



INITIATIVE FOR  
**RESPONSIBLE  
INVESTMENT**



HARVARD Kennedy School

**THE HAUSER INSTITUTE  
FOR CIVIL SOCIETY**

at the Center for Public Leadership



# IRI ANNUAL REPORT

## 2014

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*Cambridge, MA*

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*The mission of the Initiative for Responsible Investment (IRI) is to promote the discipline of responsible investing through research, with the goal of catalyzing leadership and action that creates long-term, values-driven wealth.*

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# YEAR IN REVIEW



*David Wood, speaking at AI3 in DC:  
Developing a Policy Framework for Impact  
Investing in Washington, DC.*

This past year saw continued growth in and attention to responsible investment, and the IRI's work has tagged along as the field changes. We have continued our multi-year work on issues ranging from place-based analyses of investment readiness to the investment beliefs that may shape how pension funds adopt responsible investment strategies—and along the way have expanded work in asset classes such as infrastructure and fixed-income investing, and deepened our work on investing in sustainable communities in a handful of metropolitan regions in the US.

We continue to think about the intersection of impact investing and public policy. Our formal project, which began in 2010 as a partnership with [InSight at Pacific Community Ventures](#), received a significant boost in 2014 with the creation of the Social Impact Investment Taskforce. We spent time this year diving into specifics of the US impact investing policy space through a partnership with InSight and [Enterprise Community Partners](#), and released

a global state-of-play report on impact investing policies in countries across the world: [“Impact Investing Policy in 2014: A Snapshot of Global Activity.”](#) The report includes frameworks for mapping and developing the policy system, examples of specific existing policies, and insights into intersections with infrastructure investment and international development.

Similarly, we expanded our capital absorption work—understanding what it means for metropolitan regions to be effective at channeling investment to public purpose—through a series of workshops with metro regions across the country to help them assess their capacity for place-based investment and identify opportunities to build that capacity. We observed a growing interest in tackling systemic issues around urban investment and community development—taking into account the bigger picture behind the social problems we look to mitigate. Building on a piece we had done for local governments in 2012, we released a paper on how foundations can think about the roles they can play to support community investment and capital absorption capacity in local communities.

2014 also saw the continuing evolution of the Trustee Leadership Forum ([TLF](#)) and the Mission Investors Exchange ([MIE](#)). Convenings with our TLF Working Group, as well as with regional and national partners, allowed us to re-emphasize the trustee-centric model of applied research and action paramount to this project. In our mission investing work with MIE, we refocused our research agenda around developing mechanisms that help foundations enter the field and analyzing new approaches to emerging sectors of investment. The second bi-annual convening of the Mission Investors Exchange in Minneapolis was an opportunity to explore the breadth of mission orientation and investment strategies.

We were pleased to welcome two new IRI fellows in 2014. Dr. James Gifford, founder and first Executive Director of the [UN Principles for Responsible Investment](#), joined us as a Senior Fellow at the start of the year. James has been researching and writing on sustainable private equity in developing countries and impact investing for high net worth families. This fall, Falko Paetzold joined us as a Visiting Scholar, focusing his research on barriers that limit the engagement of wealthy private investors, family offices and investment advisors in sustainable investing. They join our colleagues Steve Lydenberg and Jay Youngdahl, who continue their work on the complex of fiduciary duty and portfolio theory, including day-long meetings and publications which have become staples of our work.

We wish the best of luck to our longtime colleague Annie Olszewski, who left the IRI at year's end, and are happy to welcome Rooney Charest to the team as our new Staff Associate.

We look forward to the ongoing development of our projects and partnerships in the coming year. There is a great deal to work on, and we are pleased to have the opportunity to contribute to this unique and exciting field.

A handwritten signature in black ink, appearing to read 'David Wood', written in a cursive style.

David Wood, Director  
March 10, 2015

# OUR RESEARCH

The bulk of the IRI's work in 2014 focused on four major projects: two cross-sector topical research pieces looking at place-based investment and public policy, and two projects that focused on investor types: foundation mission investors and trustees of public pension funds.

## ***Capital Absorption and Place-Based Investment***

With support from the [MacArthur](#) and [Kresge Foundations](#), the IRI built on research done with [Living Cities](#) on capital absorption to explore how longer-term engagement with metropolitan regions can help organize demand for investments that support a community's strategic social and environmental priorities. This year, the work concentrated on the metropolitan regions of Denver, Los Angeles, the Bay Area, Detroit, and Chicago, with additional engagements with state and federal agencies. The IRI engaged in similar work in partnership with [NRDC](#), [Enterprise Community Partners](#), and the [Low Income Investment Fund](#) (with support from the [Ford Foundation](#) and the [American Federation of Teachers](#)), exploring infrastructure (and its fundamentally necessarily place-based aspects) as a potential impact investment asset class that links social and environmental performance to long-term sustainable financial returns. Both of these projects focus on the intersections of public, private, philanthropic, and civil society actors in the identification, preparation, and development of investable projects that deliver specific social and/or environmental benefits.

