Values-Based and Impact Investing: An Introduction

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February 2014

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Impact investing is investing with the intent to earn a financial return while creating a positive social impact consistent with an investor's core values. Impact investing is one of several values-based investment techniques that lie along a continuum between traditional risk/return based investing and philanthropy. One of the most important recent developments in this field is the increasing number of investment opportunities that are structured to earn both a market rate of return and provide impact, as this type of structure is appealing to a much broader audience than values-based investments with limited returns. In effect, these investments lie on a new "efficient frontier" in investing that encompasses risk, return, and values-based impact.

Background

Philanthropic investors have begun to question the commonly held notion that profits and positive impact are inherently mutually exclusive. American culture is broadly experiencing a shift towards integration, balance, and authenticity. The fruition of these forces has philanthropically minded investors increasingly examining the dichotomy that may exist between their investments and their values. Values-based investing is no longer a paradox, but rather part of a holistic attitude towards wealth management and philanthropy that creates an additional dimension by which to assess the quality and suitability of an investment.

Impact investing, along with other forms of values-based investing, allows a wide range of investors to create positive impact while meeting their financial goals. It can also be a way to engage multiple generations of a family, offering an avenue for the family to define their shared core values. Further, many institutional investors including public pension plans, banks, foundations, and endowments, are exploring values-based investing, particularly impact investing, in order to align their missions with their investments. Consequently, attention to these strategies from asset managers and the variety of investment products available to serve the needs of this growing investor base has dramatically expanded in the past few years.

There are three important steps to creating a values-based investment portfolio:

1. *Construct a Values-Based Framework:* Identify and define the core values that will be incorporated into portfolio construction. Clarify the specific ethical, religious, and/or environmental objectives.
2. *Choose a Values-Based Investment Strategy:* Choose the appropriate technique or combination of techniques that will achieve the desired goals. Will the portfolio use screens? Socially responsible or impact investing? Will the portfolio require market rates of return or will it accept below market rates of return in exchange for mission related benefits?
3. *Choose How to Express Specific Values:* Decide on the specific investment vehicles that will express desired values across industries, asset classes, and geographies. Decide whether to implement by choosing commingled vehicles or by working with an advisor to create a custom and holistic strategy.

Once investors have considered all of these aspects, they are well-positioned to create a values-based portfolio designed according to their specific goals.

History

As early as the 1700s, Americans started to avoid investing in potentially harmful industries. Many of these early ideas about values-based investing came from Christian ministers who discouraged followers from participating in businesses and practices that harmed their neighbors or workers, including the slave trade, alcohol, tobacco, weapons, gambling, and chemical production.

Social unrest during the increasingly globalized 1960s world created a broader awareness in the American public of the social and environmental consequences of some of our economic activities. The increasing availability of information made it harder to ignore the negative consequences of activities that may have financially benefitted individuals and companies.

The principles of values-based investing resonated with the socially conscious youth of the late 1980s, whose pressure was integral in convincing their universities to divest from companies that conducted business in South Africa in protest of apartheid. Many institutional investors followed suit and withdrew funds as well. In the time following these early activists, values-based investing has continued to thrive and grow.

The idea of creating social value while generating profits has resonated with many modern investors seeking to reconcile principles with investments in quality companies. In his 1991 Centesimus Annus, Pope John Paul II advised members of the church on their investments: "When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied. But profitability is not the only indicator of a firm's condition…other human and moral factors must also be considered which, in the long term are at least equally important for the life of a business."

The former Pope's words ring true with many investors considering the moral implications of their financial ventures, regardless of religion. Fortunately, the growing industry of values-based investing is closing the gap, and investors have many options that do not force them to choose between financial and moral objectives. Whether it is religious convictions, women's issues, minority rights, animal welfare, the environment, or other social concerns which drive decisions, investors are increasingly able to construct a portfolio that incorporates these values throughout.

1. Constructing a Values-Based Framework: Defining Values

Before creating a values-based portfolio, investors must clarify which values they wish to incorporate into their investment decisions. Different investments address a wide variety of social, environmental, and religious concerns. Some of the most common concerns for impact minded investors are Environmental, Social, and Governance (ESG) criteria and religious beliefs.

