



## **BAEP 564: Investing in Impact Ventures**

**Spring 2018**

**Mondays, 6:30-9:30pm**

**Instructor: Roshan Sonthalia, Adjunct Professor**

**Email: [rsonthal@marshall.usc.edu](mailto:rsonthal@marshall.usc.edu)**

**Office Hours: Mondays, 4:00-6:00pm (Location TBD)**

**Phone: 310-721-9498**

### **Course Description**

This course will introduce students to the field of impact investing from the entrepreneur as well as the investor perspective. What is an impact investment and how do you identify one? From the entrepreneur's perspective, how do you structure and raise capital for an impact investment; from the investor's perspective, how do you identify, diligence and invest in an impact venture.

This class is designed for students who seek to become impact entrepreneurs or work at impact enterprises, as well as those who seek to invest in impact ventures.

### **Course Objectives**

Upon successful completion of this course, students will be able to:

- Identify impact investments
- Analyze and measure the impact of ventures
- Command an understanding of impact investing including key terms, concepts and players
- Evaluate a range of impact investment capital options and resources
- Analyze valuations of impact investment ventures
- Learn to pitch an impact venture and analyze an impact venture pitch

### **Course Materials**

Allman, Keith and Escobar de Nogales, Ximena, *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*

In addition to the text book, there will be assigned articles and/or cases for each class (as identified below). Articles will be made available via email or Blackboard prior to class sessions, and cases will be available for purchase. If you have any questions or need assistance with the Blackboard Course Pages, please contact the Marshall HelpDesk at 213-740-3000, or HelpDesk@marshall.usc.edu.

### **Grading**

<b>Grading Element</b>	<b>% Course Grade</b>	<b>Points</b>
Class Participation	10%	100
Case Studies	45%	450
Group Pitch project	20%	200
Final Exam	25%	250
Total	100%	1,000

If you have any questions about your grade during the semester, please see me to discuss your concerns (do not leave matters of concern until the end of the semester).

### **Class Participation**

In order to receive credit, comments must a) directly and clearly answer study questions or other questions posed by me or a guest speaker b) demonstrate knowledge and analysis of the readings c) offer a reasoned opinion, d) directly respond to another student's comment or e) pose a thoughtful and contextual question. Students will receive a 0 participation grade if they are absent from class or if the student is in class, but does not speak; or a 2 if the student participates per the above criteria. Quality over quantity of comments is encouraged.

### **Case Studies**

Each student will pick 3 cases that we will discuss in class to write a memo style response on the issue and questions. These are to be completed individually and are to be no longer than 3 pages, double spaced with 1 inch standard margins. Regardless of whether you are preparing a written memo, you are expected to read and be ready to discuss all cases. Questions related to each case will be provided 1-2 weeks before each case. The write-ups are to be turned in by 6PM on the day the case will be discussed in class; unless instructed otherwise, assignments are to be submitted via Blackboard or email to me. No late submissions, no exceptions.

### **Group Pitch Project**

In groups of no less than 3 students, no more than 6 students, groups will simulate an impact entrepreneur's presentation to investors. Groups will select an impact venture approved by me and will develop a pitch. Each team will present in class at the end of the semester and will answer questions from student-investors. Each team will have no more than 15 minutes (including questions and answers) to present. Students will be graded as a team based on the quality of the presentation document (which should be in the form of a PowerPoint presentation), strength and clarity of presentation by all team members and response to student-investor questions. Presentations are to be submitted by 12PM on

April 16 (regardless of the day on which your team is presenting). Once submitted, your presentation cannot be changed, and what you submit will be what is presented.

### **Final Exam**

Students will be asked to allocate a virtual \$10 million investment fund to the presented student impact ventures, exclusive of their own team's venture. The final paper may be no more than 5 pages, double spaced with 1 inch standard margins. The specifics will be discussed during class, but a detailed rationale for the allocation should include:

1. What is the focus of your investment fund?
2. Which ventures would you invest in (no less than 2, no more than 4). Why would you invest in each company?
3. How much would you invest and what are your expected returns (financially and socially)?

The expectation is that the group pitch project and final exam will be submitted timely prior to the deadline. If either the group pitch project or final exam is submitted after the required time on the due date and time, but within 24 hours of the due date and time, such assignment will lose 10% of the total points possible; if turned in later than 24 hours after the due date and time, but within 48 hours of the due date and time, such assignment will lose 20% of the total points possible. If either the group pitch project or final exam is submitted more than 48 hours after the due date and time, such late assignment will likely receive a zero for the assignment; in certain rare extenuating circumstances, Professor Sonthalia will allow late submission, but those papers will lose no less than 50% of the total points possible; you should contact Professor Sonthalia as soon as you believe you may more than 48 hours late.

