PADM-GP.2311  
SOCIAL IMPACT INVESTMENT  
Spring 2018  
Wednesdays, 4:55 PM - 6:35 PM, GCASL Room 369

Professor Scott Taitel  
Email: staitel@nyu.edu  
Office Hours: at 3070 Puck, Mondays and Wednesdays, 3 – 4 PM, or by appointment

Prerequisites: CORE-GP.20121, PADM-GP 4130

Course Description  
This course provides an introduction to the impact investment landscape, the evolution of impact investment as an asset class and the opportunities and challenges for investors seeking meaningful impact investment vehicles. The course will also teach the process by which an investor performs financial due diligence on a social enterprise to render a responsible investment decision. Students will learn the entire impact investment process from deal sourcing to investment documentation to monitoring financial and social returns. Through a combination of readings, case studies, class discussion and projects, students will gain deep insight into the perspective of the venture philanthropist and the impact investor (including nonprofits). The course will explore the impact investment financial environment including pioneering concepts such as Social Impact Bonds, successes and failures to date, mobilization of investors, allocation of capital, and the prospects for the future of impact investing. The course will explore impact investment both domestically and internationally including in the developing world.

Note that students will also be engaged in two simulated negotiations over the course of the semester around common types of impact investment structures – a debt transaction and an equity transaction. As part of these simulation exercises, you will be joined by NYU law students who will work with you in codifying the negotiation results into term sheets.

Course Objectives
- Develop skills necessary to source, evaluate and execute impact investment opportunities
- Working knowledge of the practice to evaluate financial and social returns of investments
- Ability to collaborate with stakeholders (across government, nonprofit and private sectors) and professions (including entrepreneurs, lawyers, general and limited partners) to achieve social impact through investment

Readings

Required Text:  
Required Case Packets:
See instructions for downloading at conclusion of syllabus. These packets may include Cases, Notes and Articles.

Required Additional Readings:
Available in NYU Classes organized by Class Session

Optional and Recommended Reading:
Social Finance, Oxford Publications, Edited by Alex Nicholls, Rob Paton, and Jed Emerson

NYU Classes
All announcements, resources, and assignments will be delivered through the NYU Classes site. I may modify assignments, due dates, and other aspects of the course as we go through the term with advance notice provided as soon as possible through the course website.

Academic Integrity
Academic integrity is a vital component of Wagner and NYU. Each student is required to sign and abide by Wagner’s Academic Code. Plagiarism of any form will not be tolerated since you have all signed an Academic Oath and are bound by the academic code of the school. Every student is expected to maintain academic integrity and is expected to report violations to me. If you are unsure about what is expected of you, ask.

Henry and Lucy Moses Center for Students with Disabilities at NYU
Academic accommodations are available for students with disabilities. Please visit the Moses Center for Students with Disabilities (CSD) website at www.nyu.edu/csd and click on the Reasonable Accommodations and How to Register tab or call or e-mail CSD at (212-998-4980 or mosescsd@nyu.edu) for information. Students who are requesting academic accommodations are strongly advised to reach out to the Moses Center as early as possible in the semester for assistance.

NYU’s Policy on Religious Holidays
University policy states that members of any religious group may, without penalty, absent themselves from classes when required in compliance with their religious obligations. When possible, students are asked to notify me in advance of such anticipated absence.

Student Resources
Wagner offers many quantitative and writing resources as well as skills workshops. The library offers a variety of data services to students.

Class Policies
I will generally answer emails within 48 hours of receipt, but not on weekends. Questions regarding projects will be answered only if they relate to those sections for which progress milestones have not passed.

Note Wagner’s incomplete policy and course withdrawal policy.
Assignments and Evaluation

Class Participation* (10% of total grade)

Homework (15% of total grade):

Note that detailed instructions for each homework assignment can be found on NYU Classes. Please follow those instructions supplemented by any direction provided during class time.

Mid-Term Case (35% of total grade). The mid-term will be one or more take-home cases.

Detailed instructions will be provided at least one week in advance of the due date.

Project (40% of total grade) [If done as a group project: 25% individual, 15% group]

Project detail can be found at the end of this Syllabus. Supplemental instructions will be available on NYU Classes.

*Participation is awarded based on attendance (one unexcused absence permitted), punctuality and engagement in class discussions. Missing or being late for two or more classes for the semester will negatively impact your participation grade. Extraordinary circumstances include religious observances and illness but you must give notice via email as soon as possible.

All students benefit from high levels of participation, so you are expected to do readings (particularly of cases) prior to class, attend class, and contribute to the discussion. Case guideline questions can be found in NYU Classes/Resources to help you think in advance about potential discussion points.

