



PRODUCT DESIGN & DISTRIBUTION WORKING SESSION NOTES

September 28, 2017

The Good Capital Project (GCP) Design Lab hosted the working group of the Efficient Product Design & Distribution Grand Challenge on September 28th at our offices in New York City. We were pleased to welcome a diverse cross-section of partners from organizations including foundations, academia, investment and intelligence platforms, impact funds and asset managers.

Discussion Topics

- Develop examples of best practices of product design using blended value concepts
- Review common requirements of large platforms for impact investments
- Determine what middleware is needed to scale distribution
- Determine the scope and requirements of capacity building in the space of financial advisory
- Identify primary distribution channels today for impact and extrapolate what are the likely distribution channels for tomorrow

DISCUSSION NOTES

The discussion began with an update on Good Capital Project (GCP) activities. The role of this particular Grand Challenge working group is to further dialogue on design and distribution.

Craig Pfeiffer (Money Management Institute) reflected on the process of getting into the distribution channels of wealth managers working with the majority of most Americans. He explained there is a constant battle with these stakeholders about boiling this large and diverse ocean. We need to think about the overlap of sectors - private and public markets, institutional and retail. There is a conundrum because there is usually supply and no demand but we actually have supply and demand yet still no traction due to the intermediary block that exists. Specifically, financial advisors are not talking about this because they don't understand the products and therefore deflect it. Educating the advisors is key, but how do we do this?

Participants

Michael Bransford
Linden Hills Capital,
LLC

Agnes Dasewicz
Director, Office of
Private Capital and
Microenterprise, USAID

Desiree Fixler
Senior Advisor,
Fundraising, Financing
& Strategy

Michael Hokenson
Managing Partner, CIM

Sarah Johnson
SIPA

Jack Meyercord
Head of Impact
Investing, Bienville
Capital Management

Matthew Patsky
CEO & Portfolio
Manager, Trillium Asset
Management

Craig Pfeiffer
President & CEO,
Money Management
Institute

David Shantz
Advisor Relations
Director, Calvert
Foundation



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Another issue within the landscape of impact investing sector is the problem of using different references and languages. For example, there is a difference between adding ESG to portfolio construction and asset allocation within sectors. Adding value to investing is not necessarily a new trend because people have had principles and values forever. Impact investors can now engage principles and values with their investment allocations and decisions. This is often difficult due to the gatekeepers who have access to distribution in an organization. The risks are far higher when multiplied at firm level where the gatekeeping starts. Risk minimization requires extraordinary due diligence and may not be worth the time for small raises. Therefore, small impact funds often have a hard time getting past the gatekeepers.

Desiree Fixler (Senior Finance & Strategy Advisor) said the institutional capital markets have the capacity to distribute these impact opportunities. In order to reach the UN Sustainable Development Goals, you need the bandwidth and scale of key institutional players - investment banks, insurance companies, pension funds and sovereign wealth funds. It's helpful the investment banks are producing research and impact funds via their sustainable finance teams but you need Global Markets-the wholesalers if you will- to be part of this dialogue too. The trading floors should be offering a wide range of mission driven product- not just Green Bonds.

David Shantz (Calvert) stated that in order to get greater adoption, it is important to look like a conventional product. Products such as the Community Investment Note (our product) has gained traction in traditional firms partially because we look similar to other fixed income products. Additionally, you have seen accelerated growth in green bonds because they look like regular bonds. At the end of the day, you need to look like an investment product in order to satisfy compliance departments at any major brokerage firm. More quality product getting through the pipes allows for accelerated adoption at the advisor and client level.

Mike Bransford (Linden Hills Capital) explained the push and pull with products and distribution and suggests ESG should be an input in portfolio construction so there is something for everyone. If we communicate it in the right ways using technology and data, there will be pull but we need to have the ability to compare apples to apples and show portfolios with not only good optics but also high quality infrastructure and a superior product.

Mike Hokensen (CIM), said there needs to be a more institutional approach to achieve distribution in major private wealth channels. CIM has seen this with RIAs reaching major platforms when there is a more institutional approach.

Julia Shin (Enterprise Community Partners) explained the problems she faces in the community

Participants

Julia Shin
Managing Director of
Impact Investing,
Enterprise Community
Partners

Reggie Stanley
President & CEO,
ImpactUs

Jerome Tagger
Senior Advisor,
ImpactAlpha

GCP Design Lab

Chris Danner

Sharadiya Dasgupta

Robert Haynie

John Morris

Holly Schade



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housing sector. One issue is that distribution conversations are difficult to start when you do not have enough funds under your belt. Another issue is that regulatory capital is different from traditional capital. Tax credits are considered regulatory capital. The more traditional equity and debt markets are hard to get into but other institutions are now coming to the table with funds for community housing and together we are making a dent and we are becoming a niche sector. CDFIs are another product in the community housing sector that are starting to get S&P ratings. This allows us to do debt capital market execution and there is now an oversubscription of these notes. If this is repackaged in a way that uses standardized street language, we are able to get more visibility. CDFIs can compete at industry level versus other sectors because the optics of risk versus return are very respectable.

Desiree Fixler asked if it was better to lead with social impact or returns when pitching a product. Julia said it is a mixture but we should be talking about financial expertise not just social enterprise because we are actually quite sophisticated and are short changing ourselves.

Jack Meyercord (Bienville Capital Management) explained that when building portfolios, there isn't a guide to show managers where to access impact products. First, they need to prove out a concept by framing the problem we are solving and explain the product, then push it through channels and get traction. We need to be able to incubate and create proof of concept. Then figure out how to push it down the correct channels.

