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Money managers and charities are offering joint investment products

Virtuous companies are rewarded and good causes gain extra money—and corporate attention

IMPACT investing, or investing according to your values, seems a nice idea. But it is hard to turn boutique products into mass-market ones without diluting their virtues. Impact Shares, a non-profit money manager, thinks it has a solution: exchange-traded funds (ETFs) developed with charities and non-profits. “Non-profits, with their long history of fighting for social causes, are much better equipped to determine good corporate citizenry than the asset managers who currently make those calls,” says Ethan Powell, its founder.

Impact Shares hopes to ride two big trends: a shift over the past decade in investing from active (stock-picking) to passive (index-based), and investors’ growing desire to put their money where their values are. Each of the new ETFs houses a basket of around 200 stocks that score well on criteria set by a non-profit in the relevant field. The first, which started trading in July, focuses on empowering minorities and was created with the National Association for the Advancement of Coloured People (NAACP), an American civil-rights group.

A second launched late last month, focusing on female empowerment and trading on the New York Stock Exchange under the ticker WOMN. It was developed with the YWCA, another non-profit. A third, which will invest in the world’s least developed countries, is being created with the UN Capital Development Fund. More will follow.

These ETFs have more complex selection criteria than other funds. That makes them more costly to produce. WOMN’s annual fees of 0.75% of assets under management, compared with 0.2% for SHE, State Street’s gender-diversity ETF, are partly because it has 19 selection criteria, some of which are hard to monitor, such as policies on parental leave. SHE uses just three, all relating to the number of women in leadership roles. The higher fees are also because the charities involved will receive whatever is left over after the money managers’ costs. Impact Shares estimates that the YWCA will get up to 0.5% of money raised.

Investors may regard higher costs as a fair exchange for knowing that charities get some of their money and that the ETFs are aligned with their values. They may also hope that higher returns will offset at least some of the costs. Good corporate citizenry can sometimes predict performance.

In July the founder of Papa John’s, a pizza chain, stepped down after admitting to using a racist slur. The share price suffered. Impact Shares had already excluded the company from the index created with NAACP, since it had scored poorly on the non-profit’s measures. By contrast, after an employee of Starbucks called police to remove two black customers from one of its coffee shops in April, the firm’s CEO made a speedy public apology and arranged staff training. Shares quickly recovered. It had made the index with flying colours.

For the non-profits, the benefits go beyond the extra cash. The products raise awareness of the social problems they focus on and may prod corporate America to act, says Dorri McWhorter of the YWCA. Non-profits working with Impact Shares have been approached by firms wanting to know how they can improve. The effect may be felt beyond public markets. Ms McWhorter says she has heard from a venture-capital fund keen to use the YWCA criteria to screen potential investments.

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