DAF Insights for Advisors

Expertise and tools to help advisors deepen the philanthropic conversation

What is Impact Investing? What Advisors Need to Know

By Lisa Barr, Western Regional Director of Development

Few philanthropic topics have generated more buzz in the last decade than impact investing. Large funders like the Ford Foundation and the MacArthur Foundation have made efforts to further align their investments with their mission, and clients with family foundations or donor-advised funds (DAFs) are making the shift as well. Clients already supporting certain causes with their charitable dollars can amplify their efforts by aligning their investments with their charitable goals.

What is Impact Investing?

In its purest sense, impact investing refers to investments made with the explicit intention to generate a positive and measurable social or environmental result alongside a financial return, according to the Global Impact Investing Network. By providing capital to address the world's pressing challenges, impact investments can achieve both charitable and financial goals.

Of course, as a financial advisor, you know that impact investing can be complicated. There are many different approaches—and a number of confusing acronyms to go with them. The variety of options, however, can work in your favor, as it provides different entry points—from the simple to the sophisticated—for you to offer clients.

Socially Responsible Investing (SRI)

Socially responsible investing (SRI) screens out companies or industries based on the investor's criteria. For instance, a socially responsible mutual fund may screen out all companies that are engaged in weapons contracting, tobacco or gambling. It may also incorporate positive screens—such as including companies that have a strong track record on reducing greenhouse gas emissions or that have a gender-diverse leadership team and board of directors. This type of investing is also referred to as sustainable, values-based or ethical investing. For clients interested in socially responsible investing, the goal is to generate financial returns without violating certain principles.

ESG funds

One of the easiest ways to get started with impact investing is by investing in an **environmental, social and corporate governance (ESG)** fund. ESG investing considers a set of standards and applies the fund's philosophy to mitigate long-term risk and increase long-term returns. Environmental standards, for instance, measure whether a company is a good environmental steward. Social criteria measure the way a company manages relationships with its employees, customers, suppliers and the community where it operates. Governance looks at a company's executive team, shareholder rights and other internal issues. Many investors consider ESG factors as a key component of fundamental analysis with the potential to drive outsized financial performance.

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Impact Investing vs. ESG vs. SRI

Impact investing is increasingly used as an industry catchall term. What sets impact investing apart from specific strategies, like ESG or SRI funds, is that it aims unambiguously to achieve measurable social outcomes. Impact investing also spans a wide range of assets, including bonds, private equity and public equity. Impact investments often require a time commitment, which can be difficult for clients who regularly use their philanthropic dollars to recommend grants from their accounts. However, a variety of cash and fixed asset products are also available within impact investing.

Impact Investing with National Philanthropic Trust

For many investors, building a balanced and diversified portfolio of impact, ESG and socially responsible investments can be challenging. It requires a great deal of research—and ongoing management—to maintain the right mix of investments to support a client's social impact objectives. To simplify the process, National Philanthropic Trust offers donors and their financial advisors two options. They may build a customized portfolio by selecting private investments from a curated menu, or they may choose one or more of our impact portfolios, which provide a single, diversified investing solution for a designated focus area. Each portfolio, created in partnership with industry expert CapShift, holds a mix of nine to 10 investments, including ETFs and actively and passively managed funds that employ ESG and SRI strategies. The goal of each portfolio is to provide long-term capital growth and reasonable capital preservation, while also offering sufficient liquidity to support your clients' ongoing grantmaking.

If you would like more information on impact investing with NPT, please contact us at npt@nptrust.org or by phone at (888) 878-7900.

Lisa Barr is NPT's Western Regional Director. She has more than 10 years of philanthropic experience working for community foundations and other nonprofits and holds a Master of Business Administration from Boston University Questrom School of Business.