



INVESTING FOR GLOBAL IMPACT

2019



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FOREWORD

Welcome to Investing for Global Impact 2019

We are living through extraordinary times, which remind us of the necessary and important role of capital in generating economic prosperity and contributing to solutions for the most pressing challenges we face globally. Now in its sixth year, this report continues to grow in both reach and ambition.

Our in-depth survey this year attracted 410 respondents, growing by a quarter on last year (and following consecutive one-third year-on-year increases). Representing a conservatively estimated cumulative wealth of \$124.7bn, our survey respondents herald from 56 countries around the world (an increase from 45 countries last year). At this incredibly exciting juncture for social and environmental investment, we would like to thank all of the participants in this report.

Spanning impact investors, philanthropists and traditional investors from the perspectives of single family offices, multiple family offices, foundations and (HNWI) private investors, this year we uncover contradictory findings.

Impact investing respondents are shifting from education to action phases, with many deepening their commitment, encompassing impact investments within their 'core' portfolios among more traditional assets. However, this report also highlights the polarisation between the business of impact-seeking 'going mainstream' and the muted response of respondents to pressing themes such as Climate Action, to the UN SDGs. Looming large is the real threat of 'Greenwashing'.

From the survey analysis to the plethora of perspectives from our esteemed interviewees, the purpose of capital and the motivation for scalable impact solutions is examined. Each year we endeavour to share insights from different impact participants in different countries around the world.

From the US, impact investor **Jim Sorenson** discusses the power of public/private collaboration, while impact author and consultant **Jed Emerson** invites a more personal, spiritual journey into impact motivations and outcomes. From India, Infosys co-founder **Narayana Murthy** discusses "compassionate capitalism" while Norwegian **Johan H Andresen** shares why social entrepreneurship is vital to welfare state systems.

Jose Parra and **Juan Pablo Cadavid** of Taurus Capital share the opportunities, challenges and harsh lessons learned from operating impact investments in Colombia, while **Teya Dusseldorp** and **Bjorn Everts** share their perspectives in our split case study of the Dusseldorp Forum and its beneficiary Karrkad Kanjdji Trust (KKT), an Australian Aboriginal organisation.

We hope you find the report informing, engaging and stimulating to your own journey for impact in whatever form that takes. We also thank our partners **GIST, Barclays and Cleary Gottlieb Steen & Hamilton** for their unwavering support of this research project.



Anna Lawlor
Report Author, Financial Times

PROFILE OF RESPONDENTS

In total, 410 respondents participated in the 2019 survey; a 26% year-on-year increase.

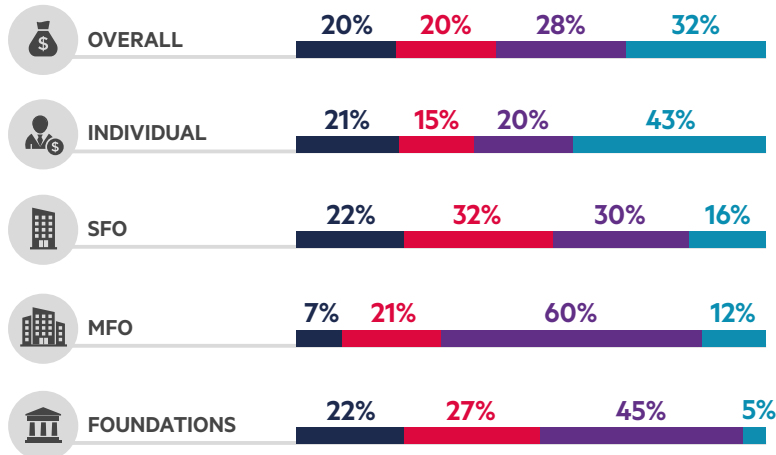
Cumulative wealth managed by respondents



Are you **active** in?

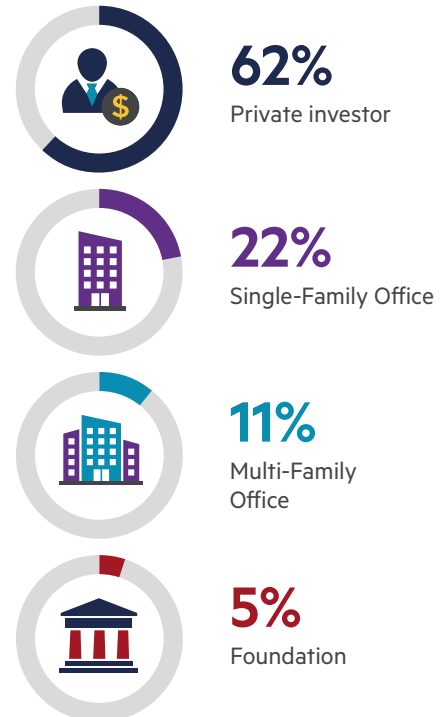
Base: All

- Impact investing only
- Philanthropy only
- Both impact investing and philanthropy
- Neither impact investing or philanthropy



What type of **organisation** do you represent?

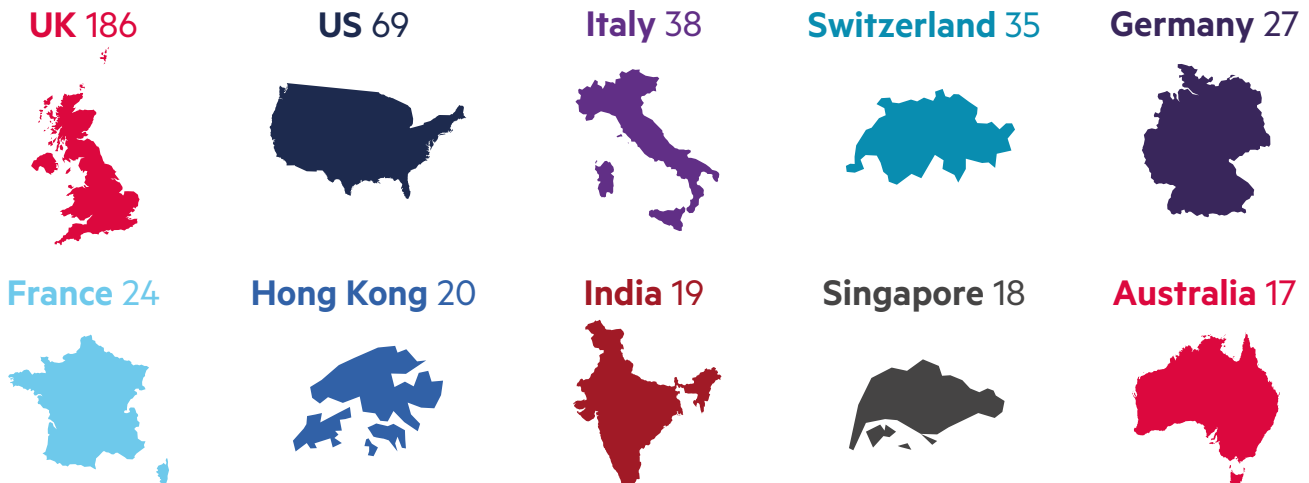
Base: All



Number of countries where respondents' wealth originates



Top ten countries by **origin of wealth**, listing respondent numbers for each (multiple responses allowed)



EXECUTIVE SUMMARY

We are living through extraordinary times. Yet, when the winds of change blow, the frisson of excitement is often joined by a beclouding of what will be revealed when the dust settles. Impact investing is certainly gathering momentum as individuals and institutions alike are attracted to the potential for returns equivalent to traditional assets but with the added allure of creating ‘mission-aligned’, family-value-aligned social or environmental impact.

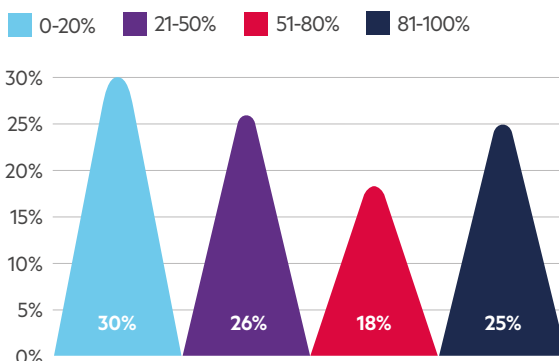
With this year’s FT Investing for Global Impact survey attracting 410 survey respondents from 56 countries around the world and representing in excess of \$124.7bn (£96bn) in cumulative assets, it is interesting to note that the largest cohort of respondents are from countries currently steeped in socio-political division: the UK and US.

Against the backdrop of polarising identity politics, economic inequality, mass migration movements and stark environmental warnings, the allocation strategies for global capital cannot continue as ‘business as usual’, not if it is also to provide sustainable risk-adjusted returns. For the first time, our survey respondents’ main motivation for impact investing has been their “contribution to sustainable development and future”; replacing a “responsibility to make the world a better place”. But how sustainable is the current impact investing momentum? And what will we make of such capital allocation – and its proven effects and outcomes – when the dust settles?

CHART 1

What percentage of your portfolio do you aim to have dedicated to impact investments by 2020?

Base: All active in impact investing



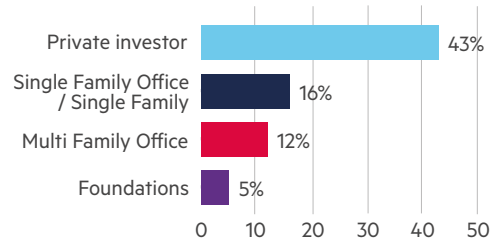
Impact at their core

This year’s survey finds our respondents shifting from the side-lines of impact investing, making investments, increasing the number of investments held and also considering these investments targeting ‘more-than-financial’ outcomes alongside a financial return to be ‘core’ to their investable portfolio.

CHART 2

Proportion of respondents who participate in neither impact investing nor philanthropy

Base: All



The largest respondent group (41%) reports having now made their first impact investment and contemplating making more, a massive increase on the 28% of last year. A further 34% reported being “active with multiple impact investments”, up from 30% last year. The number at the nascent stage of exploring impact investing has more than halved, from 12% last year to 5%.

Almost half of respondents consider their impact investments ‘core’ to their portfolio (up 6% on last year). For private investors this increases to 58% considering impact investments as ‘core’, though only 42% of them are currently active in impact investing.

More respondents this year are holding 6-10 impact investments, though the majority continues to hold 1-5 impact investments in their portfolio. Foundations, increasingly embracing impact investing, remain the most prolific investors with a quarter holding 21 or more impact investments, well above single-digit percentages of the other respondent groups. For the first time in this survey’s history, foundations report that their main priority is to target “social and financial returns equally”. At 53% this is a significant shift from last year (at 30%) where social return dominated foundation’s priorities.

Mainstreaming impact

This year we have a reasonably equal weighting of respondents active in philanthropy and/or impact investing. While impact investing is on the ascent, philanthropy is not therefore waning – far from it. A total of 28% of respondents said more than half the families they represent now engage in philanthropy, up from just 13% last year. The number of foundations continuing such work remained high at 73% but did drop from 82% the prior year.

Family offices and Foundations, the major pipelines that have long fuelled global philanthropic ventures, now lead divestment strategies and are moving to a more holistic approach to their portfolios. Private investors too are attracted to the principle of generating social/environmental benefit as well as financial outcomes from their capital allocations. This survey found the majority

(47%) of private investors have made their first foray into impact investing (up from 30% last year), and 27% of them currently hold multiple impact investments (up from 20% last year).

Whether impact investing heralds an entirely new approach to capital allocation, reconceptualising its purpose and what we – complex human beings, not one-dimensional ‘investors’ – deem attractive return and fair ‘value’ from the exchange, is debatable. (Indeed, it is central to our interview with author and impact practitioner **Jed Emerson** in chapter 4).

Alternatively, as large financial institutions are launching billion-dollar impact funds and pivoting their own business strategies to capture the prevailing winds, impact investing can be considered to be maturing either as an asset class (using an increasing array of financial instruments marketed towards ‘impact’) or as an investment approach. For some – see our interview with impact investor **Jim Sorenson** in chapter 4 – this demonstrates the true potential of impact investing to effect positive social change through the symbiotic relationship of public and private capital.

Over the past three years this FT survey has seen a steady rise in those investing in mature, publicly listed stocks; a jump from 18% in 2017 to 28% of respondents this year. An indication of the growing range of ‘impact’ options or perhaps the broadening (potentially stretching) of the impact definition.

Fear and loathing of ‘Impact-washing’

Being able to achieve goals and set priorities relies on being able to understand how your investments might perform. Intriguingly, respondents appear to have more accurately predicted what their impact investments might achieve in terms of social/environmental outcomes. There is a potential risk, however, that impact investing respondents are setting ‘soft’ targets that are very likely to be achieved, as four-fifths of respondents (80% up from 66% last year) state that impact investing ‘tends to be difficult to monitor and measure performance’. 82% believe impact investing ‘suffers from a lack of clear definition or measurement criteria’ (up from 71% last year).

Concern about the lack of uniform measurement and terminology for impact investing has been aired by the International Finance Corporation, part of the World Bank, which published 9 principles for measuring impact investments against at the end of last year. The UN Principles for Responsible Investment also published a Market Map aiming to demystify impact investing for asset owners and help them assess potential impact ventures.

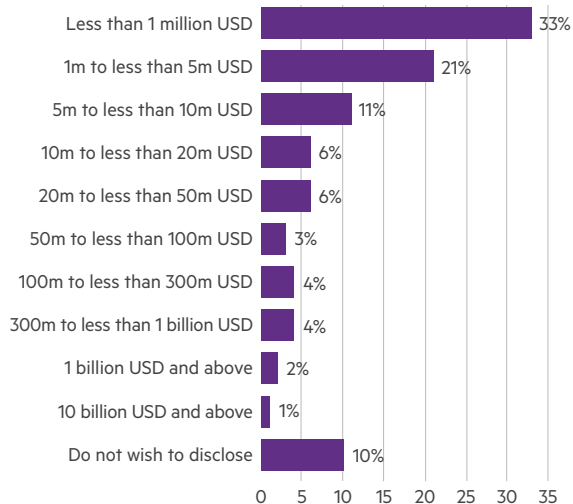
In this year’s survey, social and financial performance was largely positive, though lagging the financial returns reported for traditional investments, yet more than double the number of respondents (now at 8%) said that green/

CHART 3

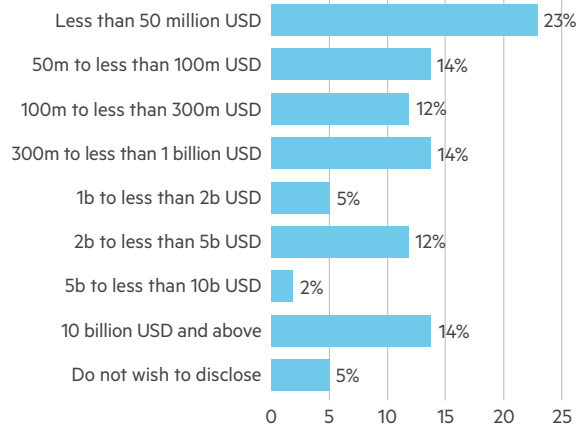
What is the value of your 2018...

Base: HNWI/SFO then MFO then Foundation

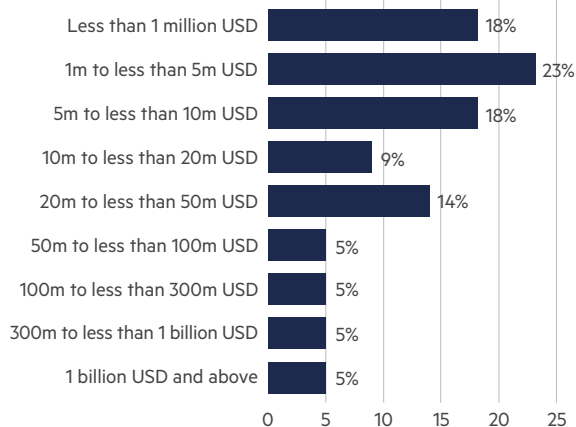
...investable assets or AUM?



...AUM of the family offices your represent?



...endowment?



impact-washing is their biggest barrier to considering impact investing, while 7% stated it was the biggest factor preventing them from engaging in philanthropy. One in 10 respondents (12%) state that a 'lack of universal measurement metrics for impact investment total performance' is a major barrier for impact investing as a concept. The issue is also a challenge for philanthropy, with nearly a quarter of respondents (23%) claiming a key barrier to them entering the sector is that it is 'hard to measure social impact'.

One might imagine that a fragmented market that is increasingly popular would necessitate an increase in due diligence to avoid falling into a greenwashed investment. However, our survey found that the number of respondents performing the same due diligence on their impact and traditional investments rose to 43% (up from 36%), a move that accompanied a drop in the number of respondents performing an additional 'impact screen'. This is now down to a quarter of investors from a third (32%) last year. This will likely worry long-term socially responsible impact practitioners keen to protect the reputation of this nascent investment approach that holds such potential for markets, economies and the world at large.

Personal motivations versus global need?

In many of this report's interviews, notably this year **Narayana Murthy** and **KKT/Dusseldorf Forum** in chapter 4, a deep personal values-driven involvement in strategic philanthropy and impact investing reaps not only positive benefits for those in need but also deeply changes and rewards the individual. What transpires across these interviews is a sense that an individual can only truly succeed if their community is succeeding too.

While personal values are undeniably influential in the investment themes chosen for 'more-than-financial' returns or philanthropic contribution, this year's survey highlights a disparity between the pressing global need for climate action and respondents' apathy. Only 4% of all respondents said the influence of climate change was "highly relevant" to their philanthropy portfolio. Almost one third (29%) said climate change "is not relevant to our investable portfolio"; and that spans 'traditional' investments through to impact investments or strategic philanthropy.

None of the respondents who are active only in philanthropy currently report allocating to Climate Action, and only two private investors plan to allocate funds to Climate Action in the next 12 months; none of the Philanthropy-only family office or foundation respondents are making provision for Climate Action.

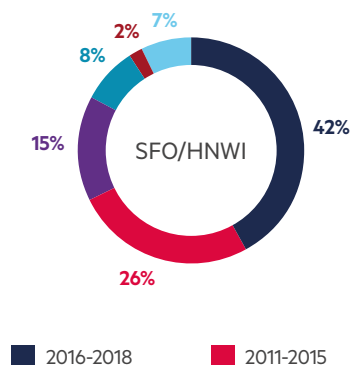
In addition, while impact investing respondents are most motivated to "contribute to sustainable development and future", a rising number of respondents (32% up from 19% last year) said they were not even aware of the UN Sustainable Development Goals (SDGs), which are part of the 2030 Agenda for Sustainable Development.

While it isn't incumbent upon family offices, foundations or private individuals to solve the world's problems through their capital allocation, those seeking any positive more-than-financial social or environmental return may need to dig deeper – within their organisations, their portfolios, within themselves – to ensure their values truly are represented by their actions and the change they wish to see in the world.

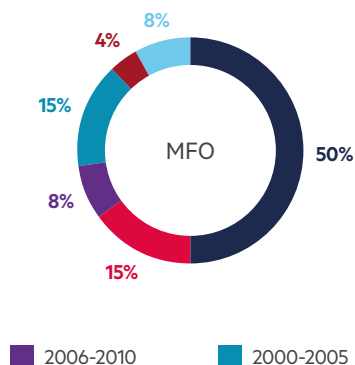
CHART 4

What year did you / your family office start engaging in impact investing?

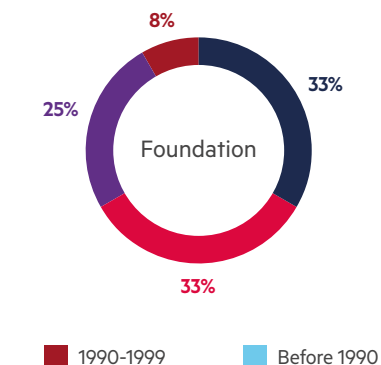
Base: All active in impact investing



In which year did your multi family office make its first impact investment?



What year did your Foundation(s) start engaging in impact investing?



CHAPTER 1: APPROACH TO INVESTING FOR IMPACT

It appears our respondents have shifted from the sidelines of impact investing, with the largest cohort (41%) now having made their first impact investment and considering making more, a massive increase on the 28% of last year. A further 34% reported being “active with multiple impact investments”, up from 30% last year.

We see this shift in the plummeting number of respondents “actively researching impact investing” but not having made an investment (6% this year, the lowest recorded, down from 16% last year). The number at the nascent stage of exploring impact investing has more than halved, from 12% last year to 5%.

For the first time, foundations report that their main priority is to target “social and financial returns equally”. At 53% this is a significant shift from last year where social return dominated foundation’s priorities. In fact, the number of foundations claiming to target social return only (with financial return prohibited) is at its lowest since the report began; social only returns apply to only 16% of foundation respondents, down from almost half (47%) in 2014.

Since 2016 foundations reported focusing on social impact as the priority but also targeting financial return, so this appears to confirm that with quantifiable performance and performance satisfaction foundations are increasingly embracing impact investing. Notably, foundations reporting “regulatory restraint” as a barrier to their participation has plummeted from around 20% over the past 4 years to just 5% this year.

Family members continue to be key influencers, steering SFOs, MFOs and foundations towards their first impact

investments, especially those family members aged 35-55. This year, their key motivation has switched from “responsibility to make the world a better place” to considering impact investing as their “contribution to sustainable development and future”. Not only was this consideration top-ranking among 13 options, but leapt from 18% of respondents last year to 34% this year who felt that this was their major motivation.

When impact investments are made they continue to be in venture (52%), growth (51%) or seed/start-up (50%) stage enterprises. However, over the past three years we have seen a steady rise in those considering their impact investments to be in mature, publicly listed stocks; a jump from 18% in 2017 to 27% of respondents this year.

CHART 5

At which stage(s) do you invest?

