FINANCIAL TIMES

INVESTING FOR GLOBAL IMPACT 2017

FAMILY OFFICE AND FAMILY FOUNDATION RESEARCH

GIST
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FOREWORD

Welcome to Investing for Global Impact 2017

We are delighted to publish our fourth **Investing for Global Impact** report. Building upon the previous treasure trove of survey data, which surfaces the experiences and perspectives of family offices and foundations with regards to philanthropy and impact investing, this year our survey respondents have grown by 35%.

On top of the solid foundation of research data and unparalleled access to high-calibre interviewees this report is noted for, this year we have also highlighted the perspectives of family offices who are not currently involved with impact investing or philanthropy. The objective is to gain a better understanding of how the impact investment 'movement' might scale through this influential investor base in the future, and to understand the barriers they perceive as preventing this.

The findings, we believe, are significant. Social and non-financial factors are highly prevalent in influencing the investment decisions of this cohort of wealthy families, including Environmental, Social and Governance (ESG) and Corporate Social Responsibility (CSR) factors, among others. Our survey also found this cohort believed overwhelmingly that impact investing is "a more efficient use of funds than philanthropy".

What has been revealing is that key barriers preventing these family offices from allocating to impact investments – notably, scepticism around proving that positive social outcomes can be achieved without depleting financial returns – are, in fact, being proven by the reported experience of family offices and foundations from around the world who are engaged in impact investing.

This year, 90% of these family offices and foundations reported achieving positive, market-rate financial returns from their impact investments (over the past three years). 75% said this performance met or exceeded their expectations, and 88% said the same for their social returns.

This report explores, through the survey data and the unique insights of its interviewees, how impact investments are losing their 'special' status, attracting the same levels of due diligence and treatment as any other investment. Impact investments are becoming a growing part of the family office investable portfolio, and there is evidence of the 'movement' entering a more mature phase.

To reflect the global reach of impact investing and the international scope of survey respondents, we carefully selected distinguished interviewees spanning Europe, Southeast Asia, Africa and the U.S. We thank each of our interviewees for generously sharing their diverse perspectives, from impact investors to business leaders, social entrepreneurs, philanthropists and government advisors.

A key finding, year after year, is the need for public 'role models' to transparently and honestly share their experiences of impact investing – the good, bad and challenging. In choosing our interviewees, we strive to further this cause. This year we introduced a 'split' case study, highlighting the two sides of impact investing; the investor and the investee. We hope that the interviews in this report spark conversations around investment committees, motivate action, and - at the least - inform and inspire readers.

We would also like to thank all of the participants in this report, not least the 246 survey respondents from 45 countries. We thank our partners **GIST** and **Barclays,** who have been unwavering in their support of this research project and who are passionate about helping us to facilitate the movement from ideas to action in this transformative area.

Anna Lawlor
Report Author, Financial Times

Ben Bonney-James
Publisher, Financial Times

COMMENT

As a founding partner, **GIST Initiatives Ltd**. (GIST) is proud to continue to support the **Investing for Global Impact** research and report. At GIST we engage with a dynamic community of like-minded individuals and families who seek profound positive social impact in all their investment and business decisions.

Today, this fourth edition of our report is the leading knowledge platform to broaden understanding and identify trends in impact investing and philanthropy of individuals, families and family organisations. Moreover, it is the only platform purposely engaging those not active in philanthropy or impact investing to obtain their perspective on the field. In this fourth edition, we are honored by 35% growth in survey contributors who have shared their insights and experiences.

The report provides a valuable "peer to peer" benchmark to support greater personal and family involvement in social impact. In our experience, role models are key to helping society to improve and evolve, hence the increased number of interviews and case studies in this issue.

Individuals, families and their organisations are an established driving force in the financial world. Today they are ever more active and taking increased personal responsibility over the allocation of their savings and capital. They have an enhanced sense of purpose, the necessary passion, and the appropriate time horizon to enable systemic, sustainable change. Tackling the biggest challenges of our planet through philanthropy and impact investing is also mobilizing the "new generation", engaging the disengaged and aligning values across family members.

Impact investing is no fad: 90% of responding family offices and foundations reported achieving a positive financial return from their impact investments over the past three years, with a typical average annual financial return of around 5%. This single digit overall financial performance is in line with returns provided by traditional asset classes. This survey clearly also refutes the common preconception that in order to generate positive social return, a below market financial return (if any) must be accepted. Family offices and foundations are entering a “scaling-up” phase: one-third report being “active” in the space, holding multiple impact investments across asset classes or causes and 15% consider impact investing to be their “primary portfolio approach”.

At the same time, we observe the obstacles these innovators face to generate and demonstrate project specific impact. Nebulous definitions and information, lack of experience with opportunities, limited peer-to-peer collaboration, and entrenched legacy investment approaches all continue to limit their ambitions. At GIST, our goal is to help this community become more dynamic and ambitious,, grow with experience and ultimately, in concert, generate an ever more positive and sustainable world for all creatures - people and animals alike.

We are really grateful to each and everyone involved with this fourth edition, in particular to our survey respondents and contributors to the interviews and case studies. We are delighted to collaborate in this endeavor with our partners, in particular Financial Times, Barclays and PlusValue.

We believe we are facing and moving in the right direction and intend to keep moving with your help.

Our big bet today: there has never been a better time to accelerate progress and have a profound, positive impact around the world.

Your continuous support and suggestions are greatly welcomed.

Gamil de Chadarevian **Giuseppe Dessi**
Founders, GIST INITIATIVES Ltd.

Barclays is pleased to continue to support the **Investing for Global Impact** report. As before, this edition provides valuable insight from the innovators and visionaries seeking to generate a positive impact through how they invest and how they give. In the last year, we have seen increasing interest from our range of clients, including High Net Worth Individuals, Families and Family Offices, Charities and Foundations, and Institutions, about the impact their capital makes, and the opportunities and responsibilities it creates.

Barclays recognises that private capital is increasingly needed to solve the world's most pressing problems. Philanthropy continues to be a fundamental solution to address many of these issues. With impact investing, investors have a new possibility to make a positive contribution to our world as well as protect and grow their assets.

The report shows how investors who asked themselves, 'What impact do I want my wealth to make?', are finding answers. From the responses, it is inspiring to see the growing momentum in this field, but also draws some insightful conclusions about the challenges still ahead.

Barclays applauds these individuals, families, and organizations who are developing this exciting field, and moreover for sharing their experiences. We recently launched our Shared Growth Ambition. It is a very simple concept. When our customers and clients do well, so do we. When the communities where we live and work thrive, we do too. And when society prospers, we all do.

So for these and other investors who want to use their capital to do good and do well, we look forward to creating this shared growth and enabling them to achieve all their ambitions.

Barclays is a transatlantic consumer, corporate and investment bank offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in our two home markets of the UK and the US. With over 325 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 120,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Dena Brumpton
Barclays, CEO, Wealth & Investments

Karen Frank
Barclays, CEO, Private Bank & Overseas Services

About GIST INITIATIVES Ltd. – Global Impact Solutions Today

GIST is an innovative leader and brand in effective impact investing and smart philanthropy. GIST serves as a unique vehicle and aggregator for a select group of like-minded families, family foundations and new generation leaders. Through these trusted relationships GIST is successfully cultivating a solid foundation from which to support both the impact and philanthropic communities with 'best practices'. GIST develops and delivers positive, effective impact solutions - where social, environmental and economic goals are inextricably and holistically linked. GIST generates and delivers solutions that transform lives and creates enduring and sustainable value for societies, economies, communities and businesses.

www.gistltd.com

METHODOLOGY & TERMINOLOGY

Investing for Global Impact 2017 is a Financial Times report, sponsored by GIST and Barclays. The objective is to explore how family offices and foundations approach impact investing and philanthropy, identify key trends in this field and to build upon the significant contribution made by the past three editions of this report.

To this end, we have explored critical aspects of data and measurement necessary to validate the effectiveness of impact investments, collated learnings from successful practical approaches and surfaced key themes that we consider to be crucial to further cultivating the impact investment movement.

Survey Data

The Financial Times global survey was conducted online from December 2016 to February 2017, attracting 246 respondents from 45 countries around the world.

The respondent mix was 74:26 family office:foundation; 116 single family offices, 66 multi-family offices and 64 family-backed foundations.

Survey responses were gathered and processed independently by CoreData Research UK and survey participant anonymity was strictly enforced. The survey data was analysed and interpreted by report author, Anna Lawlor.

While the methodology remains the same as the previous Financial Times' Investing for Global Impact reports, the year-on-year comparison data should be treated as a trend guide rather than a direct numerical comparison between findings; different respondents to each survey would invalidate direct numerical comparisons.

All percentages in this report are rounded to the nearest whole number and therefore will not always aggregate to 100%. Charts are produced using the underlying data.

Case Study and Q&A Interviews

The Financial Times also conducted a range of interviews with seasoned social entrepreneurs, practitioners and experts in philanthropy and impact investing, which were conducted during late 2016/early 2017 by telephone.

The interviewees were granted access to their own case study/Q&A prior to publication for fact-checking only. The interviews were editorially independent.

The findings and views expressed in this report do not necessarily reflect the views of the Financial Times, the sponsors or the report author.

Impact Investing

Impact investments are investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return.

Impact investments can be made across all markets and target a range of returns from below market to market rate, depending upon the circumstances. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, clean technology, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

Source: Global Impact Investment Network

NB: A further noteworthy working definition of impact investing is available from the OECD: Social Impact Investment: Building the Evidence Base (2015).

"35% increase in survey respondents"

Philanthropy

Charitable giving to human causes on a large scale.

Philanthropy must be more than just a charitable donation; it is an effort undertaken by an individual or organisation based on an altruistic desire to improve human welfare.

Wealthy individuals sometimes establish foundations to facilitate their philanthropic efforts.

Source: Investopedia

EXECUTIVE SUMMARY

How family offices and foundations deploy their private capital is often a bellwether for the wider, mainstream investment community. In which case, a more mature and level-headed approach to impact investing is prevailing - this year's FT Investing for Global Impact survey finds – much to the betterment of the impact investment 'movement'.

Families Leading Impact Investing

In this year's survey of 246 family office and foundation representatives from across 45 countries, the majority have moved out of 'research phase' and made at least one impact investment (aiming to generate both positive social and financial return from the investment). Single-family offices are leading the charge, with 45% of this group reporting that impact investments form "a core portion of our investable portfolio".

Family members themselves are becoming more pivotal in identifying and proposing impact investment opportunities, this year becoming the second most-likely source for investable opportunities (for 43% of respondents compared with 28% last year). The biggest source of impact opportunities was from co-investments, also indicating the developing impact investment ecosystem.

> **I think people want to believe in impact investing but they need proof. They need to see that it's effective. They need to see the success stories.**

Nicolas Hazard

Millennial family members (those born after 1980) are often presumed to be driving demand for impact investing among their family offices and foundations, yet this survey challenges such an assumption. Instead, the survey found that it is Generation X and Baby Boomers (those aged 35-55) initiating family office and foundations' first forays into impact investing.

This was true for one-third of respondents, but especially applicable to multi-family offices, for whom half reported this age group championing impact investing.

Interestingly, this year saw a huge spike in the number of respondents agreeing that "in future, the next generation of the family is likely to bring a greater focus on social entrepreneurship and impact investing" to the organisation; 90%, the highest level in the four-year history of this survey (last year, 60% agreed).

Performance – Myth-Busting

Slowly, but surely, impact investing is becoming embedded in high-net-worth portfolios, rightfully attracting the same level of investment scrutiny as any traditional investment. This year, only 28% of respondents said they applied a different due diligence process to their impact investments. As Valerie Rockefeller Wayne says in Chapter 4: "What we're aiming for is measurable returns and credibility across the mainstream investment community."

This year's report – both in terms of survey data and anecdotally through the broad selection of esteemed interviewees – contributes to the growing body of evidence supporting the 'business case' for impact investing; that financial profit can be achieved alongside targeted, positive social/environmental outcomes, without necessarily increasing the risk profile of the portfolio.

Ninety percent of this year's family offices and foundations reported achieving a positive financial return from their impact investments (over the past three years), with a typical average annual financial return of 5%. Over the same time period, this single-digit financial return stacked up well compared to traditional asset class indices.

This year, one-third of family offices and foundations active in impact investing report generating financial returns of 6-15%; 16% of respondents reported above 15% financial returns annually (over the past three years). By contrast, only 11% of respondents reported an annual financial loss for the same period.

There was even greater confidence reported for the financial returns of their impact investments over the coming 12 months; the majority expect to outstrip their ~5% annual financial return (over the past three years), with 30% forecasting a financial gain of 6-10%. Nineteen percent of respondents forecast a financial return in excess of 15%, 3% more than reported achieving this to date.

As family offices and foundations become more experienced with impact investments, so we see this reflected in their expectations. A whopping 75% reported their financial performance met or exceeded their expectations, and 88% reported this for their social returns. The survey trend over the past four years has been for family offices and foundations active in impact investing to report, overwhelmingly, that their investments are meeting and exceeding expectations in achieving both financial objectives and social impact objectives.

ESG & CSR: Gateway to Impact Investing?

An interesting finding from this year's survey is how prevalent social and non-financial factors are in influencing the investment decisions of wealthy families – even among those who do not engage with impact investing or philanthropic giving. While only 10% of the survey respondents are not active in either, of this group a vast majority reported that their investment strategy considered "the likely scope for reputationally damaging news about the investable business" (93% of respondents). A huge 86% analysed the Environmental, Social and Governance (ESG) practices of the underlying business and 79% were also influenced by the Corporate Social Responsibility (CSR) practices of the underlying business.

> **Families don't need to reinvent the wheel. They want to learn from each other. Families are long-term investors, they tend to have common values within families and are looking for opportunities to align their values and their money.**
>
> **Justin Rockefeller**

While this cohort of family offices typically (57%) do not avoid 'sin stocks' – investment sectors perceived to produce a negative social environmental or social outcome, such as alcohol, tobacco, gambling, weapons manufacturers etc – their proactive use of ESG and CSR investment 'screening' practices indicates an acceptance of the value such non-financial metrics can have on an investment portfolio.

It is also notable that almost eight in ten of this family office cohort agree that they believe "impact investing is a more efficient use of funds than philanthropy", further indicating a receptiveness to impact investing. Mistrust or fear of 'green-washing' among philanthropic initiatives was reported as the biggest barrier preventing philanthropic involvement in this cohort. However, there is still some scepticism of impact investing, particularly around proven, verifiable outcomes – which many impact practitioners and family offices/foundations with experience in the field are claiming are now widely available.

Impact Measurement

Respondents this year continued to note the challenge of monitoring and measuring the social impact element of their own impact investments; "low sophistication of social impact measurements" was ranked as the second biggest barrier preventing further allocation to impact investments.

Yet, when considered thematically, respondents said the lack of universal measurement metrics for impact investment "total performance" was not a significant headwind. While this indicates there is some challenge in consistently measuring impact investments, it is not an insurmountable challenge.

Anecdotally, financial services firms are increasingly responding to demands around impact investments from family offices and providing tools that integrate both social measurement metrics and traditional financial metrics. As Michelle Giddens says on page 12: "We once faced a challenge as to how to measure financial performance, with shared language and shared principles. I think we're at that point now for impact measurements and while it looks thorny, it needs to be done.

"[For profit-with-purpose businesses] we need transparency of results, transparency of accounts, which in turn need the kind of discipline that exists currently on the financial side, through use of auditors and accounting principles. We're going to need similar principles for measuring and managing impact and potentially also for auditing impact."

Partnerships

The typical impact investment portfolio of survey respondents has not changed much since last year. They typically make these investments through 'venture stage' impact investments via private equity holdings, and expected to hold their (typically) 1-5 impact investments for a period of 5-10 years.

Perhaps further evidence that family offices and foundations are at the vanguard of impact investing is that for the first time in this survey, the most common trigger for exiting an impact investment is "challenges working with stakeholders".

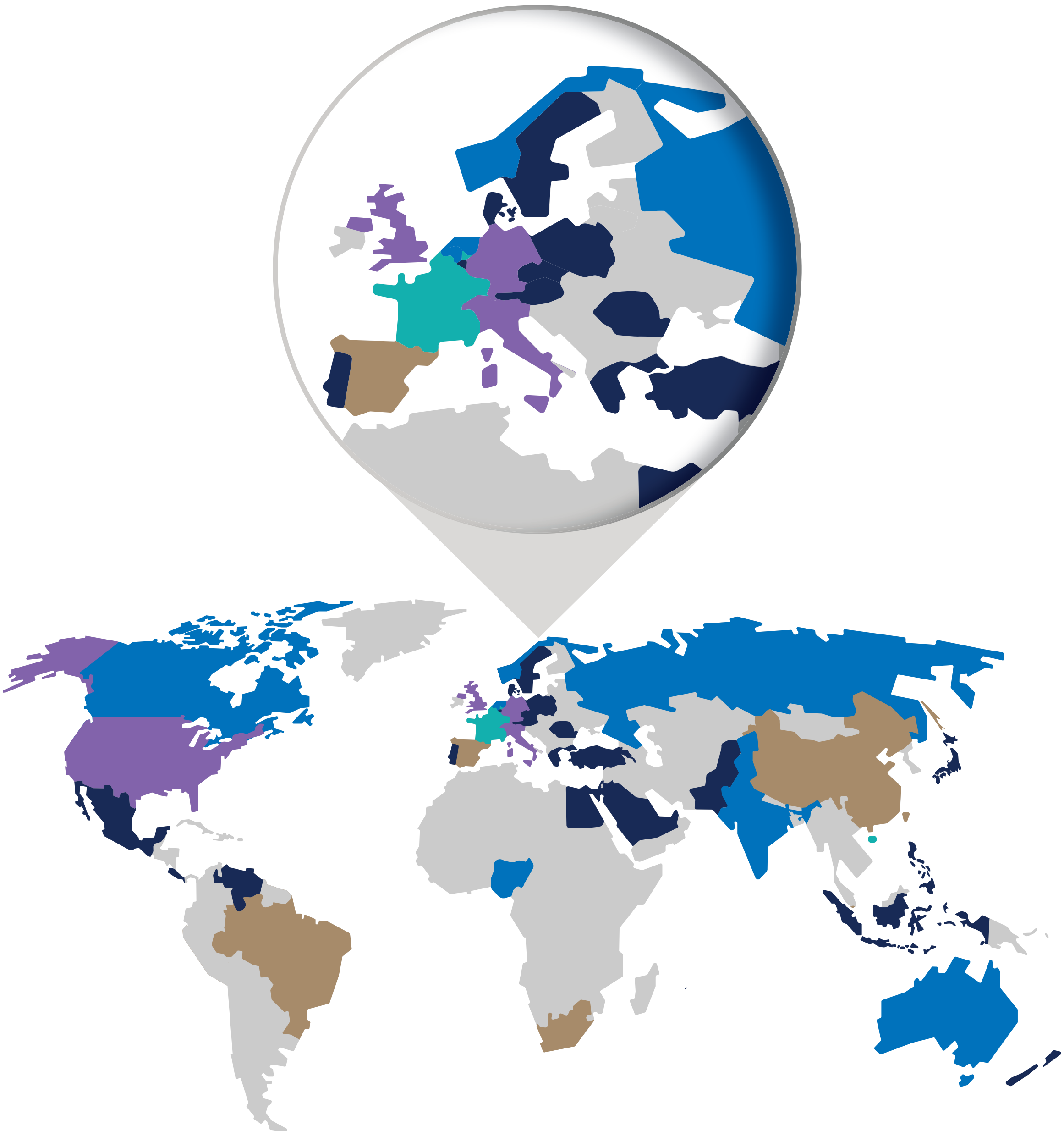
While such a challenge in direct-investment equity vehicles is of course not welcome, it does show that family offices and foundations are garnering experiential knowledge to inform their future impact investment strategies.

