Venture Capital and Impact Investing: Blurring Boundaries Mean New Opportunities

Impact investing – allocations that aim for social and/or environmental change or to solve a problem in the world – has historically stood apart from "traditional," financial-return driven investing. But increasingly in several asset classes, including venture capital, an exciting convergence of variables is blurring the boundaries, perhaps turning this old distinction on its head.

Some top VC managers are investing in and helping guide mission-driven start-ups. They're doing so while maintaining the core goals of both delivering outstanding financial returns to limited partners and retaining and attracting the best young investment professionals to their firms. Depending on the LP, the impact is a key mission – or value-aligned benefit, a core driver of returns or just icing on the cake.

The dynamics behind this VC/impact melding include the increasing ability of technology to address nagging social problems; today's low cost of capital; the dropping cost of computing and data storage; the improving business models of mission-driven start-ups; the desire among Millennials, including the most talented ones, to create positive change and pursue purposeful careers; and the fact that the best VCs hone in on emerging talent, both among their own ranks and in their portfolio companies.

And, as technology gets cheaper and easier to access, entrepreneurship continues to burgeon outside Silicon Valley. Further, the next generation of entrepreneurs comes from diverse backgrounds, and VC firms with diverse teams and networks are proving to be in a better position to source and win a larger share of the top impact-focused companies.

The convergence of impact and private investments isn't just a prediction or a "weak signal" we're sensing. It's palpable – here and now and importantly in looking ahead. Following are a few examples – start-ups with promising business models and prospects for addressing societal problems:

- **Remitly** is a mobile payment and remittance platform that makes wiring money more affordable, accessible and secure for consumers.
- **Aira** uses its augmented-reality technology to help blind and visually impaired people.
- **Opti** offers US municipalities an effective solution for monitoring and managing storm water systems to help prevent flooding and improve water quality.
- **Carrum Health** is a digital marketplace that gives patients access to high-quality surgeons while reducing healthcare system costs.
- **Andela** builds high-performing technology teams by tapping into Africa's top software developers.
- **One Concern** is using machine learning to predict natural disasters and mitigate the damage they cause.

Picture a "Venn diagram" depicting venture capital and social and/or environmental impact. That diagram used to show only a small overlap, if any. But the multitude of new tools in the tech sector and changing needs in the wider world are expanding that overlap area, quickly and significantly.

So, when it comes to institutional investors, and even VC managers themselves, what's the word to the wise? We believe it is to recognize that this is a unique moment in time and that widening the aperture when it comes to looking for and evaluating opportunities can lead to big long-term rewards, on numerous fronts.

The phenomenon also raises a couple of interesting questions. For one, does the convergence represent the future of private investments, and perhaps all types of investing? And does it mean that impact investing will increasingly be an integrated strategy and decreasingly a discrete discipline? We are excited to continue to explore and discuss these questions and the remarkable evolution of the VC/impact convergence.