Demystifying Impact Investing and Enhancing Your Family Legacy

Presented by:

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No problem can be solved from the same measure of consciousness that created it.

- Attributed to Albert Einstein

Discussion Points

- Define and decode impact investing
- How do you access key impact themes?
- Evaluating success and metrics
- Is Impact and Environmental, Social, Governance (“ESG”) a tool for risk management?
- Are opportunity zones impact investments?
- Who is driving the call to action?
- What can you do next?

Defining Impact

Impact Investments are investments made with the ***intention*** *to generate positive, measurable social and environmental impact* ***alongside*** *a financial return.*

- Global Impact Investing Network

Source: https://thegiin.org/impact-investing/

How the Sector Shakes Out

1. ESG
2. Mission-Related Investing
3. Program-Related Investing
4. Community Development
5. Micro-Finance
6. Social Entrepreneurship
7. Opportunity Zone Investments

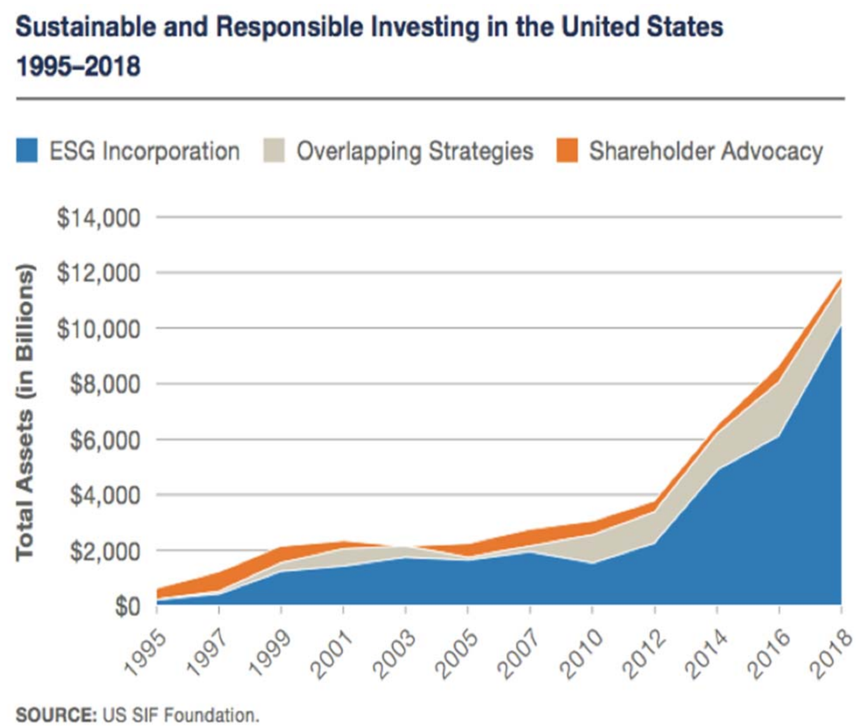
Impact-Oriented Investing Spectrum

Screened / SRI	ESG Integration / Proactive	Thematic	High Impact
Consistent with Values	Mitigating Risks / Pursuing Opportunities	Sector Specific	Highly Targeted / Aligned with Mission
Firearms	Environment	Education	Community-focused
Tobacco	Diversity	Water	Climate Solutions
Coal	Community Relations	Renewable Energy	Education
Tar Sands	Employee Relations	Resource Efficiency	Micro-Finance

Note: Example only. Other impact-oriented investment screens may be available.

Growth of ESG investing

- From 2016-2018, ESG has enjoyed a 38% AUM growth rate
- Today, $1 out of every $4 under management identifies as ESG
- $12 TRILLION in AUM through 2017



Source: https://www.ussif.org/sribasics

Is ESG a Tool for Risk Management?

- ESG factors have financial relevance EVEN if they aren't financial metrics
  - Corporate purpose, strategy, and management quality
  - Larry Fink of BlackRock's call to action – "profits and purpose are inextricably linked" – purpose unifies management, employees, and communities
  - Proxy voting - IRIS

- The sustainability of Corporations has a lot to do with:
  - Treatment of workers
  - Management of supply chains
  - Responding to climate change
  - Building trust and fostering innovation

- The outcome of the UN Global Compact in 2004 (under Kofi Annan) led to a ground breaking initiative – "Who Cares Wins"
  - Led to the launch of the Principle for Responsible Investment in 2006 and today represents 1,600 members with $70T under management
  - Led to the launch of the Sustainable Stock Exchange Initiative in 2007

Sources: https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/#1ff0a2f21695, https://www.unpri.org/academic-research/how-esg-engagement-creates-value-for-investors-and-companies/3054.article, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

Evolution of Impact Measurement

One of the biggest challenges to attracting capital for ESG and/or impact investments is centered around measurement.

