impact investing institute

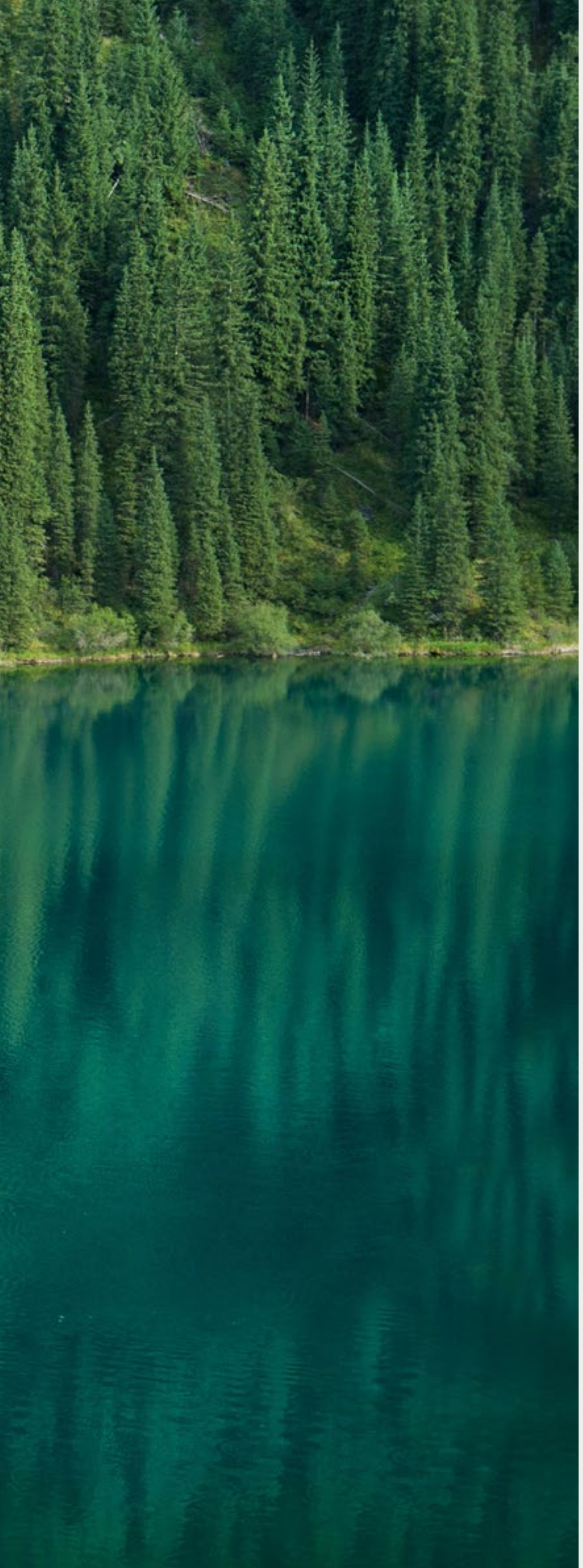
Family Offices:

A roadmap to impact

With the support of

Schroders Wealth Management

Family Office Service



Executive Summary

This guide is designed to support and inspire the families and their advisers who are interested to combine investing their wealth with delivering positive change in the world.

Family offices are in a unique position to apply their values to their investments. They are unconstrained by obligations that can inhibit other institutional investors to deliver impact, and therefore can, at pace, act on social and environmental issues they care about and maintain compelling financial performance.

Drawing deeply on the real-world experience of family offices that have successfully adopted an impact approach, the guide provides practical steps, information and resources on the following:

How families are coming to this work

Both impact by design and shifting to impact: Gain insight into the differing challenges for family offices looking to set up an impact-focused family office from scratch versus those wanting to progress an existing office from a traditional investment approach.

The roadmap to impact investing as a family office

Advocating internally for impact: Explore how families are successfully presenting the case for impact investing to other family members, ensuring an inclusive approach and aligning with family values.

Creating an impact framework and theory of change: Learn how an agreed impact investment approach can be formalised, structured, and documented in a way that all stakeholders can understand and buy into.

Developing an investment policy statement: See how the desired impact strategy can be translated into a clear, practical investment policy to guide investment professionals in the day-to-day portfolio management.

How to start allocating capital for impact: Look at the pros and cons of creating an impact 'carve-out' versus building towards an 100% impact portfolio.

Working with external advisers and managers: Including the questions to ask to determine a provider's level of commitment to and experience in impact.

Impact measurement and management: Discover resources and good practices to help measure and manage the impact you are achieving.

Finding community and collaboration: Learn about the peer networks, impact organisations and family office communities to help inform, support and inspire you on your impact journey.

About

About the project

This guide was produced with support from Schroders Family Office Service to help create publicly available research and practical materials that bring inspiration and guidance to family offices and their advisors.

Through this work, the Impact Investing Institute hopes to accelerate the participation of wealthy families in the impact investing field, help them align their values with their wealth, engage their next generation with meaningful work and family legacy, and ultimately support them to optimise their potential as active contributors to solving the great social and environmental issues of our time.

About family offices

It is well-known that family offices are as varied as the families behind them: if you have met one family office, you have met one family office. But in essence, these vehicles are set up to manage and invest wealth and other assets (business interests, property, estates, philanthropy) that families might require if they have significant means. Typically, family offices have three long-term objectives:

- to sustain, grow and pass wealth onto the next generation/s
- to secure business continuity through generational succession
- and to meet family members' short and medium-term cashflow needs.

The level of wealth will largely determine an appropriate arrangement. A family with $100mn-$500mn to manage might set up a small family office or consider an outsourced chief investment officer (CIO) family office service, or a third-party investment manager or wealth adviser. Families with in excess of $500mn are in position to create a more cohesive fully-fledged office with a number of staff.[1] Whatever form they take, these family vehicles now amount to a global sector estimated at $10trn[2] with particular pockets of current growth in fast-developing markets like Singapore.[3]

In this fragmented global sector there are few generalizations. The functions a family office delivers, the approach taken to governance, the individuals that staff and lead the entities, and the investment approach adopted can all vary significantly.[4] However on one topic there does appear to be a consistent theme emerging: wealth-holders are increasingly interested in creating social and environmental impact. In research from Cazenove Capital in 2021, 42% of its private wealth clients stated that environmental and social issues were equally important as financial returns and 10% would give up returns in pursuit of higher positive impact.[5] A 2022 survey of UBS client family offices found that 24% make impact investments and expect the proportion of their portfolios given over to impact to grow by more than half (to 14%) by 2025. The same research highlighted that over 82% of family offices surveyed believe that the world's wealthiest individuals are going to increasingly focus on tackling global challenges.[6]

Foreword

The purpose of money has never just been money. It is rather the world it creates — now, around us, and for future generations.

