

Podcast transcript

Tracy Palandjian, Co-Founder and Chief Executive Officer, Social Finance

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Erin Shakespeare: Hi everyone. I'm Erin Shakespeare, the Americas Head for the Macquarie Group Foundation. Today, we'll hear a conversation between Shawn Lytle and Tracy Palandjian. Shawn is the Global Head of MIM¹ and our regional America's Head and he sits on the Macquarie Group Foundation board. Tracy is joining us from Social Finance a non-profit she co-founded and leads.

Social Finance is one of just five winners of Macquarie's 50th Anniversary Award. They were one of close to a thousand nonprofits that applied for the award last year and they went on to be selected to receive a \$A10 million grant to be spent over five years on a bold social impact project. Using our support, Social Finance will launch a set of what they call Pay for Success projects that target the growing skills gap in the US and help tackle growing income inequality. In short, they're helping people get trained and get to work and they're doing it using Creative Financial models that have the potential for results at scale in the US, far beyond what philanthropy, Government, or the private sector can do alone.

Shawn Lytle: Thank you Erin. I'm Shawn Lytle, and I'm pleased to have with me today, Tracy Palandjian. Tracy is the co-founder and CEO of Social Finance, a nonprofit dedicated to mobilising capital to drive social progress. Tracy, welcome and thank you for your time. Maybe you can start by giving us a quick minute on what is Social Finance?

Tracy Palandjian: Well, it's great to be with you Shawn, and we're just incredibly honored to be one of the recipients of the 50th Anniversary Award. As you said, we are an impact investing nonprofit. We're dedicated to building new models to finance social change and to mobilise capital in a way that we're measurably improving the lives of people in need and when we go further in this talk Shawn we can talk about the tools that we've built in the last decade and it's just been an extraordinary decade that Social Finance has been in business because of the growth of the broader impact investing industry.

Shawn: That's great. How did you get into this? You know, can you share a little bit about yourself? And how did you found Social Finance here in the US?

Tracy: It's a great question. It was almost like Social Finance found me and I was very lucky to be found. I had worked in the private sector my whole life until Social Finance, which was founded in 2011. I worked at McKenzie, Wellington Management and Parthenon, and I was just kind of going about my way. And then when Social Finance UK launched the first social impact bond in the world in 2010, the world just paid incredible interest and folks were knocking on the

doors of Social Finance and the UK to say, “Hey, what is this model? What is the Social Impact Bond, and can you bring this to our country?” And so, with Sir Ronald Cohen and David Blood, just two luminaries in the broader impact investing field, we co-founded Social Finance in the United States in January of 2011. Today, our team is around 65 people and we have offices in Boston, Austin, Texas and San Francisco in California. Over the years, we've mobilised over a \$USD150 million in catalytic capital, through these, what we call outcome space funding models and we're going to talk about SIBs and other tools. They're all intentionally designed to align resources with impact.

And our team is quite a motley crew! We come from a wide range of different backgrounds, and because our work is inherently cross-sector and cross discipline, we have folks from the public sector, from the social sector, from consulting, from finance, from policy, and it's been a lot of fun building the team.

Our work is primarily that of a financial intermediary. We structure deals. We think about the impact we want to achieve for communities. We bring together partners, we raise the capital, and importantly, staying with the project to measure and monitor and manage for impact and making sure that the impact actually happens over time. We actually became a fund manager last year Shawn, and we also have a busy advisory team that helps Governments, Foundations, and nonprofits maximise their impact.

Shawn: That is a lot that you've accomplished in just a short nine years building the team and the various initiatives and I know you're really working on innovative financing and funding models. Can you tell us a little bit more about your work and how it began with Social Impact Bonds?

Tracy: Yeah, the Social Impact Bond was the first tool and very much the tool that was launched in the UK and now it's all over the world and the US market is a large one. A Social Impact Bond essentially is a public-private partnership that uses private capital to make more effective use on how government spends money on social programs. You may appreciate this Shawn; we actually spend a lot of money, taxpayer dollars, on all kinds of social programs to get better results for our communities, depending on how you count it, Governments at the Federal, State and Local level spent over a trillion dollars on all kinds of social programs, everything from after-school programs to homeless assistance programs to job training programs. Yet, many of those programs are the money is just simply spent to procure for services and there's very little attention on what kind of outcomes this spending actually achieves. In fact, there's been a book written by Peter Orszag a former OMB director under Obama. The book is called a Moneyball for Government, where he found out that less than 1% of that government spending actually yielded any evidence of producing outcomes for our communities. Why? Because government when they procure for services often procure for what we call outputs. You know, how many people are in your program? How many hours are in your job training program? How much does it cost? And rarely does it the intention, and the patience, to actually see what happens to the participants after the program, do they actually get a job? Do they keep their jobs? Did they achieve long-term economic well-being? And the Social Impact Bond is very much focused on

aligning resources to get outcomes instead of outputs, if you will, to make sure that we really move the needle on all these massive intractable social challenges in front of us.

