CRITERION INSTITUTE

TOOLKIT TRAINING

Who is Criterion?

Criterion is the leading think tank focused on finance as a tool for social change

We **work with social change-makers** to demystify finance and broaden their perspective on how to engage with and shift financial systems.

Criterion does this through a methodology and set of practices that move leaders beyond understanding finance to believing in their own ability **use financial systems to advance the social change we seek**.

Purpose of TOOLKIT

1. Develop strategies for finance as a tool for social change
2. Build the base of leaders connecting gender and power analysis with a financial imagination
3. Expand sense of possibility
4. Provide a space to practice and to design

Really, really, truly it helps to focus. Or this is all just a bit abstract.

TOOLKIT is a framework to understand the logic of finance and investments to be able to design strategies to create social change.

Introductions:

Put in the chat: Name, organization, location and what you hope for from this time.

Post your LinkedIn or other social media page so we can learn about each other.

What’s your focus (briefly) for today’s session?

A note on language

1. There are multiple audiences in this call.
2. The language of finance is a privileged language. And there are words in social change that require contextual knowledge.
   - Ask for definitions in the chat.
   - Or, keep Investopedia open.
3. When we break into groups there will be choices by audience

I PLEDGE

I WILL NEVER
AGAIN SAY

"I DON'T KNOW FINANCE."

_____

Learning and engaging over time:

1. We see this as the beginning or continuation of a relationship.
2. We will have another TOOLKIT in 2 months, office hours next month and a session on our approach to systems change in a few weeks.
3. We will send out the PowerPoint and the recording if you want to go back to bits
4. We encourage you to buy a TOOLKIT box online.
5. Criterion's website has a bunch of materials. We'll put in links as they come up. Or send on as a follow up.

Approaches to Social Change

Approaches to using finance to create social change should not be separated from other approaches to creating social change.

The strategies we are developing are just informed by the logic of finance.

What are your go-to strategies for creating change?

How do you believe change happens?

Put in the chat or come off mute and share.

Investments have limited powers to create social change.

(despite the arrogance that surrounds them)

Finance and investment are better understood as

a system of power,

rather than a source of capital.

Investors can use their power influence what happens in companies

or

They can also use their influence to shift what happens in the world

(in economies, specific sectors or even politics)

Systems of finance and investment
are made up by humans
and therefore, we can change them.

Use the system as it works now to create or influence change

or

Change the system because it is causing the problem.

Five strategies

for using finance as a strategy
to create or influence social change

(I'll walk through once quickly then we'll spend the rest of the time going deeper in each one)

Invest in Opportunities

LOGIC: Finance looks at enterprises at a certain stage of growth, with assets that are seen as valuable to investors, in sectors that are seen as having opportunity

STRATEGY:

Channel resources to enterprises or investment opportunities that will contribute to the social change you seek

Assign Value in a Market

LOGIC: Systems of finance assign value. They analyze worth.
Finance looks at opportunities and the risks in those opportunities over time.
The result of that analysis determines what return is seen as possible

STRATEGY:

Advocate for introducing new data or eliminating bias in how data is assessed in order to shift how value is assigned in finance

Facilitate Movement of Capital

LOGIC: Intermediaries are institutions with a particular legal form that use instruments or vehicles to move capital. The instrument is defined by the terms written out in documents.

STRATEGY:

Shift the structure and terms of an investment to be able to change **who holds what power in the relationship**

Manage the Business of Investing

LOGIC: Finance has its own business model. A set of processes define how finance works, those processes have costs. Those processes are paid for by a set of revenue sources based on the functional role(s) played

STRATEGY:

Expand what **expertise is trusted** in investment decision-making and what processes are seen as valid approaches to making investments

Diversify a Portfolio

LOGIC: Investors' goals are reflected in a portfolio that is composed of a diversified set of asset classes. In order to build their portfolio, asset holders invest in financial products.

STRATEGY:

Influence the benchmarks that measure the success of the investment or introduce metrics that track the impact of the investment

Social change assets

What assets influence or engage systems of finance?

1. Leadership and Voice
2. Data and Knowledge
3. Networks and Trusted Relationships
4. Capital or the Ability to Influence Capital
5. Organizational Structures and Processes
6. Existing Programming and Social Change Strategies

What is your initial instinct about which strategy could be used to create change in your context?

Raise your hand as we walk through strategies again.

Work in small groups

TOOLKIT Overview – Criterion Institute

Invest in Opportunities

LOGIC: Finance looks at enterprises at a certain stage of growth, with assets that are seen as valuable to investors, in sectors that are seen as having opportunity

STRATEGY:

Channel resources to enterprises or investment opportunities that will contribute to the social change you seek

Seeing opportunity

What constitutes an investment opportunity?

When an investor places capital in a project or an enterprise

they **expect** (but have no guarantees) that

at some point in the **future**

there will be enough revenue

to **pay back** the investment and

provide enough additional “return” to cover the expense and the risk in the initial investment.

Seeing opportunity

Where are there opportunities to invest to make a difference in the issue?

- An enterprise that is innovating and developing a product that will improve conditions for individuals or communities
- A company with better practices for their employees or clients/customers
- A company which has the potential to reduce exploitation in an industry
- A business owner who faces structural barriers to financing

If we are trying to address inequality, is it appropriate to look for opportunity?

What if we were investing in a different future where our work addressing inequality had worked?

Why the future matters in investments?

