WETHERBY
ASSET MANAGEMENT

# Impact Investing Digest

*Second Quarter 2018*

## What We're Reading

- **Lyft Says Every Ride Will Be Carbon Neutral With Clean-Air Plan**

  *Bloomberg / by Eric Newcomer / April 19, 2018*

  Lyft plans to spend millions of dollars a year to fund projects that would offset the pollution created by its drivers. As part of the program, Lyft hired a company, called 3Degrees, to oversee carbon-offset investments. Those will include efforts to reduce pollution in auto manufacturing and forest conservation. The move is sure to endear Lyft to its urban base of riders and drivers. The company positions itself as a friendlier alternative to Uber, a message that got a boost during the final year of Travis Kalanick's tenure as Uber chief executive officer. Lyft described it as a "multi-million dollar investment in the first year alone," according to the founders' blog post.

- **Businesses Are Buying More Renewable Power Than Ever Before**

  *Bloomberg / by Brian Eckhouse / April 30, 2018*

  Companies are buying renewable power at a record pace. AT&T Inc. and Walmart Inc. are among 36 businesses, government agencies and universities that have agreed to buy 3.3 gigawatts of wind and solar power so far this year. That's on track to shatter the previous high of 4.8 gigawatts of disclosed deals last year, according to a report by Bloomberg New Energy Finance. There are several reasons clean power is attractive. Renewable energy is often the cheapest source of electricity. Long-term contracts to buy clean power from wind and solar farms can also act as hedges against uncertain wholesale prices. Smaller companies have benefited from growing standardization in the ways companies agree to buy clean energy. Sometimes these companies are recruited to buy wind and solar power from the same power plant as larger buyers.

- **College for Financial Planning to Launch Designation Devoted to Sustainable, Responsible and Impact Investing**

  *Globe Newswire / The Bawmann Group / May 31, 2018*

  The College for Financial Planning (CFFP) will launch the groundbreaking new professional designation, the Chartered SRI Counselor™ (CSRIC™) this fall, in collaboration with the industry-group leader US SIF: The Forum for Sustainable and Responsible Investment. Coursework for planners seeking the CSRIC™ designation will detail the history of sustainable and impact investing. It will present the range of responsible investing approaches and share comprehensive information on the environmental, social, and governance factors considered by responsible investors. The course will also explore trends in shareholder engagement, fiduciary duty and portfolio construction.

- **Women on Track to Gain Record Number of Board Seats**

  *The Wall Street Journal / by Vanessa Fuhrmans / June 21, 2018*

  In the first five months of 2018, women accounted for 248, or 31%, of new board directors at the country's 3,000 biggest publicly traded companies, according to an analysis by ISS Analytics. That is the highest percentage in at least a decade, and puts 2018 on track to be a record year for new female board members. Shareholder pressure, along with the #MeToo movement, is fueling some of the momentum. Big investors such as State Street Global Advisors and BlackRock Inc. are urging companies to diversify their boards and, in some cases, voting against certain board members at firms with all-male boards. Many investors point to correlations that several studies by McKinsey & Co. and other consulting firms and business schools have drawn between greater diversity and enhanced financial returns as reasons for demanding greater female representation on boards. Other firms are bringing more women into the boardroom in the wake of sexual-harassment scandals, or to help prevent them, recruiters say. Despite the uptick in women directors, companies haven't propelled them at the same rate into leadership roles in the boardroom. Though women occupy 18% of board seats at the 3,000 biggest companies, 10% of lead independent directors are women and 4% of boards are led by a chairwoman, not a chairman. The women who are gaining entry into corporate boardrooms often come with a greater set of skills and qualifications on their resumes than their male counterparts, the ISS analysis found—a reflection, in part, of the specific expertise boards are increasingly looking for in new directors. A greater proportion of today's women directors have direct experience in finance, technology, sales and legal and government affairs than their male counterparts, though few of them have held the role of CEO.

- **Starbucks to Eliminate Plastic Straws by 2020**

  *The Wall Street Journal / by Julie Jargon and Kimberly Chin / July 9, 2018*

  Starbucks and Hyatt Hotels said they would phase out single-serve plastic straws and pledged to reduce packaging waste from their drinks and meals. McDonald's, meanwhile, is phasing out plastic straws in the U.K. and Ireland and testing alternatives made from other materials in the United States. Burger King said it has committed to making all of its packaging in the U.K. recyclable by 2025. Executives say they are responding to advocacy groups and customers who say the convenience of straws and other plastic packaging isn't worth the environmental damage they can have. Eight million metric tons of plastic enter the world's oceans every year, according to the Ocean Conservancy. Seattle, where Starbucks is based, was the first U.S. city to ban the use of plastic straws, effective July 1. Starbucks said that it plans to phase out single-use plastic straws from its more than 28,000 company-operated and licensed stores by 2020. The coffee giant said it would switch to a strawless lid or straws made from a material other than plastic. As You Sow, a nonprofit that advocates for corporate social responsibility, requested in a shareholder proposal that the coffee chain issue a report on its sustainable packaging efforts and develop a more comprehensive plan to eliminate plastic straws and other waste.

