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The Impact Alpha: Strategic lenses give impact investors an edge on the future



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INVESTMENT NEWS FOR A SUSTAINABLE EDGE

At a recent summer gathering, I caught up with an old family friend, a lawyer and leader in a mid-sized New England city. He had just run a tough campaign as the insurgent candidate for district attorney on a platform that included cashless bail, treatment over incarceration and 'restorative justice' to help keep youth out of trouble and out of jail.

He lost. But what might not yet fly in an election is starting to take off in the market. Just as the era of mass incarceration created a prison-industrial complex that rewarded certain investors, the gathering movement toward decarceration is creating its own investment opportunities.

Call it decarceration-lens investing. Just as gender-lens investing has helped create a marketplace for women's inclusion, criminal-justice reform advocates are recasting their issues not as problems to solve but as investment trends to ride.

Investment lens are proliferating, for refugees and migrants, and forced labor and modern-day slavery, as well as the oceans, the caring economy and creativity and the arts. Inclusive



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Amazon-backed Capital Float acquires Indian personal finance company
(<https://impactalpha.com/amazon-backed-capital-float-acquires-indian-personal-finance-company/>)

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economic development may not be possible without applying an explicitly racial lens (<https://impactalpha.com/apply-a-racial-lens-and-other-lessons-from-living-cities-impact-investments/>).

Three steps

For advocates, the three steps of lens-making involve framing the case; building an investment ecosystem of asset owners, managers and entrepreneurs; and bringing investible opportunities to market. That's a service to investors, for whom such lenses can be a way to see around corners.

What drives 'alpha' anyway? The edge that comes from seeing something others don't. The New Yorker's profile (<https://www.newyorker.com/magazine/2014/10/13/empire-edge>) of hedge-fund billionaire Steven Cohen, "The Empire of Edge," defined it as a subtle but crucial informational advantage. It had become "hard to find ideas that aren't picked over," Cohen had complained. A former federal judge told writer Patrick Radden Keefe, "An edge is the goal of every portfolio manager."

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Challenging financial exclusion, Finance in Motion's sustainable forestry fund, UBS' development-bank bond fund, the Fortune 56 (<https://impactalpha.com/challenging-financial-exclusion-finance-in-motions-sustainable-forestry-fund-ubs-development-bank-bond-fund-the-fortune-56/>)

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Extending invitations to the financial system means challenging the roots of exclusion (<https://impactalpha.com/extending-invitations-to-the-financial-system-means-challenging-the-roots-of-exclusion/>)

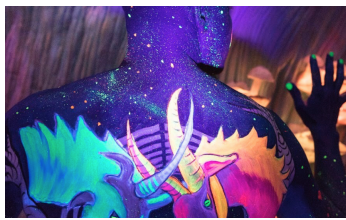
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India's Reliance Jio tops Fortune list of companies changing the world (<https://impactalpha.com/indias-reliance-jio-tops-fortune-list-of-companies-changing-the-world/>)

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UBS offers development-

Edge need not come from insider tips. “We coined the term “creativity lens” (<https://www.upstartco-lab.org/creativity-lens/>) to help art-loving impact investors see opportunities that have been hiding in plain sight,” Laura Callanan, founder of the **Upstart Co-Lab**, wrote recently.



Santa Fe funhouse Meow Wolf raises \$17.5 million to expand its creative economy

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One Colorado community development investor discovered that without realizing it, 40% of the small businesses in its portfolio already were in the “creative economy,” and has started to look for such opportunities. **Meow Wolf**, the installation-art phenomona in Santa Fe, is the most Instagrammed site in New Mexico and recently raised \$17.5 million (<https://impactalpha.com/santa-fe-funhouse-meow-wolf-raises-17-5-million-to-expand-its-creative-economy/>) to expand to Denver and

bank bond fund as a fixed-income alternative (<https://impactalpha.com/ubs-offers-development-bank-bond-fund-as-a-fixed-income-alternative/>)

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Finance in Motion and Unique raise \$60 million for sustainable forestry fund (<https://impactalpha.com/finance-in-motion-and-unique-raise-60-million-for-sustainable-forestry-fund/>)

