iSELECT FUND®

Investing with Impact

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Investing with Impact

Over the last decade, there has been tremendous growth in what is now called "impact investing." That is, investments that are made "with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return."

Historically, people of wealth, and even those of more moderate means, have separated their use of capital into two separate buckets — one for investments and making returns on their capital, and the other for giving, charitable works, philanthropy, etc. with no expectation of a return of capital, let alone a return on that capital. However, that dynamic is changing, and it is well characterized in a quote from a recent Morgan Stanley report:

> *"Sustainable investing continues to make gains. Investor familiarity and enthusiasm are at an all-time high. More than 8 in 10 U.S. individual investors (85%) now express interest in sustainable investing, while half take part in at least one sustainable investing activity. As the market matures, reaching $12 trillion in the U.S. alone[1], individual investors are also driving innovation. Increasingly proactive, they seek products and solutions across asset classes, tailored to their interests. They also want to measure the environmental and social impact of their investments."*
>
> Morgan Stanley, Sustainable Signals, September 2019[1]
> *Report on US Sustainable, Responsible and Impact Investing Trends, U.S. SIF Foundation, 2018*

Among individual investors:

Let's dig into these factors in a little more depth. The following elements are contributing to the accelerated interest in sustainable investing:

- **Values Driven.** Socially conscious investors recognize that in addition to generating a return, capital can have a positive impact on the world.

- **Performance**. Concurrently, there is increasing evidence that impact investing is not an underperforming exercise. In many cases, it actually outperforms traditional approaches.* In addition, it seems that younger, talented people are increasingly attracted to more impactful companies. Talent drives performance.

- **Availability.** Responsible investment options are increasingly being offered within investment portfolios, and a socially conscious investor has many options. Though it should be noted that access to alternative investments, particularly national impact venture capital, is still limited.

- **Climate Change.** As society become increasingly aware of both the dangers and business opportunities inherent in climate change, more are looking to avoid companies contributing to the problem and invest in those creating solutions.

- **Millennials.** Born between the early 1980s and the early 2000s, the Millennial generation is the largest in American history at 85 million strong. More than any generation prior, Millennials seek to make a difference in society through the jobs they hold, the products they buy, and the investments they make. Millennials are poised to inherit trillions of dollars from Baby Boomers — and their influence as impact-oriented investors is starting to be felt.

- **The United Nations Sustainable Development Goals (SDGs). The U.N.'s SDGs** are increasingly gaining traction as an organizing framework for many global asset owners, particularly those looking for a thematic investment approach. The SDGs are a set of 17 global goals focused on sustainable-development themes ranging from hunger, health, poverty, resource efficiency, equality, education, climate change, infrastructure, land and water, with a target date of 2030.

Further to the point of more direct, impact investing vs. broad ESG/SRI screening, the UBS/Campden Wealth Global Family Office Survey 2019 found that, "over a third (34%) of the community is now engaged in this form of investing, and this cohort projects that their average portfolio share of sustainable investments will grow from 19% to 32% within the next five years."

*Prior performance is not indicative of future results.

So, given this growth, how does one go about making impact investments and how much "impact" can one expect from investments in different asset classes? Further, how accessible are these investments and how much transparency is provided?

There are many ways to invest with impact. One could run screens for ESG on a public portfolio. One could invest in debt/bonds for impactful community or renewable energy projects, or to support small-medium companies in economically disadvantaged areas. All of these are impactful, admirable, productive and potentially could generate market-based returns as well.

