As director of impact investing for RSF Social Finance, a San Francisco financial services firm with a social mission, Taryn Goodman ’00, MBA ’09, manages approximately $40 million for individuals and organizations looking for returns that are more than financial.

One fund that Goodman invests in is Elevar Equity, which provides capital to small entrepreneurs addressing problems in some of the world’s poorest regions in areas of housing, health care, and finance. Another is Beartooth Capital, which acquires and restores stressed ranchland in the American West.

RSF Social Finance is a nonprofit, and the money Goodman manages comes from charitable donors. But philanthropy is not her only goal. “We invest for financial, as well as social and environmental, impact,” she says. “The money gets funneled back in, and the base for donor advisors to grant from grows.”

Skeptics might suggest that conflicts are inherent in the twin goals of making money and promoting values, but Goodman calls this “a fractured way of thinking.”

“We offer a place to put capital to bring about social and environmental good,” she says. “On another level, our purpose is to transform the way the world works with money.”

Funds with a purpose

Since the early 1700s, when Pennsylvania’s Quakers banned members from participating in the slave trade, some people have sought to align their values with their investments. In the 1960s, Vietnam War protesters pressed for divestment from companies that profited from the conflict. In the 1970s, U.S. state and local governments, along with pension funds and colleges, withdrew investment in companies that did business with South Africa’s apartheid regime.
In the years that followed, values-oriented investing shifted to embrace a host of causes, including the environment, health, human rights, diversity, and corporate governance.

In the 1980s and ’90s, special funds, known as SRI or socially responsible investing, emerged. These are mutual funds typically made up of companies screened by fund managers to exclude any that damage the environment, exploit the underprivileged, or sell tobacco, alcohol, weapons, or other products the funds consider harmful.

SRI funds also have been launched in recent years with “positive screens.” These funds invest only in companies that promote a specified cause, such as green energy or conservation. But SRI’s agenda has been largely to avoid supporting social ills, and funds with negative screens predominate.

The funds have proven to be popular with investors. In 2010, SRI assets under management were $3.1 trillion, up 13 percent from 2007, according to the Social Investment Forum.

SRI has drawn a diverse set of investors, according to Angela Mwanza, MBA ’00, a senior vice president at UBS Private Wealth Management. “Socially responsible investors include individuals, corporations, universities, hospitals, foundations, insurance companies, pension funds, nonprofit organizations, and religious institutions,” she says.

“This is definitely the way of the future,” says Sanjeev Bhojraj, faculty director of the Parker Center for Investment Research and professor of accounting. “More investors are becoming aware of it, and they are going to demand it. As we move into the next generation of investors who have grown up green, it’s going to become a key element of investing.”

GOING POSITIVE

The latest trend in values-driven finance is impact investing, which emerged in the past decade as an offspring of SRI. But while SRI’s agenda is mostly to avoid investing in companies that cause harm to people or the planet, impact investing takes a more positive approach. Impact investments are aimed at launching or growing enterprises with specific social or environmental objectives.

Professor Mark Milstein, director of Johnson’s Center for Sustainable Global Enterprise, views impact investing as the intersection of sustainability and finance, where new businesses and markets take shape. “It’s about investing in innovation and entrepreneurship,” he says.

An impact-investing fund might buy stakes in a startup trying to bring solar-powered electricity to villages in Africa or a company looking to build affordable housing in New York City or a microfinance bank in Cambodia providing capital to small businesses.

In the past five years, impact investing has grown rapidly and now stands at about $50 billion. A 2010 JP Morgan report for the Global Impact Investing Network and Rockefeller Foundation estimated that assets could total between $400 billion and a trillion dollars over 10 years.

The global financial crisis spurred the growth of impact investing, according to Goodman. “One thing that we saw on Wall Street with the crash was that people didn’t know where their money had been going,” she says. “Individuals and organizations want to go deeper now and get closer with their end investment.”

CAPITAL FOR SOCIAL GOOD

William Rosenzweig came to Cornell as an undergraduate in the late 1970s but left before graduation and became a serial entrepreneur. He wanted to start businesses that would benefit society. For models, he looked to Ben & Jerry’s, the natural ice cream company known for supporting various causes, and organic yogurt maker Stonyfield Farm. “They were early examples of companies that had a business model where there was an integrated intention of doing well as a business and doing good in society,” he says.

Rosenzweig’s causes have been health and the environment, and more than a dozen companies he founded or has been closely involved with embody that orientation. The Republic of Tea, which he co-founded in 1992, sells organic and exotic teas with proven

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— MARK MILSTEIN, DIRECTOR OF JOHNSON’S CENTER FOR SUSTAINABLE GLOBAL ENTERPRISE
health benefits. He was senior vice president of Odwalla, the nation’s largest fresh juice company, and he founded Kingdom of Herbs, purveyor of all organic plants and products for the home and garden.