Environmental, Social, and Governance Factors (ESG)

ESG criteria are a broader set of factors commonly used in values-based investing. Investors can choose to incorporate many or just a few ESG factors into an analysis of an investment for both ethical and risk management purposes.

Examples of environmental, social, and governance factors include:

- Environmental Factors: climate change, toxic waste, agricultural chemicals
- Social Factors: animal rights, child labor (primarily foreign companies), living wage
- Governance Factors: executive pay, shareholder rights, union relations

In addition to causing less harm to the environment, employees, and society, compliance with ESG factors may reduce an investment's exposure to some forms of risk and increase long term business sustainability. Companies with business practices congruent with ESG issues might be less likely than noncompliant companies to find themselves the target of lawsuits and regulatory actions. For example, a company that uses green energy would likely be less affected by a new governmental regulation imposing stricter rules on pollution. Likewise, a company that employs fair labor practices and is mindful of working conditions would reduce its chances of losing profits to a minimum wage increase, a strike, or a protest.

Religion

Many investors wish to see their religious values reflected in their portfolios. Although many religious groups emphasize a variety of similar issues, such as human rights, investments can also be tailored to an investor's distinct convictions. Some investments explicitly state a commitment to certain religious values while others claim no denomination. Many religious institutions provide guidelines to help investors navigate investments with no stated religious affiliation.

Example: Catholic Values

The U.S. Conference of Catholic Bishops issued "Socially Responsible Investment Guidelines"[1] with the criteria of:

1. Protecting human life
2. Promoting human dignity
3. Reducing arms production
4. Pursuing economic justice
5. Protecting the environment
6. Encouraging corporate responsibility

Recommended for exclusion:

- Abortion
- Contraceptives manufacturing
- Embryonic stem cell/fetal tissue research
- Human cloning
- Production of military weapons
- Development of biological/chemical weapons, nuclear weapons, weapons of mass destruction
- Landmines manufacture, sale, or use
- Racial or gender discrimination

Recommended for active promotion:

- Human rights (e.g. living wages and benefits, fair and safe working conditions)
- Inclusion of and equal opportunity for women and minorities
- Family-oriented media content
- Affordable healthcare and pharmaceuticals for all
- Affordable housing and banking
- Environmental protection
- Corporate responsibility

[1] United States Conference of Catholic Bishops, November 2003

2. Choosing a Values-Based Investment Strategy

In constructing a values-based portfolio, investors may incorporate the following techniques as part of their strategy:

- Socially Responsible Investing (SRI)
- Shareholder Activism
- Impact Investing

Socially responsible investing generally entails avoiding investments that generate profits from objectionable business practices. Shareholder activism requires investors to proactively engage corporate management. Impact investing is placing money in investments that actively, through their investment activities, generate social good while also providing financial returns. Many investors may choose to incorporate a variety of values-based investment strategies in their portfolios.

Socially Responsible Investing: Positive and Negative Screens

Socially responsible investing is a form of values-based investing that typically employs negative screens to eliminate investments with harmful activity from the universe of potential investments. Investors may also utilize positive screens, only including investments with specific qualities in their search. Positive screens are usually referred to as ESG screens, as they represent environmental, social and governance factors that are identified for inclusion in a portfolio. These screens will vary depending on the different goals of investors or funds. Many times, investors utilize both positive and negative screens in choosing investments.

Potential screens include:

Negative Screens	*Positive Screens*
Fossil Fuels	Green Energy
Firearms	Education
Animal Testing	Forest Conservation
Gambling	Medical Research

Evaluating the performance of SRI portfolios is relatively straightforward. The simple approach is to compare the portfolio's performance to the performance of an industry standard benchmark. Ideally, the portfolio's performance would also be compared to that of the same benchmark after applying the identical screen(s) as the SRI portfolio. By measuring the differences in one's portfolio performance to both, one can attribute drivers of return versus the benchmark – the separate effects of screening and the manager's skill.

