

NEW YORK UNIVERSITY
ROBERT F. WAGNER GRADUATE SCHOOL OF PUBLIC SERVICE
PADM-GP.2311
SOCIAL IMPACT INVESTMENT
Spring 2017
Wednesdays, 4:55 PM – 6:35 PM

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[Office Hours, 3070 Puck, Tuesday and Wednesday 3 – 4 PM](#)

Description of Course: 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 NGO managers)*. 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 in the developing world.

TEXTS

Required: Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis, Wiley, Keith Allman, Ximena Escobar de Nogales

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

SUPPLEMENTAL CASE PACKS

See instructions for downloading at conclusion of syllabus

GRADING

Your course grade will be determined as follows:

Active Class Participation	10%
Case Question Homework*	15%
Mid-Term Case	35%
Project [group or individual]	40% (if group: 25% individual, 15% group)

*there will be almost weekly homework, but students may opt to **skip up to 1 (non-group, non-project) assignment**. All assignments suggested to be *attempted* to optimize learning.

Class 1
Jan 25

The Impact Investing Landscape

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.

Root Capital One-Page Memo due 2/1

Root Capital Financial Analysis due 2/8

Class 2
Feb 1

The Beginnings of Impact Investing

Nicholls: Chapter 6

Paper: Financing Social Innovation: Analyzing Domestic Impact 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 2/15

Class 3
Feb 8

Creating Impact Investment Funds

Allman: Chapter 2
Nicholls: Chapter 2

Paper: Community Development Venture Capital: A Double-Bottom Line Approach to Poverty Alleviation
(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 is the subsidiary of a nonprofit institution, which set up the business as part of its efforts to fulfill its mission.

Country Ranking Assignment due 2/22

Class 4
Feb 15

Creating Impact Investment Funds (cont.)

Allman: Chapter 3

Nicholls: Chapter 3

Article: Virtuous Capital: What Foundations Can Learn from Venture Capitalists

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.

Valuation Model Navigation Assignment due 3/1

Class 5
Feb 22

Impact Investment Intermediaries and Philanthrocapitalism

Allman: Chapter 4

Nicholls: Chapters 4 and 7

Guest co-lecturer: Carolina Botero

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)

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.

Class 6
March 1

Portfolio Development

Allman: Chapter 7

Nicholls: Chapter 8

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.

Class 7
March 8

Due Date: Take-Home Mid-Term Case

Case(s): To be Assigned

Social Impact Bonds

Nicholls: Chapter 12

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.

Supplemental Cases:

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.

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.

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)

Class 8
March 22

Impact Investment – Environment Funds and the role of Government

Case: China Environment Fund: Doing Well by Doing Good

Explore a series of Environment Funds that provide private equity investment to companies in the clean technology (cleantech) sector that also have a commitment to social and environmental practices. Discussion will also explore the role of government in catalyzing such funds.

One Page Govt. Role in Fund or SIB Summary Memo due 3/29

Class 9
March 29

Structuring Legal Documentation for both Financial and Social Returns - Part I Valuation

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.

This will be a collaborative case with NYU Law students from the International Transactions Clinic. Wagner students will perform a valuation negotiation in-class with teams representing both the Impact Investor and the Enterprise seeking capital. Teams will be joined by NYU law students for the last 25 minutes of class who will serve as their legal advisors in finalizing term sheets based on their valuation negotiations. Meetings and dialogue will continue with these advisors outside of class as the advisors work with their Wagner clients on legal documentation for the deal. Lawyers assigned to the Enterprise teams will focus on governance and the lawyers assigned for the Impact Investor teams will focus on share transfer rights. The NYU law students and Wagner students will meet as a combined class on April 12th.

Term Sheets due on April 10

Class 10
April 5

Impact Investment and Institutional Strategy

Nicholls: Chapters 10 and 15

Case: Morgan Stanley: Positioning to Be the Sustainability Finance Leader

Morgan Stanley CEO and chairman, has taken the bold step of creating an institute for sustainable investing, for which Morgan Stanley will provide the initial \$1 billion of investment capital in hopes of raising 10 times that amount.

Guest Co-lecturer: Stephen Freedman, *UBS*

Class 11
April 12

Structuring Legal Documentation for both Financial and Social Returns – Part II Definitive Documentation

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

Guest co-lecturer: Professor Deborah Burand, NYU Law School

Discussion regarding the process of developing and negotiating term sheets, legal documentation and codifying expectations regarding social impact.

Class 12

April 19

Investor Returns in Impact Investing

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 Fund: 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 One Page Recommendation Due 4/26

Class 13

April 26

The Future of Impact Investment

Allman: Chapter 8

Nicholls: Chapters 16 and 19

Guest co-lecturer: Noah Beckwith

Reading:

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

Class 14
May 3

Accelerating Impact Investing

Allman: Chapter 4

Nicholls: Chapter 17

Guest co-lecturer: Bulbul Gupta

Case: Village Capital: Using Peer Support to Accelerate Impact Investing (WDI Publishing)

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 discuss which impact metrics across Village Capital enterprises should be most important to the organization's strategy.

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:

One of the following should be selected as your project:

- a. 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.

- b. 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.

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

CASE PACKS ORDERING INSTRUCTIONS

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

<http://cb.hbsp.harvard.edu/cbmp/access/57357436>

WDI Case pack can be ordered as follows:

1. Go to: <http://wdi-publishing.com/>
2. Click on “**Students**” in the upper left-hand corner of the Home Page.
3. On the next page, enter your coursepack code (**nkqjs**) in the space provided and click GO.
4. You will be taken to a Registration Page. Under the NON-EDUCATOR heading, click on the PROCEED button.
5. Fill out all the required registration fields. Then click on APPLY at the bottom of the Registration Page.
6. You will be taken back to the Home Page where you should click on the CART ICON at the top of the page. (It should indicate 4 items in your cart which is the total number of different cases in your coursepack.)
7. On the Cart Page, confirm that the following 4 cases are displayed:
 - a. *Goldman Sachs A* (1429375)
 - b. *Goldman Sachs B* (1429379)
 - c. *Good Capital* (1429172)
 - d. *Village Capital* (1429171)
8. Click on CHECKOUT and fill out the billing information to complete your purchase.
9. Upon completion of your transaction, a pdf of each coursepack case will be available to you within the MY PURCHASES section of MY ACCOUNT.

COURSEPACK CODE: nkqjs (Lower case letter “n”; lower case letter “k”; lower case letter “q”; lower case letter “j”; upper case letter “s”)

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
<http://www.thegiin.org/assets/documents/pub/2015.04%20Eyes%20on%20the%20Horizon.pdf>

COURSE RULES AND REQUIREMENTS

1. Absences

Attendance will be taken for each class. As active participation is an important element of your grade so is attendance. Any more than three absences will result in a 0 for the class participation portion of your grade. Please notify me by email prior to any class in which you will be absent or late.

2. Group Work

Several of the in-class case discussions will involve group work. You are expected to work cooperatively in such groups and to be an individual contributor to the group process. Group dynamics will be observed and will also contribute to the class participation portion of your grade.

3. Preparation

As stated in the syllabus, this is a case-oriented course. Therefore, coming to course having read the case is absolutely required. Students will be asked questions whether or not they offer to participate so make sure you have done your preparation.

4. Academic Honesty

Academic dishonesty will not be tolerated. Participation in cheating, forgery, and plagiarism are subject to disciplinary action.

5. Wagner School Policies

The course will be subject to all Wagner School policies including those regarding Withdrawals and Incompletes.