

NATIONAL TREND, WISCONSIN OPPORTUNITY

A Wisconsin Guide to Impact Investing in the State’s Urban, Rural and Tribal Communities

OVERVIEW

The **Wisconsin Guide to Impact investing** is a project of the Wisconsin Impact Investing Collaborative (WIC3 or Collaborative) – an initiative led by a group of Wisconsin foundations and partners committed to leveraging their assets to build inclusive, vibrant and environmentally sustainable communities across Wisconsin’s urban, rural and tribal areas. Through the Guide, WIC3 members seek to share their experience and invite greater collaboration among like-minded state-based and national investors interested in increasing their impact investing in Wisconsin or getting started and learning more.



The Guide was sponsored by the [Wisconsin Impact Investing Collaborative](#), including [Bader Philanthropies](#), [Greater Milwaukee Foundation](#), [Incourage Community Foundation \(Incourage\)](#), [Schlecht Family Foundation](#), [Alliant Energy Foundation](#), [Kids Forward](#), and [Forward Community Investments](#). It was prepared in partnership with the [Wisconsin Philanthropy Network](#) by [Avivar Capital](#), an SEC registered investment advisor that focuses exclusively on impact investing.



The field today known as “impact investing” has developed over more than five decades. In recent years, it has rapidly gained traction as a prudent investment strategy as well as a lever for social change. As a result, trustees and fiduciaries of foundations, endowments, corporations, organizations and families are increasingly asking whether and how to apply impact investing and broader social investing techniques to advance their missions and values.

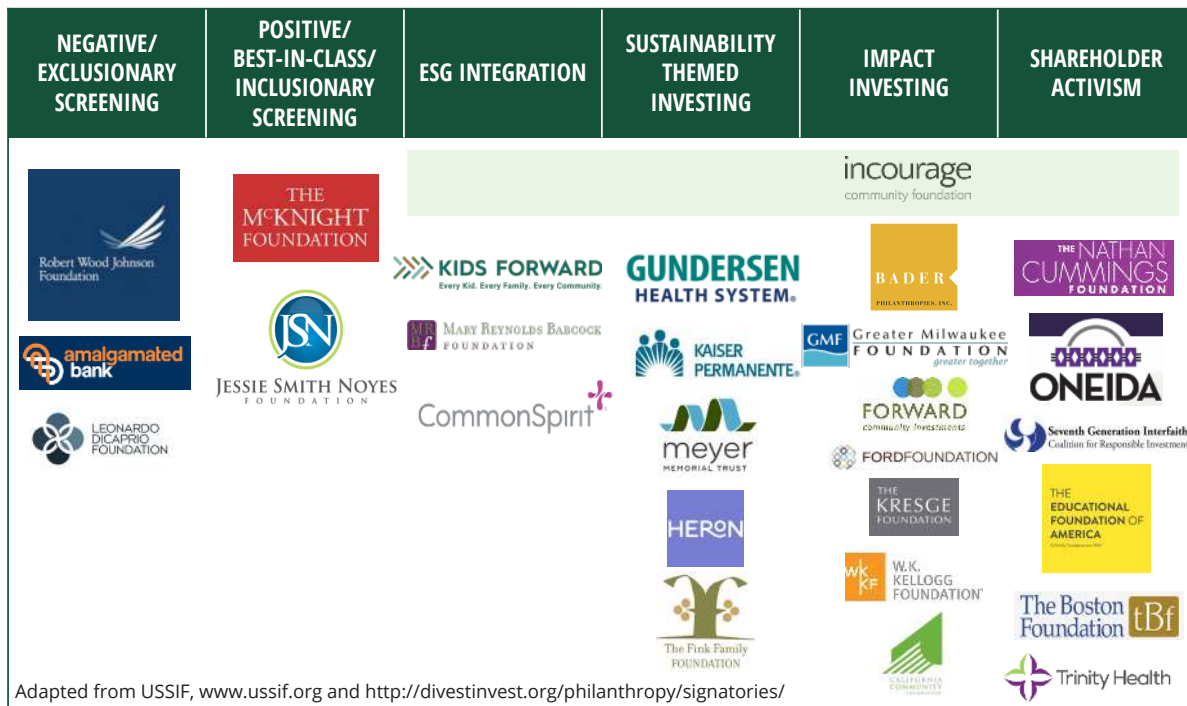
Experience in Wisconsin and elsewhere teaches that impact investing is not a “one size fits all” approach. There are many ways to both start and advance an impact investing strategy. The Guide's sections summarize definitions and other helpful background, including:

Definitions. Impact investing is defined as the practice of investing in companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return.¹ It is part of the broader practice known as *SRI (Sustainable and Responsible Impact Investing)* or *ESG* investing through which investors incorporate Environmental, Social and Governance factors into investment decisionmaking. Foundations may refer to these techniques as *mission investing*, and many investors who apply them in regions and neighborhoods refer to them as *community* or *place-based* investing. For grantmakers, impact investing can enhance results; it is not meant to substitute for still critically needed grant support.

