



# The Impact Investing Boom

Impact investing now accounts for one out of every four professionally managed dollars. **Is it making a difference?**

By Peter Lauria

**T**n

her days as a student at Cass Technical High School in the late 1980s, Saskia Thompson would ride the bus right through the Capitol Park district of downtown Detroit. Marked by boarded-up businesses and abandoned homes—and known for rampant violent crime—it was ground zero for what had been dubbed “the most dangerous city in America.” “Businesses and people were leaving in droves; you could see it everywhere,” she says.

#### **The Problem**

A host of organizations are looking to contribute to social causes but still need a clear strategy to pull it off.

#### **Why It Matters**

Many of these firms’ customers are demanding positive social impact in the products they buy and investments they make.

#### **The Solution**

Firms need not only strong road maps but also the right talent pipelines to have an impact.

Thompson still passes Capitol Park every day on her way to work as the executive director of the Detroit Land Bank Authority (DLBA), a quasi-government agency that holds all city-owned land. Only now, the district is a different world: a historic district known for hipster restaurants, boutique art galleries, and start-up tech companies. A recent Tuesday night featured a doga—dog yoga—class in the park. In Thompson’s view, the reason for this transformation is obvious. “The investments now coming into the city are making it beautiful again,” she says.





Indeed, though it may not make a lot of headlines, so-called impact investments like these are reshaping cities and causes—and shifting investing in general—on a scale that is hard to imagine. More than 1,800 financial services and philanthropic institutions are now focused on it, from JPMorgan Chase to the Ford Foundation to a host of venture capital and private equity firms. At last count, these investments totaled \$12 trillion, up 38 percent in two years. The total literally accounts for one out of every four dollars under professional management in the United States.

To some degree, the shift isn't surprising, given the widening popularity of the purpose movement in corporate America today. Still, trying to be helpful isn't always as easy as it looks. Indeed, as this kind of investing scales so quickly, so too do the demands to integrate private and nonprofit funding well with local governments or organizations—a process that typically requires some key skills that only a relatively small pool of executives boast.

And it's a pool that's only getting smaller as the labor market prospers, forcing companies to recruit and strategize more quickly. Not unlike the rise of the chief



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# 5 Impact Investment Cities



## 1 Newark, New Jersey

Investors have brought in more than \$500 million to develop projects such as Teachers Village, an eight-building community with 205 affordable housing units, three nonprofit charter schools, and a day-care center to serve students and teachers in downtown Newark.

cyber officer or chief people officer, many outfits are introducing a slew of new titles, such as managing director for impact investing, head of responsible investments, sustainable investing program officer, and others. But it remains a race for talent—for executives whose skill sets and experiences are bent on having an impact.

“Impact-investing roles are increasing quickly,” says Divina Gamble, co-leader of Korn Ferry’s Global Nonprofit, Philanthropy, and Social Enterprise practice. “The challenge is in identifying the right individuals.”

**Though it’s hot now,** impact investing is actually several decades old. The pressure to change today has come as both consumers and workers are getting behind the purpose trend more, using greater access to information and social media to see how products are made and what policies firms follow. “People aren’t trusting institutions or government to reflect their values. They are looking to control what they can, from their investments to individual consumer choices,” says Kate Shattuck, co-leader of Korn Ferry’s Impact Investing practice.

Ellis Carr, who spent a decade at Freddie Mac and now leads the nonprofit and community development firm Capital Impact Partners, says there is one surefire way to tell if a candidate is

not right for the world of impact investing. “When I ask why our firm is attractive, if they start talking about assets under management or something that has no connection to the why of what we do, that’s a telltale sign,” says Carr, whose firm has about \$1 billion under management between its loan portfolio and assets.

Carr views the answer as an indication that the candidate sees profit and purpose as separate rather than intrinsically linked. That connection can be critical: according to Korn Ferry’s 2016 study *People on a Mission*, companies that focused their employees on the organization’s purpose generated annual growth rates that were nearly triple the annual rate for their sector.

