

# Impact Investing

## Syllabus

### Spring 2014

**FNCE 254 / 754**

Professor Christopher C. Geczy, Ph.D.

This course explores **Impact Investing**, a discipline which seeks to generate social benefits as well as financial returns. From tiny beginnings, the Impact Investment space has expanded and now commands significant attention from policymakers, wealthy and public-spirited individuals, academia and, not least, the world's largest asset managers and philanthropic foundations. Evangelists believe it may be the key to freeing the world from poverty. Skeptics think it will remain confined to the boutique. Regardless, Impact Investing is becoming a distinct career specialization for finance professionals despite the diverse skill set each must have and the uncertainty of the new field's growth.

The major topics treated are:

- History, size and characteristics of the Impact Investing marketplace
- Turning policy challenges into investment return – who needs help, how investments can help, identifying Impact Investment opportunity at the “Base of the Pyramid”
- Distinctive business and financial characteristics of Impact Investments; social impact metrics
- Adapting conventional investment analysis to the Impact Investing paradigm
- Impact evaluation frameworks and their integration into traditional risk/return models
- Synchronization of capital markets, government policy and philanthropic resources to blend investment return and social benefit
- Corporate Social Responsibility, its nature and effects, and analysis of activism to promote it
- Relevant work in the field of Development Economics
- Analysis of sample Impact Investing models and cases
- Related concepts including microfinance/microenterprise, Socially Responsible Investing, and natural resource constraints

The primary emphases of this survey course are a conceptual understanding of Impact Investing and how it has manifested in real-world settings. Toward that end, not only will we review a number of dominant “classical” models in investments, we will also examine and analyze how Impact Investing exists (or doesn't exist) within those contexts and how proponents and critics have responded. We will also focus on the real world via case studies and live examples. Students will organize into groups to discover, research, analyze and present team research projects, some or all of which may be published.

## **Approximate Course Schedule**

### ***Week 1***

Introduction and Overview: Definitions, Classical Finance and the Case for Impact Investing

### ***Week 2***

Socially Responsible Investing: negative screening, positive screening, the fiduciary standard revisited

### ***Week 3***

Shareholder Activism: positive and negative investment

### ***Week 4***

Corporate Social Responsibility (CSR)

### ***Week 5-6***

Microfinance and the Base of the Pyramid

- Microlending, microinsurance, housing (finance, housing, RE development), technology and cases

### ***Week 7-8***

Environmental Finance, Greentech, Infrastructure. Scale and PE

### ***Week 9***

Philanthropy and Its Models

### ***Week 10***

NGOs, Public Policy and the Public Sector

### ***Week 11***

The Boundary: New Products, New Approaches and New Finance

### ***Week 12***

Selected Team Presentations

## **Prerequisites**

This course has no specific prerequisites, but given its wide-ranging subject matter, students will benefit from completion of any of the following Wharton finance courses: FNCE 613 Macroeconomics and the Global Economic Environment; FNCE 720 Investment Management; FNCE 738 Capital Markets; FNCE 750, Venture Capital and the Finance of Innovation; and FNCE 895 Private Equity. Coursework or practical experience in microeconomics, development economics, international philanthropy, Non-Governmental Organizations, financial risk management and political risk analysis will also be useful. In addition, you should have a good working knowledge of common software useful for financial and statistical analysis. A spreadsheet program like Excel is an example as are JMP, Minitab, etc.

### **Text**

There is no primary text as such for the course, but two texts will feature in class lectures, discussions and team assignments: *Investments* (9<sup>th</sup> Ed.), by Bodie, Kane and Marcus (McGraw/Hill/Irwin, 2011); and *Building Social Business*, by Muhammad Yunus (PublicAffairs, 2010). *Impact Investing: Transforming How We Make Money While Making a Difference*, by Antony Bugg-Levine and Jed Emerson (Jossey-Bass, 2011) is also optional for the course.

### **Course Pack**

In addition to class notes and texts, the course will make use of articles that are both academic in nature and practitioner-oriented. While some of the articles are supportive of the class materials and are thus optional, most will be required reading. The philosophy behind including some ancillary material is that it acts as a “free” option (or at least an exceedingly low-cost one) for you, should you wish to understand what we cover in class to a greater depth. I will make clear for which articles I will not hold you responsible.

### **Handouts**

I will hand out material for almost every class and will typically make electronic versions available in advance of class. Should you be absent when I distribute something, **you** will be responsible for obtaining a copy of what I gave to the class. Generally, I’ll make handouts available on the course website.

### **Evaluation and Administrative Details**

You will be evaluated in this class through your grades on a midterm exam, (**in class in early March, the last class day before Spring Break**), two homeworks, and a final project. The midterm will count as 40%, the final project will count as 40%, and the problem sets will contribute 20% toward your final course grade. I’m sorry to say that, according to Wharton policy, individual exceptions to the timing of these assessments cannot be made to accommodate travel schedules, etc.