Base: All active in impact investing. Multiple responses allowed

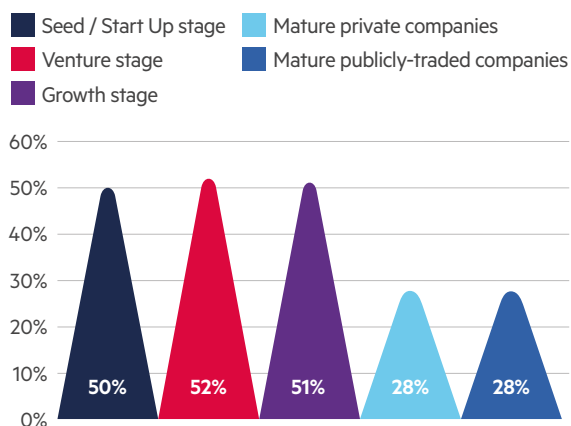


CHART 6

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

Base: All active in impact investing



Climate In-Action

A landmark United Nations report last year warned of worsening food shortages, wildfires, and mass loss of coral reefs as soon as 2040, urging that a transformation of the world economy is required at an unprecedented speed and scale to prevent devastation. Plainly, it stated, we have 12 years to limit catastrophic climate change – if we're lucky.

Portfolio irrelevance?

Of the wealthy individuals, family offices and foundations who responded to this survey, which focuses on mobilising capital to achieve social and environmental impact, climate action appears to be a less-than-pressing concern.

Almost one third (29%) said climate change “is not relevant to our investable portfolio”; and that spans ‘traditional’ investments through to impact investments or strategic philanthropy. A further 28% said they would like climate change to influence their investments but it’s “not part of our mandate”. An equal number said it was influential across their impact-only portfolio (15%) and a central theme across the whole investable portfolio (15%).

Lack of engagement

Only 30% of respondents reported making direct investments seeking to achieve climate change reduction, while more than one-third said their investments were indirectly related to climate

action, such as targeting solutions to specific climate-related events (such as emergency relief) or non-specific related issues. Of our respondents, more than half (57%) undertake no lobbying or promotional activity on the topic, with just 16% reportedly involved in a member organisation directly involved in climate change reduction.

Interestingly, only 4% of all respondents said the influence of climate change was “highly relevant” to their philanthropy portfolio. None of the respondents who are active only in philanthropy currently report allocating to Climate Action, and only two private investors plan to allocate funds to Climate Action in the next 12 months; none of the Philanthropy-only family office or foundation respondents are making provision for Climate Action. **See Chapter 5 for more on the potential Climate Action wealth held on the sidelines.**

While the UN states all 17 SDGs collectively contribute to sustainable economic and environmental development, this survey questions the direct intention of large capital owners in addressing Climate Action.

In the words of 15-year old Greta Thunberg, the Swedish climate activist: “We must immediately start acting as if we were in the crisis that we are in”.

CHART 7

To what extent does the issue of climate change influence your investments?

Base: All

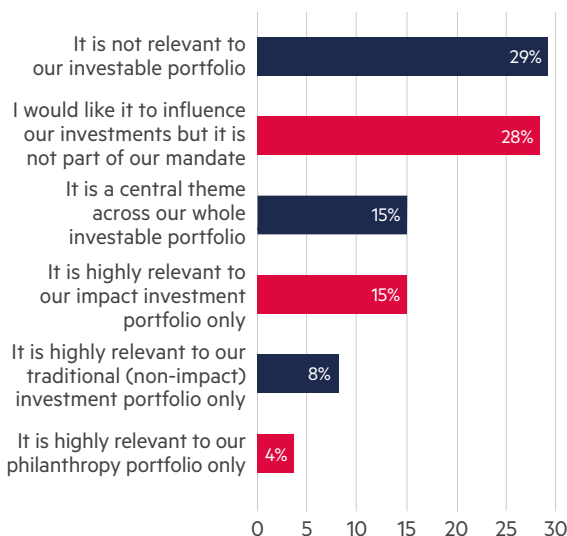


CHART 8

Do you make any of the following investments in relation to climate change?

Base: All. Multiple responses allowed

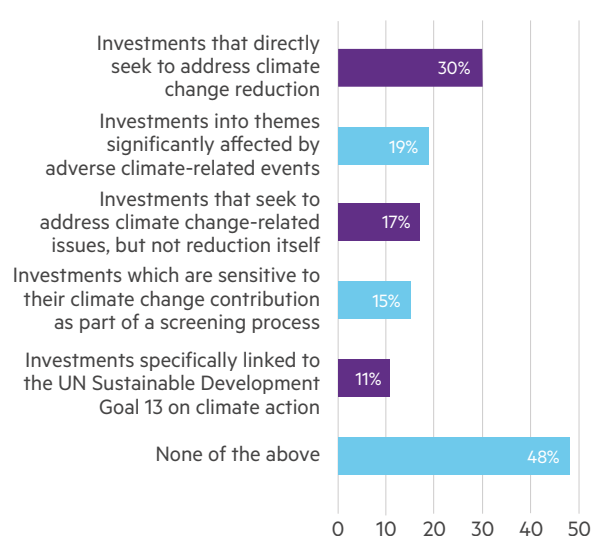


CHART 9

Do the following influence your existing (traditional) asset allocation decisions?

Base: All active in impact investing. Multiple responses allowed

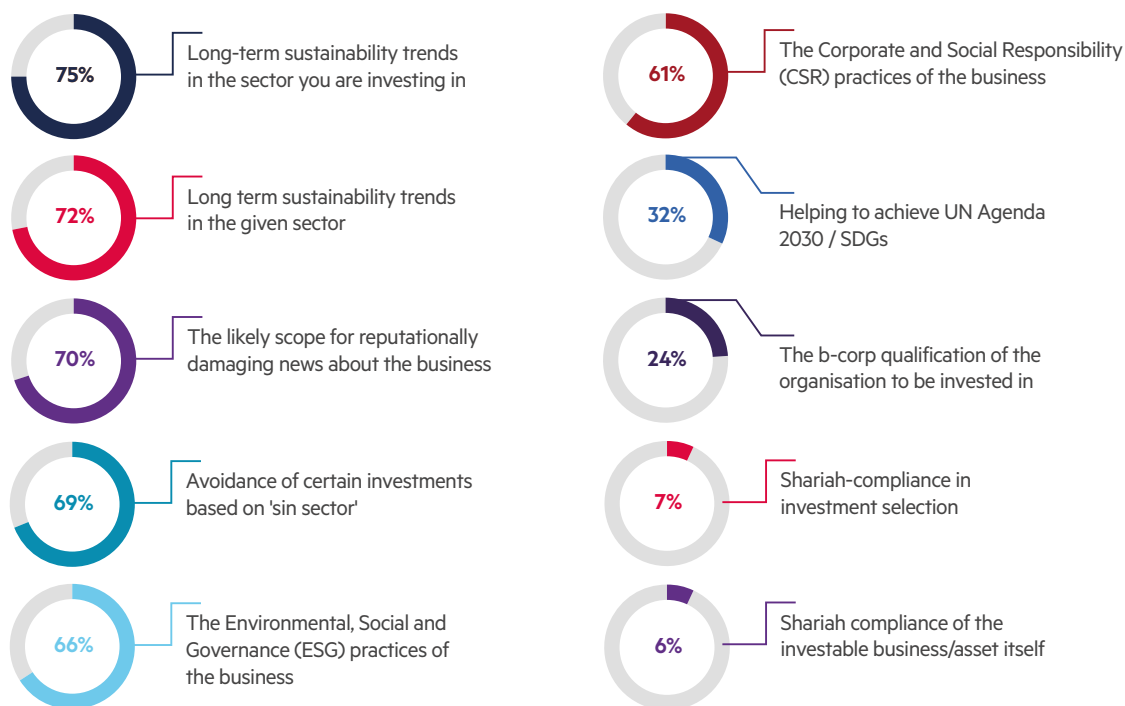


CHART 10

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

Base: All active in impact investing

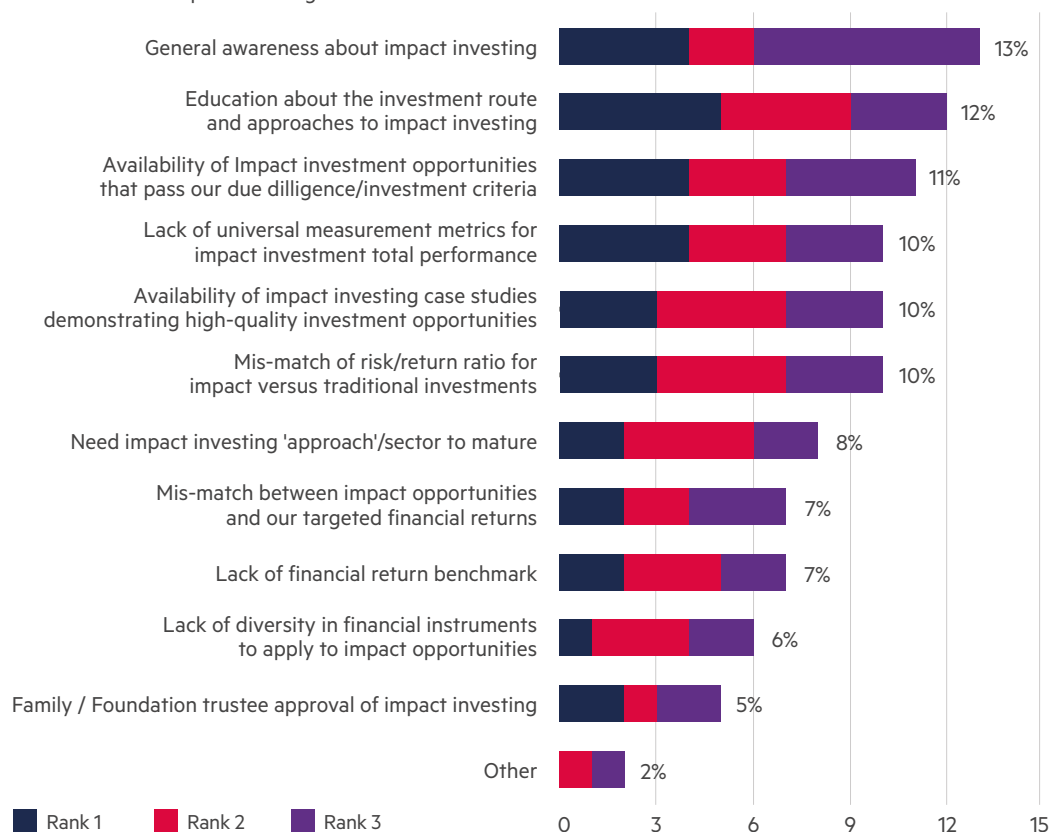
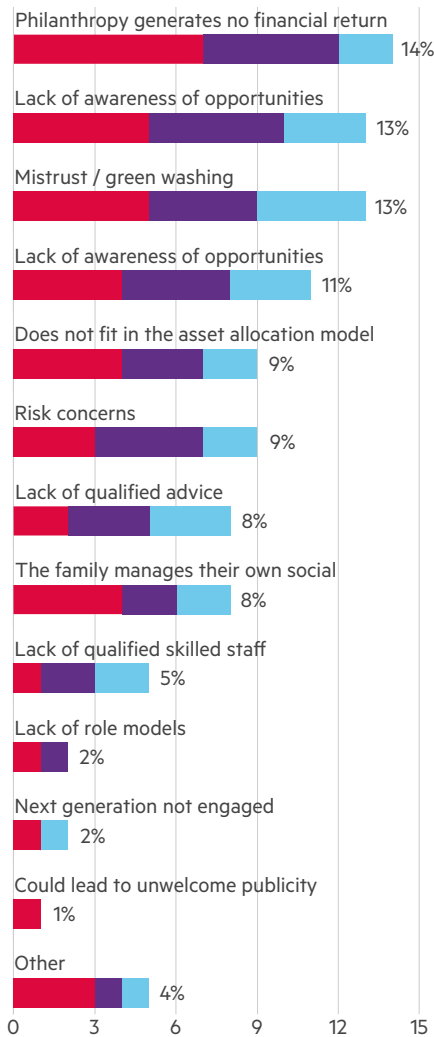


CHART 11

What are the barriers to your organisation considering active participation in:

Base: Those not active in either impact investing or philanthropy Rank 1 Rank 2 Rank 3

Philanthropy?



Impact Investing?

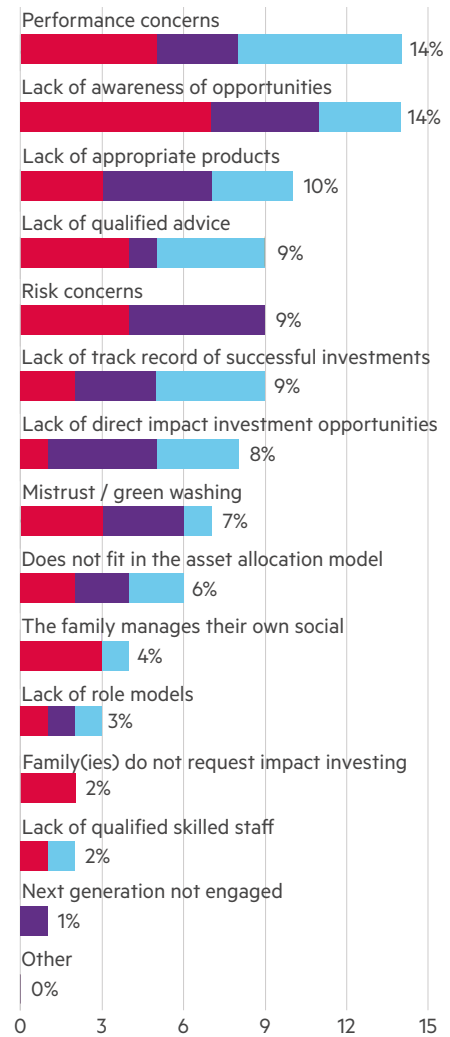
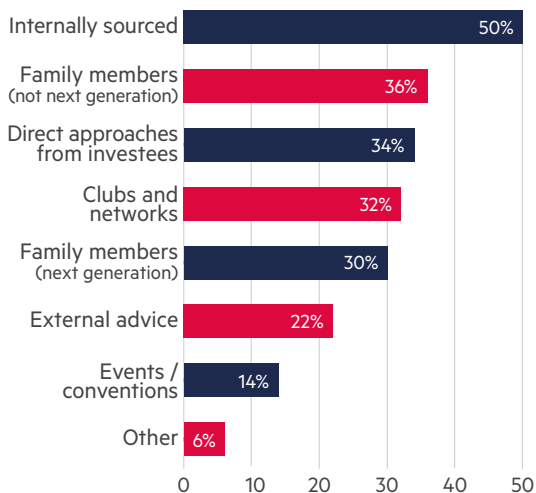


CHART 12

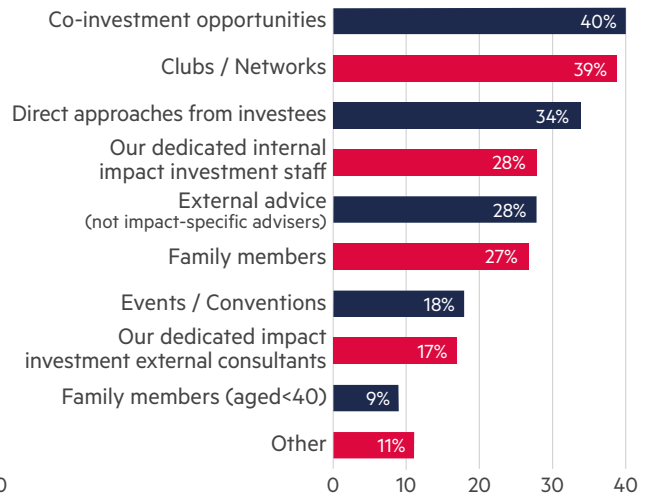
Where do you source opportunities for your:

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

Philanthropy?



Impact investments?



CHAPTER 2: CURRENT INVESTMENT PORTFOLIOS

A new desire for impact investing among sophisticated investors has emerged in this year's survey, helping drive the total number of respondents who consider such holdings as core to their portfolio to almost half.

This year's survey shows 46% of respondents view impact investments as their main raison d'être (up 6% on last year) and that the satellite portfolio strategy (which separates impact and traditional investments) is rising far more slowly, with 30% of respondents opting for this tactic (up from 27% last year).

Private investors led the way with 58% considering impact investments as core to their strategy (up from 45% last year) while 19% of MFOs (up from 13% in 2018) took the same view. Although the percentage of MFOs that consider impact investing to be core to their operations was well below that of single-family offices (SFOs) and foundations, at 40% and 33% respectively, the latter two groups witnessed a drop from 47% and 38% respectively.

In spite of this fall, it is SFOs and foundations that see themselves as more advanced in their impact investing development, with 18% and 17% respectively viewing it as their 'primary approach to the portfolio'. It would appear though that MFOs and private investors are endeavouring to further cultivate their impact investing expertise: a total of 42% of MFOs now consider themselves 'active with multiple impact investments across asset classes or causes' (up from 38% last year) while 27% of private investors now have multiple impact investments (up from 20%).

Interestingly, 46% of MFOs have made their first impact investment and are 'considering further impact opportunities (up from 29%) while 47% of private investors have made their first foray into the sector (up from 30%) – the majority for both cohorts.

CHART 13

Which of the following financial instrument(s) are / were you using?

Base: All active in impact investing. Multiple responses allowed

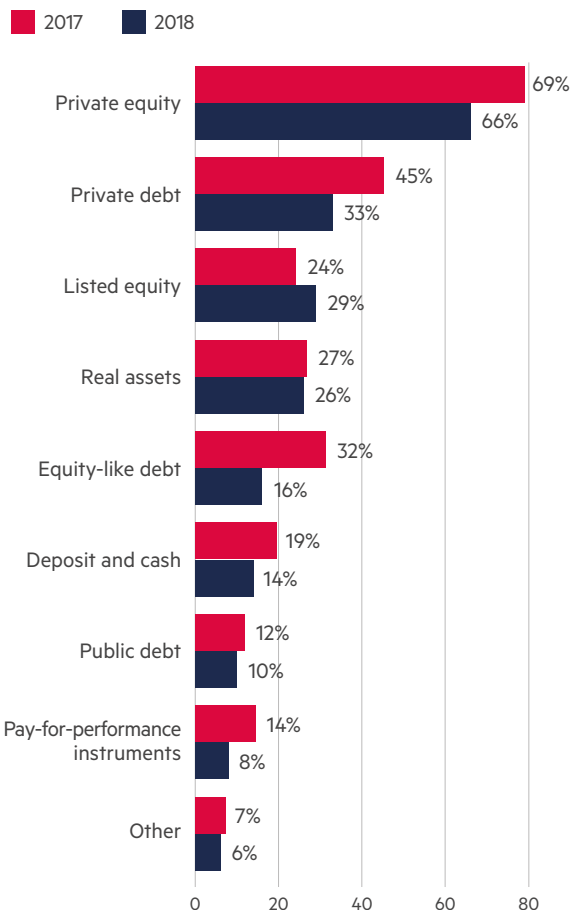


CHART 14

Do you consider your impact investments to be:

Base: All active in impact investing

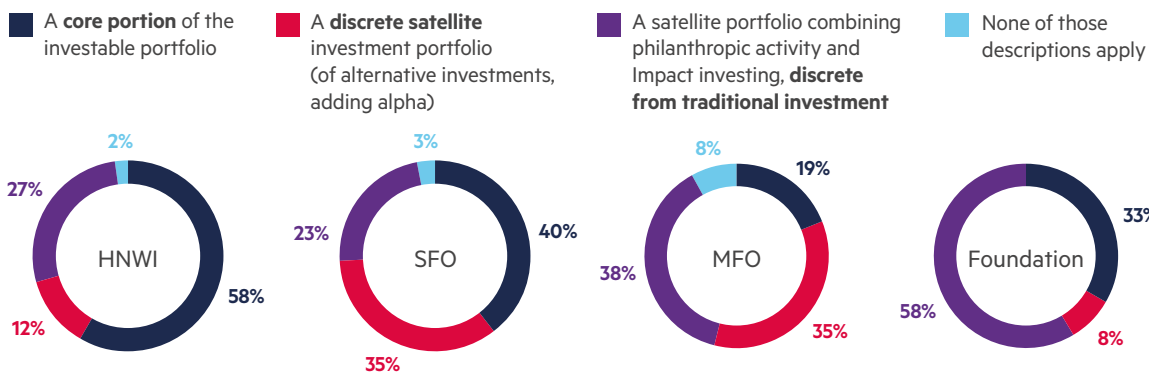
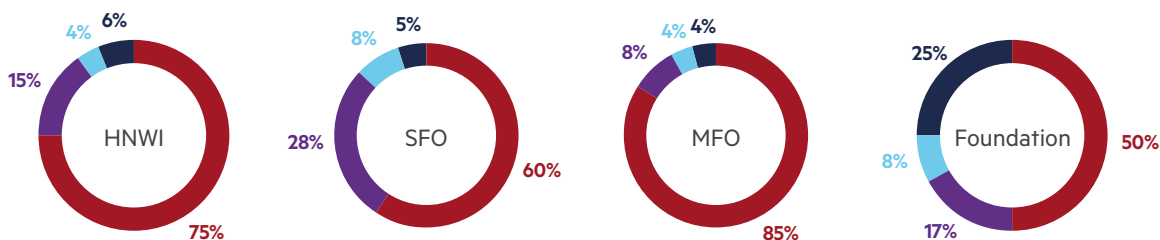


CHART 15

How many different impact investments do you currently hold?

Base: All active in impact investing

1-5 6-10 11-20 21+



There are various potential explanations for this spike in active participation in impact investing, including the sector’s growing prominence in the investment community’s psyche, the burgeoning presence of mainstream asset managers in the field and, potentially, investors’ age.