- **Banks Pivot Toward Greener Finance in Climate Action Push**

  *Bloomberg / by Anna Hirtenstein / July 10, 2018*

  Some of Europe's largest banks are unveiling plans to lend and manage money in greener ways as pressure mounts to account for risks associated with climate change. Natixis is working on a new color-coded indicator that will be applied to about 60% of its activities to encourage more climate-friendly business. The system uses shades of green, brown or neutral to reflect a transaction's risk weighting on the bank's balance sheet. The greener the project, the lighter the risk. UBS recently introduced a sustainable investing strategy to its wealth management arm to invest in cross-asset portfolios that include World Bank bonds, green bonds and environmental, social and governance-focused equity funds. ING in Amsterdam is writing sustainability-linked loans where the cost of capital fluctuates depending on the environmental impact of the borrower. The bank can knock off between 5% and 10% of the cost if the company improves its sustainability metrics. Banks are still trailing asset managers such as pension funds and insurance companies in putting climate concerns into action. Institutional investors with $68.4 trillion under management have already signed up to the Principles for Responsible Investment, pledging to incorporate environmental, social and governance factors, known as ESG, into their investment decisions. Several have also begun to divest from fossil fuel holdings, from AXA SA to the Church of England and Oxford University's endowment.

- **How to Reduce Clients' Taxes While Providing a Social Good**

  *ThinkAdvisor / by Bernice Napach / July 16, 2018*

  There's one section in the 2017 tax cut legislation that most financial advisors know little about but probably should get acquainted with, especially if they have clients interested in impact investing. It's the section that allows the creation of opportunity zone funds, designed to promote economic development in low-income neighborhoods through private tax-advantaged equity investments. Investors who roll over capital gains into an opportunity zone fund within 180 days can defer those gains until their investment in the fund is sold or until Dec. 31, 2026, when the tax provision sunsets. To date, the Treasury Department has certified more than 8,700 Census tracts across all 50 states plus Washington, D.C., and territories as opportunity zones. Fran Seegull, executive director of the U.S. Impact Investing Alliance, sees the potential benefits of opportunity funds both for investors and communities but says it's "very early" for investments because more guidance is needed from the Treasury and IRS. "There are very few guardrails," in the legislation, says Justina Lai, director of impact investing at Wetherby Asset Management, an RIA with offices in San Francisco and New York. "The legislation doesn't require any provision for long-term reporting and there are no protections in place to insure the benefit go to low-income people….[that] gentrification doesn't dislocate people and businesses." For now Wetherby Asset Management will be watching for guidance from IRS. When the guidance does come and opportunity zone funds are created, advisors with clients interested in these investments need to do their due diligence. They should ask about the investment strategies and target beneficiaries along with how benefits will be tracked and portfolios managed, says Lai.

# Research / Reports

## The Financial Performance of Impact Investing Through Private Debt */ Global Impact Investing Network and Symbiotics / April 2018*

This first industry report on private debt impact investing sheds light on investment strategies, fund structures and impact measurement practices of Private Debt Impact Funds (PDIF), which invest primarily in emerging markets, and Community Development Loan Funds (CDLF) investing exclusively in the United States. Key findings:

- Both sets of funds studied offer stable returns. Weighted net returns of PDIFs averaged 2.6% per annum since 2012, with the 90th percentile registering 10% return in 2016. CDLFs paid an average of 2.9% on their notes, with the 90th percentile registering 3.6% return in 2016.
- PDIFs have a Sharpe ratio of 0.77 and also offer an uncorrelated asset for portfolio diversification.
- Fixed income funds demonstrated extremely high portfolio quality overall, with average write-off ratios in both sets of funds below 1%.

## How Women and Men Approach Impact Investing */ The Women's Philanthropy Institute / May 2018*

This study examines how men and women use impact investing and what those gender differences may mean for the broader philanthropic sector. Key takeaways:

- Knowledge gaps exist in impact investing; women and men are equally likely to be aware but women are more likely to want to learn about impact investing.
- Impact investors are younger, more educated and have higher incomes. Women and men are equally likely to make impact investments, but gender differences appear for specific groups of people (examined by income or education level, for example).
- People who impact invest in place of charitable giving are younger, more educated and have higher incomes. Households where men make charitable giving decisions (either as single men, or as sole deciders in their marriages) are more likely to replace charitable giving with impact investing.
- Women may have a particular interest in impact investing due to their different motivations for giving and interest in giving through a gender lens.