Impact v. Investment Thesis

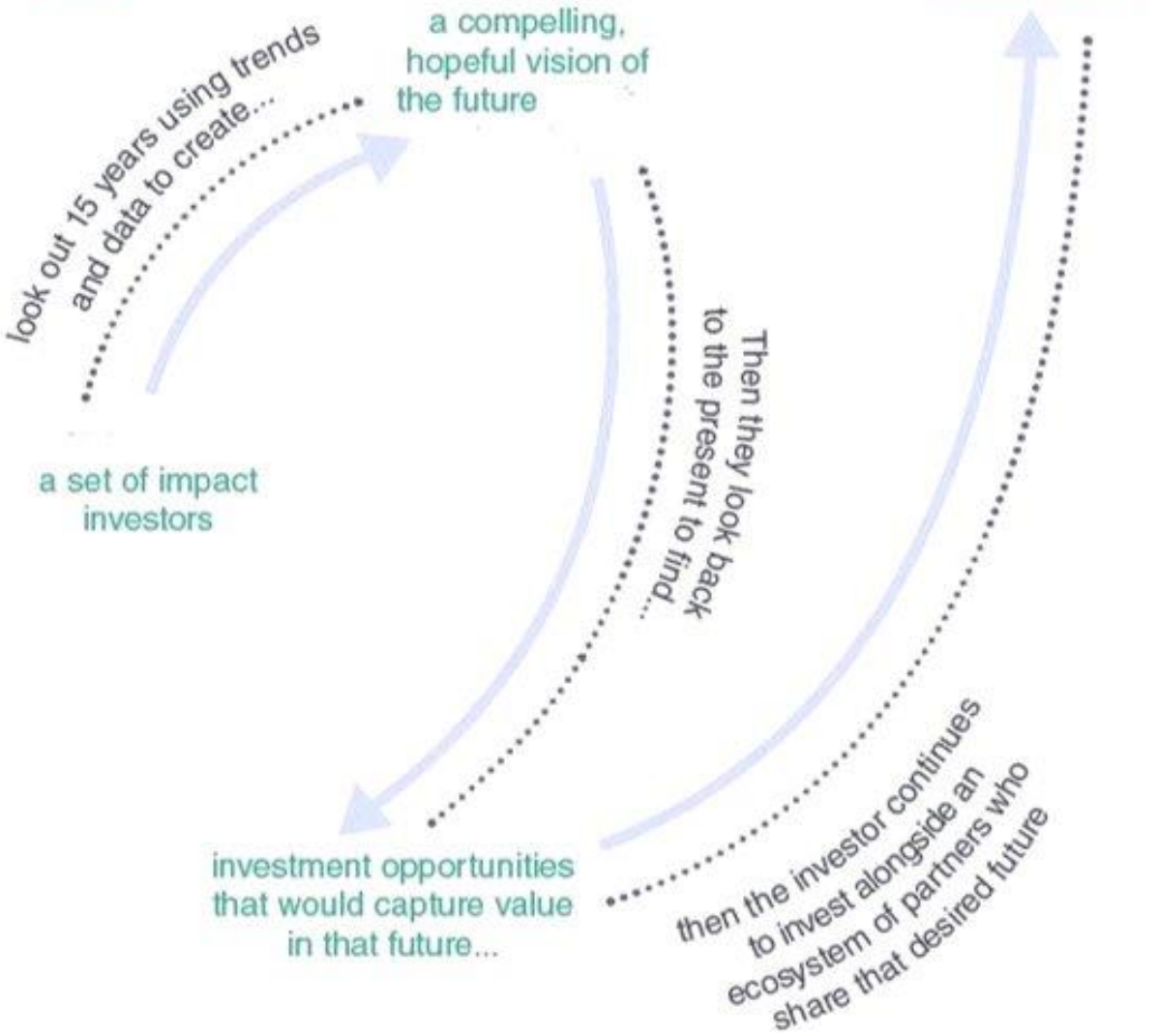
An **impact thesis** states how a socially responsible investor believes social change will occur through their investments.

An **investment thesis** states how an investor values the market over time. It drives investment decision making.

An investment thesis states

1) where an investor believes trends will lead over time, and
2) how the investor's financial and social capital will support, promote and potentially accelerate the realization of a five-to-ten-year vision of the future.

INVESTMENT THESIS



Predicting the future is

REALLY, REALLY important in investing.

Investments are ONLY successful at some point in the future. Only day traders make (or lose) money today.

Our imagination of what is possible or likely in the future (and the algorithms that validate it)

is rife with bias and privilege.

What is your picture of the future?

Take 5 min to reflect silently.

Jot some notes down as we will come back to this.

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5 MIN BREAK

Assign Value in a Market

LOGIC: Systems of finance assign value. They analyze worth.
Finance looks at opportunities and the risks in those opportunities over time.
The result of that analysis determines what return is seen as possible

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Advocate for introducing new data or eliminating bias in how data is assessed in order to shift how value is assigned in finance

Fundamental elements of investing

Assumptions of risk
And expectations of return
Over time

Finance looks at opportunities and the risks in those opportunities over time.
The result of that analysis determines what return is seen as possible

RISK IS FUNDAMENTALLY MORE IMPORTANT THAN RETURN IN FINANCE.

Why does it matter if finance is wrong in how it assigns value?

(remember, investments are about power even more than money)

FINANCE ANALYZES VALUE

Investors use analysis of past data
to predict future value,
and then discount back to the present.

Materiality and why it matters

Materiality is a measure of the importance of a piece of information when making an investment decision.

What would be possible if gender patterns were explicitly understood as material?

Of course, gender already informs decision-making but through implicit or explicit bias.

Analysis of Correlation or Causation

(The lesson from corrugated cardboard.)

Investing and financial systems are often satisfied with correlation rather than causation.

Analysis of gender patterns is most often looking for causal factors of inequities.

This can create challenges in connecting current research in gender and social patterns to system of finance.

Internal Risk/ External or Market Risk

Are the risks from patterns inside of the company/investment, within the control of the company/investment

or

Do the risks originate from outside of the company and the company needs to respond to them.

What are the patterns inside companies that can create a risk to the company?

What are the patterns in the world that create risks for the company?

Practice matching patterns of inequity with types of risk.

COUNTERPARTY/ PARTNER RISK	The risk that a partner or counterparty will not complete their contractual obligations, financially or otherwise, including delivery of goods and services on time or as specified.
CREDIT RISK	The risk that a party in a financial agreement won't pay as expected or contracted. This risk is present whenever a borrower is expecting to use future cash flows to pay a current debt.
FINANCIAL RISK	The risk of consequences that may occur due to changes in the financial environment such as interest rate, currency controls, tax laws, liquidity, secondary market, and changes in cash flow.
MARKET RISK	The possibility for an investor to experience losses due to factors that affect the overall performance of the market the company is operating in. Often shapes the perceived value of an area of economic activity.
OPERATING RISK	The risk that an organization's people, process, or system will adversely impact operations or public opinion. This includes the way an organization is structured, its compensations, HR, and IT practices, its reporting and crisis management practices, safety, working conditions, quality controls, and adherence to regulatory laws.
POLITICAL RISK	The risk that an investment's returns could suffer due to political changes or instability in a country or region.
REPUTATIONAL RISK	The risk that an organization's decisions or actions will be perceived as negative by the public, stakeholders, or clients, regardless of validity.
RULE OF LAW	The risk that the cost and value of investments may become unpredictable in markets where there is dishonest behavior or fraud conducted by those in power.
FOREIGN EXCHANGE RISK	The risk of buying an investment in one currency may lose value when it is sold in another currency.
REGULATORY RISK	The risk that a change in laws and regulations will materially impact a security, business, sector or market. This can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape.

