BEN THORNLEY

So my name is Ben Thornley, I am from Pacific Community Ventures in San Francisco. I direct our research and social impact evaluation practice. So we measure the social impacts of the performance around 40 separate private equity managers. Managing money for institutions like Cyprus and Hamilton Lane, Macquarie Funds Management, it's an Australian firm. So we do this ourselves and we have also thought a lot about it and our policy research practice is consulting clients including the NEKC and the Rockefeller Foundations; so I have been thinking about this a lot in the last 18 months. And pride in that in my professional life versus a reporter. I came to the states, to New York as a foreign correspondent reporting on the US mutual fund and pension fund industries and met my California girl and the rest is history. So that is how I ended up here and I am excited to talk to you today. And thank you for having us. So as Colby mentioned, we looked at a lot of this noise and decided that the one consistent thing was that at the center of it we are investors and they were not measuring nonfinancial return and they were not reporting nonfinancial return; which is why it is not being done, because if it is not being paid for or it is not going to be reported, people are not going to do it. So, that is where we left off, in terms of our attempt to look forward and think about a way forward. And as we look to new investors in the context of why they do and why they don't do social impact measurement, we looked at 2 key behaviors and 2 key sets of incentives that informed us as to where an investor

would likely be to report and measure social impact. 1 we call willingness to pay. And as you can see this is someone who describes a real foundational characteristic of investor. Informed by their institutional structure, informed by their history or informed by how they are regulated, or informed by their stakeholders; you know there is specific chameleon objectives. And also, by the data they have access to and the information they have access to figure it out themselves whether they care about this. And the 2nd characteristic is what we called willingness to disclose. And that referred to weather even if they did measure impact, they were prepared to report it and essentially be accountable for that impact. So, as we started thinking about these 2 key incentives, what we discovered a year ago in a bit of a "ah-ha" moment, it may have been over a drink late at night, that we could think about a way forward by focusing on these two key elements of what informs investment behaviors. So I think using the term model is being a little bit too generous, we are not that smart. And in fact it wasn't really rocket science at all, it wasn't even close to it, I mean what we realize is that all of these things you see are pretty obvious you know banks have regulatory obligations, foundations want to move the needle, special purpose vehicles and community development institutions have an obligation to have a community impact. And those things cost money. The work we do for CalPERS has cost CalPERS money. The work we do for Hamilton Lane costs Hamilton Lane money, and these literal prices that these organizations are willing to pay for the social impacts that they are having.

They are quantifiable prices. But we don't talk about them a lot and the institutions don't talk about them a lot. So, as Colby said part of the problem is there is just not a lot of transparency. There is not a lot of institutions being open and honest about what their preferences are and I'm going to be talking more about that. I mean, taken to the extreme, I could argue that every single investor has a willingness to pay. It maybe mynute[?] for some institutions like a traditional financial investor who hasn't even given a thought to community impact, but their brand matters to them, you know, job creation matters to them. So every institution has a willingness to pay. And so it really ranges the whole scale. So again this is really nonscientific. And we are not claiming to know how investors think, in fact, that is part of the point of what we are trying to say here is that it is almost impossible to know specifically how investors feel because often their own preferences are very ambiguous. And they are often very implicit around their values and their brand and their image and the way they consider themselves in the role of the community. But this was an attempt to, you know, rudimentary fashion to place investors on this map where we are comparing their willingness to pay and their willingness to disclose. So this is intended to provide us with guidance as to whether an investor is more likely to really care about the conversation that we are actually having today. And some investors, frankly, are likely to care less about it. You know, traditional financial institutions down in the bottom left there, probably hasn't thought about this and may not for many, many years. Whereas in the

top right on this plane as an investor is specially committed to generating social impacts and specifically committed to reporting and disclosing those social impacts, in other words, they have a high willingness to pay, they have a high willingness to disclose.

[Chit Chat]

You know, and we explain in detail what sort of behaviors you would expect from these kinds of institutions depending on where they fall on this field. And again, we are not claiming that anyone falling in one particular place, but if you as audience members can think about your own institutions and where they fit on here and if you can look at this and get a sense of where we might be wrong, then we are making progress, in terms of moving forward the discussion because we can be more open and honest about what investors care about. So as I said, if for nothing else, a concept to take away from this is as you move sort of further to the top right of the map there would expect to see stronger incentives for people to rigorously measure and report their social impact. Alright. And we can come back to this later on, or I can take questions off line if you would like to talk more about it.

So the next obvious question for us as we went through this conversation between ourselves was how do we actually impact willingness to pay and how

do we impact willingness to disclose. What are the levers we can use? What are the tools to actually move the field forward? And what we came to the conclusion with the important things were innovation on the one hand and accountability on the other. So innovation, we simply define as us coming up with measurement tools, measurement practices, infrastructure, that makes investors more willing to do this. So from the investors perspective and again that was the focus we brought to the research, what is more convenient for them? What is more cost effective for them? What is more informative for them? What is more rigorous? What suits them more? How can we help them do this by innovating? And there is a ton of innovations happening as we know. And I will talk a little more about those as we go on. But innovation was a central component here in terms of giving people the data they needed in order to make an informed decision about what is their willingness to pay? Without data how do we even know what we care about and how much we are willing to pay for it? And then, the other critical piece here is accountability. And in fact it turns out that probably willingness to disclose is an easier behavior to influence from the outside. Willingness to pay is fundamental to an investor. It is hard to get an investor to shift that preference. That is a core foundational principal of what defines the investor. Willingness to disclose is easier to influence. You know, through accountability. So that is a real focus of our research as well. The other thing about accountability, which is important, is the idea that data that is more transparent, more publically