Over the past years, it has become easier to be even more intentional about that future and knowledgeable about the impact of our investment choices on others. And as both a cause and consequence of that change, a significant majority of adults (more than four out of five of us) express a desire for our investments to generate not only financial returns but also contribute to a greater good.

Family offices – vehicles set up to manage family wealth – are uniquely positioned to lead this charge. They are unconstrained by obligations that can inhibit other institutional investors and can act at pace on the social and environmental issues nearly all of us care about. Their influence is significant — the global wealth managed by families amounts to over $10 trillion. And it is only set to grow. The world is going through a great wealth transfer, where substantial assets are being transferred from one generation to the next. In the UK alone, the Financial Times estimates that around £5.5 trillion will pass between generations in the next 30 years.

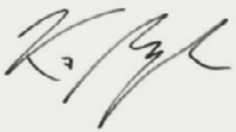
In this context, there is an urgent focus on what choices families will make with their wealth. Can values drive value? Can extreme wealth play a role in addressing inequality? What contribution will these pools of private capital make towards public goods, in both climate and nature?

An increasing number of family offices are engaging with these questions. In research from Cazenove Capital in 2021, nearly half of its private wealth clients stated that environmental and social issues were equally important as financial returns.

Many families have a long history of impact investing. Others are at the beginning of their impact journey and are looking for practical resources and inspiration from peers to get started. “Family Offices: A roadmap to impact” addresses this growing demand and provides wealth holders and their advisors with the necessary information and materials to become impact investors. Whether you are a first-generation wealth creator, a multi-generational family office, or an advisor, our guide offers practical guidance and showcases examples that illustrate how to advocate for impact with other family members, develop effective strategies and frameworks for change, translate those into action, and ultimately allocate more capital for the benefit of people and the planet.

And where family offices lead, other investors can follow — the $10 trillion of family wealth showcasing new paths for the over $90 trillion of institutional capital available globally. In this way, there is exceptional potential for family offices to maximise their role as active contributors to solving the pressing social and environmental issues of our time. For many family investors, this is the legacy they seek to create.

At the Impact Investing Institute, we look forward to continuing to collaborate with pioneers in this field. We are grateful to all those who generously shared deep insights for this roadmap on what has worked, what has not and what is needed. And we are excited for the change these perspectives can catalyse in the world.



Kieron Boyle
Chief Executive

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1. Introduction

What is the purpose of this guide?

The $10trn of impact-interested capital, held by family offices globally, is in a unique position: no other institutional asset owner has more freedom to invest for positive impact than a family office. Whereas a pension fund or insurer faces stringent and often protracted regulatory scrutiny as to how they deploy capital (understandable considering their long-term liabilities), families are nimbler and ultimately can use their wealth more swiftly and more freely to advance the values they care about.

Those families pivoting to impact face a number of questions: What is impact investing? What examples of good practice can we learn from? How do we secure family buy-in for this approach? What team and resources do we need to build? What key documents do we need to develop to govern and measure our impact? How do we work with broader capital markets actors to deliver both on our financial and impact ambitions?

Who is this guide for?

We have created this guide both to inspire more families to become impact investors, and help them execute on this goal. We have aimed to provide a framework of steps, supporting evidence, teachable cases studies and access to peers that will help families unlock their impact ambitions. Family principals and their internal teams are the primary audience, but we also hope this guide can be helpful for the professionals that advise and support them. This includes trustees (onshore and offshore), investment consultants and advisers charged with developing impact investing strategies for their family clients.

The purpose of this guide is to support families that want to deploy their invested capital to deliver positive impact alongside positive financial return with practical guidance that can help them on their journey.

How was this guide developed and with whom?

This guide has drawn on three main sources of information:

Case study interviews: We held in-depth interviews with six family offices delivering impact investing from around the world. We posed a set of around 20 questions to interviewees (both principals and professionals) covering four broad areas: getting started; setting up an impact investing strategy; delivering the strategy; and the wider changes this led to. Each case study was recorded and combined with other available inputs (impact frameworks, Investment Policy Statements, annual reports) to build up a picture of each family office's approach, and can be found on our website.

Background interviews: Across the project we spoke to over 40 other individuals – principals, family office professionals, and those providing services to both those groups. Some preferred their contributions to be anonymised; others were happy to be cited. A full list of contributing interviewees happy to be visible can be seen on the acknowledgement page at the end of this guide.

Third-party publications: Over the past five years there has been an array of high-quality reports on wealth-holders and impact investing. These include *Unlocking Private Assets for Impact*[7] and *Campden Wealth Investing for Global Impact 2022*.[8] We have made particular reference to the '10 Key Actions for Impact Investing' framework developed by The ImPact as featured in the report *Ten Ingredients for Impact Investing*.[9] Full references to sources that we have used can be found in the endnotes.

What does the guide cover and how should I use this guide?

This guide focuses on the practical steps that family offices can take to deploy their investment capital to deliver positive impact as well as financial return. It is structured as follows:

- **Section 3** sets out the two ways that families can approach impact investing: as family offices that are 'impact by design' or that are 'shifting to impact'. It outlines the respective priorities for each and gives examples of family offices in each category, many of whom have been interviewed in depth for this guide.
- **Section 4** presents 12 of the common steps involved in adopting an impact-focused approach to investing family wealth. These steps span: developing a family impact strategy; implementation and documentation of the strategy; measurement and reporting; resourcing a family office; drawing on third-party expertise and support; and finally the groups and collaborative initiatives that bring together family offices and others in this space.
- **Section 5** features a checklist of initial considerations for family office principals as they get started on their impact journey. This checklist draws on the real-life actions that family offices say have been most valuable to them. The interviews mentioned throughout this guide are available on the Impact Investing Institute's website for anyone who is looking for more details on the different approaches to impact investing the family offices featured are taking.

How to use this guide

This guide is intended to be highly practical but not prescriptive. Every family office and its impact ambitions are unique. Therefore, the steps of the pathway outlined in Section 4 are to be drawn on as best suits a family's ambitions, culture and resources.

We hope this guide will also be a valuable reference for, and basis of discussion with, advisers and investment managers supporting families in their impact work.

2. How families are coming to this work

There are two archetypes for family offices delivering impact investing: **first-generation family offices** that are "impact by design" from day one; and **multigenerational family offices** that have historically taken a largely traditional approach to wealth management but that are embarking on a new chapter by "shifting to impact."

A significant feature of a "shift to impact" family office is the internal advocacy needed to persuade family and team members to become impact investors: for those delivering "impact by design" family offices, the influence period can usually be much shorter.

Impact by design

The hallmarks of this category is a family member or members experiencing a major exit or liquidity event who can establish their family office from first principles. They can look at the market as it is today, draw on current analysis of investment trends and ultimately – if they care about environmental or social impact either as manifest in their historic business practices or philanthropic activities – set up a vehicle dedicated in part or in whole to impact investing.