Facilitate Movement of Capital

LOGIC: Intermediaries are institutions with a particular legal form that use instruments or vehicles to move capital. The instrument is defined by the terms written out in documents.

STRATEGY:

Shift the structure and terms of an investment to be able to change who holds what power in the relationship

Functions of Intermediaries

1. Channel capital from investors to enterprises
2. Pool capital to increase efficiency and reduce risk
3. Provide knowledge and access to opportunity
4. Facilitate exchange across scope and scale

Power Dynamics around Financial Intermediaries

Intermediaries: Who is defined as a financial intermediary?

Legal Forms: How is the intermediary structured?

Instruments and Vehicles: What is the specific vehicle used?

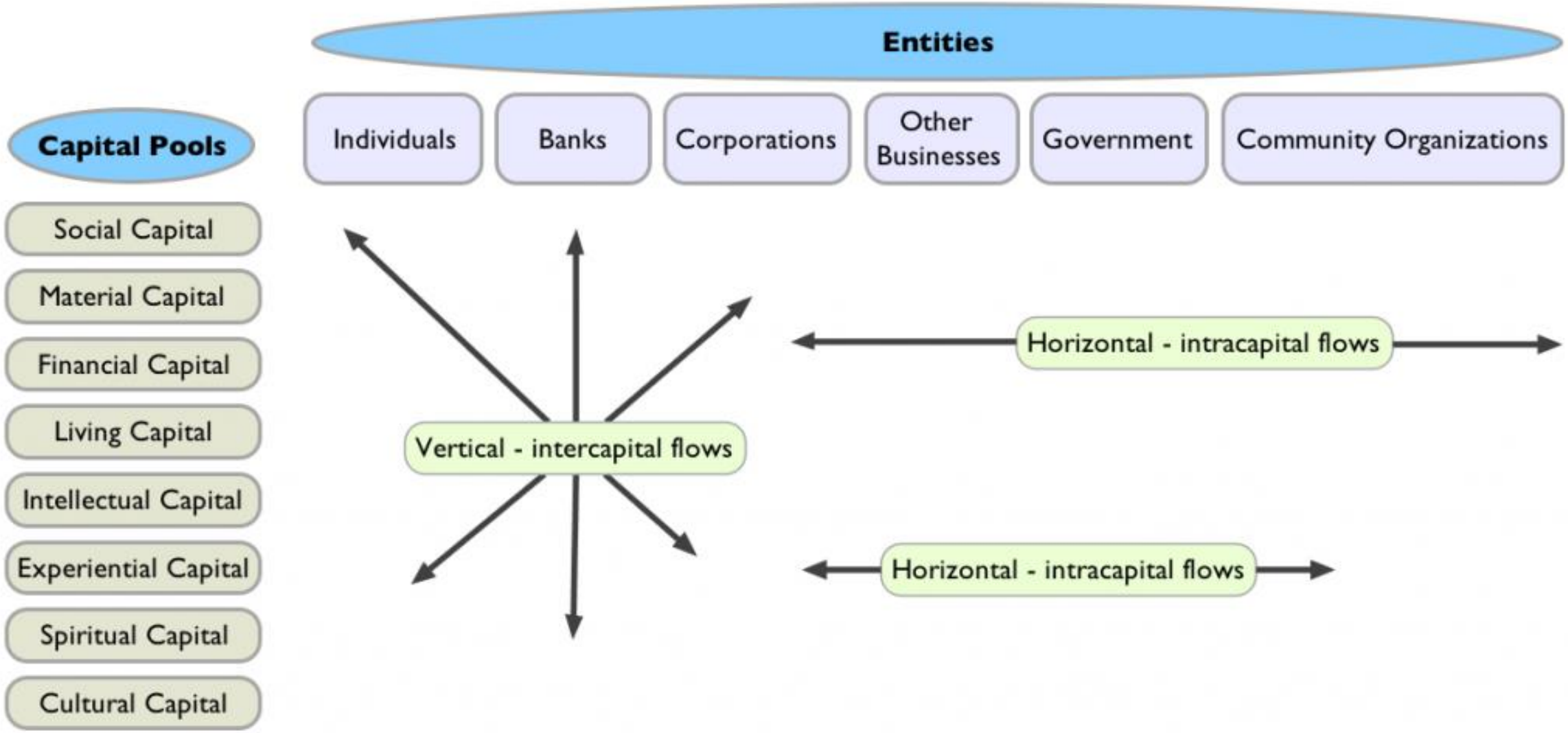
Terms: What are the terms?

