

IS IMPACT INVESTING RIGHT FOR YOU?

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Can sustainable investing save the world? That's the title of an influential research paper that reviews how sustainable investing can initiate changes in companies' environmental and social impacts. Yet it also raises a broader question: What are we trying to do with sustainable investing?

KNOW YOUR MOTIVATIONS

With the recent rise in interest in sustainable investing, I'm increasingly asked what exactly is sustainable investing, and how does one get started? With roots dating back to 1971, sustainable investing has evolved from a portfolio construction process that avoided certain investments into a broad range of investment approaches that seek competitive financial returns while systematically considering environmental, social, and governance (ESG) risks and opportunities during the investment process. Or more simply, it's supplementing the traditional investment process with extra information.

The *how* of sustainable investing includes the primary investment methods used to implement sustainable investing practices. While the *what* and *how* are important, not understanding why one wants to invest sustainably can lead to confusion. A clear understanding of what someone hopes their sustainable investing efforts will bring about (i.e., their motivation) is needed with every discussion on this topic.

There are three primary motivations to invest sustainably:



Financial performance



Values alignment



Impact

These three objectives are not mutually exclusive, but they lead to different sustainable investing approaches, outcomes, and progress measurements. Figure 1 is an illustration of an investor's primary motivations for sustainable investing and the applicable investment method.



**Figure 1.
Sustainable Investing
Motivations & Methods**

Motivation		Method			
		Consider ESG Issues When Building Portfolio		Improve Investees' ESG Performance	
		Screening	ESG Integration	Impact Investing	Stewardship
Financial Performance	Risk Management		✓	✓	✓
	Outperformance		✓	✓	✓
Values Alignment	International Norms	✓			✓
	Personal Values	✓			✓
Impact	Investor Impact			✓	✓
	Company Impact			✓	✓

THREE PRIMARY MOTIVATORS



1. Financial performance

Some investors want to integrate as much ESG information available into their investment process in order to help “see” all relevant risks, while some want to invest in innovative companies with sustainable solutions that will increase future returns. ESG integration intentionally considers ESG factors alongside traditional financial analysis to identify risks and opportunities. Stewardship involves having dialogues with investee companies on ESG issues and exercising ownership rights and a voice to promote change in order to hold investee companies accountable to improve their ESG impacts.



2. Values alignment

Some investors want to ensure that the companies in their investment portfolio follow a principles-based approach to doing business, such as incorporating the Ten Principles of the UN Global Compact. Other investors may want to invest only in companies that are aligned with their own personal values. One approach to exclusionary screens involves aligning with international norms or standards, such as not violating the UN Global Compact. Another approach involves excluding investments in companies, industries, or countries based on moral values, such as tobacco, weapons, and alcohol.



3. Impact

Finally, some investors want measurable impact with their investments, which is fundamentally about triggering or accelerating positive change—either on the part of the investor or the company. Change brought about within a company thanks to investor activities is the investor impact, whereas the change that the company activities achieve in social and environmental parameters is the company impact. The primary mechanisms for investor impact are stewardship, seeking to hold investee companies accountable to improve their ESG impacts, and capital allocation, channeling funds to particular financial assets, such as private debt or equity. The primary mechanisms for company impact are growing the level of company activity and improving the quality of it.

Take a Closer Look at Impact Investing

Impact investing can be found in investments such as the Access Community Capital mutual fund (ACCSX) and as a component within the Model Wealth Portfolios (MWP) Sustainable Investing Mutual Fund model available here at LPL.

To learn more about impact investing and the motivations behind it, I invite you to read my interview with Ron Homer, one of the pioneers of impact investing.



Ron Homer: An Impact Investing Pioneer

Ron Homer is the chief impact investing strategist at RBC Global Asset Management, responsible for leading the firm's impact investing efforts. As an industry veteran who has worked in the financial services industry since 1969, Ron is often asked to consult with leading government officials on a variety of impact issues, including community investing. Community investing is a subcategory within impact investing that includes investments serving low-income and underserved communities. I was able to sit down with Ron

and discuss his background, the motivation for his career in investing, and his creation of an investment solution that ultimately led to channeling assets to underserved communities.

“Neither by itself is enough, in their combination lies our hope for the future”

Jason Hoody: Ron, thank you so much for joining me. For the benefit of those who may not know you, can you please provide a little bit about your background?