After building and running companies for more than a dozen years, Rosenzweig began exploring how to meet the capital needs of companies with orientations like the ones he had built. He spent several years working for the Rockefeller Foundation, which also was looking into ways to promote socially motivated businesses, and he became the University of California, Berkeley’s first professor of social entrepreneurship.

Impact investing was in its infancy, and Rosenzweig became an early proponent. “The business models had been established,” he says. “Now capital was starting to form around the business models.”

In 2007, Rosenzweig launched Physic Ventures, a $160 million fund focusing on health and sustainability. The fund’s name means “the science of healing” in Latin. There are 18 companies in Physic’s portfolio, and investors include pension funds, foundations, and corporations.

One of Physic Ventures’ success stories is Revolution Foods, started by two women who were students in a course Rosenzweig taught at Berkeley. Revolution Foods provides fresh, healthy, and locally grown food to schools around the country. The company also offers nutrition education to teachers, parents, and children.

Another company in Physic’s portfolio is Novomer, a new materials company that came out of Cornell’s business incubator. The company is pioneering low-cost, high performance plastics, polymers, and other chemicals made with renewable raw materials.

Rosenzweig says that when Physic Ventures was founded, many in the investment community knew little about impact investing. Today, though, awareness has grown, and it is increasingly viewed as a new asset class, he says. “I think its time has come.”

THE CAPACITY TO GROW FROM WITHIN

While impact investing strives to enter the mainstream, it still is often defined by what it is not. Investors agree it is not SRI. And while impact investing shares many of the goals and strategies of the nonprofit world, it is not philanthropy. Enterprises formed through impact investing are meant to be self-sustaining businesses, capable of growing and turning a profit.

“Scale is what differentiates impact investing from nonprofit entrepreneurship,” Rosenzweig says. “If you put the two words together, investing implies return, and impact implies scale. You can drive impact through scale.”

C.J. Fonzi, MBA ‘08, who until recently was manager of impact reporting and investment standards for the Global Impact Investing Network, says that for socially motivated enterprises, the ability to grow from within is key. A for-profit solar power company in rural India doesn’t have to go back to donors each time it wants to expand to a new village.

“To create a financially sustainable business model that can scale up without being dependent on fund-raising is a very new process and a new idea,” Fonzi says.

Some of the biggest players in both finance and philanthropy have taken notice of value-oriented investing, be it SRI or impact investing. The Rockefeller Foundation has funded major initiatives to promote the impact investing industry and to establish standards to measure social and environmental impact.

Large investment banks have established SRI and impact funds and supported research into standards for the industry.

“A large number of institutional investors are very cognizant of the need to be socially responsible,” says Maureen O’Hara, professor of management and finance. “The problems Nike had with conditions in its overseas factories caused it to change the way it operates. Institutional investors don’t want a Nike problem.”

DIFFERENT PATHS TO RESPONSIBLE INVESTMENT

Heather Davis ’82, MBA ’87, is senior managing director and head of global private markets for TIAA-CREF. The financial services organization is the leading retirement provider for people who work in academia, research, and other non-profit fields.

SCALE IS WHAT DIFFERENTIATES IMPACT INVESTING FROM NONPROFIT ENTREPRENEURSHIP. IF YOU PUT THE TWO WORDS TOGETHER, INVESTING IMPLIES RETURN, AND IMPACT IMPLIES SCALE. YOU OFTEN CAN DRIVE IMPACT THROUGH SCALE.”

— WILLIAM ROSENZWEIG, CO-FOUNDER AND MANAGING DIRECTOR OF PHYSIC VENTURES
Davis says some clients want to know that their money is being invested in line with their values. TIAA-CREF clients can choose to invest in a fund or account screened for criteria that include social, environmental, and corporate governance standards.

In 2007, Davis was part of a team at TIAA-CREF that proposed the organization buy and manage farmland. Today, TIAA-CREF is the largest institutional agricultural landowner in the United States. The organization takes a decades-long view to its agricultural and timber investments, which means that it has to be a good steward, according to Davis. "It wouldn’t make sense to do anything but to treat this asset in a careful and sustainable way," she says. "You have to do that to have a viable asset down the road. It also happens to be good for the planet, good for communities, and good for people."

Davis also was instrumental in launching TIAA-CREF’s “Fruits of Employment” program, which employs individuals with autism and other disabilities at the organization’s Badger Mountain orchard in Washington State and White Hills vineyard in California. The work provides employment to disabled individuals, who have proven to be a valuable part of the work force, according to Davis.

"We're not doing this just because we’re trying to do good,” Davis says. “We have to do well in our investments. This is a great example of how it’s possible to do both.”

GAINING A “HOLISTIC PERSPECTIVE”

Students are increasingly interested in impact investing, according to Robert C. Andolina, senior lecturer of finance at Johnson. “We’re seeing it reflected in students who are coming to graduate school for their MBA with a specific interest in sustainable global enterprise or sustainability,” he says. “We’re also seeing interest from students in investment banking and in traditional capital markets investing.”

