Snowden Perspectives: *An Introduction to Social Impact*

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Executive Summary

This paper explores the movement towards a market-based approach to social change that aims to produce positive social and environmental impact. It provides an introduction to the importance of social impact in business including the rapidly evolving asset class of impact investments, corporate social responsibility, and the socially conscious advisory process.

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The Movement towards Socially Conscious Business Practices

In global markets, the majority of our financial decisions are based on just that: our potential financial gain or loss. We buy with the belief that the investment will increase in value, and we sell to make a profit. Traditionally, individuals and institutions have implemented investment strategies as a means to gaining a financial return: a return that is monetary, measurable and tangible. Investors interested in "giving back" to society have traditionally done so in the form of a donation towards a cause they feel passionate about. Over the past decade, there has been movement toward bringing these two seemingly disparate motives, profit and philanthropy, together. No longer is profit solely defined by a financial return. Many investors increasingly expect monetary *and* social return on their investments, for-profit businesses are looking for ways to generate public benefits, and financial firms are developing social impact advisory processes and product offerings.

Many firms have joined the movement towards implementing social impact and corporate social responsibility practices by developing business models to generate public benefit. Specifically, financial firms have begun to embed social impact practices into their product offerings and advisory processes. By understanding that clients have aspirations beyond their financial needs, businesses are helping clients to define how they want to expand their worth beyond financial wealth, providing alternative ways of making an impact. By harnessing the power of capital markets, investors are able to maximize opportunities to further diversify their total wealth, earning a financial return while simultaneously making a positive impact on society.

This paper will introduce the impact investing movement, the importance of corporate social responsibility implementation, and the ultimate convergence of a socially conscious investment philosophy.

Acknowledgements and Other Sources of Information on Social Impact

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Investing in Social Impact

In an age of transparency, accountability, measurement analysis and collaboration, traditional business models are being pushed to adapt. The process of creating public good has evolved to be a much more strategic, scientific process driven by business regulation and growing global trends – environmental issues, health and social concerns, economic crises, globalization and interconnected technologies. These global trends have resulted in societal pressure for businesses to be held responsible to participate in generating social benefit. Government aid and purely philanthropic initiatives can no longer provide the means to create solutions for today's complex global issues, which have shifted investment focus towards a larger pool of capital: the global capital markets. This trend has created a larger diversity of sophisticated financial tools to invest in social impact including ***philanthropy, impact investing*** and ***socially responsible investing (SRI).***

Philanthropy	Impact Investing	Socially Responsible Investing (SRI)
•The practice of donating your money or services toward advancing mankind without receiving a financial return	•Investments that actively aim to solve social and environmental challenges by generating financial profit	•A passive investment strategy that negatively screens traditional assets based on social and environmental criteria and aligns those assets with a client's values

Impact Investing

Impact investments enter the space between traditional financial investments and donations by combining elements of socially responsible investing, such as negative screening, and philanthropy. Impact investments are investments in assets that put social objectives first and aim to be return-generating. These types of investments have formed a new asset class, providing investable capital in the form of equity, debt, working capital lines of credit and loan guarantees. Investing in microfinance, social venture funds, community development and clean technology all fall into this category. The main idea of impact investing is to generate more capital and resources toward a social mission than are possible just through philanthropic dollars, while still maintaining investment goals.

Impact investments provide the opportunity for individuals and institutions to expand their social footprint, aligning their passions and corporate purposes with the incentive of yielding financial returns. One example of an impact investment is IGNIA, a venture capital firm that supports high growth social enterprises serving the needs of low income populations in Latin America. Investors in this fund can expect both fiscal and social returns on their investment. There is a strong momentum driving impact investing and the success of microfinance and micro venture has illustrated the demand of investors that aim to 'do well by doing good'. A pioneer in the impact investment space is NeXii, a company that provides a regulated impact investment platform that facilitates the flow of capital to businesses addressing critical social and environmental challenges. In addition to its private placement platform, NeXii is launching the first global Impact Exchange Board– the iX – which will include mission-driven businesses and funds around the world, in partnership with the Stock Exchange of Mauritius (SEM).

With the development of impact investing platforms, such as NeXii, and continuing definition of impact measurement standards, it has become possible for advisors to use similar research and investment tools on impact investing. This will allow a disciplined approach and process similar to what has been applied to the traditional investment process. Impact investing can be integrated into traditional portfolio management, so it gives the opportunity of investing in new markets and asset classes while maintaining exposure to traditional investment strategies. The basics of asset allocation - investment objectives, risk profile, time horizon, desired financial and social/environmental return- equally applies to the impact investment process. The key differentiator with the impact investment asset class is that the social/environmental criteria are the drivers for investment selection for the impact investment portion of the portfolio. The risk profile may need to be adjusted because impact investors may take a lower than market-rate return or some investment funds will be higher-risk and have to achieve larger impact goals that cannot be reached with market-rate returns. With this rapidly emerging field of impact investing, many industry leaders are recognizing the importance of social impact to their stakeholders, and are moving forward to implement responsible business practices.

Corporate Social Responsibility

"Good" companies are good company to keep

So what exactly is meant by 'responsible' business practices? Business for Social Responsibility, a global non-profit organization funded by corporations, describes business responsibility as "achieving commercial success" while "honor[ing] ethical values." The World Business Council for Sustainable Development, an association of global companies, holds that corporate responsibility is "the continuing commitment by business to contribute to economic development while improving the quality of life." It is important to differentiate between companies exhibiting responsible behavior and companies that have corporate responsibility values embedded *into* their brand: integrated into what they stand for and exhibited in their business practices. Scott Beaudoin, director of cause marketing at MS&L, a PR firm in Boston, says: "Companies are asking how they can be socially responsible in a way that also moves the business forward. It's no longer about having one corporate social responsibility guy who is supposed to be the moral compass for the company, it's about making sustainable business the standard operating procedure."

