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Community investment goes mainstream

Firms carve out a small niche to support underserved areas

By Deborah Nason
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Investing in disadvantaged communities is going mainstream, with a variety of investment vehicles springing up.

A subset of socially conscious investing, community investment "directs capital from investors and lenders to communities that are underserved by traditional financial services institutions," according to the website of the Social Investment Forum in Washington.

The nonprofit group provides research and educational programs on socially conscious investing.

Community investments can focus on a variety of social causes such as affordable housing or microfinance, both domestically and internationally.

While still a minuscule slice of the investing universe, community investment assets have quadrupled in the last dozen years and were expected to have grown to more than \$21 billion in 2007, according to Prianjali Mascarenhas, CI program manager of the Social Investment Forum.

Since the group launched its CI web portal, communityinvest.org, in 2005, it claims that it has introduced more than 400,000 investors to community investing.

Long popular within the CI community, the Calvert Foundation's Calvert Community Investment Note, with \$125 million in assets, reached a milestone in 2005 when it became part of many brokerage platforms.

"We have selling agreements with more than 300 companies," said Shari Berenbach, executive director of the Bethesda, Md.-based foundation.

The Calvert note represents a "fund of funds that invests in a range of U.S. and international intermediaries that perform local work in about 200 program areas," she said.

Clients may direct their money to a variety of purposes, such as specific U.S. regions, Gulf Coast recovery, fair trade or international microcredit.

The note's fixed rate of return ranges from 0% to 3%.

"There definitely is a trade-off in return, but it is a decent way of donating without giving up [one's] money completely through a charitable donation," said Lisa Kirchenbauer, a certified financial planner and the president of Arlington,

Va.-based Kirchenbauer Financial Management & Consulting, which manages \$50 million in assets.

Other CI providers offer products that don't penalize returns. Chicago-based ShoreBank Corp., for example, offers investors a range of products that offer market rates of return under the umbrella of "development deposits." These include federally insured CDs, checking accounts, time deposits, money market accounts, individual retirement accounts and savings accounts, all of which support development activities in underserved minority communities in Chicago, Cleveland and Detroit. The products are available through the platform of San Francisco-based Schwab Institutional.

Product growth has been "incredible," with about \$480 million in assets under management at this time; \$300 million of that has been added just in the last four years (some from institutional investors), according to Jean Pogge, executive vice president.

Developing World Markets, a socially responsible investment bank and fund manager in Darien, Conn., has focused exclusively on international microfinance since 2003.

Offering funds and notes at market-rate returns to institutions and wealthy individuals, the firm has worked with microfinance institutions in about 30 countries and manages \$300 million in assets. In 2006, it received the first rating in the CI industry for a microfinance collateralized debt obligation it brought to market.

"[Developing World Markets] raised awareness of [CI] viability as an asset class and opened up the pool of institutional capital to us," said Roger Frank, a partner.

Cherie DiNoia, a certified financial planner and president of Shelby Financial Group Inc. in Sarasota, Fla., has developed private debt instruments that help finance community investment projects in Honduras and North Carolina. Her community investment notes offer annual returns as high as 12%.

"We created this structure simply to allow our clients, many of whom are elderly, to receive income," said Ms. DiNoia, who oversees \$40 million in assets.

The notes are not backed by the U.S. government, but "it's the same as buying a [corporate] bond. In four years and \$10 million in transactions, I've never had a default or missed payment," she said.

While only about 12% of the assets under Ms. DiNoia's management are directed toward community investments, about 60% to 70% of her clients participate in them.

Andy Loving, a certified financial planner at Just Money Advisors in Louisville, Ky., which manages \$40 million in assets, has a clientele that focuses almost exclusively on socially conscious investing. About 15% to 17% of the assets under his management are invested in CI vehicles, one of which is the CRA Qualified Investment Fund (CRAIX), a mutual fund from Community Capital Management of Weston, Fla.

The fund supports low-income housing, affordable health care and job training.

Ms. Kirchenbauer, with a more mainstream practice, directs about 3% of the assets under her management to community investments, but suggests the investments to about a third of her clients. She said CI is part of her firm's life-planning services.

"[CI] is a tiny part of clients' portfolios, but it's important. It doesn't seem so fringe anymore," she said.

Offering community investing options helps Mr. Loving acquire and retain clients. "I can do something for my clients

that no one else can do," he said.

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