Double-Duty Dollars

SOCIALLY RESPONSIBLE INVESTING UNDER THE NEW RUBRIC OF "IMPACT INVESTING" IS FINALLY ATTRACTING BIG NAMES AND DEEP POCKETS. PROPONENTS PREDICT IT WILL GO MAINSTREAM—BECAUSE MILLENNIALS DEMAND IT. JUST DON'T EXPECT MARKET-BEATING RETURNS.

BY LAUREN GENSLER

In 2001, after 29 years cultivating Napa's Silver Oaks Cellars and its iconic cabernet sauvignon, Justin and Bonny Meyer sold their 50% stake to partner Ray Duncan for $110 million. With Justin's health iffy, they hoped it would give them more time together for philanthropy and to build their newer winery, Meyer Family Cellars. But just eight months later Justin died of a heart attack at 63, leaving Bonny, then 52, to manage the money and their shared charitable mission.

For starters she sold the family home to create a $5 million charitable kitty. But it seemed like a pittance when, at the 2004 Global Philanthropy Forum at Stanford, she rubbed elbows with billionaires who had hundreds of times that amount to give away. "I'm thinking, how in the heck am I ever going to come close to doing what they're doing?"

Meyer found an answer in her sizable noncharitable portfolio, then a conventional mix of stocks and bonds. "It occurred to me that I could do a lot more good in the world and enjoy it more by investing [that portfolio] in social entrepreneurs," she says. While the term "impact investing" wouldn't be coined for another three years, she threw herself into it.

For decades socially responsible investing meant keeping businesses you disapproved of—say, tobacco or weapons producers or polluters—out of your portfolio. The Forum for Sustainable & Responsible Investment estimates that more than one out of every six dollars invested in the public stock market is now socially screened in some way. A good many socially responsible mutual funds are little more than index funds minus the screened-out stocks.

By contrast, impact investing is more targeted, funneling money into businesses (often startups) likely to do good. In some ways it's more like traditional private equity or venture capital investing: It is available primarily to the well-off, it's riskier than the traditional stock-screening approach, and it has a potentially higher change-the-world payoff. Financial returns? They're all over the lot, with some impact investors consciously sacrificing profits and others dreaming of venture-capital-like returns.

Regardless of return, more investors are clamoring for this type of proactive do-gooder action. At the end of 2014, $60 billion was committed to impact investments worldwide, up 25% from year-end 2013, a study by JPMorgan and the Global Impact Investing Network finds. It predicts 16% growth in 2015. Geographically, the most impact money is invested in North America and Sub-Saharan Africa; everything from an Uber-like app for auto rickshaws in India to early childhood education in Utah has attracted impact dollars.

To be sure, some very smart investors—most notably Berkshire Hathaway CEO Warren Buffett—question the wisdom of chasing both profit and social good with the same buck. "I think you should make the most money you can and then use that for whatever philanthropic goals that you have," Buffett said at The Forbes 400 Summit on Philanthropy earlier this month in New York City.

But other billionaires who once shared Buffett's skepticism have changed their minds. "I always had this naive notion that capitalism was about making money and philanthropy was about doing good," Pershing Square Capital Management founder Bill Ackman said at the same summit. But then, true to the activist investor he is, Ackman got impatient with how traditional charities operate. He once baited Buffett by describing a charity as a company where "the CEO spends pretty much all his time raising money to pay off debt, only half of the board of directors show up at the meetings, and there are ten other companies in the space."

Ackman thinks that philanthropists shouldn't fund a nonprofit if there's a for-profit trying to solve the same problem, since the for-profits should be better able to sustain themselves long term. While he and his wife, Karen, as signers of the Giving Pledge, plan to give more than half their wealth to

Seed investor: Bonny Meyer plowed cash from the sale of her Napa winery into impact investing—before it was cool.

charity, Ackman likes the idea of getting a return on his impact investments and recycling the money into new ones.

In March Ackman put $5.8 million into Bridge International Academies, a for-profit that has built a chain of more than 400 private nursery and primary schools in Kenya and Uganda that rely on technology and a standardized "school-in-a-box" approach to deliver quality education for just $6 a child a month. "It's a volume business. You need to keep prices so low that someone living on $1.25 per day can afford your service," says Bridge cofounder Shannon May. "If you can figure out how to drop prices on anything for someone living in poverty, there's an unbelievably massive market."