- Competing with traditional investments whose measurements are exclusively tied to financial metrics (e.g., ROI, P/E, Yield, IRR, etc.) is going to be tough!

- Describing the "added value" that investing in people, place, and the environment requires developing a common investment language.

Re-framing Measurement

United Nations goes back to the drawing board…

The 8 Millennium Development Goals (MDGs) only told part of the story…

With the fast approaching, MDG goal date in 2015, the UN convened to adopt the broader **17 Sustainable Development Goals** (“SDG”) to achieve a more equal prioritization

- Success will be measured through the SDG funding body with a completion date of 2030

Source: http://www.sdgfund.org/mdgs-sdgs

Arriving At a Common Language

Source: https://www.un.org/sustainabledevelopment/news/communications-material/

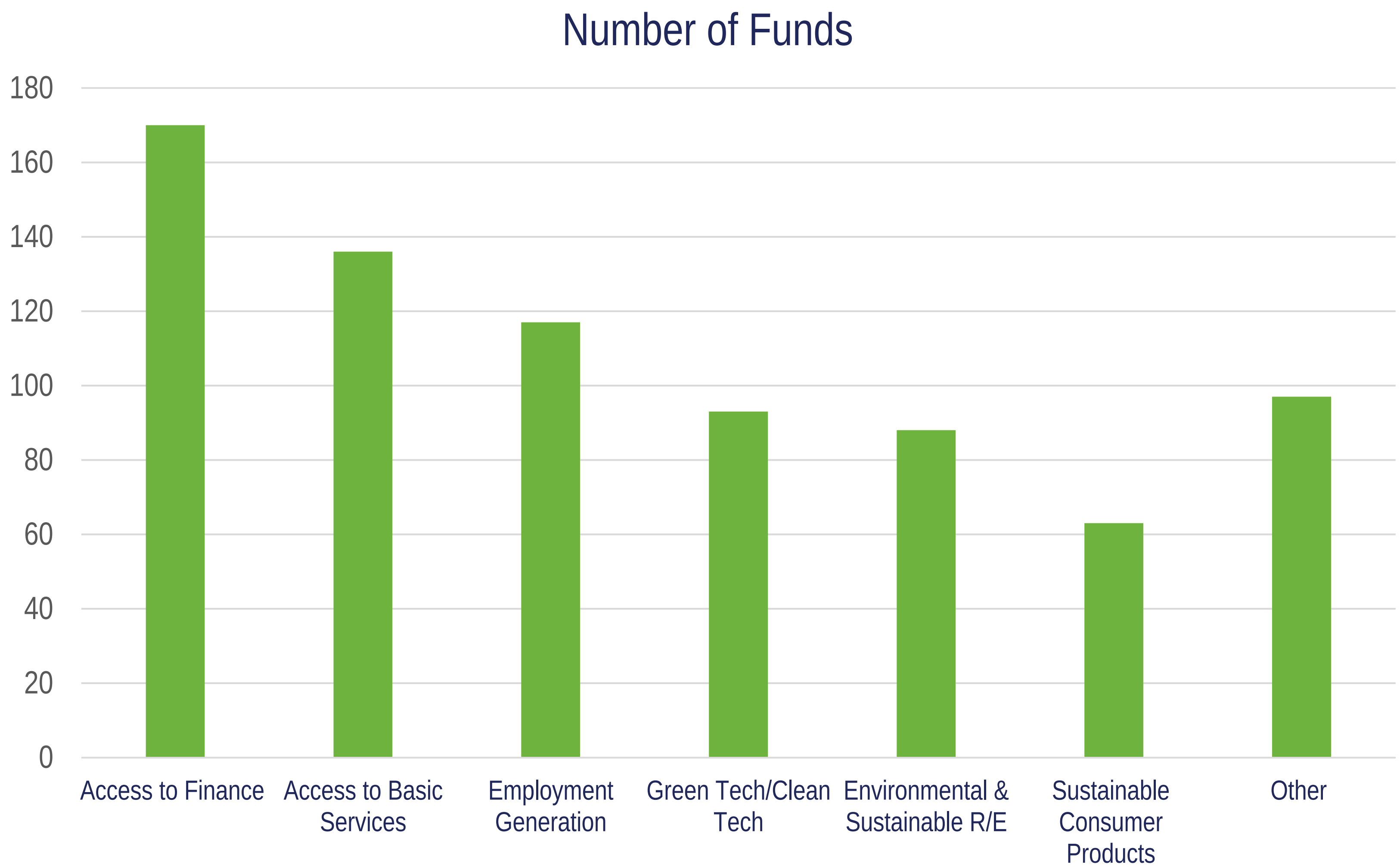
What Is the SDG Funding Gap?

