Aligning Return and Values

One-Pocket Investing
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On February 25, 1901, U.S. Steel became the world’s first official billion-dollar company. It was the dawn of a new era in capitalism that would give rise to the world’s first $10 billion, $100 billion and $1 trillion companies within two generations. It was also the dawn of a century that would see both Hiroshima and a polio cure, climate change and women’s suffrage, and across the board, dramatic evolution in the arts, scholarship, culture and enterprise.

Behind the scenes of the 20th century’s vivid drama, in the middle pages of the New York Times business section, new finance and investment theories were evolving as well. Hidden by layers of conceptual and regulatory complexity were ideas that continue to shape our world in deeply powerful ways. The results have not always been positive, perhaps because the ideas themselves were not always approached thoughtfully.

We can no longer afford to be thoughtless in our approach to ideas about finance and investment. As a major agent of change, capital drives evolution in global economies as well as in local communities and individual opportunities. But for too long, we have not asked the difficult questions that complex financial systems require, choosing instead to ask easy questions with facile answers. The results have been dire on every front—global, local and individual. To even begin to meet the world’s crises, we have to examine the foundational values of our economic activity—to ask not only what capital management can accomplish, but also to ask what capital management means.

This paper asks difficult questions, but they are questions with exciting and life-giving answers. Our intent is to examine how investing quietly diverged from values, to explore the growing movement to reunite those concepts, and to introduce a new lens called ‘one-pocket’ that integrates investment and values into a single process. The outcomes of this conversation will guide 21st century change in foundational ways.
What the One-Pocket Conversation is About

One-pocket investing is neither a new nor a niche idea. Under various labels, it emerged in the mid-1980s and now influences organizations like the Bill and Melinda Gates Foundation and the Chan-Zuckerberg Initiative, not to mention a growing number of capital and wealth specialists like the Caprock Group (Donovan). Nevertheless, one-pocket lacks a clear language and narrative describing what it is and is not. What the Gates Foundation may call a philanthropic venture, the Chan-Zuckerberg Initiative will call concessionary funding and Veris Wealth might call values-driven investing.

Three core ideas emerge from these different conversations: resource stewardship, alignment of values with finances, and merging front-pocket profitable investments with back-pocket philanthropy funding. These ideas converge to comprise the one-pocket approach to investing. First defined in 2017 by Ross Baird in *The Innovation Blind Spot*, one-pocket investing is a shift “from two-pocket thinking (a pocket for profits, a pocket for charitable giving) to a one-pocket mindset (investing for both profit and social good)” (Baird, 2017).
History of One-Pocket

Before exploring the one-pocket approach in more depth, let’s take a step back and look at the historical context that led us to this point.

Friedman and the Two-Pocket View

Throughout American pre-industrial history, businesses generally operated out of a one-pocket mindset, although such vocabulary did not exist at the time. Businesses tended to be family-owned while wholly involved in and contained by individual communities. Profit was sought as a means of subsistence, limited by gold-backed banking systems and a general lack of infrastructural connectivity which prevented real scalability up until the mid-19th century. Between 1850 and 1980, the world became a more interconnected place with more advanced communication and transportation systems. When paired with dramatic transformation in banking systems, this globalization created new avenues for economic growth. Furthermore, the associated creation of new profitability opportunities transformed the socio-economic theory landscape (Chandler).

As sociology and economic study flourished in the late 20th century, Milton Friedman famously published Capitalism and Freedom, which shaped modern definitions of capitalism for the next half-century and counting. A central tenet:

“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” (Friedman, 1972)

Friedman made his bold claim in response to a growing number of businessmen who argued that “business is not concerned merely with profit but also with promoting desirable social ends; that business has a social conscience and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else [...]” (Friedman, 1970). To Friedman, this idea was the product of a reckless intellectual movement that put free society at risk (Friedman, 1970). His alternative solution isolated social responsibility from business activities, relying instead on moral individuals to pursue philanthropy through strictly charitable venues.
Faith-Based Organizations and Nonprofits Push Back

While Friedman’s approach has by now become so widely embraced that it feels like the way things have always been, his theory is relatively new. For centuries up to that point, entire faith groups advocated for a socially responsible approach to business and money management. Sharia and the Methodist Book of Discipline alike require people to integrate their faith values with their financial practices, in some cases explicitly stating what kinds of investment opportunities to pursue or avoid (Wani, Book of Discipline). As Friedman championed bifurcating social activities from business activities, many religious denominations and organizations began to crystallize their position on socially responsible investing.

This pushback gained momentum in the 1980s during South African apartheid, when a significant number of individuals and organizations pulled their investments from companies with South African operations, citing their values-based concerns. The 80s also saw the creation of funds like the Calvert Social Investment Fund Balanced Portfolio and the Parnassus Fund, which used positive and negative screens to match the values of Methodists at the time, including issues like pollution and worker treatment (Donavan).