Investors might also keep in mind that the effect a certain screen could have on the portfolio's performance depends on the scope of the screen. For example, an investor could use a negative values screen such as "defense companies." A broad screen mandating no investments in any defense companies would eliminate a much larger universe of investments than narrowing the screen to something specific such as "land mine manufacturers," of which there are only a few companies worldwide. Investors would then need to weigh the trade-offs of a robust versus a narrowly defined screen.

Shareholder Activism

Shareholder activism is a dynamic practice of values-based investing in which shareholders attempt to influence corporate behavior through initiating conversations with management and voting on shareholder proposals. Some examples of topics these proposals might address include animal testing, sustainability, and access to healthcare/medicine at a reasonable cost in third-world countries. This is the least commonly practiced type of values-based investing, as it typically requires the most amount of action on the investor/shareholder's part. However, there are some straightforward ways to implement this practice. For example, there are several SRI proxy voting services that can be used in conjunction with a portfolio of stocks – making it easier for investors to voice their concerns over corporate practices or policies (e.g. working conditions and environmental issues).

Evaluating shareholder activism's effect on the portfolio performance is not as clear-cut as with other forms of values-based investing. An industry standard benchmark should continue to be used to evaluate performance on a risk/return scale. In order to measure the impact goals, the best method of measuring shareholder activism is to monitor the social progress of a company through their annual meeting or annual report. New accounting disclosures and formats are being developed to encourage clear reporting of impact initiatives and goals at public corporations. By drawing attention to the issue and potentially changing the behavior of company management, proxy voting has frequently made an impact even if the vote fails to pass.

Impact Investing

Like other forms of values-based investing, impact investing allows investors to achieve financial targets while maintaining a portfolio that expresses their principles. Within the domain of values-based investing, impact investing stands out among philanthropy, socially responsible investing, and shareholder activism in that it aims to generate financial profits and measurable social and/or environmental good directly through its investments.

Impact investing arose at the intersection of philanthropy and investing. Traditional giving usually results in a "no-return" scenario: although social good is derived from the gift, the philanthropist does not see a monetary benefit themselves. When people realized that they could attain a return on their investment, even if it was lower than a typical targeted investment return, impact investing was born.

Listed below are examples of specific areas of focus for many impact investments with social and environmental objectives.

Means of impact	Business sectors	
Process ▪ Job creation ▪ Energy efficiency ▪ Facilitating asset accumulation ▪ Utilizing bottom of the pyramid suppliers	**Basic needs** ▪ Agriculture ▪ Water ▪ Housing	**Basic services** ▪ Education ▪ Health ▪ Energy ▪ Financial services

Source: "JP Morgan Impact Investing Report." J.P. Morgan Global Research, November 2010

Impact investments are also categorized as Mission-Related Investments (MRIs) and Program-Related Investments (PRIs). MRIs are market rate investments that provide important impact without sacrificing return. PRIs typically come with below market rates of return but offer sufficient positive social good such that foundations are allowed to treat them as part of their annual required distribution to charity.

Advantages and Disadvantages of Impact

Impact investments have some tangible advantages over philanthropy as a place for mission-oriented investors to put capital to work. Impact investments target many of the same missions as nonprofits such as facilitating capital access in underserved markets, creating employment in low income communities, improving sustainable land and energy use, and increasing access to affordable housing. Most impact investments are profit seeking and may provide additional financial incentives to their investors. Some investments may be subsidized by grants or have access to government sponsored financing facilities. In many cases, these grants or government sponsored facilities are designed to cushion the downside for investors and thereby serve as "catalytic capital". Catalytic capital is capital which an investor or government sponsored entity contributes to an impact investment in a first loss, risk-mitigating position in order to entice additional investors to participate. By doing so, they are enabling more impact capital to be put to work. Impact investments also are able to benefit from recycling of capital – using the proceeds from a successful investment to fund additional investments.

