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Intelligent Investing

Steady Returns With Social Impact
Jed Emerson 09.29.09, 12:00 PM ET

In today's volatile markets, investors are looking for new ways to capture returns while managing risk. The little secret of this past year's capital crisis is that while many mainstream investments incurred significant losses in value, one category remained steady--with some investors significantly outperforming the mainstream market. It's called impact investing.

Impact investing covers that category of investment, which is viewed as "sustainable," generating financial returns by integrating consideration of social and environmental factors into the investment strategy. The category also includes a growing number of CDs and other fixed-income investment options--except in this case invested funds are used to support small, sustainable business and community development. Sound like a below-market instrument where you need to assume you will have to take a hit on your financial returns to allow for some vague effort to "do good"? Hardly. Impact investing is not your parent's socially responsible investment strategy. For example, this past year various microfinance funds gave investors a 6% return during a period when many strictly commercial products were *down* three to five times that amount.

What was a niche industry has grown significantly in recent years--now totaling over $2.71 trillion in the United States alone. Recently, the venture capitalist Vinod Khosla announced he was raising $1.1 billion to invest in green energy, sustainable materials and energy-related information technologies.

While many of the more "cutting edge" opportunities are found in private and public equity funds not available to the average investor, other categories offer the "retail" investor opportunities for generating returns while knowing their investments are managing risk through consideration of environmental issues or being well invested in communities and regions around the world to provide needed capital for sustainable business development, micro-loans to entrepreneurs and general economic development.

Here are five opportunities worth considering:

Fixed Income Asset Class: CRA Qualified Investment Fund Retail Shares
For those looking at bond investments, CRATX invests in bonds issued by entities supporting community development ventures. These are mortgage-backed securities issued by institutions that are compliant with the practices of the Community Reinvestment Act. The top holding of the fund during its last reporting period was GNMA Multi-Family (25%) and various municipal bond offerings (23%). And, according to CRATX, as of June 30, 2009, the average annual total returns for one-year, five-year and since inception of the product in March, 2007 are 6.54%, 4.39% and 4.85%.

Small Cap Investments: Parnassus Small Cap Fund (PARSX)
For investors looking for exposure to smaller companies with a sustainable edge, the Parnassus Small Cap Fund makes use of a Fundamental approach to investing in emerging companies. Top holdings of the fund (at approximately 4% each) are Pulte Homes, Ciena Corporation and Nordson Corporation. Over the past year, PARSX was down 14%, while its benchmark, the Russell Index, was down 25%. As smaller firms come out of the downturn, they are well-positioned for future growth.

Calvert Community Investment Notes
The Calvert Community Investment Note allows investors to select a return of 0% to 3% over a term ranging from one to 10 years. These are structured as an Intermediate Term Note, with security enhancements (net assets, loan loss reserves and subordinate loans and guarantees) of 15% of risk-weighted assets (essentially, non-cash assets) and are much like a bank's Tier 1 and Tier 2 capital structure, but with a much bigger percentage cushion or less leveraged. The Notes are released in "series" twice a month by Bank of NY through the Depository Trust Corp and made available to more than 400 broker dealer firms around the country by Incapital. For example, you can buy them from your Schwab account. Technically, one holds them to maturity, but Calvert Foundation has always afforded for early withdrawal to date at any time, though it is not obligated legally to do so.
Calvert lends its capital from raised through their Community Investment Notes to small business community and housing development groups to help create economic opportunity. And CCINs can be targeted regionally to offer investors impact in specific areas of geographic interest.

RSF Social Investment Fund
Similar to the Calvert Community Investment Note, with as little as $1,000, investors can place their funds with RSF Social Investment Fund and receive a note with a quarterly term--which has averaged a return of 3.5% annually over the past three years. RSF uses invested funds to provide nonprofits and social enterprises with needed capital to expand their ventures and pursue social missions of various types.

ShoreBank Pacific
If you're interested in simply managing your personal cash flow at competitive financial terms while creating impact, ShoreBank Pacific is an FDIC-insured, sustainable commercial bank that offers a host of online banking services together with CDs (presently offering a five-year CD at 3.4%) and money market accounts. Their credit/debit cards, checking accounts and other traditional products look just like the neighborhood branch of the banking big-boys--but create environmental and social impact through the Bank's own lending and corporate impact investing activities.

Finally, if you're committed to directing your own contributions to nonprofits involved in addressing the world's problems, consider creating a "personal foundation" with as little as $5,000 through Calvert Foundation's Giving Fund. In addition to using the fund to make charitable gifts, as your contributions grow, you can manage your fund's investments through a host of sustainable private debt and equity funds offered by Calvert.

Looking for more investment options with other characteristics? There are a growing variety of resources, such as the Social Investment Forum, available to assist private investors in identifying the best impact investing options for them. While some are the more traditional "screened" funds, competitive investment options can be found in most every asset class to fit virtually every investor profile.

The bottom line for today's investors is that investing for impact offers a variety of approaches for efficient allocation of capital while ensuring the capital you invest is pursuing financial performance as well as environmental and social returns. After all, the measure of a life well-lived is not to be simply rich--but rather to be truly wealthy by doing well *and* good through the course of one's life.

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