



THE U.S.
IMPACT INVESTING
ALLIANCE



IMPACT AT WORK

An Examination of Corporate Impact
Investing Strategies and Their Durability

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The U.S. Impact Investing Alliance hopes that *Impact at Work* will spur a broader discussion around the growing opportunity to catalyze a lasting corporate impact investing movement.

INTRODUCTION

The crises of 2020 catalyzed a widespread reconsideration of the ideal role of major institutions in supporting their stakeholders and the broader public good. The devastating impacts of the COVID-19 pandemic – compounded by significant economic uncertainty, the climate crisis and a spotlight on racial injustice – led many governments, philanthropies and companies to reconsider their accountability to workers, communities, the physical environment and society as a whole.

For many corporations, this manifested in bold commitments to invest in racial equity, community economic development and climate initiatives. By some estimates, Fortune 1000 companies have collectively committed over \$340 billion to racial equity initiatives alone.¹ Though companies had leveraged grantmaking tools to support workers, communities and the environment previously, this marked a shift toward leveraging investment capital as the vehicle for impact.

The goal of this report is to examine corporate impact investing, or the leveraging of a corporate's balance sheet or investment capital to advance positive social, economic and environmental outcomes alongside financial considerations. These initiatives can span a range of impact themes, asset classes and risk-return profiles, all of which are explored in this report. *Impact at Work* is not meant to be an exhaustive guide, but rather is meant to capture interesting corporate initiatives launched to date and to provoke further discussion across the impact investing field.

In 2021, the U.S. Impact Investing Alliance (the Alliance) first examined these trends in a report commissioned by the Federal Reserve Bank of New York – *Impact in Place: Emerging Sources of Community Investment Capital and Strategies to Direct it at Scale*.² The report provides a snapshot

of the flurry of activity occurring as institutions of all kinds sought to provide relief and support to the communities hardest hit by the intersecting crises of 2020 and beyond. *Impact in Place* highlights examples and best practices related to community investing strategies by corporates, as well as foundations, donor advised funds and community-driven participatory funds. The leveraging of corporate treasury dollars for impact was particularly novel and signaled an opportunity for a more holistic, long-term corporate impact investing movement.

Building on the broad landscape assessment included in *Impact in Place*, the Alliance embarked on a two-phase project to delve deeper into opportunities for impact investing strategies by two major types of institutions – foundations and corporates. Phase one culminated in a 2022 report – *Impact in the Balance: Leveraging Foundation Assets for Mission*³ – which explores the toolkit available to private foundations to leverage their balance sheets more broadly for mission-aligned investment opportunities. Now, in phase two, the Alliance returns to the role of corporations in pursuing impact for their stakeholders as they deploy the tools of impact investing.

This report focuses on the durability of these corporate activities, given that some critics have called into question the motivation and impact of recent corporate commitments. An August 2021 article from the *Washington Post* questioned the nearly \$50 billion in commitments from 50 major public companies and their foundations, in the wake of public calls for action toward racial justice.⁴ Among the authors' criticisms were the lack of tracking and accountability and the relatively small level of commitments compared to the size of the corporations themselves. Separately, there have been concerns that some of the recently announced commitments are in fact pre-existing activities repackaged under a new banner.

¹ McKinsey & Company, "[Corporate commitments to racial justice: An update](#)," February 2023.

² U.S. Impact Investing Alliance, "[Impact in Place: Emerging Sources of Community Investment Capital and Strategies to Direct it at Scale](#)," Commissioned by the Federal Reserve Bank of New York, June 2021.

³ U.S. Impact Investing Alliance, "[Impact in the Balance: Leveraging Foundation Assets for Mission](#)," September 2022.

⁴ Tracy Jan, Jena McGregor and Meghan Hoyer, *Washington Post*, "[Corporate America's \\$50 billion promise](#)," August 2021.

INTRODUCTION

In light of those concerns, this report distinguishes between durable, long-term strategies better equipped to create lasting and real impact versus one-time commitments or pledges. Specifically, this report interrogates the durability of corporate impact investments and uncovers common best practices, opportunities and pitfalls. Durable strategies are those that corporates initiate, execute, sustain and recommit to over time.

The first section of this report provides a brief overview of how corporate engagement on impact

has evolved in recent years. The next section catalogues different aspects of corporate impact investing programs, including impact themes, capital sources and risk-return strategies. The Alliance then posits which factors are more likely to drive greater durability, including internal motivations and company profile. Finally, the report closes with specific recommendations to corporates seeking to build and maintain impact investing programs over the long term. These findings are informed by research and interviews with leaders across the impact investing ecosystem.



BRIEF LANDSCAPE OF CORPORATE IMPACT ENGAGEMENT

This report was inspired by recent developments, but corporate commitments to impact are not new. In fact, corporate philanthropy and corporate social responsibility (CSR) strategies date back several decades. What sets corporate impact investing apart are the capital sources leveraged the movement away from purely philanthropic activity to activities more aligned with business strategy, the volume of activity and the level of public engagement.

The COVID-19 pandemic and related crises helped accelerate corporate impact investing, but it has only been possible due to a range of factors from changing awareness to public policy and others, which are explored below.

