PATH TO IMPACT:

On Becoming an Impact Investor

An **ImpactAssets** issue brief exploring critical concepts in impact investing

Featuring an interview with Stuart Rudick, Mindful Investors

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The purpose of ImpactAssets Issue Briefs is to offer newcomers to the field of impact investing—primarily wealth holders and the investment advisors that serve them—perspective and information on how to develop and execute an impact investing strategy. Therefore, most of our ImpactAssets Issue Briefs focus upon a specific theme or set of ideas related to impact investing. However, the decision to engage in impact investing has its roots in individual investors realizing that a traditional approach to investing doesn't generate the full value or returns many investors now seek; oftentimes the decision to engage in impact investing is first and foremost an individual one made by those seeking to do more than invest for financial returns alone. Stuart Rudick, managing partner of Mindful Investors, an IA 50 firm as well as a B Corp, has been active as an impact investor for over 20 years. We offer this Issue Brief as a conversation with a successful investor who has learned from his experiences and continues to innovate for impact. It is our hope that by learning about his story, others will understand something of the journey of the impact investor and be encouraged to take steps along this promising path of investing.

EVOLUTION OF A FIELD AND ITS INVESTORS

While it's true Stuart Rudick has been an impact investor for over 20 years, it is helpful to note that the term "impact investing" only entered the lexicon of this field about five years ago. The practice of investing for social and environmental return as well as financial return has evolved through various iterations (for example, socially responsible investing, ESG investing, sustainable investing) and has evolved alongside other concepts regarding the role of companies (corporate social responsibility, B-corps) and how to assess their total value creation potential (blended value, shared value, integrated value).

The early days of exploring how capital might be used to advance more than financial returns may be traced back to the social unrest of the 1960's, which evolved into the sustainable investing and divestment campaigns of the 1970's and 1980's. In 1990, the first SRI in the Rockies conference took place and the Green Money Journal launched in 1992 to cover Sustainable Business and Investing. These investment philosophies that pursued social value in addition to financial value were explored in the 1990's, but were far from mainstream. In 2000, during his tenure on the faculty at Harvard Business School, Jed Emerson coined the term "blended value" and led research which resulted in the Blended Value Map; the first publication to propose that value created by organizations (for-profit and nonprofit) be viewed as both social and financial.

It was not until 2007, however, that the term "impact investing" was coined by a group of leading philanthropy and investment professionals, convened by the Rockefeller Foundation and led by Antony Bugg-Levine. These investors wanted to promote a concept of actively investing in social impact across the spectrum of issue areas, and move away from moral obligations, normative judgments, and negative screening, at the time associated with socially responsible investing. Impact investing also conveys the optimism and intentionality of participants in this field for the possibilities that investment capital can unlock. It has proven to be a very successful umbrella to gather under; in addition to the $38M that Rockefeller Foundation committed in 2008 to building the infrastructure for impact investing, the Social Capital Markets (SOCAP) conference started in 2008, the Global Impact Investing Network (GIIN) launched in 2009, JP Morgan reported on Impact Investing as an emerging asset class in 2010, and in 2011, Jed Emerson and Antony Bugg-Levine authored the first book on Impact Investing.

This overview is offered to outline the backdrop against which a new type of investor evolved: the Impact Investor. There are many who have participated in advancing this work. This Issue Brief offers an overview of how one such investor evolved from a traditional, finance-only focus to an investment approach called impact investing. It is important to note that when Stuart began investing for social impact with financial returns it was a fringe idea, and prudent investors like Stuart have been critical to evolving these investment strategies and bringing the idea of impact investing into the mainstream.

INTERVIEW WITH AN IMPACT INVESTOR

Stuart, tell us, why did you become involved in this area of investing in the first place?

Since the 1970's I have been passionate about protecting our environment and being a steward of our natural resources. While getting a business degree at the University of Colorado in 1976 one of my professors, John Hess, introduced me to the notion of business being a source of both profit and positive impact in our world. With him as my mentor, I focused most of my University business studies on burgeoning innovative companies in Boulder, like Celestial Seasonings, whose motive was to become profitable with products focused on improving the quality of our lives. Today we call this positive social impact investing.

How did you begin engaging in impact investing? What were the first steps you took?

