How You Can Start Impact Investing in 2016

A new AARP program lets you earn money helping older, low-income people

By Kerry Hannon

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I have a New Year's money resolution for you that would be good for your financial future and the world's: Become an impact investor in 2016. And I'll tell you how in a sec.

Impact investing, the buzzy term in investment circles these days, means investing for a financial *and* a social-impact return. A recent U.S. Trust survey found that roughly a third of high-net-worth investors either own or are interested in owning social-impact assets.

Retirees are keen on impact investing, too, according to a Merrill Lynch/Age Wave survey: 72 percent said that, compared to other ways of giving, social impact investing "can be more effective in getting results for causes I care about" and 43 percent noted that "seeing my rate of return helps me to measure how much impact my giving has."

In recent years, the moniker I've used to describe investing to support causes that matter to you was "socially responsible." It meant buying stocks in companies doing what you considered to be the right thing.

Impact investing takes this do-gooder idea a step further: Here, you buy stocks or bonds of startups or other small ventures that are aggressively working to crack big global challenges such as poverty and affordable housing.

Until recently, impact investing was generally reserved for the very wealthy — individuals with at least $1 million in investable assets or income of $200,000 a year — and minimum investments typically started at $250,000.

But lately, it's becoming easier for the rest of us to become impact investors.

One of my favorite examples: AARP's new Age Strong program, which lets you buy bonds that are used specifically to improve the lives of older, low-income people, providing them with everything from healthy meals to affordable, accessible housing to job training. Age Strong is a partnership between AARP Foundation (AARP's charitable arm), Capital Impact Partners (an expert in financing community development projects) and Calvert Foundation (a nonprofit enabling people to invest for social good).

With Age Strong, you can invest as little as $20 online (through Calvert Foundation's Vested.org) or $1,000 and up by check or through a broker to buy fixed-income notes (think short-term corporate bonds) paying from 0.50 percent for a one-year note to 3 percent for a 10-year note. Your interest accrues on an annual basis and you can have it repaid to you, reinvested or donated to Calvert Foundation. (The notes can't yet be bought by residents of Arkansas, South Carolina or Washington.)

Age Strong's goal: lending $70 million. "Through our investment product, people can fund enterprises that provide critical services for vulnerable older adults," said Calvert Foundation President and CEO Jennifer Pryce.

Here are four things to keep in mind if you want to explore impact investing or socially responsible investing:

1. It takes some soul-searching. Impact and socially responsible investing is not as simple as deciding to buy, say, an S&P 500 index fund or even choosing an investment class like health care stocks. It's about pairing your values to your investments, which is a more emotional decision and takes time.

2. Research isn't as plentiful as with other investing. Impact investing is just beginning to hit the radar screens of more than just a handful of wealthy philanthropists, so it can take some sleuthing to find opportunities and sources of information.

Finding socially responsible mutual funds is a little easier. They're offered by major fund companies including Ariel, Calvert, Domini, Neuberger Berman, Parnassus, Pax and TIAA-CREF. Some socially responsible fund managers can specifically purchase shares of companies that invest in their local communities.

Each of these funds has its own guidelines regarding the kinds of investments it makes. For example, the Calvert Social Index Fund (minimum investment: $5,000; $2,000 for an IRA) starts with the 1,000 largest U.S. companies and then whittles that down by analyzing their suitability in: governance and ethics; environment; workplace; product safety and impact; community relations; international operations and human rights and indigenous peoples' rights.

The big guys are beginning to open up impact investing opportunities for the rest of us. In October, for instance, BlackRock (the world's largest asset-management firm) launched an impact-investing portfolio. It's called BlackRock Impact U.S. Equity Fund Investor A Shares Fund and aims to invest "in measurable social and environmental outcomes while seeking to generate competitive financial returns" and has a minimum $1,000 investment.

Keep your eyes open for others or ask your investment adviser about new offerings.

3. Returns don't have to be subpar. Contrary to popular wisdom, you don't necessarily have to sacrifice returns to be a socially conscious investor. The iShares MSCI KLD 400 Social Index, a socially responsible benchmark, had an 11.09 percent return on a $10,000 investment over the past five years. That was roughly on track with the 11.2 percent return for the comparable MSCI USA index, which doesn't use such a screen.

Calvert Equity, one of the largest and oldest socially responsible mutual funds, gained 10.33 percent over the past five years; the iShares MSCI USA ESG Select Index, an ETF that tracks companies based on their environmental, social and governance standards, returned 9.76 percent.

TIAA-CREF Social Choice Equity (TICRX) has successful tracked the broader market without surrendering returns, too. Its five-year return on $10,000: 10.39 percent. The fund chooses stocks it thinks score well on five standards including use of natural resources, labor relations and corporate governance. (No surprise that alcohol, gaming and tobacco investments are off the list.)

4. Fees are worth paying attention to. Unfortunately, fees charged by socially responsible funds are often a bit higher than comparable alternatives. The Vanguard FTSE Social Index Fund Investor Shares' expense ratio is 0.25 percent, while Vanguard Investor Shares 500 Index has an expense ratio of 0.17 percent. (I should note, however, that 0.25 percent is still very little.)

One More Way to Make an Impact

Now allow me to take my dollars and cents financial hat off. I think the most impactful investments I make are with my time — volunteering for organizations making the world better right in my own community, like Martha's Table. It's a Washington, D.C. charity that each day feeds more than 1,000 people, many homeless, and runs preschool and afterschool programs for children from poor families. In 2015, Martha's Table supplied more than 1 million healthy meals to hungry children, families, and neighbors, according to Patty Stonesifer, president & CEO.

That's a return you can't put a figure on.

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