Growing Awareness of and Support for Stakeholder Capitalism

In contrast to shareholder primacy – which dictates that corporations must maximize short-term financial returns for their investors – stakeholder capitalism balances corporate accountability across all value chain stakeholders including workers, consumers, communities and the physical environment in pursuit of long-term and sustainable returns. A growing number of companies have begun to challenge the status quo by implementing the principles of stakeholder capitalism. The benefit corporation movement, for instance, allows companies to move beyond shareholder primacy by adopting stakeholder governance with a broadened purpose to benefit the public.⁵

SPOTLIGHT

Valuing Purpose and Stakeholders: Patagonia's Two-Entity Ownership Structure

In September 2022, Yvon Chouinard, the founder of the certified B Corp Patagonia, announced that he and his family were transferring their ownership of the outdoor apparel company, worth approximately \$3 billion, to two new entities: the Patagonia Purpose Trust and the Holdfast Collective. This alternative ownership model divides the voting and economic rights between the two entities, aiming to ensure that the company's values and mission are protected, and diverse stakeholders are supported.

The Patagonia Purpose Trust holds all of the voting stock of the company (two percent of the total stock), which gives it the power to approve critical decisions and guarantee that the company's actions align with its values and mission. In parallel, the Holdfast Collective owns all of the nonvoting stock (98 percent of the total stock), which means it does not have decision-making authority but receives the company's excess profits in the form of dividends. The Holdfast Collective is committed to investing the proceeds from these dividends in environmental and community initiatives.

Patagonia's ownership structure is intended to ensure that the wealth generated by the company is not solely extracted for shareholders' gain, but rather profits are reinvested back into the company and stakeholders or donated primarily to environmental and community initiatives.

⁵ Note: The term "benefit corporation" refers to a company's legal structure that enables stakeholder governance, whereas the term "B Corporation" or "B Corp" is a B Lab-certified company that meets specific social and environmental impact criteria.

BRIEF LANDSCAPE OF CORPORATE IMPACT ENGAGEMENT

Mainstream financial institutions and businesses are taking note as well. In 2019, 181 CEOs of the largest U.S. companies signed on to a new corporate statement of purpose through the Business Roundtable, vowing to pursue value for stakeholders beyond just shareholders.⁶ While the actual follow

through has been called into question,⁷ the rhetorical shift away from decades of shareholder primacy was momentous in its own right and signaled the widespread awareness of this concept. Recent pushback against these principles is explored in a later section on potential future challenges.

Corporate Rankings and Investor Tools

In recent years, there has also been significant progress with respect to the development of impact metrics, measurement tools, benchmarks and rankings. These developments in field infrastructure have further supported the evolution of corporate commitments to impact. Groups like Sustainalytics and MSCI provide investors with ratings related to

a company's environmental, social and governance (ESG) risks and opportunities. JUST Capital is a nonprofit that looks at the consumer perspective, polling everyday Americans to understand how companies are perceived and ranked on topics like treatment of workers, accountability to communities and environmental sustainability.

Regulatory and Voluntary Accountability to Communities

Accountability to stakeholders can be mandated by law, incentivized by public pressures or voluntarily adopted. The Community Reinvestment Act (CRA), for example, requires that banks make loans in the communities in which they do business and has served as the bedrock source of capital for the U.S. community investing ecosystem and the community development financial institution (CDFI) industry.

Though imperfect, the CRA is notable as a regulatory framework for holding large financial institutions accountable to their long-term duties to communities and, specifically, to leverage investment dollars accordingly. In some instances, community-led

Community Benefits Agreements (CBA) help establish parameters for local investments to prevent harmful outcomes, such as resident displacement. This tool offers an additional level of accountability beyond what is mandated by law to help recenter the priorities of communities and affected stakeholders.

Corporates have also taken up voluntary strategies to remain accountable to their headquarter cities. These corporations – such as Prudential in Newark, New Jersey or Walmart in Bentonville, Arkansas – recognize their status as anchor institutions and the leadership role they can play in lifting up their communities.

⁶ Business Roundtable, “[Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans.’](#)” August 2019.

⁷ Lucian Bebchuk and Roberto Tallarita, Harvard Law School, “[Was the Business Roundtable Statement Most for Show? – Evidence from Corporate Governance Guidelines.](#)” August 2020.

Recent Macroeconomic and Consumer-Driven Pressure

While investor and consumer pressure for more sustainable business practices and initiatives have been growing for years, as demonstrated in the factors listed above, a number of intersecting crises have, in turn, supercharged the corporate impact investing movement. Following the 2020 crises, as workers, small business owners, families

and communities felt new and severe strains on their daily lives and well-being, many looked to major institutions like corporations to do and say more. Much of the focus was specifically related to corporate investments in racial equity and community economic development.

{ A number of intersecting crises have supercharged the corporate impact investing movement. }

Potential Future Challenges

Alongside significant progress, the durability of corporate impact investing strategies may face headwinds. Many corporate impact investing priorities were established under favorable market conditions, including consistent profitability, strong cash positions, buoyant stock prices and low interest rates. In the face of more challenging macroeconomic conditions, there is a risk that companies may pull back on initiatives they deem non-essential,⁸ putting these strategies at risk over the long term.

Also at work is a rise in politically motivated rhetoric seeking to undermine ESG investing and the pairing of financial and impact considerations.

Companies may become concerned by this political pressure and pull back from public commitments. Anti-ESG attacks only further emphasize the importance of corporate impact investing strategies that are built on authenticity and long-term thinking. Fortunately, there are engaged cohorts of business and investor groups pushing back on these false claims and promoting the financial case for why corporates and investors engage in ESG strategies.