Graduating from Boulder in 1980, I moved to San Francisco and was hired by a local brokerage company, Davis, Skaggs and Co. As a regional, family-owned firm, they provided me the flexibility to focus my investments on areas of my personal interest and passion. I started researching and investing in water remediation companies, recycling companies and energy efficient companies in the early 1980s.

While a partner at Bear Stearns in the mid 1980s, I funded private companies focused on building businesses with positive social impact. Examples are the first environmental magazine (Buzzworm), agriculture technologies reducing water and pesticide use (Esselborn Farms) and the first venture fund focused on investing in environmental technology solutions (Global Environment Fund).

What are some of the things that you wish you had known when you first began?

Regardless of the idea, technology or product need, the key to a successful business and successful investing is the management team leading a company. The key reason companies fail in achieving their vision and potential is due to the failings of senior management. I have learned the value and importance of investing in people, not just products, ideas or technologies.

Can you describe the types of impact investing in which you've engaged over these past years?

Over the past seven years I have focused on investing in healthy living companies with a sustainable focus. This includes consumer product good companies (food, beverage, personal care), enabling technology platforms and water and agriculture companies with a sustainable focus. I *am grateful to have an investment in Seventh Generation, the true pioneer of sustainability and positive impact personal care and cleaning products. I am also very excited about my investment in the fastest growing organic salad and produce brand in the U.S., Organic Girl. Most recently, I have been working with HarvestMark, which has developed the leading SaaS platform providing supply chain traceability and waste reduction to the produce industry.*

What differences do you see between a traditional investment process and an impact investment process?

Ultimately, one is investing in the founders and their team, whether it is a conventional or social impact investment. This is the determinant of success. The process of doing due diligence, understanding the competitive landscape, and getting to know management is fundamental to making any investment. Evaluating an impact investment also requires taking into consideration how any socially rewarding efforts may impact the IRR to the investor.

Do you find that there is a shortage or an abundance of investable companies for Mindful Investors to consider?

We have an abundance of deal flow and opportunities in the social impact arena. Many of the companies we see are at an earlier stage than we invest and we monitor their growth and progress as they grow to the expansion stage and become a good fit with our fund.

How do you source deals?

Having been actively engaged in the healthy living and sustainable community and industry for the past two decades, we have a wealth of relationships which provide us prolific deal flow. We are generally introduced to a new company for investment every day. Our industry advisors are a key source of our deal flow. We also see a large number of co-investment opportunities from other PE and VC firms who look to us as industry experts to add value to their investment.

How do you respond to the concerns of those who feel approaches to social impact investing are too risky or unproven?

Risk is commensurate with reward, whether it is in social impact or a traditional investing arena. As an early, pioneer investor, I have developed an expertise and generated above-market returns over the past three decades. I exercise discipline investing solely in industries and companies in which I have personal passion and expertise. Most importantly, I invest in management teams where I have a strong relationship and deep confidence in their ability to create a successful company with significant social impact.

How do you approach the challenge of ensuring your investments actually attain the impact you seek?

My initial filter is to only invest in companies with management who are committed to embrace positive social impact through personal and professional actions. I take an active role with each company investment, often taking a board position and having a close relationship with senior management. I enjoy getting to know management and engaging with them outside of the business world in social and like-minded nonprofit activities. My fund, Mindful Investors, was one of the early B Corps and we encourage our companies to become B Corps and adopt practices for social impact which are aligned and complimentary with their business.

Do you evaluate or track the social impact of the companies you invest in?

Their social impact is integrated into their corporate ideology and practices and is part of their daily operations. While our companies track and monitor their impact, it is not a separate metric, it is their metric.

Have you had to accept below market rate financial returns as you've pursued impact?

To the contrary, I believe companies which have the foundation of their business and products based on sustainability and positive impact have the opportunity to generate a premium value and return on their products and business. In recent years, we have seen brands founded on positive social impact realize premium valuations when they are acquired or experience liquidity events. Most notably, the recent IPO of Annie's occurred at a premium valuation and has appreciated 80% in its first month.

What major changes have you seen in the field over these years?

Cycles come and go and will continue into the future. What is hot and en vogue today will be passé in 3-7 years. In the 1970s, the trend was to avoid investing in so called "sin stocks": defense, alcohol, tobacco and Apartheid companies. Corporate Socially Responsible (CSR) investing came about in the 1980s when many new mutual funds sprung up focused on socially responsible investing. Broad-based private equity and VC investors jumped on the ethanol and clean tech bandwagon in the past five years. Most of these investors and funds had little knowledge and experience investing in this sector, and they have realized underperforming investment returns. Today, we are seeing a plethora of social impact funds being formed to invest in companies focused on microfinance, agriculture and consumer products focused on social good. Most of these funds and companies intend to generate compelling investment returns while providing significant social benefit.

