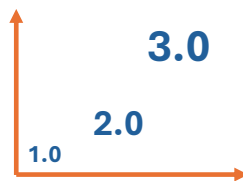


Accelerating Innovation in Impact Investing

Impact investing is a rapidly-developing field that requires urgent continued innovation to amplify superior blended returns to meet a range of investor objectives and address the critical issues of our times. Accelerating innovation requires a multi-disciplinary understanding of the complex markets and capital flows that drive superior results. Many early leaders in the field tapped into personal experiences gained over many years across the disparate silos of the ecosystem, but this path is inefficient for current and future generations of leaders to contribute to ongoing innovation. By understanding current impacting investing opportunities and challenges more holistically, practitioners can accelerate their knowledge of the field and speed the scale and effectiveness of these investment strategies.



How can participants contribute to impact investing innovation more quickly?



Impact investing is a strategic tool that can meet a broad spectrum of blended financial and outcome return objectives for the full range of investors in the marketplace, including those participating in complex sectors such as education, healthcare, sustainability, and asset management. The field has evolved from its original 1.0 simple investment screening strategies to its current 2.0 evolution that is starting to

generate intentional blended returns. Leaders need to push the field to a more sophisticated 3.0 state that achieves superior blended returns at a dramatically greater rate of scale and effectiveness.

Hypothesis

Blended return markets are **fragmented**. Accelerating innovation to reach scale and stronger blended returns requires **leveraging** the **individual parts** with the **whole ecosystem**.



Existing markets have relied on well-established risk-return concepts, capital deployment infrastructure, governance protocols, and talent development channels for ongoing improvements. The fundamental multi-dimensional nature of blended returns and silos in the ecosystem inhibit rapid impact investing innovation. No matter where an investor sits on a blended return objective spectrum, they can potentially achieve

their objectives more powerfully by having a deeper understanding of the ecosystem and leveraging existing silos in new and powerful ways that minimize costs and risks, while increasing blended financial and outcome returns.

Creating a more efficient market that can enable investors to generate superior blended returns is at the heart of accelerating impact investing innovation. To enable the ecosystem to overcome its inherent silos and constraints, leaders need to rely on an increasing value-add progression of bridging, translation, adaptation, and creation initiatives across four themes in the existing markets: Concepts, Infrastructure, Governance, and Talent. The role of technology (including artificial intelligence, blockchain, and data analytics) is an increasingly common underlying thread for all these innovation themes.

Accelerating Innovation Themes



Concepts



Infrastructure



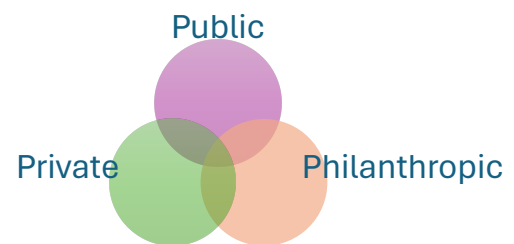
Governance



Talent

The opportunity set at the intersection of the public sector, private sector, and philanthropic sector highlights a rich sandbox of potential innovative investment strategies with superior blended returns. More compelling blended returns can result by exploiting the strengths of each market in new and intentional ways (highlighted by the intersecting areas of the Venn diagram) to set new underwriting benchmarks that can drive the field forward. The United States' government's \$27B Greenhouse Gas Reduction Fund and other FOAK (First-Of-A-Kind) projects in the sustainability sector harness a wider constellation of market participants and extend existing project finance principles to deliver scale and results.

Context 1: Golden thread opportunities



Innovation opportunities also lie at transition points along a transactional theory of change of how impact investments are made. Logistical elements such as money aggregation, legal entities, fund structures, value-generation strategies, and definitions of risk and return can continue to be extended to impact investing in new ways. The additional dimensionality of blended returns in impact investing is a recurring

Context 2: Follow the Money



Money



Doing



Results

theme in identifying opportunities for innovation in the white spaces of this theory of change, particularly in enabling more efficient matching of customized investor objectives to opportunities. Recent initiatives by Donor Advised Funds offer insights of how resources from a wide range of individual and institutional sources can be aggregated and deployed to scale in emerging, customized investment strategies.

Conclusions

- Impact investing is a powerful tool that can achieve superior risk-adjusted blended financial and outcome returns for investors across the ecosystem. Continued innovation in the field towards a more sophisticated 3.0 state is necessary to maximize the full scale and potential for these investment strategies.
- Innovation in impact investing involves creating a more efficient market that addresses the core additional dimensionality of blended returns and the need for effective customization to meet individual investor objectives across a wide spectrum. Current trends in multi-sector engagement, long-tail market strategies, and technology can help with the continued evolution towards this goal.
- Accelerating innovation in impact investing and successful use of these strategies require greater understanding of an increasingly fluid ecosystem across public sector, private sector, and philanthropic sector markets. Leaders can apply their own perspectives more effectively to impact investing (wherever they are in their career) by understanding how the ecosystem can be leveraged more holistically to strengthen these strategies. Enabling leaders to gain this knowledge more quickly will help them be more effective active contributors to the ongoing evolution of the field.

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