Introduction to Impact Investing

Impact investing exemplifies the idea that one can "do well while doing good" with one's investments. In other words, one can purposefully make investments that help achieve certain social and environmental benefits and also generate financial returns. It's a broad term that refers to everything from investing in organizations with an explicit social mission aligned with one's values to avoiding investing in companies with practices that one believes have a negative impact. It can also be more expansively defined to include recommending grants to organizations and projects that can blend these grant funds with investment capital in order to support larger or higher-risk projects that may not otherwise be financially viable.

Fidelity Charitable® donors think about impact investing in a variety of ways—recommending that a portion of their charitable contributions be invested with an impact focus, or applying an impact investing lens to certain of their grant recommendations.

As a member of the Private Donor Group (PDG), Fidelity Charitable provides you with several options to recommend impact investments within your Giving Account®. You can recommend:

- A grant to an impact investing nonprofit
- A recoverable grant to a nonprofit
- Investments* in socially responsible mutual funds or Exchange Traded Funds (ETFs)
- Investments* in socially responsible fixed-income products, such as community and green bonds
- Investments* in impact-oriented private equity or venture capital funds

Fidelity Charitable also provides sustainable and impact investing pools for all donors interested in socially and environmentally responsible investment strategies for their Giving Account.

** Account must participate in the Charitable Investment Advisor Program (CIAP) or the Charitable DonorFlex Program (DonorFlex). For CIAP investments are generally made at the discretion of the CIAP. For both DonorFlex and CIAP, investments are subject to review and approval by Fidelity Charitable.*

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Impact Investing Options for Your Giving Account®

Recommend a Grant to an Impact Investing Nonprofit

There are a number of nonprofits that raise charitable dollars and invest these funds in socially minded organizations and projects. These investments generate returns, which the nonprofit then uses for new investments in the future. These impact investing nonprofits may focus on a particular geographic region or social or environmental cause.

Recommending a grant to such a nonprofit is a straightforward and efficient way to support social enterprises and nonprofits working in a region or for a cause you care about.

Recommend a Recoverable Grant to a Nonprofit

Many nonprofit organizations rely on a mix of donations and earned revenue to deliver the services they provide. These organizations may earn revenue via contracts with local or federal government agencies *(as in the case of a homeless shelter)* or from ticket or membership sales *(as in the case of a museum or theater)*. Many of these nonprofits run into situations where capital in the form of a loan can be valuable in helping them manage cash flow, make investments in facilities, or otherwise prepare for future growth.

You can use your Fidelity Charitable Giving Account to recommend a recoverable grant to a nonprofit.

A recoverable grant is similar to a traditional loan in that there is typically a defined and agreed-upon payment schedule. The grant becomes recoverable when defined outcomes—which typically include clear and objective milestones and timelines—are achieved. For instance, a grant may become recoverable when the grantee nonprofit reaches a specific fundraising goal.

When the nonprofit is able to repay the grant to Fidelity Charitable, the recovered funds can be allocated back into the donor's Giving Account for future grant recommendations.

Recommend Investments in Socially Responsible Mutual Funds

A growing number of public equity funds are categorized as socially responsible or socially conscious. Many actively consider environmental and social factors in their selection of stocks. Some funds positively weight companies that perform well on Environmental, Social, and Governance (ESG) factors, while others screen out companies with poor environmental and social performance or that operate in certain "sin" sectors like alcohol, firearms, tobacco, and gambling. Additionally, some public equity funds focus on specific themes and may choose to invest in companies based on their policies (e.g. a gender-focused fund that evaluates a company's diversity policies) or based on the specific products and services they provide (e.g. a climate-focused fund that invests in renewable energy providers).

A Giving Account participating in the Charitable Investment Advisor Program (CIAP) or the Charitable DonorFlex Program (DonorFlex) can be invested in a range of socially conscious mutual funds and ETFs. Industry data providers such as Morningstar include a socially conscious identifier for funds with an explicit social mission.

Recommend Investments in Socially Responsible Fixed-Income Products *(e.g., community and green bonds)*

There are also a growing number of fixed-income products that take into consideration social and environmental factors. Many municipal bonds are targeted to sustainable infrastructure or community development projects. There are also several "sustainable" bond funds that focus on companies with strong ESG practices. A Giving Account participating in CIAP or DonorFlex can be invested in a range of socially responsible fixed-income products.

Recommend Investments in Impact-Oriented Private Equity or Venture Capital Funds

There are a growing number of venture capital and private equity funds that invest in impact-oriented businesses. These businesses, led by social entrepreneurs, work in various locations (such as low-income communities in the U.S.) or sectors (such as affordable housing, sustainable agriculture, or education). These funds vary in terms of timelines (some have longer holding periods) and financial performance (some offer commercial returns and others offer concessionary returns). Investment in impact-oriented private equity is an available option for Giving Accounts participating in CIAP or DonorFlex. Fund recommendations are subject to review by Fidelity Charitable and are available to Accounts with assets of $5M+.