The remainder of the report explores existing corporate impact investing strategies, the factors that may contribute to a strategy's relative durability and recommendations for both corporates and the field alike.

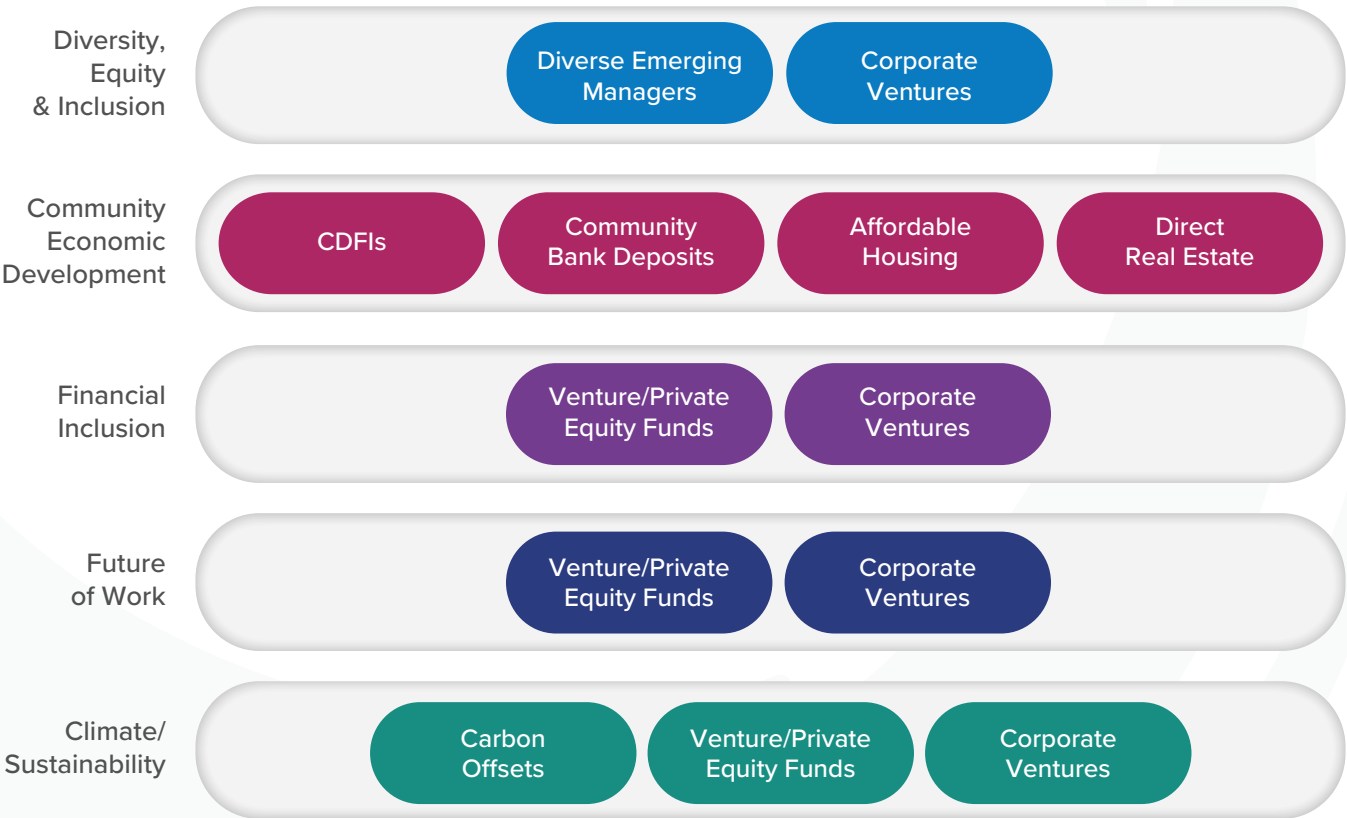
⁸ Alastair Marsh, Bloomberg, "Executives Are Backing Away From ESG as Recession Risks Mount," October 2022.

ASSEMBLING A CORPORATE IMPACT INVESTING STRATEGY

Corporate impact investing strategies can vary with respect to a range of factors, including impact themes, capital sources, risk-return strategies and investment motivations. While the universe of opportunities is arguably vast, several common themes emerged when assessing the landscape and surveying corporates that have been more active in impact investing in recent years.

The graphic below articulates a framework for certain impact investing initiatives launched by corporates to date and key considerations when launching or modifying a strategy. These suggestions are not meant to be exhaustive but are representative of the key trends that emerged when comparing different corporate impact investing programs.

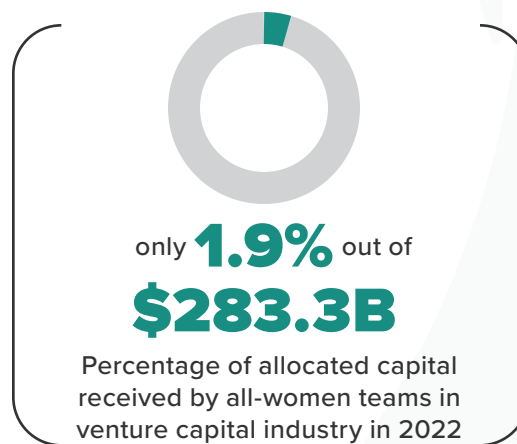
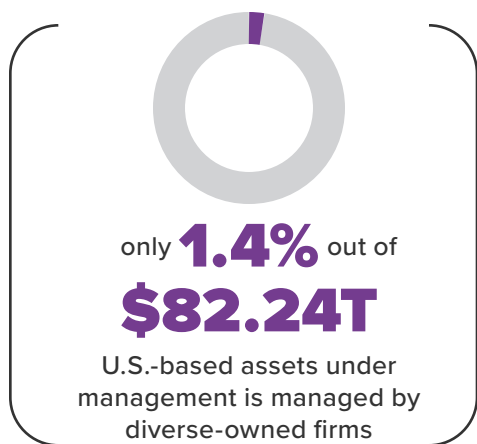
Graphic 1: Corporate Themes and Strategies