Agnes Dasewicz (USAID) explained that USAID is in the business of thinking how to solve a problem. Traditionally this was done with grant dollars but there is an increasing appetite for alternatives. We want to work ourselves out of a job by supporting sustainable initiatives. We want to participate on the capital side where our capital can be used to solve problems which makes the USAID an interesting player in this space. But, how do we match our problem with investors interested in same problem?

Desiree Fixler added there are pockets of people who knowingly do not use impact investing terms because they feel it turns off investors. Instead, they explain investments through financial returns and serving underserved markets. Some decision making is primarily about financial returns and some originators do not want these investments labeled as social markets because it needs to be perceived as a sound financial investment.

Jack Meyercord also agreed that there needs to be more exposure on what has been done and it needs to be showcased. Then, after the education process, explain the other challenges along the same framework and bring in philanthropic capital. We need to go to the bankers and show we have created this as an asset class and ask for them to come up with creative ways of scaling it, bring in the right partners and unleashing to people. But we need to showcase and educate first and give people credit for what has been done already.

Julia Shin explained that figuring out how to talk about an investment product is important. Also, she said the process of cataloguing is missing in the blended finance world and proposed that it may be better to be packaged in product solution sets, then market and sell.



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Craig Pfeiffer agreed and explained we need to stop treating this like they are new products in an old product world. Also, advisors need to change and ask what is important to the client and explain that it is not about beating the market but attaining your goals while your assets grow.

Jerome (ImpactAlpha) added that it is important to have critical mass in these conversations, because the language used for these products is just not the same. Some terms or qualifications work with some clients but will never work with institutions.

Craig Pfeiffer and **Desiree Fixler** also suggested creating a platform that will give people a roadmap. First, cataloguing what we are doing and what we have learned. The precedents need to be out there for people to learn from. Julia Shin agreed that we can make these tools available but it may be hard to get people to use them because of the lack of talking about this in the capital markets. The roadmap should include the steps to follow to get these deals done and reduce transaction costs. Making it available is a great start but we actually need to connect people to the solution.

Craig Pfeiffer suggested there needs to be a common trading platform for these products. He used the analogy of the United Way as an umbrella for non-profits with unique missions. A common trading platforms could be a solution.

Julia Shin would like to see big banks and advisors provide a cost structure that make sense to the players creating these social impact projects. There also needs to be a system to find investors.

KEY RECOMMENDATIONS

Mike Bransford would like to see a more active approach where a common agreement for clients interested in social impact is presented and their concerns and ideas for what constitutes an ideal investment are flushed out first. Then, options are presented that use ESG as a tool to design the appropriate product.

David Shantz would love for there to be a centralized industry group that does some level of minimal due diligence in order to get on all broker dealer platforms. This would provide a target for product issuers and a way for broker dealers to mitigate some level of risk. This would provide a much needed on ramp to provide financial advisors the education and tools they need to bring these types of investments to their clients.

Julia Shin would like to see benchmarking among ourselves. Identifying what these deals are and be able to talk to the appropriate industries to build the conversation. It is important to have comps for future deals.



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Sarah Johnson (SIPA) suggested using the strength of the SOCAP community to address the disconnect between buyers and sellers to connect people who have similar interests or need advice/expertise on deals.

Craig Pfeiffer reiterated his interest in seeing a lexicon delivered from GCP that can be far reaching.

Desiree Fixler would like to see institutional players involved. There should be impact investment conferences geared towards financial players. We need to produce more blended value investment bankers. We need middleman to bridge these worlds and educate the players.

Jerome Tagger would like to leverage technology particularly artificial intelligence in an attempt to solve some of the sociological problems. This could be the role of the media side of the social capital market business.

Agnes suggested we need to build better relationships with investors – perhaps with sector or geographic focus – not just a general impact investing conference.

NEXT STEPS

Many interesting ideas and likely solutions emerged from the working session's robust conversation. The GCP Design Lab is thrilled to take these ideas forward to SOCAP in October and continue gathering input from the community. At SOCAP, the working group will reconvene to further discuss these proposed ideas and narrow down priorities that the GCP Design Lab will then, in partnership with other stakeholders, advance to the prototype and testing stages.

Please send your thoughts and suggestions on how we can create partnerships around ongoing initiatives. In addition, if you have research papers, discussion papers, reports, or initiatives that you would like highlighted on our website, please write to the Good Capital Project team **GCP@socap.group**. If you believe there are other stakeholders who should be involved in the Good Capital Project conversations, please let us know.

ABOUT THE GOOD CAPITAL PROJECT

The Good Capital Project is a reflection of the community of SOCAP and the people in this sector working to accelerate change in the capital markets for social positive outcomes. Our goal is to leverage the convening capabilities of SOCAP to connect people to partners and accelerate capital for the human needs of tomorrow. By being aggressively inclusive, we can partner with thought leaders, associations and communities and use GCP's design thinking process to develop goals and prototypes over the next two years to scale and test in this new shared economy.



IMPACT MEASUREMENT & MANAGEMENT WORKING SESSION NOTES

THANK YOU

Thank you to our attendees and project participants for your knowledge, insight, and time. These meetings are a testament to this community's shared goals and ideals. Thank you also, as always, to our sponsors who enable us to continue this work. **If your organization is interested in discussing sponsorship or partnership opportunities**, please contact Sharadiya Dasgupta at sdasgupta@socap.group.