CSR and the Rise of Corporate Accountability

During the 1990s and 2000s, the idea of corporate social responsibility (CSR) emerged in response to highly-publicized corruption cases like the Keating Five or Enron scandals. As CSR became the universal standard for business management, its rise was further backed by developed strategy and research showing the long-term capital benefits of socially responsible practices. Along with and emerging out of CSR, environmental, social and governance investing (ESG) became an increasingly foundational approach to investing as a growing body of evidence pointed towards its greater ROI over preceding investment approaches. Out of ESG grew practices like impact investing, values-based investing, and concessionary funding—which leads us to one-pocket.

Impact Investing

“Investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.” (Mudaliar)

Values-Based Investing

An approach that “consider factors beyond traditional fundamental and valuation metrics” such as “an investor’s principles.” (“What is Values-Based Investing”)

Concessionary Funding

“Loans that are extended on terms substantially more generous than market loans.” (OECD)
Why One-Pocket Investing Matters Today

One-pocket investing represents the natural evolution of what has been a long and organic arc towards holistic economic participation. In its consideration of not only portfolio structure but also the complex and unique processes that surround investing, one-pocket is a holistic mindset more than just a strategy. As such, it’s an accessible way of thinking, whether you just created your first digital wallet or you manage the investments of a Fortune 500 company.

The potential impact of embracing a one-pocket approach is enormous. The total value of all publicly listed companies in the world is around $200 trillion, while the total value of all charitable endowments in the world equals just over $1.5 trillion—only 5% of which is actually dispersed into charitable activities (McGrath). If that disparity continues, a two-pocket mindset will prevent us from being able to solve or even mediate the humanitarian crises of our era. But if even a fraction of the world’s companies and individuals adopt a one-pocket mindset, we could begin to make meaningful and sustainable changes in communities throughout the world.

The key is understanding that one-pocket isn’t just an approach to investing—it’s a way of outwardly expressing your deeply held value systems. Moving beyond understanding money as a tool and towards understanding money as an expression of our core identity is what the one-pocket mindset is about.
A significant portion of the conversation around alternative approaches to investing uses the term ‘impact investing,’ along with ‘socially responsible investing,’ ‘values-based investing,’ and a handful of additional terms. These phrases have been more widely adopted into the investing lexicon than ‘one-pocket mindset,’ so it’s worth asking what the value is in making a distinction. We believe that thinking of investments merely in fiscal terms doesn’t capture the true depth and breadth of resource stewardship. The existing vocabulary limits what’s possible by relying on the conceptual framework proposed by Friedman—by separating “investing” from “impact investing” and therefore implying that it’s possible to invest without having impact.

On the contrary, all investment has impact. One-pocket captures this reality by acknowledging the unavoidable consequences of our approach to resource stewardship. It’s not that impact investing or socially responsible investing are bad or unhelpful terms, but that they reflect only a small facet of reality. In truth, we need a more holistic understanding of our economies that grasps the interconnected nature of individual, socially-minded and capital-focused efforts. One-pocket allows us to do just that.
One-Pocket vs. Two-Pocket

Many investors are familiar with the values-based arguments for socially responsible investing. But often the financial opportunities present in impact investing come as a surprise. In fact, a Cambridge Associates report showed that impact investment funds garnered above average returns in developed markets and significantly higher returns in developing markets (“Impact Investing”). The report emphasized that a thoughtful approach to creating an impact portfolio is key in determining investment success. Helpfully, the one-pocket mindset elevates approach to be just as important as the actual portfolio, and as such lends itself to creating significant social and financial value.

Beyond financial returns, a growing number of individuals consider social responsibility an important priority. Sixty-nine percent of adults aged 25-37 value the social return on their investments more than the financial returns (Landrum). That trend will only continue to grow as an awareness of the complex effects of our investments continues to shape norms, and as younger generations develop an ever-stronger bent towards community and social responsibility. One-pocket offers a way of approaching economic engagement that doesn’t require people to compromise their values to achieve their target returns or vice versa. More importantly, one-pocket actively cultivates a total engagement in values-driven work.

For organizations, one-pocket offers a way to integrate brand identity and values with social and fiscal responsibility. The same growing awareness that shapes individual investments extends to a growing awareness of the complex impact of business and organizational activities—and alongside awareness, accountability. Embracing the one-pocket mindset can allow companies to align all of their activities—social, economic or otherwise—along a core set of values. Not only can this have a positive impact on brand image, but it can also have real, positive impact on company value (Baird, 2016).