Almost half of respondents said they planned to increase their allocation to impact investing via private equity in the next 12 months, the largest increase across the asset classes.

For family offices and foundations seeking greater direct involvement with their impact investments, honest and open communication is crucial. Dr. Yinglock Chan explains on page 36 that too many profit-with-purpose businesses are caught up in the social impact element of their business plan during the funding pitch process, when impact investors should be looking for rigorous, conservative financial forecasts and proven potential for profit.

PROFILE OF RESPONDENTS

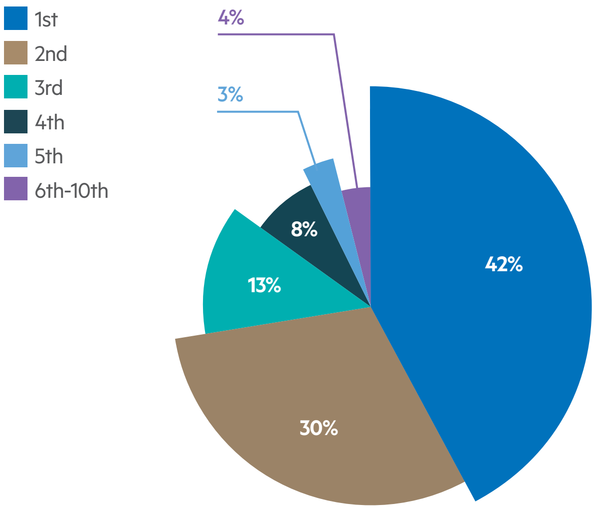
In which country or countries does the family wealth originate?



Number of families represented per country:

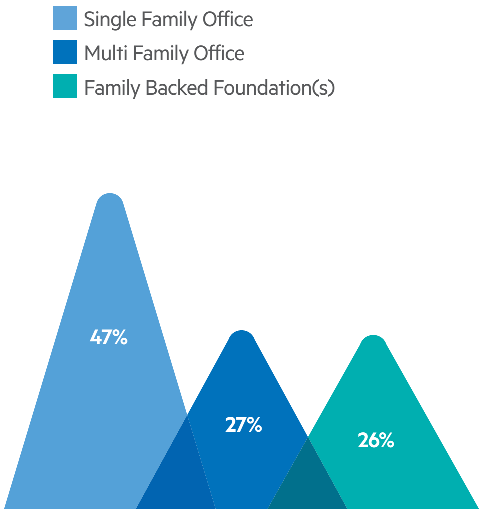
30+	20-29	10-19	4-9		1-3		
UK	Hong Kong	South Africa	Russia	Norway	Japan	Greece	Portugal
US	France	Singapore	Belgium	Canada	Austria	Indonesia	Czech Republic
Italy		China	Australia	Netherlands	Costa Rica	Jordan	Saudi Arabia
Switzerland		Brazil	India	Nigeria	Armenia	Liechtenstein	Turkey
Germany		Spain			Denmark	Mauritius	United Arab Emirates
					Israel	Luxembourg	Venezuela
					Mexico	New Zealand	Romania
					Poland	Pakistan	
					Egypt	Philippines	

What generation is the family wealth?



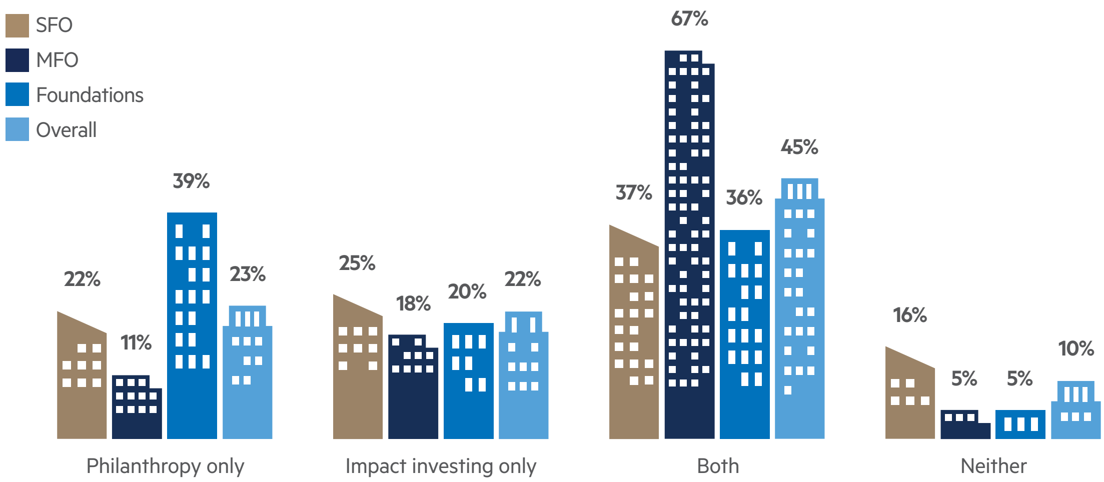
Base: All

Organisation type



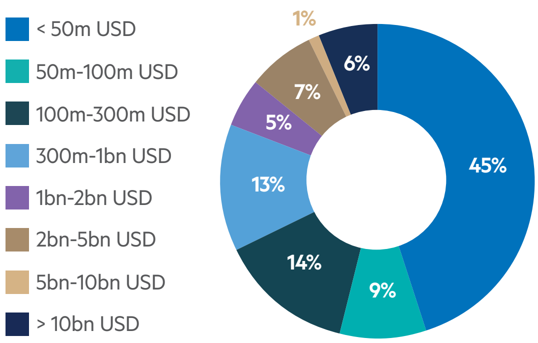
Base: All

Is your family office/foundation active in ...



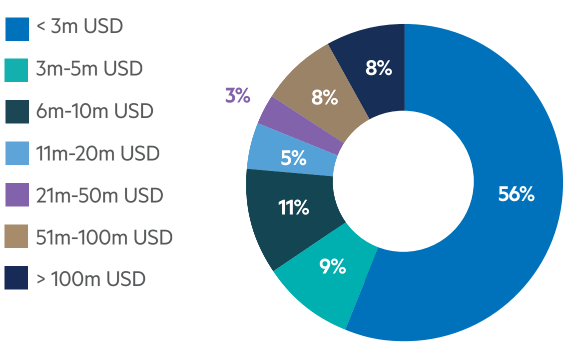
Base: All

Current assets under management



Base: All FOs

Current annual budget



Base: All Foundations

CHAPTER 1: APPROACH TO IMPACT INVESTING

Family offices and foundations are at the vanguard of the Brave New World of impact investing. While the pursuit of social returns alongside financial objectives remains on the fringes of the mainstream investment community, family offices and foundations themselves are entering a 'scaling-up' phase, this year's survey finds.

The majority of respondents have moved out of 'research phase' and made an initial impact investment, with the survey indicating an inflection point in the past five years; 71% of multi-family offices, 56% of single-family offices and 57% of foundations made an initial investment between 2010 and 2016.

The largest proportion of respondents (34%) had made a first impact investment and were now considering further impact opportunities, while one-third reported being "active" in the space, holding multiple impact investments across asset classes or causes. Interestingly, the next largest response was those who considered impact investing to be "our primary approach to the portfolio" (15%).

This tallies with the experiences of some of our interviewees, such as Nicolas Hazard, founder of INCO (a global consortium and impact investor) and Le Comptoir de l'Innovation (an impact investor).

In Chapter 4, he explains how initially sceptic institutional investors who were drawn to the 'PR-friendly' story of impact post-financial crisis, have subsequently increased their allocations to impact investing following evidence of both financial and social returns. Michelle Giddens (page 12), founding partner of Bridges Fund Management, also talked about the business case for impact investing having been made, drawing impact investing into a scale-up phase.

SFOs Lead Impact Investing

Single family offices in particular appear to have embraced impact investing, with 45% reporting this is a "core portion of our investable portfolio". By contrast, the majority of foundations (36%) and multi-family offices (40%) operate impact investments as part of a "satellite portfolio" that also includes philanthropic activity, operating discretely from a traditional (financial return only) investment portfolio.

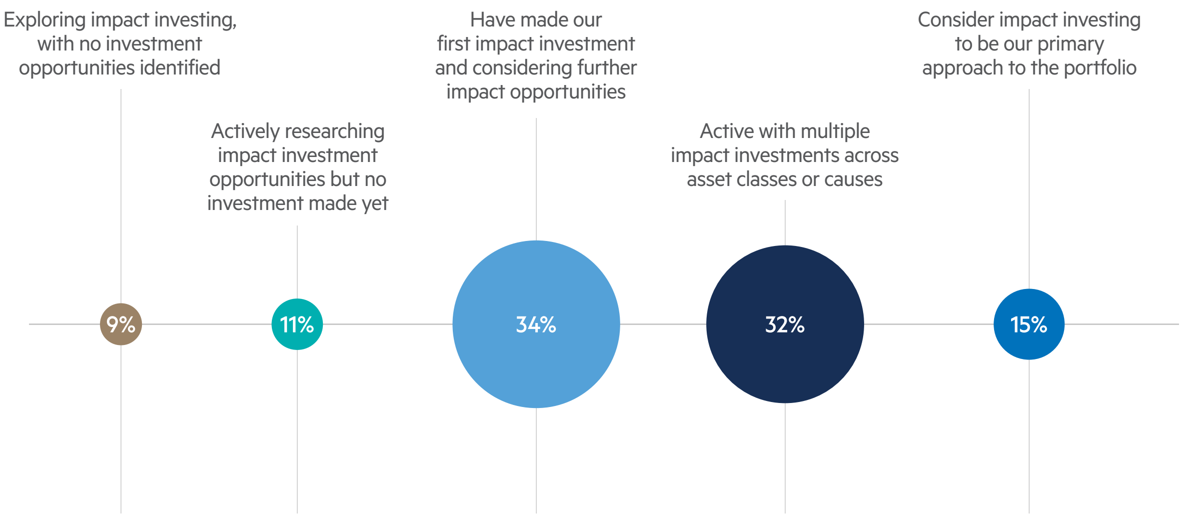
Across the three organisation types, single-family offices also reported the highest proportion of respondents to invest solely in impact investing (a quarter), while more than double the number of multi-family offices (67%) are active in both impact investing and philanthropy.

Responses from foundations were far more evenly split between philanthropy only and active in both philanthropy and impact investing.

Interestingly, almost a quarter of foundations said they were prevented from allocating part or all of the endowment to impact investments by regulatory or bylaw restraints. Of these foundations, a whopping 64% said that if these rules were relaxed they would

CHART 1

At what stage do you feel your impact investing experience to be?



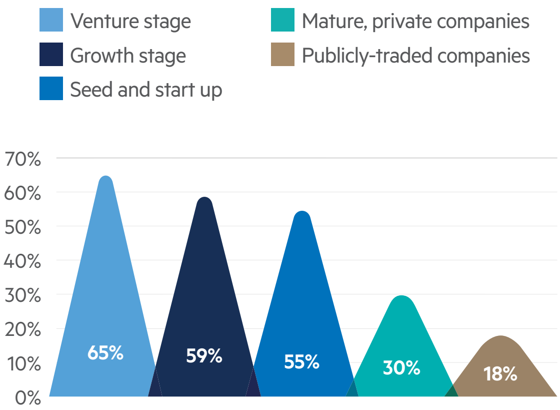
Base: All active in impact investing

participate in impact investing, while 29% were unsure how they would respond to a loosening of these rules. Notably, only 8% of these foundations were adamant that they would not allocate part of the endowment to impact investing, if the rules changed.

Given that the typical annual budget of foundation respondents was $3m, this could represent a not insignificant amount being prevented from allocation to impact investments.

CHART 2

At which stage(s) do you invest?



Base: All active in impact investing. Multiple responses allowed

Millennials' Role Overstated?

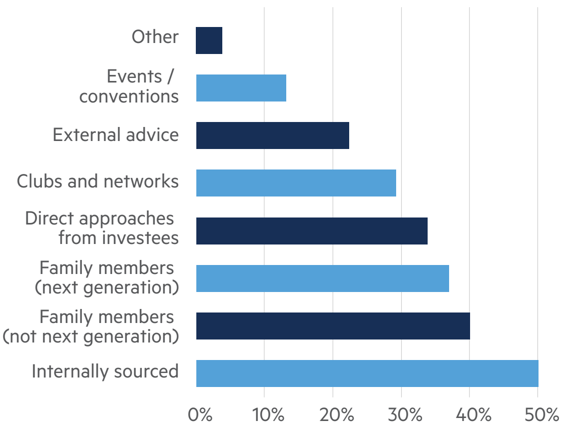
While mainstream media reports focus on the effect of a socially conscious millennial generation (those born after 1980) for promoting social entrepreneurship, our survey found that instead it is Generation X and Baby Boomers (those aged 35-55) initiating family office and foundations' first forays into impact investing. This was true for one-third of respondents, but especially applicable to multi-family offices, for whom half reported this age group championing impact investing. This finding could, of course, be informed by the survey respondents' demographics and it is worth noting that again this year, the majority represent first-generation family wealth.

The survey also highlights the important role external consultants have to play, particularly for single and multi-family offices, with 19% and 24% of these respondents, respectively, citing them as initially proposing impact investing to the organisation. While the number one source of impact investments was from co-investment opportunities (47%), family members were the next largest source (43%), yet only 11% of respondents said impact opportunities came from next generation family members (aged under 40).

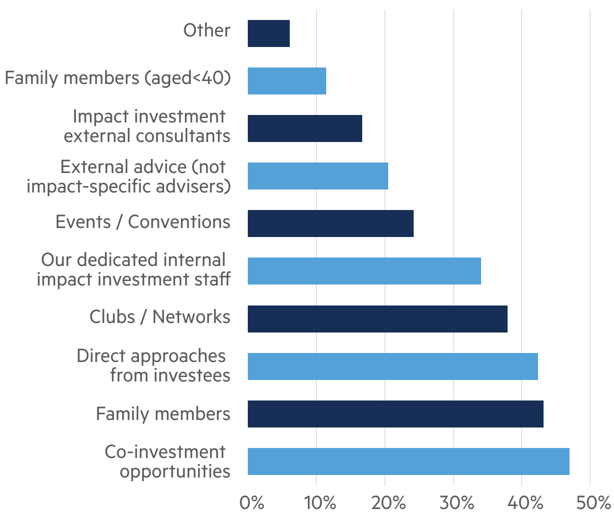
Interestingly, this year saw a huge spike in the number of respondents agreeing that "in future, the next generation of the family is likely to bring a greater focus on social entrepreneurship and impact investing" to the organisation; 90%, the highest level in the four-year history of this survey (last year, 60% agreed).

CHART 3

Where do you source your philanthropic opportunities?



Where do you source your impact investment opportunities?



Base: All active in philanthropy then all in impact investing. Multiple responses allowed.

Michele Giddens

Chair, UK National Advisory Board to the Global Social Impact Investment Steering Group; Founding Partner, Bridges Fund Management

UK Investor Expert

Michele Giddens has more than 20 years' experience in international development and social finance. A Founding Partner of impact and sustainable investment specialist Bridges Fund Management, Ms Giddens is also a non-executive director of CDC Group, the UK government's development finance institution.

In 2016 she was appointed Chair of the UK National Advisory Board to the Global Social Impact Investment Steering Group, established by the G8. She is also a Council Member of the British Private Equity & Venture Capital Association (BVCA).

A former investment officer with International Finance Corporation, a private sector financing arm of the World Bank Group, Ms Giddens spent eight years with US-based community development bank Shorebank Corporation, running several small business lending programmes in Russia, Central and Eastern Europe and advised on microfinance in Bangladesh, Middle East and Mongolia.

As Chair of the UK NAB of the Global Social Impact Steering Group, how do you think the UK fares on the global impact investment stage?

The UK impact investing sector is one of the world's most advanced; there's been a great focus on developing the sector in the last 10 to 15 years.

I was asked to advise the Social Investment Taskforce back in 2000, which kicked off some extraordinary development and a real blossoming of impact investing organisations in the UK. Big Society Capital was created in 2012, which has really helped to capitalise this sector and in 2013, David Cameron launched the Social Impact Investment Taskforce while he was chairing the G8 (now succeeded by the Global Social Impact Investment Steering Group, chaired by Sir Ronald Cohen).

The goal of the global steering group is to allow all countries that are at different stages of developing an impact investing sector to share policy ideas, to understand what works and what doesn't work and to become a very strong empowered force for more impact investing around the world. So, I think the UK has shown a lot of leadership in impact investing and we've really developed quite extraordinary expertise.

Do you feel there is still a lot of work to be done proving the case for impact investing, or are we past that point now?

US-based investment consultancy Cambridge Associates (CA) has carried out some decent work dispelling the myth that impact investing is always associated with lower financial returns. There are now too many examples of successful impact investments around the world [to have to prove the case].

Now, we must move impact investing beyond a small, niche activity to become a more scaled activity, especially in terms of how impact investment can help meet the United Nations' Sustainable Development Goals, for example. That requires a whole different scale from the industry, as it currently stands.

What factors are involved in that 'scaling-up' process?

It will probably help to set the context by recognising the five key areas on which the UK National Advisory Board is focused. These are:

1. The rise of the profit-with-purpose business
2. The financial intermediary challenge
3. Placing impact effectiveness at the heart of public sector procurement
4. Impact measurement and management
5. International development impact investing

Policy plays a huge part, as does social investment - with Big Society Capital a driving force in this space. In the UK we are seeing the rise of the profit-with-purpose business, a type of company that is profit seeking yet solving social challenges, rather than a social enterprise or social sector organisation.