### **Course Policies**

Course structure, assignment and required readings for each class session appear below. In addition:

- **Classroom Culture:** Our classroom dialog will be an essential part of the learning experience. Please complete the assigned readings, and be prepared to engage in discussion. Class will start promptly. Please treat class start time like you would a meeting start time. Be in your seats with your electronic devices turned off for each class session.
- **Seating and Name Cards:** Please try sit in the same seat throughout the course and display your name card in every class.
- **Absences:** If you miss a class, you are responsible for staying up to date on course content and assignments.
- **Guest Speakers:** Please treat our guest speakers with the respect that they deserve. Please do not be late to guest speaker sessions. If you would like to contact a guest speaker, please let me know prior to any communication.
- **Electronics:** Laptop, iPad and cell phone usage is not permitted during class. If someone has a special reason for required technology usage in the classroom, please contact me to discuss.
- **Communication:** Blackboard and email are the most effective ways to communicate outside of class. Please check regularly for messages and additional course materials.

## **Marshall Guidelines**

### **Statement of Academic Integrity**

USC seeks to maintain an optimal learning environment. Students are expected to submit original work. They have an obligation both to protect their own work from misuse and to avoid using another's work as their own. All students are expected to understand and abide by the principles of academic honesty outlined in the University Student Conduct Code (see University Governance, Section 11.00) of SCampus ([www.usc.edu/scampus](http://www.usc.edu/scampus) or <http://scampus.usc.edu>). The recommended sanctions for academic integrity violations can be found in Appendix A of the Student Conduct Code.

### **Students with Disabilities:**

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Disability Services and Programs ([www.usc.edu/disability](http://www.usc.edu/disability)). DSP provides certification for students with disabilities and helps arrange the relevant accommodations. Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me (or to your TA) as early in the semester as possible. DSP is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. Email: [ability@usc.edu](mailto:ability@usc.edu).

### **Support Systems:**

Student Counseling Services (SCS) - (213) 740-7711 – 24/7 on call

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention. <https://engemannshc.usc.edu/counseling/>

National Suicide Prevention Lifeline - 1-800-273-8255

Provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week. <http://www.suicidepreventionlifeline.org>

Relationship & Sexual Violence Prevention Services (RSVP) - (213) 740-4900 - 24/7 on call

Free and confidential therapy services, workshops, and training for situations related to gender-based harm. <https://engemannshc.usc.edu/rsvp/>

## January 8, 2018

### Course Overview, Value and Introduction to Impact Investing

#### Readings:

1. Friedman, Milton. "A Friedman Doctrine—The Social Responsibility Of Business Is to Increase Its Profits." *New York Times Magazine*, September 13, 1970.
2. Cohen, Sir Ronald and Sahlman, William A. "Social Impact Investing Will Be the New Venture Capital." *Harvard Business Review*, January 17, 2013.
3. Starr, Kevin. "The Trouble with Impact Investing: P1." *Stanford Social Innovation Review*, January 24, 2012.
4. The Case Foundation. "A Short Guide to Impact Investing."

#### Discussion Questions:

1. What is Friedman arguing is the purpose of business?
2. What do you think is the purpose of business?
3. What is impact investing?
4. What are some of the challenges for impact ventures from the entrepreneur's perspective?  
From the investor's perspective?

We will review details of deliverables during this class.

## January 15, 2018 – University Holiday

## January 22, 2018

### Who is Impact Investing and Why

#### Readings:

1. Ditkoff, Susan Wolf and Grindle, Abe. "Audacious Philanthropy." *Harvard Business Review*, September-October 2017.
2. Hattendorf, Laura. "The Trouble with Impact Investing: P2." *Stanford Social Innovation Review*, April 18, 2012.
3. Deutsche Bank Wealth Management. "CIO Insights Special." November 2017.
4. Etzel, Michael. "Philanthropy's New Frontier – Impact Investing." *Stanford Social Innovation Review*, November 9, 2015.

#### Discussion Questions:

1. Why has philanthropy turned to investment?
2. What are the key opportunities for growth?
3. How do investors create an impact philosophy?
4. What have organizations done to create change?

## **January 29, 2018**

### **Who is Impact Investing and Why (Continued)**

Guest Speaker: K. Robert “Bobby” Turner, Principal and CEO, Turner Impact Capital

Case Study: Canyon Johnson Urban Fund.