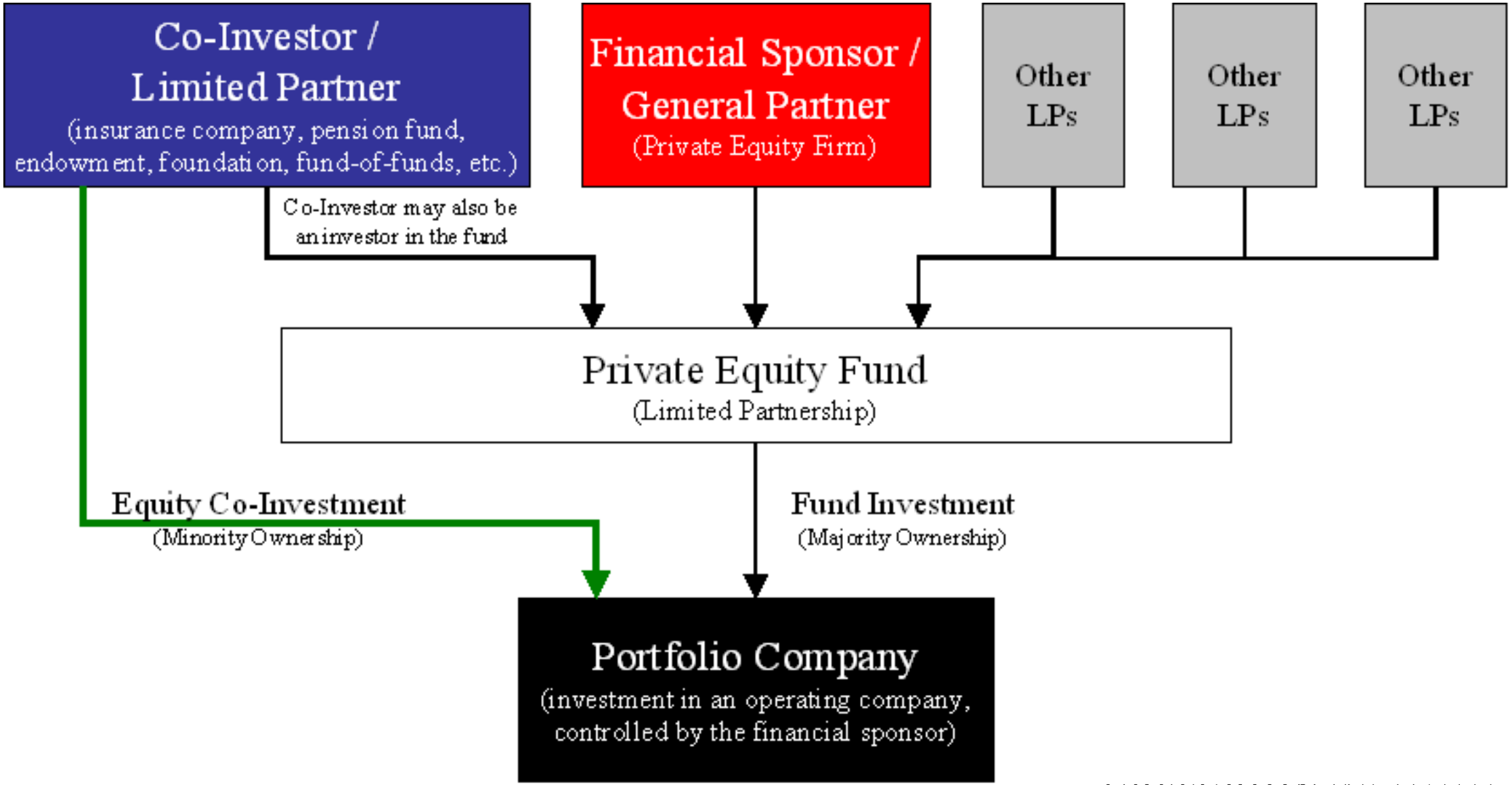
Documents: How are the terms represented in documents?

What follows are pictures that map capital.

What do you notice about power dynamics in these images?

Capital Pools & Flows




Co-Investor / Limited Partner
(insurance company, pension fund, endowment, foundation, fund-of-funds, etc.)
Financial Sponsor / General Partner
(Private Equity Firm)
Other LPs
Other LPs
Other LPs
Co-Investor may also be an investor in the fund
Private Equity Fund
(Limited Partnership)
Equity Co-Investment
(Minority Ownership)
Fund Investment
(Majority Ownership)
Portfolio Company
(investment in an operating company, controlled by the financial sponsor)