Bridge now has nearly 119,000 students, is opening a new school every two and a half days and plans to expand to Nigeria and India by early next year. It expects to become profitable at 500,000 students. Meanwhile, an acquisition or an initial public offering is a possibility, May says.

Ackman isn't the only billionaire betting on Bridge. Facebook cofounder Mark Zuckerberg invested $10 million in the same March round. Bill Gates put in an undisclosed amount in 2013 after sitting next to Bridge cofounder Jay Kimmelman (May's husband) at a dinner. The first billionaire to back Bridge, with $1.8 million in December 2009, was eBay founder Pierre Omidyar, who set up his Omidyar Network in 2004 with the then unorthodox notion of mixing philanthropy and profit.

Before them all was little Bonny Meyer, who invested $150,000 of her wine money in 2008, when Kimmelman came to her office to present the concept before the first school opened. He was only one in a parade of social entrepreneurs who wore a path to her door once word of her interest got out. "Meyer Family Enterprises became a magnet," she says. "We never had to go looking for investments."

Meyer's story shows just how far impact investing has come in the last decade, as seasoned money managers, billionaires and finally the big investment houses have started to get involved. But the sector is still young, with only limited opportunities for less-wealthy investors. The opportunities should grow as financial service companies make a play for the nest eggs Millennials will create on their own and with the $30 trillion they're projected to inherit in North America alone.

In a U.S. Trust survey last year of investors with at least $3 million in investable assets, 67% of Millennials, compared to 36% of Baby Boomers, said they viewed their investment decisions as "a way to express my social, political or environmental values." Spectrem Group found a similar generational divide in a May survey of folks with investable assets of $100,000 or more; young investors were not only more likely to already own socially responsible mutual funds but also more familiar with the concept of impact investments.

Sensing the potential for a new river of fees, the big investment banks are finally moving in. "The biggest development in the last two years has been very visible engagement by mainstream asset managers and brokers," says Antony Bugg-Levine, who pioneered impact investing while at the Rockefeller Foundation and now runs the Nonprofit Finance Fund. He reports that UBS, Morgan Stanley, Merrill Lynch and BlackRock are all coming up with programs to meet rising client demand.

JPMorgan, for its part, is testing the waters by allocating $100 million of its own capital to impact investing funds. "The question today is not whether it will go anywhere but how quickly is it going to go," says Amy Bell, the bank exec in charge of that experiment.

Meyer, for her part, was forced to forge her own path. At first she made all her impact investments directly, even taking referrals from her wide circle of friends interested in sustainable practices. One such recommendation, she says, led to her first and worst investment. She sunk $500,000 into a company with a new technology for removing contaminants such as oil from dirt. She doesn't expect to get any of her money back.

She's had big hits, too. She quintupled her money when a solar startup she had invested in was bought out by billionaire Elon Musk's SolarCity in 2013. She earned 8% interest on a loan to Impact Hub, an office and events space for socially and environmentally focused startups.

But like all pioneers she's taken her share of arrows in the back. She ended up firing a string of conventional financial advisors who were either opposed to or of no help in picking impact investments. With little infrastructure to support her, for a time she employed her own staff of two to evaluate deals and manage her money.

Even with a staff, vetting all those potential startups was a challenge. Life got easier when private equity and private debt funds for high-net-worth impact investors began to sprout. Nearly 70% of the 300-plus impact funds listed in ImpactBase were launched after 2009. These funds are open only to what the SEC calls "accredited investors"—those with at least $1 million in investable assets or income of $200,000 a year for an individual or $300,000 for a couple. Minimum

YOUR PLAY

- **Impact notes.** Residents of 47 states can invest $20 to $10,000 in impact notes at Vested.org. The return ranges from 0.5% for a one-year note to 3% annually for a ten-year note. The money is managed by the Calvert Foundation, which has so far paid every investor in full, plus interest.
- **A donor-advised fund.** You donate appreciated stock (the most tax-efficient way to give) to the ImpactAssets Giving Fund or the Tides Foundation, claim a tax deduction and then spread your charitable kitty across impact investments. Minimums are $5,000 at ImpactAssets and $100,000 at Tides, but you don't need to be an accredited investor.
- **Solar bonds.** Earn 5.75% on a 15-year $1,000 BBB+ rated solar bond from SolarCity. The money helps customers pay upfront solar costs. These are brand-new; buyer beware.

THE NEW MONEY MASTERS

David Eiswert 42

HOMETOWN: Oakland, Md.