We see enormous scope for growth there, so the potential for scale will come from a combination of policy, culture and other non-policy initiatives. For example, in 2015 the UK introduced the B Corporation, an accreditation for companies that commit to pursuing social or environmental impact alongside pursuit of profit.

In September 2016, Bridges became the first UK fund manager accredited as a B Corporation. Historically, for the last – certainly 100 years – the company structure has been focused primarily on shareholder return, whereas many businesses are actually run with a very deliberate social goal as well. B Corporation accreditation is a way to reflect this.

Is there a risk of companies using B Corporation status for 'green washing'? How would you verify the 'mission statements' of such companies?

Absolutely and the task force believes this needs to be done through effective impact measurement.

This is fourth in our five areas of focus; to progress the industry of impact measurement. If companies are going to make such a statement, we need transparency of results, transparency of accounts, which in turn need the kind of discipline that exists currently on the financial side, through use of auditors and accounting principles.

We're going to need similar principles for measuring and managing impact and potentially also for auditing impact. We once faced a challenge as to how to measure financial performance, with shared language and shared principles. I think we're at that point now for impact measurements and while it looks thorny, it needs to be done.

One item the taskforce is looking at this year, alongside a number of other global organisations, is whether we can create a shared set of principles that could establish a convention for the development of the impact management and impact measurement sector.

What other barriers are you currently facing, on the route to scale?

One key barrier relates to the second of our themes: the financial intermediary challenge. If you ask an owner of capital if they would like to align their investments with their values – in other words to make an impactful investment – very often they will say 'yes'.

However when you ask the individual or company advising them, they tend to focus on understanding the desired risk-adjusted returns, required levels of liquidity and financial objectives of the asset owners.

One of the reasons a lot of impact investments come from family offices is that they decide where to invest, rather than those decisions sitting with a fiduciary or an intermediary for whom this is not an area of expertise.

Is that intermediary barrier due to a lack of skill, or time? Surely intermediaries should be evolving in this direction?

It is encouraging that we are not only seeing some large, mainstream advisers move into this sector but also the creation of expert impact investing advisers, such as Imprint in the US. Imprint's acquisition by Goldman Sachs shows that Goldman sees an appetite from their wealth clients for this kind of advice, hence buying in the expertise.

Perhaps intermediaries have not had the skills in-house, or perhaps it's the managing and measuring of impact and reporting back to their clients, an area everybody is struggling with. With $40trn to be inherited by the millennial generation, many of them are now asking their advisers about where the family's money is invested.

Do you agree that there is a mismatch between increased demand for impact investments and sufficient supply of investable opportunities?

I do not think it's as simple as a demand and supply imbalance. The focus in the UK for the last 15 years has been on financing the social sector – a sector not accustomed to investment and historically funded by grants and by government contracts. So, there is some work to be done there to create more 'investment readiness' work, to build more investable opportunities.

> **The UK National Advisory Board is definitely looking for transformation across the spectrum of capital.**

Yet from the perspective of an owner of capital, there is a lot of choice. When thinking about building a sustainable impact portfolio, it's for their advisers to look for investment products that suit their interests.

For example if they care about the environment, consider a wide range from sustainable forestry, to environmental infrastructure, through to environmental venture, private equity and more sustainable businesses.

One shouldn't assume that demand and supply imbalances are true across the whole range of impact investments because that really isn't the case.

Tell me more about your engagement with the public sector. Your third theme looks at impact effectiveness and placing that at the heart of public sector procurement.

There is a clear trend for government to increasingly outsource services, including a range of socially sensitive services, such as care for vulnerable children or the elderly.

We've learned that payment-by-results contracts – in which impact investors can invest either through a social impact bond or through funding a social sector organisation - can result in more efficient and better outcomes in terms of public policy.

We want to raise that opportunity with the government to do more of that kind of contracting because we have seen that it's not only more cost-efficient but more effective, in cases where their services are changing young people's lives.

Payment-by-results contracting has been criticised with the suggestion that those undertaking the work will 'cherry pick' cases that are more likely to result in the brief being successfully met – leaving some people vulnerable. Is that a concern in the public sector?

You've hit a crucial point here. As governments outsource more, the quality of the commissioning becomes more important. One of the challenges with such socially important contracts is making sure the contracting is thoughtful about producing the required policy outcomes.

I don't think it is a feature of that type of contracting, so much as a feature of contracting where there hasn't been enough careful thought about the desired outcomes. The same thing can happen with a contract where you just pay a fee for service and actually you could still be motivated to be overly selective.

To what extent is it important to have a mixed economy of provision, by which I mean is it better to have a combination of pure profit-making companies taking on the contracts, maybe combined with profit-with-purpose companies combined with social sector organisations and charities taking on those contracts? Does that matter in terms of impact outcomes? If it does, what can we learn from impact investing about the ways to try to optimise a mixed economy? We're looking at those things.

> **We once faced a challenge as to how to measure financial performance. We're at that point now for impact measurements and while it looks thorny, it needs to be done.**

What about international development of impact investing? This is your fifth theme.

The UK has a fairly developed impact investment market with lots of expertise and also quite developed international activity, whether it be the private sector organisations investing in emerging markets or UK policy through the Department for International Development and CDC Group.

> **In the UK we are seeing the rise of the profit-with-purpose business, a type of company that is profit seeking yet solving social challenges. We see enormous scope for growth [in impact investing] this way.**

We saw them operating on a dual set of tracks so are now considering ways to bring together our two UK-based centres of expertise and have them work together more effectively.

By encouraging the shift away from mainstream investing towards impact, is the vision for a 'new wave' of Capitalism? Or is impact an overlay to an existing system that taps into both public and private sector capital?

The UK National Advisory Board is definitely looking for a transformation across the spectrum of capital.

> **With $40trn to be inherited by the millennial generation, many of them are now asking their advisers about where the family's money is invested**

A family office might decide they wanted to seek a level of responsible investment: looking at risk mitigation, ways to reduce the harm done by their portfolio of investments across the spectrum of capital. They might move into impact investing, trying to use some capital to tackle some of the world's rising social challenges through investment, perhaps where there isn't a clear investable solution at market rates, they might move into philanthropy. We see this trend coming through all parts of the investment universe.

In several decades I think we'll look back and say, 'I can't believe we used to think companies should only be held to account for their risk-adjusted return'. Patently they all have an impact on society, we should be holding them to account for that and they should be reporting on it. That is the direction of travel and the more families that get involved and the more advisers that are asked to help, they can all be part of changing the world in the direction that I've described.

CHAPTER 2: CURRENT INVESTMENT PORTFOLIOS

While there is some evidence of family offices and foundations entering a 'scaling-up' phase in regards to their impact investments, as discussed in Chapter 1, the portfolio construction of this year's respondents is not much changed on last year. They typically hold the same number of impact investments (1-5), for the same duration (5-10 years), invested largely through private equity holdings in 'venture stage' impact investments.

Motivations and Themes

This year, both the motivations and the investment priorities of family offices and foundations have shifted. A sense of "responsibility to make the world a better place" was top-ranked (at 25% of respondents) as the major motivation for allocating to impact investments, with "contribution to sustainable development" sliding into the second-highest ranking (20%) from top-ranking in last year's survey. Family offices' overarching priority has shifted since last year, in which social impact outweighed both financial return and 'equal importance of both social impact and financial return'.

This year, the latter was noted as the top priority. This perhaps reinforces the theory that as family offices and foundations become more experienced in impact investing, and experience a prevalence of positive financial returns from such investment, so they have increasing expectations from both social and financial returns – which is reflected in this survey response.

For the past four years, the investment themes of 'Clean Energy/Green Tech' and 'Education & Skills' have dominated our respondents' portfolios, with a wide variety of themes making up the remainder.

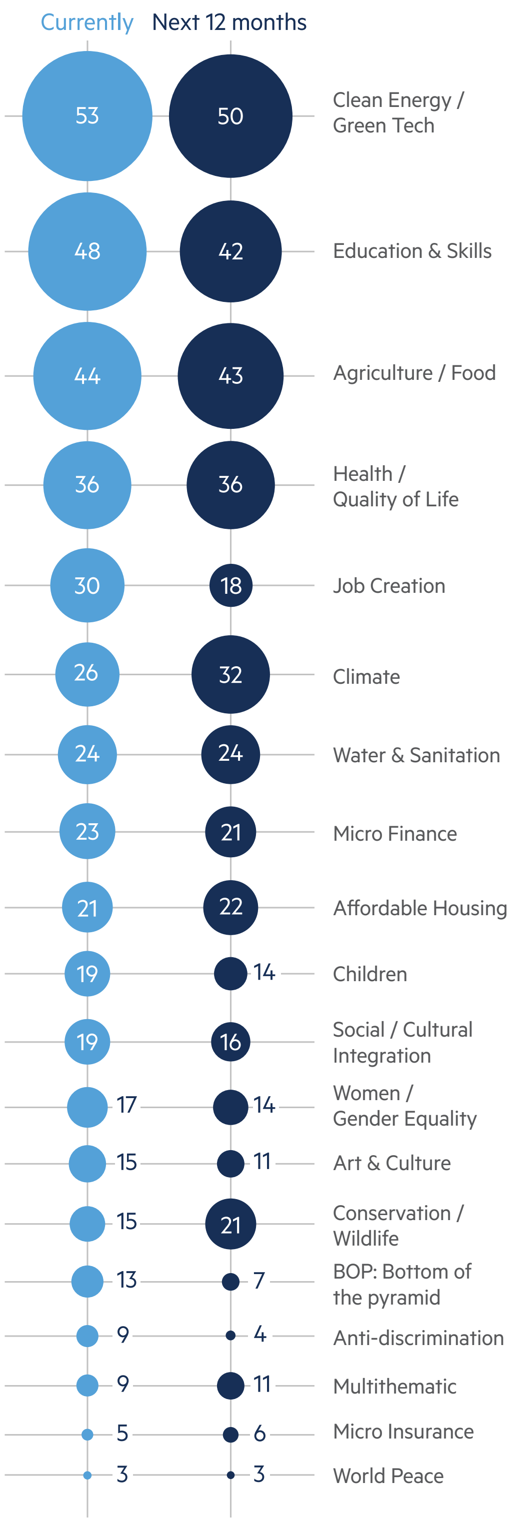
One might expect a year-on-year trend in some themes, those which consistently received increasing allocations from family offices and foundations, yet this is not the case. Aside from the recurring top two themes, we might infer that respondents flexibly interpret how best to "make the world a better place" or "contribute to sustainable development" and do so on an ongoing basis.

However, if family offices and foundations are indeed holding impact investments for at least five years – as they report – this seems unlikely. Alternatively, such a finding could be influenced by respondents' changing demographics.

In terms of the coming 12 months, respondents plan to focus investments in the top three themes, Clean Energy (50%), Education/Skills (42%), and Agriculture/Food (43%), largely building on their existing investments. Given the strong reported performance data (see Chapter 3), this may indicate that family offices and foundations are consolidating their knowledge and experience in the themes they have good existing investments in.

CHART 4

Which themes are you invested in / do you plan to invest in? (%)



Base: All active in impact investing. Multiple responses allowed.

Asset Classes

The four core financial instruments currently utilised by family offices and foundations are Private Equity (75%), Private Debt (38%), Equity-like-Debt (33%) and Real Assets (such as forests, land, and real estate; 23%).

As with the chosen themes of impact investments currently held, it is across these four asset classes that respondents say they plan to increase their allocation. Almost half reported plans to increase their allocation to Private Equity, with around one-third planning to increase investments in the other three most used financial instruments.

Only 5% of respondents reported using Public Debt instruments, and of those 11% planned to decrease their exposure over the next 12 months, the largest decrease across the available asset classes.

Of the 16% of respondents invested in Cash/Deposits, the largest proportion - just over a quarter – plan to maintain this allocation, as do 20% of those invested in Public Equity (15% of all respondents).

While almost half of the respondents have yet to exit any of their impact investments – due to the typical 5-10 year investment horizon and that most made their first impact investment in 2010-2016 – those that have, report a high prevalence of exiting from direct-investment equity vehicles (51%) . This likely reflects this year's finding that family offices and foundations report the typical trigger for an impact investment exit is "challenges working with stakeholders" (34%). Investments via funds were the second most exited financial instruments (45%), likely due to their liquidity.

It is worth noting that respondents were divided on just how relevant financial instruments are to the exit process, with some reporting considerations such as liquidity, volatility and impact on other investors/stakeholders influencing their decisions, while others said the financial instrument had no bearing on their exit strategy.

Source of Opportunities

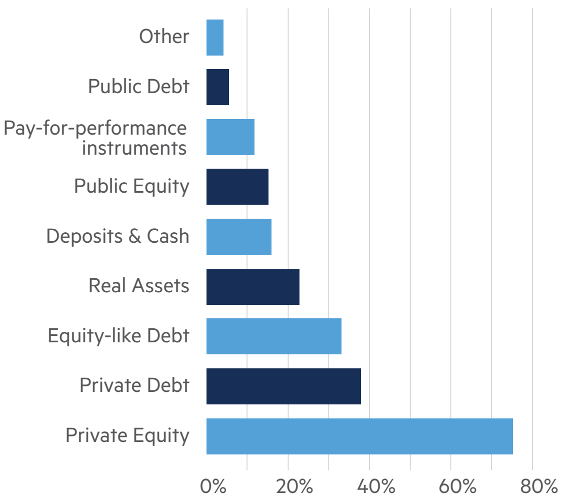
One change this year that could signify the maturing impact investment ecosystem is that the lead source of impact opportunities comes from co-investments (47%) compared with 73% "internally-sourced" last year.

The role of individual family members in identifying and proposing impact opportunities also rose considerably this year (43% compared with 28% last year), making it the second most-likely route for investable opportunities, replacing 'clubs and networks' (38% - down from 47% last year).

This perhaps indicates family members' greater personal knowledge and understanding of impact investing, which they have built over the past few years, and their burgeoning confidence in communicating this in practical ways with their board members and investment committees.

CHART 5

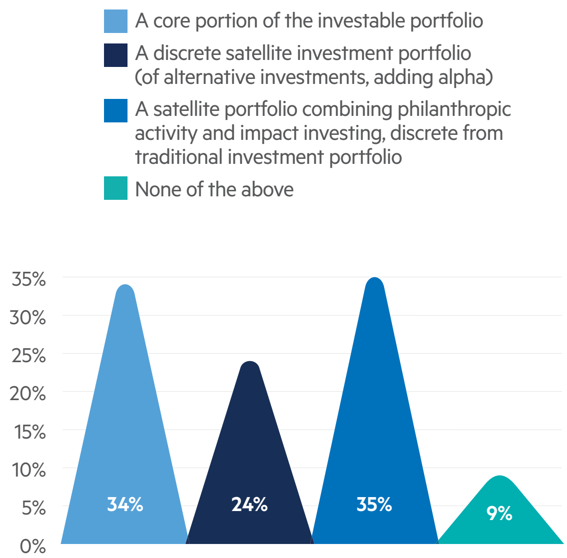
Which of the following financial instruments are you using?



Base: All active in impact investing. Multiple responses allowed

CHART 6

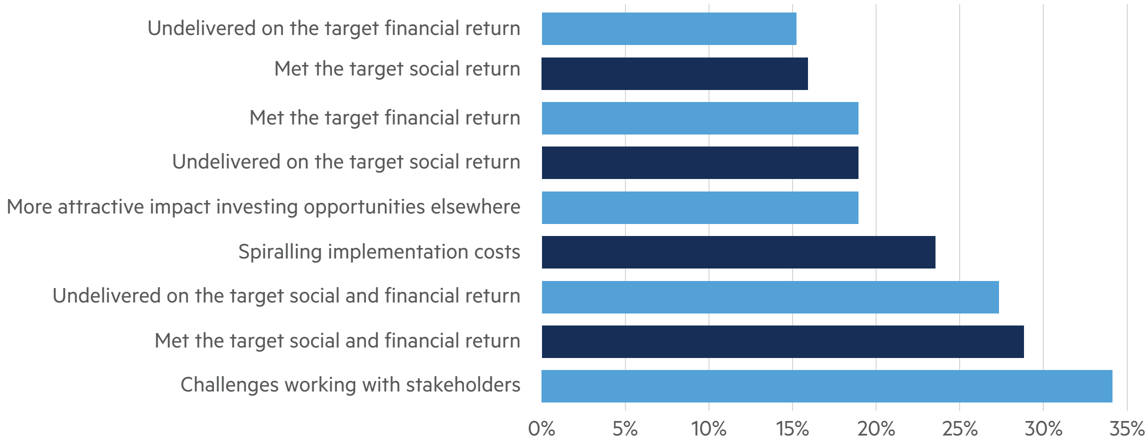
Do you consider your impact investments to be:



Base: All active in impact investing

CHART 7

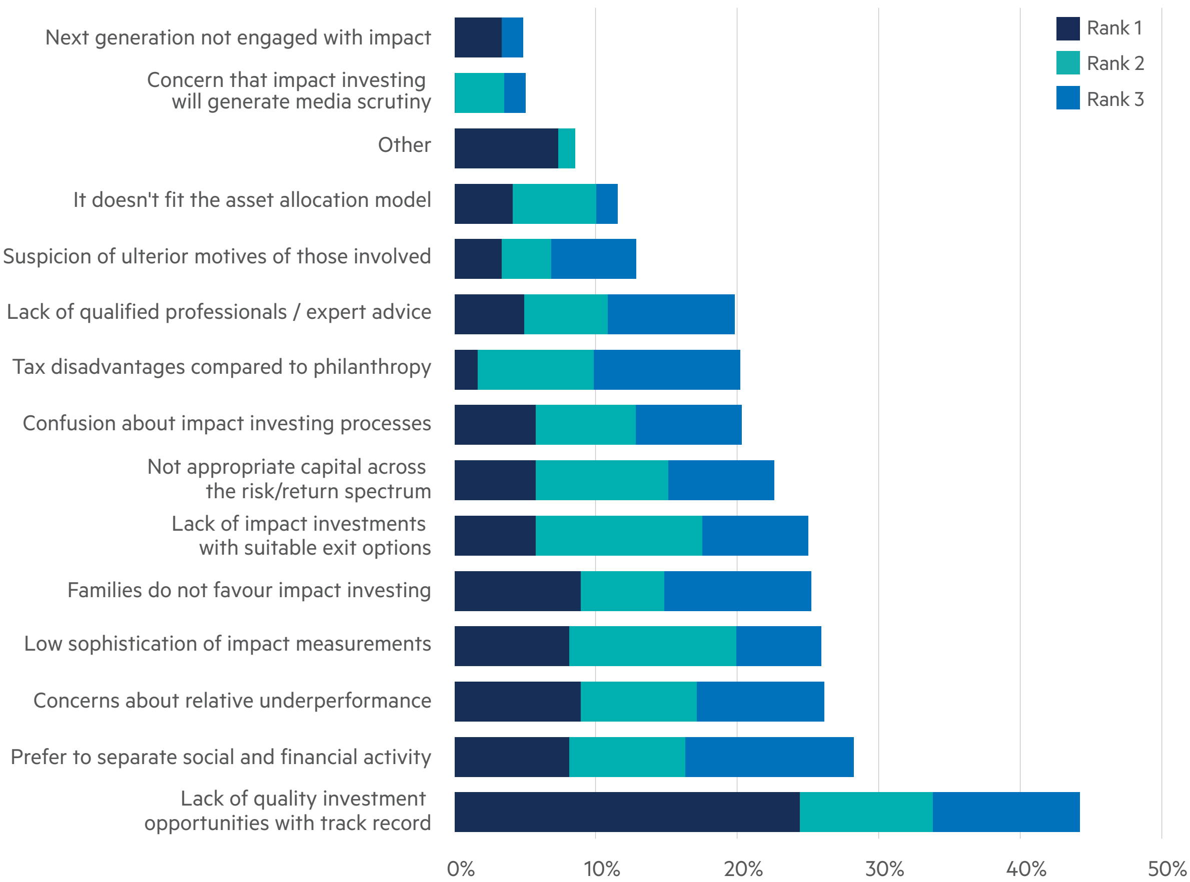
What (typically) triggers an exit from an impact investment?