http://www.drawpack.com
your visual business knowledge

The Financial System

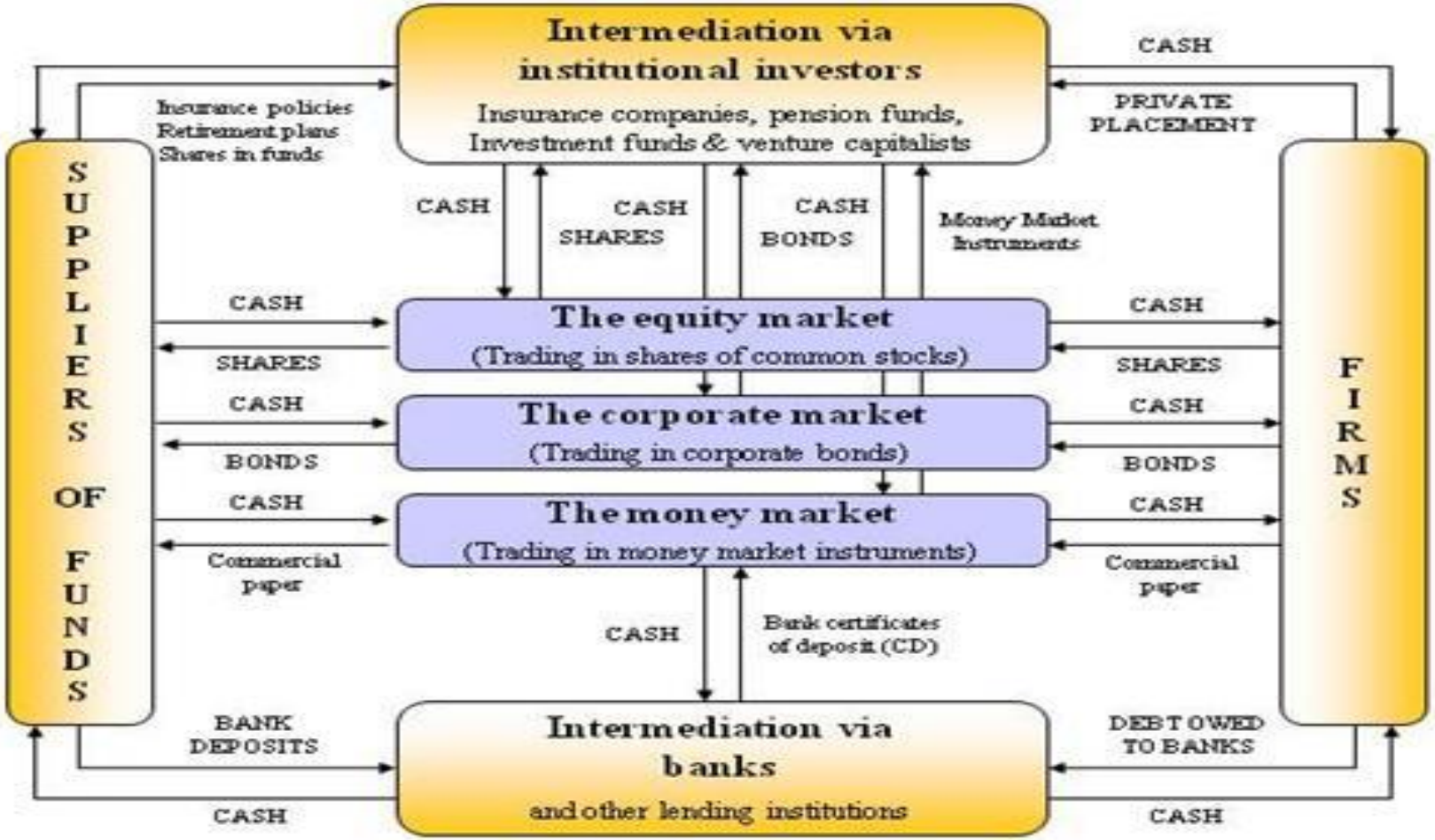
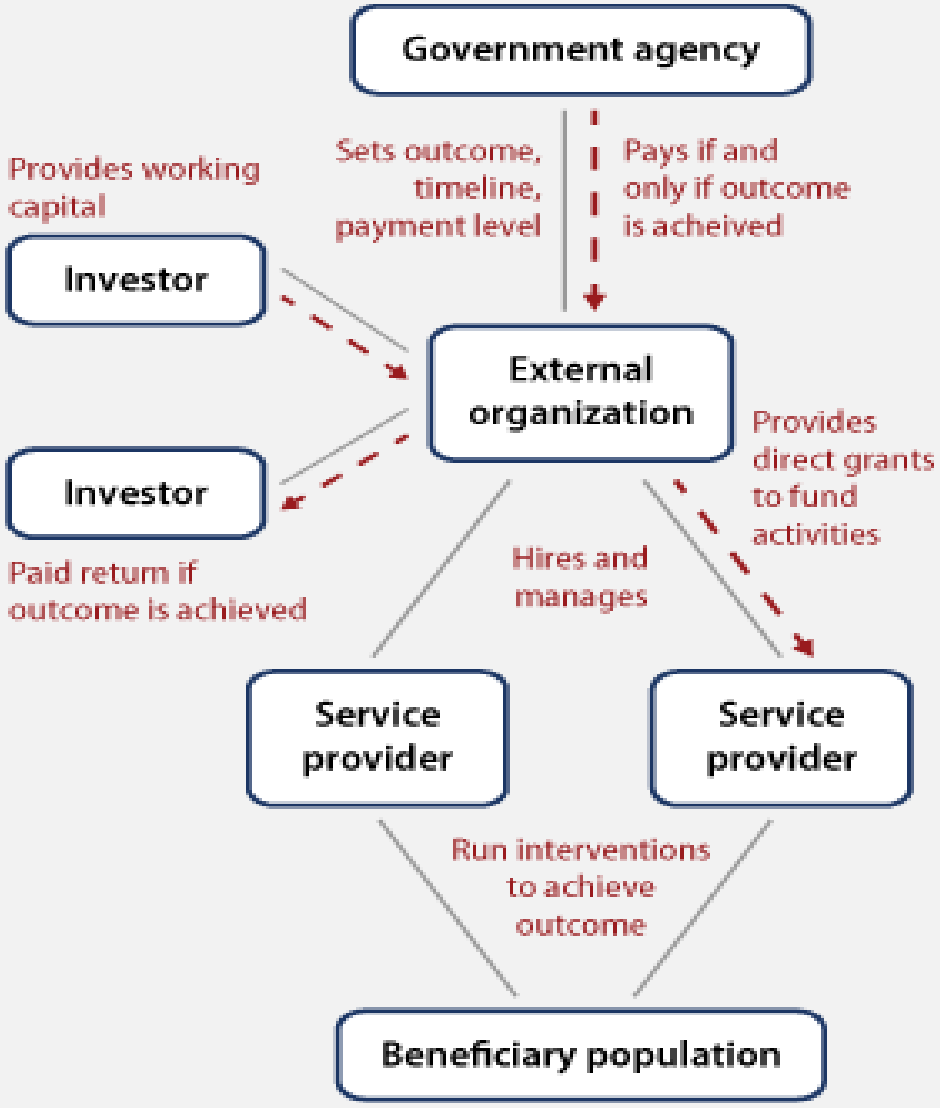
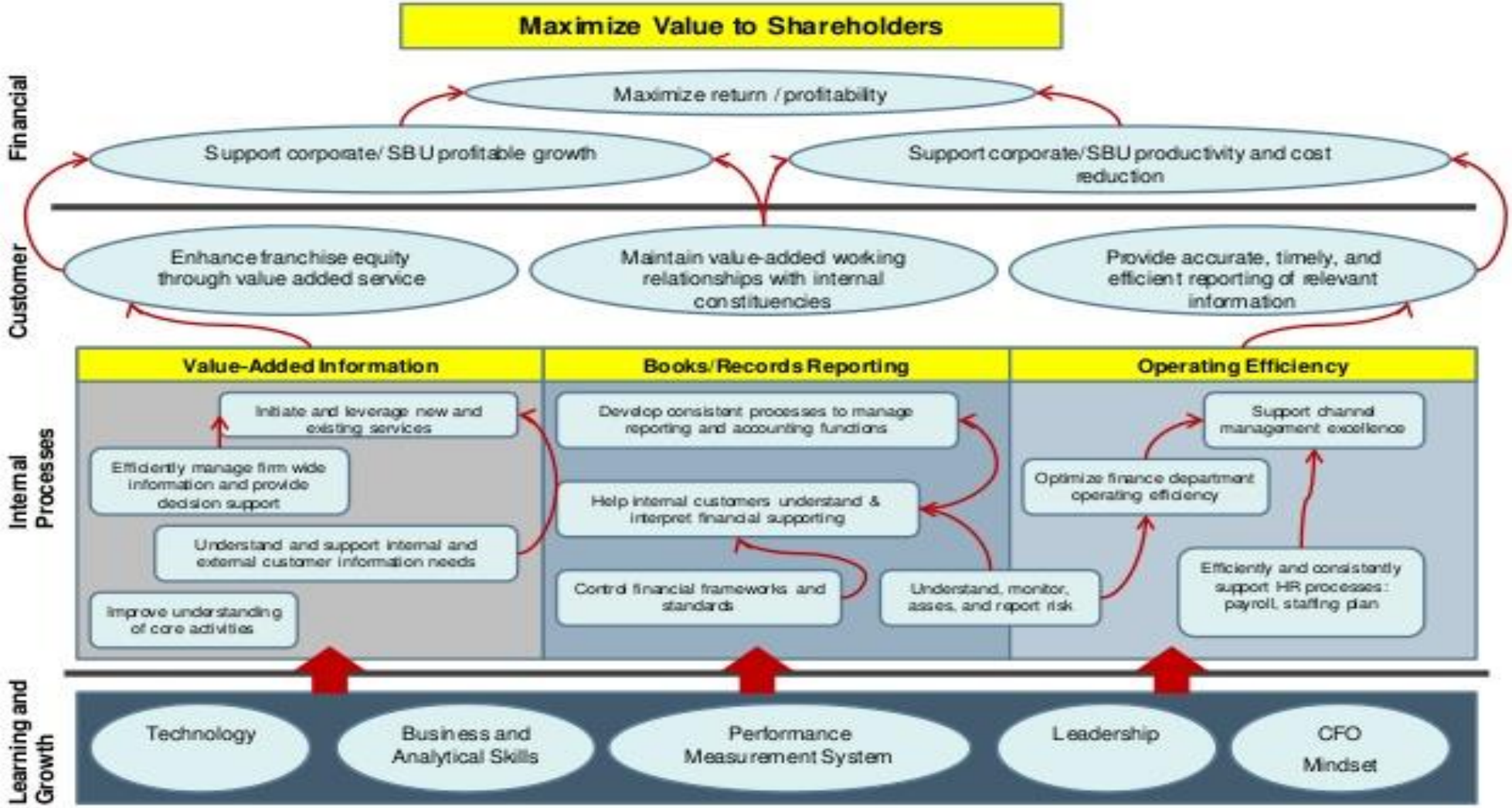


FIGURE 2

What is a social impact bond?