Separate research by Barclays, entitled *Investor Motivations for Impact: A Behavioural Examination*, shows that 43% of under 40s made an impact investment in 2017 compared to 9% for those aged 50-59 and 6% for those aged over 60. Anecdotally, this report’s case study section backs this data up, with suggestions from some interviewees that the millennial generation – generally regarded as those born between the early 1980s and early 2000s – are increasingly keen on using their wealth to generate a social, as well as financial, return.

Another possibility is the widening spectrum of financial instruments investors believe can be considered impact investments.

Public equity set to rise

While private equity continued to be the asset class that most respondents expected to increase exposure to in the next 12 months (48% up from 40% last year), the most noticeable change was witnessed within listed equity. With 39% of respondents expecting to up their exposure to this asset class in the next year (more than doubling from 17% last year), publicly available stocks look set to be a key focus for impact investors (although it should be noted this is a multiple choice question).

Deeper analysis shows SFOs, MFOs and private investors all put listed equity as the second most likely asset class they would increase exposure to, while all foundations stated they would maintain exposure here. This could suggest that the spectrum of impact investing is elongating and that so-called shareholder activism, aimed at influencing corporate behaviour, is believed by a growing cohort to be a verifiable way of enacting social or

environmental change. **Read Norwegian impact investor Johan H. Andresen’s view on this, on page 38.**

Respondents reported the asset class they were most likely to reduce in the next 12 months was ‘Deposits & Cash’, potentially suggesting a broadening of their impact investments rather than a reallocation from one asset class to another. Both foundations and private investors named ‘Deposits & Cash’ as the asset they were most likely to reduce in the next year.

Curiously, MFOs stated listed equity as the financial instrument they were most likely to reduce in the next 12 months, in spite of their aforementioned desire to increase their weighting here. The ease with which equities can

CHART 16

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

Base: All active in impact investing

Same due diligence Different due diligence Additional impact screen only

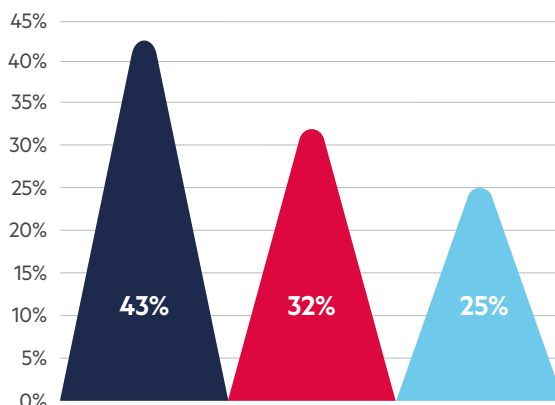


CHART 17

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

Base: All active in impact investing

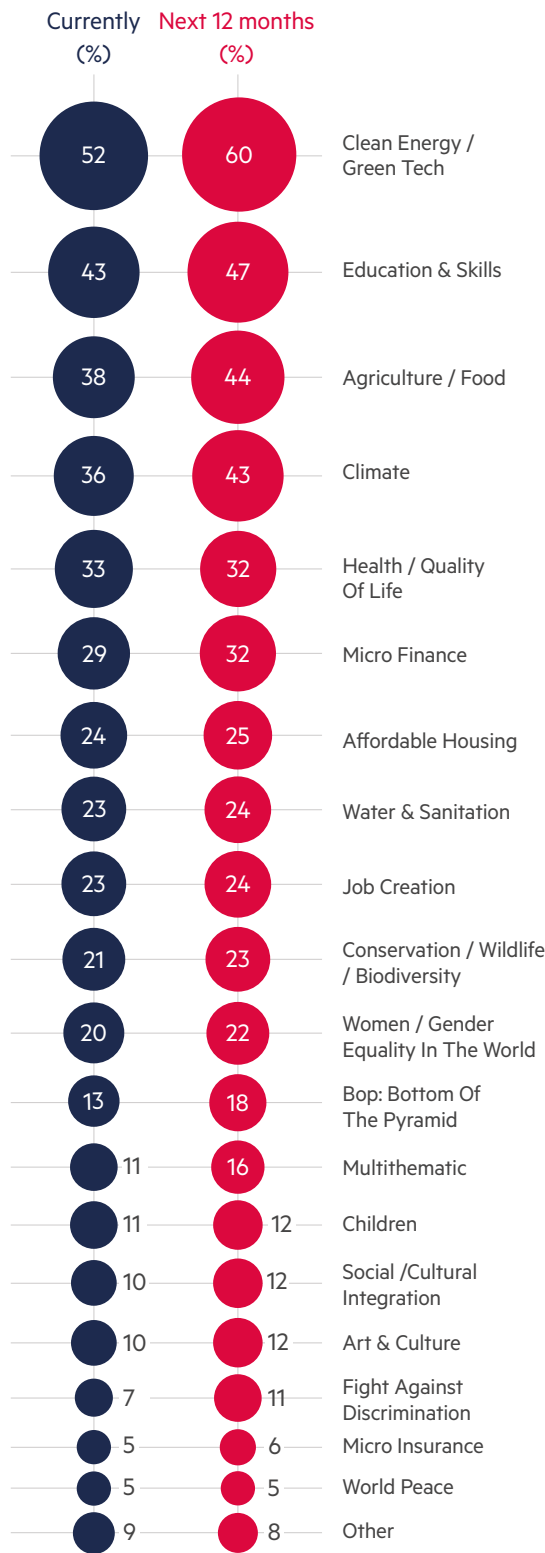
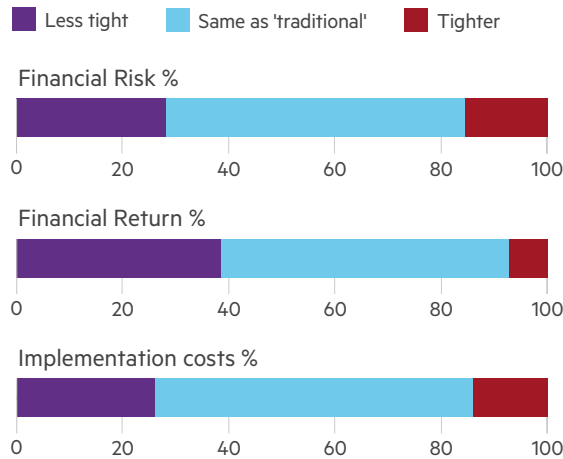


CHART 18

How do the financial parameters for impact investing compare with traditional investing?

Base: All active in impact investing



be traded could account for this or it could suggest that achieving genuine, measureable impact in listed companies is difficult to achieve.

Holding pattern

The optimum number of impact investments remains between 1-5, with the majority of respondents (68%) holding this amount. But this figure is flat year-on-year while 18% of respondents (up from 13% last year) now hold between 6-10 – a movement that has happened in tandem with 11-20 and 21+ falling. This rise in 6-10 investments was most prominent in SFOs, with 28% stating this as the size of their portfolio (up from 18% last year).

This could point to the maturation of the sector, both from the perspective of new entrants focusing their efforts on fewer causes to enable them to have a bigger impact, and more established players yielding better returns that enable them to expand their portfolio. Foundations remain the most prolific investors with a quarter holding 21 or more impact investments, well above single-digit percentages of the other respondent groups.

In terms of exits, the financial instrument with the largest number of respondents stating they had not had to exit an impact investment early was public debt (75%) while only just more than half (54%) of listed equity respondents stated they had not had to exit a holding sooner than expected. However, just 2% of respondents – the lowest of all the financial instruments – stated they had exited because the targeted social return had been met. Conversely, listed equity holdings were the second most likely to have met the targeted financial return (10%) behind 'Deposits & Cash' (11%).

Risk analysis

A greater understanding and familiarity with impact investing also appears to be present in the survey as the sector evolves. This notion is supported by the rising number of respondents who stated they applied less restrictive financial parameters to their impact investments (compared with traditional holdings) across financial risk (28% up from 21% last year) and financial return (39% up from 32%).

A total of 60% of respondents also stated the implementation costs of impact investments were the same as traditional ones compared to 56% last year.

Furthermore, the number of respondents performing the same due diligence on their impact and traditional investments rose to 43% (up from 36%) – a move that accompanied a drop in the number of respondents performing an additional ‘impact screen’. This is now down to a quarter of investors from a third (32%) last year.

Philanthropic twist

While impact investing is on the ascent, philanthropy is not therefore waning – far from it. A total of 28%

of respondents said more than half the families they represent now engage in philanthropy, up from just 13% last year. The number of foundations continuing such work remained high at 73% but did drop from 82% the prior year.

Scrutinising the data more deeply shows the majority (66%) of philanthropic individuals prefer to have a satellite portfolio for their philanthropic ventures and impact investments. The strategy among family offices is split equally with a third putting impact investments at the core of their portfolio and a third having a satellite portfolio (see chart 14, page 11).

This corresponds with two-thirds of philanthropic-focused family offices making their first impact investment with a further third active and considering more. Interestingly, a third of private investors who focus on philanthropy now consider impact investing to be their primary approach. The shift is reflected in the interview with **Teya Dusseldorp**, Executive Director of **The Dusseldorp Forum**; you can read more in chapter 4.

CHART 19

How many impact investments do you hold, and how many have you exited in the previous 3 years (by financial instrument used)?

Base: All active in impact investing

■ Average number of impact Investments currently held ■ Average number of impact investments exited in last 3 years

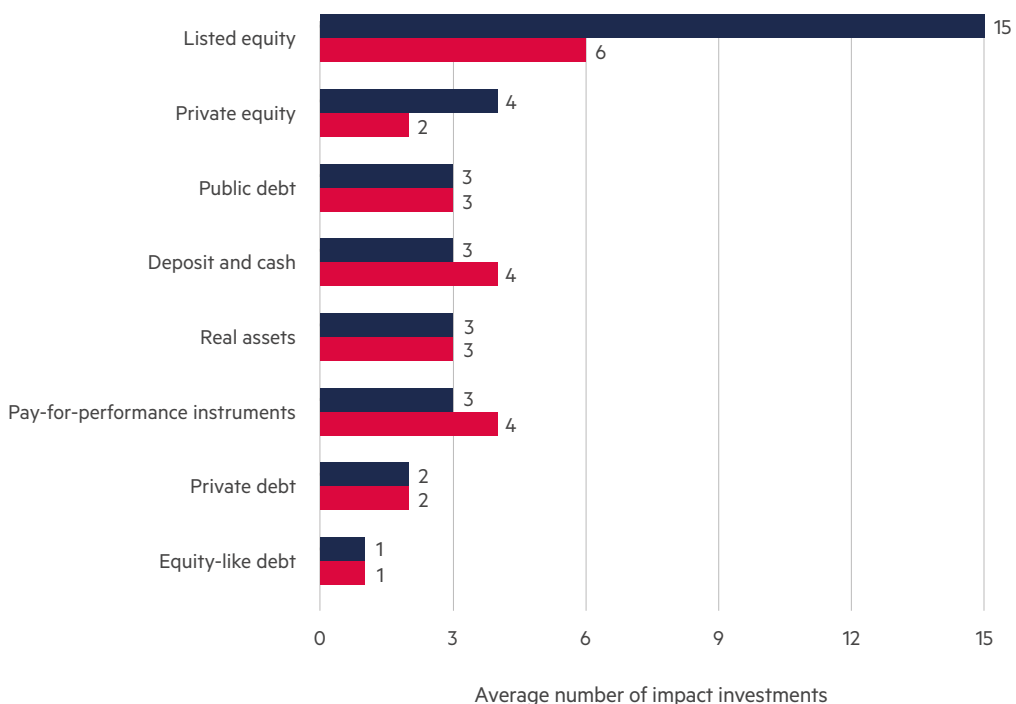


CHART 20

What is the average duration of the impact investments you have exited (by financial instrument used)?

Base: All active in impact investing

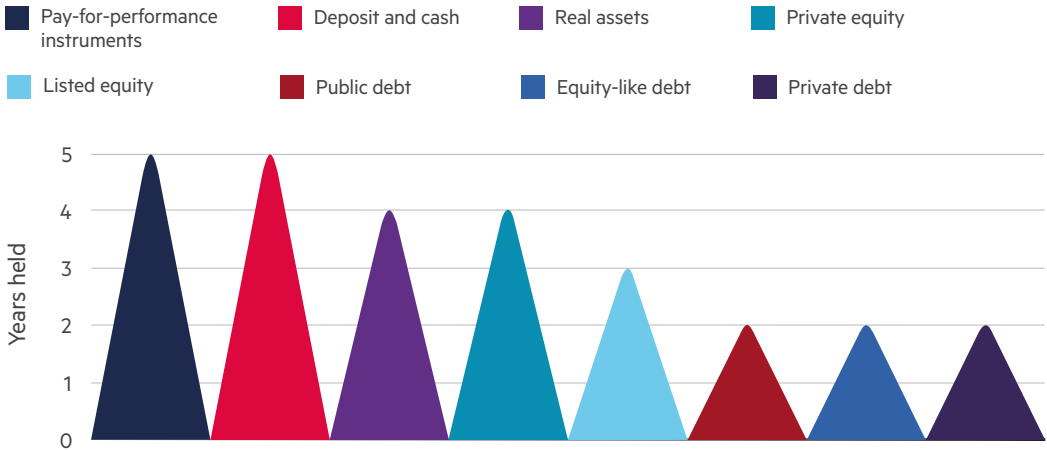
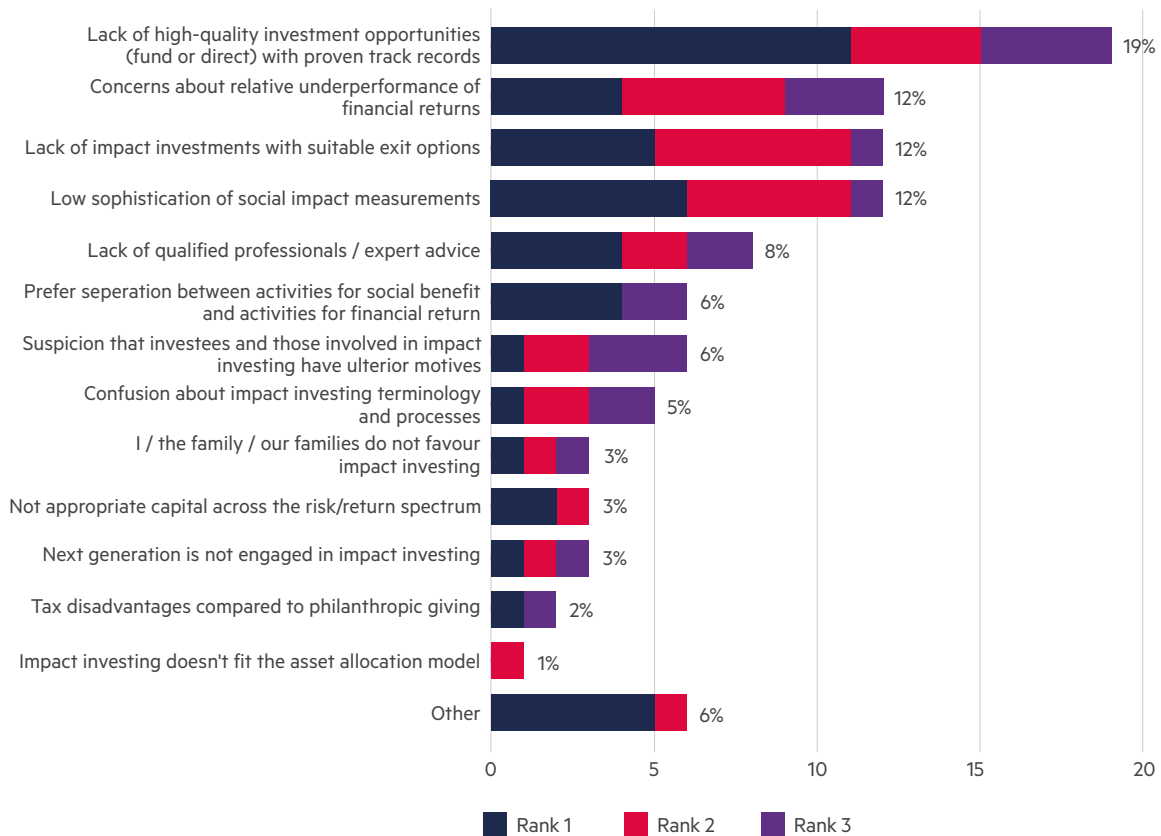


CHART 21

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

Base: All active in impact investing. Multiple responses allowed



ROUNDTABLE: SPONSOR'S VIEW



Gamil de Chadarevian
Founder, GIST



Giuseppe Dessi
Founder, GIST



Damian Payiatakis
Head of Impact Investing,
Barclays

This year, we ask our report sponsors – deeply experienced in the investing for impact sphere – some of the key questions this survey has raised.

► Which finding in this year's report have you been most surprised by and why?

GIST: This year's report in essence reflects a progressively complex world with massive contradictions and profound technological innovations causing massive, ever-increasing polarity. As highlighted by the UN Agenda 2030, understanding and accepting complexity is our current challenge.

Presently, impact investing is the most sophisticated and effective investment strategy with an increasing number of asset managers proposing innovative offerings. We certainly also observe an increase in 'impact washing'. We are confident this report will provide all readers with an insightful and enhanced understanding of genuine impact investing: a globally responsible use of all resources, encompassing our financial resources, to create for future generations an innovative industrial and financial ecosystem integrating a sustainable and holistic vision. Outright denial and undervaluing public resources like air, water and soil are no longer an option.

Cleary Gottlieb: It is pleasing to see that this year's report paints a positive picture for the impact investment sector. Year-on-year survey data confirm that investors' initial experience of impact investment has been positive with the potential for financial as well as social gain proving appealing. Investors appear to have an increasingly sophisticated understanding of what impact investment means and the different investment opportunities available to them. Furthermore, there is a growing appetite for impact investment across a broader range of investor groups and investment classes.

However, against this broadly positive backdrop, the report highlights a surprising lack of awareness of national and supranational initiatives, such as the United

Nations' Sustainable Development Goals. The data suggest that public institutions must engage with the private investment community more effectively, to help investors deepen their understanding of the sector.



Climate change is one of the most pressing issues we currently face; a global challenge that presents a systemic risk for humanity and the planet.



GIST

Barclays: We're encouraged this year by the critical mass of respondents who believe impact investing is core to their portfolios, which is now 58 per cent for individual investors.

Annual growth in this percentage is demonstrating a shift in how individuals, families, and foundations think about how they invest generally.

For these investors, likely at the forefront of this movement, impact investing is not simply an alternative to philanthropy or a satellite investment, but the primary way they approach their whole portfolios.

► What is fuelling the momentum we see for impact investments?

GIST: The 17 Sustainable Development Goals (SDGs) have pushed companies and investors irrevocably on a long-range path toward a more sustainable future. Sustainability agendas and positive impact investments will mitigate risks as well as drive performance and earnings for companies and investors.

Today, the issue is no longer when and if, but how to best frame and execute an adequate sustainability



Vania Petrella

Partner, Cleary Gottlieb



Michael Preston

Partner, Cleary Gottlieb



David Little

Social Impact Lawyer,
Cleary Gottlieb

strategy and sharpen our focus. This pivotal trend will shake the globe; the anticipated transformation of our economies will force people to adapt their way of thinking and adjust important established standards. An active focus on sustainability and positive impact can no longer be considered a threat and should be regarded as priority drivers for our future.

Cleary Gottlieb: This year’s report confirms the increasing appetite for impact investment, which we attribute to several interrelated factors.

Crucially, investors’ initial experience of impact investment appears to have been generally positive: a growing proportion of survey respondents have recorded their first impact investment and are contemplating further investments.

Another extremely powerful factor relates to a demographic shift in favour of impact investment. Barclays’ report on “Investor Motivations for Impact” shows that a much greater proportion of under-40s are inclined towards impact investment than is the case for older demographic bands, and that millennials are particularly alert to social investment opportunities.

Beyond this, as public enthusiasm for impact investment has strengthened, we have observed improved engagement from influential public and private figures and institutions, who have promoted the benefits of impact investment, generating further momentum.

Finally, with respect to climate change-related investment specifically, the quality of research and data – by both public and private bodies – continues to improve, helping investors to develop and substantiate their investment strategies.

Barclays: When we work with our investors, we see two keys drivers of interest – their financial returns and their role in the world.

For the first, both academic evidence and investor experience is showing that incorporating impact data and considerations into investment decision-making has the potential to lead to better investment performance. Also, where commercial solutions exist to address social and environmental problems, the leading organisations in these fields can offer very attractive investment opportunities. As more see the financial benefits, demand for impact investments increases.

For the latter, individuals, families, and foundations recognise they are not separate from the world and their portfolios make an impact on it – which can be negative or positive. Most want to leave a legacy and feel a moral duty to use their wealth to make a positive contribution to the world. As more recognise this new possibility, they are using their investments to make this impact.



The data suggest that public institutions must engage with the private investment community more effectively, to help investors deepen their understanding of the sector.



Cleary Gottlieb

► What is your organisation’s approach to measuring impact? How do you advise your clients to avoid the risk of ‘impact washing’?

GIST: To remain relevant, monitoring and measuring impact will have to be specific and targeted for each and every investment. Every impact measurement matrix must be validated a priori and consider the business specific mission, evaluate the business-related model and assess the relevant business practices. The matrix


must measure quality data on output and outcome and cover both financial data and non-financial information.

The risks of impact washing and green washing can be mitigated and addressed by strictly ensuring that business mission, model and practices are sustainable at all times and deliver a holistic perspective. There is room for progress and improvement.

Cleary Gottlieb: No single financial investment metric is comprehensive and entirely reliable. In particular, as the UK's Financial Conduct Authority recently observed, there are still no universally agreed minimum standards or guiding principles for measuring the performance and impact of green finance products.