Particular attention will be given to active participation in group projects including those with the Law School students. Note that final project presentations count toward your Class Participation grade.
### Overview of Semester

Deliverables due by 5 PM on the day of class unless another date is noted.

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>*Deliverable</th>
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<tbody>
<tr>
<td>1</td>
<td>January 24</td>
<td>The Impact Investing Landscape - Root Capital case</td>
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| 2    | January 31 | The Beginnings of Impact Investing – Credit Suisse and Valuing a Microfinance Institution cases | - Class Survey *(due 1/29)*  
|      |            |                                            | - Root Capital One-Page Memo                      |
| 3    | February 7 | Creating Impact Investment Funds - Coastal Ventures Limited case | Root Capital Financial Statements                  |
| 4    | February 14| Negotiating a Debt Term Sheet (Simulation with NYU Law School) | Microfinance Valuation Memo and Spreadsheet        |
| 5    | February 21| Creating Impact Investment Funds cont. Bridges Ventures case |                                                   |
| 6    | February 28| Recap of Negotiating a Debt Term Sheet (with NYU Law School) | Debt Term Sheet *(due 2/27)*                       |
| 7    | March 7    | Philanthrocapitalism/Valuation Models New School Ventures and Omidyar case | - Project Theory of Change  
|      | March 14   | SPRING BREAK - NO CLASS                     | - Take-Home Midterm *(due 3/11)*                  |
| 8    | March 21   | The Efficiency Frontier Root Capital Data Simulation | Valuation Model Navigation                       |
| 9    | March 28   | Negotiating Equity Valuation Acumen Fund and Embrace case |                                                   |
| 10   | April 4    | Negotiating an Equity Term Sheet (Simulation with NYU Law School) | Embrace – Group Valuation Memorandum               |
| 11   | April 11   | Social Impact Bonds Social Finance, Goldman Sachs, Fresno and Instiglio cases |                                                   |
| 12   | April 18   | Recap on Negotiating an Equity Term Sheet (with NYU Law School) | Acumen-Embrace Equity Term Sheet *(due 4/17)*     |
| 13   | April 25   | Measurement in Impact Investing ACE Social Venture case | Govt. Role in Fund/SIB Memo (Extra Credit)        |
| 14   | May 2      | The Future of Impact Investment Village Capital case | Social Metrics Group Memo                         |
|      | May 9      |                                             | Project *(due 5/4)* Presentations                 |
**Grading Scale and Rubric**

Students will receive grades according to the following scale:

There is no A+

A = 4.0 points  
A- = 3.7 points  
B+ = 3.3 points  
B = 3.0 points  
B- = 2.7 points  
C+ = 2.3 points  
C = 2.0 points  
C- = 1.7 points  

There are no D+/D/D-  
F (fail) = 0.0 points

*Student grades will be assigned according to the following criteria:*

(A) Excellent: Exceptional work for a graduate student. Work at this level is unusually thorough, well reasoned, creative, methodologically sophisticated, and well written. Work is of exceptional, professional quality.

(A-) Very good: Very strong work for a graduate student. Work at this level shows signs of creativity, is thorough and well-reasoned, indicates strong understanding of appropriate methodological or analytical approaches, and meets professional standards.

(B+) Good: Sound work for a graduate student; well-reasoned and thorough, methodologically sound. This is the graduate student grade that indicates the student has fully accomplished the basic objectives of the course.

(B) Adequate: Competent work for a graduate student even though some weaknesses are evident. Demonstrates competency in the key course objectives but shows some indication that understanding of some important issues is less than complete. Methodological or analytical approaches used are adequate but student has not been thorough or has shown other weaknesses or limitations.

(B-) Borderline: Weak work for a graduate student; meets the minimal expectations for a graduate student in the course. Understanding of salient issues is somewhat incomplete. Methodological or analytical work performed in the course is minimally adequate. Overall performance, if consistent in graduate courses, would not suffice to sustain graduate status in “good standing.”

(C/-/+ Deficient: Inadequate work for a graduate student; does not meet the minimal expectations for a graduate student in the course. Work is inadequately developed or flawed by numerous errors and misunderstanding of important issues. Methodological or analytical work performed is weak and fails to demonstrate knowledge or technical competence expected of graduate students.

(F) Fail: Work fails to meet even minimal expectations for course credit for a graduate student. Performance has been consistently weak in methodology and understanding, with serious limits in many areas. Weaknesses or limits are pervasive.
Detailed Course Overview

Class 1  The Impact Investing Landscape
Jan 24
Allman:  Chapter 1
Nicholls:  Chapter 1

Note:  The Promise of Impact Investing
Note:  Venture Philanthropy: Its Evolution and Its Future

Article: Where in the Hype is Impact Investing – Impact Alpha
(NYU Classes)

Case:  Root Capital

Assess prospective debt placement opportunities relative to a Social
Impact Fund’s strategic growth options.