Finance Function Strategy Map



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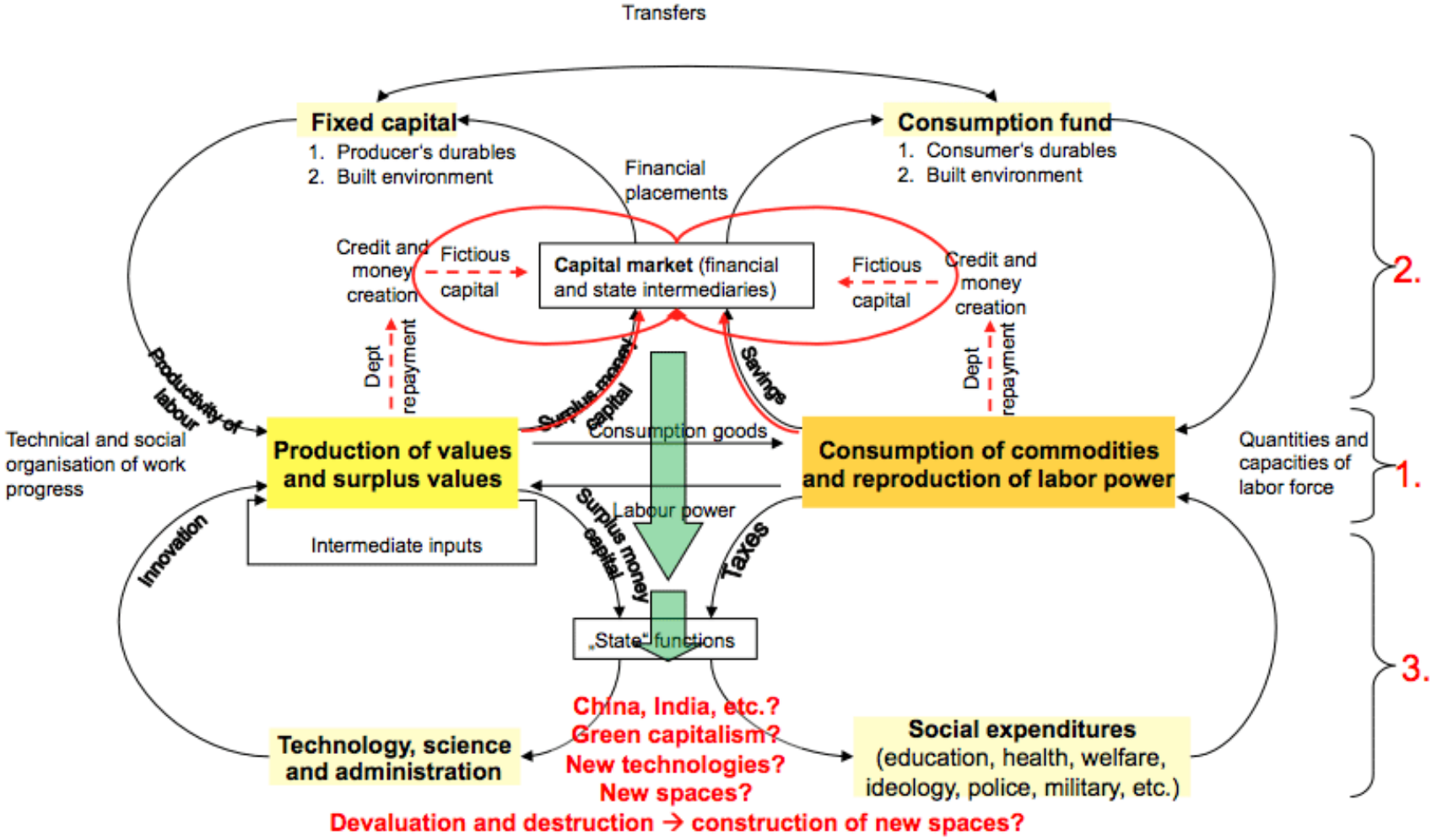
Examples and problems of new fields

From Christian Zeller

The Paths of Capital Flow



Quelle: modified based on Harvey (1982): The Limits to Capital. Oxford: Blackwell.