Impact Themes

Impact themes allow corporates to select and prioritize specific impact objectives. For the purposes of this report, the main impact themes addressed are DEI, community economic development, financial inclusion, the future of work and climate/sustainability.

- 1. Diversity, Equity and Inclusion:** DEI impact investing strategies often include efforts that seek to grow asset management firms and funds led by women and/or individuals who are Black, Indigenous or people of color (BIPOC). According to a Bella Private Markets report commissioned by the Knight Foundation, only 1.4% of the \$82.24 trillion U.S.-based assets under management is managed by diverse-owned firms.⁹ Within the venture capital industry, all-women teams received only 1.9% out of the \$238.3 billion in venture capital allocated in 2022.¹⁰ Specific corporate DEI strategies in the investment context include emerging manager programs and corporate ventures strategies. These strategies aim to promote greater diversity across industries by intentionally placing capital with diverse-owned firms led by underrepresented founders.



⁹ Knight Foundation, “Knight Diversity of Asset Managers Research Series: Industry,” December 2021.

¹⁰ Dominic-Madori Davis, TechCrunch, “Women-founded startups raised 1.9% of all VC funds in 2022, a drop from 2021,” January 2023.

SPOTLIGHT

Emerging Manager Programs Gain Momentum to Improve DEI in Venture Capital

Emerging manager programs are a growing trend as asset owners seek to support newer, smaller and/or more diverse investment firms. Some of the more recent emerging manager commitments have specifically targeted first-time venture capital funds owned and led by women and/or BIPOC individuals. The goal of these programs is to help these managers overcome some of the structural barriers and biases that may hamper their success, including the lack of an established track record and limited resources and networks. For example, emerging managers often struggle to source anchor commitments and are forced to corral a high volume of small individual investors to reach a first close. This makes an already grueling fundraising process even more time-consuming, diverting a fund manager's attention from other critical functions.

Several corporate players have recently launched emerging manager initiatives, reflecting a growing interest in promoting greater DEI in the investment industry.

- **PayPal's Emerging Manager Program** (launched late 2020) – PayPal has committed \$100 million (increased from \$50 million) to 19 Black and Latinx managers that in turn invest in diverse founders building products and services that empower a more inclusive economy. This program is part of the company's broader commitment of \$535 million to support Black and underrepresented minority-owned businesses and communities. In some cases, there are co-investment opportunities alongside PayPal Ventures, the venture capital arm of PayPal.
- **Alphabet's Emerging Manager Program** (launched June 2020) – Alphabet has committed \$100 million to Black-led venture capital firms, startups and organizations supporting Black entrepreneurs. In addition to capital, Alphabet leverages leaders from its investment subsidiaries, CapitalG and GV, and Google to provide investor training, technology advisory and mentorship.
- **MassMutual's First Fund Initiative** (launched late 2020) – MassMutual has committed \$150 million (increased from \$50 million) toward backing Black, Latinx and Indigenous fund managers generating positive social impact and financial returns. First Fund allocates capital with a focus on funds with partner teams and portfolios that more accurately reflect the general population with the goal of advancing racial equity.
- **Amazon's Catalytic Capital Initiative** (launched October 2022) – Amazon has committed \$150 million toward emerging venture capital funds, accelerators, incubators and venture studios supporting underrepresented entrepreneurs. In addition to capital, companies in the emerging funds' portfolios have access to mentorship from Amazon leadership, resources and support for technical strategies, and product collaboration opportunities.

Corporate investors with dedicated emerging or diverse manager initiatives can play a crucial role in supporting the success of these firms as they establish their first or second funds. It is essential for these corporate investors to consider the long-term implications of their investment approach to help ensure that emerging managers have access to durable sources of funding. For instance, the consistency of investors across multiple funds is a common diligence metric for funds, and a lack of follow-on investment from any existing investor may be viewed negatively by other future investors. Corporate investors should be aware of these dynamics and consider making longer-term, multi-fund commitments to fund managers that meet or exceed performance expectations. By doing so, corporate investors can support emerging managers and help to foster a more durable and diverse investment ecosystem.