Despite their advantages over traditional philanthropy, impact investments present certain challenges not encountered in non-impact investments. Frequently they have reduced liquidity versus comparable non-impact investments. Due to a typically smaller average deal size than traditional investments, impact investments sometimes incur higher due diligence costs. Impact focused funds also sometimes have higher operational costs associated with adherence to their mission. Fees typically fall within the same range as non-impact funds, with most management fees between one and two percent and performance fees around 20% (primarily in the case of private equity funds).

Evaluating Impact

Because impact investments aspire to objectives in addition to a certain financial rate of return, overall performance can be challenging to measure. Investors must evaluate an investment on both its financial return and its success in pursuing stated impact goals. To this end, many advisors who manage values-based portfolios utilize Impact Reporting and Investment Standards (IRIS) benchmarks. IRIS metrics are developed and overseen by the Global Impact Investing Network (GIIN), a nonprofit dedicated to expanding and improving impact investment. IRIS metrics incorporate the ability to have impact, ability to meet investment targets, and the level of impact into evaluations of an impact investment's performance. Examples of specific measurements of impact are the investment's capability of and success in increasing incomes and assets for the poor, improving basic welfare for people in need, or mitigating climate change.

Financial First vs. Impact First

Although the process of constructing a portfolio is complex and nuanced, a simplified model of investment selection utilizes the two primary dimensions of risk and return. Values-based investing, particularly impact investing, transforms this two dimensional model of risk and return into a three dimensional analysis.

Impact is not a "yes or no" category; rather, it creates a new investment frontier.

At one end, investors can invest in traditional investments that have an entirely financial focus and no social impact. On the other end, traditional philanthropic organizations focus exclusively on impact and generate no financial returns for investors. In the middle, many managers find an impact/return efficient frontier by selecting investments that do both well, taking impact and investment return targets into consideration.

Investors must determine the rates of return they are willing to accept from their impact portfolios. Impact investments vary with respect to the priority placed on returns versus impact. Financial first investors may set a minimum target for social or environmental good while primarily focusing on optimizing financial performance, and generally pursuing at least market rate returns. Alternatively, financial first investors may seek optimal financial performance but preferentially include investments consistent with their values where there is little to no give up in performance characteristics.

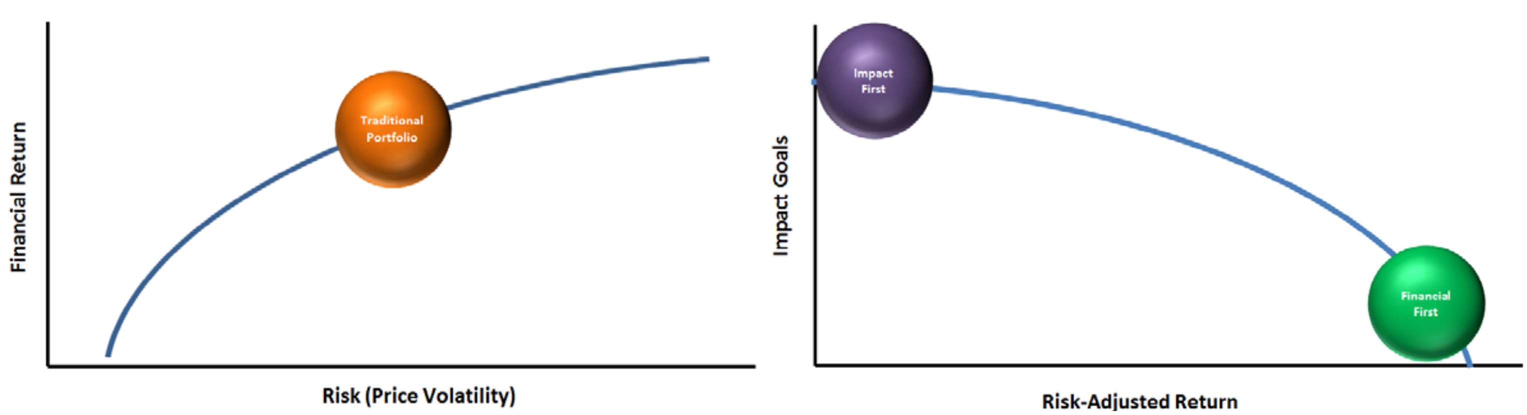
Some impact investments, particularly those in the early stages of development, have returns below market rate. Investors can expect a "give up" on a percentage of returns as compared to the market rate. These investments are more suitable for impact first investors who are willing to tolerate lower return (or potentially higher risk) investments in pursuit of social and environmental good.