available creates a positive externality; which is a set of bench marks and a sense that there is something other investors can look to give them some guidance as to what the social bang for the buck is in a particular market or a particular impact. And that externality is important because as folks that are not part of this community look to us and try to get their heads around what we are doing at the moment there is not a lot to inform them as to what we are doing and to inform them how they can participate in the sector. So that accountability piece of it is a really important piece of it. And ultimately we are growing the sector. So this was sort of the climax of our research to some extent in which how does this all fit together to actually build scale in what we are doing. And this is all again, should be fairly intuitive. I mean if we begin at the bottom with innovation. Innovation enables people to do measurements more easily and more robustly. Because we do a better job, we move around the circle of evaluating returns, we become more willing to pay for them because we know what we are paying for. Although it is worth noting, which is an interesting thought and we talked a lot about it that perhaps as social impacts become better quantified, some investors may be less willing to pay for them. But, you know, we have to face that fact as well, our expectation was that because so little of what we do is value, that overwhelmingly that will create a demand for that value. But to some extent some investors may be less willing to pay for it. Better measurement practices would make it easier for people to report returns; it is also likely to make investors more demanding of

their partners, their co-investors, their clients. So willingness to disclose will increase as well. And as I just discussed a second ago, that positive externality of willingness to disclose provides market level data, bench marks to folks that are sitting on the fence or they are not currently participating in the market. And then they themselves can better understand their own willingness to pay. They join the market, and then bring more money into the sector, they bring more money, you know, for impact measurement and evaluation and the saga will continue as more motivation. So this was the idea that the sector would grow as a result of measurement. And measurement is just one part of growth in the sector obviously. But that was what we are focused on. So just to revisit what Colby was saying, we found that there were no silver bullets. Nonfinancial performance measurement is happening and it is very expensive; often very inconvenient. Innovation is originating broadly, no one sector, no one single group; no individual organization has monopoly on innovation. And there is some evidence of standardization, I mean, if you look for example at the IRS taxonomy of, you know, social impacts. You know, there are some general measurements and then there are a smaller number, 30 to 40 within each community impact of interest to a particular investor. So there is some consolidation around metrics and practices within each sort of target impact. I mean with ourselves as well like Pacific Community Ventures you know, we have found a bit of a niche, with financially driven institution investors like pension funds and you knows CARS is doing likewise as with CDFIs. So

ultimately this is what we think is a question that can provide some guidance. You know the highest level consistent with the driven approach that we have brought to the research. You know, what actions will shape investor preferences and incentives, including for the most influential institutions. That Flagship Institutions that are sort of driving, you know, this as themselves being those that demand impact development. Now you can think of, you know, the largest banks, you know, the largest pension funds, the largest foundations, I mean, if they act on this that will have a significant influence because the downstream investments they are making in 3rd party areas will have an impact. So hopefully this meeting itself could be a tipping point for this conversation, which has been happening for a number of years and it certainly adds to a lot of recent activity, I mean this is literally in the last few months and I think if you visited this every few months you would find the similar thing. Not all of these things are directly related to measurement but they have an influence over measurement. When you can think about Start up America, or a billion dollars invested buy the government. You know, job creation through community based equity investments. Attaching some importance to the measurements and evaluation could be a part of that program; similar with other organizations. TBL investors in San Francisco just closed I think in 120 million dollar private equity fund specifically with some community impact objectives, a double bottom line fund. That is the largest equity fund to my knowledge that has ever been launched doing this kind of

work. The J.P. Morgan reported impact investing has had a significant ripple effect. We have heard about that and not only in the United States but internationally. CDFI 2.0 is an initiative of emerging leaders in the community development sector. And one of three key buckets of interests for those you know young leaders in that sector is impact measurement. They are in the process of writing a report and one of the chapters in that report is going to focus of the importance to them as young leaders in community investment of social impact. IRS 2.0 is the latest taxonomy from them and instead of domestic investors for the measurement tools. So all of these things are happening and it is happening constantly. And you can get a sense that there is momentum building here. So finally, these are just come concrete ideas for us as much as our research is not necessarily particularly concrete, I mean we don't claim to have the answers as to what we set out to do, but these are areas that we see a lot of work happening and where we think there probably could do more effort. You know, understanding specifically what it is investors want and helping them with particular standardized metrics and practices. Reducing costs, you know, and the cost is a huge factor. And that is what standardization is really all about. We have to make this cost effective for the investors. You know, combing both, but also practicality. If this is too much hassle for an investor then they are just are not going to do it. Period. I mean we need to understand that there has to be that balance between those two things. You know, and we are appropriate targeting very specific tools to

investors and I know that Margot is going to talk about that later about their work to create a nonfinancial performance measurement system to understand under banked customers in their particular venture capital investments in companies that are trying to support under bank customers and that is great, that is important that they as an investor can understand that information. And then finally, with accountability, there is a lot of data already out there that is being used really well, the NCIF social metric system uses existing data to provide an excellent overview of lending in lower income communities. Developing voluntary principles and practices can we as an industry agree to at least report for now and try to make that more of a rigorous over time? And finally what role does the government play? And I know that that is going to be part of our conversation today. So thank you again for your time and we look forward to our discussion today and answering questions and I think I am passing it back to Margot.