## Annual Impact Investor Survey 2018 */ Global Impact Investing Network / June 2018*

In its eighth edition, the report provides analysis of market activity and trends, covering topics such as capital allocations by sector and geography, indicators of market development and industry challenges, approaches to impact measurement and management and satisfaction with financial and impact performance. Key findings:

- *The impact investing industry is growing.* Over half of the investors surveyed made their first impact investment in the last ten years, showing that there are many new entrants to the market. In 2017, respondents invested over $ 35 billion into over 11,000 deals, and indicated plans to increase capital invested by 8% in 2018.
- *The impact investing market is diverse.* While allocations have grown across all sectors and geographies over the past five years, growth has been particularly strong in segments that historically accounted for a smaller share of investments thus indicating expansion in investor interests.
- *Overwhelmingly, impact investors report performance in line with both financial and impact expectations.* A majority of respondents indicated that their investments have met or exceeded their expectations for impact (97%) and financial (91%) performance.
- *Impact investors demonstrate a strong commitment to measuring and managing impact.* Nearly all respondents measure the social and/or environmental performance of their impact investments. They use a mix of proprietary metrics, qualitative information, the GIIN's IRIS-aligned metrics and other tools and frameworks. The majority of respondents (76%) set impact targets for some or all of their investments to track progress toward their social/environmental goals.
- *Investors are committed to the United Nations Sustainable Development Goals (SDGs).* Many investors are recognizing the power of their capital to help achieve the SDGs. 76% of impact investors track their investment performance to the SDGs or plan to do so in the future.
- *Impact investors note that there are remaining challenges that need to be addressed.* The most commonly cited challenges facing the growth of the impact investing industry are: the 'lack of appropriate capital across the risk/return spectrum' and the 'lack of common understanding of the definitions and segments of the market.'

## Foundations of ESG Investing—Part 4: Integrating ESG into Factor Strategies and Active Portfolios */ MSCI / June 2018*

This paper discusses two approaches to applying ESG ratings to factor-based allocations, and then investigates overlaying ESG ratings and ESG momentum on the historical holdings of nearly 1,200 actively managed global equity funds. Key findings:

- Factor allocations: Combining ESG and common factors is more complex than integrating ESG into passive portfolios, as investors may seek to gain ESG exposure while not impairing the strategy's investment objective by reducing exposure to target factors. The trade-off between ESG exposure and target factors was less severe for defensive factors such as minimum volatility and more severe for dynamic factors such as momentum and value.
- Actively managed allocations: 1,200 global equity funds have shown no significant level of ESG integration during the study period. However, simulations showed that applying a consistent overlay to fund holdings using ESG ratings and ESG momentum led to an improvement in risk and risk-adjusted return characteristics.

## Special Report on Sustainable Investing */ Barron's / June 2018*

- Larry Fink: The New Conscience of Wall Street? "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society," Fink wrote. "Companies must benefit all of their stakeholders, including shareholders, employees, customers and the communities in which they operate." Fink's argument is rooted in the bottom line, and supported by a growing body of academic research.
- Does Sustainable Investing Lead to Lower Returns? No: Sustainable companies outperform over the long term because they are better at adapting to a changing world. We have clear evidence that ESG factors can identify companies that will outperform, and that there is investor demand. For those asset managers who do it right, that combination spells opportunity. Yes: By definition, limiting choice will limit returns—and the criteria needed are impossible to standardize.
- Getting Started in Sustainable Investing Pinning down what sustainable means is no easy feat. It's an umbrella term for a variety of investing styles that evaluate companies based on environmental, social and governance, or ESG, factors, alongside traditional stock-picking metrics.
- ESG Roundtable: Great for Society, Good for Investors Four specialists discuss the latest research, trends and issues and attractive ESG-related investments.
- The Trump Bump and Sustainable Investing A backlash against the president's policies has helped to fuel a surge of money into ESG funds.
- Could ESG Become the Wrapper for All Investing? Demand for ESG investing strategies is being driven by women and millennials, who, by 2025, will make up three-quarters of the workforce.
- The 20 Most Influential People In ESG Investing A Who's Who record of the people setting the ESG agenda.
- How Jeremy Grantham Is Taking On Climate Change "The great weakness of U.S. capitalism, particularly at the corporate level, is the fixation on the short term...corporations simply aren't paid to give up today's profits in favor of the longer-term profits. And sustainability gets right to the heart of long-term thinking."

# Upcoming Events and Conferences

- **Roundtable on Impact Investing**

  *August 7, 2018 / San Francisco Foundation / San Francisco, CA*

  The roundtable will bring together foundations and financial advisors to discuss strategies, approaches and opportunities in the impact investing space. Justina will co-lead a discussion on Wetherby's experiences with and approach to impact investing and highlight client success stories.

- **Institutional Investors' RIA West Investment Forum**

  *October 9-10, 2018 / The Ritz-Carlton / Marina del Rey, CA*

  Deb will moderate a panel of leading women advisors, create an active dialogue about gender diversity in the financial advice industry and provide tangible action points to bring back to their practices to enact and advocate for change. Justina will speak on a panel about the spectrum of impact strategies and provide ideas for how RIAs can begin implementing solutions into their practice.