Financial First Investors:

- May seek to optimize financial returns with a floor for social/environmental impact
- Often are commercial investors mandated to search for investment vehicles that offer market rate returns while yielding some social/environmental good
- Example: A retirement fund manager or a bank consortium with Community Reinvestment Act (CRA) mandated impact guidelines

Impact First Investors:

- Seek to optimize social or environmental returns with a minimum return of capital and potentially below-market financial return



Source: Athena Capital Advisors

- Willing to accept a lower than market rate of return for higher risk investments in order to achieve social/environmental objectives
- Example: High net worth investors who want some financial return on their philanthropy or foundations

Investors or institutions that seek some return on their investments but are primarily concerned with social or environmental goals may be tolerant of lower financial profits. Of course, many investors and investments fall in the middle of the spectrum from financial first to impact first, and portfolios can incorporate a mix of both types of investments.

3. Expressing Values: A Diverse Universe of Investments

Impact and other values-based investment strategies span asset classes and geographies. Today, investors have a wide variety of vehicles to consider, ranging from individual securities, mutual funds, and ETFs, to hedge funds and private equity. Impact investments exist on a global scale; some investments maintain a domestic focus on environmental impact or under resourced communities, while others invest in emerging and frontier markets. Every investor approaches a values-based or impact investment portfolio differently – some invest across the entire spectrum of asset classes, industries, and geographies, and some are much more focused. There are over 80 asset advisors, and managers who are members of the GIIN (Global Impact Investing Network). For example, one GIIN member focuses exclusively on natural resources/conservation and sustainable agriculture through real estate and private equity asset classes. Another fund uses private debt to help finance public media in the U.S. Even large banks have stepped into the values-based arena, with at least one creating a private equity fund-of-funds investing in underserved U.S. markets. For more detailed examples of values-based investments within each asset class, please see the Appendix.

Implementing the Solution

Constructing any investment portfolio should take into consideration market factors as well as an investor's need for return, need for liquidity, risk tolerance, and other investor-specific factors. Values-based investing factors are no different than other investor-specific factors. Each investor is unique with respect to their social or environmental values and desired balance between impact and return. With such a vast landscape of investment opportunities, and complexity of components across the entirety of the values-based spectrum, thoughtful construction and due diligence in building a values-based portfolio is critical.

Given that the options available to values-based investors are significantly more transparent and less multifaceted in the public markets versus those in the private markets, many investors opt to construct and implement their values-based portfolios solely via public markets, especially domestic equities. An investor can select multiple public market vehicles including mutual funds and ETFs with strategies consistent with the investor's individual values. Additionally, certain investment firms are starting to offer prepackaged solutions around values-based investing whereby investors can invest in a commingled multi-asset class vehicle with a broad mandate that targets many different impact and values-based goals together. Some investors will find that a public markets focused portfolio or a prepackaged solution meets both their values and performance goals most effectively. While investors may not be able to completely tailor the strategy to their specific, personal values and goals, or gain exposure to all asset classes, these vehicles offer the benefit of convenience and simplicity.

Investors who are identifying value-based vehicles for their portfolio, whether it be multiple public options or a commingled solution, should carefully evaluate the description of each vehicle's mandate for fit with their performance and impact goals. Additionally, the investor should consider the quality of the investment team and process, and therefore the likelihood of meeting the stated goals. The evaluation should include an analysis of the fees and historic risk/return data, if available. On an ongoing basis, the investor should monitor performance of the vehicle(s) against both risk/return and impact goals. Even though a public markets focused approach and/or a commingled solution can conveniently meet a variety of goals, the same process of choosing a framework and strategy applies in order to determine that the selected vehicle is the right solution.