IMPACT THEMES CONTINUED

- 2. Community Economic Development:** Community economic development as an impact theme seeks to generate more equitable outcomes for U.S. communities through greater access to capital. Specific examples include investments in CDFIs, community bank depositories, affordable housing and other real estate. A recent trend has been the decision by several corporates to place treasury capital as deposits with minority depository institutions (MDI) and depository CDFIs. The Alliance's *Impact in Place* report highlights a few such examples, including PayPal's \$50 million deposit in OptusBank – a Black-owned MDI in South Carolina. Finally, several corporates have been direct investors in real estate to drive economic development in select communities. Examples include Prudential, which has invested heavily in their headquarters city of Newark, New Jersey, and the Urban Investment Group at Goldman Sachs.
- 3. Financial Inclusion:** Several corporates have launched impact investing strategies that promote the financial well-being of individuals and small businesses, both in the United States and, increasingly, in emerging markets. Many of these strategies have capitalized on the growth of financial technology (fintech) companies that are disrupting the financial services landscape in a variety of ways, including using alternative data to underwrite otherwise underserved customer segments and extending more affordable lending products and services. Examples of relevant companies and funds receiving corporate impact investment capital include MoCaFi, a personal finance platform designed for consumers otherwise disconnected from the mainstream economy, and Quona Capital, a fintech fund operating in emerging markets.
- 4. Future of Work:** An important precondition of financial security is individuals' ability to acquire in-demand skills that position them for quality employment opportunities. Historically these opportunities have focused on the traditional postsecondary education model, though reskilling/upskilling programs are gaining traction as a cost-effective and efficient means of advancing in the workforce. The emergence of educational technology (edtech) companies has created new opportunities to invest either directly in these companies or through a growing number of edtech funds, such as Owl Ventures and Learn Capital. Both Citi (through its impact fund) and the American Family Insurance Institute have incorporated this impact theme as part of their corporate ventures strategies.
- 5. Climate/Sustainability:** Investments in climate/sustainability efforts seek to reduce the environmental footprint of the corporate itself and/or to support other environmental sustainability investments, such as regenerative agriculture. One example is carbon offset programs, which many organizations use as part of broader net-zero commitments, allowing them to invest in or fund environmentally sustainable projects that provide a credit against their carbon footprint. Corporate ventures support this investment theme by deploying capital to environmentally sustainable startups. The corporate ventures arms of certain companies – including the American Family Insurance Institute and MassMutual – have also prioritized climate as a focus area.

The previous list provides a brief snapshot of the most commonly occurring impact themes prioritized by corporate impact investors to date. Naturally, there may be overlap between and among categories or the use of different language when describing likeminded strategies. For example, many community economic development strategies prioritize communities of color or BIPOC-led initiatives, which can also be considered part of a DEI initiative. Similarly, organizations that have launched racial equity or racial justice strategies may align in whole or in part with the DEI and community economic development efforts mentioned in this report. Some strategies are more likely to be domestic (such as community economic development) whereas others could be global or domestic (such as financial inclusion or climate/sustainability).

Mapping to Capital Source and Risk-Return Objectives

Identifying a capital source from within the firm and articulating a suitable risk-return profile are also critical inputs when building a corporate impact investing strategy. The most active corporate impact investors have historically been those with larger balance sheets, such as banks or select insurance companies. These organizations are accustomed to investing large sums of money in line with the firm's broader asset-liability management objectives. In addition to controlling significant capital, banks have an obligation to invest in communities and other mission-aligned efforts due to CRA requirements.

In recent years, two other capital sources have grown in relevance for impact investing strategies – corporate treasury departments and bond issuances. The use of a company's corporate treasury function has paved the way for a broader group of corporates – particularly tech companies that were flush with cash at the time of the 2020 crises – to participate in impact investing efforts. A number of tech companies have made public commitments to impact investing using this capital source in recent years, including Netflix and PayPal.¹¹

¹¹ U.S. Impact Investing Alliance, “Corporate Support for Local Economic Development in Response to the Racial Justice Crisis: New Commitments by PayPal, Netflix, Twitter and Others,” Impact in Place: Emerging Sources of Community Investment Capital and Strategies to Direct it at Scale, June 2021.

ASSEMBLING A CORPORATE IMPACT INVESTING STRATEGY

A handful of corporates have also turned to the capital markets, including the issuing of bonds to fund general corporate activity that aligns with a sustainability framework established prior to issuance. Some of these issuances have also earmarked a portion of the bond proceeds to be used strategically to benefit third-party organizations outside of the company. An example of this is Starbucks' 2019 sustainability bond that allocated \$20 million of the \$1 billion issuance to responsAbility Investments AG to support the financing of coffee grower cooperatives in Latin America, Africa and Asia. In 2020, Google's parent company Alphabet issued \$5.75 billion in sustainability bonds to raise investment capital across eight impact themes, such as clean energy and small business support. While perhaps less directly tied to business model, Alphabet has stated that they intended for this substantial commitment to spur further market activity and broader uptake of this tool for corporates.¹²

It is worth noting that these strategies were launched before the Federal Reserve's recent wave of interest rate increases when the cost of capital was more favorable. Publicly issued debt to support impact investing was already used sparingly and idiosyncratically by corporates before these rate hikes, such that there may be a much lower use of this tool in the current interest rate environment.

In 2019, Starbucks issued
\$20M
to support the financing of
coffee grower cooperatives

In 2020, Alphabet issued
\$5.75B
in sustainability bonds

Another important dimension of any impact investing strategy is the desired risk-return profile, which is partially a function of the capital source as well as the size of the commitment relative to the corporate's balance sheet. At a high level, the typical risk-return profiles are capital preservation, risk-adjusted and risk-taking. It is important to note that there can be overlap across these three categories, as some risk-taking strategies are more tolerant of lower returns, and therefore may align more closely with a capital preservation approach, whereas others seek to generate market-rate returns.