A key factor in value growth stems from the fact that one-pocket expands the definition of who organizational stakeholders are. When Friedman talks about businesses focusing solely on profit “within the rules of the game,” he thinks of enterprises as the only players in the game. The reality is much more complex. A business cannot survive without productive employees, a functional economy, a healthy environment, a stable government, and a host of other entities. Likewise, these same entities benefit from strong businesses. One-pocket allows us to view this as a clear stakeholder relationship that further integrates the context of our economic activities into our values-based decisions.
Looking Through the One-Pocket Lens

At some point the one-pocket concept must become a to-do list... a plan. Otherwise, we’re left with just a dream of what could be. Fortunately, innovative thinkers in finance are paving the way with creative, pioneering one-pocket strategies that are already creating real change in communities from New York to Salt Lake City. And these strategies start with defining values.
Aligning Values and Investments

If you want your resource management to align with your values, you have to understand what your values are in a specific, honest way. At The Caprock Group, Robert Kim works extensively to help families think through their values, and one of his priorities is communicating how much nuance any given issue contains. For example, individuals might be passionate about underprivileged youth and so want to invest into education opportunities. But, says Kim, “if you’re in the shoes of those kids, it’s not just education that matters. Your time with your parents matters, and if your parents are working four jobs, have no time for homework or anything else, that affects a child’s well-being. So you have to think about creating job opportunities in that region.” Kim’s—and Caprock’s—priority is to unravel the diverse factors impacting childhood well-being and how complex investment portfolios can become, even when centered around a single vision.

In addition to a values audit, existing investments and business activities need to be audited as well. Does their impact move the needle towards your vision? While the exact process that follows is completely unique to every individual or organization, the same mindset of curiosity and questioning is just as important. As with auditing your values, expect to discover a complex and nuanced picture of your investment impact. In talking through issues that impact underprivileged youth, Kim explains that a primary challenge for rural families is climate change, which makes weather patterns harsher and more volatile. But determining how much your investments mitigate climate change can be impossibly complicated. For example, does investing in Walmart help or hurt rural families? Walmart regularly uses local suppliers, but they also create pollution with their massive store footprints and supply chain structure. The way that you answer such questions throughout the audit process will come to define your one-pocket mindset.
Setting One-Pocket Goals

The process of answering difficult value questions begins with outlining your visionary and financial goals. How aggressive or conservative those goals are will guide the specific diversification of your one-pocket portfolio, which can in turn help you hone in on the bright lines of your values.

At the same time, creating benchmarks for your vision is important even if you know exactly what the values guiding that vision are. As with any investment, performance is measured by finding the difference between the goals you set and the actual performance of your portfolio. In the one-pocket approach, this includes not only financial return benchmarks, but also social and environmental impact benchmarks. While ROI is a pretty straightforward goal to set, measuring social impact can be more challenging, and often requires a bit of creativity. To return to our example of underprivileged youth, you may need to measure a whole set of metrics including changes in after-school program enrollment, rates of childhood illness, adult unemployment, and any number of other factors. Checking both these complex social metrics and financial ROI consistently will give you a clear picture of how your investments are driving your vision.

Beyond Investing

While the one-pocket mindset is primarily referenced within the context of investment, it’s more than an investment approach. As a mindset, it guides the whole picture of how resources should be stewarded, including time, access and space. Our expertise is within capital resources, but we’ve discovered that folks who embrace a one-pocket mindset soon manage all of the resources at their disposal in much more intentional ways. What that looks like for you or your organization will be completely unique to your vision, but our recommendation is simply to ask the same questions that guided your investment audit of your other resources.
In the end, the question that one-pocket asks us can be a difficult one. It isn’t “Are your resources invested well?” or even “How are you making a difference with what you’ve been given?” It is instead the question of “Are your values important enough for you to align what you have and do in their service?”

Our answers to that question will come to define not just us, but the trajectory of global change for generations to come.
The one-pocket mindset is an idea that we at Access Ventures have centered on from day one. Our investment approach is designed to integrate returns on monetary investment with returns on process, mission and values, both for ourselves and our strategic partners. What we’ve discovered along the way is that we don’t have to compromise in pursuit of our vision, and in fact, integrating mission with portfolio structure can lead to even more creative and rewarding returns than traditional investment approaches. Although the language of one-pocket investing didn’t exist in the early days of Access Ventures, it’s now at the heart of our organizational mission and vision for a more creative and inclusive economy.

If you’re interested in learning more about what one-pocket could mean for you or your organization, contact Access Ventures today.

About the Author

Access Ventures is a catalyst building a more inclusive and creative economy by changing the way the world invests. Access Ventures builds strategies utilizing the one-pocket mindset, an investment approach operating with the understanding that organizations and individuals don’t have to compromise their missions and values to achieve financial return. Founded by Bryce Butler in 2014, our intent is to build a more creative and inclusive economy by working with organizations of all sizes and in all sectors.

To us, building a more inclusive economy means working to ensure the economy functions for all people, and that all people have the financial mobility to pursue their visions, goals and dreams—not just for themselves, but also for their communities. We believe true inclusion involves seeing all people, of diverse identities and backgrounds, as valuable and offering unique contributions to our communities and economies.

Our work spans the diverse and vibrant needs of the communities in which we are rooted, with particular emphasis on creating equitable, innovative access to resources ranging from capital to networks to physical spaces. Access Ventures’ investments are centered around the belief that the economy represents not just an engine for industry, but an opportunity to demonstrate the inalienable dignity of all people.

We envision an economic environment guided not by narrow-minded self-interest, but by the pursuit of equitably distributed growth opportunities—opportunities that provide upward mobility to every citizen. We believe that by prioritizing relationships over isolation, and by offering a seat at the table to the underserved and underrepresented, we build the community we all desire to live in.
Works Cited