Class Survey for Forming Potential HW/Project Groups due 1/29
Root Capital One-Page Memo due 1/31
Root Capital Financial Statement Analysis due 2/7

Class 2  The Beginnings of Impact Investing
Jan 31
Nicholls:  Chapter 6

Investing Policy in the United States (NYU Classes)

Cases: Microfinance at Credit Suisse: Linking the TOP with the
BOP: Valuing a Microfinance Institution (or Private Growth
Enterprise): Dealing with Uncertainty

Explore the concept and challenges of investing in an alternative
asset class such as microfinance; Analyze the benefits and risks for
a global financial institution such as Credit Suisse to be involved in
microfinance in a context of a booming, but increasingly uncertain
industry; and perform a valuation of a Microfinance Institution in
Africa.

Group Valuation Exercise due 2/14

Class 3  Creating Impact Investment Funds
Feb 7
Allman:  Chapter 2
Nicholls:  Chapter 2

Paper: Community Development Venture Capital: A Double-
Bottom Line Approach to Poverty Alleviation and
Community Investing Overview (NYU Classes)
Case: Coastal Ventures Limited Partnership: Balancing a Sustainable Investment Strategy with a Social Mission

Explores the institutional structure of a community development venture capital fund and the way it operates both institutionally and operationally to promote both profitable investments and a social mission. Introduces "double bottom-line," where the bottom line is of a business that is the subsidiary of a nonprofit institution, which set up the business as part of its efforts to fulfill its mission.

Class 4
Feb 14

Negotiating a Debt Term Sheet
This class will be devoted to a role play exercise related to a debt financing transaction. The role play will include the manager of a lending institution, Banco Impacto, and the CEO of a prospective borrower, Doing Good Microfinance, a microfinance institution doing business in the country of Andersonia. We will be joined by law students from NYU Law School. At the end of the role play, the Wagner and Law students will be given a negotiation assignment which will culminate in a debt transaction term sheet due 2/27 (to be worked on outside of class). Students will be assigned to either lender or borrower teams and will have law students assigned to represent them in the negotiation and completion of loan documentation. The law students will rejoin our class on 2/28 for a summary of the results of this simulation.

Reading required before class:

Performance-Based Agreements: Incorporation Performance-Based Elements into Standard Loan and Grant Agreements: A Technical Guide


Group Assignment: Debt Transaction Term Sheet due 2/27

Class 5
Feb 21

Investment Analysis & Valuation
Allman: Chapter 3
Nicholls: Chapter 3

Case: Bridges Ventures

Bridges Ventures, a UK-based impact investor with double-digit returns on its investments, is reflecting on its social impact and pondering its future course. The case describes in detail the fund management strategy of Bridges Ventures and how it builds its investment portfolio.
Article: **Virtuous Capital: What Foundations Can Learn from Venture Capitalists**

*Valuation Model Navigation Assignment due 3/21*

### Class 6
Feb 28

**Recap of Debt Term Sheet**
We will rejoin with the Law School students for a summary discussion about the results of the Debt Simulation exercise.

### Class 7
Mar 7

**Impact Investment Funds and Philanthrocapitalism**
*Allman: Chapter 4 and 7  
Nicholls: Chapters 4 and 7*

Case: **New Schools Venture Fund (A and B)**
A new approach to philanthropy, led by venture capitalists and the "new wealth." has emerged in recent years. This case explores applying the same accountability criteria from “results” as would be expected in a traditional investment portfolio.

Case: **Omidyar Network: Pioneering Impact Investment**
Omidyar Network, having deployed over $500 million in ways ranging from donations to commercial equity capital, must decide whether to back Anudip, an Indian organization dedicated to rural employment. The case recounts the transition of eBay founder Pierre Omidyar and his wife Pam from the Omidyar Family Foundation (OFF) to ON, going from a traditional grant-making organization to a pioneer of impact investing: the application of investment practices in the delivery of high impact social interventions, with the intent of providing positive financial returns to investors.