ALMA MATER: University of Maryland, M.A.; St. Mary's College of Maryland, B.A.

SPECIALTY: Global stocks

DAY JOB: Portfolio manager, T. Rowe Price Global Stock Fund

CRED: Former star technology fund manager now running global stock fund. Average return: 19%.

PAY-IT-FORWARD WISDOM: Don't stress over credentials. "I didn't go to the right college or have the right pedigree, but I came to investing with industry knowledge, creativity and more humility than the cookie-cutter M.B.A.s."

HIS MENTORS: Brian Rogers, chief investment officer of T. Rowe. "Very grounded. Taught me to think of investments as businesses instead of stocks." Elevation Partners' Roger McNamee: "Roger is so imaginative and optimistic. He warned me that spreadsheets are a mind-killer."

UNCONVENTIONAL WISDOM: Secular stagnation is over. The "old normal" will make a comeback as the cap-ex cycle returns, bringing some wage inflation. "No one believes this will happen," says Eiswert.

BEST IDEAS: JPMorgan Chase (JPM) at 10.5 times forward earnings. Also handbagmaker Coach (COH), where a turnaround is under way. "CEO Victor Luis is executing to a T." *—Matt Schifrin*

investments typically range from $250,000 to north of $1 million. Management fees can be hefty, averaging 2.4% of assets for private equity funds, according to one study.

As private impact funds have proliferated, so have financial advisory firms to help investors vet them. Meyer now uses as her main advisor Imprint Capital, a San Francisco-based impact-investing-only registered investment advisor formed in 2007. "They get it," she says with audible relief.

Yet even a true believer like Meyer, who aims to have 100% of her portfolio in impact investments by 2020—she's at 70% now—admits it wouldn't be prudent to just fund private concerns. Of her impact portfolio, 23% is in public companies selected through do-gooder funds like Parnassus Core Equity Fund and Generation Global Equity Fund, run by a London-based investment firm founded in 2004 by former Vice President Al Gore and ex-Goldman Sachs executive David Blood. (It's closed to new investors.) Another 23% is in fixed income through funds like TIAA-CREF Social Choice Bond Fund and Breckinridge Sustainable Bond Strategies. These funds buy bonds that back clean energy and affordable housing.

Meyer believes she'll eventually reach her goal of averaging a market rate on her impact portfolio—but she hasn't yet. Which raises the question: What qualifies as an impact investment—and what should it earn? "Just like there's a thousand different kinds of people, there's a thousand kinds of impact investments," she answers. "Some have very low returns and higher social benefits. Some have a very solid, healthy return but not as high a social impact."

Consider Unitus Seed Fund, which raised $23 million from the likes of Gates, Concur CEO Steve Singh and billionaire venture capitalist Vinod Khosla to invest in startups serving the mass market in India. Its investments so far include that auto rickshaw app and a portable breast cancer screening device. Unitus is aiming to earn a market rate of return, but will invest only in ventures that have a positive social impact. "A low-cost liquor distributor would not be an impact investment," explains cofounder and managing partner Will Poole, an e-commerce pioneer who spent 13 years as a Microsoft executive.

At the low end of the profit-motive spectrum is a new concoction known as social-impact bonds. These are essentially a way for those with lots of money and strong ideas about public policy to put their money where their mouths are. Investors fund a specific new idea they feel will make government work better. If it's successful, the government agency pays for it and the investors make a profit. If it's not, the government got a free experiment. Among other things, this forces the parties to agree in advance on what constitutes success.

For instance, billionaire Jay Robert "J.B." Pritzker has committed $6.4 million to two bond issues, one in Utah and one in his Chicago base, to provide early childhood education to low-income children—one of his big causes. Pritzker's payoff in Utah will come only if the program reduces the number of low-income kids needing expensive special education services later.

At the high end of the profit-motive spectrum are some B Corps. So far 31 states have authorized a new form of for-profit corporation—known as a Benefit or B Corp—that commits to serving the public good. In April online crafts marketplace Etsy became the second B Corp to go public. It will use $300,000 of its IPO proceeds to start a foundation dedicated to educating women and minorities on how to build sustainable businesses. But VC Jim Breyer and his firm, Accel Partners, are even bigger winners. The 27% stake that they acquired for less than $60 million was worth $424 million at the time of the IPO. "Great culture can greatly influence long-term shareholder value," a satisfied Breyer observed at The Forbes 400 Summit.

CHRIS LYONS FOR FORBES