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Leapfrog Ventures backs Rwandan microcredit startup Exuus (<https://impactalpha.com/leapfrog-ventures-backs-rwandan-micro-credit-startup-exuus/>)

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Scaling stakeholder capitalism, Rise Fund's alt-credit play, growing pipeline of black and Latino-founded firms (<https://impactalpha.com/scaling-stakeholder-capitalism-rise-funds-alt-credit-play-growing-pipeline-of-black-and-latino-founded-firms/>)

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Las Vegas. An Upstart report last year found more than two dozen creative projects with aggregate demand for more than \$1.5 billion.

A gender lens has become *de rigueur* for impact investors, with 70% of respondents to the Global Impact Investing Network's survey earlier this year saying they apply one to their investments. A similar percentage use a 'climate lens' to address climate change.

Investment pipeline

Far fewer invest with a forced-labor lens or a refugee-migrant lens, even though the world's 22.5 million refugees, as many as 46 million people forcibly enslaved, 65.6 million people "forcibly displaced," and fully 224 million migrants represent a staggering supply of untapped talent and huge demand for housing, healthcare, education and financial services from a population bigger than that of the United States. The Miller Center at Santa Clara University is accelerating a cohort of 21 enterprises (<https://www.scu-social-entrepreneurship.org/press-room-1/2018/5/15/miller-center-for-social-entrepreneurship-selects-21-social-enterprises-for-accelerator-focused-on->

Corporations don't need Elizabeth Warren to 'benefit' from stakeholder capitalism (<https://impactalpha.com/corporations-dont-need-elizabeth-warren-to-benefit-from-stakeholder-capitalism/>)

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Brac and Osiris Group launch impact fund for Bangladesh and other frontier markets (<https://impactalpha.com/brac-and-osiris-group-launch-impact-fund/>)

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Rise Fund backs alternative-credit scoring startup Mines (<https://impactalpha.com/rise-fund-backs-alternative-credit-scoring-startup-mines/>)

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Investors are putting serious cash into black and Latino-founded businesses (<https://impactalpha.com/investors-are-putting-serious-cash-into-black-and-latino-founded-businesses/>)

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[refugees-migrants-and-human-trafficking](#)) tackling refugee-related challenges. **Humanity United** has raised a \$23 million Working Capital fund for solutions to forced labor and modern slavery. George Soros has committed \$500 million to reshape global responses to refugees.



Entrepreneurs and investors mobilize to tackle challenges of refugees, migrants and modern-day

slaves

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What, after all, is a lens than a specialized investment thesis of the sort private equity firms use to differentiate themselves?

A food lens, for example, might lead an investor to spot how climate change, resource constraints and shifting consumer demand is transforming (<https://impactalpha.com/climate-consumers-constraints-drive-growth-in-food-tech-investing-b9f9558b083f/>) the \$7.8 trillion food and agriculture industry, which

Tennessee impact fund's first investment aims to ease traffic congestion (<https://impactalpha.com/tennessee-impact-funds-first-investment-aims-to-ease-traffic-congestion/>)

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Ceniarth's \$200 million shift, Branson's climate-smart accelerator, Warren's mandate for stakeholder capitalism (<https://impactalpha.com/ceniarths-200-million-shift-bransons-climate-smart-accelerator-warrens-mandate-for-stakeholder-capitalism/>)

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Wonderschool raises \$20 million to launch preschools and childcare centers (<https://impactalpha.com/wonderschool-raises-20-million-to-launch-preschools-and-childcare-centers/>)

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Full Harvest secures \$8.5 million to help farmers sell "ugly" produce (<https://impactalpha.com/full-harvest-secures-8-5-million-to-sell-ugly-produce/>)

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employs 40% of the world's population. Bain Capital's **Double Impact Fund** earlier this year took stakes in both Sustainable Restaurant Group's chain of seafood restaurants and by CHLOE's vegan restaurants. "We're firm believers that Americans will eat healthier, more sustainable food in the future than they do today," Bain's Warren Valdmanis told *ImpactAlpha* (<https://impactalpha.com/bain-double-impact-calls-a-trend-sustainable-meals/>).