- It will require **$6 trillion annually** to finance the sustainable development goals (this includes eradicating poverty)

- Where will the money come from?
  - Governments
  - Private Sector
  - Institutions
  - Banks
  - Official Development Associations (seed funding and de-risking)

Source: http://www.undp.org/content/undp/en/home/blog/2017/7/13/What-kind-of-blender-do-we-need-to-finance-the-SDGs-.html

Who Are the "Popular Kids" in the Impact School?



Source: https://thegiin.org/assets/documents/pub/ImpactBaseSnapshot.pdf. All fund managers reporting to ImpactBase provide information on their target "impact themes" across six broad categories. See Appendix A for complete mapping. As of August 2014.

And Their Cliques…

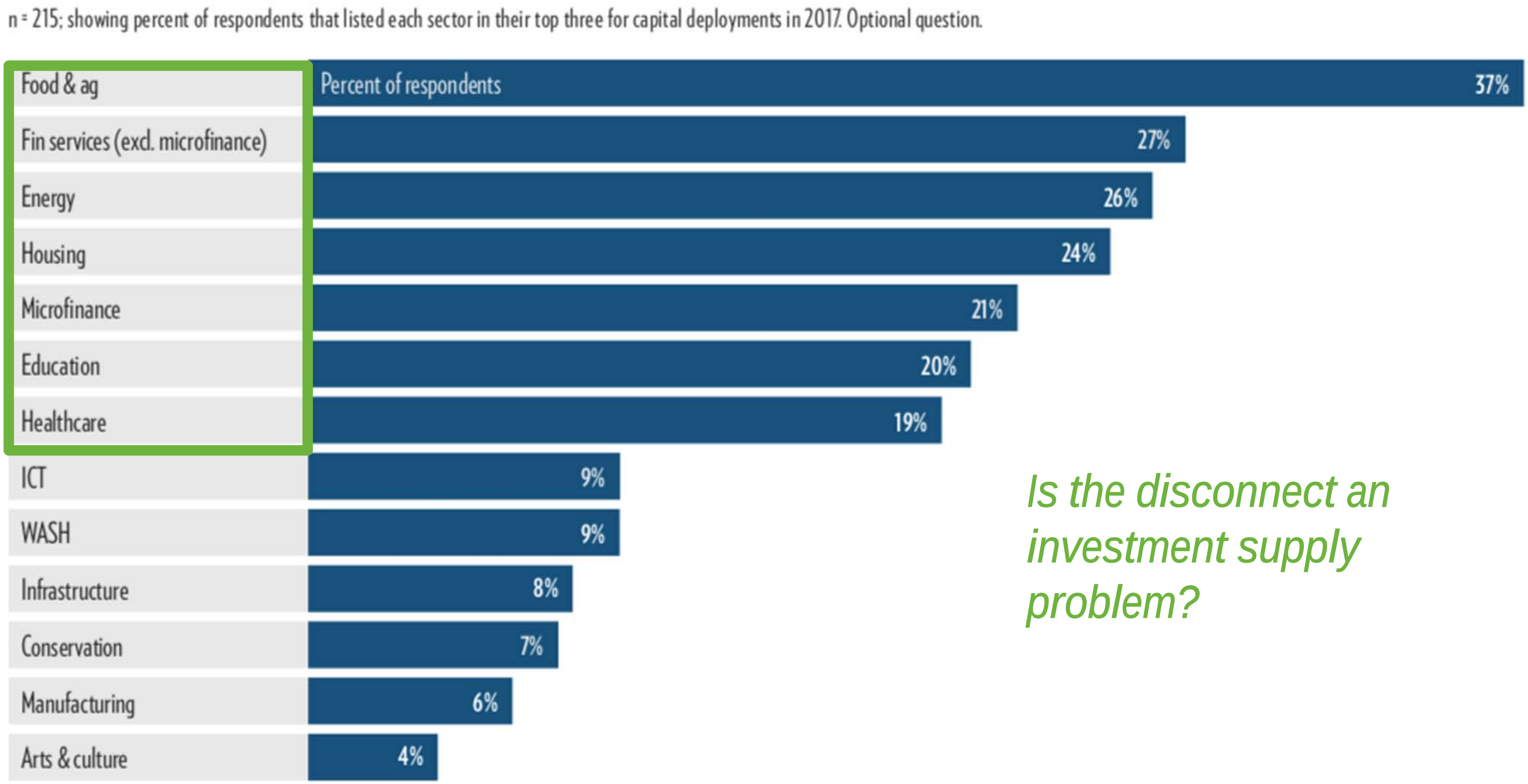
- Small enterprises
- Microfinance/Microcredit
- Medium Enterprises
- Agriculture and Food
- Education
- Health
- Affordable Housing
- Energy Efficiency, Energy, Fuels
- Waste Management / Recycling
- Sustainable Land Use, Carbon, and Environment
- Food Products
- Green Consumer Products