While I certainly won’t monitor your attendance in the class, I will gauge class participation and will use it to help decide grades. For some, this may contribute up to 5-10% of the final grade, or more. *Keep in mind that, in any case, I “cold call” in just about every class, or, as we say, facilitate an open and frank exchange of ideas.*

My grading policy allows for re-grades on all assignments. However, the re-grade request

- must be accompanied by a clear and persuasive explanation for your request
- must be submitted to me within one week of your having received the assignment or test back
- will result in your exam or assignment being *completely* re-graded.

I want to be explicit about this last point. If you ask me to re-grade an exam, for example, I (or the course TA) will re-grade **all** questions on the exam in addition to the answer(s) in question so that it is actually possible for you to receive a lower score after the re-grade than before. In fact,

assuming grading errors are symmetric, the expected value of the change in points from a re-grade is zero! This policy is designed to ensure that the mean class score will not be increased artificially by corrections of mistakes only in students' favor. Also, the TAs may be responsible for first-stage re-grades; however, I will view every one myself.

*Note:* Again, if you experience an emergency or illness that will interfere with *any* course requirement, you must contact me with the appropriate explanation *before* the due date. For example, if you are ill on the day of an exam, you must contact me *before* the time at which you are scheduled to take the exam. Interviews and job-related absences are not considered to be emergencies or illnesses, per the school's official policy (and common sense).

Finally, although it should go without saying, I need to make clear that I expect you to adhere closely to the school's code of academic conduct. I will treat any violation of this code, such as cheating in any form, with severity. I also photocopy a significant portion of the assignments that are turned in (including homework and tests). I will likely catch any regrade-related cheating as a result. In addition, I expect classroom conduct to be on a high level. For example, do not expect to leave the class to get coffee in the middle of a lecture and be ignored upon your return. More importantly, I will not tolerate harassment of any type in my classroom.

The Finance Department requested that the following be brought to your attention:

*The Finance Waitlist for undergraduate students will be open from January 10th through January 22nd, 2014 at 5:00 PM.*

*The Finance Department's Drop Deadlines are different than the University's:*

*Finance DROP Deadline is Friday, January 24th, 2014*

*Should you decide to drop a Finance course, you must do so through Penn In Touch prior to the Finance Department's drop deadline. If you drop a Finance course that is full after the department deadline you will receive a "W" on your transcript.*

### **Homework/Final Project**

**I expect to have two homeworks in the class plus one (per group) team-based final project.**

**Homework and the final project should be completed by students in groups of *no more than six and no fewer than two*.** Each group should submit only one homework answer report, and all group members will receive the same grade, regardless of who contributed most to the final result. The names of every team member must be written clearly on the report's cover page. The report itself should be appropriately self-contained, succinct and written in clear and lucid language. Excessive or unnecessary computer output will be penalized. ***You are responsible for forming groups, and constituents may change throughout the semester. In addition, please note that I am averse to mediating disputes among group members, so please choose your groups wisely.***

**The team project will be undertaken by each student group, which is responsible for identifying, researching, analyzing and presenting an investment thesis and business case for a specific Impact Investing initiative.** More will be announced in the first weeks of class about the specifics of the final projects. Summaries of the top projects will have the opportunity to be featured in an edited volume published by Knowledge@Wharton.

## **Teaching Assistant and Review Sessions**

The teaching assistant(s) (TA) for this course will be announced.

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<b><u>Teaching Assistant</u></b>	<b><u>Activity</u></b>	<b><u>Date, Time and Location</u></b>
Peter Cachion (Lead TA)	Review sessions, email response, grading.	Review sessions (time, venue TBA):  Office hours: TBA. Email address: <a href="mailto:cachion@wharton.upenn.edu">cachion@wharton.upenn.edu</a>
Mikhail Samonov	Review sessions, email response, grading.	Email address: <a href="mailto:msamonov@wharton.upenn.edu">msamonov@wharton.upenn.edu</a>

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## **My Office Hours**

My office hours are on Thursdays from approximately 1:30-3:00 p.m. EST and by appointment. My office is in 2258 SH-DH. My remaining contact information is:

Email: [geczy@wharton.upenn.edu](mailto:geczy@wharton.upenn.edu)

Phone: 215-898-1698

Fax: 215-898-6200

***By far the best method of contacting me is by email. If for some reason you don't receive a response to your email, please don't hesitate to resend your email or ping me again. During the semester, I typically receive several hundred emails in any given day, and it is possible that I simply do not see your email or that it is filtered.***

## **Web Page**

I will set up a web page for the course, accessible via Canvas. The website will contain most class material I hand out that you may download using standard web browsers. It is a critical part of this class.

### ***Special Note***

***You should be aware that anything herein or elsewhere might change without notice, reason or explanation. This includes but is not limited to evaluation methods, texts, materials and scheduling. If you are not comfortable with this uncertainty, then please do not take the course.***