## ***Public Policy***

This year, our work on public policy and impact investing focused broadly on the international policy community, a space that received a lot of attention through the [Social Impact Investment Taskforce](#) and the [U.S. National Advisory Board](#), and narrowly on the US-specific policy realm. Through the [Impact Investing Policy Collaborative](#) and the [Global Learning Exchange](#), we supported cross-border learning through a webinar series and a recently released global snapshot report. We were also asked to share our policy knowledge internationally, participating in a meeting in Portugal on the development of a new Social Innovation Fund at the behest of the UK's [Young Foundation](#). Our future work will involve drilling down on US impact investing policies, researching what the Social Impact Investment Taskforce has done for impact investing policy in participant countries, and supporting engagement around impact investing policy in countries beyond the developed world.

## ***Mission Investing***

In continuation of our partnership with the Mission Investors Exchange ([MIE](#)), we frequently met with foundation staff and boards to explore mission investing at their organizations and presented at various philanthropic meetings. Our research focused on tools and strategy for mission investing, with the aim of identifying investment opportunities, potential partners and best practices. We contributed to the forthcoming "Field Guide to Impact Investing for Small-Staffed Foundations" and brought foundation leaders to Harvard to discuss the future of mission investing and emerging trends as they see them. Our 2015 agenda includes exploration of donor-advised funds, wealth management, and family offices, and the overlap between philanthropic and investment goals.

## ***Pension Fund Trustee Leadership and Investment Decisions***

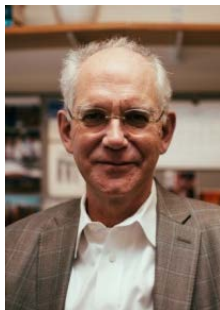
Through our Trustee Leadership Forum for Retirement Security ([TLF](#)), we have been working with labor-affiliated trustees of public pension funds on long-term investment. In 2014, the TLF held regional convenings in California, Chicago, and Ohio, tackling issues such as income inequality, hedge fund investments and asset manager engagement around fees, corporate governance and shareholder activism, and the development of trustee leaders. In order to bring together a more diverse and geographically varied group of trustees, the TLF began a webinar series. Topics included the HESTA model for managing investment fees, the effect of income inequality and its implications for investors, and a discussion with the co-authors of [Private Equity at Work: When Wall Street Manages Main Street](#), Eileen Appelbaum and Rosemary Batt. In the coming year we will host our fifth national conference and focus additional research efforts on infrastructure investment and how trustees might think about inequality as an investment issue.



# FELLOWS AND AFFILIATES

In addition to our esteemed Founding Director, Steve Lydenberg, the three IRI fellows have contributed significantly to our research over the past year. James Gifford, former head of the UN Principles for Responsible Investment, has been working with Falko Paetzold, a PhD student, on impact investing and Next Gens who are, or will be, involved in managing family wealth. Jay Youngdahl has been doing extensive work on fiduciary duty, and has had a paper published (along with Steve) in a new Cambridge University Handbook on the topic.

## STEVE LYDENBERG, FOUNDING DIRECTOR



**Steve Lydenberg** is Partner, Strategic Vision of Domini Social Investments. He has been active in social investment research since 1975, and has recently focused his attention on topics including long-term scenario planning, indexes, and benchmarks

- [“Responsible Investors: Who They Are, What They Want”](#) co-authored with Private Sector Opinion, published in the [Journal of Applied Corporate Finance](#)
- [“Emerging Trends in Environmental, Social, and Governance Data and Disclosure: Opportunities and Challenges”](#)
- “Reason, rationality and fiduciary duty,” chapter published in [Cambridge Handbook of Institutional Investment and Fiduciary Duty](#)
- [“The Potential Use of Sustainability Scenarios as a Supplement to Stock Price in Equity Valuation by Long-term Investors”](#)

## JAY YOUNGDAHL, SENIOR FELLOW



**Jay Youngdahl** is a lawyer and writer who is active in the field of responsible investment. He is a partner in the Houston based law firm, Youngdahl & Citti, P.C. For over thirty years he has served as Fund Counsel to a number Taft-Hartley employee benefit funds, and he is retained to provide expert legal opinions to public and private funds. Jay has written a number of pieces on the issue of responsible investment and the role of trustees in such efforts.

- [Investment Fees: Returns, Practices, and Consequences](#), HKS meeting, April 8
- “The basis of fiduciary duty in investment in the United States,” chapter published in [Cambridge Handbook of Institutional Investment and Fiduciary Duty](#)

## JAMES GIFFORD, PH.D, SENIOR FELLOW



**Dr. James Gifford** was the founder and first Executive Director of the [UN-supported Principles for Responsible Investment](#), leading the initiative from its inception in 2003 until November 2013. As Senior Research Fellow at the IRI, he is researching and writing on sustainable private equity in developing countries and delivering positive impact within mainstream pension and foundation investment strategies.