## **February 5, 2018**

### **Impact Measurement and Impact Assessment**

Readings:

1. Chapter 2 of *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*.
2. Tonic E-Guide. *Impact Measurement*.
3. So, Ivy and Capanyola, Alina S. “How Impact Investors Actually Measure Impact.” *Stanford Social Innovation Review*, May 6, 2015.
4. SOCAPtv: Acumen on Lean Data – A Revolutionary Approach to Measuring Impact.
5. Vionnet, Samuel and Pollard, Duncan. “Social Impact Valuation – A Social Impact Model of Employment and Nestle Case Study” (Optional)

Discuss Group Pitch Project. BY 5PM, February 8, one member of your group should email to me the following: (1) the members of your group, (2) your first and second choices for an impact venture that would like to pitch and (3) the date on which you would like to present (either April 16 or April 23). To ensure we have a variety of enterprises presented and there is no overlap of companies, I will assign your group a venture which your group will present (which will ideally be from your first or second choice, and if not, I will contact your group to discuss another alternative); I will attempt to accommodate requested dates for presentations and choices of ventures, but you may not receive your preferred date or venture. These should be enterprises in their early stages that have not gone through venture capital fund raising. You should be prepared on February 5 to discuss the potential companies you are considering.

## **February 12, 2018**

### **Impact Measurement and Impact Assessment (Continued)**

Case Study: Beneficial State Bank (A): Organization and Measurement of Social Impact

Guest Speaker: Keith Allman, Loomis, Sayles & Company. Author: *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*.

## **February 19, 2018 – University Holiday**

## **February 26, 2018**

### **Corporate Structures & Early Stage Funding**

#### Readings:

1. Chapter 4 (Pages 153-167) of *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*.
2. Ilaio, Jillian. "Best Business Structure: LLC vs. S Corp vs. C Corp and More." *Fits Small Business*, October 25, 2017.
3. Fruchterman, Jim. "For Love or Lucre." *Stanford Social Innovation Review*, Spring 2011.
4. Dees, Gregory J. and Clark, Cathy. "When you should seek capital from an Impact Investor." *Harvard Business Review*, January 24, 2013.
5. Dichter, Sasha, Robert Katz, Harvey Koh, and Ashish Karamchandani. "Closing the Pioneer Gap." *Stanford Social Innovation Review*, Winter 2013.
6. Carey, Eileen. "Raising Capital as a First Time Founder." Medium, September 22, 2015.

Case Study: B Lab: Building a New Sector of the Economy

## **March 5, 2018**

### **Early Stage Funding**

#### Readings:

1. Chapters 7 and 8 of *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*.
2. Miller Center for Social Entrepreneurship. "Demand Dividend: Creating Reliable Returns in Impact Investing."
3. KPMG. Social Benefit Bonds and Impact Investing.
4. Brau, James C. and Woller, Gary M. "Microfinance: A Comprehensive Review of the Existing Literature"
5. Khavul, Susanna. "Microfinance: Creating Opportunities for the Poor." *Academy of Management Journal*, August 2010.
6. Review CDFI Fund website: <https://www.cdfifund.gov/Pages/default.aspx>

Case Study: Raising Startup Capital

## **March 12, 2018 – University Holiday**

## **March 19, 2018**

### **Early Stage Funding and Valuation**

Guest Speaker: Arjan Schutte, Founder and Managing Partner, Core Innovation Capital

Readings:

1. Chapter 3 of *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*.
2. BfW. "Valuing a Company – Part 1 (Basics)". Pique Ventures, June 8, 2012.
3. BfW. "Valuing a Company – Part 2 (Social Impact)." Pique Ventures, June 25, 2012.

## **March 26, 2018**

### **Due Diligence and Term Sheets**

Readings:

1. Chapters 4 and 5 of *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*.
2. Gacon, Bertrand. "Due Diligence in the Impact Investing Space." *Professional Wealth Management*, January 6, 2016.

In this class, we will discuss progress on your group pitch projects. You should by this point have assessed the impact of your venture, analyzed and reviewed financials for your venture, understand the investment being sought and have the framework of your presentation in place.

## **April 2, 2018**

### **Portfolio Dynamics**

Readings:

1. Emerson, Jed, "Risk, Return and Impact: Understanding Diversification and Performance Within an Impact Investing Portfolio."
2. Saltuk, Yasemin, "A Portfolio Approach to Impact Investment," October 2012.

Case Study: Acumen Fund: Measurement in Impact Investing A & B



## **April 9, 2018**

### **Monitoring and Exit**

#### Reading

1. Chapter 7 of *Impact Investment, A Practical Guide to Investment Process and Social Impact Analysis*.
2. "Balancing the Social/Environmental and Financial Returns in an Exit." MaRS, December 6, 2009.

#### Case Study: Exits in Emerging Markets: Actis' Investment in Umeme

We will discuss the details of the final exam in this class. The specifics will be discussed during class, but a detailed rationale for the allocation should include:

1. What is the focus of your investment fund?
2. Which ventures would you invest in (no less than 2, no more than 4). Why would you invest in each company?
3. How much would you invest and what are your expected returns (financially and socially)?

## **April 16, 2018**

### **Group Pitches**

## **April 23, 2018**

### **Group Pitches**