Base: All active in impact investing. Multiple responses allowed.

CHART 8

Which of the following are the major barriers to increasing your impact investments?



Base: All active in impact investing

Investable Opportunities: A Mixed Picture

The survey finds that family offices and foundations continue to believe there is a "lack of high-quality investment opportunities (fund or direct) with proven track records", with this now the biggest perceived barrier preventing an increase in impact investment allocation.

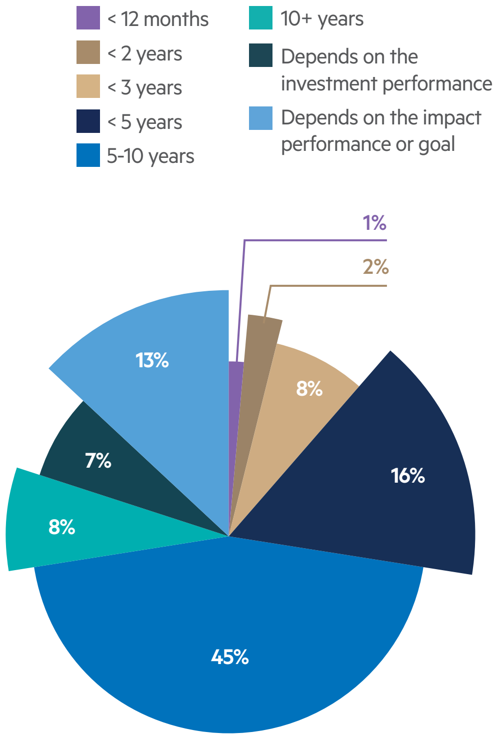
This year, a quarter of respondents listed this as their main issue – the only barrier to attract a double-digit percentage response, indicating family offices and foundations' strength of feeling on the issue. This was reported as the biggest barrier in last year's survey, in which it was also considered the biggest challenge facing the impact investment 'movement' generally . Interestingly, this is at odds with the experiences of our interviewees (see Chapter 4).

The plot thickens when the data is segmented by organisation type; multi-family offices mirrored the overall data, with 24% most concerned about lack of high-quality investment opportunities, compared with 17% of single-family offices (though this was still their primary concern). Foundations, however, overwhelmingly considered "concerns about relative under-performance of financial returns" to be the biggest barrier to increasing impact investment allocation (at 44%), and only 4% of foundations reported lack of high-quality investment opportunities to be a barrier.

Paradoxically, foundations (16%) reported that the "availability of impact investment opportunities that pass our due diligence / investment criteria" was the biggest challenge, thematically, facing the impact investment 'movement'. By contrast, this year single-family offices felt it to be "education about investment routes and approaches to impact investing" (23%), while multi-family offices felt "general awareness of impact investing" was the biggest challenge (22%). Perhaps foundations are confident that family members and co-investment partners will continue to be a strong source of new investable opportunities, thus the issue not affecting their foundation specifically but they believe it could be a challenge for others, perhaps those foundations at an earlier stage of considering impact investing. We will need to wait for next year to see whether the data clarifies a trend between foundations and family offices in this regard.

CHART 9

How long do you typically hold an impact investment for?



Base: All active in impact investing

Respondents' 'Typical' Impact Portfolio:

- Hold 1-5 impact investments
- Hold investments for 5-10 years
- Private equity instruments dominate (for 75%), followed by private debt (40%)
- Invest across the investment 'stage' spectrum, firstly 'venture stage' opportunities, followed by 'growth stage' and then 'seed-funding/ start-up stage'
- Existing impact investments meet or exceed their financial objectives (75%) and their social objectives (88%)
- Exits are typically triggered by:
  - "challenges working with stakeholders" (34%)
  - when it met the targeted financial and social returns (29%)
  - failed to deliver on those dual targets (27%)
- Single and multi-family offices source impact investment from co-investment opportunities (47%) or family members (43%)

Dr Enrique Steiger

Founder,
Swisscross Foundation

Global | Social Entrepreneur | Healthcare

Dr Enrique Steiger is an experienced war surgeon with 20 years' humanitarian experience in major war zones. He founded Swisscross Foundation as an impartial humanitarian NGO with the aim of providing research, improved safety/security for health workers in conflict zones, and education (of medical staff and of facilities).

As a specialist in Plastic and Reconstructive Surgery and Traumatology, Dr Steiger has undertaken missions with the International Committee of the Red Cross (ICRC), UN and OSCE in conflict regions. He earned his doctorate at the University of Zurich, Los Angeles and Rio de Janeiro. He is Co-owner of "Clinic Utoquai" in Zurich.

You reject the term philanthropist and describe yourself as a "humanitarian entrepreneur". Why, and what does this mean?

You know, 25 years into the field, I'm not a person who believes that charity's going to solve problems. I believe economy is going to solve problems, not charity. Why? The most abused word in the humanitarian field is sustainability.

There's only a very few, probably a handful, of projects I've seen in my life - in 25 years of war zones - which were sustainable. I've been involved in probably over 150 initiatives and none of them, not one single one of them, is sustainable and would survive without support, financial or human resource support from ex-pats coming from other countries or other regions. That's the reason why I say that the only thing that is going to solve it, if it can be solved, is a kind of entrepreneurship.

Philanthropy has some colonial aspect in it. There's so many negative things associated with that term of helping and charity. Charity for me is justified as an emergency situation, but that's it. Please stop supporting this country for the next 25 years because, what you're going to do, you're going to maintain a system which is, per se, not sustainable.

For example, we went into an African country at war and took over providing healthcare to 40% of the population. By taking that burden away from the corrupt government, they instead invested that money in weapons and tanks. So, you take them off them the responsibility and that's actually the consequences.

It does not make sense for any serious, honest humanitarian to follow this lead. You can see that most of my fellow doctors, and also humanitarians, are completely tired of these things. That's what's at the root of Swisscross Foundation's philosophy.

It sounds like you advocate a change in approach by humanitarian organisations, but would you also advocate this for family offices and foundations?

Yes. This change of minds should be addressed in every single organisation; foundation, family office, in the philanthropic as well as in impact investment. When I'm in these countries, I could make tons of money just being an entrepreneur because I'm the only guy from outside who has great contacts within the country we operate in and sees the business which is around there and if I get the right allies, I would make a ton of money, believe me – but this is not my goal.

For our foundation, what is our goal? Yes, we have projects where, in the end, we want to make money, but this will be reinvested into new projects.

Actually, the main goal of all these people - philanthropic, family offices, impact investors – I think, should be to change the world but give some money there, with interest, and let's work and build something which is sustainable.

Then you can create new markets and with these new markets your children will be able to go into these markets and make money. So, this should be actually the main goal and the main reason of global impact investment, from my point of view.

Can you give me an example of one of your initiatives?

We started three years ago a small initiative in Afghanistan in one of the tribal areas. We had access to this area through the trust of the community and my reputation of providing healthcare support, building up healthcare facilities in this area since 2005.

They asked: "Can you help us to take care of pregnant women and children? To provide a kind of mobile medical service?" I said: "Yes, I can do that but you have to guarantee me the safety of the staff, number one. Number two, you have to provide the land, you have to build the clinic, you have to provide the staff and then I can show you how we make money that this clinic is paid for by the local community, by the patients themselves".

You would think they would laugh in my face; why would they pay for it if an NGO is going to do it for them? I can tell you, after over almost 40 years of war, people have realised that international agencies were not the solution to their problems and they have to take matters into their own hands.

I had a business plan for how the surrounding fields, which produced pomegranates, grapes, things like that, the community could labour in the fields and bring money into the community. That would enable them to pay at least $1, $2, $3 or $4 for consultation in that clinic. Swisscross Foundation helped set that up with 30% of the money, with the rest paid by local warlords and the local community. They now make fruit juice that is sold at a large profit to local NGOs. The thing is running, we are making money and they get labour, they get work, they get money, they can pay for their own medical treatment. So, this is what I call impact investment.

How do you measure the social impact of an initiative like that?

Of course, how many patients are treated, how many patients are addressed, how long are the clinics open, how is the access from the people to the clinic, how many times they have to close it because of security. We have the same scrutiny as you would do with evidence-based research type as any university would.

We've talked about the importance of NGOs and wealthy families and philanthropists taking an entrepreneurial approach. Is there a role for global business leaders?

Absolutely. It's very important that we involve private industries as well. I believe in a Robin Hood system; in my own private (medical) clinic in Switzerland I'm honest with my rich patients that they are paying a much higher fee. I haven't ever lost one patient – they say I'm the best and they pay.

If I can do this in my clinic, why can't I replicate this in areas like Syria? You don't have to think that every Syrian who's a refugee is a poor person and has no means to pay for it. And you can evaluate people who have means and no means. If you have excellent service provided there, even wealthy people will go there and want these international experts taking care of treatment.

How is this Robin Hood model being replicated in Syria?

The Global Swisscross Foundation Medical Corps Project is a flagship project working with several medical organisations to build a big treatment centre for reconstructive surgery either in Lebanon or in Jordan, in both countries probably, which takes care of trauma patients, as well as complicated reconstructive cases coming from five different war zones, like Syria, Iraq, Yemen, Palestine and Libya.

This is because people in war zones get rudimentary treatment, end up disabled and then cannot work, cannot provide food for their family and they're going to starve and survival was for nothing.

We're trying to create the regional hub, a regional humanitarian hub with foreign experts helping regional doctors to cope, treat complex trauma patients brought by humanitarian organisations, and educate doctors coming from these war zones with their patients.

We show them how to avoid the disasters in the field, so when they address the patients on the frontline, who know how to treat a burns patient, how to properly treat hand injuries, so they can avoid the people becoming crippled.

If this works, we're going to scale it to Africa and to other areas where they have conflicts as well.

How can this make a financial return, as well as the clear positive humanitarian impact?

In the beginning, this will be free, to start it. Once it works, I would charge international NGOs for the treatment because they have funding to provide healthcare support and I would charge the countries for education of their doctors. It should be a centre for excellence because, I can tell you, even refugees from Syria have some kind of financial resources and they will spend this to get the best possible treatment for their families. The hospital will make an income. The primary goal is, of course, that this is sustainable.

There are other ways of making money too. These young doctors coming from the war zone, we put them in a database, we know exactly where they're coming from, which languages they speak, they're trained by us, are an expert in this specific field and will be available for other organisations for this period of time, during this year. So, I can use this human resource, which is so scarce for us, this makes much more sense than sending Dr Steiger, as a white guy, coming from Switzerland into an Arabic country where he doesn't speak the language, doesn't know the culture. That same doctor takes those skills back to his own country, replicates himself, reduced dependency.

We want to empower local communities and we would actually reduce the dependency from international community. But you have to do it with the local community. You have to include them. You don't have to come as, "I'm the white knight coming from Switzerland, I know what to do". You shut up, sit down and listen, you know? We have to rethink completely how we deal with these problems - and there are so many ways.

CHAPTER 3: PERFORMANCE & DETERMINING SUCCESS

The impact investing community is growing bolder in its assertion that the 'business case' for impact investing has been made. There is a permeating sense that less time needs to be spent explaining both what impact investing is and if it can, in fact, work. This appears to be borne out by the survey data too.

The survey trend over the past four years has been for family offices and foundations active in impact investing to report, overwhelmingly, that their investments are meeting and exceeding expectations in both their financial objectives and social impact objectives.

This year, 75% of respondents reported their financial performance met or exceeded their expectations, and 88% reported this for their social returns.

Market-Beating Financial Returns?

The most typical average annual financial return (over the past three years), as reported by 30% of respondents, was a positive gain of 3-5% . Such low-single digit returns may not sound compelling in isolation, yet considering the Bloomberg Barclays Government/Credit Bond Index returned 4% and the MSCI World Index returned 5.9% over the three year period (to September 2016), the impact investment financial returns clearly hold their own.

Given that 75% of our survey respondents use private equity instruments to make impact investments, these findings are comparable to Cambridge Associate's PE/VC Impact Investing index[1] , which reported returns of 5.3% over three years to September 2016.

This survey clearly refutes the common preconception that in order to generate a positive social return, so a below-market financial return (if any) must be accepted. This year, one-third of family offices and foundations active in impact investing report generating financial returns exceeding 6-15%; 16% of respondents reported above 15% financial returns annually (over the past three years). By contrast, only 11% of respondents reported an annual financial loss for the same period.

Sourcing accurate comparable market benchmark data is challenging; acquiring private fund performance data is difficult and there are not currently large datasets from this. In addition, the financial returns within our survey are not broken down by financial instrument, making direct market comparisons even trickier.

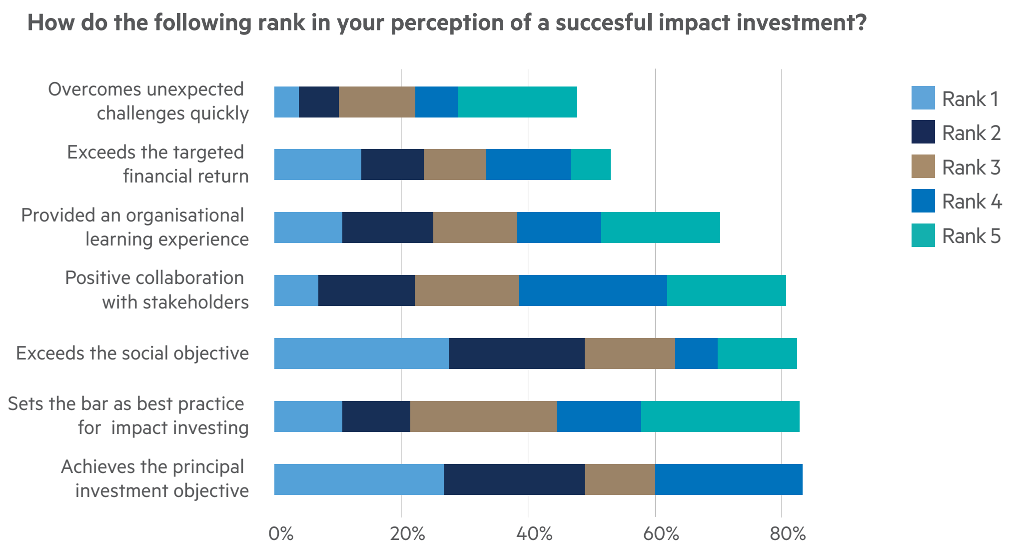
It is notable, however, that the family offices who were not engaged in philanthropy or impact investing, largely report returns from their traditional investments over the past three years to be gains of 6-10% (for 43% of these respondents), 11-15% gains (for 21% of respondents) or 3-5% gain (for 14% of respondents).

Expectation Setting

In the next 12 months, even fewer family offices and foundations expect to endure a financial loss in their impact portfolio, just 4%. The largest proportion of respondents expect to outstrip their ~5% annual financial return (over the past three years), with 30% forecasting a financial gain of 6-10%. Nineteen percent of respondents forecast a financial return in excess of 15%, 3% more than reported achieving this, indicating investment confidence.

