investing for Impact" Report

The Impact Investing team worked closely with a *pro bono* team from the Parthenon consulting firm and the United Kingdom-based impact investing pioneer Bridges Community Ventures to produce a paper that provides case studies of impact investments across asset classes and financial return expectations. We supported this work by developing the report structure with the *pro bono* consulting team and by encouraging our network of impact investors to share their

knowledge and experience. This report will complement the more analytical Monitor Institute paper *Investing for Social and Environmental Impact*, which came out earlier this year.

General Outreach

In addition to our grantmaking, the Rockefeller Foundation team pursues the outreach agenda through wide-ranging speaking engagements and publications. During the period since the last Board meeting, this outreach has included prominent engagements at the following: the Clinton Global Initiative, the Social Capital Markets conference in San Francisco, the Triple-Bottom Line Initiative Forum in Amsterdam, and the National University of Singapore Symposium. We have also met with senior government officials, including State Department Special Representative Elizabeth Bagley, PEPFAR Director Eric Goosby, officials from the Treasury Department, and the head of the White House Office of Social Innovation, Sonal Shah.