An emerging-consumer lens has led **LeapFrog Investments** to invest in companies targeting (<https://impactalpha.com/leapfrog-investments-takes-stake-in-nigerian-pension-fund-manager-arm-pensions/>) the two billion people in low- and middle-income countries with mobile phones but limited access to financial services. Seth Bannon and Ela Madej's **50 Years** venture capital firm applies an SDG lens to their startup portfolio, selecting for companies aligned with the 17 Sustainable Development Goals. "I'm glad people think impact means giving up returns. It means more upside for us!" Bannon told us (<https://impactalpha.com/seven-tech-driven-takeaways-from-oslos-katapult-future-festival/>) earlier this year.

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Richard Branson launches accelerator to bolster Caribbean climate resilience (<https://impactalpha.com/richard-branson-launches-accelerator-to-bolster-caribbean-climate-resilience/>)

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Fighting poverty and remaining rich: CeniARTH shifts portfolio to impact-first capital preservation (<https://impactalpha.com/fighting-poverty-and-remaining-rich-ceniARTH-shifts-portfolio-to-impact-first-capital-preservation/>)

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The Brief's Big 6: Looking ahead at O-Zones, looking back at Pay for Success, growing deal pipelines in inclusive fintech, Arctic tech, mini-grids (<https://impactalpha.com/the-briefs-big-6-looking-ahead-at-o-zones-looking-back-at-pay-for-success-growing-deal-pipelines-in-inclusive-fintech-arctic-tech-mini-grids/>)

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Disrupting prison

My lawyer friend had no idea that investors were making a business case around some of the criminal-justice reform policies he had championed.

Promise, based in Oakland, Calif., contracts with local governments to make sure defendants appear at court dates, stick with drug testing and treatments, get to classes and meet other obligations so those charged of mostly nonviolent misdemeanors can stay out of jail. About \$14 billion is spent every year (<https://university.pretrial.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=4c666992-0b1b-632a-13cb-b4ddc66fadcd>) on such pre-trial detention, with 450,000 innocent-until-proven-guilty people behind bars every day. Promise charges towns and counties about \$17 per person per day, compared to \$85 or more per day for jail time.

Getting into the inclusive opportunity zone, BlackRock's ESG debt funds, extreme-weather insurance (<https://impactalpha.com/getting-into-the-inclusive-opportunity-zone-blackrocks-esg-debt-funds-extreme-weather-insurance/>)

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The Impact Alpha: Getting into the zone of inclusive opportunity (<https://impactalpha.com/the-impact-alpha-getting-into-the-zone-of-inclusive-opportunity/>)

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Opportunity zone advocates call for market transparency and impact accountability (<https://impactalpha.com/opportunity-zone-advocates-call-for-market-transparency-and-impact-accountability/>)

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Living Cities' pay-for-success lessons, Shaq attacks gig-worker challenges, pipelines in renewable mini-grids and inclusive fintech (<https://impactalpha.com/living-cities-pay-for-success-lessons-shaq-attacks-gig-worker-challenges-pipelines-in-renewable-mini-grids-and-inclusive-fintech/>)



Jay-Z and Kapor Capital join \$3 million financing of “de-carceration” startup Promise

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A 5X cost-advantage in a large addressable market was the kind of thing Y-Combinator, which incubated Promise, could grasp. The startup has raised \$3 million in venture capital, including from musician and businessman Jay Z’s Roc Nation.

Edovo, based in Chicago, [raised nearly \\$10 million \(https://impactalpha.com/edovo-closes-9-8-million-to-expand-tablet-based-inmate-education/\)](https://impactalpha.com/edovo-closes-9-8-million-to-expand-tablet-based-inmate-education/) for its tablet-based educational, vocational, and rehabilitation programming, aimed at reducing recidivism. Pigeon.ly, aiming to disrupt the market for communications services needed by inmates and their families, raised \$5 million.