Interestingly, despite these reported returns, a higher proportion of respondents reported being disappointed by the financial returns of their impact investments

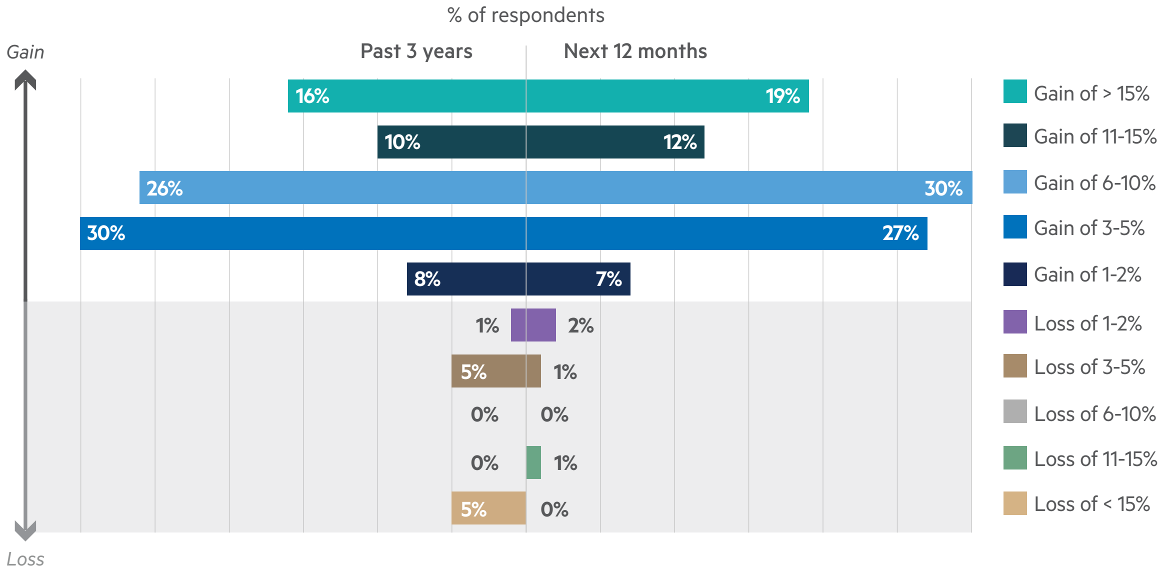
CHART 10



Base: All active in impact investing

CHART 11

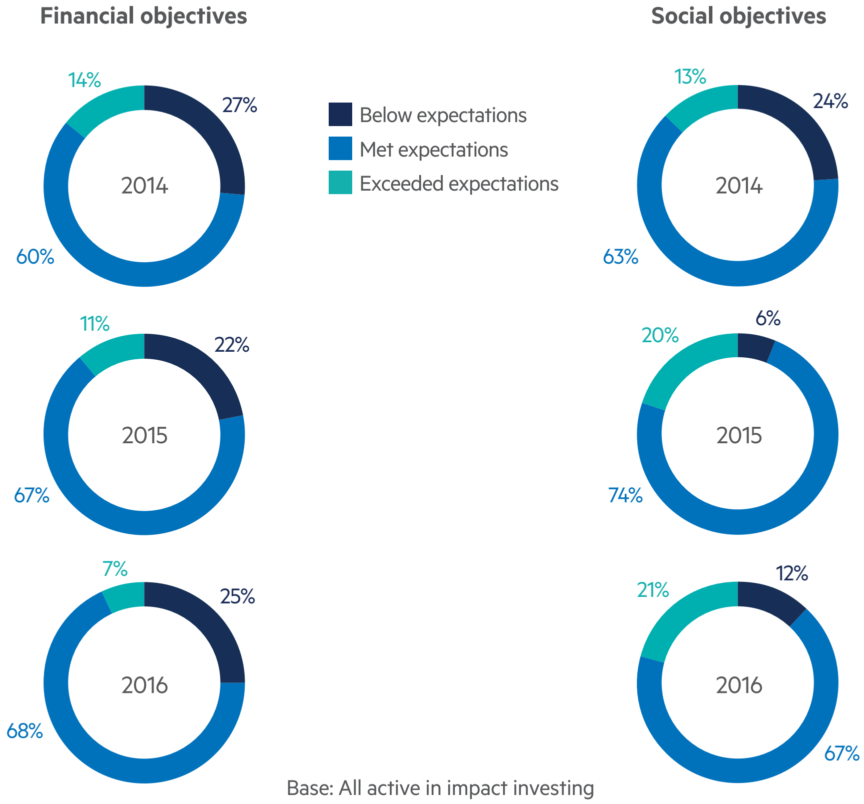
Average annual financial returns from impact investment: achieved and expected



Base: All active in impact investing

CHART 12

How did the overall performance of your impact investments compare to:



Base: All active in impact investing

than they were by the social returns. A quarter said the financial returns were "below their expectations" compared with 12% feeling the same about the social impact return. Similarly, only 7% said the financial returns generated "exceeded expectations", while 21% said the same about their social impact.

So, what's going on? One theory is that as family offices and foundations increasingly experience their impact investments generating both financial and social returns, so their expectations rise. In Chapter 4, several interviewees describe a maturing marketplace in which expectations of the available returns from impact investing are increasing, and so it could be that even as the financial gains increase or stabilise at a given level, expectations may be disconnected and potentially unrealistic. It's one theory. We shall eagerly await further data over the coming FT Investing for Global Impact reports, to confirm or contradict this theory.

Measurement

When the social performance was below expectations, many of the reasons given* included reference to an early stage of experimentation, garnering learning that could improve future impact investments held by the family office or foundation. There were also several comments exposing dissatisfaction with some investment managers operating in the area, noting "management shortcomings", "investment management company failed to deliver", "poor execution" and "lack of due diligence" .

To consider performance of impact investments is to consider the monitoring, measurement and evaluation of such investments. Here is the rub; with regards to their own portfolios, "low sophistication of social impact measurements" was ranked as the second biggest barrier that prevents family offices and foundations from increasing their impact investments (12% of respondents; the same proportion who equally worry about "lack of impact investments with suitable exit options").

Two-thirds also reported it is "difficult to monitor and measure performance" of impact investments , yet when considered thematically (rather than their own portfolios), respondents said the lack of universal measurement metrics for impact investment "total performance" was not a significant headwind. While this indicates there is some challenge in consistently measuring impact investments, it is not an insurmountable challenge.

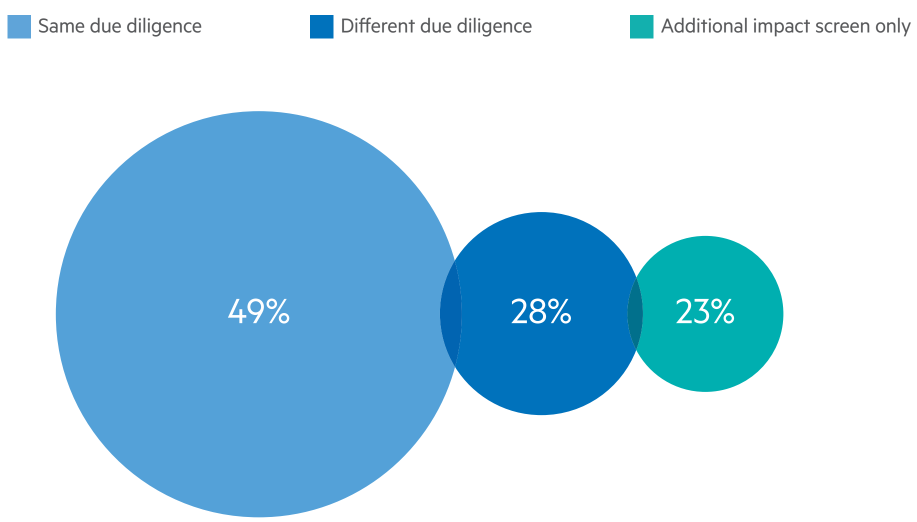
While this is explored in many of our interviews, perhaps Francesco Starace, Chief Executive of Enel, a €40.2bn company spearheading sustainable energy, says it best: "There is always a mistake in any measurement, no matter how precise you want to be.

For us, what matters is whether you can measure the progress of your advancement in a given field and also the velocity of that progress."

*Freehand, 19 responses.

CHART 13

Does your due diligence differ for impact investing compared to 'traditional' investment decisions?



Base: All active in impact investing

Francesco Starace

Chief Executive Officer and General Manager, Enel

Italy & Global | Business Leader | Sustainability

Francesco Starace has an extensive background in the energy sector and leads Enel, a Euro Stoxx 50 company valued at €40.2bn. Mr Starace has spearheaded Enel's transition to sustainability, both through sustainable energy and in its commitment to provide affordable electricity in regions where it can increase social and economic development. Enel was one of the world's first companies to integrate UN sustainable development goals into its strategy and reporting processes.

Since June 2014, Mr Starace has also been a member of the Advisory Board of the United Nations Sustainable Energy 4 All initiative. He sits on the Board of Directors of the United Nations Global Compact. In 2016 he was appointed co-Chair of the World Economic Forum's Energy Utilities and Energy Technologies Community and appointed co-chair of the B20 Climate & Resource Efficiency Task Force.

With your Open Power approach, which focuses on extending electricity access to more people, does the business case come first or the social impact case?

It's difficult to separate but I can outline our thought process to explain how we got to where we are as a business today. The generally-held view of the utilities sector has been that it is not an innovation-based industry so we needed to find a stimulus for innovation. Sustainability is a major driver of innovation and that's what we focused on from the very beginning. But that is us and others go at it the opposite way.

> **We need to disrupt the way we have grown in the past and that is one of the main reasons we put sustainability and innovation together in our organisation.**

Open Power is about sharing ideas, innovations, concepts and problems as well as discussing and hearing what other people want and need.

That is the prerequisite for stimulating innovation because if innovation sits in an ivory tower somewhere studying the nuclear reactor of the future, it doesn't need to hear from anybody, it just needs to study. That's not the way we do things.

> **It boils down to empowering people, giving them the resources, solutions and training so they can help themselves out of their problems.**

Are there any examples you would point to as proof of the value generated by your approach?

One that comes to mind is of training some women from remote Latin American and African villages at the Barefoot College in India. We showed them the basics of solar engineering and how to assemble, disassemble and repair solar panels and lamps without the need to understand written English.

They returned to their villages and they were the managers of the solar PV panels which were put on the roofs of their houses.

This approach empowered them to manage the power infrastructure on their own, rather than parachuting into a location, giving them a generator and walking away without telling them how they might fix it if it breaks because some cable has disconnected or part of it rusts.

This has been hugely successful and is a sustainable way of providing power to remote locations. It's worked in seven countries in Latin America and some parts of Africa.

How imperative do you think it is, particularly for the energy sector, to self-disrupt and take sustainability seriously?

The challenges we are all facing as utility companies, or energy companies, are of such a magnitude and such latitude. We have to balance affordability on the one hand and sustainability on the other in terms of producing enough energy, especially as 1.2 billion people do not have access to electricity at the moment.

This challenge is so big and the natural development of our business would not be able to keep up as it would be outpaced by demographics. If we really want to address this problem we need to change how we have previously addressed this issue.

We need to disrupt the way we have grown in the past and that is one of the main reasons we put sustainability and innovation together in our organisation.

Do you feel that other companies in the energy sector are taking this approach, or are they lagging other sectors?

There are lots of different approaches to the same problem but when we first put the concepts of innovation and sustainability together we were looked upon with some puzzlement.

I was asked the logic of bringing the two things together initially but as time has passed I think other companies are starting to think in the same way. That said, I think we're still probably a minority.

Does this give you a competitive advantage, helping you to be at the forefront of any innovation rather than being a laggard?

This is exactly the point. We need to find a solution that brings electricity to everyone and which is affordable, reliable and easy to maintain. We will study it and prove if it works. If it doesn't, then we'll keep working until we have found it.

We think we'll eventually crack the secret code and if we work with people who have the same goal we might have a better chance of finding a solution rather than just sitting in a lab and hoping to discover something.

> **We wanted to state publicly that we had committed to these [UN SDGs], to signal to everyone that we truly believed in a way of working which achieves those goals.**

Does there need to be a global shift on a transformational scale to achieve the goal of supplying energy to the world's population?

It would be foolish to think that even as a big company we can single-handedly solve this huge problem. It's not just an issue for companies though; institutions like the United Nations run various programmes to solve all kinds of issues, not just the energy one.

Effectively, it boils down to empowering people, giving them the resources, solutions and training so they can help themselves out of their problems.

Enel has publically committed to four of the UN's sustainable development goals. How did this arise?

The UN set out 17 sustainable development goals and we found the activities we were conducting before these were written fell mainly into no more than four categories:

- Affordable and clean energy
- Quality education
- Decent work and economic growth
- Climate action

We wanted to state publicly that we had committed to these, to signal to everyone that we truly believed in a way of working which achieves those goals. Beyond that, we can now show the communities we work with which goal they are contributing towards, which is good for motivation.

How do you measure and monitor the performance of reaching those targets? Is it a quantitative method or more thematic?

We have a quantitative breakdown which involves a very specific model. For each goal, there is a subset of projects and each of these is assessed based on specific performance indicators.

All projects are measured according to the category in which they fall, and which matrix applies to that category, and they are monitored every quarter. At the end of the year we issue a report plotting the progress of each activity.

Do you feel there's this mismatch between the perception of what can be monitored, measured and reported on, and the reality?

When you measure something you inevitably imply some kind of simplification on the object. There is always a mistake in any measurement, no matter how precise you want to be.

For us, what matters is whether you can measure the progress of your advancement in a given field and also the velocity of that progress.

Also, people working on the projects need to know what impact, or what measured impact their actions are having, or else their motivation drops as their progress becomes vague. The key issue is whether you are improving or stalling. That's the point for us.

How mature is the role of the public-private partnership (PPP) model in helping to address sustainable development issues or challenges? And, is it being led by companies like Enel, or is it being led by the public sector calling upon enterprises to help them?

This is the most disappointing part of the story because public-private partnerships have been a mixed story; the two parties have different approaches to the same problem.

> **For us, what matters is whether you can measure the progress of your advancement in a given field and also the velocity of that progress.**

We deal with up to 70 governments around the world with completely different approaches and when you're on the ground there are different ideas and legal constraints which make things extremely challenging.

This can be discouraging for companies doing what we do, which have an idea of how to approach something which is then different to the government in that location. So PPP is an acronym for a lot of difficult problems. I'm not saying we should give up on it but it is not the solution for what is a very difficult and complex problem to solve.

You sit on the World Economic Forum's International Business Council. Is this an effective way to ignite a paradigm shift at a corporate level?

It can be. They can help a public-private partnership launch in a better and faster way and can help educate governments about what the private sector wants and how it works, and vice versa. They can define ways of working to make things easier and less risky, so they can and do help. That is why we are active in many multilateral organisations.

Chief executives often don't stay in post long enough to see such large transformative shifts through as they're under pressure to hit short-term targets. Is this a factor in corporate decision-making?

It is and while many might want to talk about what they're going to do in the near future and that's as far as they want to go, these are very long-term projects.

This is the most difficult part of a CEO's job – the demand to keep delivering quarter after quarter as well as putting in place things which will leave the company in a state so it has a future after your departure. Thankfully we are seeing more investors who want to be shareholders for the long-term and I would say roughly 70 per cent of our investor base could be considered as such.

Should we be worried about global agreements such as the UN Paris Agreement given some of the soundings by President Trump or is political pressure not a key concern?

I do think we will see a negative impact from this administration and on a larger scale than people think. The wishful thinking that it won't be so bad is naïve, in my view.

> **PPP (Public Private Partnerships) is an acronym for a lot of difficult problems. I'm not saying we should give up on it but it is not the solution for what is a very difficult and complex problem to solve.**

I think there will be a negative impact on the climate agreement and we have to be ready for that and be ready to push back and resist as much as we can. The return of the denial of climate change is dangerous and needs to be clearly pushed back.

CHAPTER 4: IMPACT CASE STUDIES

Impact investing is a global movement expressed with regional accents. As such this selection of distinguished interviewees were chosen for their diversity in geography (spanning Europe, South-east Asia, Africa and U.S.), in perspectives, and in thematic focus.

This year, fifth-generation Rockefeller family members Valerie Wayne and Justin Rockefeller share the journey of the Rockefeller Brothers Fund through public divestment from fossil fuels and embracing of impact investing, as well as an insight into family member foundation involvement.

Social entrepreneurship is again showcased in this Chapter, with Simone Cipriani applying his fashion career to development through partnerships with the United Nations, and Nicolas Hazard from a no-nonsense fund management and pragmatic social innovation perspective.

Readers will notice too that this year we have introduced a 'split' case study, showcasing both sides of impact investing: the investor (Garden Impact) and one of their investees (Agape).

Through mutual respect of both perspectives and insights into their respective challenges, it is hoped readers can achieve greater understanding of both sides and the relationship they form.

All of these interviews – both the Case Studies and the Q&A interviews throughout this report - build on a library of knowledge accrued in previous editions, including those from social entrepreneur Kimbal Musk (The Kitchen), Rockefeller Philanthropy Advisors, Roger Federer Foundation, Big Society Capital UK, Johnson & Johnson Corporate Citizenship Trust, and Portugal Social Innovation.

(For more information on past editions of Investing for Global Impact, visit: www.ftadviser.com/impact)

CASE STUDY

Valerie Rockefeller Wayne

Chair, Rockefeller Brothers Fund

US & Global   Investor   Foundation

Valerie Wayne, as Chair of the Rockefeller Brothers Fund, has propelled the family name to the vanguard of the divestment movement.

She holds several board positions, including at Rockefeller Philanthropy Advisors.

As a middle school special education teacher specializing in adolescents with learning and emotional disabilities, she began her teaching career in East Harlem, New York, and has spent time teaching in Australia.

Justin Rockefeller

Trustee and member of the Investment & Audit Committees, Rockefeller Brothers Fund and Co-Founder of The ImPACT

US & Global   Investor   Foundation

Justin Rockefeller is a venture capitalist and political activist. He is co-founder of The ImPACT, a non-profit designed to facilitate wealthy families sharing their own experiences of transitioning to or embracing impact investing.

He is Global Director of Family Offices and Foundations at Addepar, an investment management technology company that provides both traditional financial and impact measurement tools. Aged 25, Justin co-founded Generation Engage, a nonprofit nonpartisan organisation to bring together politicians and community college students using technology to support grassroots activism. In 2010, GenerationEngage merged with similar non-profit Mobilize.org, for which he is now Treasurer and Trustee.

Rockefeller is a name synonymous with ambitious oil exploration, generating one of the world's largest fortunes from 'Black Gold' during the 19th and 20th Centuries – primarily through Standard Oil.

While this cemented the Rockefeller family 'brand' as a leading industrial American powerhouse, the family name also became synonymous with grand-scale philanthropic activity, and in 2007 The Rockefeller Foundation's Bellagio Center coined the term 'impact investing'.

Millennials and women are really leading the charge of impact investing.

The Rockefeller Brothers Fund (RBF) is a separate legal entity to the Rockefeller family, a foundation founded in 1940 committed to "building a more just, sustainable and peaceful world". The RBF board, Chaired by Valerie Wayne (fifth-generation Rockefeller), consists of both family members, with equal control and non-family members.

Divesting – and Going Public

In September 2014, the RBF board took the unusual decision to "embrace the irony" of a Rockefeller foundation publicly committing to divesting from fossil fuels.

By breaking the privacy that many foundations cloak themselves in – preferring to deflect attention to their grantees than court public attention – by publicly announcing this intention, the board felt it could use the potency of the family name, in both business and philanthropic circles, as a deliberately loud and symbolic gesture.

Justin – also fifth generation Rockefeller - says: "We recognised and hoped that people around dinner tables and, more importantly, around investment committee tables, would ask themselves 'if a Rockefeller related entity is divesting of fossil fuels and the money clearly came from fossil fuels, what does that mean? Is that something that we should look into as well?' That, frankly, they would start to ask themselves tougher questions. 'How do our investments affect the mission of our work?' or 'how do they affect our values, if we're not a foundation?'"

He continues: "So to the degree that we could be somewhat catalytic to that conversation, or at least build on the good work of others, we were happy to use the Rockefeller surname attached to our foundation as a way to push that forward."

Yet the RBF board was highly conscious that simply divesting – currently around $35million – from fossil fuel companies, whose shares would be purchased by others, "does not move the needle on climate change," Justin says, noting a core thematic objective of the foundation.

In the 1980s, RBF's focus on protecting biodiversity shifted to encompass the broader implications of climate change.

This translated into philanthropic grant making to environmental groups as well as promoting energy efficiency and sustainability among the public and private sector.

With 60% of RBF's grants going towards sustainable energy development, the board began to feel that the investment element of the endowment had to be brought into line; Justin says the board concluded that owning fossil fuel related stock while pursuing its foundation's mission "was somewhat akin to a cancer-fighting foundation owning tobacco stocks" and that was untenable.