Source: https://thegiin.org/assets/documents/pub/ImpactBaseSnapshot.pdf

And When You Follow the Money…

(Which Expanded 5x from 2013-2017 = $228B)

Top Three Sectors to Which Respondents Deployed Capital in 2017



Is the disconnect an investment supply problem?

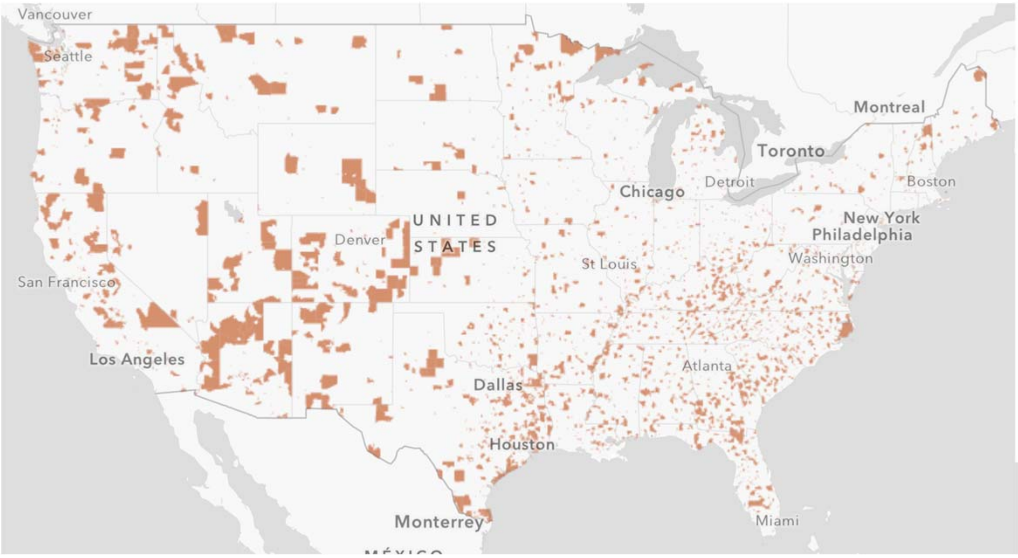
For specific methodology see https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf. Note: "Other" sectors include general environmentally sustainable investments, commercial real estate, inclusive supply chains, community development facilities, and retail services.

Accessing Impact on a local level

- Philanthropy and Community Foundations
- Community Development
- Social Entrepreneurs with a place-based focus
- Qualified Opportunity Zones

Are "Opportunity Zones" the Next Wave of Impact?

The Qualified Opportunity Zones ("QOZs") program is the largest new community development tax incentive program created in a generation though the Tax Cuts and Jobs Act in December 2017.



