

# THE IMPACTASSETS HANDBOOK FOR INVESTORS

GENERATING SOCIAL AND ENVIRONMENTAL  
VALUE THROUGH CAPITAL INVESTING

Edited by  
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# 10

## **A Journey to Impact: Initial Steps toward Impact Investing**

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### **Reflections from an Impact Investing Advisor**

I was in the prime of my wealth management career. About to turn 30, I managed investments for 20-plus multigenerational high-net-worth families. I'd spent several years climbing the corporate ladder, and finding "success." And then the epiphany struck—success wasn't about titles and more money; there had to be something deeper. I started to see a clear separation between people of wealth and people of scarcity—the poor and struggling individuals with whom I came in contact from volunteering. I realized I could bridge the gap, and that I had the empathy, passion and skill-set to help.

It took me until age 33 to fulfill one particular goal, to travel in Africa. It marked an entry into impact investing, a process by which people define their values—what they care about, the change they want to see—and link them to both their financial goals.

I entered this business because I truly believe there is enough money to change the world, it simply needs to be allocated effectively. With the rise of impact investing, we have the power to utilize our money to not only garner a financial return, but change a life in the process. I challenge each of you reading to close your eyes and imagine the one issue that means the most to you. Whether it be with time, money or personal resources, I invite you to invest

in that issue in whatever way you can at this moment to welcome you into the world of impact investing.

## Investment Strategy Approach

How is an effective impact strategy built? It involves the following four elements:

### 1. Uncover Values and Goals

Impact investing is similar to traditional investing, just a step or two deeper. Traditional investing fundamentals are carried through to an impact investing strategy. The process is designed to identify the issues investors care about it, and the methods they'll employ to effect change.

It begins by asking two questions:

1. If you could only “move the needle” on one or two issue areas, what would they be and why?
2. How would each and every investment you make have an impact, whether it's in their 401(k) or investment portfolio, their consumption decisions and even where to send their kids to school?

This helps to solidify why, exactly, an investor would want to engage in impact investing.

### 2. Develop a Mission Statement

These answers form the basis for an impact investing mission statement, which is both similar and different from a traditional business mission statement. It's similar in that there is a stated intention, something like “I wish to eradicate poverty for one million people.”

It's different in that it also contains a statement about how it will be accomplished, as well as a metric for measurement. The “why” is in any mission statement. The “how” and “what” are added to an impact investing mission statement.

### 3. Identify Areas of Interest

How are investor resources then allocated among different issue areas about which they're passionate? It's done through something called the "values game," a practical method for sharpening focus.

Here's how it works:

One hundred coins are distributed with instructions to allocate among nine high-level issue areas, with the coins naturally representing investable areas both in the traditional sense and from a charitable perspective. No concern is given to guilt and/or worry; it's a free and open exercise. Your blank canvas.

The investor might have 40 percent allocated to poverty alleviation and economic development, 22 percent to education, 33 percent to women's empowerment, and the remainder in energy and the environment. The game consists of multiple rounds, each with accompanying questions meant to educate and illuminate investors as to what they really feel and why.

It's about identifying how deeply, or passionately, someone feels about a particular issue area. Ultimately, it's a dialogue. It's coaching investors, rather than simply presenting important issue areas and attempting to determine their interest and capital allocation commitment.

### 4. Match Goals with Specific Impact Investment Opportunities

The top three issue areas are the focus of the investment opportunity, and where to concentrate assets to match values. Because impact is subjective to the individual investor, there is no right or wrong answer. It seeks a financial return equal or better, in most cases, to a traditional investment, but it's also looking to measure its impact

It's also a journey, over the course of which the investor, and their definition of impact investing, will change. Ask any impact investing veteran and they'll tell you they're far from where they started. They'll also argue that good philanthropists are good investors, and good investors are good philanthropists; they need not be separate.