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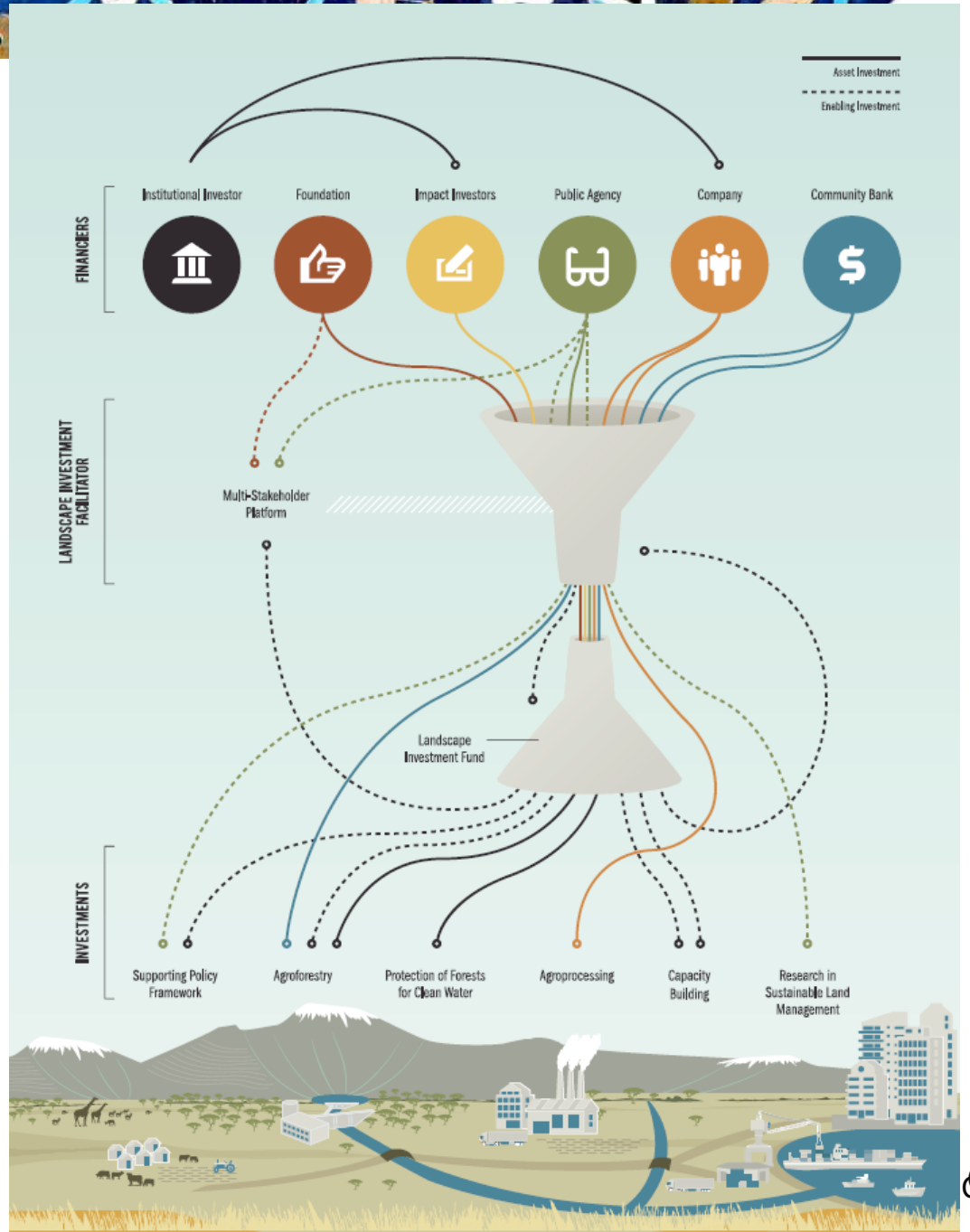
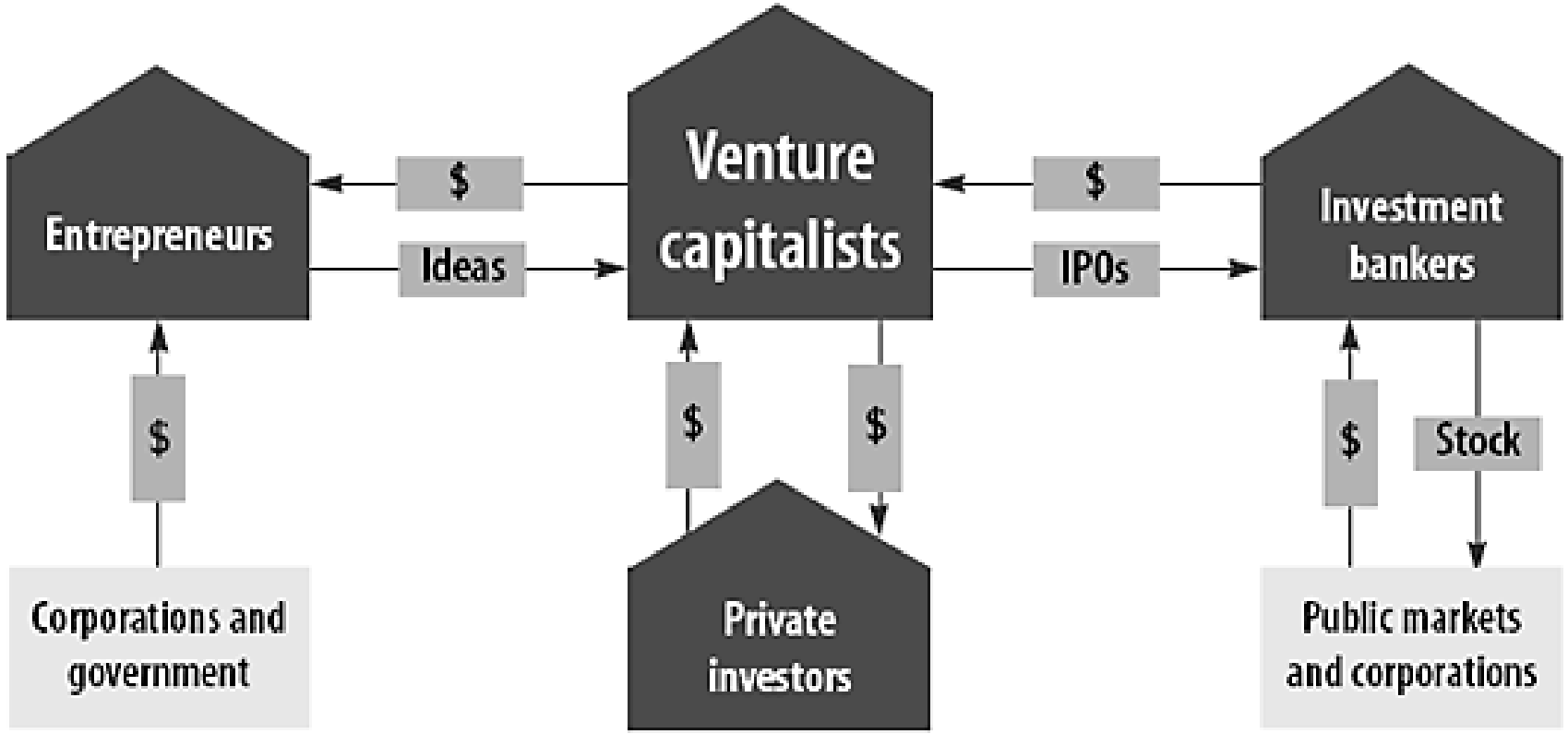
FACILITATE MOVEMENT OF CAPITAL



HOW THE VENTURE CAPITAL INDUSTRY WORKS

The venture capital industry has four main players: entrepreneurs who need funding; investors who want high returns; investment bankers who need companies to sell; and the venture capitalists who make money for themselves by making a market for the other three.



