

Impact Investing

A Short Guide for Financial Advisors

Good for your clients,
Good for your business,
Good for the world.



“Impact investing can help take client relationships to the next level—making the relationship about more than statements and performance.”

A New York-based advisor

Impact Investing

A Short Guide for Financial Advisors

WHAT IS IMPACT INVESTING?

Impact investments intend to create measurable social and environmental impact alongside financial returns. They are designed to invest in the solutions people and planet need—like financing affordable housing, community services, clean energy, and environmental preservation.

Client demand for sustainable and impact investing is strong and growing:

77% OF INSTITUTIONS,¹

85% OF INDIVIDUAL INVESTORS, AND

95% OF MILLENNIALS SAY THEY ARE INTERESTED IN IMPACT INVESTING²

But there's a large opportunity gap for advisors:

JUST **43%** SAY IT'S AN IMPORTANT PART OF THEIR PRACTICE³



This guide is meant to help advisors understand impact investing so they can seize this important opportunity for their clients and their practice.

¹ According to Morgan Stanley's 2018 Sustainable Signals Asset Owner Survey: <http://www.morganstanley.com/assets/pdfs/sustainable-signals-asset-owners-2018-survey.pdf>

² According to Morgan Stanley's 2019 Sustainable Signals Individual Investor Survey: <https://www.morganstanley.com/ideas/sustainable-investing-growing-interest-and-adoption.html>

³ According to Eaton Vance's Advisor Top-of-Mind Index (ATOMIX) Survey Q2 2019: <https://funds.eatonvance.com/includes/loadDocument.php?fn=21237.pdf&dt=fundPDFs>

THE MARKET IS GROWING

- The impact investing market doubled in the last two years to \$502 billion, with investors saying their allocations will continue to grow.⁴
- Investments considering environmental, social, and governance (ESG) factors now stand at \$12 trillion, or 1 in 4 dollars under professional management in the U.S., suggesting continued growth as new impact products become available.⁵

WHO'S INTERESTED?

Do you have clients that are:

- Active in their church and/or community?
- Travelers that enjoy experiencing other cultures?
- Concerned with climate change and extreme weather?
- Healthy eaters that enjoy organic food?
- Philanthropic?
- Concerned about the world they're leaving for their children/grandchildren?
- Skeptical of the stock market or investing in general?
- Institutions with a mission?
- Companies that seek to have a positive relationship with the community?

If so, these are clients who may appreciate impact investing opportunities.

THE OPPORTUNITY FOR ADVISORS

Impact investing represents an important opportunity for advisors to add value for their clients and practice. Whether clients want to contribute to addressing the world's social and environmental challenges, invest in their community, and/or are considering their legacy, impact investing can:

- Provide value that deepens existing relationships
- Retain clients as they lose a partner, age and transfer wealth to the next generation
- Differentiate your practice to attract new clients
- Attract top-notch young talent to your advisory team



“Talking about alpha and beta just doesn’t capture a client’s attention, but when I talk about their impact investments, the whole meeting changes.”

A Minnesota-based advisor

⁴ According to Global Impact Investing Network’s 2019 Report on Sizing the Impact Investing Market: http://thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf

⁵ According to US SIF’s 2018 Report on US Sustainable, Responsible and Impact Investing Trends: <http://www.ussif.org/trends>

IMPACT INVESTING ALLOWS INVESTORS TO:

Focus on meaningful opportunities to create:



Affordable Housing



**Climate/
Environmental
Solutions**



**Healthy
Communities**



**Entrepreneurship
& Good Jobs**



**Gender &
Racial Equity**

Contribute to closing the funding gap for the UN SDGs:



And create tangible impact in the communities they care about, providing inspiring stories of the difference their capital is making across the country and around the world. *Sample investments from Calvert Impact Capital's portfolio:*



Central City Concern

Oregon

*Affordable housing
and community development*

Central City Concern provides affordable housing options integrated with healthcare, recovery, and employment programs that lead to personal and community transformation.



eco.business Fund

Latin America

Sustainable business finance

With the support of eco.business Fund client Banco Pichincha, Ecuador-based cocoa exporter Eco Kakao provided trainings for its cocoa producers on sustainable crop management using environmentally friendly agricultural practices.



**Greenline
U.S.**

*Small business
finance*

Greenline SBCF provides small businesses like Discover Books, a re-seller of used books through online retailers, with flexible financing.



**Blue Orchard
Global**

Microfinance

BlueOrchard invests across emerging markets in financial institutions like Mongolia's XacBank, which provides loans to micro-entrepreneurs who otherwise can't access financing.



**D.C. Sustainable Energy Utility
Washington, D.C.**

Renewable energy

The DC Sustainable Energy Utility creates local green jobs and reduces carbon emissions while making solar power accessible to low-income residents of Washington, D.C.



**GroFin
Africa and the Middle East**

*International small and medium
enterprise finance*

GroFin's client Agasaro Organic, a women-owned business in Rwanda, is helping farmers get fair prices for the pineapples they grow.