There are now probably almost 30 SIBs in the United States, and we can talk about the global market, but one particular SIB that we launched that were just I'm personally so proud of, as not least an immigrant in this country Shawn, is a project that we launched with the state of Massachusetts back in 2017. It was focused on helping 2,000 immigrants and refugees of the Greater Boston area to help them get English language skills and to go up the economic ladder, by giving them Workforce Development Services, the nonprofit service delivery partner that we chose was an amazing organization called JVS which stands for Jewish Vocational Service and we launched a project in 2017. We raised over 12 million dollars from over 40 investors everyone from financial institutions, high net worth individuals, national Foundations, local Foundations, Family Foundations and Donor Advised Funds (DAF) to serve these 2,000 participants.

Just a side note Donor Advised Funds hold great potential for impact in the impact investing arena. So, as you can imagine DAF holders, you know can either park their money and ETFs and mutual funds, or they can make grant recommendations, and here in this project and another project. We've mobilised Donor Advised Funds to make what we call recoverable grants. So, the money goes out as grant but has a likelihood of coming back so that you can redeploy that capital for further impact. So, over 40 investing entities gave us over \$USD12 million dollars to fund this project and almost 2,000 immigrants and refugees representing, this is an extraordinary statistic, more than 90 countries actually enrolled in this program. They get English language services, they get job training to get jobs in nursing, and banking; good jobs with benefits, and you know, global financial institutions in Boston as well as you know, great jobs at the Boston teaching hospitals and this is how it works; the investors are only repaid if the project achieves the outcomes that we collectively predetermine at the outset of the project. So in this case the outcome metrics are job placements, but not only just getting people into jobs, but making sure that they're going up that economic escalator and achieving higher earnings over time and investors are repaid based on these metrics, and based on a performance-based contract that we hold with the state of Massachusetts, and to date the outcomes have just been extremely positive and the project is slated to conclude early next year and we're just, we can't be more excited about this.

Shawn: That's great. That's great. You know, it's impressive to see just in a few short years that 30 bonds have been launched in this area. You were the trailblazer in this area, but other organizations are following. When you think about that more broadly, what is the relationship between got a Social Finance and kind of more broadly impact investing?

Tracy: Yeah, it's such a great question Shawn. We are probably like, at the bleeding edge of innovation and the broader, and very exciting, and massively growing, impact investing ecosystem. If you rewind the clock impact investing was basically born out of this recognition that we have massive social challenges and that philanthropy and Government alone aren't sufficient to solve these big challenges, and it's aiming to basically disrupt this worldview

organised around the premise that for-profit investments should only generate financial returns and social challenges should only be addressed by philanthropy and Government. So, while the term impact investing was only coined 10 years ago or so, I think, around 2008 the Rockefeller Foundation coined this term the industry actually has deep roots right across all asset classes. I think several decades ago. It was primarily in the public markets with SRI, you know, socially responsible investing, the negative screen approach to now, you know the public markets ESG² has just grown massively. In fact, I heard a statistic recently that 1% of new flows in public markets was in ESG back in 2017, and the most recent statistic in the last year is that 40% of new investment flows are going to ESG. So, there's just a great recognition that environmental, social and governance factors are really important in the minds of investors.

So, in the private markets, we've seen great growth in impact investing, everything from microfinance, SME financing, real assets, which is a big focus for Macquarie, you know everything from building affordable housing, community health centers and importantly, great growth in impact investing among private equity firms launching impact funds. Almost every PE firm has launched an impact fund in the last couple of years. All these investments are hoping to generate both returns for investors, but also importantly, generate impact for society. And our approach is different from these approaches in the sense that we're not really getting impact through deployment of assets and investments in companies whose products and services through off impact in the world, as you appreciate in the social impact bond example that I just mentioned, we take impact so seriously that we built the entire project around the impact that we want to achieve for our communities. So, that kind of almost impact measurement and accountability is not a byproduct of the investment, but very much what animates the entire investment such that every dollar of investment return back to our investors, actually means that someone's life has been improved, whether it's that immigrant and refugee getting a job, and keeping the job, or a homeless person getting stabilised in housing because the source of the investment returns is inextricably tied to the impact that we're achieving. So, we're small in the broader impact investing ecosystem, but represents what I hope to be an approach that represents impact integrity, and accountability, at a whole new level.

