Discussion of

Are Socially Responsible Impact Funds Viable?

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Can impact investing scale in public equity?

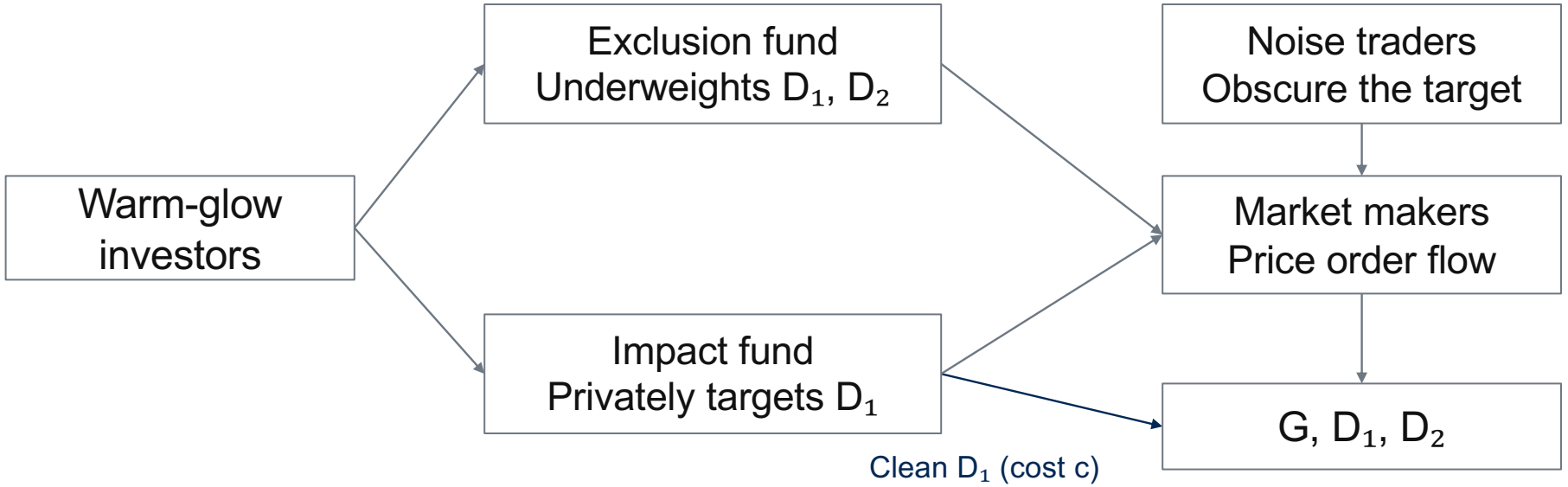
- Private-market evidence offers some encouragement:
  - Investors are willing to pay for impact.
  - Contracts and governance can support social objectives.
  - Impact-backed firms exhibit distinctive worker outcomes.
- Excludability and long-term commitments support selection and monitoring.
- But VC and growth equity are relatively small asset classes. Can impact investing scale in public equity?

Barber, Morse & Yasuda (2021); Geczy et al. (2021); Lerner, Lithell & Phillips (2025)

What I especially appreciate about the paper

- Delegated funds must offer investors an attractive alternative to trading directly.
- Impact funds compete for capital with other sustainable funds.
- Public-market trading determines how much of the gain a fund can retain.
- A useful benchmark: impact and exclusion funds coexist with investors indifferent between them.

Exclusion and impact are complementary



Warm-glow demand creates the investability premium B.

Coexistence: risk-adjusted trading rent = clean-up cost c

Links to the empirical evidence

Yang and Yasuda (2026) classify investment goals from prospectuses.

Dimension	**Findings**
Capital	Financial 72%; moral/exclusion 24%; impact 4% of sustainable mutual fund AUM in 2023
Portfolios	Impact funds overweight high-emission sectors
Fees and returns	Higher impact-fund fees; no significant alpha gap vs. benchmark funds
Actions and outcomes	More support for outcome proposals; lower carbon intensity after purchases relative to control firms (association)

When does portfolio tilting create impact?

- In the baseline model, the fund both tilts and pays for clean-up.
- The broader interpretation combines identifying transition leaders (with costly search) with support for their plans.
- Does the fund's investment contribute to a firm's transition, or would the transition have happened anyway?
- Would an impact-oriented fund forgo a profitable investment if it would increase negative externalities?

Investor preferences and clean-up risk

- Could an interior mix of warm-glow and consequentialist investors support more impact than an economy consisting entirely of warm-glow investors?
- Can warm-glow investors create the premium while consequentialist investors help finance impact?
- What if costly clean-up does not always succeed? Can the impact fund still generate enough trading profits to finance the intervention?
- What if successful clean up is difficult to observe or verify? Would that make impact investing less viable for hard to measure/verify impact goals?

How can impact investing scale?

- Financially oriented funds manage 72% of U.S. sustainable mutual fund AUM in 2023. (e.g., BlackRock, Morgan Stanley)
- Impact specialists could develop and support transitions that financial and mainstream funds help scale.
- Can shared stewardship and voting support make this division of labor work?
- Who pays for the costly work, and who captures the gains?

What determines the size of public-equity impact investing?

- Preferences: holding clean companies versus paying for incremental impact.
- Mandate transparency: do investors understand what each fund aims to do?
- Outcome uncertainty: impact may be delayed, difficult to measure, or hard to verify. Exclusion is easier to verify/cheaper to execute.
- Can observed fund flows around changes in mandates, disclosures, and impact verification help distinguish these explanations?

Concluding thoughts

- Exclusion and impact can reinforce each other: investors' warm glow preferences can create a premium that finances costly clean-up.
- The model offers a plausible explanation for the empirical evidence, and a useful framework for further research.
- How can specialist impact investors work with financially motivated capital to scale real-world impact?