Article: **Unpacking the Impact in Impact Investing** (NYU Classes)

Article: **Priming the Pump: The Case for a Sector Based Approach to Impact Investing**, Bannick and Goldman (NYU Classes)

**Due Date: Take-Home Mid-Term Case due March 11th**
Case(s): **To be Assigned**

### Class 8
March 21

**The Efficiency Frontier - Root Capital Data Simulation**
Mike McCreless, Senior Director of Strategy & Impact at Root Capital, will be conducting a data simulation seminar in-class where teams will compete with one another to optimize the
efficiency frontier as explained in the following articles which **must be read prior to class**: Toward the Efficient Impact Frontier and Investor’s Perspective: Constructing a portfolio on the efficient impact-financial frontier (NYU Classes)

**Class 9**  
March 28  

**Early Stage Enterprise Equity Valuation and Negotiation**  

Allman: Chapter 5  
Nicholls: Chapter 11, 13 and 14  

Case: *Acumen Fund and Embrace: From the Leading Edge of Social Venture Investing*

Embrace was seeking an infusion of funds to support its product launch of a life-saving newborn warmer and help the company rapidly achieve scale. In parallel, Acumen Fund was continuing to look for organizations with game-changing products and services in need of patient capital on their way to becoming self-sustaining businesses that effectively serve the poor. This case will explore valuation negotiation, structuring of investor term sheets and legal documentation. Students will be assigned into teams representing either Embrace (who will form a NewCo) or Acumen (the Investor) in the negotiation. This will be a collaborative case with NYU Law students. Wagner students will complete the valuation negotiation in-class and will be responsible for submitting a memorandum which will document the process followed and derivation of the pre-money valuation of NewCo, the amount of investment that will be made into NewCo by the investor and the percentage ownership that the Investor will have of NewCo upon making its investment.

**Valuation Memorandum due April 4, 2017**

**Class 10**  
April 4  

**Negotiating an Equity Term Sheet**  

NYU Law students will meet with the NewCo and Investor teams noted above to resolve additional terms including Number of NewCo Board seats to be provided to the Investor and to the Founder and the Social Impact goals metrics agreed by the Founder and the Investor, and how these goals and metrics will be embedded into the investment documentation in the form of a Term Sheet (template to be provided). See CGAP-Technical Guide (NYU Classes) for additional reference. These discussions may continue outside of class noting the following deliverable:

**Term Sheet due by 5 PM on April 17th.**
Social Impact Bonds

Case: Social Finance, Inc.

Introduction to social impact bonds, a complex contractual arrangement in which private investors provide funding to nonprofits to provide social services. If the provision of the services meets pre-specified performance criteria, the government provides payments which are returned to investors.

Goldman Sachs A and Goldman Sachs B (WDI Publishing)

The “Goldman Sachs: Determining the Potential of Social Impact Bonds” and “Shaping Social Impact Bonds” cases describe a new financial and social investment instrument—social impact bonds—through the eyes of traditional financial investment bank Goldman Sachs, specifically its Urban Investment Group. Their thought process raises the possibility of societal improvements through innovative financial instruments and how government, non-profit, and traditional finance could work together to unleash new capital on old issues.

Betting Private Capital on Fixing Public Ills: Instiglio brings Social Impact Bonds to Colombia

How to design a SIB agreement that satisfies the needs of both investors and government leaders.

Case: Fresno’s Social Impact Bond for Asthma

Fresno, California announced the first healthcare SIB in 2013 to fund home-based programs to reduce asthma attacks. If successful, the Fresno SIB model would help solve the challenge of delivering preventative care efficiently in at-risk communities.

Study: The Potential and Limitations of Impact Bonds LESSONS FROM THE FIRST FIVE YEARS OF EXPERIENCE WORLDWIDE (NYU Classes)

Memorandum of Government role in SIB or Investment Fund due April 25th (extra credit only)
<table>
<thead>
<tr>
<th>Class 12</th>
<th>Structuring Financial &amp; Social Returns Legal Documents</th>
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<tr>
<td>April 18</td>
<td>We will reconvene with the NYU law students to conduct a comparative review of valuations and terms sheets including the handling of social impact metrics.</td>
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<td>Whitepaper: Tying Carry to Impact (NYU Classes)</td>
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<table>
<thead>
<tr>
<th>Class 13</th>
<th>Investor Returns in Impact Investing</th>
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| April 25 | Allman: Chapter 6  
Nicholls: Chapter 9 |
|         | Case: Acumen Fund: Measurement in Impact Investing |
|         | Acumen Fund is a global venture capital firm with a dual purpose: it looks for a return on its investments, and it also seeks entrepreneurial solutions to global poverty. This case examines Acumen's new projects in Kenya and explores on what basis should Acumen decide whether to invest. |
|         | Case: ACE Social Venture Industries: Estimating Social Value Creation |
|         | The case provides opportunities to understand how to develop a cohesive strategy for a venture fund focused on maximizing social value; explore the range of approaches available to evaluate the social impact of investments in the nonprofit sector as well as in the field of corporate social responsibility; appreciate the importance of defining the metrics, especially in the field of social value creation. |
|         | Social Return Metrics Group One Page Recommendation due May 2nd |