Examples of those who have built family offices with impact at their heart include: Capricorn, originally a purpose-built family office for Jeff Skoll that has evolved into a $9bn platform managing external capital from other families and institutions as an outsourced Chief Investment Officer;[15] Social Nest in Spain[16]; Builders Vision,[17] Lukas Walton's $1bn impact investing family office in the US; Small Giants, Berry Liberman's Australian family office, driving the growth of impact investing in Australia[18]; and 100% Sustainability, Paolo Fresia's family office headquartered in London.[19]

For founding principals interested to build an impact by design family office, the priority is to access good information about impact investing quickly. They need to understand what the market can deliver and connect with communities and resources that help them establish an impact investing set-up. As Ethan Hall, leading impact investing and family office professional, frames it: "The moment of maximum ability to build an impact investing portfolio is at the outset." The big advantage for this group is that – although they may encounter external market resistance and be told that what they want cannot be done – they do not have to make internal arguments for the approach. As they are the founder principal with authority and ownership of the capital, their impact vision can be executed.

> "The moment of maximum ability to build an impact investing portfolio is at the outset."

'Impact by design' case studies include:

1 **Vala Capital:**
A sustainability and impact venture capital investment firm based in the UK. Jasper Smith established Vala Capital as a vehicle for managing his own investments. Vala Capital has since created several funds focused on sustainability and impact investing.[10]

2 **RS Group:**
Founded by Annie Chen in 2009, RS Group is a family office based in Hong Kong, pioneering in the Asian market for its focus on impact investing and thoughtful integration of philanthropy and investment approach. In 2018, the group incubated the Sustainable Finance Initiative and in 2019 launched their Natural Capital Initiative programme.[11]

3 **Blink CV:**
Blink is an international single-family office comprising impact and technology professionals headquartered in the Netherlands.[12] The office manages a broad range of projects focused on three main impact goals: influencing people's behaviours towards a more sustainable future; supporting sustainable, innovative agriculture initiatives; and promoting regenerative tourism practices.

4 **Ceniarth:**
Founded in 2013 by Diane Isenberg, Ceniarth manages the assets of the Isenberg Family Charitable Foundation, as well as unrestricted family assets totalling more than $500mn all focused on delivering impact. The firm's team of 12 is based primarily in London with an additional presence in New York and San Francisco.[13]

5 **Tripple:**
An Australian family office founded by three siblings in 2018 focused on using capital as a force for good.[14]

Shifting to impact

Family offices in this category tend to be multi-generational entities that already have established and highly successful investment practices for sustaining family wealth but where certain family members (usually the next- generation principals) have advocated for a change in direction. If their advocacy is successful a family office will ultimately start charting a journey to become an impact investor.

Exemplars of practice in migrating a family office towards an impact investing approach include: Skagen Conscience Capital a values-driven single-family office based in the UK with Danish heritage that continues to evolve its investment approach;[20] and Anthos, a Dutch family office established almost 100 years ago by the Brenninkmeijer family, which delivers values-based investment approaches.[21]

For these established entities, the journey to drive change can be more complex. Not all family members may be equally interested in impact — or interested in the same impacts. Those members who are interested in shifting to impact may not exert the same control and power over management of the assets as the primary principal in the 'Impact by Design' category. Often these individuals may be experiencing resistance both externally and internally within the family office to delivering a new approach. Typically, the older the family office, and the more generations there are at play, the more complex and nuanced the approach needs to be.

But those who have navigated advocating for impact within a traditional family vehicle attest that it is worth it. Ultimately, if your objective is to drive more capital to impact opportunities, staying within the family and advocating for the approach may push more resources in the direction you are passionate about. As Giorgiana Notarbartolo from PFC put it: "I spent a year in the field studying and that led me to understand that my impact could be much greater if I stayed within the family. Not just because I could influence them, but because as a family we could influence other family offices."

For some, influencing the traditional investment approach towards change is unsuccessful and they leave the family office, taking their wealth out of the broader family approach. They thereafter join the "impact by design" group, setting up their own entity – with all the transaction costs that entails – but unencumbered by the challenge presented by behaviours and ways of working that they felt were too entrenched to change. This is a loss too for the family itself: multi-generational families consistently express their wish for a continuation of shared family legacy. Family offices are not "just" investment vehicles, they serve as a coming together of families for multiple reasons. Leaving the family office can come at the cost of more than the loss of economies of scale. It can mark a moment of divergence relationally as well as economically that can ossify over time into more permanent fissures.

'Shifting to impact' case studies include:

1. **PFC:**
A family office managing the wealth of a branch of the Marzotto Family. Headquartered in Milan, Italy, PFC aims to become a point of reference in Europe for investing with positive social and environmental impact, as a direct co-investor and a limited partner.[22]

2. **DOB Equity:**
Set up by the Dutch Tobé family as part of their broader family office. Since its founding in 2011 DOB Equity has invested c.€75mn in 26 portfolio companies in East Africa, focused on social entrepreneurs contributing solutions to local social and environmental issues.[23]

3. The roadmap to impact investing as a family office

Given the diversity of family offices and impact goals, there is no single way to become an impact investor. Each family will want to chart its own course and process to understanding, designing and executing an approach that is appropriate to its goals, resources and preferences of all its members.

But the roadmap to impact does feature some typical steps. The majority of journeys start with an individual family member's personal reflection and support for social and/or environmental impact and curiosity as to how it might be integrated in the family's investment approach. Often as a second step, that individual needs to secure family buy-in for the approach itself as well as the changes required for implementation. This process must look at defining – and importantly agreeing – impact goals and processes for governance, appropriate staffing and appointing the right managers to enable the strategy to be executed.

We have laid out common experiences and practices to help families chart an impact investing course in Figure 1: Roadmap to impact investing. We have organised this guide using the same framing. This roadmap details a linear, relatively process-led approach to the end-goal of becoming an impact investor – but this is certainly not the only route in. For some family offices the journey has been very different with, for example, a more experimental 'learning by doing' approach.

The purpose of the our Roadmap shown in Figure 1 is to spotlight a range of practices, cases studies, documents and governance approaches that have been a common feature of families doing this work. Families can follow this pathway as outlined or take from it only the elements that feel relevant to their culture and investment approach.