What do you feel is the key development still to come in order for impact investing to reach its potential?

The key issue for the impact investing arena is attracting additional capital to this sector. This capital is needed to fund the exciting growth opportunities that will demonstrate investment success and continue to attract new investment capital.

If you could give an investor who is new to the impact investing field three points of advice, what would they be?

Invest in the management team. Invest in the management team. Invest in the management team. And I would have two other key recommendations:

- *Take an active, ongoing role in the investment as a board member or advisor to the company.*
- *Diversify your investment in a portfolio of companies and consider investing in a professional social impact fund.*

Where do you start as an investor trying to get into this space?

There are a multitude of mutual funds focused on social impact. The Green Money Journal is a great resource for evaluating the returns of these funds. To consider investing in private companies there are private funds offered by Investors Circle, Social Venture Network and RSF Social Finance, to name a few of the leaders. A recent resource for investment is the Global Impact Investing Network (GIIN) and some of the new crowd funding platforms such as Circle Up. For larger investors, there are privately managed funds offered by Trillium, Calvert, and Generation Investment Management, for example.

What are some of the more promising areas for impact investing that you see developing over the years to come?

I believe agriculture and water companies and new enabling technologies are two of the most promising areas for investing in the next few years. Water is our most precious resource and to feed our ever increasing world population, we need to invest in water efficiency and reduction technologies. While there are current food shortages around the globe, there are non-GMO solutions to reduce food waste which employ new technologies to increase our food production in a sustainable, healthy way. Many young people graduating from college today and entering the workforce are seeking jobs focused on sustainability, many in small, artisanal farming.

Thank you, Stuart, for sharing your experience with us!

A CAREER IN IMPACT INVESTING

While Stuart's story was unusual for someone launching a career in 1980, it is not so different from the path of many impact investing professionals today. Impact investing continues to evolve through the actions of individuals who decide to pursue social and environmental impact in addition to financial return. As the sector has accelerated quickly over the last five years, the expertise in evaluating social and financial value has been sourced from various related areas of work. Employees with impact investment fund managers often have a background in traditional finance, with some nonprofit or public sector backgrounds mixed in as well. A more integrated career development of impact investing professionals will be required for the field to continue to evolve in a coherent manner.

In response to growing demand from young professionals, in recent years many top business schools have begun offering courses or clubs focused on impact investing and social enterprise development. Impact investing firms and intermediaries are also developing their onboarding capacity to bring mid-career professionals into impact investing. However, job opportunities with impact investing fund managers are still limited as the field takes shape.

Perhaps the most abundant opportunity to contribute to impact investing, as this strategy is making its way into the mainstream, is in the role of a financial advisor or individual investor. As additional investors reject the bifurcated thinking of investments as separate from social impact and choose to pursue social change through sound investment strategies, valuable momentum is added to the evolution of the field. Each financial advisor and investor can start on the path to impact investing in the same way that Stuart did; by using the research and investment capital at hand to explore the possibility that investments can catalyze positive social impact in the world.

Stuart Rudick is the founder and general partner of Mindful Investors, L.P., a hybrid public and private market hedge fund. He has been a practitioner, leader and investor in the health and wellness community for over 30 years. Jed Emerson is Chief Impact Strategist for ImpactAssets, senior advisor to two families executing "total portfolio" impact investment strategies and has been active in the field of impact investing for a number of years. As part of ImpactAssets' role as a nonprofit financial services group, Issue Briefs are produced to provide investors, asset owners and advisors with concise, engaging overviews of critical concepts and topics within the field of impact investing. These Briefs will be produced by various ImpactAssets staff as well as collaborators and should be considered working papers—your feedback on the ideas presented and topics addressed in IA Issue Briefs are critical to our development of effective information resources for the field. Please feel free to offer your thoughts on this Issue Brief, as well as suggestions for future topics, to Jed Emerson at JEmerson@impactassets.org*. Additional information resources from the field of impact investing may be found at the IA website:* www.ImpactAssets.org*. We encourage you to make use of them.*