Because of the complexity of values-based investing across the market spectrum, investors frequently prefer to work with an advisor. An investor may know directionally what core values they wish to incorporate, but an advisor can assist in refining the details and texture around those values in order to best develop an implementable framework around them and the execution of the portfolio. It is important to recognize that the types of advisors vary widely – from banks to insurance companies to mutual funds to wealth managers. As with a commingled solution, the cost and expertise of advisors also varies widely, and an investor may wish to compare two or three different advisors in order to assess the best fit in terms of skills, cost, experience, and compatibility.

Ideally, the first step in working with an advisor is the creation of an investment policy which reflects the values framework that the investor has discussed with the advisor, as well as the technique(s) that will be used to implement the

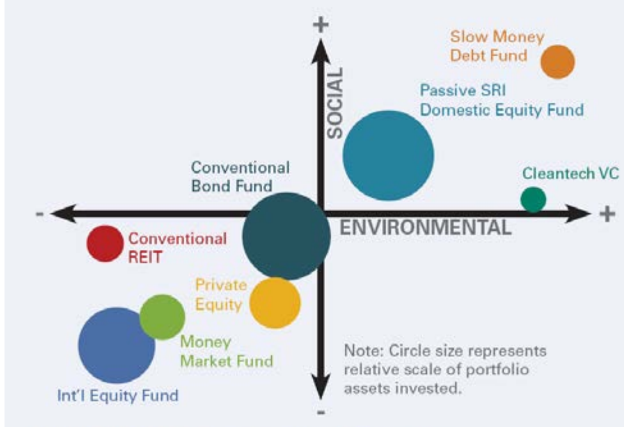


Figure 2. BEFORE: Partially Activated Portfolio Map

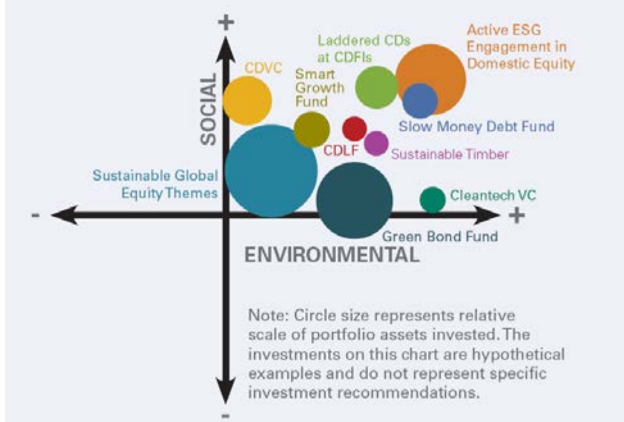


Figure 4. AFTER: Total Portfolio Activation Map

An example of how a portfolio could be adjusted to reflect sustainable global equity themes.

Source: Trillium Asset Management, Total Portfolio Activation, August 2012 framework. The advisor should then proactively seek investment opportunities that fit within the policy, searching for investments that generate the accepted rate of return and pursue the desired social and environmental impact. The advisor should conduct rigorous and comprehensive due diligence on potential investments, incorporating returns, risk, and analysis of an investment's achievement of its stated impact targets.

After determining that an investment is consistent with an investor's objectives and is approved by the advisor's manager selection and due diligence team, the advisor determines the appropriate sizing and timing of incorporating the new impact investment into the portfolio. At regular intervals over time, the advisor should be able to appropriately measure the performance, both financial and impact, of the portfolio based on mutually-agreed upon guidelines. Finally, as the world of investments changes and evolves, the advisor is able to help the investor adjust and rebalance a values-based portfolio on an ongoing basis.

Conclusion

Financial and cultural trends are converging, creating a new set of issues to consider when investing. Values-based investing creates a third dimension for analysis beyond simple risk and return. Investors must decide if they seek market rate investments or if they are willing to potentially give up some return or take on additional risk to make a positive social or environmental impact through their portfolios. While metrics for measuring impact are still evolving, the number and quality of values oriented managers and investments is increasing rapidly across all asset classes.

