

ESG & Impact Investing

Syllabus

Spring 2023

FNCE 254 / 754

Professor Christopher C. Geczy, Ph.D.

Impact Investing, in the broad sense used in this class, is a discipline which seeks to generate social benefits as well as financial returns. From boutique beginnings, Impact Investing has surged into the mainstream of global money management, now affecting trillions of dollars of assets. The greatest demand is for strategies and products that promote social good while having expected returns competitive with non-impact options, although many other approaches exist.

Impact Investing and the associated ESG investing paradigm also permeate the agendas of policymakers, asset owners including pension plans and sovereign wealth funds, wealthy and retail investors, corporate managers, academia, and philanthropic foundations. A distinct career specialization for finance professionals has emerged, and the diversity of its applications is spreading the new discipline's influence throughout world markets.

The major topics treated are:

- History, size and characteristics of the Impact Investing/ESG/sustainability marketplace
- Turning policy challenges into investment return – who needs help, how investments can help, identifying Impact Investment opportunity at the “Base of the Pyramid”
- Distinctive business and financial characteristics of ESG investing; social impact metrics
- Adapting conventional investment analysis to the Impact Investing paradigm
- Impact evaluation/measurement frameworks and their integration into traditional risk/return models
- Synchronization of capital markets, government policy and philanthropic resources to blend investment return and social benefit
- Corporate Social Responsibility, its nature and effects, and analysis of shareholder activism to promote it
- Analysis of sample Impact Investing models and cases
- Related concepts including microfinance/microenterprise, Socially Responsible Investing, and natural resource constraints

The primary emphases of this survey course are a conceptual understanding of ESG & Impact Investing and how it has manifested in real-world settings. Toward that end, not only will we review a number of dominant “classical” models in investments, we will also examine and analyze how ESG & Impact Investing exists (or doesn't exist) within those contexts and how proponents and critics have responded. We will also focus on the real world via case studies and live examples. Students will organize into groups to discover, research, analyze and present team research projects, some or all of which may be published.

Approximate Course Schedule

Week 1

Introduction and Overview: Definitions, Classical Finance and the Case for ESG & Impact Investing

Week 2-3

ESG & Socially Responsible Investing: negative screening, positive screening, the Fiduciary Standard revisited

Week 4

Impact Measurement

Week 5

Shareholder Activism: positive and negative investment

Week 6

Corporate Social Responsibility (CSR)

Week 7

Impact Investing, Venture Capital and Private Equity

Week 8-9

Microfinance and the Base of the Pyramid

- Microlending, microinsurance, housing (finance, housing, RE development), technology and cases

Week 10-11

Environmental Finance, Greentech, Infrastructure.

Week 12

Selected Team Presentations

Prerequisites

This course has no specific prerequisites except, for Wharton undergraduates, FNCE 100 Corporate Finance. But given its wide-ranging subject matter, students will benefit from completion of any of the following Wharton finance courses: FNCE 613 Macroeconomics and the Global Economic Environment; FNCE 205/705 Investment Management; FNCE 238/738 Capital Markets; FNCE 250/750, Venture Capital and the Finance of Innovation; MGMT 241 Knowledge for Social Impact, and MGMT 401 Growing Social Impact or MGMT 812 Social Entrepreneurship. Coursework or practical experience in microeconomics, development economics, international philanthropy, Non-Governmental Organizations, financial risk management and political risk analysis will also be useful. In addition, you should have a good working knowledge of common software useful for financial and statistical analysis. A spreadsheet program like Excel is an example as are JMP, Minitab, etc.

Text

There is no primary text as such for the course, but a text featuring in class lectures, discussions and team assignments is *Investments* (12th Ed.), by Bodie, Kane and Marcus (McGraw-Hill Education, 2021).

Course Pack

In addition to class notes and texts, the course will make use of articles that are both academic in nature and practitioner-oriented. While some of the articles are supportive of the class materials and are thus optional, most will be required reading. The philosophy behind including some ancillary material is that it acts as a “free” option (or at least an exceedingly low-cost one) for you, should you wish to understand what we cover in class to a greater depth. I will make clear for which articles I will not hold you responsible.

Handouts

I will share material for almost every class and will typically make electronic versions available in advance of class. Should you be absent when I distribute something, **you** will be responsible for obtaining a copy of what I shared with the class. Generally, I’ll make handouts available on the course Canvas website.

Evaluation and Administrative Details

You will be evaluated **in class** through your grades on a midterm exam, (**Mon. Feb. 27**), two homeworks, and a final project. The midterm will count as 40%, the final project will count as 40%, and the problem sets will contribute 20% toward your final course grade. I’m sorry to say that, according to Wharton policy, individual exceptions to the timing of these assessments cannot be made to accommodate travel schedules, etc. However, class requirements are subject to school policy on coronavirus including accommodations which may be made for remote learning. All school policies regarding masking, social distancing, etc. will be enforced in the class.