Ron Homer: Born and raised in the Bedford Stuyvesant section of Brooklyn, NY, I was the oldest child of dreamers who migrated to the

U.S. from the West Indies. Both of my parents were raised by single mothers seeking a better life for themselves and their children. From 1940 to 1960, Bedford Stuyvesant went from 75% white to 85% Black. I grew up as this transition took place, so I witnessed firsthand the impact of the change: less homeownership, more overcrowded living conditions, absentee landlords, less city services, businesses closing, less policing, declining schools, etc.



In 1967, Robert F. Kennedy helped established the Bedford Stuyvesant Restoration Corporation, one of the first Community Development Corporations in the nation. At that time, he articulated a formula that I believe is as true today as it was then. The program for the development of Bedford Stuyvesant was established to combine the best of community action with the best of the private enterprise system. Kennedy said, “Neither by itself is enough, in their combination lies our hope for the future.”

Two months before my college graduation at the University of Notre Dame, I had the opportunity to spend time with Robert Kennedy and his wife, Ethel, in a motorcade as he traveled through South Bend, Indiana, on his way to make a speech at Notre Dame as part of his bid for the Democratic presidential nomination. We drove through the poorest Black sections and poorest white sections of South Bend, and Kennedy saw the combination of desperation and hope of the people living in these neighborhoods, and at one point, he turned to me and said, “If I get elected president, I’m going to need your help to bring about the change needed to expand opportunities for these communities.”

That same day, Martin Luther King Jr. was assassinated, and just a few months later, Robert Kennedy was assassinated. The combination of these events led me to begin to explore ways in which I could use the opportunities afforded me in ways to expand opportunities for others. Since those motivating events, my career has been geared towards understanding and building linkages between community, government, and private enterprise for the goal of community economic development.

Expand opportunities for others through community economic development

RH (cont.): I went on to become the first in my immediate family to graduate from college and spent a year providing social

services in South Bend as part of the local federally sponsored Great Society anti-poverty program. It was through this experience that I realized that social change required economic solutions. I went on to get an MBA at University of Rochester and joined a major bank as a management trainee and eventually held a wide variety of lending positions.

At age 32, I became the chief operating officer of the largest Black-owned bank in the U.S., Freedom National Bank of New York. Four years later, in the aftermath of school busing confrontations, I helped establish a Black-owned bank in Boston, Boston Bank of Commerce, becoming its chief executive officer and a principal shareholder. Years later in Boston, I advised Harvard Business School professor and competitive advantage guru, Michael Porter, in forming the Initiative for a Competitive Inner City, a research organization focused on attracting private sector investment in underserved urban centers.

In 1997, I co-founded Access Capital Strategies LLC, an investment advisor specializing in community investments. In 2008, this firm was acquired by RBC Global Asset Management, and 13 years later, I remain with the organization as chief strategist of impact investing. Over several decades and within each of the organizations that I was affiliated with, doors were opened that facilitated more people of color to enjoy the benefits of the American dream of wealth, home ownership, and income appreciation. Today, I continue to work tirelessly to increase access to funding and improve our communities, and I continue to believe that we can all do better if we share our collective wisdom and resources going forward.

How we are helping to make housing more affordable

JH: Ron, can you discuss how you were able to use that background to create an investment solution that is a suitable component of a



diversified portfolio, while channeling assets to underserved communities?

RH: Founded in 1998, the Access Capital Community Investment strategy focuses on affordable housing, healthcare, education, and job creation benefitting low-to-moderate income (LMI) individuals and communities.

The team conducts bottom-up credit and impact research on each prospective loan and hand picks the ones that align with client requirements. We buy mortgage-backed securities made of loans we have hand-selected for securitization by working with a broad network of originators, including Fannie Mae and Freddie Mac. This focus on affordable housing is beneficial because we are purchasing loans from smaller banks servicing communities that are underserved by the nation’s largest banks. Our purchases allow these smaller community banks to transfer loans from their books and then extend another loan to another family, helping bring additional capital to these communities, keep credit costs down, and make housing more affordable.

We also buy first mortgages on multifamily rental housing for properties where renters have income limits and receive third-party rental payment assistance. In addition, we select and buy pools of loans which are guaranteed by the U.S. Small Business Administration (SBA). The underlying businesses support job creation and provide valuable services to LMI communities. We collaborate with national and local partners to help small businesses use loan programs in their areas.

Due to the originator reporting requirements, this approach has been able to itemize specific benefits from this strategy, which includes providing more than 17,000 mortgages for low- and moderate-income home buyers, more than 93,000 affordable rental units, and nearly 6,000 nursing home-facility beds.

JH: Ron, thank you for your time and sharing your story and what you’ve done for others. I’m grateful to be able to share this with investors that are considering where they can begin to make an impact with their investments.

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