A wide range of values can be expressed in a portfolio through one or a combination of several techniques. From using SRI screens, to voicing their opinions through shareholder activism, to investing in actively managed private investments creating positive impact, investors have many tools at their disposal.

There are three key steps to consider in creating a values-based portfolio: (1) defining and clarifying specific values-based goals, (2) identifying appropriate values-based investment strategies, and (3) choosing the means of implementing the strategy.

Some investors find that implementing a values-based portfolio through the use of a public markets focused or a commingled solution is appropriate and convenient in its simplicity. Other investors find that their long-term needs are met through a customized solution working with an advisor with experience in the impact and valued-based investment field. Not only can the right advisor help investors to construct a custom values-based investment framework, but also, advisors can select high quality, differentiated investments and manage the overall portfolio, adjusting as needed over time.

Values-based investing is increasingly accessible to individual and institutional investors alike. As the field grows and matures, new solutions are emerging to meet the unique and diverse spectrum of investor needs. With its continued exponential growth, values-based investing is now established as an integral aspect of the modern investment landscape.

APPENDIX: Sample Values-Based Investments

Cash

Investors can utilize the cash portion of their portfolios to generate positive impact by placing it in entities such as municipal money market funds and community development financial institution CDs. These funds help individuals and resources underserved by traditional banks to obtain financial services.

Example: A foundation seeks to provide financial products and services to individuals in disadvantaged communities. The foundation provides loans at below market rates to individuals as well as institutions such as community loan funds, community development banks and credit units, international microfinance companies, affordable housing developers, and fair trade initiatives.

Fixed Income

Fixed income funds with a focus on social impact provide financing to individuals, institutions, and communities underserved by traditional banks. They are often involved in microfinance but can also deal in debt restructuring and expediting capital to nonprofits.

Example: A fund invests in short term debt instruments and term deposits of low-income financial institutions including microfinance institutions and small and medium enterprise banks. The fund has a high quality management team and a solid risk-return profile with better liquidity terms than many comparable investments. Although fund returns are not as high as those of some non-impact fixed income funds, it maintains consistent returns with little volatility while providing vital financial services for the poor. The fund works towards providing low income individuals and businesses with financing for savings, housing, and education.

Example: A fund assesses pledges of monetary funds to a humanitarian organization and if approved, immediately provides the funding to expedite the organization's work. This helps eliminate the time gap between a donor's promise of funds and the payment to recipients. The fund also helps improve pricing, transportation cost logistics, and long term program planning. Because the fund can borrow while the organization cannot, it can utilize leverage to multiply the impact of a grant.

Equity

Impact oriented equity funds often use a variety of positive or negative screens to select stocks with a positive social or environmental impact.

Example: A firm with several domestic equity strategies takes a financial first approach to impact investing. Stocks are chosen based on sector risk/return expectations and superior earnings growth prospects along with providing environmental, social and governance records. The firm has a 30 year history with over $1 billion in assets under management.

Example: A fund provides impact oriented exposure to small to large-cap global equities. The fund runs a monthly SRI screen that eliminates alcohol, tobacco, gambling, weaponry, pornography, and "too big to fail bank" stocks. In addition to these negative screens, the fund devotes 1-2% of its portfolio to investments with direct, positive impacts on local communities. The fund also provides capital for loans to under-served individuals and businesses through Community Development Financial Institutions.

Example: A fund which incorporates sustainability into its investments with the view that superior long term performance will be maximized by firms with socially and environmentally sound business practices. The fund seeks companies with dominant market positions that meet sustainability and ethics criteria. For example, the firm is invested in a healthcare company currently developing a diabetes treatment. The company has a sustainable strategy focused on developing markets and exists in a sector with high growth potential and significant barriers to entry.

Example: An equity firm invests in renewable energy and companies working towards efficient and sustainable resource optimization. It has multiple strategies investing in the rapidly developing markets of alternative and efficient energy, waste and resource management, food and agriculture, and water treatment and infrastructure. The firm has won numerous awards for its excellence in sustainable and ethical fund management.