For the purposes of this report, the categories are defined as follows:

- **Capital preservation strategies** are relatively secure or safe investments with a nominal (but below-market) return profile. Examples of capital preservation strategies could include a loan to a CDFI, subordinate debt in a blended capital structure that benefits from some first loss protection, or a deposit in an MDI.
- **Risk-adjusted strategies** explicitly seek a market-rate return. These investments tend to have a lower likelihood of loss than a risk-taking strategy (explored below) and therefore could include debt investments, real estate or later stage private equity. Though not exclusively so, these are more likely to be commercially oriented strategies alongside other institutional investors.
- **Risk-taking strategies** are those that have an outsized level of risk and therefore could result in potential losses (in a downside scenario) but potentially greater financial and impact returns (in an upside scenario). A common risk-taking approach is a corporate ventures strategy, including several that have a tie-in to an impact objective.

¹² Ruth Porat, Alphabet, "Alphabet issues sustainability bonds to support environmental and social initiatives," August 2020.

ASSEMBLING A CORPORATE IMPACT INVESTING STRATEGY

As expected, very few corporates are explicit about their impact investing financial performance or the return profile they are seeking, though certain themes stand out. Across corporates, particularly among those that are newer entrants to impact investing, capital preservation appears to be a common approach. This is a realistic strategy for corporate commitments where the size of the commitment is meaningful to the impacted stakeholders but nominal when compared to the magnitude of the corporate's balance sheet. As a result, a capital preservation strategy is suitable as losses are somewhat mitigated and any foregone returns are negligible to the company.

Fewer corporates appear to pursue risk-adjusted or risk-taking strategies when pursuing impact. Risk-adjusted strategies for impact are more commonplace for corporates investing from the broader balance sheet such that the larger magnitude of capital in part necessitates a higher return threshold than capital preservation strategies to be sustainable. These could include debt and/or equity investments in real estate, private equity and other asset classes.

Risk-taking impact strategies most commonly align with corporate venture programs that incorporate an impact component. Few corporates have launched such strategies, though the trend is gaining steam. Not surprisingly, these programs often originate within companies that have an existing corporate ventures arm in which the expansion to impact is relatively seamless. Given the high level of risk and high touch model, these programs tend to be smaller in size. Examples can include investing in seed or early-stage companies or providing first loss capital to untested strategies.

The prior commentary relates mostly to on-balance sheet corporate impact investing activity and excludes corporate foundations, which theoretically have a greater degree of freedom with respect to their risk-return targets. That said, corporate foundations tend to hew toward a more simplified and risk-averse set of investment strategies. This can be partly explained by the fact that many corporate foundations were originally set up for grantmaking purposes, and very few have expanded into impact investing to date. This is also because many corporate foundations are pass-through organizations and do not have endowed assets upon which to draw. For those that have embraced common impact investing strategies such as program-related investments (PRI), they may be limited by the Internal Revenue Service (IRS) guidelines, which some have interpreted to exclude equity investments and, in turn, scope out more risk-taking strategies. This misconception is not limited to corporate foundations and is held by many private foundations as well, as noted in the *Impact in the Balance* report. As a result, corporate foundations tend to pursue capital preservation strategies, rather than risk-adjusted or risk-taking options, which may not align well with the foundation's risk-reward tolerance.

The use of a corporate's treasury function has paved the way for a broader group of corporates to participate in impact investing efforts.

SPOTLIGHT

Corporate Venture Funds Creating Value for Companies and Society

Corporate venture strategies allow companies to invest in innovative, early-stage ideas and startups that are strategic to their businesses. Impact-driven corporate ventures have become an increasingly popular investment strategy for corporates seeking to generate financial returns while making a positive impact on society and the environment. This approach offers a multitude of benefits, including the opportunity to access new markets by investing in companies that are tackling social and environmental challenges in emerging sectors. Integrating impact into this strategy brings additional benefits, such as talent retention and improved stakeholder relations.

Corporates can also leverage their impact venture funds to tap into new sources of innovation, creativity and expertise, which are essential for staying ahead of the curve in today's rapidly evolving business environment. Several corporates including American Family Insurance, Salesforce and IKEA have launched impact investment strategies within their corporate venture arms.

- **The American Family Insurance Institute for Corporate and Social Impact (AmFam Institute)**
- The AmFam Institute was established in 2018 and registered as a public benefit corporation. The Institute has a broad, early-stage social impact investment thesis across economic opportunity, healthy youth development, equity in education and climate and resilient communities. In addition to capital, the fund provides support to startups related to storytelling and marketing, impact measurement and strategy, and community-building and wellness for portfolio founders. The AmFam Institute is committed to promoting diversity and inclusion in the startup ecosystem, with roughly two-thirds of its portfolio companies led by women or BIPOC founders.
- **Salesforce Ventures Impact Fund** -
The Salesforce Ventures Impact Fund launched in 2017 and invests in best-in-class enterprise software companies with a socially and environmentally positive mission. The investment focus areas span education and workforce development, climate, DEI, social sector technology and digital health. Beyond capital, the program provides access to the Salesforce ecosystem to help startups grow and scale their impact. Sitting inside Salesforce's broader venture program, the Impact Fund also prioritizes supporting female and underrepresented minority founders.