In a recent study, "The Impact of Corporate Social Responsibility on Investment Recommendations" by Ioannis Ioannou, an Assistant Professor at the London Business School and George Serafeim, an Assistant Professor at the Harvard Business School, the authors investigated the correlation between a company's corporate social responsibility practices and analysts' investment recommendations. Using data on 4,109 companies over a period of 16 years, they found that since 1997, analysts are more likely to recommend buying stock in firms exhibiting corporate social responsibility practices. The authors discuss how in recent years corporate social responsibility and sustainability strategies have received increasing amounts of attention, highlighting the social role and responsibilities of firms as value-creating. The study also draws attention to the growth of socially responsible investing (SRI) strategies and the growing demand for investment professionals to understand the developing impact investment asset class.

With capital demanding more socially conscious leadership, legal structures have started to reflect this trend. Until recently, there was a clear delineation between not-for-profit and for-profit legal structures. Two types of hybrid organizations that have been providing a roadmap for businesses to integrate socially conscious practices include ***B-corporations*** and ***L3Cs***. B-corporations, or for-benefit corporations, operate under a legal structure that expands corporate accountability and enables them to scale and achieve profitability while maintaining social and environmental missions. Certified B-corporations receive discounts on their products and services and are being positively identified by the media and the private sector as members of the B-corporation community. Since their launch in 2006, there are 444 B-corporations with $2.18 billion in revenues in 54 industries. L3Cs, or low-profit, limited-liability corporations are designed to support for-profit ventures that have a socially beneficial purpose.

Corporate social responsibility not only affects how a company is viewed from the outside, but also how it is appreciated from the inside. Loyalty and confidence are spawned from respect and admiration—people want to be a part of a company, whether as an investor, client, or employee, not only because of the products and services it offers, but because they believe in what the company stands for. Coca-Cola Enterprises conducted a survey of its 60,000 staff and found that corporate social responsibility was the second biggest driver of staff engagement, after leadership.

In a whirlwind of market volatility and unnerving skepticism around the issues of client loyalty and transparency in businesses today, customers are looking to believe in a company again. People want to trust that a company not only has the customer's best interest at heart, but that it is also dedicated to creating a positive impact on society as well. Companies that are actively working towards benefiting all parties involved, rather than solely focusing on a financial profit, are the companies that are going to win back the faith and loyalty of the consumer that has been lost through the financial crisis. The perception of a company is not only based on *what* a company does, but more importantly, *how* they do it. As customers place greater value on corporate responsibility, sustainable business practices, and social impact, the landscape for success is changing as businesses expand their focus beyond financial returns.

Social Impact for Advisors

There is a significant opportunity and market advantage for financial advisors and investors in social impact investing. The rapidly emerging social impact initiative has spurred collaboration for social change resulting in the morphing of sectors, increased interest and an evolving ecosystem of social capitalism. Businesses are recognizing it is now important to gain social legitimacy. Over the next decade, many will be developing innovative business models to fill vital gaps in global needs and eventually define this new sector of the economy that harnesses the power of business to solve social and environmental problems. The emerging asset class of impact investments calls for embedding personal or ethical values into the investment decision-making process and provides the opportunity for investors to take active ownership in contributing to social sustainability. It allows for deeper client-advisor relationships because now the advisor's role includes not just traditional investments but also impact investments. This calls for the advisor to understand the clients' values as part of the investment process.

The next generation's interest in social entrepreneurship focuses on trying to solve social issues using business practices. No longer do for-profit and non-profit initiatives need to be considered separate; companies have the opportunity to combine these approaches with a blended structure. Financial services firms are beginning to incorporate impact investing into their advising process and integrating it into modern portfolio theory. With this blended value approach, financial services firms must embrace new measurement standards and technology to give people the same type of performance reporting as they have come to expect regarding traditional investments. This allows them as stakeholders, to hold their impact investments accountable in the same way they do with their traditional investments. This expectation of accountability will drive the success of socially-minded initiatives and is what has been lacking in past years of social change being driven by aid or philanthropy alone.

At Snowden, we believe in implementing social impact principles into both our business practices and our own corporate responsibility. We will continue to provide insight into impact investment strategies, impact investment tools, corporate social responsibility best practices, and information on developments in this rapidly evolving space.

About Snowden

Snowden is a global, independent financial services firm. We provide wealth and corporate advisory services to high net worth individuals, families, institutions, and governments. In the end, each of our clients is trying to get from Point A to Point B — Snowden provides the pathway from point to point.

Our wealth advisory services consist of:

- Investment Advisory
- Cash Management
- Aggregated Performance Reporting
- Generational and Financial Planning
- Trust and Estate
- Family Wealth Education
- Social Impact and Philanthropy

Our corporate advisory services consist of:

- Business and Strategic Consulting
- Market Entry and Global Business Expansion Consulting
- Transaction Preparation and Scenario Analysis
- Capital Raise and Sell-side Representation
- Private Placements
- Mergers and Acquisitions
- Company Structuring and Launches

Loyalty | Partnership | Uncompromising Global Standards | Social Impact

Questions or Comments? Please direct them to…

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