While I certainly won’t monitor your attendance in the class, I will gauge class participation and will use it to help decide grades. For some, this may contribute up to 5-10% of the final grade, or more. *Keep in mind that, in any case, I “cold call” in just about every class, or, as we say, facilitate an open and frank exchange of ideas.*

My grading policy allows for re-grades on all assignments. However, the re-grade request

- must be accompanied by a clear and persuasive explanation for your request
- must be submitted to me within one week of your having received the assignment or test back
- will result in your exam or assignment being *completely* re-graded.

I want to be explicit about this last point. If you ask me to re-grade an exam, for example, I (or the course TAs) will re-grade **all** questions on the exam in addition to the answer(s) in question so that it is actually possible for you to receive a lower score after the re-grade than before. In fact, assuming grading errors are symmetric, the expected value of the change in points from a re-grade is zero! This policy is designed to ensure that the mean class score will not be increased artificially by corrections of mistakes only in students' favor. Also, the TAs may be responsible for first-stage re-grades; however, I will view every one myself.

Note: Again, if you experience an emergency or illness that will interfere with *any* course requirement, you must contact me with the appropriate explanation *before* the due date. For example, if you are ill on the day of an exam, you must contact me *before* the time at which you are scheduled to take the exam. Interviews and job-related absences are not considered to be emergencies or illnesses, per the school's official policy (and common sense).

Attendance at the first class is not required, but is highly encouraged. Classes will conform to current school requirements for COVID-19 social distancing. Currently, I expect to present all classes remotely, fully synchronous, but also recorded.

Grading curves: Students registered in the 754 (Graduate/MBA) section will be graded on a curve in accordance with Wharton policy. Students in the other two (undergrad) sections will be graded on a curve but it will not necessarily conform to the Wharton policy for MBA class grading. Note that the MBA grading policy requires the mean average of all grades in the class to be no higher than 3.5. As well as undergraduate Wharton students, students from other schools of the University will not be subject to this constraint.

Finally, although it should go without saying, I need to make clear that I expect you to adhere closely to the school's code of academic conduct. I will treat any violation of this code, such as cheating in any form, with severity. I also photocopy a significant portion of the assignments that are turned in (including homework and tests). I will likely catch any regrade-related cheating as a result. In addition, I expect classroom conduct to be on a high level. For example, do not expect to leave the class to get coffee in the middle of a lecture and be ignored upon your return. More importantly, I will not tolerate harassment of any type in my classroom.

Homework/Final Project

I expect to have two homeworks in the class plus one (per group) team-based final project.

Homework and the final project should be completed by students in groups of *no more than six and no fewer than two*. Each group should submit only one homework answer report, and all group members will receive the same grade, regardless of who contributed most to the final result. The names of every team member must be written clearly on the report's cover page. The report itself should be appropriately self-contained, succinct and written in clear and lucid language. Excessive or unnecessary computer output will be penalized. ***You are responsible for forming groups, and constituents may change throughout the semester. In addition, please note that I am averse to mediating disputes among group members, so please choose your groups wisely.***

The team project will be undertaken by each student group, which is responsible for identifying, researching, analyzing and presenting an investment thesis and business case for a specific Impact Investing initiative. More will be announced in the first weeks of class about the specifics of the final projects. Summaries of the top projects will have the opportunity to be featured in an edited volume published by Knowledge@Wharton.

Teaching Assistant and Review Sessions

The teaching assistants (TAs) for this course:

| <u>Teaching Assistant</u> | <u>Activity</u> | <u>Date, Time and Location</u> |
|----------------------------------|---|---|
| Peter Cachion | Review sessions, email response, grading. | Review sessions (time, venue TBA) Office hours: Wed 1:30 – 2:30 PM. Email address: cachion@wharton.upenn.edu |
| Ms. Sumin Kim | Individual & group consultations | Office hours: Wed 3:30 – 4:30 PM. Email address: kimsumin@wharton.upenn.edu |
| Travis Wang | Individual & group Consultations | Office hours: TuTh 3:30 – 5:00 PM. Email address: tbwang@wharton.upenn.edu |

My Office Hours

My office hours are [TBA] and by appointment (generally best). My office is in 2258 SH-DH. My remaining contact information is:

Email: geczy@wharton.upenn.edu

Phone: 215-898-1698

Fax: 215-898-6200

My assistants: Jamie Doran (jamie@chrisgeczy.com) and Kelly Towson (kelly@chrisgeczy.com)

By far the best method of contacting me is by email. If for some reason you don't receive a response to your email, please don't hesitate to resend your email or ping me again. During the semester, I typically receive several hundred emails in any given day, and it is possible that I simply do not see your email or that it is filtered. For routine administrative matters, I encourage you to contact the lead TA for the course, Peter Cachion.

Web Page

I will set up a webpage for the course, accessible via Canvas. The website will contain most class material I hand out that you may download using standard web browsers. It is a critical part of this class.

Special Note

You should be aware that anything herein or elsewhere might change without notice, reason or explanation. This includes but is not limited to evaluation methods, texts, materials and scheduling. If you are not comfortable with this uncertainty, then please do not take the course.