More often than not, disappointed expectations and adverse outcomes (including unintended investment in 'impact washing' projects) can be traced back to lacunae and ambiguities in the tools used to measure returns and outcomes.

As with any other types of investment, therefore, measuring impact investment requires a range of instruments. We recommend that investors and their advisors agree at an early stage on a series of tools to measure impact, and that they favour precise targets over broadly stated, outcome-oriented goals. These tools should then be applied with consistency throughout the lifetime of their project and their suitability re-examined on a periodic basis.

 **Most individuals, families and foundations want to leave a legacy and feel a moral duty to use their wealth to make a positive contribution to the world. As more recognise this new possibility, they are using their investments to make this impact.**

Barclays

Barclays: Our approach to impact measurement starts even before we select an investment. We can see that higher quality investments are clear about how they actually use 'impact' to drive their investment process rather than simply using it as a marketing tool.

Understanding the intentions driving the investment strategy helps to assess an investment manager's commitment to impact before ever reaching evaluation stage – i.e. measurement, monitoring and reporting of



Given the overwhelming evidence that immediate and substantial changes in behaviour are required to address the worst effects of climate change, one might expect the survey to show greater engagement on this issue.

Cleary Gottlieb



impact outcomes. Beyond simply measuring impact, we want to know how insights from this effort are used to inform ongoing investment decision-making.

As sponsors of, and participants in, The Impact Management Project (c.f. 2018 edition), we believe in the global consensus this community is building around language and guidelines in how to measure, report, compare and improve impact performance.

As we do with our own due diligence, investors need to delve beneath the surface labels to see how impact is used and how deeply ingrained it is into an investment process. At the same time, while the standards and norms are still being established, the investment industry has a duty to be more transparent and explicit in our process, approaches, and integration of impact.

► While the survey found support for Green Tech, respondents appear disengaged from Climate Action. Why do you think this is?

GIST: Climate change is one of the most pressing issues we currently face; a global challenge that presents a systemic risk for humanity and the planet. Today, climate change is possibly one of the less understood vulnerabilities we suffer and feel almost every day. The extensive regulatory framework around climate change is a concern for some investors.

It is challenging to monitor and measure climate-related hazards or climate-induced impact and changes. Currently, investors appear to favour 'climate bonds' to mitigate investment risks. Technology, including Green Tech associated to water, energy and farming are also favourite investment areas to capitalise on fast growing and continuously innovative emerging market expansion and opportunities.

Cleary Gottlieb: Given the overwhelming evidence that immediate and substantial changes in behaviour are required to address the worst effects of climate change, one might expect the survey to show greater engagement on this issue.

The results may be partly explained by investor awareness: investors are accustomed to investing in technology projects and may therefore consider 'Green Tech' to be a more precise and accessible investment class than 'Climate Action', which is perceived as a more amorphous concept.

Similarly, whereas well-established tools and strategies exist for investing in technology projects, there remains no universally agreed set of tools for measuring the effects of investment in climate change projects.

Nevertheless, while this year's report confirms that there is room for improvement, the outlook seems positive. Climate change is now a mainstream political and societal concern. The public's understanding of the most harmful, near-term consequences of climate change is improving. There is a growing sense that an inflection point has been reached and we anticipate that future reports will demonstrate investors' increasing, direct engagement with climate change issues.

Barclays: We are likely seeing an illustration of findings from our own behavioural finance research, where we observed investors would allocate approximately four times as much to impact investments when given a specific list of causes rather than the generic concept.

Since 'Climate Action' is a very broad category, it could be difficult for investors and philanthropists to decide where to start to use their capital to address such a complex and 'wicked' problem.

By supporting Green Tech it may be easier to visualise the issues and investment opportunities; and then measure and report on the impact generated.

Investors are definitely interested in climate change, but their willingness to take action will depend on how it is framed.

GIST INITIATIVES Ltd. – Global Impact Solutions Today

GIST is a thought-leader, impact pilots pioneer and delivers advisory services. Our team collaborates as a unique vehicle and aggregator to deliver effective impact solutions where social, environmental and economic goals are inextricably linked. We define sustainability and impact as a holistic, transformational and innovative business model to provide a competitive advantage, deliver significant financial returns and mitigate future risks. GIST is the Founding Partner & Lead Sponsor of the annual Investing for Global Impact report, a leading knowledge platform to broaden understanding, identify trends and provide a unique peer-to-peer benchmark for individuals, families and foundations in the space.

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With over 325 years of history and expertise in banking, Barclays operates in over 40 countries and employs 83,500 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

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CHAPTER 3: PERFORMANCE & DETERMINING SUCCESS

A better understanding of how impact investments might perform appears to be emerging from this year's survey. The number of respondents stating that their impact investments had either met or exceeded their financial expectations hit the highest recorded by the survey at 88%.

Those respondents who felt the social returns of these same holdings had either met or exceeded expectations was the second highest in the survey's six-year history at 92% (see chart 26, page 23).

Whether this suggests greater sophistication on impact investors' behalf (allowing them to pick better opportunities) or whether return expectations have been tempered remains debatable.

Notably, while impact investors appear to be hitting their financial goals, the number of respondents recording any financial gain at all in the past three years was down from last year (91%) at 88%. This was in spite of over a quarter of respondents – the highest ever reported by the survey – receiving a return of over 10%.

Moreover, the number of respondents reporting a financial loss on their impact investments, over the same timeframe reached 13%.

Bouncing back

There remains a bullish sentiment among impact investors though, with the number of respondents expecting returns in excess of 15% in the next 12 months more than doubling from last year to 15%.

Just 7% of respondents expect losses in the same period – flat on last year – but most of these only now expect to lose between 1-2% rather than the majority predicting losses of 6-10% in 2018's survey.

This compares well with traditional investments, where expected returns in the next 12 months have fallen. The prospect of high returns – 'More than 15%' and 11-15% – both fell, while 31% of respondents are predicting 6-10% gains (down from 33% last year) and 31% are also planning for 3-5% returns (up from 25%) – see chart 25, page 22.

The optimism about monetary gains for impact investments chimes with the fact that almost a quarter (23%) believed such holdings could only be considered triumphant if they 'achieved the principal investment objective' – the highest since data began in 2015.

Interestingly, only 13% of respondents (albeit up from 11% last year) suggested they would consider their impact investment successful if it 'exceeds the targeted financial return', whereas a fifth (20%) stated an impact investment was only viewed as successful if it 'exceeds the social objective'.

In terms of priorities though, the majority of each cohort stated that they placed 'equal importance on both social impact and financial return' although a quarter of foundations and SFOs said they prioritised social impact.

Measuring up

Being able to achieve goals and set priorities relies on being able to understand how your investments might

CHART 22

How do the following rank in your perception of a successful impact investment?

Base: All active in impact investing

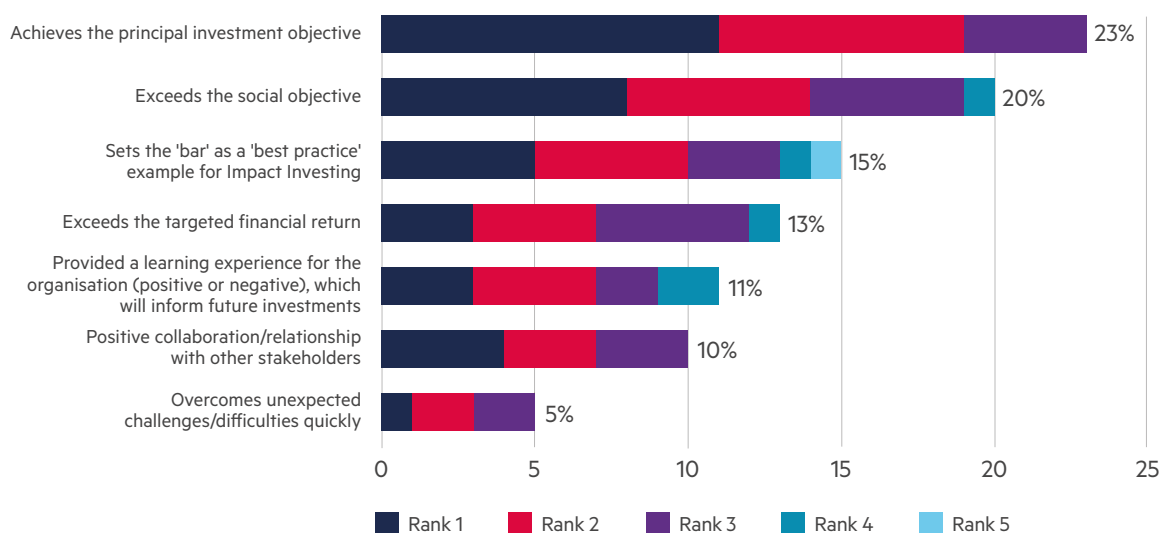


CHART 23

The average financial return on impact investments compared with expected returns

Base: All active in impact investing

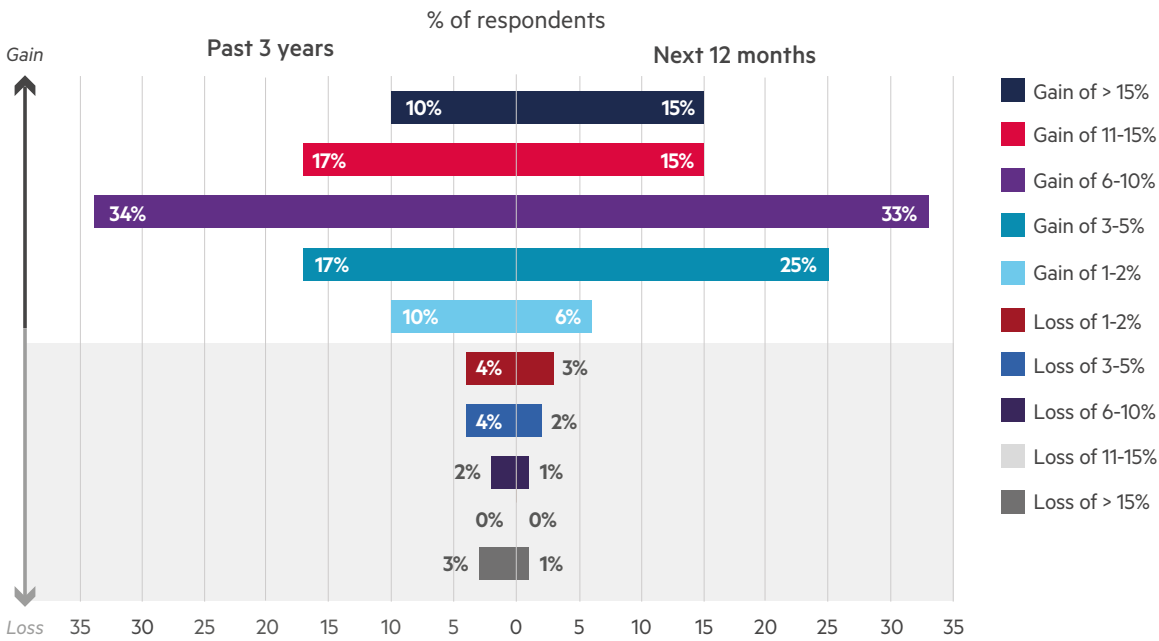
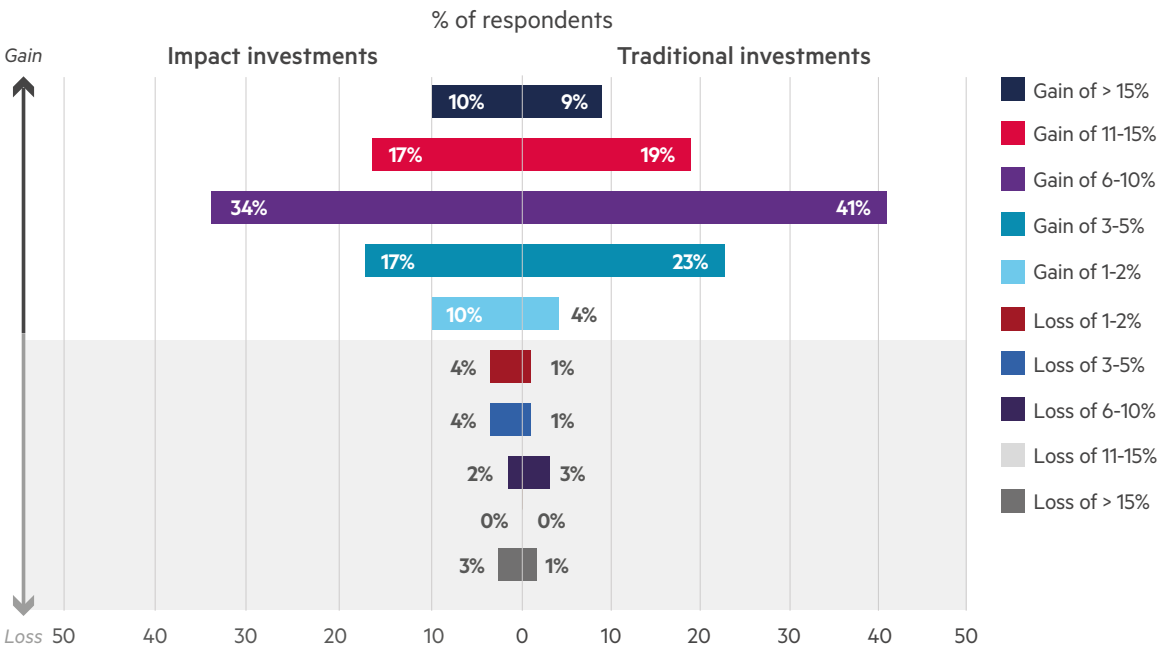


CHART 24

The average annual financial return of impact investments compared to traditional investments – over the previous 3 years

Base: All active in impact investing, then all not active in impact investing



perform. Intriguingly, respondents appear to have more accurately predicted what their impact investments might achieve in terms of social/environmental outcomes.

More than three quarters of respondents (76%) stated their impact investments had 'met expectations' (up from 68% last year). This is the first time since 2016 that more respondents stated their social returns had met expectations than financial returns had. 74% of respondents felt their financial returns had 'met their expectations' in line with their objectives, a marginal drop on last year.

This coincided with fewer respondents exceeding their social/environmental goals (15% down from 19% last year), though the number stating their impact investments' financial performance had exceeded expectations was the most in the survey's history (15%).

There potentially remains a risk, though, that social goals are being set at levels that make failure all but impossible. This notion is supported by the fact four fifths of respondents (80% up from 66% last year) stated they agreed with the statement that impact investing 'tends to be difficult to monitor and measure performance'. Furthermore, 82% of respondents now believe impact investing 'suffers from a lack of clear definition or measurement criteria' (up from 71% last year).

This pessimism is potentially concerning given that the UN's Sustainable Development Goals (SDGs) officially

came into force in January 2016 as part of the 2030 Agenda for Sustainable Development. Asked about these overarching goals – of which there are 17 across various different sectors – a rising number of respondents (32% up from 19% last year) said they were not aware of the UN's framework. And more than a third (35%) have 'not yet considered' using the goals within their investment strategy. Now just a fifth (19% down from 29% last year) have begun to align their approach with the UN SDGs while only 14% (down from a quarter last year) are 'fully compliant'. Though it must be noted that a UN SDG-aligned investment strategy is a highly complex undertaking so these survey findings may be seen as a more positive indicator when taken as 'best in class' approach.

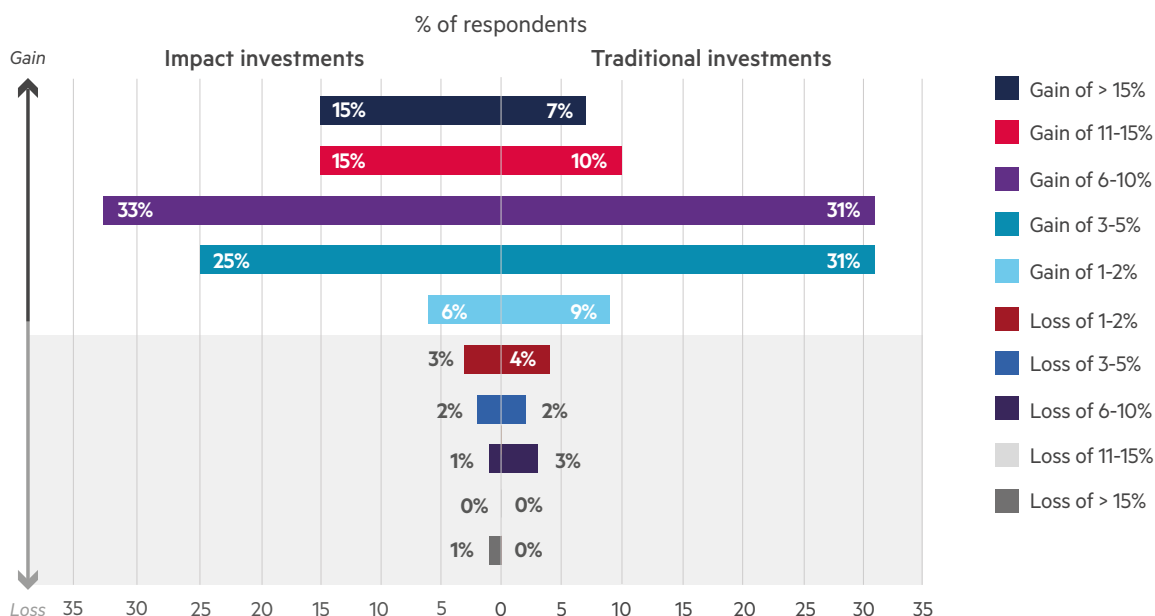
Trust and obfuscation

This is linked to a worrisome issue: trust. A total of 7% of respondents – up almost double on the 4% last year – cite mistrust/green washing as their biggest barrier to considering impact investing, while 13% stated it was the biggest factor preventing them from engaging in philanthropy. While these respondent numbers are relatively small, the so-called 'greenwashing' issue – whereby an investment's claims of 'green', eco-friendly or sustainability are exaggerated – has become a more prominent issue for investors. As an increasing number of impact funds are being launched – ostensibly targeting measurable social/environmental returns alongside financial returns – the 'greenwashing' risk is live for investors.

CHART 25

The expected financial return over the next 12 months for impact investments compared with traditional investments

Base: All active in impact investing, then all not active in impact investing



A 2019 survey by the Morgan Stanley Institute for Sustainable Investing and Bloomberg found that 75% of respondents said their firms now offered sustainable investment products, up from 65% in 2016, calling it a “strategic imperative”. With increased competition among fund houses also means would-be impact investors have even more offerings to perform due diligence on to ascertain their credentials. In the freehand section of our survey, respondents stated robust due diligence was needed to avoid falling into a greenwashed investment, while a ‘deep, personal involvement’ with the management team was also suggested.

Nonetheless, more than one in 10 respondents (12%) state that a ‘lack of universal measurement metrics for impact investment total performance’ is a major barrier for impact investing as a concept. The issue is also a challenge for philanthropy, with nearly a quarter of respondents (23%) claiming a key barrier to them entering the sector is that it is ‘hard to measure social impact’.

The debate about how best to quantify social returns from impact investments is unlikely to be solved soon (as noted in our interview with **Jed Emerson**, see chapter 4) especially given the already large amount of data the largest public companies disclose about their performance remains under scrutiny. A recent study by Invesco found that just 19% of FTSE companies were disclosing “detailed information on the strategic response they are taking to digital disruption”, while the same figure for environmental disruption was just 9%.

Ongoing challenges

Even though measurement remains a key issue for both those involved in and those considering impact investing and/or philanthropy, there are other issues at play too that the sector needs to overcome. While ‘low sophistication of social impact measurement’ was ranked by 12% of respondents as the biggest

barrier to impact investing, this was again beaten by ‘lack of high quality investment opportunities (fund or direct) with proven track record’, at 19% the most pressing issue.

Furthermore, issues such as a lack of qualified professionals and expert advice, concerns about relative underperformance against more traditional, alpha-seeking holdings, and a ‘lack of impact investments with suitable exit options’ remain real issues for respondents.

Indeed, in spite of the rising popularity of listed equity as an impact investment vehicle, respondents cited fears about liquidity as the top Rank 2 reason for not increasing exposure to impact investments. This suggests a focus on creating new structures and, crucially, a better way of understanding performance outcomes, are among the key challenges facing the impact investing community.

CHART 26

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

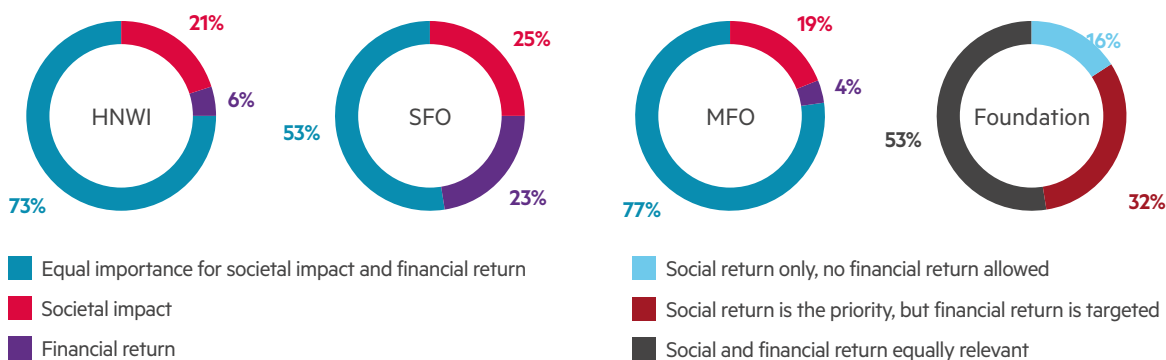
Base: All active in impact investing



CHART 27

What is your organisation's priority for its impact investments?