Joined-up Thinking

Both Valerie and Justin are refreshingly honest about the practical challenges RBF faced in realising this transition (see box-out on page 30). Valerie notes: "Frankly, even figuring out where our fossil fuel holdings are is hard. The process is long and complicated. It's better to be honest with people about that."

Justin adds that he has "endless meetings and conversations" with others organisations contemplating this shift but who are daunted by the sheer process of change required to make it happen. He notes: "I dare say it's often an issue of getting the board to come along."

Frankly, even figuring out where our fossil fuel holdings are is hard. The process is long and complicated. It's better to be honest with people about that.

Transparency is a theme continued by RBF, which reports its progress regularly on its website (www.rbf.org). By August 2016, the fund's exposure to coal and tar sands oil – the most intensive sources of carbon emissions – had been reduced to 0.1% of the total $816m portfolio and total fossil fuel exposure had decreased to 3.1% (from 6.6% in 2014).

Transition to Impact Investing

With a $1bn endowment and only 5% required by law to be distributed to charitable activity, RBF considered the natural next step following its divestment commitment to be to align the remaining 95% of the portfolio - to "put our money where our mission is, where our mouth is," says Justin – by investing the foundation's capital base in line with its mission.

This is a dual process:

Mission-aligned Investments

- Evaluated under fossil fuel divestment objectives
- Integration of Environmental Social Governance (ESG) factors in investment process (primarily for equities) creating an affirmative screening and selection process
- Proxy voting where possible

Impact Investments

- Market-grade investments in primary capital (private equity/debt and real assets; real estate and infrastructure) with "meaningful and measureable impact advancing the RBF's mission and program initiatives".

The RBF's mission is to ensure the foundation can continue "in perpetuity", meaning the endowment invested must always strive to gain market-rate financial returns, with no degradation in return for positive social outcomes from the investment.

The portfolio's financial performance is measured against the 70% MSCI All Country World ex Fossil Fuels and 30% Barclays Global Aggregate Bond.

Impact Investment Mix

RBF's initial target allocation to impact investments was 10% in 2010, but was doubled in 2016 and aims to exceed its 20% target. As of December 2016, RBF's ESG investments total $173m, Impact investments $36m invested, with $100m earmarked for impact investment. Valerie says: "The good news for the sceptics is that now we just have more of a track record to prove that it's possible. You absolutely can get market rates of risk and return but the process is probably going to be slower than you think. Sometimes we're criticised for going slowly but it's the only way we've been able to figure out how to do it carefully."

The foundation's mission is to contribute to a more just, sustainable and peaceful world. Its current investments are categorised as "sustainable development", Valerie says, such as investment in workforce housing. While the foundation's grant-making has a geographical focus on Southern China and the Western Balkans, its impact investing seeks opportunities around the world. RBF's impact investments typically include private partnerships and co-investments but exclude direct investments.

Justin is dismissive of the idea that there are not enough "market-grade" impact investment opportunities to meet the increasing demand by foundations and family offices; "No, we're probably - to go to American baseball, here - in the second or third inning of this space. The field is still relatively nascent in terms of investable opportunities, and that's where transparency, I think, is going to make a big difference."

RBF's board advocates collaboration and transparency, urging foundations to "use the range of tools available to them", including sharing frameworks, processes and experiences for others to learn from. A key challenge RBF encountered was in defining terms and language around measurement, along with the lack of a consistent, globally adopted framework. This is why RBF's board decided to share its documents via its website; "So if others have better language or if they want to adopt our language, then the more consistency, the faster this can grow," says Valerie.

Role of Family Offices and Foundations

In some of his non-RBF roles, Justin combines his passion for increasing the scale of impact investing through transparency and measurement. Addepar, an investment management technology company which provides both traditional financial and impact measurement reporting across a family office's entire portfolio, works with more than 180 single- and multi-family offices, the department headed by Justin. He is also co-founder of The ImPACT, a non-profit organisation designed to facilitate wealthy families sharing their own experiences of transitioning to or embracing impact investing.

He explains: "Families don't need to reinvent the wheel. They want to learn from each other. Families are long-term investors, they tend to have common values within families and are looking for opportunities to align their values and their money. This is especially true, study after study shows, of millennials and women. Millennials and women are really leading the charge of impact investing."

Valerie concurs and adds that this trend puts further weight to the importance of governance – the least sexy element of ESG – in order for them to be "as boring and credible as possible". She adds: "What we're aiming for is measurable returns and credibility across the mainstream investment community."

They both note the scope for growth in impact investing. Given that the total managed (private) money is around $200trn and the US Federal Budget, for example, is $3.8trn – and despite 2015 being considered 'America's most generous year ever' foundations awarded only $58bn. While this is a staggering figure, the pair highlight that to address seemingly intractable challenges facing the US and the world will require greater buy-in from the private sector. "We need to draw in private capital, we cannot do this philanthropically," Valerie asserts.

As wealthy families start exploring how best to influence use of capital to align with their respective family's values, traditional financial service providers and new financial technology businesses (such as Addepar) will respond to this demand, the pair agree. In RBF's experience, it has already witnessed the start of this effect.

Justin says: "If all of a sudden, 80% of your LP [venture capital] base or your investor base is asking for [social/environmental] impact metrics associated with your work, well, you better have answers for them. Over time, that changes the reporting landscape and the expectation of what is going to be reported financially."

He continues: "One of the best, or we think an appropriate way, to further that mission is to share what we're learning along the way with others and to err on the side of transparency. Not in a way that would compromise our ability to achieve our results but in a way that we think is appropriate and should be helpful to the field.

"We realise that the more impact investing grows, the more talented managers will launch impact funds, the more talented entrepreneurs will launch impact-oriented companies, and, frankly, the more capital that chases that talent means that society is going to solve more social and environmental challenges."

Guidance for Foundations & Families

Below is the process that RBF followed on its two-step journey to divest around $35million from fossil fuel holdings and transition from traditional to a mission-aligned investment approach for its $1bn endowment.

This is RBF's experience, which may provide a useful guide for other foundations and wealthy families.

1. **Board support for the transition**

   The foundation board, especially the VP of Finance & Operations and investment committee, must be aligned with the foundation's revised objectives. Valerie says: "If Stephen Heintz [RBF President] and his entire team, especially our Vice President for finance and operations, weren't committed to this it just wouldn't work because logistically, it's tricky."

2. **Transfer to an Outsourced Chief Investment Officer (OCIOs)**

   RBF felt that to achieve both the divestment and switch to impact investing required specialist, external support in the form of an OCIO. RBF went through a selection process, shortlisting 14 potential OCIOs. They underwent formal tendering and traditional interview process, with a focus on traditional financial metrics first, followed by a "second layer" analysing their impact investing experience. "We asked 'what is the measurable, significant impact that you're creating and how does it relate to RBF's mission?'" says Valerie.

   RBF selected Perella Weinberg Partners, which has full discretion over the endowment. Valerie notes that there has been an increase in the number of firms experienced and willing to undertake both the divestment work and the impact investing element they were looking for.

3. **Selecting Fund Managers**

   Using traditional selection criteria, confidence in the fund managers' experience is paramount, Justin says, and ensures it aligns very closely with the foundation's mission.

   As with the OCIOs, RBF found that the number of fund managers with a respectable track record in impact investing had increased (though were still shorter than non-impact managers, given the nascent phase of impact investing), offering greater choice than was the case even a few years earlier.

   A lack of consistency across the industry in phraseology and impact performance metrics and monitoring tools was identified as a challenge.

4. **Investment committee's flexible approach**

   The RBF board granted increased flexibility to its investment committee to empower it to carry out the broader investment objective that had been agreed: to ensure the endowment "continue in perpetuity with generational neutrality", meaning no diminishing of returns or increasing risk in pursuit of mission-aligned investments.

CASE STUDY

Nicolas Hazard

Founder of INCO (a global consortium and impact investor), Le Comptoir de l'Innovation (impact investor) and the Impact² event.

France & Global

Investor

Expert

Nicolas Hazard is an entrepreneur whose work focuses on enabling social change through investment. The founder of INCO, a global consortium with a presence in 18 countries, he also runs three funds through the investment vehicle Le Comptoir de l'Innovation.

Mr Hazard organises Impact², a Davos-style gathering of impact investors – the largest of its kind in Europe. In the USA, Mr Hazard is President of CALSO, a social enterprise that was awarded Start-Up of the Year 2016 by the French-American Business Awards.

As founder and organiser of a self-proclaimed "Davos-style world economy forum for social business", social entrepreneur Nicolas Hazard argues that too much talk and not enough action could be hampering the penetration of impact investing.

"I think 90 per cent of the space spends too much time talking," he states. "That's it; they talk a lot about concepts, about stuff, about measuring. It's very time consuming actually.

We've decided to get out of all this debate. We're more than happy to share our experience, to learn more from others, but we really try to do stuff, to raise money, to invest in companies - and that's a full time job."

Starting his career in Italy working with former Prime Minister Romano Prodi, the Frenchman was initially drawn to politics by his desire to "change the world, make it a better place, to help my community, to do stuff". With an academic background in Politics and Economics, he soon concluded that business was the model for transformative large-scale social change.

"I think the power is now in the hands of companies and corporations and not in politics anymore," Mr Hazard says. "I think the rules of the game have changed and the globalised economy, the way it's organised, is really different; it's through businesses that you can change things."

Taking the Lead

Impact Investing perfectly married industry, the tools of the finance world and generating a positive impact on the world, the environment, in communities, he explains. Mr Hazard's philosophy of taking action led him to create France's first - and now one of Europe's largest - impact investment funds Le Comptoir de l'Innovation, which boasts €160m in assets.

This scale has been achieved, he says, by less talk and more demonstrable action, proving to traditional investors that the concept of impact investing works.

Timing has also been critical; in the aftermath of the 2008 financial crisis, institutional money managers were looking to repair their tarnished reputations. Several initially saw Mr Hazard's impact fund as a tick-box solution to boost goodwill among investors.

"It was funny because at the beginning they told me 'oh, we'll give you our junk money', meaning money they didn't think they would get a return on and it was essentially for PR purposes," he explains. "But after a few years we were able to make a return on investment and so we have proven, through our track record, that we can have both things - a financial return and a social impact."

Mr Hazard says these early investors now invest with their "serious money" because of Comptoir's established track record which has delivered roughly 4-5 per cent net per annum.

Against a backdrop of sluggish global growth, rock-bottom interest rates in Western economies and a negative return on risk capital over the past 20 years, this is a compelling return viewed alongside the social impact statistics.

Measuring Impact; Developing Proprietary Ratings

Social investing in France has historically meant providing capital to a project and receiving this back but with no extra return, Mr Hazard explains, while ESG investing, which takes into account environmental, social and governance issues, delivered a return on investment but was based on "vague" analysis which formed the basis of the investment decision.

INCO's analysis is anything but vague. The fund scrutinises 300 financial criteria and 300 "extra-financial" criteria, which now collectively form what is known as the CDI Ratings.

Each investment's record is tracked and ranked similarly to a traditional credit rating agency; triple A, double A, A and so on, denoting the attractiveness of the company as denoted by the 600 CDI criteria.

Created during the two years he was fundraising for the fund, Mr Hazard knew that applying robust analysis similar to traditional investment analysis would be crucial in gaining investor confidence.

He says: “I think people want to believe in impact investing but they need proof. They need to see that it’s effective. The idea [of CDI Ratings] was to say, ‘we can track social impact’. Of course, it’s not objective, it’s subjective in the same way as evaluating a company from a price perspective. It depends what your priorities are and where you want to invest.”

The exactitude of the criteria has attracted third parties, both public and private, wishing to improve their ability to identify potential impact investments.

He says: “We’re pretty proud about that because we’ve been able to build a market and build a track record for our methodology, which I think is cool [but] our vision isn’t to be the leader in this, it’s principally to help our investment clients understand and measure the financial and social impact of the investment. If people get inspired by it, that’s great.”

The CDI Ratings were created to apply to 16 industries including healthcare, accessibility for the disabled, fair trade, workforce development and clean and renewable energy.

The scale of the analysis might be viewed by some as a barrier to identifying potential investments because of the sheer scope of it. But Comptoir has supported more than 500 social start-ups across 18 countries.

Meeting Social Need

Enterprises seeking investment from INCO must be an incorporated business from the green or social sectors, which helps limit downside risk and means the fund isn’t backing unproven ‘unicorns’. The investee businesses must also address an unmet need related to, but not limited to, access to education, employment, healthcare and housing.

A proof of concept with a sustainable business model must be completed and there needs to be a high potential the idea can be scaled up, just as any enterprise seeking venture capital investment.

One successful investment was in fair trade company Ethiquable, a co-operative launched 13 years ago that works with fair trade and organic producers around the world.

Mr Hazard says INCO’s support has helped Ethiquable launch products outside of its initial French base and into Germany, Luxembourg, Belgium and Holland. He adds that Ethiquable performs well from a financial perspective but – helping more than 20,000 farmers throughout the world – it ticked the social impact box too.

Incubate to scale impact opportunities

Further evidence of Mr Hazard’s ‘can-do’ attitude is his response to the commonly cited challenge of start-up enterprises not being investor-ready. “You hear a lot of people say ‘they’re not mature enough’ but I’d say move and do something. Make it happen. It’s not only money that can make things happen,” he says.

An essential part of INCO’s success is in its incubation programme, in which a network of mentors work with the enterprise for nine months.

INCO provides office space – funded predominantly by sponsorship or partnerships with large corporations such as JP Morgan - and helps the promising start-ups develop their businesses to ensure they’re scalable and, more importantly, viable.

> **The public sector is using [our] methodology, as well. The private sector is using it. Some of the large banks are being inspired by it. So we’re pretty happy about that.**

Started in Paris, there are now INCO incubators in 18 countries; “That’s how we create our pipeline,” he says, with 85 per cent of the start-ups that graduated the scheme still thriving and 30 per cent gaining financial investment from Comptoir’s impact fund. Investments range from €150,000 to €1.5m, with an average investment horizon of five to seven years.

Other companies which have successfully emerged from the incubator process include Jimini, which sells edible insects in various forms, and Oncovia, which makes beauty and well-being products for women either suffering from cancer or post-treatment.

“I know that people, what they believe, is not concepts; they believe in proof. They believe in success stories. They believe in things that are working. So we’re putting all our effort and all our energy on that. Trying to make our company [INCO] grow, have an impact, because we're not only an impact investment fund, we're also an activation programme," Mr Hazard says.

> **I think people want to believe in impact investing but they need proof. They need to see that it's effective.**

Impact: A New Economic Order?

Though controversial, Mr Hazard isn't afraid to engage with the question of impact investing's role in reframing traditional market economics.

He says: "I think that financial Capitalism, the way it is now, has created prosperity of course, it has created wealth. But it has also created a lot of inequalities, a lot of social issues, a lot of pressure on natural resources. I don't think we can go like that for a very long time because I think it's going to be the end of our civilisation if we keep going like that for the next 50 years."

Instead, he suggests that systemic change can only come from within; "revolution, but an endogenous revolution". Mr Hazard is in no doubt impact investing can be the financial tool to create a new economic paradigm where technology is better harnessed than it is now, contending that technology is "not worth anything" if it continues to create massive social inequalities.

"We should use the forces of Capitalism but to be broad and put for a more inclusive and more equal society," he says.

Citing the oft-quoted phrase 'a pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty', Mr Hazard continues: "We see [disruptive] technology as a 'problem'.

"But instead of being passive we should ask: 'What can we do to orient these technologies for a better world'? It's actually, I think, my goal and it's why I went to Silicon Valley," he says.

A former US resident, Mr Hazard is President of CALSO, a non-profit that empowers disadvantaged people in the Bay Area of California, financed principally by partners Google and eBay.

Mr Hazard said the companies he worked with in Silicon Valley appreciated his way of thinking and understood the need to have an economically sustainable business model and how that links to developing a positive social impact.

Turning Global Conversation into Action

Part of the success of INCO might also be attributed to its aim of operating in ways which are sensitive to the distinct geographies it has a presence in.

Mr Hazard prefers to see INCO, which is a consortium, as as a co-operative of individual businesses located across the globe, each with the same level of support and expertise directed towards it, but which appreciates local customs and the ways of getting things done.

There's no imperialism, one way of doing business being imposed on all countries, as INCO considers this as counter-productive.

This philosophy has been taken further with the Impact² event Mr Hazard organises, bringing together select business leaders, politicians, academics and social enterprises from 50 countries, aiming to progress and scale impact investing. Is there a risk of Impact² becoming the type of 'talking shop' he finds so wasteful and ineffective?

> **I think 90% of the impact investing space spends too much time talking. That's it. They talk a lot about concepts, about stuff, about measuring and stuff. I know that people, what they believe, is not concepts; they believe in proof. They believe in success stories. They believe in things that are working.**

"We invite only people who have something to say and to commit to. Basically, you can speak and you can go there only if you have something very, very concrete.

The good thing is, because we don't have sponsors paying a lot of money to say bullshit, we actually have people who are real doers, people who have done things for real and who are committing to improving their activity." he says, refreshingly.

CASE STUDY

Dr. Yinglock Chan

Senior Director
of Investments,
Garden Impact

SE Asia

Investor

Expert

Dr. Yinglock Chan has a background in corporate finance and venture capital, working for KPMG, Hill Samuel Merchant Bank and SE Hub (an impact investor) prior to joining Garden Impact. He holds an accountancy degree from the National University of Singapore and an MBA from Nanyang Technological University.

Garden Impact, the Singapore-based impact investors with equity holding in Agape, advocate the engagement of what they term "patient capital".

While Garden Impact apply the same due diligence to impact investments as they would any venture capital investment, the investment firm is willing to accept lower financial returns over their (typically) five-year investment horizon in return for sustainable profits and greater social impact.

Social Network

Across south-east Asia there have been government-led social enterprises "for the good of the people" for the past decade, Mr Chan explains, but since the Asian Venture Philanthropy Network - spawned from its European equivalent (EVPN) - was launched seven years ago it has facilitated the growth of impact investing in the region.

However, it remains a small enough community for Garden Impact to rely on word-of-mouth and their own professional networks around the region to source investment opportunities.

Across its portfolio, Garden Impact targets an average annual return of 5%. Garden Impact's investors are all individuals from wealthy families who, Mr Chan believes, considers impact investing as an alternative investment.

He agrees that family offices and foundations "have a very important role to play" in the growth of impact investing, but frets that there is simply a lack of awareness about impact investing in such circles.

He explains: "In south-east Asia, many are from family-grown businesses who do CSR as part of their contribution to society. They consider impact investments to be a separate pot of money and that bit hasn't been developed in the region yet.