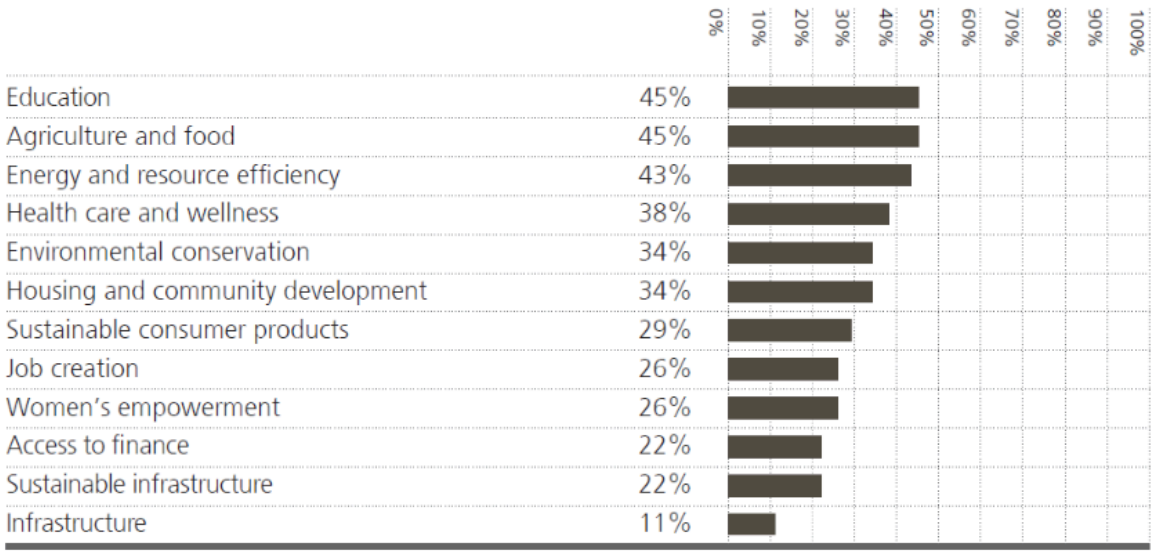
However, we believe one asset class provides the most significant opportunity to effect real change, real impact in our world — an asset class that is famous for disruption and creating new business models, new opportunities, real improvements in our lives and creating a massive number of jobs.

That asset class is **venture capital**.

Venture capital supports early-stage companies whose very existence, in general, is predicated on their ability to produce disruptive change — while making a significant impact in their field. Otherwise they fail and close. Yes, it is high risk, high return. But history has shown time and again that new entrepreneurs, new ideas and new companies consistently pave the way for real change. And if we are committed to making a true impact with our capital, shouldn't one at least allocate a portion of their portfolio in supporting these emerging companies?

At iSelect, we are primarily focused on supporting entrepreneurs in impact in areas like sustainable food/agriculture and healthcare. This aligns very well with the preferences of family offices, as outlined in the UBS/Campden Wealth Global Family Office Survey 2019:

Figure 2.29
Most common areas of impact investments



Source: The UBS / Campden Wealth Global Family Office Survey 2019. Note: Figures may not sum to 100% because respondents can select multiple options.

iSelect believes venture capital is an ideal vehicle for impact dollars for a number of reasons:

- Funding early stage, heavily due-diligenced and high-quality companies has strong potential to provide the biggest possible "bang for the buck" in that a company could materially solve a problem, change a market or indeed, change the world.

- Almost without exception, companies at this stage are required to disrupt the status quo and will not get funded unless their ideas/business models are truly disruptive.

- Investing in high-quality teams, with daring ideas that are seeking to disrupt, not incrementally improve a market, is a tremendously exciting and rewarding endeavor.

- In some cases, leveraging leading scientists and researchers and assisting them in getting their work out of the labs can create immense value as this critical work transitions from institutional/governmental funding and oversight, to the commercial markets.

- Viable and unsuccessful approaches are fairly quickly determined, thus saving time and money in long drawn-out and ultimately money-losing ventures.

- There are emerging critical needs in food/ag and healthcare as the planet adds another two billion people over the next two decades (and the global middle class more than doubles), and as the global population ages. We believe new solutions, driven by dynamic, new entrepreneurs and the investors who fund them, are the answer.

However, the issue with traditional venture capital, in addition to its fairly risky status, is access: Access to Tier 1 firms. Access to Tier 1 deal flow. Access in terms of minimum investment levels. Access to firms before their closing dates.

The simple truth is that even if one wanted to allocate to Tier 1 venture capital, access to this asset class is extremely limited. And many people do not like closed end, blind pool funds, where one has no control over how their capital is allocated.

These are the issues that iSelect set out to solve.

We have invested with impact since Day 1. We do not invest in the latest consumer app, ride-sharing company or ecommerce platform. While there is nothing wrong with these areas, we believe our collective efforts are better spent on companies that can not only produce a market venture capital return, but can also help create a cleaner, healthier, more efficient, more sustainable, more accessible and more equitable world.

Importantly, as part of this mission, we have also opened up the venture asset class to millions of additional investors through our evergreen structure, lower minimums and customizable investment plans. As a result, we believe we are solving the "access" problem.

There is a clear interest by family offices, wealth managers and individual investors in impact investing, particularly for the next-generation. At iSelect, we are opening up this access and enabling millions of investors to utilize their capital to not only generate market returns, but to potentially help improve our world. We welcome your support and partnership in this worthy pursuit.