Base: All active in impact investing: high net worth individuals, then single-family offices, then multi-family offices then foundations



CHAPTER 4: IMPACT CASE STUDIES

An emergent theme in this year's FT Investing for Global Impact report is the higher return derived from a deep personal commitment with a 'more-than-financial' capital investment. There is a pervading sense across this year's interviews, which span different investment philosophies, approaches to impact and also geographical nuances, that for an individual to truly succeed and thrive their community must be empowered to succeed and thrive too.

For **Narayana Murthy**, co-founder of global software consultancy Infosys, this philanthropic value was embedded in youth. He shares a personal experience of injustice that instilled his life's mission as a "compassionate capitalist". Influential US philanthropist **Jim Sorenson** also fits this moniker, sharing hopes for increased public-private collaboration for efficient use of capital to solve pressing human challenges, while Norwegian **Johan H. Andresen**, fifth-generation family wealth and owner of Ferd, seeks impact within the confines of a welfare state.

With Colombian alternative investment managers **Taurus Capital**, pursuit of traditional market opportunities lead the investors – now B Corporation certified – to become accidental impact investors. They share candid lessons from the frontlines of early-stage impact investing.

Bjorn Everts, chief executive of Aboriginal organisation, Karrkad Kanjdji Trust (KKT), and one of their funders Dusseldorp Forum's **Teya Dusseldorp**, discuss a sustainable model for community action and conservation in our 'split case study'.

Jed Emerson, author and thought leader on social entrepreneurship, sounds the alarm for all practitioners from the threats of impact-washing and what he sees as the commoditisation of impact investing. We hope that this array of interviews provides a necessary jolt to the system, challenging preconceived notions and sharing new perspectives.

CASE STUDY



Narayana Murthy

Founder of Infosys,
Co-founder of Infosys
Science Foundation,
and Philanthropist

N R Narayana Murthy founded the global software consulting company Infosys in 1981 in Bangalore, India, along with six younger colleagues. Infosys became the first Indian company to list on the American Nasdaq stock exchange. He served as chief executive until 2002, after which he remained chairman until 2011. He was invited to revive the fortunes of the company in 2013 and retired in October 2014.

He serves on the boards of the Ford Foundation, United Nations Foundation and the Institute for Advanced Study in Princeton, New Jersey. Mr Murthy co-founded and remains a Trustee of the Infosys Science Foundation.

He co-chaired the World Economic Forum in Davos in 2005. His awards include the Thomas Jefferson Foundation Medal for Global Innovation by the University of Virginia Darden School of Business in

2017. In 2014 was ranked 13th among CNBC's 25 global business leaders who have made maximum impact on society during the prior 25 years.

He is a foreign member of the US National Academy of Engineering and a Fellow of the Indian National Academy of Engineering. He has been awarded the Legion d'honneur by the government of France, a CBE by the British government and the Padma Vibhushan by the government of India.

It was on a freight train bound for Istanbul that Narayana Murthy, alone and hungry after four days of unexplained incarceration in Europe, thought deeply about the ills of the communist society and how it was just a sure-to-fail economic system.

In his late 20s, Mr Murthy had been hitchhiking his way back to his hometown, Mysore, in India from Paris, where he had been working. Authorities in the Yugoslavian town of Niš (now within modern-day Serbia) had incarcerated him on charges of conspiring against the communist system in Bulgaria. They released him only when they noticed that his passport was Indian and therefore he was from a 'friendly country', meaning one that shared 1970s Eastern Europe socialist ideals.

For Murthy, who along with the rest of his generation had embraced socialism under Jawaharlal Nehru, a leader along with Mahatma Gandhi in India's struggle

for independence from Britain, and India's first post-independence prime minister, his incarceration in a socialist country would fundamentally alter his world view.

The compassionate Capitalist

"That was the last straw," he recalls. "I had a long and deep think on the train, after having been imprisoned without water for four days, and that's how I transformed myself from a confused leftist to a compassionate Capitalist."

Murthy decided there and then that socialism and communism were not the solutions for economic betterment of average citizens and that "capitalism was the only 'ism' that had any chance of tackling the poverty in India".

Capitalism encourages free markets and it encourages entrepreneurship. Entrepreneurs convert the power of ideas into jobs for young men and women and wealth for themselves. Therefore, I decided to conduct an experiment in entrepreneurship and also become an evangelist for capitalism in India," he states.

The embrace of socialism's adversary led to Mr Murthy founding one of the world's leading technology services and consulting companies, Infosys, which he headed as chief executive for 21 years. He followed this with a near-decade long stint as chairman and chief mentor till August 2011.

His near-unrivalled business career led to him being dubbed one of the 12 greatest entrepreneurs of our time by Forbes magazine and described as the 'father of the Indian IT sector' by Time.

In spite of this, Murthy has remained true to his promise to himself on that freight train all those years ago; that he would use the fruits of his success to help people.

"My dad was a teacher and I was one of eight siblings so we were a lower-middle class family but we had more than enough," he explains. "One thing my parents instilled in me was the conviction that living a luxurious life in the middle of poverty is not the best way to live and that I should focus my effort on raising the standard of living for the less fortunate ones around me."

Philanthropic leader

Just three years after Infosys listed on the Indian stock exchange in 1993, Mr Murthy and his wife oversaw the company's launch of the Infosys Foundation, whose mission was to address the basic needs of the poorest of the poor, and to support the underprivileged sections of Indian society in remote regions in the areas of education, rural development, healthcare, arts and culture, and destitute care.

The foundation's first initiative was Shalegondur Granthalaya (*a library for every school*), a program launched to help rural schools set up their own libraries. In the more than two decades it has been active, it has created 60,000 libraries across rural schools.

The Infosys Foundation continued with a swathe of other diverse projects, including several programs to improve computer literacy among students and teachers in rural areas, through to sponsoring aid work in 2004-05 in the wake of a devastating tsunami that hit the southeastern coast of India, and constructing more than 10,000 toilets across rural areas of India in 2012-13.

Mr Murthy is no longer involved in the Foundation since stepping away from Infosys in 2013, though his wife Sudha remains its chairman.

The pair now use part of their wealth – estimated to be \$2.4bn by Forbes' (£1.8bn) – to help tackle some of India's most pressing social issues, abiding by Murthy's philosophy that "you should lead as austere a life as possible and, in your own small way, try to add value to society".



Capitalism encourages free markets and it encourages entrepreneurship. Entrepreneurs convert the power of ideas into jobs for young men and women and wealth for themselves.





The former tech titan acknowledges philanthropists cannot solve the vast issues of malnutrition, homelessness, poverty and poor education alone, though they do have an important role to play. "Our philosophy has always been to look at how we can conduct a modern experiment using technology and modern ideas from more developed countries and then show that to the government so they can adopt it and roll it out on a larger scale," he says.

Scale and measurement

One of the Murthys' most prized involvements is Akshaya Patra, an initiative the couple started through the Infosys Foundation. It aims to provide nutritious, hot meals to impoverished children in government schools in various Indian states.

The scheme, whose name means 'a vessel that will never become empty', is now half funded by the government, meaning it has been massively scaled up to produce roughly 1.6m meals daily across 1,500 schools spread across 10 Indian states.

The Infosys Foundation operates with a strategic philanthropy mandate, and combined with Mr Murthy's engineering perspective that "unless you can measure it, what's the point?", the Murthys are fastidious about philanthropic impact measurement. This is something the pair has continued with their own private foundation since Mr Murthy retired from Infosys.

 **My philosophy has always been that the most important stakeholder of any corporation is society.** 

"For example, my wife and I suggested to Akshaya Patra to get nutrition specialist involved and to conduct impact studies," he recalls. "The nutritional quality of food served improved by a step function. The impact studies measured, over a few years, the correlation between Akshaya Patra's nutritious meals and children's performance in studies. They found there had been a positive impact."

"I'm a great believer in measurement, even if it is non-metric. You have to assess the impact so that you can say this initiative is much more effective than that one."

Elsewhere, the Murthys are also proactive in supporting higher education institutions in India. Recent news reports revealed plans by Murthy to develop his alma mater, the National Institute of Engineering in Mysore, into a world-class institution.

Capitalism for the many

Despite India's billionaire boom, now ranking third in the international 2018 Hurun Global Rich List², Mr Murthy says capitalism has still not been fully embraced in his country and that this is why he has always sought to be a "compassionate capitalist".

"The most important lesson I have learnt is that India is still sceptical about capitalism, particularly because of the excesses in the developed world," he observes. Capitalism is still in its infancy in India and has to be nurtured carefully. "Therefore, it is very important for the Indian Capitalists to show self-restraint in allocating benefits of entrepreneurship disproportionately to themselves.

He continues: India is a very poor country with huge problems. Our entrepreneurs have to focus on creating large numbers of jobs with decent income, reducing the ratio of compensation between the highest and lowest levels in a company and learn to lead a simple and austere life. They must shun vulgar displays of wealth

if they are to earn the goodwill of their society and if capitalism is to become acceptable to the vast majority of Indian citizens who are poor."

Mr Murthy's passionate belief is that Capitalists must support social development, even if this is within a corporate structure rather than a philanthropic venture.

"Capitalists like myself have to learn to relate to the country's poor, interact with these poor with considerable affection and concern. That is the only way the poor will overcome their fear of capitalism. That is the only way capitalism can become more attractive to the people at large in a poor country like India."

There is verisimilitude with what Murthy says and how Infosys has been perceived. Its slew of awards and accolades, from topping Asiamoney's poll on best practices in corporate governance in 2011 through to being recognised as a Top Employer in Europe by global certification company Top Employers Institute, suggests Infosys has worked hard on how it operates as a company.



Environmental responsibility

While technology companies pride themselves on being at the cutting edge of their respective field, the industry does not have a reputation for being at the vanguard of climate change efforts.

Global environmental campaign group Greenpeace said the top 17 consumer technology companies produced more than 103 million metric tonnes of greenhouse gas emissions in 2016; the same amount as the Czech Republic. Greenpeace claims this is largely due to the supply chain, details of which tech companies keep closely guarded. It is estimated between 70%-80% of the carbon footprint of a personal computer device occurs during manufacturing.



Mr Murthy, while not being drawn on the wider industry, said Infosys focused heavily on its environmental impact.

"Infosys has been a leader in reducing its carbon footprint and we have been ranked among the top eight companies in the world by Newsweek magazine in terms of sustainability because of our successful

 **Capitalists like myself have to learn to relate to the country's poor, interact with these poor with considerable affection and concern. That is the only way the poor will overcome their fear of capitalism.** 

efforts to reduce things such as our water and electricity usage,” Mr Murthy says.

“And when I was executive chairman, the board approved a plan to buy a thousand acres of land on which to put enough solar panels on to generate 250 megawatts of power. Not only that, but most buildings we built during that period had to be LEED (Leadership in Energy & Environmental Design) platinum certified because sustainability has always been very important to us and to our most important stakeholder – the society,” he adds.

**The only hope for India to redeem the pledge of its founding fathers to bring education, healthcare, nutrition and hope for a better future for the poorest child in the remotest part of the country is through the power of science, mathematics and a sense of compassion, fairness and decency.** 

This desire to constantly push the boundaries of technology, science, and their role in climate change is represented by the Infosys Science Foundation (ISF), which Mr Murthy and some of his fellow board members started in 2009 and which he remains a Trustee of, and its prestigious Infosys Prize.

The prize aims to champion scientific research in India in a bid to encourage young Indians to embrace research as their vocation. The prize of \$100,000, among the highest monetary awards in recognition of research in India, is bestowed upon six individuals across different scientific specialisms.

One of the 2018 winners, S.K. Sasheeth, a professor at the Indian Institute of Science, won the Physical Sciences prize for his research into black carbon aerosols, which are dark, light-absorbing microscopic particles in the air that have a profound impact on the climate, precipitation and human health on the Indian sub-continent.

Of the ISF and the Infosys Prize, Mr Murthy is adamant about the necessity of such support; “I believe the need

of the day is to create role models that have excelled in science and mathematics to enthuse our youngsters to take up research in those fields,” he says.

“The Infosys Science Foundation aims to enthuse our youngsters to take up research in six areas (Natural sciences, Engineering, Life sciences, Mathematics and theoretical computer science, Economics and social sciences, and Humanities). I do not know of any nation that has solved its problems without a strong cadre of scientists and mathematicians,” he says.

“Therefore, the only hope for India to redeem the pledge of its founding fathers to bring education, healthcare, nutrition and hope for a better future for the poorest child in the remotest part of the country is through the power of science, mathematics and a sense of compassion, fairness and decency.”

Philanthropic figurehead

The business wisdom of the 72-year-old remains highly revered even as Mr Murthy's only remaining formal link to Infosys is a minority stake he still holds. He continues to make headlines across major news outlets with almost any commentary he makes, regardless of whether the topic is finance, education or government policy.

Mr Murthy is certain that he has always tried to dual-track business progress alongside social impact, a philosophy shared by his Infosys co-founders, he says. For example, there was an unwritten collective agreement that Infosys had a responsibility to improve life for as many of India's citizens as possible, he states. Various Infosys cofounders have also subsequently added “important value” to society through their philanthropic activities, Mr Murthy says.

“At the end of the day, society contributes customers, it contributes employees, it contributes vendor partners, it contributes bureaucrats and elects politicians,” he muses.

“Therefore, my philosophy has always been that the most important stakeholder of any corporation is society, and that it is important for a corporation to live in harmony with society and earn its goodwill,” he says.

He acknowledges he does not know whether he would have been such a compassionate capitalist without the unjust treatment meted out to him in his youth by a communist nation but remains “grateful” to the Bulgarian guards for the unintended consequences of their actions in forging the man he was to become and the life journey he would embark upon.

1 <https://www.forbes.com/profile/nr-narayana-murthy/#33991f243e05>

2 <https://www.businesstoday.in/current/economy-politics/india-third-highest-number-billionaires-world-hurun-global-rich-list/story/271746.html>



Jim Sorenson

Founder of Sorenson
Impact Foundation

Jim Sorenson is a leading entrepreneur, businessman and philanthropist. He founded Sorenson Media in 2000 where he built a team that developed the world's leading digital compression software. This, and other ventures he ran such as Sorenson Communications, led to him being at the forefront of major societal trends involving the proliferation of multimedia use.

He transformed communication between deaf and hearing individuals with the development of groundbreaking videophone technology.

In 2003 he also co-founded Sorenson Capital, an investment firm. He is a leading real estate investor, having acquired a \$701 million (£530m) portfolio of Federal Deposit Insurance Corporation commercial real estate loans.

Besides various company board positions, such as being an advisor to Epic Ventures and former Chairman of Village Capital, he serves on the boards of a number of charities and community organisations, including UVF, Art Works for Kids and the Utah Sports Commission.

In 2013, he gifted David Eccles School of Business at the University of Utah \$13m to create the James Lee Sorenson Global Impact Investing Center, which will cultivate impact investing expertise in students.

When Liberian-born social entrepreneur Chid Liberty found his clothing manufacturing company ensconced in Liberia's Ebola crisis it was a devastating blow. Four years earlier, in 2010, Liberty & Justice was founded with the aim of helping to lift Liberian women, in particular, out of poverty by providing jobs in a land of scarce employment.

As the Ebola virus sank its teeth into the previously war-torn country, the annual \$40m worth of apparel orders Liberty & Justice had secured from two major businesses quickly disappeared and Mr Liberty needed to find a new business model.

His dogged determination to remain in Liberia and to give something back to his country of birth led to him deciding to create his own clothing brand, Uniform, sales of which would help fund the provision of school uniforms for Liberian children.

To help realise his dream, Mr Liberty began reaching out to various impact investors and while attending Opportunity Collaboration – an event aimed at bringing social entrepreneurs and impact investors together – became known to Jim Sorenson's team.

Along with the help of other impact investors, including renowned hedge fund manager and philanthropist Bill Ackman, Mr Liberty soon secured Liberty & Justice's future and secured its prized status of being Africa's first Fair Trade Certified apparel manufacturer.

In line with his personal philosophy, Jim Sorenson says: "Impact investing goes beyond just the allocation of capital. We provide coaching and mentoring ourselves but also support and build organisations that play that role too; that's a big part of the impact investing ecosystem that needs to happen."

Accidental impact pioneer

Part of an entrepreneurial family, Sorenson built up the disruptive technology company Sorenson Communications in the late 1990s. But just a day after receiving a term sheet for a much-needed investment from a venture capital firm, the dot-com bubble dramatically burst.

The investment listing was scrapped and Sorenson retrenched, carefully considering his next move. He quickly decided to re-engineer the product and market focus he had been developing to enhance communication for the deaf and hard of hearing upon the urging of a family member he had employed who was deaf.

This company became Utah's largest leveraged buy-outs of its time when it was sold (for an undisclosed amount that Forbes notes to be a "9-figure sum"). But its success wasn't only financial. A happy coincidence became evident that the business had increased employment opportunities for the hearing impaired




**The biggest changes
can happen when you
have collaboration
and coordination.**



population by roughly four-fold. It was a revelation that inspired Mr Sorenson to source other ways of making positive social impacts in underserved populations with sustainable and scalable business models that can generate profits.

"It wasn't a deliberate ambition of mine to be a pioneer in the space – it's simply what drives my passion and I kind of go where it takes me," he states, modestly for a man whose name has become synonymous with American philanthropy and impact investing.

"If I'm looked to as a leader, as a pioneer, or one that is kind of ahead in this space, I'm flattered with that and I'm always open to helping others to help expand the field," he adds.

 **It's this type of collaboration – between the non-profit community, with philanthropists, with service providers and with investors – that can really unlock a great deal of innovation and power in transforming a problem.** 

Burgeoning sector

Mr Sorenson agrees that high-net-worth individuals, family offices and foundations are leading the way in developing the impact investing sector. He explains: "I think more and more, it's the millennials, the next generation, that care about these types of decisions in their investments, and I think large institutions have come to the realisation that there's going to be a massive wealth transfer to these generations and so they see the writing on the wall and are making a business decision to provide for this demand."

Sorenson says some "lofty ambitions" for impact investing have not come to fruition but that growth and acceptance as a valid capital allocation approach is undoubtedly evident.

"I'm pleased with the progress that's being made," he says. "We see more and more intermediaries in the space and we are also witnessing large institutions developing products and platforms, making acquisitions and certainly moving in this direction."

Some in the field passionately argue that 'rubber stamping' impact onto an investment that is largely the same as a conventional one does a disservice to the impact investing movement. Sorenson, however, believes this is simply part of the impact "spectrum".

He explains: "They really have been on the side lines, they're a little sceptical, they are looking at more return oriented, traditional type products. If they happen to be enticed to an impact investment, it's more of an experiment." He says changes to legislation have done a lot to move impact investing "into the consciousness of more traditionally oriented investors".

Breaking the political divide

Mr Sorenson has been instrumental in petitioning for and helping to craft a range of far-reaching laws that embed impact investing principles, bringing into closer partnership public, private and not-for-profit actors.

Talking about the Tax Cuts and Jobs Act 2017 instigated by President Donald Trump, which established Opportunity Zones under the Investing in Opportunity Act, Mr Sorenson says "What's really amazing about this legislation is that it was bipartisan, passed in an era of unparalleled partisanship".

Opportunity Zones represent a new community investment tool aimed at encouraging long-term investment into low-income communities nationwide that have failed to recover economically following the global financial crisis of 2008. Investors in these zones can defer capital gains tax on investment dollars they transfer into Opportunity Funds and those who invest for 10 years benefit from tax-free gains. There are other tax-break incentives for shorter-term investments¹.

 **I think the BUILD Act will have global impact and advance the cause of impact investing around the world.** 



"So it's a pretty powerful incentive," Mr Sorenson chimes, "especially when you consider there's over \$6 trillion of unrealised capital gains in the US stock market alone. It's gotten the attention of many investors, funds and the whole field of impact investors in philanthropy."

The bipartisan element is an important one that should not be overlooked, he insists. "The biggest

changes can happen when you have collaboration and coordination. This scheme is on a national scale and it is causing state and local governments to look at these areas, come up with their own plans, gather their stakeholders, put together their estimate thesis or prospectus and market them to investors,” he says, continuing: “And it’s this type of collaboration – between the non-profit community, with philanthropists, with service providers and with investors – that can really unlock a great deal of innovation and power in transforming a problem.”

A further legislative move that Mr Sorenson predicts will “be a great development that will have global impact and advance the cause of impact investing around the world” is the Better Utilization of Investments Leading to Development – or ‘BUILD’ – Act.

This legislation beefed up the financial might of the Overseas Private Investment Corporation (OPIC), a self-sustaining government agency that lends money to American businesses in foreign countries. The BUILD Act will see more money funneled to OPIC but beyond that, it will enable the entity to engage in equity investment for the first time, not just loans as has been the case to date.

 **I am a champion for [Pay for Success] because it really does focus on an outcome as opposed to something that may be putting a Band-Aid on a problem.** 

“I hope the Build Act will help to catalyse, and in some cases leverage in, capital that might not have been there otherwise. And I hope there is a collaboration with other governments and sovereign wealth funds that have been active in this space for many years, as well as with foundations like mine,” Mr Sorenson says.

Human-centred Venture Capital

While the application of impact investing on a national level has been evolving, Mr Sorenson has also been instrumental in shaking up the structure of his own foundation too. He says he has been rebalancing the investments within the foundation, with now roughly half its assets exposed to enterprises that are proven to generate a return and so provide income for the organisation to maintain its work.

These holdings counterweight program-related investments, those where the prime reason for the investment is to produce a social good while any potential financial return is a secondary objective.

One of his most successful impact investments is in Indian-based fund Elevar Equity, which engages in what it describes as “human-centred venture capital”; essentially backing entrepreneurial start-ups whose products and services are aimed at customers in previously unreachable markets and which additionally provide much-needed employment opportunities.

Elevar Equity has completed its fourth fundraising and thus has a track record of reliable returns for impact investors such as Mr Sorenson. This type of holding balances out the social impact-led investments like Chid Liberty’s aforementioned Liberian business Liberty & Justice, which was facing a challenging future when Mr Sorenson’s foundation first invested.