Common Impact Investing Terms

Double *(or triple)* bottom-line investing is the simultaneous pursuit of financial returns and positive social and/or environmental impact. *(i.e., people, planet, profit). (Source: A Short Guide to Impact Investing, Case Foundation, October 2015)*

ESG *(Environment, Social, and Governance)* factors are those that investors may use to evaluate whether their investments promote sustainable, fair, and effective practices and mitigate potential risks. *(Source: Mission Investors Exchange Glossary, Web. 18 Aug. 2016)*

Socially responsible investing (SRI)—also known as sustainable, socially conscious, "green," or ethical investing—is an approach that avoids investment in companies that produce negative social or environmental outcomes. In general, socially responsible investors encourage corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity. *(Source: A Short Guide to Impact Investing, Case Foundation, October 2015)*

Mission-related investments (MRIs) align assets with philanthropic mission. Private foundations may invest their endowments in funds that advance their mission and also achieve financial returns comparable to similar non-mission-focused investments. MRIs are not an official IRS designation and are conventionally distinguished through the explicit connection with the foundation's mission and programmatic goals. *(Source: Mission Investors Exchange Glossary, Web. 18 Aug. 2016)*

Program-related investments (PRIs) are often made by a private foundation. A foundation may provide capital at below-market terms to enterprises whose efforts advance its mission. PRIs are counted as part of the foundation's annual distribution requirement *(generally, at least 5% of its assets)*. Because PRIs are generally repaid, the capital can be reinvested into new charitable endeavors, increasing the leverage of the foundation's distributions. *(Source: Mission Investors Exchange Glossary, Web. 18 Aug. 2016)*

Venture Philanthropy is the application of concepts and techniques from venture capital finance to achieve philanthropic goals and create social return. The Venture Philanthropy approach can include both the use of social investment and grants. *(Source: Adapted from European Venture Philanthropy Association, Web. 18 Aug. 2016)*

Social impact bonds (SIBs) are also known as Pay for Performance Bonds or Pay for Success Bonds. A social impact bond is a type of government financing tied to outcomes. In the SIB model, private investors finance a program up front, and then are paid back by the government based on the program's achievement of agreed-upon results. The use of the word "bond" is actually a misnomer in this structure. The investment has more in common with venture capital that has social value. *(Source: Adapted from Mission Investors Exchange Glossary, Web. 18 Aug. 2016)*

Impact Investing FAQs

How does Fidelity Charitable define impact investing?

We define impact investing as deploying charitable funds into organizations and investment products that help achieve certain social and environmental benefits. This includes making grants to entities that finance mission-driven organizations and projects as well as investing in funds with a social or environmental focus.

Is there any evidence that these investments actually perform financially?

There have been numerous research studies that have looked at the performance of impact investments. Of note, Deutsche Asset & Wealth Management published a report in 2015 looking at 2,000 studies of ESG performance and found that 90% reported a non-negative relationship between ESG criteria and financial performance. Additionally, Cambridge Associates published a report in 2015 on the performance of private equity and venture capital impact investing funds, noting that many funds outperformed comparative conventional private equity funds. Finally, the Forum for Sustainable and Responsible Investment website includes links to many other research pieces—*http://www.ussif.org/performance*. Note: These studies are based on past performance data, which is no guarantee of future results.

Can my Giving Account be invested in social impact bonds (SIBs)?

SIBs are a relatively new financial instrument and there are currently a limited number of opportunities for investors to participate in them. While at this time Giving Account funds cannot be invested in SIBs, Fidelity Charitable is monitoring the development of the SIB market, as well as opportunities for charitable assets to facilitate its growth.

Can my Giving Account be invested in a for-profit social venture that's not publicly traded?

Fidelity Charitable doesn't currently allow donors to recommend direct investments in privately held companies. There are a variety of factors restricting investment in privately held companies. Issues related to illiquidity, valuation, secondary markets, taxation, and others can arise when considering the possibility of holding an interest in a privately held company.

Who are some advisors with expertise in impact investing?

Fidelity Charitable has developed relationships with several financial advisors with expertise in impact investing, and we would be happy to share more information about these organizations and their specific areas of focus. Additionally, several of the philanthropic advisors in our referral network have experience helping clients develop an impact investing strategy and approach. Please contact us to learn more.

Learn More

Below is a list of online resources that can help you learn more about impact investing.

- Impact Investing: Frameworks for Families, The ImPact
  http://theimpact.org/wp-content/uploads/2016/01/TheImPact_FrameworksForFamilies_2016.pdf
- Impact Investing: An Introduction, Rockefeller Philanthropy Advisors
  http://roadmap.rockpa.org/impact-investing/
- A Short Guide to Impact Investing, Case Foundation
  http://casefoundation.org/resource/short-guide-impact-investing/
- Global Impact Investing Network – A nonprofit dedicated to increasing the scale and effectiveness of impact investing with a resource library including research, case studies, and articles
  https://thegiin.org/impact-investing/
- The ImPact – US: A membership organization of families working to make impact investments more effectively
  http://theimpact.org
- Investors' Circle – An early-stage impact investing network of angel investors, venture capitalists, foundations, and family offices
  http://www.investorscircle.net/
- Mission Investors Exchange – A network of foundations and other mission-investing organizations
  www.missioninvestors.org
- US SIF: The Forum for Sustainable and Responsible Investment – Membership association for professionals, firms, institutions, and organizations engaged in sustainable, responsible, and impact investment
  http://www.ussif.org