Shawn: Yes. Yes, definitely and such a big impact that you're having through the Macquarie 50th Anniversary Award, you know, you were awarded \$A10 million in funding over five years. What will you do with that funding and how will that help your efforts?

Tracy: I don't even have sufficient words to describe how excited we were to have this injection of capital to support our work going forward. The funding from Macquarie is specifically going to support our economic mobility work, and I think all of us appreciate on this podcast that economic mobility and income inequality, by any metric has just been declining over the years, such that, at least in America, the whole concept of American dream, we wonder if it's still there, while more than half of the people born after 1980 were expected to out-earn their parent, unfortunately, that statistic today is that only 10% of those are actually positioned to out earn their parents, and I think over the 20th Century, we've really seen going to college as the ticket to economic well-being and a ticket to enter the middle class and increasingly, that just isn't true anymore. In fact, you look across the board not only are folks saddled with student debt, you

know \$USD1.7 trillion of student loans held by 44 million Americans, many of these folks who enter into college and take on this debt, actually don't graduate, or they don't even have, when they graduate they're not graduating with employable skills. And you also see that I think the statistic is like 40% of college graduates are actually getting jobs that don't necessarily need a college degree to thrive. So, it's not just the higher ed system not working at its fullest potential, it's also how our Governments, our public sector, has been funding workforce training programs. If you look at, whether it's you know, the workforce Federal funding and, WIOA³, which is the funding stream stands for Workforce Opportunity and Innovation Act, that funding stream has decreased over 80% in real terms since the 1980s. So, it's just been incredibly tough, and people are just not seeing that they can climb out of these low-wage jobs and obviously COVID-19 has just completely exacerbated the situation.

Shawn: What Social Finance is doing can really have an impact on the economic mobility. One of the other innovations that your organisation has come up with beyond the Social Impact Bonds is these Career Impact Bonds, which are slightly different and kind of targeted towards this economic mobility issue.

Tracy: Yeah, so we're incredibly excited about this tool and the Macquarie support is a very much going to not only build the Career Impact Bond tool, which we'll talk about right now, but also other innovative approaches to address economic mobility. The Career Impact Bond is very much focused on 'how do we enable people to get the skills to thrive in the current economy?' Yes, it's hurting out there and many people are hard hit, but the bright news is that they're still over five million job openings across America, jobs in IT and health care in the skilled trades and employers are still looking for talent to fill these positions. So, the Career Impact Bond is a new financing model that's focused on allowing low-income folks, people of colour, who face barriers to education and training to get the skills to thrive in the economy to actually land these jobs. And this is how it works; we start with where the jobs are, whether it's you know, IT skills in pockets in the Pacific Northwest or the West Coast or the East Coast or skilled trades jobs. Yes, you know, they might be automated truck driving and the future but we still need diesel mechanics to service these trucks right, or even jobs in nursing and the allied health fields, you know, in fact healthcare jobs is one of the greatest shortages still around the country. Yet, all these jobs require some credentialing and licensing. And often low-income folks do not have the savings or the access to credit to actually embark on the skills training journey and this is where the Career Impact Bond comes in. It's essentially an income share agreement structure, but first and foremost focused on impact, in fact, as I mentioned earlier Shawn, we became a fund manager to support the strategy and last year we launched an investment fund called the Up Fund, which will ultimately support eight to ten Career Impact Bonds across the United States, across sectors, and to enable folks to get on their journey of economic mobility.

So how does a Career Impact Bond work? It works as follows; students would enter these training programs at no upfront cost to them. And if, and only if, they land a job that pays over a particular income thresholds, good jobs in nursing, and healthcare, and IT, and skilled trades, they would then pay a fixed percentage of their salary, over a fixed period of time, with

protections on the maximum that they can pay over the life of this income share agreement obligation, and those who do not make above the income threshold don't owe anything.

Shawn: Your hope is to want eight to ten of these Career Impact Bonds and they can kind of have a very clear economic benefit. Could you possibly do more or could other organisations, kind of, work with you to do more as you think about how the US will be trying to recover economically and from an employment standpoint from COVID-19?