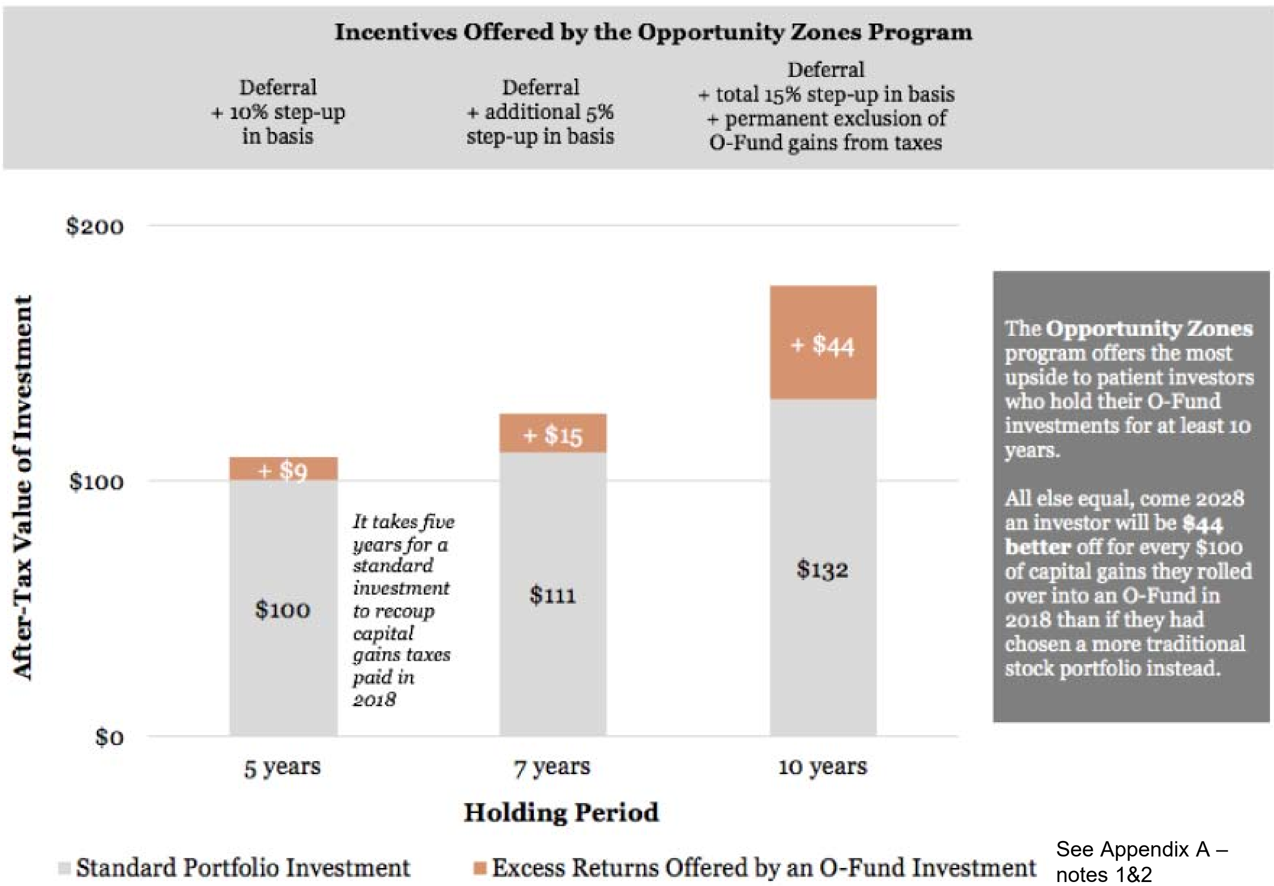
- ➢ The goal is to encourage patient, long-term investments in low-income communities throughout America
- ➢ QOZs have average poverty rate of 31% and median income of only 59% of its area median income
- ➢ Touches 35 million Americans and 24 million jobs and over 1.5 million businesses

Source: http://www.developadvisors.com/qualified-opportunity-zones/. Map image source: https://eig.org/news/opportunity-zones-map-comes-focus

Are “Opportunity Zones” the Next Wave of Impact?

Investing in an Opportunity Fund vs. a Standard Stock Portfolio

Scenario: A Capital Gain of $100 is Reinvested in 2018



See Appendix A – notes 1&2

The tax incentive of capital gains deferral is afforded when proceeds are reinvested in Opportunity Zone Funds and expires in 2028.

The 5-, 7-, and 10-year itch: The number of years it takes to hold your QOZ investment and receive a partial or full deferral on the original gains.

Source: Economic Innovation Group. “The Tax Benefits of Investing in Opportunity Zones,” January 2018. https://eig.org/wp-content/uploads/2018/01/Tax-Benefits-of-Investing-in-Opportunity-Zones.pdf. Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 7% for both the O-Fund and alternative investment. The “Standard Portfolio Investment” refers to a standard equity portfolio with a target return of 7%. See Appendix A for additional details.

Why Should We Care?