I think part of the role that we [Garden Impact] have got to play is to be the advocate and to educate family offices into this."

Garden Impact currently has six impact investments, half in Indonesia, the others in Malaysia, Thailand and Singapore (Agape) – two of which Mr Chan says are "potentially IPO-able". Thematically, its focus is on "improving the lives of the marginalised," he says, typically through the prism of employment.

With its investment in Agape, the social impact process is two-step: firstly, to provide productive work to prison inmates, providing them with legitimately earned money that they often send to family, often facilitating a reconnection with family members; and secondly to evidence that the call centre skills and demonstrable work ethic in prison translates to better employment opportunities once released from prison.

Mr Chan says they would not include reoffending rates as a further measurement, as this is driven by too many other factors.

Having invested in Agape two years ago, the social impact targets are at the first step, with none of the employed inmates released as yet.

Investor/Investee Relationships

Inter-personal relationships loom large in the ethos of Garden Impact and Mr Chan says this is where knowing the entrepreneur is crucial. "We do have to make a personal assessment of the honesty, the commitment and the ability of the entrepreneur.

So by going into growth companies, it's easier because they would have proven that they've been able to perform and it gives us more comfort in going with them," he says.

He says Agape is a "special case" in that Garden Impact and its management team have been so hands-on regarding mentoring Anil David, mostly facilitated by the convenience of proximity; both businesses are Singapore-based.

Mr Chan agrees that to some degree it is harder for social enterprises seeking impact investment if the founder or business leader has not 'walked in the shoes' of those they are seeking to support, as this provides a deeper understanding of what is required to make change happen.

However, he adds that the issue is somewhat dissipated by Garden Impact's philosophy of only investing where the business case has already been established.

CASE STUDY

Anil David

Founder of Agape

Singapore | Social Entrepreneur | Employment

Anil David founded Agape, a call centre enterprise that employs disenfranchised, socially excluded people in Singapore, following his own prison conviction and incarceration. Having secured a $600,000 impact investment, Mr David is scaling Agape, an enterprise that he is passionate remains a for-profit business with a social benefit, rather than a purely socially motivated organisation.

Anil David knows what it feels like to be "unbankable"; a bankrupt with a long prison conviction who had yet to rebuild the trust broken within his own family, let alone within society. "I went in with my eyes open, knowing banks aren't going to give me money – there's just no way," he says. Given the opportunity in prison to work at a call centre workshop for Connect Centre, a company that Agape mirrors, Mr David rose to the challenge, promoted to team leader and eventually being mentored by the company's chief executive, Mr Larry.

A realisation that prisons are populated with (largely low-income) people with "street smarts" whose skills could be applied to more productive activities, and that he himself possessed "a natural gift or persuasion", Mr David formed the concept of Agape.

Seeing Mr David working in a call centre upon his release, Mr Larry encouraged the founding of Agape and provided a $20,000 informal loan, which set up the call centre in a city office and enabled Mr David to hire his first three staff; a woman with Spina Bifida, an ex-inmate, a senior citizen and a cancer patient. While Agape could be considered a competitor to Connect Centre, Mr David says the marketplace is big enough.

Unconditional Love

Mr David says: "I believe opportunity is staring at us in every place, in every society. I didn't want to live in charity. I wanted to live in dignity, so I began to strive and I kept working at it.

I wanted a business because when you're able to earn money, you live with dignity. I believe that there are no bad people in prison, just people who made wrong choices because something happened along the way. Everyone has dreams."

Agape, Greek for 'unconditional love' is founded on the premise that all people can fulfil a positive potential given the right nurturing environment.

After a year of operating the call centre, supporting insurance companies and a travel agent, Singapore's government commended Mr David with an award for being a role model to prisoners. During the ceremony, the government proposed that Agape operate a call centre within a prison as part of the rehabilitation programme.

To be able to accept the prison contract, 'unbankable' Mr David needed a $500,000 investment. Mr David wrote letters to religious organisations, foundations, anyone who might support his vision for Agape.

SE Hub, an impact fund set up by the Tote Board (the state-owned lottery subsidiary, the only operator legally allowed to run lotteries in Singapore), initially agreed to provide a $600,000 loan to Agape but on the eve of securing the prison contract, SE Hub withdrew the offer. "I told myself 'I'm dead, I've gone back to zero'," Mr David recalls, "I was angry. The COO called me and said: 'I totally believe in what you're doing; let me introduce you to someone'."

Enter Impact Investor

The introduction was to Garden Impact founder and Chief Executive, Mason Tan. The COO of SG Enable at Singapore Pools who eventually left to join Garden Impact, an impact investor operating cross South-East Asia, was Dr. Yinglock Chan, as Senior Director of Investments. As Mr David explains overleaf, as valuable as the financial investment – made in return for an equity holding in Agape – was the mentorship, which helped professionalise the business.

Two years on, Agape has gained more and larger clients – including StarHub, Singapore's second-largest telco – and Mr David has ambitions of expanding into women's prisons. Target financial returns are 10-15% - "We have higher social returns than economic returns, but the economic returns are sustainable" – and 90% of staff are from low-income and socially excluded communities. He says: "We have become an environment where people can identify. We are colour blind. We are race blind. When people know this, it is this group of people that come for opportunities."

The expectation is that eventually Agape will attract other venture capital or buy-back its shares and continue to flourish as a for-profit business, which happens to benefit society. It is a virtuous cycle, with a commercial entrerprise at the heart of it that Mr David considers to be most sustainable for all.

Benefit to each other

> From my experience there are a lot of people with hearts but unfortunately it's not balanced with the financial skills.

Dr. Yinglock Chan

When Garden Impact invested in Agape they already had proven that they knew how to run a call centre. The original model was to employ ex-prisoners outside to run a call centre in the city office. What was attractive was that they were going to do this in the prison itself. In the city it was challenging because of the costs of running a business in Singapore, but running it in the prison lowers some of the costs.

I think the bigger draw is the fact that we have a direct impact there on the inmates who were going to be employed; that was what attracted Garden Impact, because of the social impact it was clearly going to have.

For small businesses like Agape, the owners are not aware of the level of governance required. We were able to educate and teach them proper governance. So, we've shared with Anil and he's very appreciative that Agape today is a far cry from when we first invested two years ago. This has been recognised by the public and institutions that have awarded Agape various prizes.

> We intentionally wanted to be a sustainable business, not a charity. That's what gives people dignity.

Anil David

Impact investors, they are really doing what they are called to do and they have a social responsibility, which is totally on the same page as what we are doing. The marriage and the collaboration was on the vision, not on the potential, because nobody in this world is going to give half a million dollars to an ex-inmate, a bankrupt with nothing but a dream.

But Garden Impact, they came with friendship. They came with relationship. They came with mentoring. They came with coaching. They never abandoned me. They took the most important gift – time – and gave it to me to teach and educate me; how to do finances, how to do management meetings, introduced me to some of their network. All of this is what Garden Impact represents.

Their funding meant Agape could take on the larger government prison contract and [Garden Impact] take a proportion of the profits. We intentionally wanted to be a sustainable business, not a charity.

Advice

If they're a start-up they have to be realistic in terms of their story and their financial projections. That's a challenge but I think it's possible. That's the first thing. I would also suggest that they bring in a third party – it could be a friend, whoever - before they pitch to the impact investor, to give them a sense check.

If they're already growing I think they've got to, again, be conservative in the way they tell their growth story. There's always this danger of over promising and under delivering. We've had one or two experiences with some of our start-ups there, so I'm telling you from our own experience. It's difficult for both parties once there's over promising and under delivering.

It's not that I think they inflate the figures to win the funding, it's that they're too emotional when they do a projection. Also the relationship factor is very important because they need to work with impact investors on a very personal level. They need to be able to feel comfortable with their investors.

Key challenges

From my experience there are a lot of people with hearts but unfortunately it's not balanced with the financial skills.

So this is where the challenge is. My perspective is that you have to do well first before you can start doing good. I think that it is important for the business case to be sustainable before you can actually continue to do good and sustain the doing good.

From that point of view there are a lot of deals that we have to turn down because some of them have very good social objectives but we're not comfortable with their being able to sustain the business. That's a big challenge.

From our experience, also, we found that funding start-ups is too difficult. Now we're looking at funding growth companies – those with one/two years of revenue-generation - rather than start-ups. They don't have to be profitable yet, but the potential for profit must be there; our due diligence is very similar to venture capital.

Social enterprise is good but it has to be sustainable. To get impact investment, it's more than just good ideas, there has to be a total commitment to what you are doing. There's more to it than just about profit, it's more about the lives we turn around.

They say you must know how to manage your own expectations. Expectations of failures, people will disappoint you, and you need to go in with your eyes open otherwise you will just stop at one point and say enough is enough.

I had to be surrounded with people who are like minded. What I was looking for was a willing heart, a person who's willing and able to understand what he's doing. Then listen to them; I was accountable to them on every aspect, any new business. I knew that inputs were important because it helped me define what the future is going to be. Also, focus. With the learning curve comes the discipline. Focus on one thing at a time.

The scaling up is basically most important in new businesses. The constant engagement of meeting people and coming up with potential prospects.

But my biggest challenge is the pre-conceived ideas people have about Agape; that their data won't be safe, that the workers won't be productive, when it is the most secure place and productivity is double and the service is excellent.

In the marketplace, you're losing 40% productivity to social media or smoking breaks but in the men's prison they don't have these things. They are focussed and when they were focused they got optimum results.

We are trying to free up and create awareness of what we deliver. We are not looking for pity. We are not looking for crumbs. We want to be part of the market place, but just give us a chance to see that we can deliver.

CASE STUDY

Simone Cipriani

Head of the Ethical Fashion Initiative of the International Trade Centre

Global & HQ Switzerland | Expert | NGO

Simone Cipriani is a United (UN) Nations Officer, entrepreneur, and founder of the Ethical Fashion Initiative, a project which sees fashion as a vehicle for positive change in the world's poorest communities.

Mr Cipriani began his career in fashion working in the leather industry before relocating to Ethiopia with the UN. Working with micro-producers there, he saw an opportunity to connect skilled artisans to the fashion industry, eventually founding the Ethical Fashion Initiative, an International Trade Centre programme (itself a joint venture between the UN and the World Trade Organisation).

Beginning in a Kenyan slum in 2009, the project expanded to Burkina Faso, Mali, Ghana, Haiti and beyond. Today, Simone Cipriani is at the forefront of the growing global movement for ethical supply chains in fashion.

"The dream is that in future you don't have to say 'ethical fashion', you just say 'fashion' and it's already ethical". Simone Cipriani's vision of an ethical fashion industry seems ambitious considering that some of the biggest fashion brands still make headlines around the world for their questionable labour practices.

Yet, the entrepreneur has made great strides to achieve this, marrying his own experience in fashion with his development work as a UN officer in Africa.

As the driving force behind the Ethical Fashion Initiative, a flagship programme launched by the International Trade Centre (ITC), its aim is to build a responsible fashion industry which improves the lives of the artisans who make its products, to shed light on labour practices and sustainability issues, and to encourage better business practices.

Many of these principles are reflected in the UN's Sustainable Development Goals, a set of aspirational targets designed to transform the world by reducing poverty and improving health and education.

Artisans Of The Slums

The Ethical Fashion Initiative story begins at a time in Simone Cipriani's life when he was shuttling between Ethiopia and Kenya, working for the UN. A chance encounter with a slum-dwelling missionary who was building co-operatives for local people showed Simone how to work with "the artisans of the informal sector, the poorest of the poor".

Drawing on the fashion industry names in his personal contacts book, Mr Cipriani tried to sell them on the benefits of connecting directly with these producers. "I knew the market, the fashions," he explains. "So I started contacting the people I knew in the industry, telling them: 'What if we create a project with the market dimension to realise connections with artisans with a positive social and development impact?' And some of them said 'yes'."

In 2009, he pitched the idea to the International Trade Centre and managed to secure a budget of $180,000 and two years to prove that he could make the project work. "I came to Geneva and I told the executive of the ITC, 'I have a business plan to do something called ethical fashion.' The lady told me, 'Okay. I did the two years in the budget. If you fail, you are out.'"

Today the initiative works with a stellar line-up of fashion brands including Vivienne Westwood, Stella McCartney, Camper, Marni, Mimco, Sass & Bide, and Karen Walker. But in order to get these customers on board, the Ethical Fashion Initiative had to produce fashion items these labels would want to use.

The first two collections were bags for Max & Co, and then came an order from Unicoop Toscana, a giant Italian distributor, for 300,000 tote bags created through a very labour-intensive process involving hand decoration, bead work, embroidery, and screen printing.

> **The dream is that you don't have to say 'ethical fashion', you just say 'fashion' and it's already ethical.**

The profits from this order were reinvested in creating a structure for the social enterprise, organising co-operatives, self-help groups and micro-producers into formal businesses. The enterprise brought the market connections, logistics, shipping, and quality control, while the artisans clustered around it became the supply chain. This model was used in the past by the Italian fashion industry. "When I was small, we still had in Italy a lot of artisans who worked at home or in very small companies

- call them co-operatives - around big fashion houses. The fashion houses did the design, the prototyping, some production, but the bulk of production was centralised through this network of people," Mr Cipriani explains.

Impact Assessment From The Start

From day one, the Kenyan social enterprise which was the flagship project had impact assessment built in to its model, although this took around three years to perfect. A monitoring tool called RISE (Respect – Invest – Sustain – Empower) was created to measure the social impact, sustainability and traceability of the goods produced. It also includes attention to environmental practices, and all the data gathered is made available online.

> **It's not just about ticking a CSR compliance box, it's about a new business model for the fashion industry, based on more transparent and ethical supply chains.**

For example, the RISE report for Vivienne Westwood's Autumn-Winter collection 2016/17 reveals that 33 Kenyan artisans made 1,639 bag units in 10 different styles for the season's order. It says the workers were paid a "fair and decent wage" to make cow horn zip pullers, recycled brass logos, and for embroidery and screen printing, although it does not put a figure on the wages paid.

Just over half the producers were women, and 64% had between one and three dependents. The report says 21% of workers reported earning higher income than they would have from the domestic market. About 15% invested their earnings into education, housing and small business, while 82% put their income towards school fees.

The other cornerstone of the project was its fair labour agenda. As well as the avoidance of discrimination and prevention of forced labour, the aim was to allow artisan producers to decide what fair working conditions looked like to them.

Mr Cipriani notes one thing he disliked about the development world was international organisations' tendency to apply a top-down approach, which he describes as: "I come to you and I tell you what to do because I know everything and you know nothing".

Instead, Mr Cipriani was passionate about empowering the communities themselves to frame 'fair labour' by their own standards.

What he discovered was that "everybody wants respect of basic conditions, whatever their culture".

Community Empowerment

Mr Cipriani also notes the need for flexibility and common sense when applying these rules. For example, in a remote rural community in Kenya, fair labour meant no child labour and no children in the workplace.

When a mother came to work with her child on her back because she had no other childcare options, the rules were tested.

Mr Cipriani explains: "Our advisor came to me and said 'look, we have to exclude this person because we cannot accept it.' Then the mother told us, 'I came to work but I don't have anywhere to put the kid. If I leave him in my hut he may be killed by an animal. It's dangerous.'" The community chose to flex the rule to allow the mother to work.

"So even on this, with the communities we are able to frame it. Every community works in a different way, but in a way which is respectful of kids, respectful of work, and which allows families to have income," Mr Cipriani adds.

He notes that "good development" is rooted in common sense, and things tend to go wrong when structures, procedures and bureaucracy appear which diverge from this approach. "You've got to go back to the basics, even with relationships with labour," he adds.

From Social Enterprise to Viable Business

Mr Cipriani's work both in the fashion industry and in development brought him into contact with banks and other financial institutions, and he maintains an ongoing dialogue with many of them on impact investing.

His vision is that every social enterprise should eventually mature to become a profit-making business, backed by shareholders.

For example, the Kenyan enterprise noted above is now a private company entirely in the hands of investors. "When we reached the stage at which it was sustainable, when it had enough trade and a supply chain of 1,250 artisans, we privatised it. A group of local impact investors came and bought the company.

"Now we collaborate – I still help them with some of the buyers, we still do the impact assessment, but it's a company that works. It's part of our network and it's managed by private entrepreneurs."

He believes that a project which does not ultimately mature into the private sector should not be considered successful, because in his view it is unsustainable.
His view is that a social business is still a business

because it sells a product and has to meet the needs of its customers.

"Something that works in development has a beginning and an end, and the end is where the private sector takes over. If there isn't an end, if you don't achieve that, whatever you have done in the meantime, it's a failure."

Harnessing the Human Capital of Migrants

A new area of focus for Mr Cipriani, and a hot-button global issue, is migration. Noticing the huge numbers of African migrants in Europe, he saw a vast untapped labour force.

He started working with a co-operative in Italy which runs a welcome centre for migrants, offering training to help them find work. He wanted to develop a system to train skilled people and encourage them back to Africa to work for the Ethical Fashion Initiative.

"They learn a lot, they get exposed to the fashion industry and when they come back to Africa they are formidable trainers, chiefs of production, managers. They then become precious people.

Not every migrant wants to go back home because migration is a complex thing, but some people have told me they would go to a neighbouring country [with the new skills they have]."

> **Something that works in development has a beginning and an end, and the end is where the private sector takes over. If there isn't an end, if you don't achieve that, whatever you have done in the meantime, it's a failure**

He adds: "We are all searching for the same thing – meaning in life, and dignity. So we are all migrants."

In 2015, Mr Cipriani put together a show at men's fashion event Pitti to launch this collaboration. He wanted to use migrants to model the items made by the project's four African designers. Getting them on the catwalk created legal challenges because the migrants did not have work permits, so he had to get permission from the police and the Italian authorities. But this hard work paid off; one has since become a professional model, and the other two are training to work in the fashion industry.

The idea caught the attention of the European Union's development cooperation agency (DEVCO) who wanted to replicate it in a way that reduced the push factors behind migration by creating opportunities at home.

> **Everybody wants respect of basic conditions, whatever their culture. We are all searching for the same thing – meaning in life, and dignity.**

"They said, 'We want to address the issue of migration but we want to embrace that in a new way by creating jobs in the countries these people come from. You have something in your hands. Are you able to expand it with us?'" he recalls.

Now the project has been mapped out for the next three to four years. It is being funded by the EU through its Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa. It involves 250 migrants already in Europe (trained and invited to return to their countries) and the creation of 4,600 new jobs in Burkina Faso and Mali, Mr Cipriani says.

Reinventing the Fashion Business

Mr Cipriani has already achieved great things, but he has even bigger dreams to realise. Over the next five years, he plans to expand into Afghanistan, and increase collaborations in Jordan and Syria.