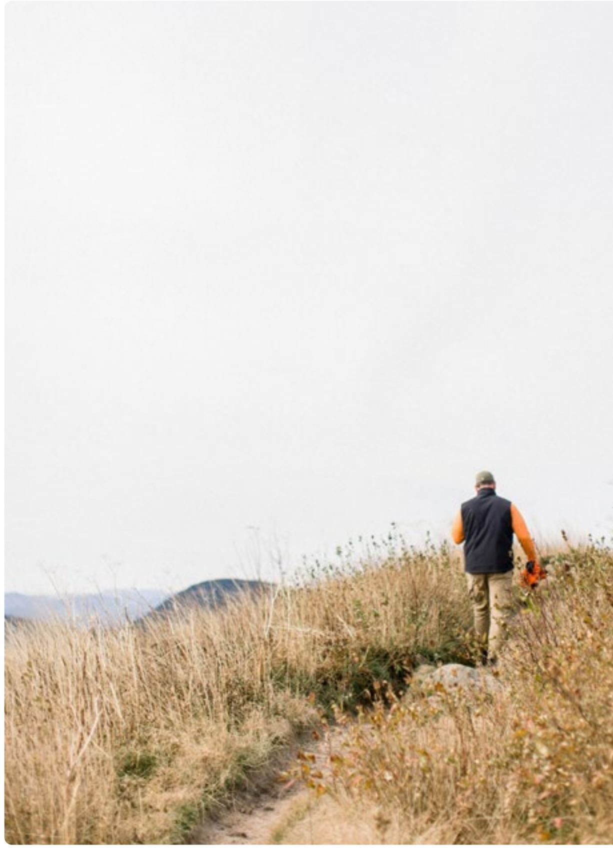


Figure 1: Roadmap to impact investing

Realisation that drives a new direction →	Getting informed about the market →	Advocating internally for impact →	Articulating family values ↓
Building and equipping an impact team ↓	← How to start allocating capital for impact	← Developing an investment policy statement (IPS)	← Creating an impact investing strategy and theory of change
Applying impact principles across multiple family entities →	Working with external advisers and managers →	Impact measurement and management →	Finding community and collaboration

Key takeaways

- As a general rule, the more generational and larger a family office is, the greater the time that will need to be spent on impact advocacy.
- Although it can feel more challenging, staying within a family to pursue an impact approach (rather than striking out independently) can ultimately deliver more impact by influencing both other family offices and the wider family office community.
- The route to impact will be as unique as the family office taking it – learn from other families' experiences and processes but always accept yours may be different.

3.1 Realisation that drives a new direction

For a family office, the impact investment journey often starts with a pivotal moment of insight from a family member that ultimately evolves into a fully-fledged investment strategy and team. For most of those spoken to for this project, this moment taps into a deep assessment of values: personal reflections on wealth and its purpose, often in concert with conversations with the next generation; recognition about the relevance of the family's philanthropic work to its investment approach; exposure to the realities of a serious environmental or social issue; or simply a 'taking stock' of the family's investment approach that triggers a desire to fundamentally change it.

An expression of values

For Bec Milgrom at Tripple, as a non-investment professional, the desire to explore impact investing came from her broader awakening to what she termed "hyper-responsibility" and the question, "What can I do to be the change?" She details the range of ways in which her purpose was being expressed – from making sustainable consumer choices about food and clothes, to selecting meaningful work. Impact investing was the logical next step of that same agenda. As Tripple put it in their inaugural 2018 report "We believe every choice we make is a vote for the future we want to create."[24]

An alternative to, or extension of, family philanthropy

Philanthropy is another major route in for family offices to this work. Another principal – a committed climate philanthropy advocate – revised his family office approach when he recognised that his investment strategy was at odds with the values he expressed through his giving. He explored a new approach – anchored not only in divestment from fossil fuels, but also in seeking to advance positive climate action across his portfolio. For Jasper Smith at Vala Capital, the pivotal moment was a personal experience in Greenland, seeing glaciers calve into the ocean, and witnessing the planetary scale of global warming. That experience led his family to "change everything we did."

Impact investing's market growth

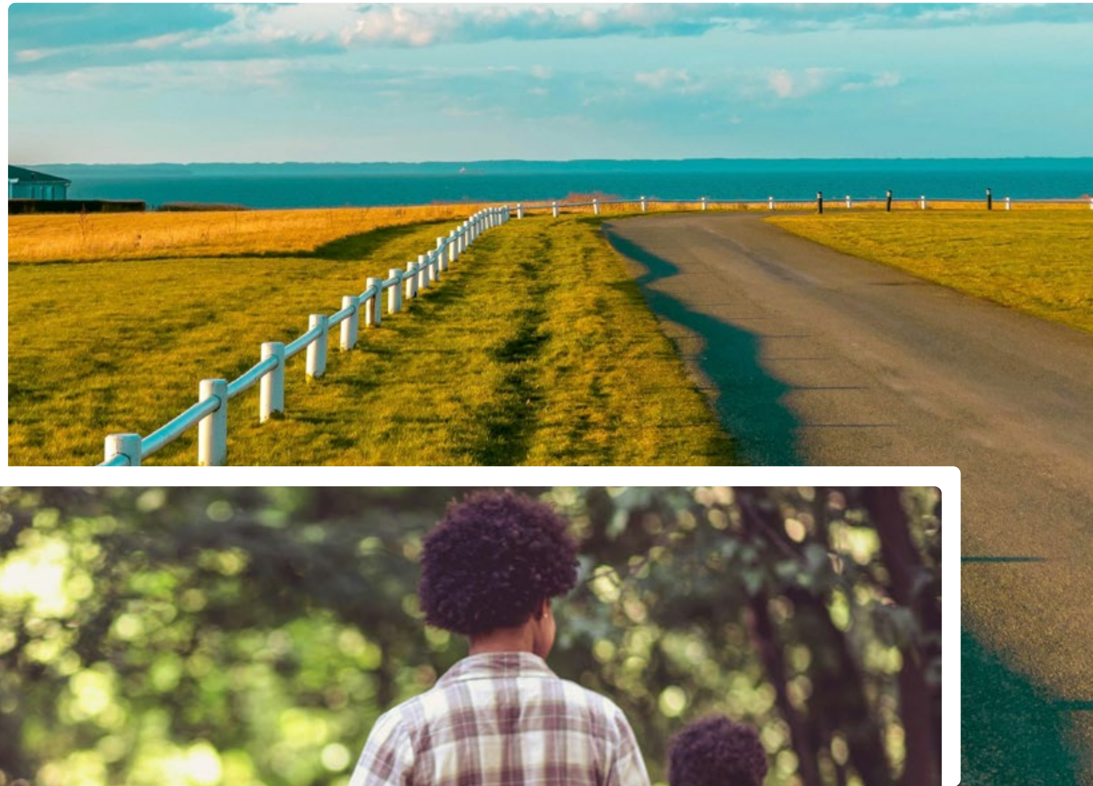
For many families interested in this work, there are market realities too that make impact investing a more viable means to address social and environmental issues.

Previous generations of wealth-holders primarily reflected their values in their philanthropic strategies. In the past five years, however, it has become markedly easier to invest for positive impact as well as give for positive impact. Such has been the acceleration in impact investing's growth, particularly in the institutional, market-rate return and impact segment (see Section 2: Getting informed about the market for more detail), a family can now drive its impact aspirations in tandem with its financial goals. Today families can not only specify what levels of return, volatility and liquidity they are seeking in their investment portfolios, but what sustainability and impact outcomes they are looking for too. As one interviewee put it: "It would have been too radical to do this five years ago," but given market realities, it is possible now. For those revisiting their investment strategy, impact investing increasingly looks like the better, future-proofed way of deploying capital.