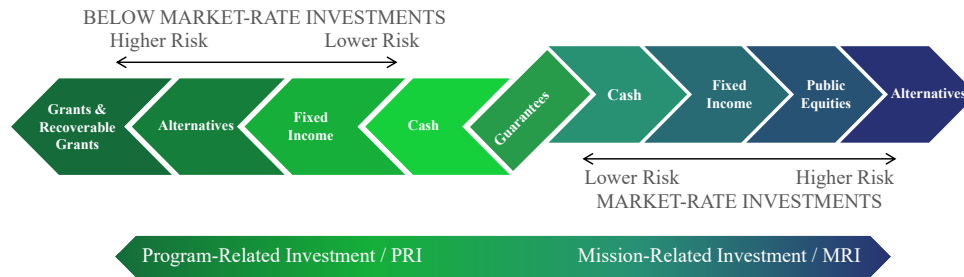
Approaches. There are many approaches to impact and broader SRI-ESG investing, with investors often applying more than one approach over time (Figure 1):

- **Negative/Exclusionary:** Exclusion from a portfolio of certain sectors or companies based on specific ESG criteria
- **Positive/Best-in-class/Inclusionary:** Investment in sectors, companies or projects for positive ESG performance relative to industry peers
- **ESG Integration:** Systematic and explicit inclusion of ESG risks and opportunities into traditional financial analysis, often for an investor’s entire portfolio or holdings
- **Sustainability Themed Investing:** Selection of assets related to sustainability in single- or multi-themed funds or portfolios (such as low carbon investing or health and environmental sustainability investing)
- **Proactive/Impact Investing:** Investment aimed at solving social or environmental problems and/or unlocking opportunity, which can include community investing strategies that address multiple issues within a region. *This is the focus of the Wisconsin Guide, and how most WISC members have gotten their start.*
- **Shareholder Activism:** Voting proxies and engaging management to influence corporate products and processes (generally targeted at publicly-traded corporations).

FIGURE 1. APPROACHES TO IMPACT AND BROADER SRI-ESG INVESTING



1. www.thegiin.org.

FIGURE 2: CONTINUUM OF IMPACT INVESTING ASSET CLASSES²

Impact Investor Types and Motivation. Impact investors include foundations, faith-based organizations, health systems, banks, pension funds, insurance companies, corporations, wealth managers, and individuals who seek social and environmental benefits along with financial returns on investments. Government is a partner through complementary grants, technical assistance programs and credit enhancement—loan guarantees, insurance and/or tax incentives that reduce private investment risk.

Risk-Return Expectations. Impact investments can be made across a range of risk-adjusted expected financial returns and in any asset class (investment structure) across the spectrum of risk including private equity, public equity, fixed income, loans, cash and guarantees (Figure 2).

Structure. Impact investments are typically private market transactions such as investments in community organizations, funds or projects that spur local small business and access to services such as healthcare, healthy food, education, and cultural activities. They may also support progress in a sector across a national or global footprint, such as increasing access to affordable healthcare or renewable energy.

Increasingly, impact investors seek to align greater shares of their assets with their missions and values. To do so, they may apply Environmental, Social and Governance (ESG) screens to their public market holdings. They may also vote their proxies and otherwise engage the corporations in which they are stakeholders to promote positive ESG practices.

HISTORY & TRENDS

The history of U.S. SRI-ESG investing demonstrates that the investment sector has worked together with philanthropy, civic organizations and policymakers to increase access to capital for communities and innovative sectors over time. Experience has taught that the investment of capital is necessary but not sufficient to create inclusive and sustainable economies. In regions, populations and innovative sectors that

lack access to capital, grant-funded capacity building activities are needed to establish networks that help to fully realize both human and economic potential. These include value chains that connect entrepreneurs to capital and markets—circulating dollars to promote regional wealth creation—as well as nonprofit networks that promote sustainable business models and prudent use of financing to expand impact and scale.