Hedge Funds

Similar to long-only equity funds, hedge funds may use screens (positive or negative) in values-based portfolios but are not typically active impact investors.

Example: A firm maintains long-biased multi-strategy hedge funds with portfolios in distressed debt, equities, and portfolio hedges. One of their funds focused on socially responsible investing utilizes a Catholic-values screen, barring investment in companies that profit from or are involved in abortion, stem cell research, contraceptives and pornography and places strict limits on exposure to businesses including alcohol and weapons of mass destruction. This fund has historically outperformed the S&P 500 and the HFRI Event-Driven Index on a risk adjusted basis. The distressed portfolio contains bonds, convertible bonds, bank loans, trade claims, credit default swaps, and residential mortgage backed securities. The equity portfolio invests in common stock, preferred stock, swaps, warrants, and options. The fund also has exposure to index hedges, currency hedges, and U.S. Treasury holdings through its hedge portfolio.

Private Equity

Private equity (and private debt) is one of the most utilized investing formats in the impact space. Many impact funds exist within the private equity sphere due to the fund structure's ability to provide direct financing and operational improvements to companies creating social good. Impact oriented private equity funds frequently invest in resource efficiency companies (such as renewable energy) or high growth potential companies in underfunded regions.

Example: A private equity fund with a focus on high growth, positive impact, and capital-efficient companies in the resource efficiency/sustainability and tech-enhanced services sectors. This fund targets high growth stage companies that require less capital than typical investments and are located in under-the-radar regions. Across its funds, the firm has made substantial contributions to the environment, job creation/enhancement, education/health, and community while performing in the top half to top quartile in each sector. The fund focuses on profitability and companies with limited technology risk, giving exposure to high growth companies with lower risk than most venture capital funds. This fund targets 20%+ net returns (as measured by IRR, or internal rate of return), so it can provide exposure to ventures with no impact "give up" in terms of performance.

Real Estate

Impact funds in the real estate sector are diverse, investing with properties from timberland to office and apartment buildings. Impact real estate funds typically invest with companies that promote environmental conservation, sustainable natural resource use, or buildings that utilize green technology such as solar energy.

Example: A forestry-focused fund provides an alternative real estate exposure and an indirect "hedge" to inflation with a diverse timberland portfolio. The fund has a conservation focused strategy and partners with multiple conservation organizations such as The Nature Conservancy. The fund promotes responsible and environmentally sound management of timberland and protection of endangered species in its investments across the U.S. with exposure in all major industrial forest regions. The fund seeks to optimize the value of the purchased land to generate revenue for investors and has an aim of competitive risk adjusted return rates.

Example: A fund invests in office buildings and repositions them for improved occupancy and operating income through green retrofitting. The fund is managed by a real estate firm founded in the 1980s with extensive property management and urban planning expertise. The fund targets 12-15% net IRR returns and provides real estate exposure while creating impact through energy efficiency. Office space in metropolitan cities remains in high demand and tight supply, and research by a large real estate firm shows that green buildings are beginning to have greater demand and superior market performance compared with comparable non-green buildings. In addition to having a growing rent and value premium over their non-green counterparts, green buildings are more efficient and operate at lower costs. There are few other firms with comparable strategies to this and equally attractive risk/return profiles.

Commodities

Commodities funds with a positive impact bent generally invest in the responsible and sustainable use of resources.

Example: A fund provides global exposure to clean energy and renewable resources by investing in publicly listed companies that reduce environmental impact and can generate profits from the opportunities associated with climate change. Recognizing that firms investing in environmentally friendly resources will continue to generate value over time, the fund selects companies with strong returns that maintain an environmental bent. The fund invests in companies that seek opportunities in agricultural productivity and clean fuels, clean technology and efficiency, efficient transport, environmental finance, power merchants and generation, power technology, renewable energy, low carbon commerce, and water. The portfolio is composed considering environmental rankings, financial rankings, and diversification across stock categories.

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