

This brief is a summary of a whitepaper titled "An Introduction to Dual Benefit Investing." The whitepaper is available in its entirety at www.gratiocapital.com.

What is DBI?

Dual Benefit Investing (DBI) is an investing method that brings together traditional investing and philanthropy. It does this by having investors allocate a portion of the funds generated from money management services to social impact projects.

DBI was created in response to the rise of "ethical consumerism" whereby purchasing and consumption behavior is affected by social concerns. Studies have documented a clear desire by the modern consumer to support ethical companies that provide a benefit to society.

Why is there a need for DBI?

While many companies have sought to tie social benefits and philanthropic causes to products (credit cards, magazine subscriptions), investing concerns have been slow to adapt to this trend. One ethical investing vehicle is Pooled Income Funds (PIFs). Such funds operate much like mutual funds in that assets are "pooled" together around a social cause. However, PIFs are typically employed by affluent investors.

Socially Responsible Investing (SRI) is another investing method that seeks to positively impact society. However, recent media reports suggest that this investment method underperforms non-SRI investment methods. As well, some critics cast doubt on the efficacy of SRI in impacting society, pointing out that it is difficult to measure the impact or to assess how different SRI funds are from non-SRI funds. Indeed, recent "ethical investing" capital outflows suggest that the market should look for new ways to positively influence society.

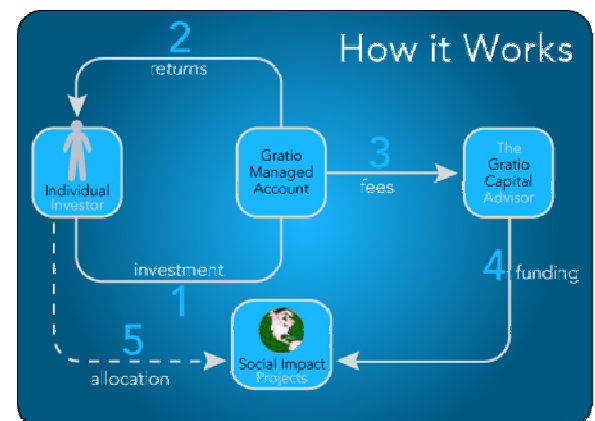
We assert that, among others aspects, choice is missing from current ethical consumer and investing offerings. This is despite the fact that numerous studies support the suggestion that consumers might adapt to a product with social benefits if given some choice in the causes affected:

"Consumers must be informed in a way that fits with the issues they care most about...consumers concerned about child labor are more likely to respond to a campaign focused specifically on child labor than to a general labor rights issue campaign."

Accordingly, Dual Benefit Investing centers on choice and investment vehicles that utilize DBI will be typified by a robust offering of causes. The consumer will be able to ultimately choose which causes are funded by the investment manager and will be able to see the results.

How DBI Works

- Step 1:** Investors put money into a DBI financial product (for example, mutual funds, managed accounts, etc.)
- Step 2:** Investors receive 100% of their returns after fees as they would with conventional products
- Step 3:** Investors get "giving shares" based on the amount invested.
- Step 4:** Investors allocate the giving shares toward the social impact projects they care about.
- Step 5:** The giving shares are backed or 'paid for' by the profits of the company providing the investment product.



It's About PACTS

Requirements for DBI

There are five specific elements that should be present for an investment method to qualify as DBI. Each element addresses a key area of the value that DBI offers to investors seeking social benefits. These elements can be remembered with the acronym **PACTS**, which reflects what we believe to be the overall commitments or *pacts* that DBI companies need to make with their investors.

P **erformance:** DBI options must plausibly provide social benefits without sacrificing performance, quality, or other key functional financial product attributes. In our view, this means investing assets in the marketplace for optimal *performance* (investing returns must not take a backseat to the social mission). DBI does not require (although it is an option) that certain screening criteria be brought to bear during the investment process.

A **ccess:** As DBI seeks to fill a current market need, it should be widely available to investors of many income levels. Many investing vehicles with social or philanthropic angles such as Pooled Income Funds are available only to the affluent.

C **hoice:** DBI options must provide investors a choice with regards to the kind of social benefit to be pursued. Although at the top level DBI does allow investment managers to pick a menu of projects, the final allocation of funds rests with the investor.

T **ransparency:** Ensuring the *transparency* of the entire process is a requirement of DBI offerings. It is vital that the investor be able to see the results of their allocation and choice to invest with a certain manager. As well, how the projects utilize the funds should transparent.

S **ubstance:** DBI options must allocate *substantial* percentages of the money made by the Fund managers (*not* the investor returns) associated with the investment toward positive social impact causes.

DBI Benefits

The four reasons that we propose DBI and that we believe the market needs an additional method for combining investing with social benefits are as follows:

1. DBI addresses the proven consumer desires and needs when purchasing products with social benefits. Studies have suggested that consumers are willing to consider products with social benefits as long as functional benefits are not sacrificed. DBI provides a way to provide a social benefit without changing the functional benefits of traditional investing.
2. DBI can address the common criticisms and disadvantages of existing methods of investing with social benefits. As already suggested, existing social investing options have fallen short in certain areas and, among other factors, have been unable to fully address the 'choice' aspect of consumer needs.
3. DBI can help increase philanthropic activity by providing an additional channel through which individuals can impact society.
4. By providing new and unique ways to connect social benefits to investing, DBI promises to increase the size of invested assets being managed that have positive social benefits attached.

Conclusion

Simply put, there is currently no widely accessible investing vehicle that combines investing with visible philanthropy and brings it to the masses. This is despite clear evidence that choice plays an immense role in engaging investors with a desire to act ethically. While DBI may not be a "catchall" solution to an underserved ethical investing market, it can provide a previously unavailable platform for change.

(1)As detailed in the full whitepaper, this consumer sentiment is supported by numerous studies – among the study findings: 79% of Americans consider a company's corporate citizenship record.

A third of consumers "feel good" when purchasing products with a social benefit.

(2)Devinney, T. Auger, P. Eckhardt, G. Birtchnell, T. "The Other CSR." Fall 2006. Stanford Social Innovation Review.