Building a pipeline of purpose-driven talent isn’t a core competency for most organizations, however—especially in the financial sector, where compensation, not purpose, has been the primary recruiting tool. At the same time, embedding impact-investment practices



## 2 Washington, DC

Last year, the district set up a \$1.5 million Inclusive Innovation Fund to invest in entrepreneurs from underrepresented groups (e.g., women, the LGBTQ community). The fund provides seed capital and helps entrepreneurs attract additional public and private investments.



### 3 Chicago, Illinois

Impact investments totaling more than \$100 million have been used for projects such as partnering with City Colleges of Chicago to provide job training to residents of the city's south and west sides, where unemployment exceeds 30 percent.

into entire organizations represents an acute human resources challenge, since the effects can run across entire departments, from supply chain and government relations to finance and real estate.

But a picture of what the best impact-investing talent looks like is starting to emerge. The strongest candidates, for instance, come with a collaborative mindset, the kind that comes from being well experienced in the worlds of business, finance, government, and social enterprises on a global scale. They also show higher levels of learning agility, since many firms' impact-investing practices are still entrepreneurial ventures that must adapt to changing condi-

tions. Similarly, the role requires a higher level of creativity and risk tolerance, says Shattuck, since determining these type of investments often means being open to new ideas, partners, and deal structures.

Case in point: Lisa Davis, whose path into the world of impact investing has hardly been linear. Fresh out of college, Davis started her career as a homelessness activist in Austin, Texas. "The longer I worked there, the more I realized that the people with the greatest influence over the issues I care about were the real estate developers," she says. Since that first activist job, Davis has transitioned between the nonprofit and for-profit worlds. She was, as she says, "happily plugging away" in private equity when she was approached last year to lead a new portfolio for PGIM Real Estate, Prudential Financial's real estate investment business, which centers on impact investing.

While PGIM Real Estate has been investing in properties with social-impact characteristics across its US real estate portfolio for several years now, Davis says it wasn't done through an intentional, explicit impact strategy until 2018. The mandate for Davis's new portfolio is to focus on assets where positive social and environmental impact can be measured and tracked over time. Any real estate investment, for example, must show it is creating affordable housing or improving tenant outcomes, measured broadly through everything from tenant satisfaction to crime reduction to greater inclusiveness of different income levels in the community. "We are managing impact performance as much as financial performance because we think they are correlated. It's a virtuous circle," says Davis.

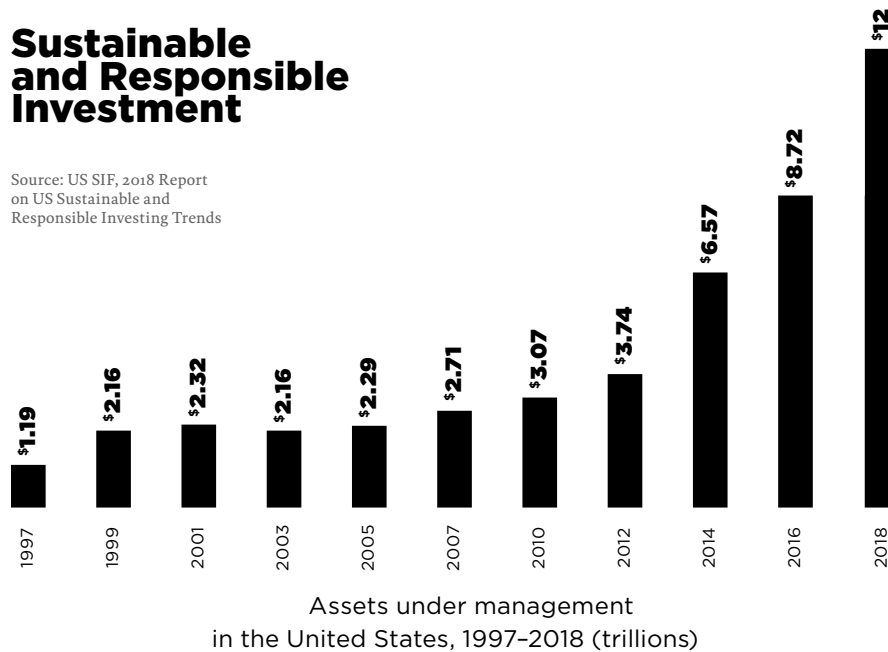
**"We focus on areas where we can contribute not just dollars but also data, technology, and the time and talent of our employees."**



Measuring the precise impact of an investment is in fact becoming increasingly important. Whether around jobs, the carbon impact of an acre of forest, or increased wages due to childcare, investors are demanding rigorous standards for measuring the issues they care about. That translates directly into an emerging need for organizations to build out a pipeline for reporting and compliance talent as well as talent with deep domain knowledge and deal experience, for instance.