Key takeaways

- Emotional drivers are as powerful as rational ones: the initial revelation/insight/epiphany that inspires you to explore impact investing is likely to be the touchstone that continues to motivate you throughout your journey.
- An ever-growing range of investment products, services and specialists should give family members confidence that impact investing is becoming a core investment discipline.

3.2 **Getting informed about the market**



Impact investing is a relatively new discipline, so it is also likely to be new to many of the investment professionals families work with currently. Many investment professionals are taking steps to understand impact investing and how it can be approached, but others have an incentive to maintain the status quo — and might have outdated or under-researched views on the field. So it is particularly important that the principal family member advocating for impact familiarises and educates themselves with the market and what it can deliver: initially at least, they may be leading this agenda. Each of the principals spoken to for this project had taken steps to learn more about impact investing, so that they could become compelling advocates for it. A number had worked with specialist impact investing managers to develop their capabilities in the field, or taken formal courses on the subject.

Giorgiana Notarbartolo from PFC spent a year educating herself about impact investing; Bec Milgrom from Tripple spent time upskilling herself as she started to get to grips with impact investing and what it might mean for her and her brothers. As she recounted, the experience was eye-opening: "At the time there was a tension between, 'Wow this is an exciting opportunity!' and also, 'What the hell has been going on this whole time?'" She and her brothers felt that, as they learnt about this new approach to investing, it was "an invitation to step into a new status quo." Other resources and courses commonly touched on by those interviewed as being helpful are shared in Section 12. Finding community and collaboration.

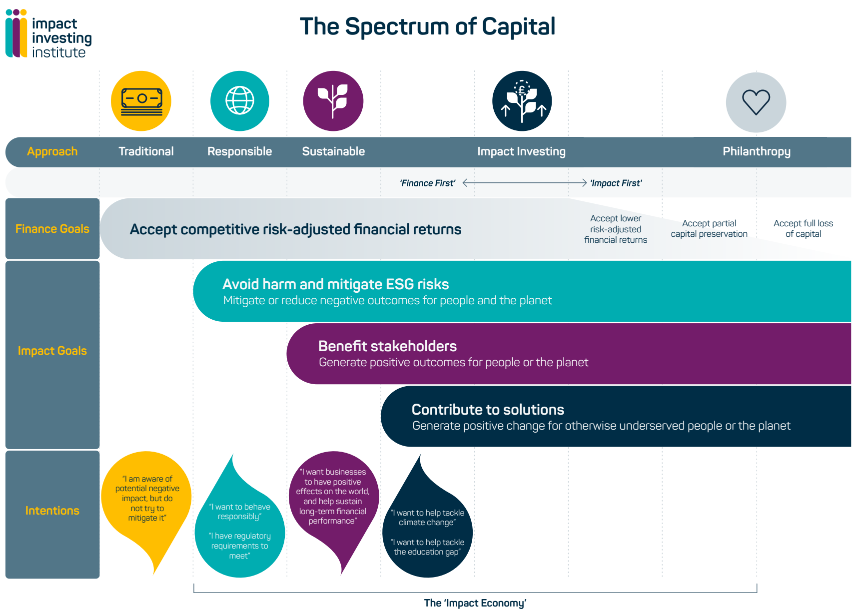
Key details on the impact investing market today

Definitions

'Impact investing' is the original term formalised in 2007/08 for allocating to assets that can deliver financial return and also deliver public benefit. Today the impact investing field has largely coalesced around the Global Impact Investing Network (GIIN)'s, definition of impact investments as "investments made with an explicit intention to generate positive, measurable social and environmental impact alongside a financial return."

Impact investment sits at the middle/higher end of a spectrum of capital deployment where the balance between targeting financial goals and outcome goals progressively shifts. This spectrum ranges from traditional investing that focuses purely on financial return, through to responsible and sustainable investing (the world of environmental, social and governance, or ESG, investing) and on to impact investing, social investment, and finally philanthropy where no financial return, including return of original capital, is expected. Bridges Fund Management detailed this spectrum in a short paper in 2017,[25] graphically plotting in a visual that we've included in Figure 2: The Spectrum of Capital.

Figure 2: The Spectrum of Capital



Source: Bridges Fund Management and Impact Management Project.

Impact investment goes beyond responsible and sustainable approaches by providing capital to help solve social and environmental problems rather than just manage the risks associated with those problems.

Impact investing therefore builds on sustainable investing in two important ways:

1. **Intentionality:** Impact investors seek to contribute to the well-being of people and the planet while also receiving a financial return. Their approach is not just about excluding investments associated with a negative impact but intentionally seeking out opportunities delivering a positive social or environmental outcome. Outcomes targeted can be wide-ranging and diverse: lifting women out of poverty, improving educational outcomes for children, enhancing racial justice, improving biodiversity, decreasing carbon emissions, improving smallholder farmers' income. Impact intentionality means establishing an outcome goal for an investment before it is made, (including how its relative success or failure will be measured) as well as a financial goal.

2. **Measurability:** Impact investing seeks to manage, measure and report on social and environmental outcomes with rigour and consistency. Measurement holds the investor accountable to their impact intention. The goal is for transparent and comparable measurement and reporting. This can help impact investors understand if they are being successful against their own impact targets, and – if not – how they might improve delivery of impacts through their investment approach.

The combination of delivering investment in combination with an impact intention that is targeted, measured, managed and reported on, should ultimately deliver 'additionality' or more impact than would have occurred in a 'business-as-usual' approach.