Over the now more than five decades of US impact investing, the practice has been established as rigorous, prudent and capable of generating reliable investment as well as social returns. J.P. Morgan and the Global Impact Investing Network (GIIN)'s 2018 annual survey found that 226 major fund managers, foundations, banks, pension funds, family offices and development finance institutions reported \$228.1 billion in impact investments under management. They invested \$35.5 billion in new impact investments in 2017 and planned to increase that amount 8% in the coming year. Among these investors, a vast majority report that their impact investments met or exceed their expectations for both impact (97%) and financial performance (91%). Two-thirds of respondents target risk-adjusted, market rates of return, while noting the important role played by below-market-rate-seeking capital in the market.³

The broader practice of social investing also continues to gain traction (Figure 3). Sustainable, responsible and impact investing (SRI) assets have expanded to \$12.0 trillion in the United States, up 38% from \$8.7 trillion in 2016. Much of this growth is driven by asset managers, who now consider ESG criteria across \$11.6 trillion in assets, up 44% from \$8.1 trillion in 2016.⁴

While challenges remain, including ensuring that all communities and populations have equitable access to capital and capacity building services, the growing interest in social investing bodes well for continued progress.

2. Adapted from the F.B. Heron Foundation.

3. <https://thegiin.org/research/publication/annualsurvey2018>.

4. www.ussif.org.

FIGURE 3. US SRI-ESG INVESTING, 1995 - 2018



IMPACT INVESTING IN WISCONSIN

Wisconsin foundations, faith-based investors and socially-motivated funds and individuals have been among the nation's leaders in impact investing, including through investments in the state's strong Community Development Financial Institutions (CDFIs), such as [Invest in Wisconsin](#) funds that target capital to underserved communities and populations. Examples of Wisconsin's leadership highlighted in the Guide include:

- **Bader Philanthropies** long made program-related investments in Milwaukee communities and helped to launch [Generation Growth Capital](#), an African American-led private equity fund that invests to strengthen regional businesses, support new owners of color and retain community jobs when original founders retire.
- **Greater Milwaukee Foundation** has spearheaded a program of lending to support small and growth businesses including investing through catalytic neighborhood real estate projects such as the [Sherman Phoenix](#), a model for healing a city through positive economic and social returns in communities of color. It is partnering with [Alchemy Angel Investors](#) and others to increase access to capital for growth businesses led by entrepreneurs of color.
- **Incourage** has committed to aligning 100% of its assets to its mission of co-creating an inclusive, adaptive and sustainable community. Incourage's investment in Wisconsin Rapids' [Tribune](#) building spearheaded a resident-driven community accelerator that will house the [Partnership for Sustainable Communities](#) through a partnership with the University of Wisconsin-Stevens Point. Incourage created the [Wisconsin Shared Stewardship Equities Fund](#), which invests in companies headquartered in the state or employing Wisconsin workers. An active owner, Incourage votes proxies and engages with WSSEF companies to promote positive

environmental, social and governance practices.

- **Forward Community Investments**, one of Wisconsin's CDFIs that is a [leader](#) in innovative community investing and also field building through CDFI collaboratives such as Invest in Wisconsin and impact investing statewide.
- **Wisconsin's Faith-Based Investors** were early leaders of community investing and shareholder advocacy.
- **Socially Motivated Individual Investors** spearheaded the creation of many of Wisconsin's CDFIs, which later attracted regional and national bank, corporate, foundation and faith-based investors.

The Collaborative's Guide is written as a user's manual that provides practitioner guidance on how impact investors work with community partners to source, diligence and manage their impact investments. In addition to profiling many examples of Wisconsin impact investing, the Guide's sections set out the range of steps impact investors typically take over time as they design and implement their strategies, including:

- **Planning.** The range of ways that impact investors can get started with impact investing, from vetting the concept with trustees, professional advisors and others to sourcing Wisconsin investment opportunities.
- **Policy.** How investors memorialize the parameters for their impact investing, including the governance structures they apply for decisionmaking and oversight.
- **Process & Procedures.** How institutions operationalize impact investing within their organizations and with professional and community partners.
- **Portfolio Management.** How institutions or families monitor and report on their impact investments, integrate their impact investing with other priority activities and share learnings with key stakeholders.

JOIN THE GROWING COMMUNITY OF WISCONSIN IMPACT INVESTORS!

The Wisconsin Impact Investing Collaborative seeks to share learning, support services and co-investment opportunities with like-minded institutional and individual investors across the state. Visit us on the [web \(www.wi3c.org\)](http://www.wi3c.org) to join our contact list for updates on Wisconsin impact investing news and events. The Collaborative is partnering with Wisconsin Philanthropy Network to advance its work. For further information, please contact Tony Shields, Wisconsin Philanthropy Network, tshields@wiphilanthropy.org, or info@WI3C.org.