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Jon Bon Jovi, the Jersey Shore and the Impact Investing Strategy.

The rock star Jon Bon Jovi was in London three years ago this week when Hurricane Sandy wiped out the New Jersey beach towns that played a big part in his childhood memories. He flew home to New York to be with his family and then headed south to his home state to see the devastation firsthand.

Mr. Bon Jovi used his celebrity to bring in relief money. He said he persuaded Gov. Chris Christie to put his hometown Sayreville, which was hit hard by the storm but is not on the coast, on the list of towns receiving federal money to buy home sites that couldn't be built on again. He donated \$1 million of his own money to Sandy relief and was one of the headline acts at a concert that raised \$50 million more to help the affected areas.

Still, as often happens with disasters, money poured in right after the crisis, but the rebuilding took longer than expected. More than a year ago, Mr. Bon Jovi said in an interview, he and his wife, Dorothea, decided they wanted to do more to help the towns still far from their prestorm condition along the Jersey Shore.

That was when a financial adviser told them about impact investing as a way to finance redevelopment.

"It was interesting to us," Mr. Bon Jovi said. "We'd never considered the concept of impact investing. In disaster relief, one is quick to write a check. Long after the TV cameras go away, people are still suffering."

Impact and socially responsible investing have moved from the fringes to, if not the mainstream, pretty close to it. The strategies are now discussed by a range of investors, as diverse as environmentalists and rock legends. All are interested in having their investments perform a social good — housing for displaced residents or financing for local businesses — while also earning a return close to the market rate.

But that quest, noble as it sounds, presents another challenge: avoiding strategies that promise to do good but then go bad.

Selecting an investment to perform a dual role is only getting harder as impact strategies proliferate, all fueled by the money flowing to them. A report last year by the Forum for Sustainable and Responsible Investment said one out of every six dollars managed by professional investors was invested using socially responsible investing criteria.

And impact investing may now open up further. Last week, the Department of Labor made it easier for the retirement plans it regulates to consider factors like environmental, social and governance goals in making investments, even if the pure financial returns are less.

In some ways, how people select these investments should not be that different from how they

choose other investments. But passion can cloud judgment. Few people are going to get emotionally attached to a domestic equity fund, but plenty of impact investors are passionate about how their investment dollars can improve educational outcomes.

"At the end of the day, we're talking about investments designed to perform in a basic investment portfolio," said Andy Sieg, head of global wealth and retirement solutions at Bank of America Merrill Lynch. "These are not philanthropic activities masquerading as for-profit investments. Impact investments should stand on their own two legs in terms of investment return."

Investors can start by assessing the returns and whether they are high enough to justify the risk taken to achieve them. They also need to look at the fees charged by the manager and how much those fees subtract from the return.

While this area is still relatively new, Mike Loewengart, vice president of investment strategy at ETrade, said investors should also try to analyze a manager's track record.

"You want to have a long-tenured management team to properly assess what they've done," he said. "You want a repeatable investment process. It's difficult."

But the desire to do good through investing makes applying these rational criteria challenging. Mr. Sieg said he recently dissuaded a client from investing in a fund that the client was excited about — a fund the client probably would not have considered if it hadn't been marketed for its impact. After some investigation, Mr. Sieg said he concluded that the fund's fees were too high and its impact too low to justify putting any more into it.

"We need to be clear-eyed about what we're achieving with impact investing," he said. "We're going to be able to find impact vehicles with an environmental focus, a social policy focus, global impact, local impact."

Carra Cote-Ackah, director of partnerships and strategic initiatives at the Center for High Impact Philanthropy at the University of Pennsylvania, said it is often easier for impact investors to work backward from what they want to achieve. If, she said, it is helping poor children learn to read, that should be the goal, and investors should then find a way to invest in organizations that are trying to achieve that.

Yet, she said, certain issues lend themselves to impact investing better than others. Arts, humanities and cultural organizations do not, she said. Disasters, like Hurricane Sandy, work well, as do initiatives aimed at chronic problems in disadvantaged communities.

"It's more about the process and rigor of the approach than the issue," she said. "I hope this approach is used in other disaster communities but also as a way to bring together investors, donors and community partners to drive social change."

Maria Tanzola, a private wealth adviser at UBS Wealth Management Americas who is working with the Bon Jovi on their selection of impact investments, said UBS hoped to raise \$100 million for debt and equity impact investments in New Jersey. With money from the Bon Jovi's JBJ Soul Foundation and others, the company has raised about \$10 million so far.

"Whatever return we get," Mr. Bon Jovi said, "we're putting back into the foundation."

This strategy allows philanthropists to leverage the money in their foundations by putting it into impact investments so it does good while it grows before they give it away. "People sometimes think of their philanthropy as just the giving," Ms. Tanzola said. "This investment strategy amplifies the

philanthropy on the ground. It's another way to support things that are important to you."

But it's also a way for less wealthy people to make a difference. "We determined that there was donor fatigue, but there was still an opportunity for an investment strategy," she said.

The minimum investment in UBS's Impact New Jersey portfolio strategy is \$250,000. But Mr. Loewengart said ETrade's retail clients have increasingly asked for impact options and the company now has more than 100 equity mutual funds on its service that market themselves as socially responsible.

On the debt side, the investments can be in loans to build homes and affordable rental apartments, mortgage-backed securities that are created from the loans, or municipal bonds to rebuild infrastructure.

In the case of the communities affected by Hurricane Sandy, many were beach towns that were not densely populated and so lacked the tax base to pay for municipal projects.

"This represents a form of coalition building within the private sector," said David Sand, chief investment strategist and interim impact investment officer at Community Capital Management, which manages more than \$2 billion in fixed-income impact investments and is investing the fixed-income portion of the Bon Jovi portfolio. "We see all kinds of potential opportunities in other markets in similar but not identical situations."

Yet he said the fund often turns down opportunities in communities in need because the credit quality of the debt is not high enough or the returns are too low to hit its benchmark.

Success as an impact investor is unlikely to be measured in the kind of returns that allow easy benchmarking. For Mr. Bon Jovi, "it's in rebuilding communities," he said. "I've seen these families who didn't know what to do. I think people want to invest in their community. Sea Bright — those beach towns were an important part of my childhood. I put my money where my mouth is."

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