# Case Study 4

## IMPACT INVESTOR CASE STUDY: “BEN CARTER”

**Year Started Impact Investing:** 2005

**Primary Focus:** Total Portfolio Management of all family assets

**Background:** In 2000, Silicon Valley entrepreneur Ben Carter emerged from the tech IPO boom with a pile of cash and the desire to make a positive impact on the world. The company that Ben had stock options in had gone public and he became a millionaire overnight.

### Impact Trigger

In 2001, Ben met with a financial advisor to devise a plan for deploying his new wealth. When he asked what investment opportunities there were to put his money to work for positive impact, the advisor wasn't sure if there were such options but pointed him toward environmental social governance (ESG) mutual funds. ESG mutual funds screen out companies based on specific criteria, such as tobacco. The impact that Ben wanted to make was bigger and different than simply “screening out the bad.” He didn't want to make more money with his money but wanted to invest with people he trusted and in ideas and ventures that excited him. Helping innovative social entrepreneurs, for instance, or lending money to small business owners in the community were of interest to him. The entrepreneurial spirit was part of Ben's DNA and

he wanted to integrate his interests and intentions in something personal, understandable and on a human scale.

Ben continued to search for a different answer and eventually found his way into impact investing, a way of investing that seeks a financial as well as social and environmental returns.

## Investment Strategy

Over time, demand from other like-minded investors helped drive the development of more investment opportunities as well as financial advisor expertise in the marketplace. With the guidance of a financial advisor versed in impact investing and in lock-step with an evolving market, Ben's portfolio is now 85 percent invested in impact investments across a well-diversified portfolio by impact strategy, impact issue and asset class. Impact strategy includes sustainable and thematic approaches. Asset classes include public equity, fixed income, hedge funds, real assets and cash equivalents. Impact issues include energy, water, financial services, community development and information technology.

Working with the right financial advisor was the catalyst for Ben to move forward in a strategic thoughtful way. The development of an Impact Investing Strategy and an Impact Investing Policy served as blueprints. The Impact Investing Strategy helped Ben think through what impact meant to him and what his impact mission, values and themes were. It also defined Ben's portfolio needs and constraints including risk, return and liquidity needs.

The Impact Investing Policy translated the strategy into a tangible investment implementation plan. One of the outcomes to the process was the determination that public markets strategies, including public equities strategies such as ESG, would play an essential role in Ben's comprehensive asset allocation. Investments into large US and global corporations derive a different source of impact relative to private market strategies. Public companies are often diversified across multiple business lines and operate globally, thus offering a unique impact opportunity to effect change on a larger and meaningful scale.

One of Ben's prominent impact issues is climate change. Despite the challenges and investment risks associated with climate change, Ben is particularly hopeful about certain initiatives

such as renewable energy, green buildings and carbon pricing. Ben discovered a number of investment opportunities addressing climate change issues through a variety of asset classes, both public and private. Increasingly more investment managers are developing strategies to invest in businesses that are accelerating the transition to a low-carbon economy. These strategies vary widely and include everything from low-carbon portfolios of publicly listed companies, to venture and private equity funds that actively invest in private companies building and operating renewable energy infrastructure. In public market strategies, Ben found more than 250 equity and fixed-income mutual funds, exchange traded funds (ETFs) and separately managed accounts focused on environmental sustainability.\* He also found many specialized private capital fund managers tailoring their funds on particular impact areas such as natural resource health, carbon reduction, renewable energy infrastructure, climate-smart cities, rainforest protection or waste management. These opportunities allowed him to directly fund specific projects seeking to deliver high impact. Ben has approximately 15 percent of his portfolio in diversified public and private strategies and real assets addressing climate change.

Looking ahead, Ben will continue to evolve and shape his portfolio as he learns from his experiences and understanding that it is possible to support both financial and impact goals in the same portfolio. Since inception of the portfolio some six years ago, he believes that the opportunities for impact investing have never been greater and they will continue to increase as other investors start to incorporate social and environmental values into their allocations. His goal is to have a 100 percent impact portfolio within the next few years.

\* <http://www.veriswp.com/investing/research/>.