## Sustainable and Responsible Investment

Source: US SIF, 2018 Report on US Sustainable and Responsible Investing Trends



**In April, JPMorgan Chase** named Janis Bowdler the new president of its charitable foundation. Her ascension also coincided with a 40 percent increase in corporate giving at the firm over the next five years to \$1.75 billion; Bowdler will oversee about \$350 million of giving annually.

JPMorgan groups its impact investments into four broad categories: community development, small business, financial health, and workforce/job skills. The creation of these categories emerged from a massive effort the firm made five years ago to align its philanthropic efforts with its brand and talent. “The foundation used to do a lot of educational giving, but it doesn’t have a lot of institutional knowledge in that sector,” says Bowdler. “Now we focus on areas where we can contribute not just dollars but also data, technology, and the time and talent of our employees.”

Since she was named president, Bowdler and her team have embarked on a refresh of the foundation’s strategic approach to giving based on lessons they’ve learned over the last five years. Through a program called AdvancingCities, the bank is committing \$500 million over a five-year period, and expects to raise an additional \$1 billion in



## 4 Seattle, Washington

Piggybacking off a major long-term project to expand the city's public transportation system, a coalition of public and private investors created a \$21 million loan fund to finance the development of affordable and mixed-income housing near future transit lines.



## 5 San Francisco, California

Officials at San Francisco's airport analyzed data to make investments and equipment upgrades that have saved roughly \$2 million in energy costs. SFO's sustainability efforts are designed to achieve zero-waste, carbon-neutral status by 2021.

outside capital, to invest in cities “where conditions exist to help those who have not benefited from economic growth.” Much of the new initiative is rooted in lessons learned from the foundation's work in Detroit, where it has invested roughly \$150 million toward revitalization efforts in recent years.

In the case of Detroit, Bowdler says city leaders first identified what problems needed solving and a strategic plan for it. A key pillar of their analysis was fixing the city's housing crisis, and JPMorgan was able to provide major financial support in the form of low-cost loans for real estate projects, revitalization and demolition efforts, small-business loans, and workforce training. In fact, one of JPMorgan's major contributions was to the Detroit Land Bank Authority. The foundation backstopped a five-year funding commitment to the agency, giving it the long-term sustainable financing it needed to build its operations.

JPMorgan also provided support to the DLBA via its “internal service corps,” a small team of high-performing mid-level executives that it embeds for three weeks at a time with the purpose-driven firms in which it invests. At the DLBA, the team did an analysis that became part of the agency's growth plan that it then linked with the necessary funding to hire the talent needed to support the expansion.

Enter Saskia Thompson. Her job at the DLBA is quite literally to invest in Detroit's future. The mission of the agency, which holds roughly 90,000 abandoned houses, vacant lots, and other structures that came under city control due to residents fleeing the city or because of foreclosure, is to return

these properties to “productive use” via sale, rental, or financing for individuals or investors. Other activities include demolition, refurbishment, and community revitalization partnerships. These investments are not about turning a profit for the DLBA, but instead increasing value for Detroit's residents. Housing values in the Crary/St. Mary's neighborhood increased 252 percent between 2013 and 2018—the increase was 253 percent in Springwells and 205 percent in the Warren Avenue Community since the DLBA's involvement, for instance. (The dollar amounts are, of course, still lower than housing values in many places in the country.) “Instead of displacing people who stuck it out through the bad years, our purpose is to take care of them and make sure they can participate in the good years,” Thompson says. Now that's impact. ▀