- Over the next **three generations**, it is expected that the greatest transfer of wealth will occur: I believe it is important to be an informed, trusted advisor to our clients and families in need of access to ideas that fulfill their passions and are aligned with their values.

- An estimated $30 trillion dollars (of the $50T+) will transfer hands from Baby Boomers to “millennial heirs.”

- According to Boston College’s Center on Wealth and Philanthropy, **women** will inherit **70%** of The Great Wealth Transfer with the end result being control of two-thirds of the nation’s wealth by 2030!

Source: https://hub.swellinvesting.com/articles/are-women-behind-the-rise-of-ethical-investing
Source: https://www.bankrate.com/personal-finance/great-wealth-transfer/

Women of ALL Ages and Millennials Have a Lot in Common!

- Of millennials (ages 18-34) who invest, **78%** are currently investing in impact themes or plan to in the future (there are over 75 million millennials)

- Women, in particular, are lining up their capital with their values – when asked, **64%** are interested, versus **46%** of men (according to a 2018 US Trust survey)

- Both demographics have an increasing demand to see impact investments available in retirement plans (a primary asset)

 Source: https://ustrustaem.fs.ml.com/content/dam/ust/articles/pdf/insights-on-wealth-and-worth-2018/Findings-Overview.pdf

The Opportunity for Your Clients

Planning ideas for developing a family legacy that expresses the integrated values of the family

- Establish a private family foundation with a multi-generational investment governance structure
- Establish a Donor-advised Fund directly with a community fund OR an advisor that offers impact oriented solutions
- Create a family investment structure that lives beyond the funder's lifetime
  - Engaging "inheriting heirs" early
- Evaluate your asset location strategy
  - Given the long runway impact investments require, a dynasty trust with an investment governance strategy is ideal

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Learning is the only thing the mind never exhausts, never fears, and never regrets.

- Attributed to Leonardo da Vinci

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Appendix A

Slide 11: "O-Fund" = Opportunity Funds are new private sector investment vehicles that invest at least 90 percent of their capital in qualifying assets in Opportunity Zones. U.S. investors currently hold trillions of dollars in unrealized capital gains in stocks and mutual funds alone—a significant untapped resource for economic development. Funds will enable a broad array of investors to pool their resources in Opportunity Zones, increasing the scale of investments going to underserved areas. Source: https://eig.org/opportunityzones/about

Slide 12: ImpactBase target "Impact Themes" – Fund Managers select from a range of impact themes across six broad categories. Note: All data used in this report is self-reported by fund managers contributing to ImpactBase. While the Global Impact Investing Network (GIIN) team makes best efforts to ensure accuracy of data, this is primarily the responsibility of contributors. Further, funds update their information in ImpactBase with varying frequency.

Thematic Area	Sub-Themes	Broad Classification
Environmental Markets and Sustainable Real Assets	• Carbon and Environmental Commodities • Conservation Finance • Green Real Estate/Green Building • Sustainable Land Use (Agriculture or Forestry) • Water Quality and Rights Trading	Environmental
Green Technology/Cleantech	• Energy, Fuels and Generation • Energy Efficiency • Materials Science • Transportation/Infrastructure • Water Technologies • Waste Management/Recycling	Environmental
Sustainable Consumer Products	• Green Consumer Products/Services • Food Products/Organics	Environmental
Access to Basic Services	• Affordable Housing • Agriculture and Food • Community Facilities/Infrastructure • Digital Access, Media, Technology • Education • Energy (Access) • Health • Water	Social
Access to Finance	• Community Lending • Microfinance (Microcredit) • Microfinance (Other Services) • Medium Enterprises • Small Enterprises/SGBs • Trade Finance	Social
Employment Generation		Social
Other		

Learning resources - part one

https://www.ussif.org/index.asp

https://www.kiva.org/

https://www.toniic.com/

https://thegiin.org/

https://www.weforum.org/events/world-economic-forum-annual-meeting

Learning resources part two

http://b-analytics.net/giirs-funds

https://www.un.org/sustainabledevelopment/sustainable-development-goals/

https://www.unpri.org/

https://impactalpha.com/

https://iris.thegiin.org/metrics

Disclosures

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The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 71,000 individuals have obtained CFP® certification in the United States.

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- Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board's studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor's Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board's financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;
- Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 6 hours, includes case studies and client scenarios designed to test one's ability to correctly diagnose financial planning issues and apply one's knowledge of financial planning to real world circumstances;
- Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
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