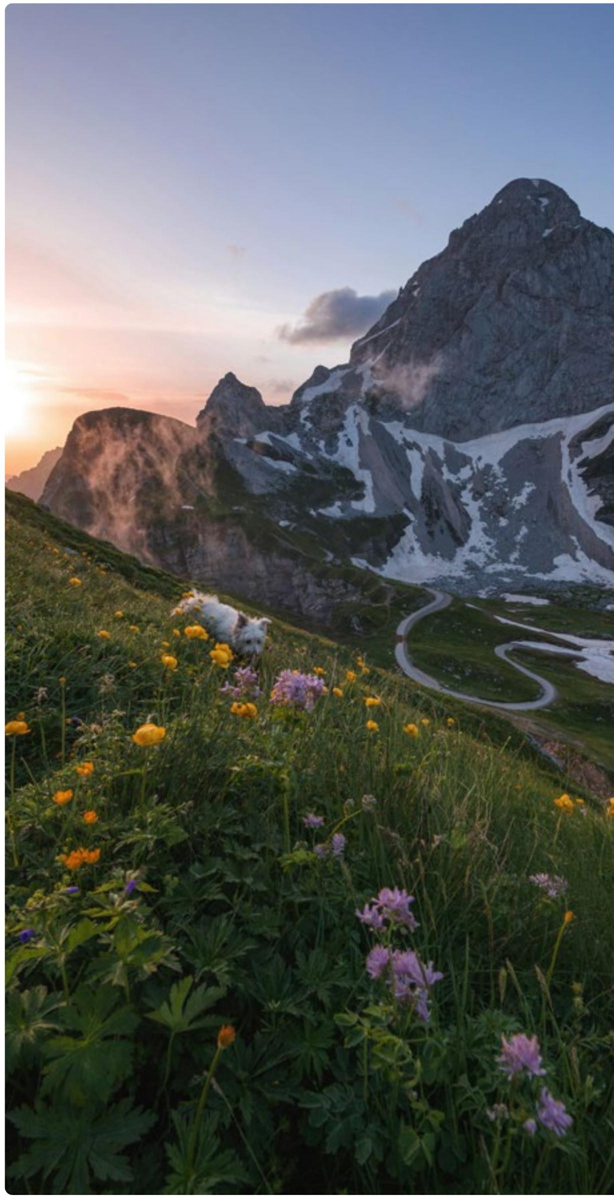
Importantly, impact investing is an approach, not an asset class. It encompasses a broad range of perspectives, and can be delivered in both public and private markets. It starts from a position that all investments have impact – both positive and negative. The broadest goal of impact investing then is to create positive impacts, reduce the negative impacts and do so whilst securing targeted financial returns. It may aim for risk-adjusted market rate returns or seek to optimise a social or environmental benefit in exchange for below-market returns. Given the breadth of investment opportunity, impact investing can be applied to most impact goals that a family office might seek to deliver against.

Returns and product availability

- **Returns:** Many assume that impact investing necessarily means compromising on financial return. This is both an outdated view and untrue. According to the Global Impact Investing Network (GIIN), 67% of investors in their 2020 annual survey[26] were targeting a risk-adjusted market rate return in their approach. In the same survey, 88% of investors shared that they were either in line with or outperforming their return expectations. Most of the family offices interviewed for this project were working across the Spectrum of Capital detailed in Figure 2 with the majority invested in risk-adjusted market rate return products, and a few holding expressly catalytic concessionary investments in their portfolio. For example, one family office had shifted its portfolio over the course of three years from an 11% values alignment to a 50% values alignment and had done that without compromising on returns.
- **Product availability:** The global impact investing market was sized at $1.64trn market globally in 2021[27] with a £58bn UK market in 2020.[28] Product is available across asset classes and across both publicly-listed and private markets. As one family framed it, impact investing need not be, "a radical revolution, but rather a reallocation of investible assets."

Key takeaways

- Impact is still a new market: anyone initiating an approach needs to be willing and able to lead the agenda that brings family members, advisers and investment teams along on the journey.
- This may require upskilling, education and even spending time with impact investment managers before making an approach to the wider family.
- Impact investing goes beyond responsible and sustainable investing to fund solutions to social and environmental problems, rather than solely address the risks associated with them.
- As such, it should be treated as part of a spectrum of capital that families can progress across as their confidence grows.



3.3 **Advocating internally for impact**

Once interested family members are informed about the market, they need to become powerful advocates for the approach. Typically, this involves undertaking an iterative set of conversations and 'set piece' group talks with family members, to secure an in-principle agreement to steer the family organisation towards impact investing.

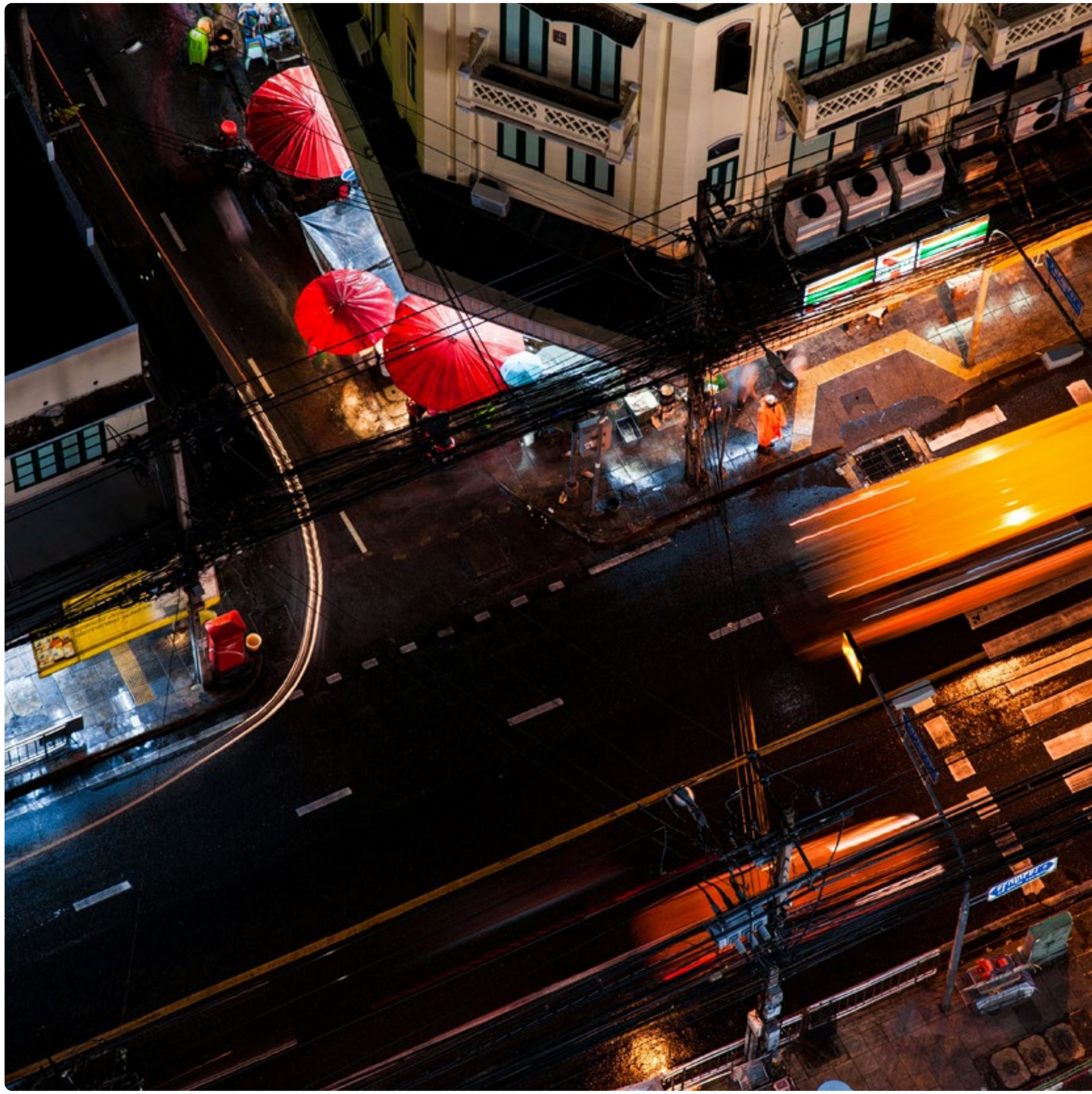
If you are the lead principal, that advocacy is made much easier. In effect as the family office leader, your position gives more weight to your words. If, as in the archetypal 'shift to impact' case study, you are a next-generation family member (who has less influence), the path charted needs to be more strategic, taking advantage of windows of opportunity and adopting a careful and reflective tone. For PFC, it was the succession from great grandfather to grandson in family office leadership that created a window of opportunity for Giorgiana Notarbartolo to advocate for impact (and that her brother Gullo ultimately partnered with her to deliver). For Tripple, it was the sale of a family asset, the proceeds of which were shared among three siblings, that enabled a new chapter and the crafting of a new impact-led investment approach.