How companies choose to launch a dedicated corporate ventures strategy may vary, but there are a few best practices worth elevating. First, a dedicated team with expertise in the relevant investment sectors and stages is crucial to creating an informed and durable investment strategy. This team should bring strong due diligence capabilities and support formalizing the decision-making and investment processes to manage risks. Second, investment teams should seek to deliver differentiated value to portfolio companies including active portfolio management, strategic guidance, key industry contacts and operating insights. Lastly, effective governance and reporting mechanisms ensure transparency and accountability to corporate stakeholders, which are critical to building trust and maintaining a positive reputation in the market.

PATHWAY TO DURABILITY

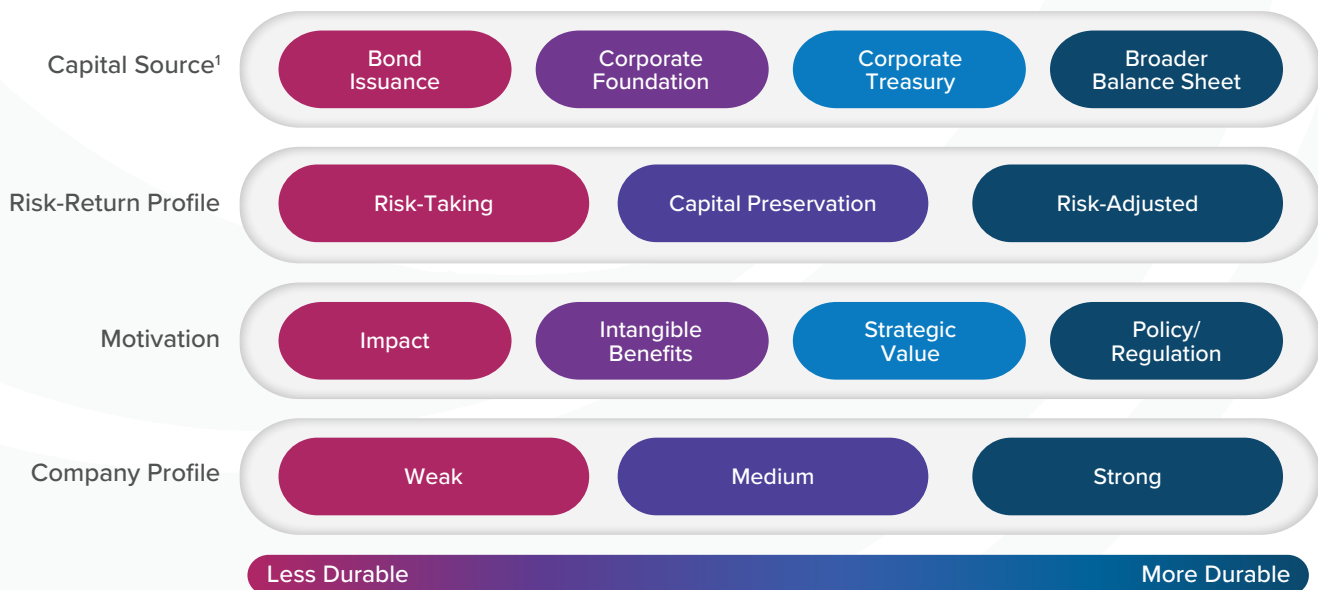
The Alliance remains encouraged by the emergence of corporates as a new and significant impact investor segment. That said, it is important to consider the durability of these corporate commitments, especially those that are purely voluntary and thus may be more susceptible to shifts in internal or external dynamics. Amid this uncharted terrain, this report attempts to explore what might drive corporates to pursue and maintain durable strategies.

The key inputs to this discussion are capital sources, risk-return strategies, motivations and company profile. The former two inputs have been discussed previously in this report, whereas the latter two seek to describe why a company has chosen to launch and sustain an impact investing strategy, and how company-specific factors may influence the viability and durability of such a strategy.

- **Motivations** will vary and can include impact (across the impact themes discussed previously); intangible benefits; strategic value and policy/regulation. Impact reflects the company’s desire to generate positive outcomes for stakeholders such as workers or communities. Strategic value includes a direct tie to business interests, whereas intangible benefits are more indirect and include aspects such as brand value and talent recruitment. Policy-based motivations are those relating to government-mandated or incentivized activities, such as CRA requirements for banks.
- **Company profile** includes a myriad of factors, including the company’s financial performance – measured by stock price, profitability and cash holdings, among others – as well as qualitative factors like openness to innovation and experimentation.

The graphic below depicts which factors are more likely to drive greater durability in corporate impact investing. The factors are ordered based on potential durability from left to right. Durability is generally defined as a combination of the magnitude and duration of the commitment. While the placement of individual inputs is subject to debate, the Alliance believes this is a fair representation of the relative merits of different approaches.

Graphic 2: Potential Durability of Internal Corporate Factors



¹ Bond issuances, corporate treasury and broader balance sheet are considered on-balance sheet activities of the corporate; corporation foundation considered off-balance sheet.

PATHWAY TO DURABILITY

Several potential themes emerge from this exercise. Not surprisingly, risk-adjusted strategies are best positioned to persist over the long term as they contribute to the corporate's bottom line. Risk-taking strategies are less likely to be durable unless they demonstrate an ability to generate real upside and/or have strong strategic value. Bond issuances and corporate foundations are more likely to be idiosyncratic or one-off sources for impact investing and, therefore, less durable, when compared to other on-balance sheet strategies.