The company now sells apparel in some of America’s largest retailers – including Bloomingdale’s – but Sorenson’s initial investment was impact-led, believing in Liberty’s vision of selling Liberian-made apparel into the US market principally to help fund free school uniforms for children in the African country.

Categorisation conundrum

Mr Sorenson says the broad remit of his foundation – which supports entities that help small businesses in India, smallhold farmers in Kenya, makers of educational tools in Africa and one which provides access to financial services in Indonesia – is fairly representative of the UN’s 17 Sustainable Development Goals (SDGs).

But he states while the framework is helpful for impact investors, he doesn’t use it as a rigid template with which to make investment decisions.

“The reason for this is that you can’t always categorise these investments,” he says.

“We invested in a business started by two very bright social entrepreneurs who focused on the stigma that women face around feminine hygiene in the developing world. This stigma will lead to roughly 17% of lost school days where young girls just hibernate during their period for fear of being shamed if they go to school.

“These entrepreneurs have developed a model that is scalable and self-sustaining, to distribute hygiene products, which most of these girls cannot afford otherwise, and also to educate these young girls,” he says.

“So to directly align that with an SDG is hard. Is it education? Is it health?” he questions.

Nonetheless, Mr Sorenson believes the UN SDGs can be helpful in assisting impact investors with setting out their strategy and value proposition, and understanding what needs to be achieved to attain a certain outcome. This is especially the case for a theme as sprawling as climate change, something Mr Sorenson believes impact investing can have a measurable effect on.

He is an advocate of measurement in impact investment and although not directly involved in efforts to establish a global framework, appreciates the potential merits of one, provided it is rigorous yet has real-world relevance.

 **I really want to see a day when impact investing, or the impact behind investments, are central to investment decisions.** 

“Reporting and measurement are really important in impact investing,” he states. “I think it is clearly an area that is evolving and that we need to figure out, because as an investor, as an impact business, I want to know the impact, what the measurements or metrics are of a successful impact, right alongside the financial return.”

The power of collaboration

Evidence of this view comes in the form of his involvement with and investment in a Pay for Success scheme in the US, something akin to Social Impact Bonds in the UK.

“I love the construct because it really does focus on an outcome as opposed to something that may be putting a Band-Aid on a problem,” he says.

“It’s really informed by data and yet aligns money to be much more effective in solving social problems.”

Sorenson says the Social Impact Partnership to Pay for Results Act (SIPRA), means the federal government is now leveraging the expertise of social entrepreneurs to ensure government-funded programmes, such as areas of social welfare, are more efficient and outcome-orientated.

The model is for private investors to get involved and that successful schemes lead to returns for the investors. Mr Sorenson is chairman on one such scheme linked to early childhood education and says it has provided returns for investors as well as acting as a model for how best to achieve results in the classroom. He adds that the state of Utah has now designated more money towards early education for at-risk populations because of the scheme’s success.

However, Mr Sorenson admits there has been push-back from service providers, who he says “are usually non-profits that are not used to the rigor and really being held accountable to data”, needing to adjust to an outcome-based model of measurement rather than an activity-based model.

Inspired by Sir Ronald Cohen and Big Society Capital, Mr Sorenson says he has not yet seen in the US the criticisms that have been leveled at Social Impact Bonds in the UK. These range from increased transaction costs to qualitatively changing service delivery by excluding from contracts service users too chronic or complex to treat, or where quantitative ‘results’ are difficult to quantify (such as in mental health delivery).

In terms of next-generation impact investing, Mr Sorenson has created the Sorenson Impact Center at his alma mater, the University of Utah with a \$13 million philanthropic donation. Describing itself as a “think-and-do tank” that combines data, policy and finance for good, the Center aims to provide students with real-world experience and interaction with industry leaders in the impact investing space.

“I really want to see a day when impact investing, or the impact behind investments, are central to investment decisions,” he states.

“It may not be that every investment is an impact investment, but it plays a role in the decision-making and in how products are put together. This is because I believe that business can really help solve problems in a much more scalable way to improve the lives of the poor,” he says.

 **You can’t always directly align these [social impact] investments with an SDG.** 

1 <https://eig.org/wp-content/uploads/2018/02/Opportunity-Zones-Fact-Sheet.pdf>



Teya Dusseldorp

Executive Director of
Dusseldorp Forum

As a third generation member of the family-foundation, Teya Dusseldorp is Executive Director of Dusseldorp Forum, a philanthropic foundation focused on improving the educational and life opportunities of children and young people throughout Australia.

She has previously worked as a human rights lawyer with the Australian Human Rights Commission, as an advisor to the Federal Race Discrimination Commissioner and with the National Inquiry into the Stolen Generations. As an independent filmmaker, she has also produced a number of documentaries.

She has degrees in Arts and Law from the University of Sydney and a Masters of Arts from the University of Technology, Sydney. In 2013, she was appointed Honorary Associate of the Faculty of Education and Social Work at the University of Sydney.



The traditional siloed approach of government... is a key blockage to the kinds of responses we need to these complex challenges.



It was the wisdom of Aboriginal elders that acted as the catalyst for Teya Dusseldorp to embark on a strategy overhaul of her philanthropic organisation.

Dusseldorp Forum, founded by Teya's grandfather and renowned businessman Dick Dusseldorp, had been a leading light in improving the educational opportunities for young Australians, helping to influence government policy reform through its hands-on work and the reams of research it commissions.

Yet when asked by Aboriginal elders what her organisation was doing for children outside education or those in prison, she realised the scope to do more. "We realised that we were not taking as holistic a view

as we needed if we were genuinely going to lift the life chances of young people in Australia," she says. "That challenge from the Aboriginal elders was one of the main catalysts for some deep reflections on our part."

Elder Wisdom

Ms Dusseldorp realised that no matter how good the schooling provided to underprivileged young people was, unless support was also given to their families, health issues dealt with and communities empowered to improve their lot, it would prove extremely hard for young people to realise their academic potential.

This led Ms Dusseldorp and her team to design a strategy that focused on a small number of 'lighthouse partnerships', collaborations that demonstrated this new, holistic, whole-of-community way of working that it takes for young people to thrive.

When the organisation was invited to partner with the indigenous people in West Arnhem Land through Karrkad Kanjdji Trust (KKT), Ms Dusseldorp says that what stood out for her was the "really strong leadership and vision for the future that was really being led by the people of that place".

"So it was again that indigenous wisdom really impressed us and that we wanted to work with," she recalls. "Their vision takes a very holistic view and it does not see the parts of a person's life as separate atoms, by which I mean the environmental outcomes are intimately linked with the social outcomes, or with the education of young people and children, or with a vibrant cultural life," she explains.

Breaking down barriers

Although Ms Dusseldorp now espouses this holistic approach, she realised Australia's welfare state was nowhere near embracing such methods and that this would be a key challenge to tackle.



"The traditional siloed approach of government, a bit like how we [Dusseldorp Forum] were operating, where each department – such as education, health, social service and justice – are separately funded and governed, is a key blockage to the kinds of responses we need to these complex challenges," she states.



KKT weren't thinking of short-term, three-year cycles, or in political cycles. They were thinking and planning in terms of hundreds of years.



“That’s something that is quite hard for the government to change and so what we’re trying to do is model, through our demonstration sites [whereby Dusseldorp Forum supports initiatives that enable new approaches to community funding] how a new funding approach can work and what can be achieved in terms of cost/benefit analysis when you hand power to communities and let them decide how resources should be mobilised.”

 **It’s really about looking at what role you can play, how you’re best placed to do that and finding what you’re passionate about.** 

Self-reflection defines Dusseldorp Forum, with Ms Dusseldorp herself constantly ensuring research is commissioned and data harvested to provide rigorous evidence that its partners’ work is delivering the desired outcomes, and can then attract government funding as a way of ensuring its long-term sustainability once she and her organisation are no longer involved.

For example, The Maranguka Justice Reinvestment Project¹, which provides coordinated support to Aboriginal families and children in the remote town of Bourke (800km north-west of Sydney), recently secured AUS\$1.8 million (£1.4m) of government funding, a milestone which paves the way for Dusseldorp to consider disengaging in time.

Dusseldorp Forum prides itself on being a pioneer in terms of measuring the impact of philanthropy after it, alongside other like-minded philanthropic entities, helped start the Australian Philanthropy Benchmark (APB).

APB enables Dusseldorp Forum and its peers to constantly assess themselves against their previous work and one another. Crucially, it also allows partner organisations to provide anonymous feedback about what their philanthropic supporter could do better and this has helped Dusseldorp constantly improve her organisation.

Shifting into impact investing

Ms Dusseldorp describes her work as “active philanthropy”, the ‘roll up the sleeves’ type of

mentality instilled from the very start by her grandfather. The organisation has an investment portfolio (AUS\$58 million in 2018) that funds the grants it makes to its partners.

She says the portfolio is invested in a traditional manner with some impact investments, such as in energy efficient property schemes and social impact bonds, but she is considering change here too.

“We are looking closely in terms of how to align our investment strategy with our operational and core purpose strategy,” she explains. “Our board has signed up to the idea [of becoming an impact investor] and now we are really looking actively for what those opportunities are.”

Ms Dusseldorp says she is seeing growth in the impact investing industry in Australia but most of the sector concentrates on environmental outcomes rather than social ones. The government is trialing social impact bonds but Ms Dusseldorp believes “innovative financial modeling” is needed to help secure that blend of long-term financial and social return.

Elaborating on this point, Ms Dusseldorp says she feels it is “no longer good enough to have your financial investments and your social purpose work separate”.

“This does challenge me to think ‘is it possible that our investments are actually contributing to the problems and challenges that then our philanthropy is trying to address’, and it’s extremely difficult to disentangle all of that,” she states.

“But we are very much committed to working on that as it is something I think is a key challenge that we’re facing and I’m sure we’re not unique.”

 **It is no longer good enough to have your financial investments and your social purpose work separate. It’s extremely difficult to disentangle all of that, but we are very much committed to doing so.** 

¹ <http://www.justreinvest.org.au/justice-reinvestment-in-bourke/>



Bjorn Everts

Chief Executive of Karrkad Kanjdji Trust (KKT)

Bjorn Everts worked with a range of not-for-profit organisations and then the UN for six years before joining KKT. His work for the UN mainly involved working in sub-Saharan Africa, focussing on the role of technology in education in communities stricken by conflict and poverty. This included a key role in the One Laptop Per Child initiative.

He holds a Masters degree in Sustainable Development from the University of London, a Bachelors degree in Psychology and is a trained teacher. He plans to embark on a Masters of Business Administration at Sydney University.

This is really a true example of indigenous people coming up with the ideas and doing the work. We can't really claim credit for it.

Tackling climate change is one of modern science's major preoccupations but it was actually centuries old indigenous knowledge that helped create one of Australia's pioneering environmental programmes.

The initiative blended indigenous communities' traditional wild fire management methods with non-indigenous scientists' modern technology and proved a powerful combination.

This national success story was led by the three organisations that Karrkad Kanjdji Trust (KKT) subsequently began supporting; Warddeken Land Management, Djelk Bawinga Rangers and Mimal Land Management Aboriginal Corporation. So it is of little surprise that the organisation's approach puts indigenous wisdom at the forefront of its conservation work.

Just since 2006, more than 200 million tonnes of carbon has been abated in West Arnhem land alone,

a vast wilderness that occupies the northeast corner of Australia's Northern Territory.

Beyond benefiting the environment, the sale of these carbon credits provides a lucrative source of funding that can equate to more than AUS\$1 million (£549,000) annual income for a single indigenous ranger group. Not only that, but a study commissioned by the Australian Government found that every dollar spent on this work generates approximately \$3.40 of social, economic, cultural and environmental value for stakeholders.

Beyond collaboration

Bjorn Everts, chief executive of KKT attributes all of the organisation's successes since launching in 2010 to it listening to indigenous partner organisations and supporting the projects they want to pursue.

"I don't think you can have a serious conversation about conservation without including indigenous people and sadly that hasn't happened in the past very much," he says.

"What's so great about our work here is that the indigenous people have done it all themselves – we've just supported it. This is really a true example of indigenous people coming up with the ideas and doing the work. We can't really claim credit for it."

KKT's operating model involves attracting philanthropic funds, such as that from key partner the Dusseldorp Forum, as start-up capital for projects suggested by its partner organisations. The goal then is to develop these projects by handing over management to the indigenous community and securing sustainable funding – either from philanthropic sources again, carbon credits or government grants - to enable their long-term viability.

AUS\$1 million (£549,000) annual income is generated from carbon credits per single indigenous ranger group.

Mr Everts says KKT is essentially a conservation organisation but its holistic approach to protecting the environment means some of its work, such as education, employment and community sustainability and the empowerment of female rangers, might not instantly appear directly connected to tackling climate change or species conservation.

A holistic approach

An example of this is KKT's work in child education. One of Mr Everts' first projects was securing funding for a school in one of the remote communities supported by Warddeken, which was recently awarded a prestigious Banksia Sustainability Award for its work to further the UN Sustainability Development Goals.

Mr Everts describes the school project as a "classic example of holistic conservation" because the presence of such an institution in this community meant rangers and their families no longer had to abandon their homeland and move away to secure education.

"By solving a problem like that, we've essentially helped 19 rangers stay in jobs and helped the sustainability of the entire community," Mr Everts explains. "That's key to conservation outcomes in that region. The idea of empty country is, in the Australian context, actually a great threat to conservation."

"It's a landscape that has been actively managed for tens of thousands of years and when you take people out of it, drastic changes occur to the landscape from wildfires, feral animals and weed infestations."

This indigenous and non-indigenous partnership is what makes KKT "really stand out", according to Mr Everts, adding that he "absolutely believes" the model KKT employs could be replicated elsewhere – "And I believe it should be," he adds. "Humanity is responsible for the 60% of animal populations lost across the world since the 1970s and, if you add in climate change to the mix, the threat is even more serious."



Humanity is responsible for the 60% of animal populations lost across the world since the 1970s and, if you add in climate change to the mix, the threat is even more serious.



KKT is currently embarking on what Everts describes as "likely the most ambitious species recovery project on indigenous land in Australia", which again twins traditional knowledge with cutting-edge science to monitor 120 sites in a 14,000 square kilometer territory.

Mr Everts explains that this collaboration is extremely important as recent mapping work being undertaken globally shows that the world's remaining pieces of pristine wilderness happen to be exactly where indigenous people own the land. "So saving the last of this majestic wilderness that we've got on this planet is interlinked with the futures and aspirations of indigenous people," he concludes.



At times [the Dusseldorf Forum] team feels like an extension of ours because that's how much they understand and care about the work we do.



Sustaining sustainability

Given the importance of KKT's work to environmental and social sustainability, Mr Everts is also working to ensure his organisation remains able to help indigenous communities for decades to come.

KKT was initially founded with the purpose of raising money for an endowment – hence the word 'Trust' in the name – but when Mr Everts joined, he said he soon learned a change of tack was needed.

"The Australian philanthropic community was not ready to hand over their hard-earned money to a new organisation whose name they could barely pronounce and which didn't have a successful track record of delivering high quality projects," he states.

"So we realised we needed to build the Trust around tangible projects with clear and transparent budgets that people invest in and have faith in before we could even have a conversation about an endowment."

Mr Everts said the organisation has now "gained credibility" and that the notion of building an endowment is being considered again.

Donations from The Nature Conservancy and the Pew Charitable Trust mean the organisation has AUS\$700,000 in an endowment but Mr Everts hopes one day KKT will have raised AUS\$30m.

"That is a very long-term goal but we're in the process of building an organisation that has the capability to raise that kind of money."

Benefit To Each Other

It is critical to hone your strategy so that when you are assessing a potential opportunity, you can discuss it clearly and methodically.



Teya Dusseldorp

“Working with KKT has been beneficial in terms of reinforcing some of our views and helping us develop as an organisation. When we first met them and the partner organisations in West Arnhem Land, their vision was extremely sophisticated and their plan had sustainability built into it, which is a really important part of what we are aiming to achieve for our organisation.

Also, the fact they genuinely worked with the long-term in mind. They weren’t thinking of short-term, three-year cycles, or in political cycles. They were thinking and planning in terms of hundreds of years and the governance was really about representing each different element of the community and seeing it as a connected whole. I think we have learned a lot from that.

They are also extremely committed to collaboration and partnership in a deep and genuine way, which aligns with the genesis of our organisation. My grandfather lived in Holland during the Second World War and he saw what happens when the social fabric completely breaks down. I think that engendered a deep commitment to nurturing and supporting society and connectedness was extremely important to him.”



My advice would be to surround yourself with exceptional people from all walks of life so your organisation engenders a diversity of viewpoints.



Bjorn Everts

“Dusseldorp Forum has been an extraordinary supporter and there is no one quite like them to be honest. They executed some very clever long-term due diligence when they first became involved with us, starting with a small financial investment and then really getting to know us as people, the context of our work and how they could best position themselves to have the greatest impact.

Through that process they really became partners and engaged in relationship-focused philanthropy. At times their team feels like an extension of ours because that’s how much they understand and care about the work we do.

One of the standout ways they have supported us, without direct financial contribution, is through their brilliant leadership and professional development programme that they created called the Festival of Change. This has been an absolutely extraordinary and at times transformative experience where we find ourselves immersed in a network of dynamic not-for-profit organisations from across Australia that are at the cutting edge of education and community development and systems change. That has been a huge boon to our work.”

Advice

“My advice to others considering philanthropic activity would be to get involved however you can. Whether you play a big or small role, it’s just a really rewarding and exciting thing to be a part of. Some people comment that our foundation is complex because of its level of engagement and that they wouldn’t have the capacity to replicate it, but I don’t want to paint that kind of picture.

All kinds of roles are needed and whether that means you just engage with your time, that’s really valuable. It’s really about looking at what role you can play, how you’re best placed to do that and finding what you’re passionate about. I think when your heart is engaged as well as your head, the outcomes will probably be better.”

“My advice would be to surround yourself with exceptional people from all walks of life so your organisation engenders a diversity of viewpoints. I don’t think one person should tackle this work alone; it’s too important and requires perspectives and skillsets from across society.

One of the most transformational experiences for me as a chief executive and this organisation has been the mental shifts that have occurred between myself and local land managers, thanks to the indigenous elders and our amazing directors who have put so much into this organisation and so much into me.

Most of the time I’m little more than a conduit or catalyst for their experience and their skills and this has enabled us to do great work and to elevate our work by attracting these amazing people.”

Key Challenges

“The hardest thing I feel is that there is so much need and so many extraordinary people and organisations making a difference but you cannot support them all.

I find deciding which potential partners to invest in the biggest challenge because it’s really hard to say ‘no’ to people. It is therefore critical to hone your strategy so that when you are assessing a potential opportunity, you can discuss it clearly and methodically with your board and other advisers. Otherwise it would be quite daunting given the amount of things you could be investing in.”

“Our biggest challenge is that charitable giving to the environment in Australia makes up less than 1% of total charitable giving. We’re really impacted by this because we find it far more challenging to raise money for species conservation work than we do for our educational and cultural heritage work.

We’re lucky because our work is at the intersection of many areas that philanthropy cares about, such as education, the arts and cultural heritage management. But we’d love to see more interest in the environment itself.

There are some fantastic organisations in Australia, such as the Australian Environmental Grant Makers Network, that help to raise the profile and the effectiveness of environmental giving in Australia. They are trying to steer not only more philanthropic funding but more coordinated funding into this sector to help create a bigger impact in conservation. We share this space with them and other exceptional conservation organisations in helping to raise the profile of our cause and this collaboration is important.”



Johan H. Andresen
Owner and Chair of Ferd

Johan H. Andresen is the owner of Ferd and became Chair in October 2012 after 14 years as its chief executive. As part of his role, he is also Chair of Ferd Social Entrepreneurs and a board member of Ferd's portfolio company Brav.

Outside the company, he is a board member of Skandinaviska Enskilda Banken (SEB), the NMI-Nordic Microfinance Initiative, and JA Europe.

In 2015, he was appointed as chair of the Council of Ethics for the Norwegian Government Pension Fund Global, known as the Oil Fund.

His other professional commitments include being a member of the Confederation of Norwegian Enterprises's Advisory Board for Family-Owned Enterprises and Active Ownership.

He holds an MBA from the Rotterdam School of Management and a BA from Dartmouth College, USA.

Ferd is an intriguing family-linked entity. A self-styled 'investment business' that solely invests the wealth of its founder Johan H. Andresen and his two daughters, Ferd not only advocates longer-term funding and direct family involvement in its impact investing mandates, but also focuses on generating domestic social impact within the bureaucratic machinery of Norway's welfare system.

A fifth-generation heir to one of Scandinavia's oldest tobacco firms, Tiedemanns, as its chief executive Mr Andresen was instrumental in divesting from the legacy businesses in 1998 and converting the wealth generated into Ferd the investment company.

Ferd deploys its portfolio of NOK 31bn (£2.9bn) capital across a range of different mandates, from investing in listed businesses through to funding and engaging with start-up social entrepreneurs.

Ferd Social Entrepreneurs (FSE)

As with many impact investors, a family legacy of entrepreneurial spirit drives the identification of innovative business opportunities. Where there is a market failing or inefficiency, there is a chance to take advantage.

To Ferd, a social entrepreneur is a person who consciously tackles a demanding social problem and finds a new solution to it. Business-orientated social entrepreneurs create a model where they get paid for the value they create through the sale of products and services rather than relying on grants and donations.

Inspired by the stories of social entrepreneurs he had met at the World Economic Forum in Davos, many of whom set about resolving issues with public services in their respective homes, places like Delhi, Nairobi or rural Brazil, Mr Andresen pondered how this might be applied to his home nation.

"They were more destitute places where the need for innovation was obvious but once we started looking at the shortcomings of our own welfare state, it turned out innovations were needed here too," Mr Andresen says.