The matter of which arguments you need to make, and how best to make them to capitalise on those 'windows of opportunity' is a critical one. Across the family offices we spoke to, there were two key arguments that needed to be made to secure an in-principle agreement to explore an impact investment approach: 'Why is this right for our investments?' And 'Why is this right for our family? '

Why is this right for our investments?

There are three main arguments to be made for impact investing from an investment perspective:

- The impact investing market can deliver the product diversity and returns family offices need;
- Given a family office's intergenerational time horizon, impact investing helps to mitigate long-term risks; and
- Impact investing is a powerful lens to surface future-focused investment opportunities.



Impact investing can deliver the product diversity and returns a family office needs

Those advocating for this agenda can use the high-level market information shared in the previous section to outline what impact investing is and what it can deliver. Often people dismiss impact investing based on an outdated view of the market. Highlighting the size of today's market, its approach across asset classes, its expanding product set, and the market rate returns available will help family members overcome their scepticism. Understanding that the impact investing market can deliver on the risk, liquidity, diversification and return needs of the portfolio enables the approach to be described, as an "evolution not revolution."

Impact investing helps to mitigate long-term risks

By definition a family office is intergenerational and designed to support existing and future generations of family members. As an investment vehicle it is therefore focused on both the long-term investment performance as well as the future well-being of the family's children, grand-children and great-grandchildren to come. Impact investing is about contributing solutions to major long-term societal trends that will affect those family members: climate change, ecosystem depletion, an aging society, and mental health. By actively seeking solutions to these problems, impact investing ultimately yields a long-term protective effect on financial performance. An investment approach that both creates a better future world for a family's descendants, and delivers financial performance, can therefore be a natural and compelling fit for families to consider.

Impact investing can be a powerful lens to surface future-focused investment opportunities

Investing to help solve environmental and social problems means impact investing often backs future growth sectors: life sciences; energy transition; technology for good; better health and educational outcomes in rapid growth countries. Framing impact investing as a lens to surface investment opportunities can speak to traditional investors seeking alpha – excess returns earned on an investment above the benchmark. On climate change for example, former Bank of England governor Mark Carney described the commitment to transition to net zero carbon emissions as "the greatest commercial opportunity of our time".[29] Family offices investing in transitioning a steel manufacturer to a low-carbon steel manufacturer, or investing in the delivery of affordable housing where there is a lack, are delivering an outcome that society needs. As a result, there is a market for it with a long tail into the future, albeit one often contingent on long-term policy change. Many investors use impact as an additional lens to source future-fit companies that are well placed to benefit from long-term trends on climate, sustainability and societal expectations.[30]

For Jasper Smith of Vala Capital, the ability to articulate the investment proposition as a first-order outcome, is central. Although Vala's investment mandate is to invest in companies that have sustainability at their core, Smith and his team "fundamentally believe that companies, whatever their product or service, will be more valuable if they have focused on operating and trading more sustainably. It is perhaps obvious that founders and management teams that have spent time on minimising consumption of raw materials, energy and water and reducing waste will be in a better commercial position that those that have not. Similarly, thinking about how a business treats its staff, contractors and all stakeholders will minimise the risk of reputational damage. And being able to demonstrate this through a robust sustainability framework, we believe, will lead to higher exit values. So, whilst trying to do the right thing is at the core of our values, our success as a VC [venture capitalist] will ultimately only be measured by investor returns."

Key takeaways

- Investing for impact is not about compromising on portfolio return, liquidity or acceptable levels of volatility – all of these can be accommodated as well as in a traditional portfolio.
- More than this, companies that do trade sustainably and deliver solutions to global concerns maybe more future-proofed than those that do not.

Why is this right for our family?

Anyone advocating for impact, needs also to describe and articulate the relevance of the investment approach for the family. Impact investing might be a "good thing" but why is it "our" good thing?

This is part of who we are

Getting to an answer as to why this agenda might be right for a particular family typically draws on a family's values and stories from their business or philanthropic activities.

Across all the family offices we interviewed, principals cited elements in their business history that spoke to a strong agenda of corporate responsibility and going further to deliver positive impact. For example, one family's financial success had partly come from growing a business of environmentally friendly cleaning products: for them the link to impact investing was intuitive. But for less impact-orientated mainstream businesses there was always a history of which people were proud: be it a charity partnership, a community or place invested in, or a valued staff programme.

For Jasper Smith at Vala Capital for example, his interest in ocean conservation started as a philanthropic passion. As he sought to bring more assets to bear to the problem, he was introduced to the idea of deploying investable assets to support ocean health. For PFC this was the case as well: drawing the connection between the Marzotto family's tradition of philanthropy and its relevance to their investments.

There is a powerful argument to be made that many families are already intuitively impact investing through the assets that they hold and manage. Modern

Figure 3: Impact investing - spectrum of engagement

	Sustainable investing	Impact investing (finance first)	Impact investing (impact first)
Product example	• Actively managed impact strategy targeting specific outcomes by investing in listed markets • Social and green bonds strategy • Private equity funds taking an impact investment approach	• Investment in housing fund that supports ending homelessness or supports women fleeing domestic violence • Investment in debt fund that invests loans in social purpose organisations	• Small direct equity stake in a retail-led or product-led impact start-up
Engagement opportunity	Next Gens (20+) get to understand broader capital markets approaches and have conversations with mainstream managers	Next Gens (20s+) can get to grip with investment principles, see potential at a bigger scale including site visits, and get exposure to boutique managers	Younger Next Gens (13-30s) can have the product at home / visit the outlet / see the impact / meet the founder/s

estate management, for example, is anchored in concepts of partnership with local communities and environmental sustainability. Families are using for-profit business models (renting out properties, running active farms, rewilding and selling renewable energy back to the grid) while seeking to create places that advance positive impact for people and nature. When making the argument for a change in a family's financial investment approach, anchoring the discussion in terms of continuity and evolution of the approach already clearly applied to other family assets can be a helpful way into the conversation.