IMPACT INVESTING OFFERS A RANGE OF OPPORTUNITIES

There are many terms used to describe sustainable, responsible, and impact investing strategies. Investors looking for impact often start by considering environmental, social, and governance (ESG) factors and engaging corporations within the public markets. Impact investments are different, as the investment itself has the express purpose and intent of creating measurable solutions to social and environmental challenges.

| | ESG Investments | Impact Investments |
|-------------------------|--|--|
| Options | Mutual funds, ETFs, stocks, bonds | Cash, fixed income/debt, venture capital, real assets, direct investments |
| Impact tools | Screening companies in or out, proxy voting, shareholder engagement | Finance communities and markets not served by traditional finance |
| Impact intent | Reduce harm & risk, improve corporate practices | Create solutions to social and environmental challenges |
| Impact reporting | Examples of changed corporate practices (ex. board representation, disclosure on political spending, understanding climate risk, etc.) | Measurable outputs (ex. affordable housing units built, jobs created, emissions reduced, etc.) and stories of lives changed for every investment |

Impact Investment Options by Asset Class and Investor Type

| Asset Class | Example Products | Retail | Accredited |
|---------------------------|--|--------|-------------|
| Cash | <ul style="list-style-type: none"> Checking & savings accounts, CDs at CDFI banks & credit unions | x | x |
| Fixed income | <ul style="list-style-type: none"> Debt investment in impact notes Debt investment in a loan fund Debt investment in microfinance or small/medium enterprise fund | x | x x x |
| Private equity | <ul style="list-style-type: none"> Equity investment in a community development venture capital fund | | x |
| Real assets | <ul style="list-style-type: none"> Equity investment in a community real estate fund Equity investment in a farmland or conservation fund | | x x |
| Direct investments | <ul style="list-style-type: none"> Debt or equity investment in a private company Online crowdfunding into community businesses and projects | x | x x |

INVESTMENT CONSIDERATIONS

Volatility/Uncorrelation

Impact investments often have little correlation to changes in interest rates and stock market fluctuations. Most impact investments did well during the 2008 housing and financial crisis, as they represent affordable housing and critical services that are often considered more defensive assets where demand might even increase in a recessionary environment.

Performance

Given the diversity of structures and approaches, as well as the uncorrelation, there isn't an accepted financial benchmark for impact investments. That said, investors consistently see them as performing in line with expectations, with many managers having track records of doing so.

Risk

Many impact investments have exposure to underserved and emerging markets, and therefore it is very important to evaluate the risk management process and track record of managers.

HOW TO START

Talk to your clients about what they care about and connect it to impact investment options. Getting up to speed on the entire impact investing industry can seem daunting, so focus on what is of interest to you and your clients. Impact investing will allow you to have better, more engaged conversations with your clients.

Areas to incorporate impact investing into your practice



Client Acquisition

- Market yourself as meeting a growing demand
- Distinguish what you can offer to new clients
- Offer a deeper conversation about values/interests



Client Service

- Report on impact outcomes (e.g. jobs created, carbon emissions reduced), not just financial performance
- Offer clients a more complete picture of their performance
- Engage the next generation on aligning their values and investments



Client On-Boarding

- Talk to your clients about their values/interests
- Introduce impact as a part of investment considerations
- Talk about a product that you've researched or invested in for yourself or a client, and see whether it or a similar product would be of interest



Client Events

- Host a speaker from the impact investing community
- Host an event at a community investment project
- Organize a tour of projects supported by investors

WHERE CAN I LEARN MORE?

Some resources to get you started:



ImpactAssets 50
www.impactassets.org/ia50_new



Global Impact Investing Network
www.thegiin.org



US SIF
www.ussif.org

Contact our Advisor Relations Team



info@calvertimpactcapital.org
800.248.0337
calvertimpactcapital.org

COMMON QUESTIONS



“Why aren’t many impact investment options accessible to advisors?”

While there are thousands of impact investments, it is true most aren’t yet available on brokerage platforms. That is changing as more impact managers and products develop track records and other characteristics needed to be accepted by firms. The Community Investment Note™ is an example of a convenient impact option with CUSIPs, and Calvert Impact Capital is working to help other products reach platforms.

You can help—brokerage and advisory firms need to hear demand for impact investments from clients and advisors.

“With many new entrants and use of similar words, how can I avoid greenwashing (or impact washing)?”

1. Understand how the manager and product seek to create impact;
2. Review their impact reports and methodology;
3. Ask if the manager is a Signatory to the Operating Principles for Impact Management or have a third-party impact assessment.⁶

⁶ “Operating Principles for Impact Management” to: <http://www.impactprinciples.org/>



7315 Wisconsin Avenue, Suite 1000W
Bethesda, MD 20814

800.248.0337 | calvertimpactcapital.org



Calvert Impact Capital makes impact investable. We've helped over 18,000 investors and hundreds of advisors get involved in impact investing through our Community Investment Note™, Syndications Services, and more. Please let us know how we can help in your impact journey.

This guide is for financial professionals only and is not an offer to sell or a solicitation of an offer to buy securities. The information herein is not intended to provide, and should not be construed as financial advice. Sample impact investments are listed for informational purposes only and should not be considered a recommendation to sell or to purchase any specific security.

Photo Credits:

Cover – One Acre Fund; Panasolar, courtesy of Honduras Renewable Energy Fund; Kate and Keith Photography, courtesy New Hampshire Community Loan Fund
P. 3 – Kate and Keith Photography, courtesy New Hampshire Community Loan Fund

P.4-5 – Central City Concern Eco Kakao | Pedro Samper | Surreal S.A.S., courtesy eco.business Fund; Greenline Ventures; Johann Sauty, courtesy of BlueOrchard;
DC Sustainable Energy Utility; Agasaro, courtesy of GroFin Rwanda

Back Cover – ArtSpace Projects Inc.; Homewise; ECLOF International