Review of Capital Maps

- What is the story being told by each picture about the dynamics between the structures?
- What is the story you need/want to tell in your structure?
- How would you draw a map of who moves and intermediates capital in your world?

Who can you introduce into the map to change the power dynamics in the investment?

Intermediaries – Criterion Institute

Instruments

How can we design instruments and vehicles that respond to the needs of the enterprises, not only the needs of capital?

Examples:

- Instruments and Vehicles – Criterion Institute

Terms

- How can a gender analysis lead to more appropriate terms?
- How can terms shift power?
- What power do you need to define terms?

Examples:

- Terms – Criterion Institute

Documents

- Where is there power in the documents?
- How can changing the documents be subversive act?

Examples:

Documents – Criterion Institute

Small Group Work

How, specifically, can structures shift to ensure that they meet the needs of those receiving investments, rather than ONLY meeting the needs of investors.

Manage the Business of Investing

LOGIC: Finance has its own business model. A set of processes define how finance works, those processes have costs. Those processes are paid for by a set of revenue sources based on the functional role(s) played

STRATEGY:

Expand what expertise is trusted in investment decision-making and what processes are seen as valid approaches to making investments

Processes

Standard processes ensure that actors in finance are seen as valid. They work to keep power dynamics in place.

Processes – Criterion Institute

What are the specific shifts in process that can address power dynamics?

How do we create standards around doing investing differently?

Functions

- What functions in investing can you or your organization play?
- What expertise is valued in that function?
- What would need to shift so that your expertise is valued?
- How would you be paid for that function?

Functional Roles – Criterion Institute

Cost Factors

- How does it all translate to costs?
- When would we want to spend more?
- When can a shift in trust, reduce the cost?

Cost Factors – Criterion Institute

Be careful to align incentives with their perception of cost and risk.

Small Group Work (10 Min)

Power dynamics in investment processes.

Choose one process

Investment Process		Data, analysis and measurement
COMPLIANCE	The process of becoming or staying in accordance with regulations or other established guidelines or specifications	Analysis of regulations and determination of risks related to compliance
DEAL CONSTRUCTION	The process of structuring and building a financial transaction, particularly when there are many parties involved	Analysis of risks and risk mitigants to inform the structure and terms
DESIGN INVESTMENT THESIS	A process in which investors design a theory, strategy, or guidelines of how they will allocate capital within their portfolio	Analysis of the market and future trends to be able to identify opportunity
DUE DILIGENCE	A process of examining potential investments by asking questions regarding risk and potential return on investments.	Analysis of the company in context to determine investment opportunity and risk
EXERCISE GOVERNANCE RIGHTS	The right of a shareholder or investor to vote on matters of corporate policy	Analysis of company activities in relation to the market to determine whether action should be taken
EXIT FROM INVESTMENTS	The method by which an investor plans in advance to get out of an investment at an opportune time. Sometimes called exit strategy	Decision about investment goals, the company and the market conditions to determine exit strategy
IMPACT REPORTING	The practice of sharing projections and results related to economic, environmental, and social outputs, outcomes, or impact	Decision about desired outcomes, alignment with existing metrics, and collection of data about impact
BENCHMARKING	The practice of comparing investment and performance metrics to industry bests and best practices from other companies	Decision about alignment with desired outcomes, data and analysis to rate against existing benchmarks
NEGOTIATE TERMS	Through the negotiation process, the parties involved come to a mutual agreement on price, terms, and how the investment is structured	Analysis of desired outcomes, risks and risk mitigants to inform the structure and terms
RAISING CAPITAL	The process of approaching investors with investment products or fundraising to finance an investment, business opportunity or project	Analysis of the market to determine how to position the investment product, fund or vehicle to attract capital
ADVISING PORTFOLIO COMPANIES	The practice of consulting to a company that the fund has invested in, in order to increase the value of the investment	Analysis of the company and decision of when and how to intervene
PIPELINE DEVELOPMENT	A process to identify and cultivate relationships for future investment opportunities	Analysis of data about companies and the market to prioritize relationships and investment activities
UNDERWRITING	Underwriters research and assess the risk of a financial transaction and determine how much risk they are willing to take on in the investment	Decision about what data is factored into the quantitative analysis of risk
VALUATION	The process of becoming or staying in accordance with regulations or other established guidelines or specifications	Analysis of data to determine a company or investment's worth, by looking at future projections, underlying assets, and risks

Diversify a Portfolio

LOGIC: Investors' goals are reflected in a portfolio that is composed of a diversified set of asset classes. In order to build their portfolio, asset holders invest in financial products.

STRATEGY:

Influence the benchmarks against which

the success of the investment is measured and

introduce metrics that track the impact of the investment

Modern Portfolio Theory (defined in Investopedia)

Modern portfolio theory argues that an investment's risk and return characteristics should not be viewed alone but should be evaluated by how the investment affects the overall portfolio's risk and return.

MPT shows that an investor can construct a portfolio of multiple assets that will maximize returns for a given level of risk. Likewise, given a desired level of expected return, an investor can construct a portfolio with the lowest possible risk.

Based on statistical measures such as variance and correlation, an individual investment's performance is less important than how it impacts the entire portfolio.[3]

A diversified portfolio still means that every individual asset class still marks to the benchmark

What is the value in creating a model portfolio?

Asset classes

Asset classes group securities or investments which have similar characteristics.

Asset Classes – Criterion Institute

Returning to how value is assigned: would the patterns and the analysis of value determined earlier impact different asset classes?

Investor Intent

One of the assumptions of impact investing is that the investor is changing their **intent** around what they're going to accomplish with their investments

GIIN defines impact investments as: '**Investments** made with the intention to generate positive, measurable social and environmental **impact** alongside a financial return.'

Investor intent can be transformational as it pushes investment managers to respond to their desires. But it is also fickle. Intents change.

How can asset owners use their power?

- Be aware of their own power
- Ask questions and demand answers
- Move capital to new products or vehicles (early)
- Organize other asset owners in collective action
- Use philanthropy to support activism to shift the system

Who can you ask to use their power?

Social Change Strategies

How are you using all the tools available to you to be able to accomplish your goals

1. Shift or expand what enterprises get investment
2. Introduce new data or eliminate bias in analysis
3. Change the power dynamic through structures and terms
4. Change what processes are trusted or who is seen as expert
5. Influence the benchmarks of the investments

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I WILL NEVER
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"I DON'T KNOW FINANCE."

_____

Reflections

- What are you taking away?
- Where do you want to stay involved with Criterion?