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<th>Class 14</th>
<th>The Future and Acceleration of Impact Investing</th>
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<tr>
<td>May 2</td>
<td>Allman: Chapter 8</td>
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<td>Case: Village Capital: Using Peer Support to Accelerate Impact Investing (WDI Publishing)</td>
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<td>Explore the ways that current impact investors combine grant and investment dollars in supporting social enterprises, and understand the pros and cons of each. Evaluate the tension in the impact investing world between developed markets, where there are more funds, more investment dollars, and more established commercial returns, versus emerging markets, where there is a higher proportion of population living in poverty and explore the tradeoff between financial returns and social impacts in this sector and</td>
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discuss which impact metrics across Village Capital enterprises should be most important to the organization’s strategy.

From Blueprint to Scale: The Case for Philanthropy in Impact Investing, Harvey Koh, Ashish Karamchandani, and Robert Katz (NYU Classes)

Case Packet: A New Approach to Funding Social Enterprises, Antony Bugg-Levine; Bruce Kogut; Nalin Kulatilaka

Case Packet: Frameworks for Dialogue and Research about Social Impact Investing, Herman B. Leonard

Case Packet: Venture Philanthropy: Its Evolution and Its Future, Allen Grossman; Sarah Appleby; Caitlin Reimers

**PROJECT**

This will be an *individual or group project*, with a minimum of 2, maximum of 4 members to each group. If done as a group, there will be a group grade and an individual grade. Each individual will be responsible for one of the enterprise’s pro formas in the selected project below: Project concepts are due **March 7th**. Projects are due **May 4th** followed by presentations on **May 9th**.

One of the following should be selected as your project:

a. Design an *Impact Investment Portfolio strategy*  
i) Determine your portfolio selection criteria and Theory of Change, ii) explain why your selected asset(s) meet your criteria, iii) research the enterprise(s) [at least one per each group member] and develop five-year projections on both financial and social returns to assess a valuation, iv) identify risks associated with the investment(s) [both on the financial and social return side] and v) develop mock term sheet(s) which will protect your investment(s) without constraining the success of the social enterprises, vi) propose the scorecard for calculating the carry for the portfolio. The above should be presented in a paper not to exceed ten pages (exhibits can be provided in addition to these pages). Individual papers can be limited to five pages. Where applicable learning from texts/cases should be applied.

b. Design a *Financial Instrument/Structure* that will accelerate the Impact Investment industry. The instrument should clearly link both financial and social returns and make a clear value proposition to investors regarding risk and return (both financial and social). You should select up to four (4)
projects and/or social enterprises (at least one per each group member) and based on your research of their financial structure, social objectives and methodology of impact, apply your proposed instrument on a pro forma basis to prove its value in offering financial returns to investors while assuring desired social performance. The instrument and the selected projects/enterprises should be explained in a paper not to exceed ten pages (exhibits can be provided in addition to these pages). Individual papers can be limited to five pages. Where applicable learning from texts/case should be applied.

The project teams will make pitch presentations on their projects during Exam week.

Note that a detailed template for the Investment Fund Portfolio will be available on Classes along with suggested milestone dates for successfully completing the Project. Modified templates for the Innovative Structure are available upon request.

**CASE PACKS ORDERING INSTRUCTIONS**

Harvard Business Case pack can be ordered at the following website:

[http://cb.hbsp.harvard.edu/cbmp/access/72444238](http://cb.hbsp.harvard.edu/cbmp/access/72444238)

WDI Case pack can be ordered as follows:

[https://wdi-publishing.com/coursepack/purchase/?cpack=KLQT9](https://wdi-publishing.com/coursepack/purchase/?cpack=KLQT9)

**RECOMMENDED SUPPLEMENTAL READING**

_The Impact Investor, Lessons in Leadership and Strategy for Collaborative Capitalism_, Jossey-Bass, Cathy Clark, Jed Emerson, Ben Thornley

_The Power of Impact Investing, Putting Markets to Work for Profit and Global Good_, Wharton, Judith Rodin, Margot Brandenburg

_Philanthrocapitalism, How Giving Can Save the World_, Bloomsbury Press, Matthew Bishop, Michael Green

_Impact Investing: Transforming How We Make Money While Making a Difference_, Jossey-Bass, Antony Bugg-Levine, Jed Emerson

_Eyes on the Horizon_ , The Impact Investor Survey, J.P. Morgan