Kapor Capital, based in Oakland, invested in all three ventures. Kapor partner Ben Jealous, an architect of its “justice tech” strategy, is

[com/living-cities-pay-for-success-lessons-shaq-attacks-gig-worker-challenges-pipelines-in-renewable-mini-grids-and-inclusive-fintech/](https://impactalpha.com/living-cities-pay-for-success-lessons-shaq-attacks-gig-worker-challenges-pipelines-in-renewable-mini-grids-and-inclusive-fintech/)

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FloodFlash raises £1.9 million to meet growing demand for flood insurance (<https://impactalpha.com/floodflash-raises-1-9-million-to-meet-growing-demand-for-flood-insurance/>)

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ZipGo raises \$29 million to transition to all-electric busses (<https://impactalpha.com/zipgo-raises-29-million-to-transition-to-all-electric-busses/>)

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BlackRock adds emerging market debt funds to impact investing mix (<https://impactalpha.com/blackrock-adds-emerging-market-debt-funds-to-impact-investing-mix/>)

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Adapt to changing needs, and other lessons

running for governor in Maryland, but trailing in the polls. Decarceration-lens investing, however, is winning investors seeking an edge by helping them see around corners.

This is the latest column in David Bank’s weekly series, The Impact Alpha. Catch up on all of David’s columns [here \(https://impactalpha.com/category/features/the-impact-alpha/\)](https://impactalpha.com/category/features/the-impact-alpha/).



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Solar mini-grid project pipeline comes into focus in Africa, Asia and Latin America
(https://impactalpha.com/solar-mini-grid-project-pipeline-comes-into-focus-in-africa-asia-and-latin-america/)
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JPMorgan, Bharat Inclusion Initiative launch Financial Inclusion Lab in India (https://impactalpha.com/jpmorgan-bharat-inclusion-initiative-launch-financial-inclusion-lab-in-india/)
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“Shaq attack” on the gig economy: Steady raises \$9 million (https://impactalpha.com/shaq-attack-on-the-gig-economy-steady-raises-9-million/)
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Catalyst Fund stocks the inclusive fintech pipeline with five new startups (https://impactalpha.com/catalyst-fund-stocks-the-inclusive-fintech-pipeline-with-five-new-startups/)

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Community capital stacks, Calvert backs One Acre Fund, Shuttl buses in India, gender-lens microfinance in Pakistan (https://impactalpha.com/community-capital-stacks-calvert-backs-one-acre-fund-shuttl-buses-in-india-gender-lens-microfinance-in-pakistan/)

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Kashf Foundation secures \$17 million for gender-lens microfinance in Pakistan (https://impactalpha.com/kashf-foundation-secures-17-million-for-gender-lens-microfinance-in-pakistan/)

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One Acre Fund closes \$5 million loan from Calvert Impact (https://im-

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Community capital stacks bring the right money to the table in new 'opportunity zones' (https://impactalpha.com/community-capital-stacks-bring-the-right-money-to-the-table-in-new-opportunity-zones/)
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Amazon backs Shuttl's bid to de-congest India's urban commutes (https://impactalpha.com/amazon-backs-shuttls-bid-to-de-congest-indias-urban-commutes/)
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Hand Talk raises early funding for Brazilian sign language app (https://impactalpha.com/hand-talk-raises-early-funding-for-brazilian-sign-language-app/)
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OPIC backs Tugende with \$5 million for lease-to-own motorcycle finance (<https://impactalpha.com/opic-backs-tugende-with-5-million-for-lease-to-own-motorcycle-finance/>)

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Village Enterprise raises \$3.5 million for "poverty alleviation" bond in East Africa (<https://impactalpha.com/village-enterprise-raises-3-5-million-for-poverty-alleviation-bond-in-east-africa/>)

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Building markets for small-farmer finance, Nepal's Dolma Impact Fund, Zonful in Zimbabwe, Al Gore's impact keynote (<https://impactalpha.com/building-markets-for-small-farmer-finance-nepals-dolma-impact-fund-zonful-in-zimbabwe-al-gores-impact-keynote/>)

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