Kavita Nehemiah, MBA ’12, had worked for a little over three years for a microfinance company in India before coming to Johnson. Early in her MBA program, she attended a conference at the University of Michigan, where several speakers talked about impact investing. “I got really interested in the space,” she says. “I wanted to do something in financial services, but I wanted to do something broader than microfinance.”

Back on campus, she began talking to professors and other students about the field, and soon lined up a summer internship in India with Seattle-based Elevar Equity. "I was afraid it would be a desk-oriented job and I would just be crunching numbers. It wasn't like that at all," she says. She was assigned to identify investment opportunities for the firm focused on education. She spent much of the summer meeting with entrepreneurs and evaluating their plans.

In the second year of her master’s program, Nehemiah has been filling what she calls the gaps in her skill set, taking courses in entrepreneurship, venture finance, and valuation. She aims to get a job in impact investing after graduation.

"When I was in microfinance, I was dealing with just one business model,” she said. “It takes more than that to break the cycle of poverty. I wanted to get a more holistic perspective on development. That’s what impact investing has given me.”

TAKING THE LEAD

Cornell and Johnson have initiated a number of programs that recognize the importance of socially oriented investing and are designed to put the university in step with the emerging field.

In the second semester of the 2011-12 academic year, the Center for Sustainable Global Enterprise launched Cornell’s first-ever finance and sustainability colloquium, featuring a series of presentations by seven outside experts and leading finance practitioners attentive to sustainability. Some 34 students took the class, 23 of them from Johnson, and the rest from other schools at Cornell.

Last year, the Center for Sustainable Global Enterprise and the Cornell Institute of Public Affairs began a fellows program allowing a cohort of students to focus on coursework and training that prepare them for careers that combine rigorous financial skills and knowledge of sustainability.
Milstein also served on an ad hoc committee to advise President David J. Skorton on sustainable investments for the university’s endowment. And discussions are under way aimed at establishing a social venture fund as part of Johnson’s curriculum.

“We have some pieces that are starting to coalesce here,” Milstein says. “I think we ought to continue to develop good, hands-on, experiential learning opportunities for our students in this domain, as well as courses that directly address how financial tools encourage or deter sustainability-related investment.”

LEARNING AND DOING

Students who want to become part of the growing finance and sustainability field can find extraordinary opportunities at Johnson.

C.J. Fonzi had worked for four years as an IT consultant before enrolling at Johnson. “It was kind of a lucrative job but one I didn’t find very satisfying. So I applied to business school because I was really interested in social enterprise.”

During winter break in the first year of his MBA studies, Fonzi worked on an ecotourism project in India. In the second semester of his first year, he was assigned to an immersion project in India working for the Acumen Fund, a prominent social venture fund. That summer, he had an internship in Johannesburg with Endeavor Global, a nonprofit that identifies and supports promising entrepreneurs in emerging markets.

He spent the first semester of his second year on campus at Cornell, then returned to India for his last semester at the Indian Institute of Bank Management.

“I really worked the MBA and got exactly what I needed out of it,” he says. “I was able to go from somebody interested in this emerging sector but with no experience to someone with quite a bit of experience.”

After graduation, he spent two years in India, working first for DuPont, then the Clinton Foundation. He returned to the United States in 2010 to accept a post with the Global Impact Investing Network, a nonprofit established to guide the growth of the impact investing industry. With that organization, Fonzi helped to develop standards that investors can use to assess the non-financial aspects of firms.

Early this year, Fonzi accepted a position with Dalberg Global Development Advisors, working in the Johannesburg office of the international consulting firm. He will advise clients on socially and environmentally oriented ventures in Africa.

“I’m happy to be going back,” he said in an interview shortly before his departure. “Ever since I came home from India, I’ve missed being on the ground. I missed being where the impact hits the road.”

A NASCENT INDUSTRY TESTS ITS LIMITS

Despite a period of strong growth, socially motivated investing still has some maturing to do, according to analysts.

“It’s hard to define,” says O’Hara. “This whole area reminds me a bit of the question, ‘What is organic food?’” When a term’s definition is murky, almost anything can be put into the category, she says.

Milstein agrees that people need to be clear when they use the terms socially responsible investing and impact investing. “You can be having a conversation with someone and you could be talking about two completely different things.”

While Rosenzweig is a strong believer in impact investing, he does see its limits. “There are certain problems in society that really can’t be fixed with a market-based solution because there is no customer that can pay,” he says. Homelessness, medical care for the very poor, and other symptoms of extreme poverty may be beyond the reach of impact investing, Rosenzweig says.

Milstein believes the field would benefit from attention from academics. “Top academic researchers really haven’t spent much time on this. Industry has been out ahead of the academics. We need to be asking questions from a research standpoint so that we can really understand this space and the types of investments that are being made.”

Businesses that pursue profits while producing benefits for society face important financial challenges, and researchers could help to identify those challenges and come up with answers, according to Milstein.

“I’d like to see the academic field have something insightful to say about these things, and I’d like Cornell to be at the forefront,” Milstein says.