Perhaps more provocatively, impact on a standalone basis is not enough to ensure durability, absent the presence of other motivations or factors. For example, strategies driven by impact and strategic value are more likely to be durable than those motivated solely by impact and/or intangible benefits. Strategic value motivations are more likely to be self-sustaining whereas intangible benefits can be more fleeting, particularly those in response to a recent external event. In contrast,

policy or regulation, provided that it remains intact, is an indisputable motivator as the activities are strongly encouraged or required, versus voluntary. Similarly, an impact strategy that is performing well financially is more likely to be durable than one that is generating losses.

Finally, there is an open question around how much a company's profile – such as a company's stock price, profitability, shareholder dynamics, cost of capital, etc. – affects a corporate impact investing strategy. Many of these commitments were launched under favorable market conditions, particularly with respect to the newer tech entrants into impact investing. Consistent profitability, a strong stock price and massive cash holdings create an enabling environment to launch impact investing programs to generate additional benefits to the company and its stakeholders. It is yet unclear how a more unfavorable set of circumstances – including a struggling stock price, stagnant growth or a higher cost of capital – may alter the course of impact endeavors.



RECOMMENDATIONS

Corporate commitments to impact investing are undoubtedly on the rise, but how this trend evolves over the long term remains to be seen. Ideally, corporates recognize the simultaneous financial and stakeholder-driven benefits of impact investing programs and continue to formalize and grow these activities. Other programs may remain relatively modest, and some may shutter entirely. The relative success of individual corporate impact investing programs will vary and is largely dependent on the individual dynamics of the company itself.

For corporates looking to establish or enhance durable impact investing strategies, the Alliance offers these initial recommendations:

- **Build champions early.** Committed corporate leadership and board support are critical to the launch and continuation of an impact investing strategy. Identifying a champion in the C-suite is crucial, particularly in the initial years of the journey when those leading these impact investing strategies would benefit from support, guidance, patience and the flexibility to make informed strategy shifts as they go.
- **Leverage existing structures.** Corporate impact investing programs include both those that are an extension of an existing business line or practice (such as creating a corporate impact ventures program to build on an existing corporate ventures arm) or those that introduce a relatively new investment capability to the company. Either can be successful, though the former offers a more seamless lift, as it is better understood within the company and the appropriate infrastructure is already in place. Particularly for corporates that are not otherwise active investors, it may be wise to pursue initial impact investing strategies that align with existing business lines where possible, with plans to expand down the road. Corporates should also consider adapting existing strategies and tools within the impact investing field when possible, as opposed to creating new structures entirely.
- **Prioritize investment expertise.** It is critical that corporates formalize teams with the appropriate expertise to source, diligence, structure and manage investments. One common goal of impact investing strategies is the desire to invest in more nascent firms or investment opportunities that could one day scale to attract institutional or more mainstream investors. To meet this objective, it is crucial that investors and investees phase in institutional standards where appropriate so that this transition has a higher probability of success.
- **Tie impact to strategy or financial return.** Impact on a standalone basis is not enough to ensure durability, absent the presence of other motivations or factors. Given the range and diversity of stakeholders and audiences involved, these strategies should either demonstrate a clear strategic value to the business and/or generate strong financial returns to secure buy-in, particularly across executive leadership or board transitions.
- **Develop an accountability strategy.** Whether internal or external (or both), it is crucial that corporates establish an accountability strategy to keep impacted stakeholders informed. At a minimum, this should incorporate both the dollar amounts deployed, sample investments and the alignment to the corporate's impact strategy. Taken a step further, corporates can partner with third party organizations to verify and validate this activity.

A key theme captured in the above recommendations is recognizing that an impact investing program requires a degree of discipline in order to create positive outcomes, meet internal measures of success and increase the likelihood of becoming a more integrated activity within the business over the long term. That said, it is also entirely appropriate to launch smaller scale efforts to generate learnings early on, and to adapt and build on those initiatives in the future. Importantly, corporates should clearly define their respective measures of success and remain accountable to those financial and impact goals.

CONCLUSION

As corporate impact investing practices are relatively new and rapidly evolving, this report aims to provide a first glimpse into the trends observed to date, to begin categorizing key themes and takeaways, and to suggest best practices that will hopefully attract and retain this important investor segment to the field of impact investing.

A largely accepted trend in recent years is the recognition by corporates and other institutions that business activities have tangible impacts on stakeholders and society more broadly. There have been rumblings around this responsibility for decades, but the crises of 2020 forced this connection into mainstream discussions among the public, media, investors and businesses themselves. As external events unfold and have an impact on the lives of employees and other stakeholders, the role of corporates in addressing these impacts will become all the more apparent.

Furthermore, growing momentum around impact investing – a market that surpassed \$1 trillion in recent years – has introduced a new tool for corporates to explore.¹³ Alongside this rapid growth, the field of impact investing has become more diversified, with investable opportunities ranging in size, risk-return profile, asset class, impact theme and geography. This expansion of the field marks a pivotal moment in time as more investors, including corporates, design impact investing strategies that suit their needs and preferences.

While questions may persist around the durability of corporate impact investments in the years to come, the fact remains that this is an exciting time and an important validation of impact investing as both an investment strategy and business practice. As the field continues to evolve, the Alliance hopes that a diversified slate of investors will continue to adopt impact investing programs as an important lever for delivering positive social, economic and environmental outcomes to stakeholders.

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¹³ Dean Hand, Ben Ringel and Alexander Danel, Global Impact Investing Network (GIIN), “GIINsight: Sizing the Impact Investing Market 2022,” October 2022.