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 lenses 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 economic development may not be possible without applying an explicitly racial lens.

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 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.”

Edge need not come from insider tips. “We coined the term “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.

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 phenomena in Santa Fe, is the most Instagrammed site in New Mexico and recently raised $17.5 million to expand to Denver and 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 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.

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 the $7.8 trillion food and agriculture industry, which 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*.

An emerging-consumer lens has led **LeapFrog Investments** to invest in companies targeting 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 earlier this year.

**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** 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.

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** 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 running for governor in Maryland. He is trailing in the polls but the decarceration lens is widening to help some investors see a different design for justice.

*This is the latest column in David Bank’s weekly series, The Impact Alpha. Catch up on all of David’s columns here.*