Much like the UK, Norway's welfare state is cumbersome, inept at instituting rapid change due to the vast bureaucracy that surrounds it. It also struggles to fulfill its lofty ideals, some argue. Research identified what Mr Andresen describes as a "staggering statistic" linked to Norway's education system; notably that the dropout rate of male students at secondary schools is as high as one third.

While some may flourish outside the confines of formal education, many, Ferd found, either became involved in crime or drugs, or suffered from mental health problems. Upon delving into the welfare state's issues, Ferd found a whole host of innovative companies, each trying to develop much-needed products and services that would be beneficial to this cohort of citizen, but which struggled to 'speak the language' of government commissioners and therefore missed out on potential funding for opportunities for applying or scaling those solutions.



These enterprises ranged from those providing support for youths who had dropped out of school or were at risk of doing so, to providing training and employment opportunities for people with Asperger's Syndrome. "Many of them didn't even think of themselves as social entrepreneurs and they were really struggling under the radar and living month to month," Mr Andresen notes.

This highlighted another home-grown challenge; that many of its family offices or foundations would only provide endowment-based grant-funding for one year terms.

"These organisations were struggling because even if they were being given funding, it was usually not enough for them to fulfill their goals funds were pledged for just one year," Mr Andresen says. "We provided three-year contracts, which gave these organisations predictability and allowed them to focus more on developing their services rather than worrying about how to keep the lights on next month."

Mr Andresen says while his approach is uncommon in Norway, it is emulated more frequently in neighbouring Sweden and Denmark, where families directly run the foundations and become personally involved in the companies they support.

“With this approach we see a much longer-term view when it comes to funding but in Norway there is still a missing link between the funding and the engagement,” Mr Andresen says, admitting he has so far been unsuccessful in convincing other family offices and foundations to commit to funding more than one year at a time. “People in the impact investing field generally either give money, invest or engage their employees, but do not combine these resources.”

**I think we have found a model that actually increases the probability of making an impact both on the people on the ground that we’re trying to reach, but also that has an impact on us.** 

Funding and action

Ferd has provided grants of NOK 90m (£8m) in 23 companies within its Social Entrepreneurs (FSE) mandate, targeting opportunities that support Norwegians who, for whatever reason, find themselves shut out of ‘the system’. “We’re trying to include people, no matter what situation they’re in, but get them back to where they were or to unleash the potential that they have,” Mr Andresen says.

Investment examples includes Medarbeiderne, which finds employment for people with prior drug problems; and Atlas Kompetanse, which provides home-counselling sessions for the children of minority families to help them better integrate with and understand the Norwegian education system.

In 2016, FSE made its first equity investment and has subsequently made five more, including one into an investment fund, totaling investment of NOK 35m (£3m). Its current portfolio of 12 companies is split equally between those receiving grants and loans, and those receiving equity funding. Since 2009, FSE has also provided ‘non-financial support’ such as strategic advice, due diligence and business valuations, which it values at around NOK 60m (£5m).

In 2017, social entrepreneurs in the Ferd portfolio reached just over 724,000 people with their innovative solutions – a significant number given the country’s

5.2m population in 2017. Ferd distinguishes between a life-changing influence and a life-enhancing influence; those social entrepreneurs targeting large numbers of people are more likely to offer preventative activities while those that work with fewer individuals are likely to be able to have a more meaningful impact.

In 2017, the companies in its portfolio had life-changing impacts on more than 22,000 people and life-enhancing effects on more than 700,000. That same year (the latest data available), FSE-supported companies generated NOK 255m (£22.8m) operating income (excluding Ferd’s investment).

The power of the direct engagement is not to be underestimated, Mr Andresen explains. While funding is undoubtedly crucial, with Ferd’s help the entrepreneurial organisations it supports have a greater chance of developing into fully-fledged entities.

“If they are dealing with a large, bureaucratic customer – as is the case with public procurement – we can put our whole company behind the organisation and put our name and face on it to help it get through the door,” Mr Andresen says.

Nordic Micro Financing Initiative

Gaining access to government departments has a greater chance of success with a large organisation supporting a smaller one – and particularly so with Ferd, given Andresen’s pivotal role in setting up the public/private Nordic Micro Financing Initiative.

Ferd was one of five private companies to contribute 50% of the initiative’s capital – NOK 600m (£53.6M) at the time of launch in 2008 – after directly lobbying the government to provide the rest. Mr Andresen describes the success of the initiative – now in its fourth funding round – as a ‘notch’ in his investment belt.

The NMI-Nordic Micro Financing Initiative focuses on some of the poorest regions in Africa and Asia and prides itself on investing in smaller financial services businesses than the broader microfinance industry might target. In 2017, six of the nine organisations NMF invests in reached 700,000 more borrowers and 260,000 more depositors compared to 2016. (Total borrowers in 2017 exceeded 5.63m and 2.43m depositors).

The latest fundraising round focused on investing in medium-sized financial institutions in East Africa as well as South and South East Asia. Roughly 95% of the funding recipients will be women, something Mr Andresen says helps improve female financial inclusion. He says several of the financial organisations the NMF has set up now have banking licenses and many have diversified into other banking streams, such as deposits and insurance.

Listed company investment

This type of activity could be considered at the niche end of the investment spectrum. But Ferd also differs from its more traditional family office rivals by engaging in listed investments.

Besides its External Managers mandates, which have a global remit, Ferd's direct investments – much as the Social Entrepreneur mandate – focus on Norwegian companies.

The main reason for this, Mr Andresen says, is that Ferd sits on the board of the companies it invests in and seeks to regularly meet management, unions and local politicians to ensure the companies it owns shares in are having a positive social or environmental impact.

This makes it easier to be what some might describe as an 'activist' investor, something Mr Andresen is developing.

"Before we invest we make certain that the company understands our vision and values, and what we expect from the board in terms of having compliant operations – or even going beyond that to have responsible operations," he says.

"We are on a journey when it comes to demanding higher ESG standards from companies. We are good at governance and reasonable on the social aspect, but there is work to do there and more so on the environmental part."

Ensuring good governance is key for Mr Andresen, especially given Ferd's transparent ethos. One of Ferd's holdings, in which it is the second largest shareholder, develops solar power plants in countries such as Mali, Egypt and the Ukraine.

"We have expectations of this company to work in a way that does not expose us to corruption," Mr Andresen says.

Embedding UN SDGs

More recently, the geographic horizon of Ferd's listed investments has begun to expand, a move that coincides with a push to align itself more directly with three of the UN's Sustainable Development Goals – namely Affordable and Clean Energy (7), Sustainable Cities and Communities (11) and Life Below Water (14).

Mr Andresen says it is now the largest shareholder in Benchmark Holdings, a UK-listed aquaculture firm that uses technology to help food producers improve their sustainability. This ties in with SDG 14.

Ferd is now recruiting in order to expand this new SDG-linked impact investment strategy, a move it hopes will amplify the work it has done in areas such as aquaculture, real estate development and renewable energy.

"We're looking for investments that can tie in with what we are already doing and how we can perhaps interject new holdings with existing ones to make each of them even more sustainable," he says. "Like everything else we do, we're trying to take it one step further."

Eschewing the family office moniker

Having exited the family's legacy business, Mr Andresen was determined to do things differently than may have been expected. In eschewing the single-family office moniker, he embraced direct-engagement with Ferd's investments and favours transparency of the portfolios Ferd operates, despite there being no necessity for such divulgence from Ferd as a private entity.

Mr Andresen explains: "I think when families sell their main or legacy businesses they get this wall of money coming towards them and they rush to allocate it 'by the book', complete with diversification and risk matrices." He adds: "I think they are shortchanging themselves a little bit. If they kept a hand on the wheel, i.e. making more direct investments, they would have more opportunities to create positive impact."

"We conscientiously chose not to describe ourselves as a family office because to a very large extent we actually run the businesses that we invest in," he says. In regards to the Ferd Social Entrepreneurs, he says: "I think it was a very important decision not to put it outside under a different umbrella or external foundation. I think sometimes family members should think long and hard before they do that because it is very easy to take such a decision, for something like tax or legal reasons, but then you lose something extremely valuable when it comes to how involved and engaged you can be."

He continues: "If you had a family office, those investments would be in a private equity portfolio and you wouldn't engage directly with the board, select a management team, meet the unions, etc. That would be something other people would do. We, however, looked at how many people we would need to bring about an impact in line with our vision and values and we found out it wasn't possible to do it through other people... You have to do it yourself."

This decision has proved fruitful for Ferd. Since pitching the idea of building up a part of the business devoted to scaling social entrepreneurs in 2007, the firm and the organisations it helps have flourished.

Mr Andresen says other family companies in Norway are now "starting to emulate our model", something that fills him with pride. "I think we have found a model that actually increases the probability of making an impact both on the people on the ground that we're trying to reach, but also that has an impact on us."



Jed Emerson
Founder of Blended
Value Group

Jed Emerson is the originator of the concepts of Blended Value and Total Portfolio Management. The published author and internationally recognised thought leader has extensive experience leading and advising funds, firms, social ventures and foundations pursuing financial performance with social/ environmental impact. He is currently focused on working with families exploring how to ensure a long-term legacy by managing their full net worth for impact.

His first book on impact investing, co-authored with Antony Bugg-Levine, won the 2012 Nautilus Gold Book Award and he has co-authored six books on social entrepreneurship and impact investing, last year publishing his eighth book, *The Purpose of Capital*. He is a senior fellow with ImpactAssets, a non-profit financial services firm, and a Senior Research Fellow with the Centre for Social Investment at Heidelberg University, Germany.

Jed Emerson's expectations for humanity's survival are, at best, pessimistic – unless the whole construct of capitalism is radically overhauled.

The impact investing thought leader is frustrated and disappointed in the same breath at what he perceives as the status quo's inability or unwillingness to reassess the way it conceptualises and manages wealth.

Commoditisation of impact investments?

Mr Emerson believes family offices have led the way in developing a model that articulates and establishes the impact an organisation wants to make and only then creating an investment strategy to help achieve this clear goal.

However, he fears this mindset – achieved by the fact that “families don't view themselves as their investment vehicle but as a family with values” – is something that simply is not being created in larger investment firms seeking to take a commercial slice of the impact investing pie.

“Impact investing is becoming commoditised,” he cautions. “It is becoming simply a set of products and offerings, one more thing you put out there as another style of investing.”

Mr Emerson warns that the entry into the impact-investing universe by the very largest of fund groups is unlikely to herald the self-reflection he believes is crucial to achieve ‘true’ impact, the more-than-financial outcomes we most need to solve some of the world's most pressing challenges.

“These are not bad people coming in to destroy impact investing but the fact is none of these firms will do anything that would fundamentally call into question their business model,” he poses.

“What we have to recognise is that BlackRock, Goldman Sachs and these other folks have spent the past 50 years effectively financing climate change. They have helped provide the fuel and the capital to create the situation that we're currently in, and so their whole business model, their compensation, the way they think about what is credible as an investment opportunity is all shaped by that.”



The question is ‘how do we come to know the nature of value in a different way from simply financial performance and monetising impact?’



Living values

Mr Emerson's proposition is outlined in his latest book *The Purpose of Capital*, which may be considered utopian, too radical and risks being met with incredulity by many in the financial services community. While they may consider his approach laudible but perhaps unrealistic, there are many others aiming to incorporate Mr Emerson's philosophies into their own allocation of capital.

These range in size, from a family office in Australia called Small Giants, a certified B Corporation whose founders Danny Almagor and Berry Liberman aim to ‘create, support, nurture and empower businesses and entrepreneurs that are shifting us to a more socially equitable and environmentally sustainable world’; through to Tonic, the network of family offices, high-net worth individuals and institutions committed to ‘investing in impact and sharing best practices with our peers’, in which Mr Emerson holds a senior fellow position.

While such organisations are among those leading the charge in being “more deeply connected and engaged with where their capital is actually going”, as Mr Emerson describes it, he believes broader change is happening.

The idea of ‘living your values’ is one he believes the millennial generation – generally accepted as those

born between 1982 and 2004 – has grasped. “They are asking ‘why would I possibly want to engage in the creation of profit without purpose?’ he says.



Mr Emerson also believes the upcoming transfer of wealth – estimated to be \$12 trillion just in the US in the next decade alone – from middle- and old-aged men to women and millennials, as well as the greater prominence of women in senior roles within financial services, will further catalyse change. “There are a growing number of women who are becoming increasingly fiduciary of capital, who bring in a whole other mindset to what it means to the job of managing money.”

“That combination of the millennial generation and the emerging female asset owner is just going to blow up traditional ways of thinking about finance, investing and purpose,” he says.

Holistic change

“We have an opportunity to engage in a much more profound discussion around what we are all doing with our lives and whether, if we die having created piles of cash in a charred planet, that somehow that would be a life well lived,” he states, matter-of-fact.



An impassioned speaker, rattling through far-ranging topics like a verbal machine gun, Mr Emerson elaborates: “There is an urgency here but the urgency is not to figure out how to deploy more of what we’ve already done. Until society really goes to this place of understanding that we have created this problem and it is possible, but not guaranteed, that it will be solved, nothing will change.”

 **These are not bad people coming in to destroy impact investing but the fact is none of these [multinational investment] firms will do anything that would fundamentally call into question their business model.** 

Mr Emerson espouses a total portfolio approach, which essentially involves tearing up the current rulebook and, in its place, truly defining an impact purpose for Capital and then implementing strategies to achieve this. Impact should not be just appended to what is essentially the same as any other fund, he says.

“It is so critical that we have a deeper connection to purpose, because purpose is ultimately what this is all about,” he asserts. “If the status quo is maintained, we could end up with great politics, great investment vehicles and no [social/environmental] impact. We need

to revisit our operating assumptions with regard to what we are really trying to do here; what the best tools are politically, socially and financially, to advance that broader vision and deeper potential for creating the purpose we seek in our lives.”

 **[Millennials] are asking ‘why would I possibly want to engage in the creation of profit without purpose?’** 

Mr Emerson acknowledges his holistic philosophical approach to impact has a Buddhist quality to it. But Mr Emerson is clear about the practical things that need to change – even if they might seem radical at first.

“We have to really pause, step back and reflect because if this is understood as simply a moral discussion [about creating social/environmental impact], then you stay at this practical, operational level and don’t go deeper into exploring the impact possibilities,” he says.

As a first step, he is adamant that the investment industry needs to “rethink the primacy of shareholder value”. “We need to ask ourselves ‘is this what we’re striving for? Because what that often translates to in practice is simply making the 1% [of the population] wealthier,” he says.

“If we agree that the purpose of capital is to create more capital, which benefits that shareholder primacy analysis, then we haven’t really stepped back far enough from the tool [of capital] to look at the task and to really understand and appreciate the implications of understanding a different vision of what we should be driving towards,” he says.

He goes on to suggest an urgent rethink and redefining of existing understandings of ownership, governance and fiduciary duty, to name a few. However, perhaps drawing on Buddhist sentiments of self-inquiry, Mr Emerson rejects calls for his book to conclude with an action plan of sorts, instead he exclaims: “The whole point of the book is to say that you have to find your own answers”.

He continues: “Don’t buy the answer off the shelf, don’t listen to what your advisor, who gets ‘two and 20’ to manage your portfolio of private equity investments, suggests. No, go deeper in yourself and really fight this stuff out, find your own set of solutions, know they are temporal and that they will not work in five or 10 years because, if you’re lucky, you will have changed and evolved.”

What this will do, he suggests, is make people realise what capital is truly for, its purpose. For Mr Emerson, and many who are drawn to philanthropy and impact investing, that is that an individual can only truly succeed if their community is succeeding too.

“Once you frame it that way, there are just vast implications for how you understand what’s right, relative to your understanding of returns, and what’s appropriate in terms of the types of strategies you want to be invested in,” he says.

Holistic, sensitive measurement

This “transcendent” awareness is personified, Mr Emerson says, by people such as Jenna Nicholas, managing partner of Impact Experience. She has been a leading proponent of the Divest-Invest movement, which seeks to reduce the financial community’s exposure to fossil fuels.

Rather than just simply backing ‘green energy’ initiatives, Ms Nicholas has taken a holistic approach by, for example, engaging with coal workers in the US whose employment prospects might be worsened by her organisation’s Divest-Invest agenda.

In Williamson, a town in West Virginia, Impact Experience led a partnership that invested more than \$7million (£5.4 million) into the community, including improving broadband connectivity, access to healthy food and worker retraining for unemployed coal miners.

For Mr Emerson’s capitalism 2.0 to be realised, the above, fully-rounded, approach must become commonplace. Not only does it fully comprehend the impact that capital allocation can have and seek to redress any societal imbalance, Mr Emerson says, but this approach also enables the measurement of an outcome beyond the purely financial.

Two decades ago Mr Emerson led a team that created the first formalised methodology to calculate social return on investment, yet as discourse around impact measurement flourishes he remains pessimistic that such a holistic and outcome-sensitive impact framework will dominate, notwithstanding high-quality, multi-factorial approaches such as the Progress out of Poverty Index and the stakeholder voice work by The Insight Fund.

He explains: “The challenge is that finance likes to boil things down to a single figure or ratio (looking for the equivalent to a P/E ratio or Financial Return on Investment, such as interest rates), instead of operating with a more complex understanding of long term blended value and capital investment performance.”

He continues: “But all they are doing is taking how we already think and applying that in this context when that really isn’t the question. The question is ‘how do we come to know the nature of value in a different way from simply financial performance and monetising impact?’”

At this year’s World Economic Forum in Davos, the organisation Y Analytics, which was spun out of TPG’s \$2bn Rise Fund, announced its launch as a new player in the impact investment measurement space. Its aim is to help investors better understand and value social and environmental impact to make effective investment decisions that achieve impact.



If the status quo is maintained, we could end up with great politics, great investment vehicles and no [social/ environmental] impact.



But Mr Emerson is circumspect about the new entrant, claiming that it relies too heavily on existing metrics, has not delved deeper to try to establish a new path and tries to reduce the measurement of multiple factors into a single number.

“I think it’s like the idea of someone who has lost their car keys in the dark and they are looking underneath the street lamp because that’s where the light is good but that’s not where the keys are,” he says. “It’s like they’ve said, we know how to do it this way, so we’re going to do more of the same and we’re just going to ignore the broader context within which impact occurs.”

While Mr Emerson is cautious about what Y Analytics might bring to the impact investing table, and sceptical about big finance’s motives, his work over the past decade helping family offices promote their personal values through the deployment of capital, means he does have some optimism about the sector’s development.

“They want to make money and have responsibility around the economic discipline of investing, but they understand that discipline, in the absence of social, environmental and almost moral perspective, doesn’t really buy you very much – except more money,” he says.

“And for most people who have a lot of money, they’re actually interested in doing something with their money, not just counting the dollars. I think that’s the huge opportunity we have.”



Juan Pablo Cadavid

CEO, Taurus Capital



Jose Parra

Partner, Taurus Capital

Before joining Taurus Capital as CEO and Partner, Juan Pablo Cadavid worked in the airline and food industry in positions ranging from marketing and finance to operations and strategy. He is on the board of directors of seven companies, two mid-sized companies and five start-ups, including Promosomma, a fellow certified B Corporation, which provides alternative lending. He has an MBA from Babson College in the USA, a postgraduate degree in global markets management and an undergraduate degree in managerial engineering both from EIA, a Colombian university.

Jose Parra takes a lead role in structuring and managing the firm's alternative investments. Prior to Taurus, the private equity and venture capital advocate held roles across various financial groups, including as deputy treasurer at Inversiones Mundial, an investment firm, where he managed liquidity, financing and foreign exchange risks.

Jose has an MSc and Masters in Finance from London Business School.

The refusal by Colombia's mainstream banks to lend to the nation's most exciting entrepreneurial businesses, entrepreneurs and individuals, posed a unique opportunity, Alejandro Ruiz, a former banker himself, believed.

Taurus Capital, launched by Mr Ruiz and partners Nicolas Zapata, Jose Jaime Parra, Daniel Mejia and Juan Pablo Cadavid in 2011, took a counterintuitive approach to investment in a nation wedded to traditional assets. In the process, it would become an accidental impact investing pioneer in Colombia.

Colombia's wealthy families were focused on traditional asset classes, reluctant to engage with high-risk alternative investments in their portfolios, partly due to the turbulent political and socio-economic situation the country found itself in. Its long-running battle with rebel forces, notably Farc (with which the Colombian government signed a peace deal in 2016 after 52 years of civil war) meant institutional investors seldom deviated from more conventional holdings.

The conflict also meant wealthy families, who may have had the risk appetite to engage in strategic philanthropy or impact investing approaches, remained highly secretive about their investment mandates due to safety concerns. Where this information was divulged they favoured orthodox investment vehicles.

The accidental impact investors

To Taurus Capital, this presented a clear gap in the market. Its first investment vehicle, a credit fund that focused on lending to small businesses that mainstream banks refused to lend to, was driven by what the partners felt was a social responsibility to improve the prospects for such entrepreneurs.

It wasn't until Taurus Capital had a meeting with an impact-investing consultant in Mexico that the firm's chief executive officer, Juan Pablo Cadavid, realised the scale of the social good this credit fund was doing.

"We found out about the impact side of what we were doing by chance," Mr Cadavid says. "We realised the people we were targeting with our credit fund would have likely approached loan sharks if it weren't for us irrigating the credit eco-system.

"When we started doing this five years ago, it was very, very, very difficult for an entrepreneur or small company to get money – nobody was lending to them or investing in them."

This enlightenment spurred the firm to seek out other ways to further embed itself in the nascent impact-investing environment of Colombia. It also encouraged Taurus Capital to undertake independent certification with the global non-profit B Corporation, which identifies businesses that meet the standards of verified social and environmental performance, transparency and accountability.