Tracy: Absolutely. I think the potential for this tool is massive, is as large as, the number of job openings in America, right? How to enable folks who've been locked out to have this opportunity to get up skilled and re-skilled to benefit from these exciting new jobs in the economy. I think I want to share this amazing statistic. Yes, a lot of old jobs are going to go away but there will be new jobs. In fact, if you think about the new job titles that are in the United States just in the last decade since the Great Recession, more than 50% of job titles are new since the 2008-10 Great Recession. It's just incredible dynamism in the economy and we want to make sure that low-income communities can have access to training programs that can launch them into pathways of economic mobility.

In fact, we had a great webinar just recently where we interviewed a student who participated in one of our Career Impact Bonds with General Assembly, which is a coding bootcamp. His name is Brandon and, in the webinar, Brandon talked about his journey. He was working as a bartender just to get by and tinkering with coding on the side because he had a friend who was working in IT and he discovered that he actually loved coding, but then he didn't have the savings or the credit to actually enroll in a program like General Assembly which could cost upwards of \$15,000 for a full-time immersive three month course, and he kept getting rejected because he didn't have the credit score, and he couldn't borrow from friends and family to enroll in the program, and then the Career Impact Bond happened and he had rolled in the Career Impact Bond program in January of this year, and then graduated in April, and actually got a job that doubled his salary in Chicago working in network administration, and in his words he said "you know this experience transformed my life" and now he's setting himself up for a career that can continue to progress, and it was just extraordinary to hear his story and the power of the Career Impact Bond tool to help many more people like Brandon out there.

Shawn: It's clear that these tools these programs can really change lives. When I think about social impact and Career Impact Bonds and other things that Social Finance is doing, I think there's just so much potential and as more of our Macquarie employees learn about your efforts, I think you're going to have a lot of people who want to try and help in some way or another. I know Macquarie we just formed a Social Finance Ambassador network of staff who promote and support your work this year. How can our staff learn more and get involved?

Tracy: Well, I love that term Ambassador Network, thank you so much Shawn! Well at a minimum, we would love for folks to visit our website, and sign up for our newsletter, and just follow us on LinkedIn and other social media tools, to just hear what we're doing. But beyond that, we really hope that we can tap into your expertise, we're beginning to explore some really

exciting initiatives that could actually touch upon the core expertise of the Macquarie team. We've been thinking about you know, how do we inject a workforce development angle? Say around green jobs when we think about renewable infrastructure, how can we think about urban regeneration? In fact, we're at the early stages of looking at a project to think about rebuilding anchor institutions in the middle of our City's private colleges who are really under threat because of the pandemic. How can we think about repurposing that real asset that sits in the middle of communities? And, we're also always looking for investors and all our projects and folks to represent our world to bring new partners to the fore. So, we're really really excited to engage your colleagues Shawn.

Shawn: There's so many other questions that I want to ask at this point. But I know we're running out of time. So, let me just ask one last question here Tracy. What is kind of one key opportunity you would like for our audience to take away. You know, what is the thing that gets you the most excited about now, and also in the future?

Tracy: Yeah. Thanks Shawn. We're in the middle of this pandemic still and we have no choice but to build back better. I mean if you look at how we emerged from the 2008 recession we emerged as a far more unequal society. You know, how do we think about building back better. How do we think about contributing to an equitable recovery? And how do we think about the role of the capital markets in this journey? We can't simply tax our way out of this problem or grant-make a way out of this problem. And how do we think about enlisting the capital markets to complement government, and complement philanthropy, to achieve the kind of transformational equitable change that we want to see in society and I just cannot imagine a more opportune time to build on the great work of impact investing over the last decades, and really achieve the impact at scale that we want to see, and enlist the capital markets to enable social progress in a significant and measurable way. So, I'm really looking forward to partnering with you Shawn and your colleagues at Macquarie to do this hard work together.

Shawn: Thank you very much Tracy, and I just want to say thank you for sharing your great insights today and also just the significant impact that you are already having on society and even greater impact you're going to have going forward. So, thank you very much.

Tracy: Thank you Sean.

Erin: Thanks so much Shawn and Tracy. What a great conversation. Hi, it's Erin again. And we are just thrilled to be supporting Social Finance and these economic mobility projects. Tracy, I so appreciated how you brought the Social Impact Bond and this new tool you've created, the Career Impact Bond to life for a Macquarie listeners today.

The concept of paying for outcomes versus outputs is so critical when you're talking about social impact and I'm sure it resonated with our people. I loved hearing Brandon's story because it shows how these projects can absolutely transform people's lives. And of course, that's what this is all about. Thank you so much for listening today.

¹ MIM stands for Macquarie Investment Management, a business within Macquarie's Asset Management (MAM) division

² ESG stands for environmental, social, and governance.

³ WIOA stands for Workforce Innovation and Opportunity Act