Longer term, he wants to continue creating job opportunities for migrants, and to have a measurable impact on poverty reduction. Ultimately, he wants to prove to the fashion industry that treating people in the supply chain respectfully and fairly is good for business.

"It's not just about ticking a CSR compliance box," he says, "it's about a new business model for the fashion industry, based on more transparent and ethical supply chains, because they are not [at the moment]. I think part of our results is that many companies today have adopted better systems, and we have contributed something to it. We are part of this debate."

CHAPTER 5: OUTLOOK FOR IMPACT INVESTING

One of the most unique insights the FT Investing for Global Impact survey provides is the perspective of single and multi-family offices who are neither active in philanthropy nor impact investing. This year, new survey questions were introduced to probe whether this cohort may in fact follow an investment strategy influenced by positive social or environmental factors, indicating a potential receptiveness to impact investing at a later date.

Insight: Non-Philanthropy/Impact Investing Families

The number of respondents in this 'neither, nor' cohort is 10%. Of this group, a vast majority reported that their investment strategy considered "the likely scope for reputationally damaging news about the investable business" (93% of respondents), analysed the Environmental, Social and Governance (ESG) practices of the underlying business (86%) and was also influenced by the Corporate Social Responsibility (CSR) practices of the underlying business (79%) .

While this cohort of family offices typically (57%) do not avoid 'sin stocks' – investment sectors perceived to produce a negative social environmental or social outcome, such as alcohol, tobacco, gambling, weapons manufacturers etc – their proactive use of ESG and CSR investment 'screening' practices indicates an acceptance of the value such non-financial metrics can have on an investment portfolio. It is also notable that almost eight in ten of this family office cohort agree that they believe "impact investing is a more efficient use of funds than philanthropy", further indicating a receptiveness to this investment approach.

So, what are the barriers, preventing their adoption of impact investing? "Families do not request impact investing" came up as the biggest barrier, with "lack of qualified advice" and "lack of track record" second and third. "Lack of awareness" featured prominently which seems too simplistic, given that respondents are sufficiently intrigued to participate in this survey, though it could go hand-in-hand with the interest in impact investing or philanthropy demonstrated by the family/ies they represent.

Of this cohort, 69% said more role models were needed to raise awareness of impact investing and 90% said that in future they expect the next generation family members to "bring a greater focus on social entrepreneurship and impact investing". Such responses highlight the important role family members have to play in terms of educating themselves and influencing the direction and approach of their family office investment committees. It is worth remembering that those who are active in impact investing report the importance of family members as a source of impact investment opportunities (for 43%), second only to co-investment opportunities (47%) .

As large, well known foundations such as Rockefeller Brothers Fund increasingly choose to 'go public' about their 'mission-aligned investing' strategies and - through numerous family member conferences and events like Nicolas Hazard's Impact² or Justin Rockefeller's The ImPACT – share with honesty their experiences of impact investing, so we are likely to see these barriers overcome. It is notable that the most highly regarded source of information about impact investing amongst active impact investors was reported to be from peers; 74% found this source of information "useful or essential". The same was felt about events (69%) and specialist advisers (67%), indicating that information is readily available for those who seek it.

With regards to philanthropy, the 'neither, nor' family offices appeared more sceptical of the benefits; risk concerns and mistrust/fear of 'green-washing' featured as significant barriers. The top ranked barrier was that the 'family manage their own social investments'.

However, as evident in the boxed-out section, scepticism remains for impact investing, particularly around proven, verifiable outcomes – which many impact practitioners and family offices/foundations with experience in the field are claiming are now widely available.

How could you be convinced to engage with impact investing?

"Hard evidence showing that impact is not just another marketing wrapper on private equity and venture investments in certain sectors"

"There is limited deal flow. Definition of impact investments are vague. People ignoring issues around impact investment and overhyping the returns, not being realistic about the exit possibilities. More good intermediaries - most are very substandard."

"We have made a decision not to undertake impact investments [due to] poor management, expensive structures and themes that are removed from our Foundation's aims."

"By-laws and regulators do not allow this"

Note: freehand responses from survey respondents

Reputation and the Gateway to Impact Investing?

This year, the survey found a significant increase in all respondents – not just the family offices not active in either philanthropy or impact investing, as explored above – whose existing traditional investments are influenced by the CSR and ESG practices of the underlying investable business (see chart 17).

This year, 79% said CSR factors influenced their traditional investment allocations and 86% said the same for ESG factors.

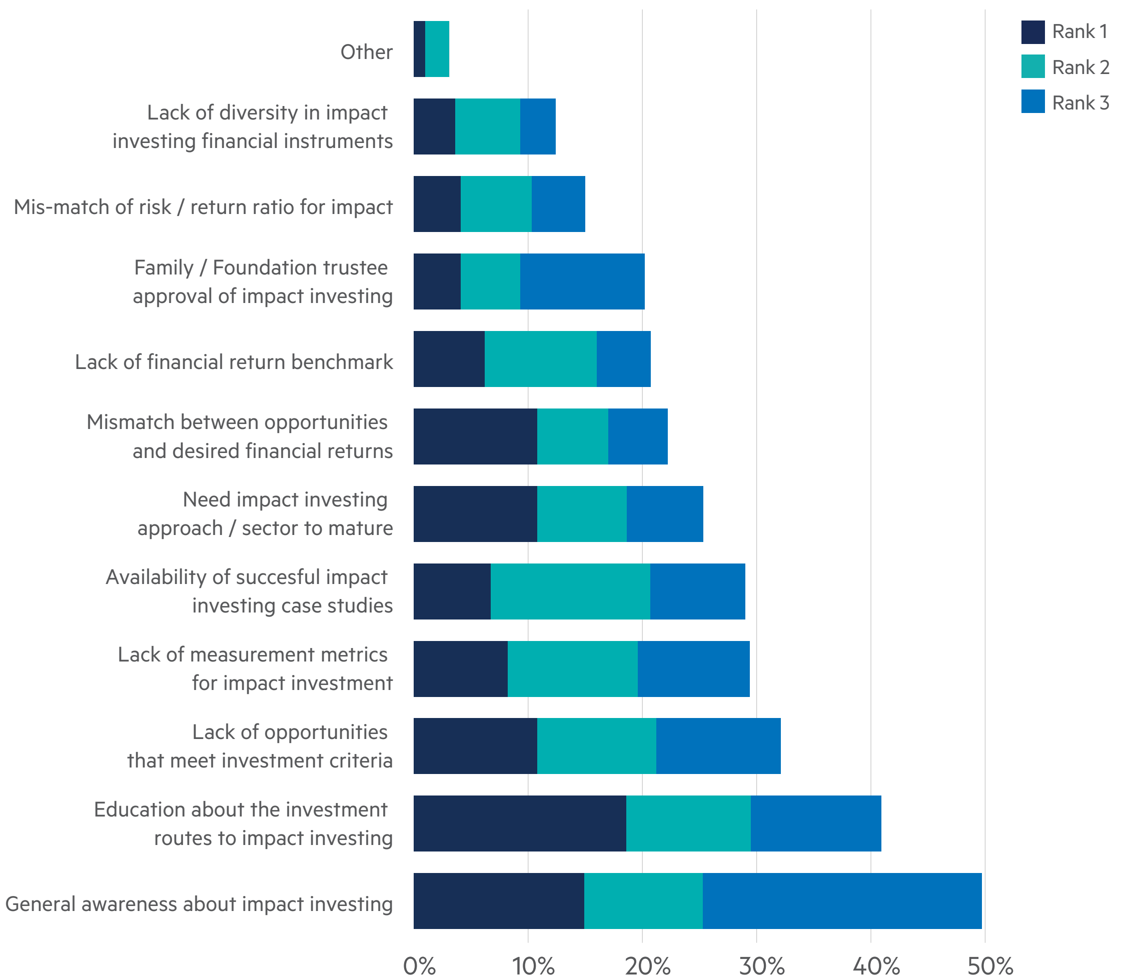
A new question for this year's survey found that 93% of family offices and foundations consider the potential for reputational damage from their investment allocations.

This could reflect heightened awareness in the wake of the highly publicised VW emissions scandal, which prompted a consumer backlash and saw its share price plunge. However, crises like BP's Deepwater Horizon oil spill, product recalls like Samsung's Note 7 (due to faulty batteries catching fire) or business leaders' indiscretions and the corrosive effects these events have on share price have long been understood. To confirm this is a trend, rather than a short-term anomaly, we will need to track the data over the coming years.

Regardless, this widespread adoption of CSR and ESG screens, combined with an overwhelming awareness of the value intangibles such as 'brand reputation' have on investable assets, indicates a social conscience – or social pragmatism – that could be explored and built upon by the impact investing 'movement'.

CHART 14

What are the biggest challenges for impact investing (thematically, not your organisation's experience)?

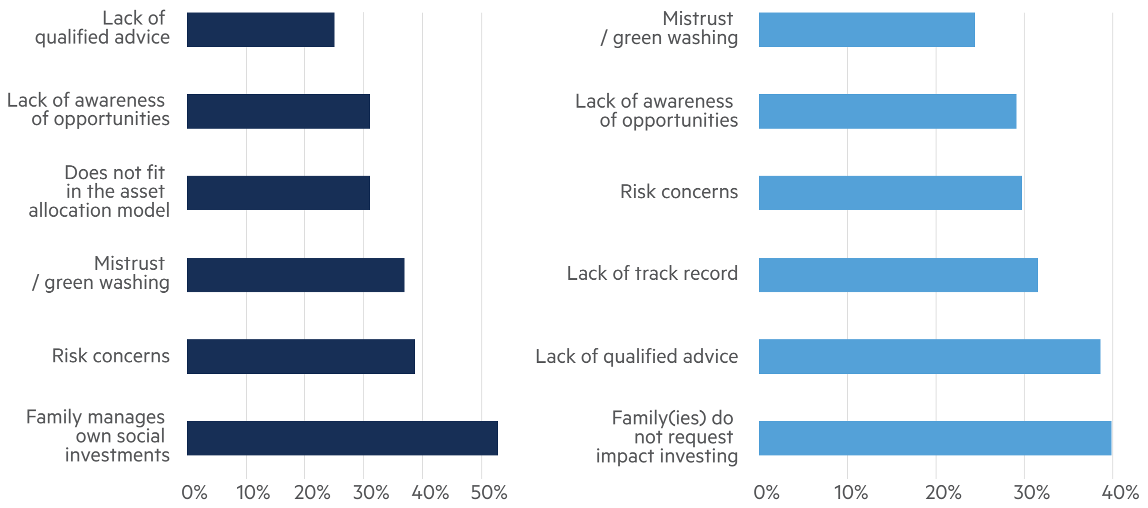


Base: All active in impact investing

CHART 15

What are the barriers to your organisation considering philanthropy?

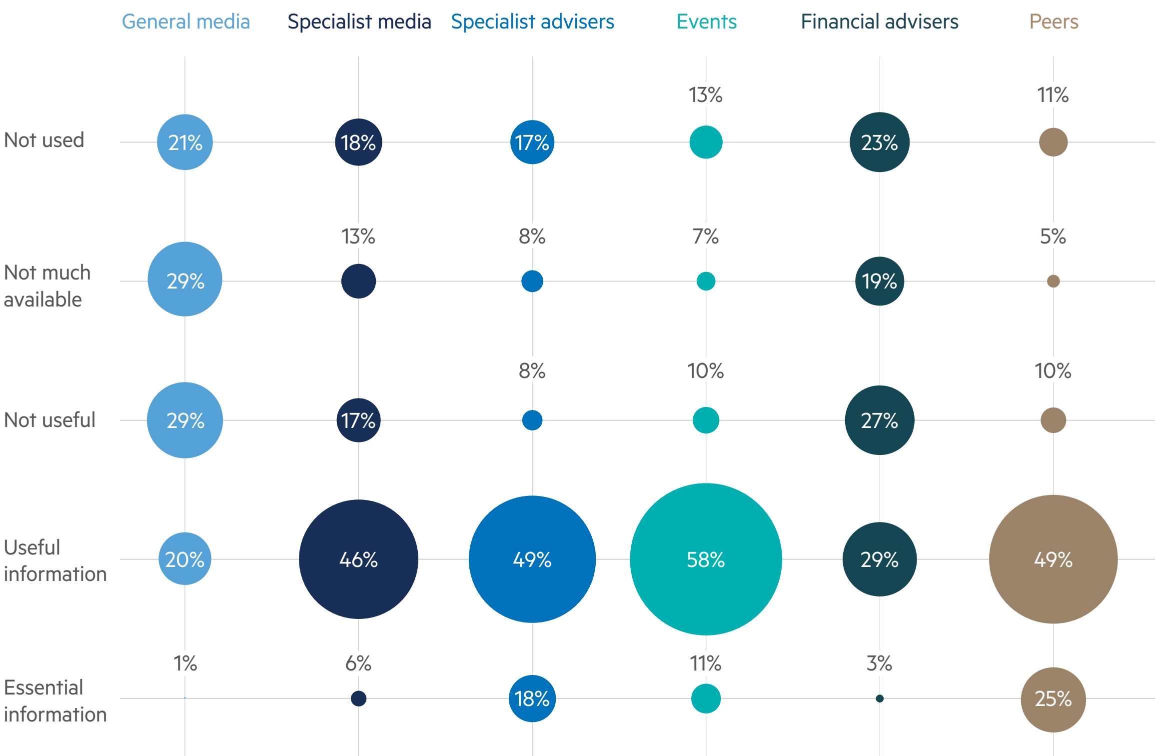
What are the barriers to your organisation considering impact investing?



Base: Those not active in either impact investing or philanthropy

CHART 16

How useful do you find the information about impact investing provided by:



Base: All active in impact investing

Some survey respondents highlight the need for impact investments not to be considered as a 'special case' but for investments seeking to produce positive social and financial returns to be held to the same standards as any other portfolio allocation.

One respondent said they would be convinced to include impact investments if it could "meet the investment criteria that are in place for all of our investments ". Impact experts and practitioners – not least the interviewees in this report - would argue this is entirely possible.

Evolution of Social Impact Measurement

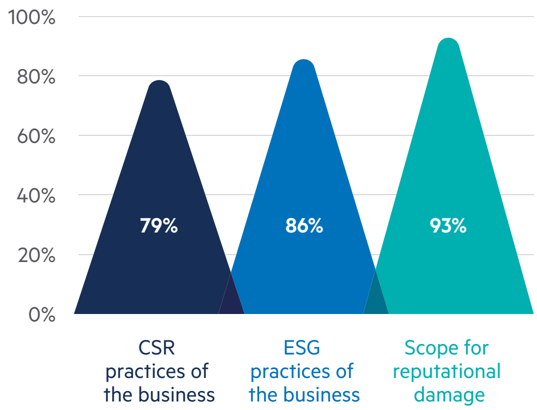
As socially responsible investment (SRI) factors have entered mainstream investment management practice – supported by numerous academic studies showing that SRI funds perform in line with conventional funds[2] – so this could signal the trajectory of impact investing into the mainstream, especially among family offices and foundations which are typically steeped in philanthropy of some sort. Interestingly, poor social impact measurement was also listed as a key barrier preventing further allocation to philanthropy.

This survey found that insufficiently robust social impact measurement remains a key, perceived barrier preventing an increase in impact investment allocations and that it was a key reason for the financial or social performance of impact investments to have fallen below respondents' expectations . Yet, financial accounting is an incomplete but accepted measurement of value, despite struggling with clearly important 'intangible' elements such as 'brand reputation' that affect that value. One hypothesis is that the strides currently being made to build robust tools to measure both the social and financial elements of an impact investment may develop and become incorporated into accepted practice.

As Michele Giddens says (page 12): "We once faced a challenge as to how to measure financial performance, with shared language and shared principles. We're at that point now for impact measurements and while it looks thorny, it needs to be done. In several decades I think we'll look back and say, 'I can't believe we used to think companies should only be held to account for their risk-adjusted return'. Patently they all have an impact on society, we should be holding them to account for that and they should be reporting on it."

CHART 17

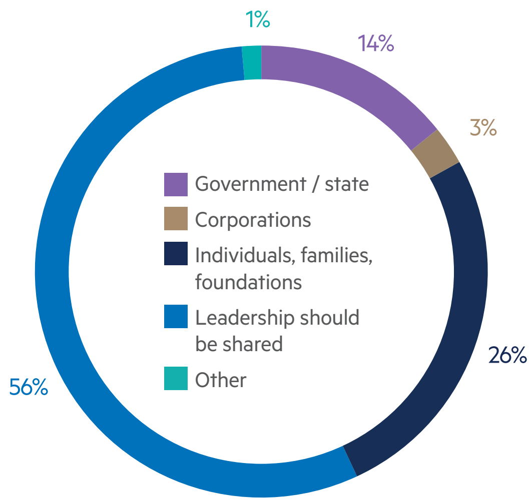
Do the following influence your existing traditional asset allocation decisions?



Base: Those not active in either impact investing or philanthropy

CHART 18

Who should take the lead in driving positive social impact?



Base: All

Footnotes

1 https://40926u2govf9kuqen1ndit018su-wpengine.netdna-ssl.com/wp-content/uploads/2017/02/PEVC-Impact-Investing-Benchmark-Statistics-2016-Q3.pdf

2 Journal of Banking and Finance: Does it pay to be ethical? Evidence from the FTSE4Good , October 2014 http://www.sciencedirect.com/science/article/pii/S0378426614002428

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Previous Editions

To view previous editions of Investing for Global Impact, or to find out more, please visit **www.ftadviser.com/impact**

We would like to thank OECD for their work in these areas and their interest in this initiative.

About the OECD

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. In support of the 2030 Agenda for Sustainable Development, the OECD engages with governments and private actors to monitor the fast changing landscape of finance for sustainable development through data collection and reporting, establishing statistical measurement frameworks, and analysis and sharing of practices and policies.

Social Impact Investment Initiative

Over the past several years, the OECD has played a key role in a global social impact investment (SII) initiative launched during the UK Presidency of the G7 in 2013.

The OECD's interest in social impact investment centers on its potential to catalyze new capital flows that can bring greater effectiveness, innovation, accountability and scale in achieving economic and social outcomes in the context of the sustainable development goals (SDGs). For further information visit: http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/social-impact-investment-initiative.htm

OECD Survey on Global Private Philanthropy for Development

The OECD Development Assistance Committee (DAC), in collaboration with the netFWD (Network of Foundations Working for Development, has been carrying out a survey to gather detailed information on development programmes of leading philanthropic foundations all over the world. More information, as well as the preliminary results (February 2017) can be found on http://www.oecd.org/dac/stats/beyond-oda-foundations.htm and https://www.oecd.org/site/netfwd/

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