- Leadership from the Bottom: How an Intern Project Became the UN Principles for Responsible Investment, HKS presentation, April 10
- “The Changing Role of Asset Owners in Responsible Investment: Reflections on the principles for responsible investment—the last decade and the next,” chapter published in [The Routledge Handbook of Responsible Investment](#)
- Creating Positive Impact: The Next Phase of Sustainable Investing, Panel at swissnex Boston

## FALKO PAETZOLD, VISITING SCHOLAR



**Falko Paetzold** is a Visiting Scholar at the IRI for the 2014 academic year. Falko investigates cognition and barriers that limit the engagement of wealthy private investors, family offices and investment advisors in sustainable investing. During his time with the IRI, he will be working with Senior Fellow Dr. James Gifford to explore the development and execution of impact investing strategies at family offices.

- [“Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors”](#) (with Timo Busch), published in [Organization & Environment](#), December 2014
- Creating Positive Impact: The Next Phase of Sustainable Investing, Panel at swissnex Boston

# SELECTED PUBLICATIONS



[“Impact Investing Policy in 2014: A Snapshot of Global Activity”](#)

Impact Investing Policy Collaborative

November 2014



[“Impact Investing in Development Finance”](#)

IRI and Impact Investing Policy Collaborative

October 2014

[“What Can Foundations Do to Foster Community Investment?”](#)

IRI and Kresge Foundation

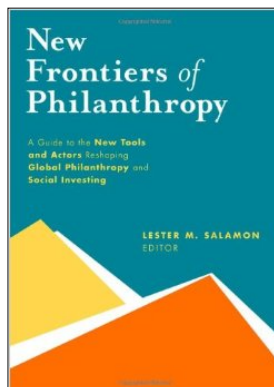
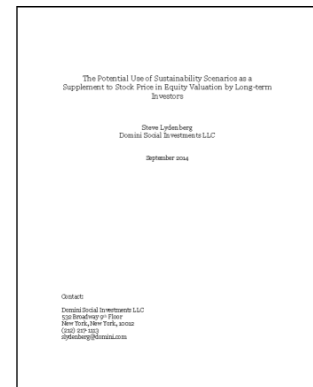
December 2014



[“The Potential Use of Sustainability Scenarios as a Supplement to Stock Price in Equity Valuation by Long-term Investors”](#)

Steve Lydenberg

September 2014



[New Frontiers of Philanthropy: A Guide to the New Tools and New Actors that Are Reshaping Global Philanthropy and Social Investing](#)

ed. Lester M. Salamon

“Enterprise Brokers” by Lisa Hagerman, DBL Investors, and David Wood, IRI

“Socially Responsible Investing and Purchasing” by Steve Lydenberg and Katie Grace

July 2014

# EVENT HIGHLIGHTS

Development of and participation in multi-stakeholder meetings has always been an important core of the IRI's work, informing research and encouraging engagement on responsible investment topics. Below is a selection of events the IRI hosted and presented at in 2014.

## **Investment Fees: Returns, Practices, and Consequences, Harvard Kennedy School, April 8, 2014**

*Senior Fellow Jay Youngdahl brought together two dozen experts, practitioners, and stakeholders to take a closer look at the effects of fee structures on the production and maintenance of a sustainable financial system.*

## **Fourth Annual National Convening of the Trustee Leadership Forum, Harvard Kennedy School, June 9-10, 2014**

*This year, over 50 trustees from more than 15 states joined us for this two-day event, which provided an opportunity for trustees to discuss such core issues as the development of investment beliefs and strategy, fiduciary duty in the twenty-first century, agency risk in the investment stakeholder chain, and opportunities for trustee and fund collaboration.*

## **Impact Investing in Inner Cities: Putting Foreign Capital to Work Through EB-5, HKS, July 1, 2014**

*The IRI partnered with the Initiative for a Competitive Inner City (ICIC), to bring philanthropic leaders, economic development professionals, policymakers and investors to Harvard to begin a discussion of opportunities to leverage the EB-5 program in America's inner cities.*

## **China Social Finance Forum, Beijing Normal University, July 2014**

*Director David Wood and Founding Director Steve Lydenberg led a panel on realizing social value through investments and celebrated the Chinese translation of a book Steve co-authored, Dilemmas in Responsible Investment. The Social Finance Forum was co-hosted by CreditEase, China Social Science Press, the School of Social Development and Public Policy, and Beijing Normal University.*

## **Impact Investing Policy in 2014 Report Launch, Rockefeller Foundation, New York, November 3, 2014**

## **Social Finance Forum 2014: Building Markets That Matter, MaRS Discovery District, Toronto, Nov. 6-7, 2014**

*Launch events for the IIPC global policy snapshot report. The New York event featured a panel conversation with report authors at the Rockefeller Foundation, and IRI Program Manager Katie Grace moderated a panel on "Bridging Policy & Practice: A Shared Agenda to Grow the Impact Investing Market" at the Social Finance Forum.*



*Left: Impact Investing in Cities: Putting Foreign Capital to Work Through EB-5, Harvard Kennedy School July 1, 2014*

*Right: David Wood and Steve Lydenberg at the China Social Finance Forum with the translated Chinese book cover of Dilemmas in Responsible Investment, Beijing, July 2014*



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