The process of Taurus Capital becoming certified B Corp was "very instructive", Mr Cadavid says, as it helped the firm identify the aspects of its operations that were already socially responsible and highlighted areas where it could have an even greater social impact.



We found out about the impact side of what we were doing by chance,"... "We realised the people we were targeting with our credit fund would have likely approached loan sharks if it weren't for us irrigating the credit eco-system.



Franchising for the ‘working poor’

After narrowly missing out on the chance to run a third-party social impact fund, it approached a local foundation – an endowment fund – with a proposal to launch a limited partnership (LP) to support small companies and entrepreneurs in Taurus Capital’s home city of Medellín.

The difference between the limited partnership and its credit fund would be the deeply involved role the Taurus Capital team would play in the organisations it invested in. They already had “skin in the game”, Mr Cadavid says, as Taurus Capital’s equal equity partners have a policy of investing alongside their clients, aligning their motivations.

Mr Cadavid and his colleagues researched potential opportunities and discovered a social enterprise called Micro Franquicias (Micro Franchises), which sold low-cost restaurant franchise agreements to unemployed citizens and would-be business owners. The organisation’s aim was to enable low-income individuals to start their own business, employing their own family members and thus helping alleviate poverty in the city.

The restaurants also targeted a low-income clientele in a bid to create a sense of wellbeing for those with little disposable income, often people displaced from rural locations by civil war who tended to find themselves in urban areas as ‘working poor’ but who were not currently catered for in the restaurant market.

“It aligned very well with our principles and they really believed in the social impact of what they were doing,” Mr Cadavid says of Micro Franchises.

The LP invested \$500,000 (£382,450) over four years, developing it into Colombia’s largest Mexican restaurant chain Taconazo, with 50 sites nationwide, and spawning a second brand, fast-food outlet Chihuahuas.

One bite too many

To onlookers, the restaurant chain’s rapid growth suggested the business model was a boom. But Mr Cadavid is candid about the challenges he and his colleagues were facing behind the scenes, hoping such transparency can help others learn from this formative experience in their impact investing development.

“Even though the market was huge, the opportunity was there and it seemed clear it was going to be a very successful company with a really, really strong impact on the franchisees and consumers, it was incredibly difficult to manage,” Mr Cadavid says.

“The franchisees didn’t have the business acumen to run their own stores, didn’t have the capacity to manage the cash flow and found it difficult to plan for the future in terms of marketing and promoting their restaurant,” he says.

Micro Franquicias had even set up a school called Secreto – Spanish for ‘secret’ – in a bid to help the franchisees become more business savvy but this proved entirely unpopular and largely went unused, as franchisees mistakenly believed taking such time away from the restaurant would damage its chances.

The high cost of running the food business and the time-consuming nature of supporting the franchisees meant any hopes of a financial return were truly sacrificed. “We didn’t make any money,” Mr Cadavid says bluntly, “we lost money all the way.” The food chain business is currently filing for bankruptcy.



Investors need to be more open and share their experiences in these types of investments because people are followers; they love to be the first follower.



Looking back, Mr Cadavid acknowledges they had underestimated the challenges inherent in such high-risk enterprises. “We learned how important it is to have a strong management team in place that is really passionate about what they are doing and is able to clearly communicate the goals across the entire organisation,” he says.

Exit strategies

This investment has proved to be the only failure in the LP, which has backed seven companies in total after an initial period where it incubated two firms before selling them on. Since the failure of Micro Franchises, the team has secured external funding for some of its holdings in a market where social impact venture capital is still developing.

Jose Parra, a fellow partner at Taurus, says the team’s focus is not just on financial return but on ensuring the long-term viability of the businesses it invests in. The team is considering selling its large controlling stake in one of its holdings at a discount because of the potential growth it could experience with a prospective buyer.

“This will be a strategic investor in the company and we think it will be very good in the long run for the entrepreneur if we step aside and facilitate this transaction,” Mr Parra says. “We are really clear about our purpose here. We prefer to sacrifice financial return in order to remain true to our principles.”

Mr Parra says he and his team do have a financial return target for the portfolio as a whole but it is the social

impact targets – such as reducing unemployment, improving nutrition for those on low incomes and improving people’s quality of life – that are equally, if not more, important metrics.

Forestry impact fund

More recently, the firm has been working in a forestry impact investment fund that it hopes will have a national – and even potentially international – impact.

Colombia consumes roughly 80% of its wood from national forests, a level that creates a bleak picture for the country’s natural resources at a time of heightened awareness about global warming. Mr Cadavid says just 478,000 hectares of forest plantations have been established in Colombia – equivalent to just 6% of the estimated 7.2 million hectares potentially available¹.

The resolution of the aforementioned civil war, which blighted mainly rural areas, means there is now a greater opportunity for new business ventures, particularly in agriculture. This is especially the case given a supply/demand deficit in wood is predicted to hit the country in 2020, according to consultancies Poyry and Silvotecnica.

While Colombia’s bountiful soil, nourished by its equatorial climate and three mountain ranges, means pine trees can be harvested in around 15 years compared to closer to 40 or 50 in the UK, there remain particular challenges to navigate.

Mr Parra says establishing the ownership of land in Colombia can be extremely tricky, with regular disputes between the government and rural populations about who owns what. A potential major corporate governance risk for investors also lurks in the fact the providence of the money behind land purchases (including potentially stemming from drug trafficking) is difficult to ascertain.

“That’s the main barrier we have with this fund,” Mr Parra acknowledges. “The land is very important because it protects the equity of the fund.”

The other challenge is hitting its \$100m target. The fund has been launched in partnership with Swedish firm Timber Capital, which boasts more than 20 years’ experience in forestry and has had a presence in Colombia since 2010.

Nonetheless, Mr Parra says getting local investors to embrace timber as an asset class is, again, taking time. “Because we are a poor country, people have a short-term view of things and so for them to invest for 10-15 years, they see that as a lifetime,” Mr Parra notes.

However, the firm is gaining traction with a host of pension funds whose long-term liabilities suit such a patient asset class. The TC Forest fund, as it is called, has also subsumed Timber Capital’s Colombian assets, which has helped attract the attention of some Colombian foundations and family offices too.

The winds of change

Despite the myriad challenges, appetite for alternative, impactful investments is growing in Colombia. Younger members of family offices (the so-called millennial generation) are driving this attitude shift, Mr Cadavid says, and it is they who are lobbying for at least a portion of the family wealth to be invested in alternative – and socially or environmentally impactful – investments.

Furthermore, the revelation that more than 1,200 wealthy Colombians were implicated in the 2016 Panama Papers leak – a cache of 11.4 million documents that revealed the scale of tax haven usage by the world’s global elite – has enforced a greater degree of transparency on the part of Colombia’s investment community.



Colombia consumes roughly 80% of its wood from national forests, a level that creates a bleak picture for the country’s natural resources at a time of heightened awareness about global warming.



“I believe the Panama Papers made a difference,” says Cadavid. “The authorities also encouraged investors to disclose their foreign investments and be more transparent in terms of assets.” In the wake of the leak, the Colombian tax authorities’ voluntary disclosure programme witnessed an 830% spike in what taxpayers disclosed about their wealth.

This new-found openness about the investments within a portfolio has not yet directly affected Taurus’s ability to raise capital, but the firm believes the winds of change are blowing and they are well positioned to surge ahead when the time is right.

“Managers like us need to offer more of these types of investments and educate the financial community that there can be a financial return alongside a social impact because I think that in itself is appealing,” Mr Cadavid says, adding “and investors need to be more open and share their experiences in these types of investments because people are followers; they love to be the first follower.”

¹ <https://www.risiinfo.com/product/latin-american-plantation-forests-outlook-timber-supply-markets/>

CHAPTER 5: CHALLENGES FOR IMPACT INVESTING & PHILANTHROPY

Even in the short, past few years we have seen respondents' perception of impact investing shift to greater awareness and acceptance of the veracity of the investment approach, and transitioning to the tactical, operational business of ways to 'do' impact investing.

Speaking thematically about impact investing (see chart 10, page 9), respondents identified the biggest challenge (i.e. the challenge they ranked highest of their three permitted choices) to be "education about the investment routes and approaches to impact investing", similar to last year. What has changed is that "the availability of impact investment opportunities that pass our due diligence/investment criteria" is a close second this year and has steadily climbed the past few years, while 'the need for the impact investing sector/ approach to mature' has halved from 2017.

Performance: Money talks

Interestingly – and no doubt to the consternation of impact investment advocates – when asked what it would take for respondents (not currently doing so) to participate in impact investing, several state better financial returns than available from traditional (non-impact targeting) investments.

This cautions us to temper assumptions that the business case has been made for the majority of investors; that while over 80% of respondents report their impact investments' financial returns meeting or exceeding expectations the financial performance of traditional investments still outstrips the financial returns from social investments.

While 88% of respondents report any kind of financial gain from their impact investments over the past three years, 96% have done so from their traditional investments. Reported losses from impact investments of any kind were more than double those reporting losses from traditional investments; 13% and 6% respectively (see chart 24, page 21).

However, in the next 12 months respondents expect the financial returns from impact investors to outstrip traditional returns. Roughly the same proportion anticipate some sort of financial gain around 90% from either investment approach, though a whopping 15% anticipate a financial gain exceeding 15% return, compared with 7% of respondents expecting that from their traditional portfolio (see chart 25, page 22).

This perhaps calls into question the veracity of claims financial performance (alone or principally) is the barrier preventing adoption of alternative investments that produce a social/environmental benefit.

A serious concern for social enterprises reliant on philanthropic grants is that 65% of the respondents agree or strongly agree that "much of the money donated philanthropically is used inefficiently" and a further 19% are "unsure". A significant 60% feel that those involved in philanthropy "should be more entrepreneurial" than they currently are, hinting at a more strategic approach to philanthropic giving and/or stringent measurement and reporting of the impact achieved.

Barriers to increasing philanthropy engagement – additional funds not available and hard to measure

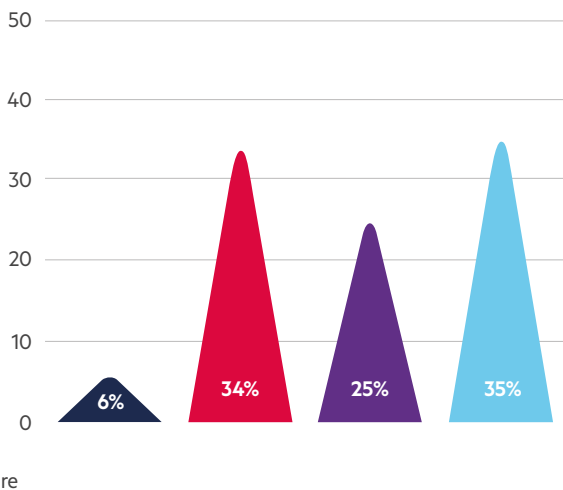
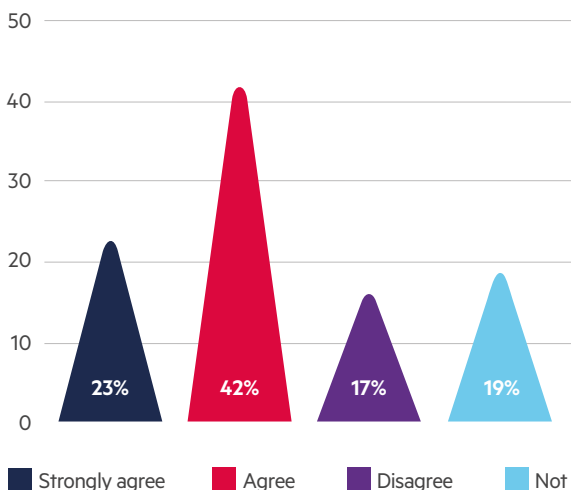
CHART 28

Which of the following best reflects your views?

Much of the money donated **philanthropically** is used inefficiently

Much of the money allocated via **impact investing** is wasted or inefficient

Base: All



social impact perennial barriers. Foundations, accounting for a smaller proportion of total respondents, also cite lack of additional funds as the main hindrance to increasing philanthropic allocations.

Non-Philanthropy/Impact scepticism

There can be an assumption that newer wealth would be more likely to immediately consider 'more-than-financial' allocations, all the way along the philanthropy and impact investing spectrum.

However, two-thirds of our respondents not currently active in philanthropy or impact investing are first-generation wealthy. Reflecting this year's respondent demographics, 84% of those not active in either philanthropy or impact investing are private investors and 12% SFO. This is despite the considerable increase this year's survey has found in the proportion of respondents who have made their first impact investment and considering making more (41%) and the one-third now "active with multiple impact investments".

As noted in Chapter 3, fear of 'greenwashing' – whereby an investment's claims of 'green', eco-friendly or sustainability are exaggerated – is a considerable barrier preventing this cohort from engaging with philanthropy; Mistrust/Greenwashing was the second top reason given, behind with 'philanthropy not generating a financial return'.

This is a reminder that lack of trust and confidence is not the preserve of impact investing's 'newer' approach, but apparently embedded in some investors' perceptions of the way capital is allocated to generate non-financial

outcomes. That said, in a freehand section open to all respondents, some noted the following as thematic barriers to impact investing:

- "Not convinced that 'impact investing' is real rather than simply another repackaging of financial services products because the term is now fashionable"
- "Too many imposters and conmen"
- "Entrepreneurs and investors doing harm while intending good"
- "Reputational concerns about managers and projects"

Of course, the survey finding also indicates that the cohort not currently active in either impact investing or philanthropy are perhaps more likely to dabble with impact investing ahead of philanthropy if their priority is to only allocate capital where it can generate a financial return as a measure of 'success'.

Given that 74% of this group of respondents claim impact investing is a more efficient use of funds to

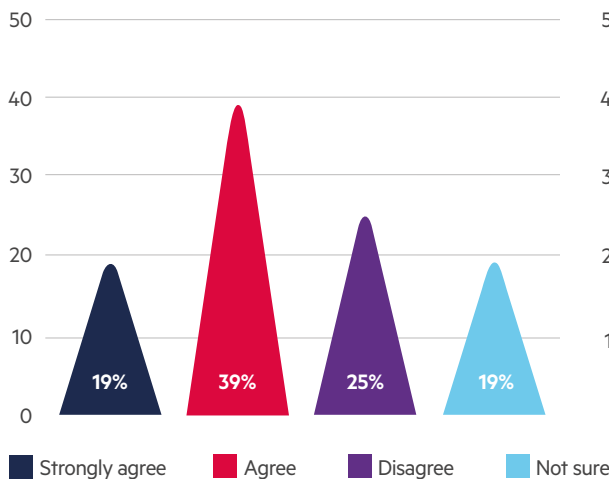
74%
"impact investing is a more efficient use of funds than philanthropy for impact"
(source: non-impact investing, non-philanthropist respondents)

CHART 29

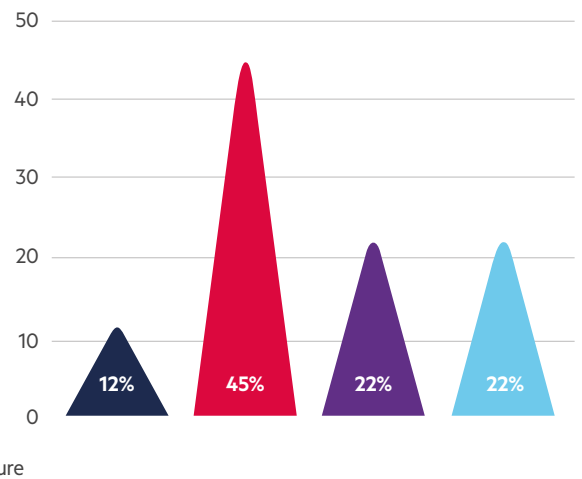
Which of the following best reflects your views?

I would be more engaged in **philanthropy** if the social return was more measurable

Base: All



I would be more engaged in **impact investing** if the social return was more measurable



achieve social impact than philanthropy, this cohort could be a valuable source of new capital to be deployed through impact investing.

Almost 80% of those currently only active in traditional investments are considering making impact investments in the next 12 months, with 45% of those “actively looking for impact investment opportunities”.

For this cohort, new to any social impact focused capital allocation, the biggest beneficiaries are overwhelmingly set to be Climate Action (for 71% of this cohort) and Clean Energy/Green Tech (61%). The latter is this year’s most invested theme by respondents active in impact investing (for 52% of them), while Climate Action is the fourth most popularly invested theme for impact investing respondents (36% of them). For active impact investors, Education & Skills (43%) and Agriculture & Food (38%) themes have been more of a priority or presented more attractive opportunities than Climate action (see chart 17, page 13).

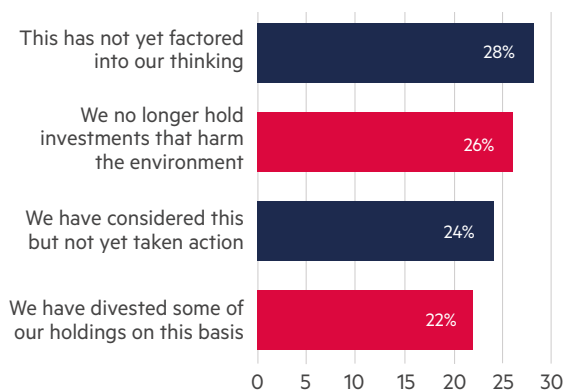
While 42% of respondents not active in philanthropy or impact investing say they would like Climate Action to influence their investment decisions but it’s not part of their mandate, a significant 30% say “it is not relevant to our investable portfolio”.

Interestingly, 71% say the long-term sustainability trends highly influence their traditional investment decisions, a move we see reflected in the success of the divestment movement. According to DivestInvest, almost 100 institutional investors with more than \$6trn AUM have committed to divest from fossil fuels, up from \$52bn just four years ago.

CHART 30

To what extent does the issue of climate change influence your investments?

Base: All



More-than-financial metrics are increasingly important and institutional investors – from HNWI to family offices and foundations – show the power of capital to make considerable positive changes for economies, peoples and the environment.

Mitigating Greenwashing

With the warnings of “widespread greenwashing” coming from diverse quarters, from the head of the international accounting standards body IASB through to the founder of outdoor retailer Patagonia, and our interview with **Jed Emerson** (chapter 4) warning of “commoditized impact investments”, what can investors do to mitigate the risk?

Survey respondents offered a variety of ways they mitigate the risk of ‘greenwashing’ to ensure their investments have a measurable effect on climate action. From their free-form responses, the following themes emerged:

“Due diligence”

The majority of respondents reported they believe their due diligence processes are robust enough to insulate against ‘greenwashing’. Given that most respondents now report performing the same level of due diligence on their impact and ‘traditional’ investments, this indicates the ‘greenwashing’ risk to be on par with any other asset risk.

“Deep personal involvement”

Careful manager selection combined with personal relationships with management teams was also popular. While discerning relationships is important to investors, one wonders whether too much emphasis is put on ‘gut instinct’ rather than quantifiable factors.

“We don’t”

Around one-third of the respondents to this question admitted they currently feel they are insufficiently addressing this question. One comment was that “You do the best you can but don’t expect everyone to be as pure as driven snow”.

Opportunity cost

Another respondent noted third-party accreditation and research, such as CDP, formerly the Carbon Disclosure Project, and index screenings, though another commented: “We research until satisfied or it’s left out of the portfolio. For us, Greenwashing may be causing us to miss or filter out valid opportunities”.

METHODOLOGY & TERMINOLOGY

Investing for Global Impact 2019 is a Financial Times report, aiming to explore how private (high-net-worth) individuals, family offices and family foundations perceive the use of capital to achieve a positive social or environmental impact. Investing for Global Impact 2019 is sponsored by GIST, Barclays and Cleary Gottlieb Steen & Hamilton. It is editorially independent.

Survey data

The Financial Times global survey was conducted online from September 2018 to January 2019, attracting 410 respondents from 56 countries around the world. The respondent mix was 62% private individuals, 22% single-family offices and 11% multi-family offices (33% total), with 5% from family-backed foundations. Now in its sixth year, survey respondents grew by a quarter on 2018 (and following consecutive one-third year-on-year increases).

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

All percentages in this report are rounded to the nearest whole number and therefore will not always aggregate to 100%. Multiple-choice questions (which also do not aggregate to 100%) are highlighted throughout. Charts are produced using the underlying data.

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.

Cumulative wealth calculations

The estimated cumulative wealth of/managed by respondents was calculated by multiplying the lowest end of each assets under management bracket range (e.g. an AUM of \$1m-£5m) by the number of respondents in that specific AUM bracket. Where the range was simply 'Below

Philanthropy

Charitable giving to human causes on a large scale.

More than 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



Greenwashing

Greenwashing is the practice of financial products being marketed as 'green' or more generally 'sustainable', when in fact they do not meet basic environmental standards.



Diverging classifications of economic activities with varying scopes and based on different criteria and metrics leave a lot of scope for greenwashing, with a direct negative effect on the functioning of the internal market as it undermines investor confidence in the market for sustainable investments.

Source: European Commission

\$1m', for example, we chose a mid-range figure (e.g. \$500,000) and multiplied by the number of respondents in that bracket. Addition of each AUM bracket total by respondent type provided a conservative estimate of the cumulative wealth represented by this survey's respondents. The total estimate is \$124.7bn (£96.3bn).

Interviews

The Financial Times conducted all interviews by telephone during late 2018. The interviewees were provided their own case study prior to publication for fact-checking purposes only. The interviews are 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

Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.



An investor's intention to have a positive social or environmental impact through investments is essential, as is the commitment to measure and report the social and environmental performance of underlying investments. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals.

Source: Global Impact Investment Network (GIIN)

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A special thank you to **SEREIN** and **Assifero** for their precious support.

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For their kind assistance in Italy we would like to extend a special thank you to **Assifero**, the Italian association of grant-making foundations. **Assifero** – established in 2003 – today associates 100 Italian family, corporate and community foundations. **www.assifero.org**

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Previous Editions

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