There is further detail on this in Section 9: Applying impact principles across multiple family entities.

This is core to our purpose and meaningful for us as a family

Family offices can frequently find meaning and purpose by developing a coherent impact investing approach. Coalescing around an impact goal that is beyond wealth – a better society, a more sustainable environment – can bring pride and family connection. This is particularly the case when a family has exited its family business and may be looking for a new sense of shared meaning for its entities and members. One family, the Scotts, went through a process of finding new purpose after exiting two sequential family businesses: first an insurance business; and then the sale of a successful multi-family office. The Scotts found that the concept of 'purposeful stewardship' was the most apt way of expressing their values as a 'financial family', and that itself had a read across to their investment approach.

The potential of the approach should be motivating too. As Rennie Hoare of private bank C.Hoare & Co puts it: "There are not many pools of capital that can work on this scale to deliver positive impact. Family offices can get excited about the powerful change that they can make. People are looking to governments and international players to act, but families are in a space where they can move things quickly and at scale. This is an energising agenda and a space where your impact can be bigger than just your assets."

Engage next-generation family members

There is also an important role in this work for engaging the next generation and transforming ambivalence about wealth to a strong sense of agency. A consistent theme in interviews with family members was the complexity and psychology of inherited wealth: beneficiaries of inheritance might experience conflict about the wealth's origins or be struggling to understand how to find purpose when presented with a sum of capital that they had no role in creating. As one principal put it: "I want my kids to want to inherit what

I have created: if they do not like it, then I have failed. What has it all been for?"

One principal found impact investing a powerful way to help their children understand wealth, its responsibilities, and its potential for driving positive outcomes, framing it as "doing good with what you have got". They described an Impact Investing Spectrum of Engagement, see Figure 3, as a useful companion piece to the Spectrum of Capital detailed in Figure 2. While impact investing has often used this spectrum approach to describe its relationship to philanthropy and to the broader capital markets, the Spectrum of Engagement can show how different types of impact investments can register and connect with different types of family member.

Making the arguments

In terms of conducting successful internal advocacy with family members, there are two approaches that jump out from our interviews: bilateral conversations and set piece talks.

A range of informal bilateral conversations with family members, particularly with the nominal head of the family (usually the wealth creator) is an essential first step to securing family buy-in to an impact investment shift as Figure 4: Family influencing examples describes. Understanding each family member's values, passion or reticence for the

Figure 4: Family influencing examples

Explore specifics

Gio Notarbartolo from PFC shared that she went to each family member with UN Sustainable Development Goals (SDGs) cards made by Tribe Impact Capital[31] and started asking different family members, "What do you value personally? Which of these 17 goals are most important to you?" This opened up much more specific conversations about what impact each person wanted to have.

Be educational – not prescriptive

For one impact advocate, their bilateral conversations with senior principals, other next-generation family members and investment professionals ultimately yielded a more set piece event on social enterprise and impact investing, which all family members joined to learn more about the approach. Broad educational events that family members and investment professionals are free to join give everyone in the family office a common language for the work, and exposure, in a non-binding way, to a field that could shape a family office's future.

Tie arguments back to family heritage and values

Gio Notarbartolo at PFC shared that her family, "have an annual family meeting where there is a space to give your updates. I developed a presentation about impact investing, linking it back to what my grandfather had done at the level of the enterprise. I used that platform to speak about what is going on in the world and what had touched me and what I thought it was important to spend my time on and all about this area of investment that other family members may not know about. In 2016, no-one in my family had heard about impact investing – but actually it was not so different from what our grandfather had been doing in terms of being a pioneer with a social way of doing business."

Get the tone right

Impact advocates talk about the importance of "delicate influencing." One next-generation family member seeking to encourage a shift, anchored it in concepts of stakeholder capitalism and started talking to the senior principals in their family in a "non-threatening" way. These bilateral, sensitive conversations can help to 'prime the system' and lay the groundwork for when the "windows of opportunity" – succession, sale of a business or key asset – present.

Select the right opportunity for set pieces

Set piece talks have typically been at family councils or family gatherings: here the internal advocate has found space on the agenda to present their arguments. Typically they have done a thoughtful presentation that outlines the arguments listed above, in combination with some big picture observations about the state of key environmental and social issues.

adopting this new approach can surface allies that will endorse the advocate's set of ideas, and additionally those individuals who might not be comfortable with the change – whose concerns on (for example) returns, or product availability, can be allayed with data points, or introductions to key players in the market.

One powerful extension of the bilateral conversation is to enable traditional investors to own the impact investing agenda. Bringing traditionally-minded investors into the thinking, framing the opportunity, demonstrating the evolution, and ultimately enabling them to lead the charge, is one of the surest ways to embed the approach and overcome obstacles.

Getting a decision

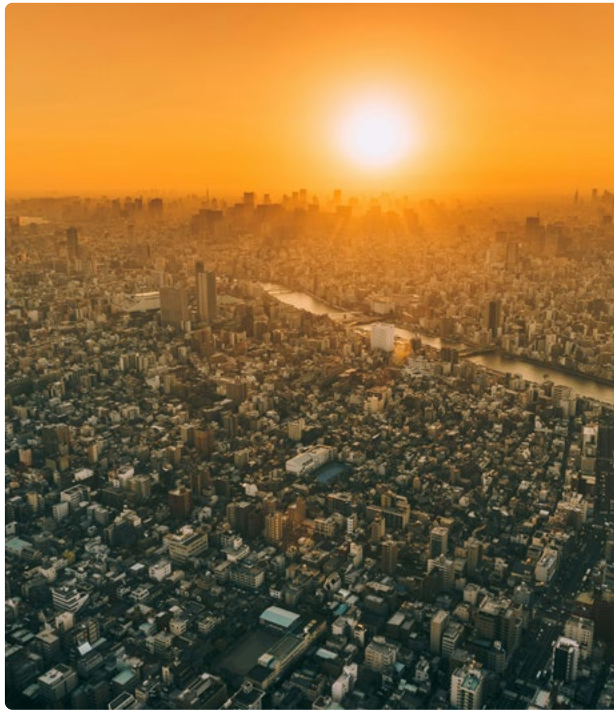
Securing a clear mandate to do this work can be complex and difficult as family offices often have less formal governance processes than might be found among other major capital investors.

A vital step then is to establish robust governance. In the Scott family, a key governance intermediation tool was its Shareholder Advisory Committee – a place to talk to family shareholders that was not the board of directors or the broader family council. Given the family has over 130 living family members and 60 shareholders, the Shareholder Advisory Committee provides a way to get all the family owners into the room, representing each family branch, act a decision-making forum and allow new approaches or challenging issues to be explored. It was through this committee that an interest in a more sustainable investment approach was able to gain traction.

For some families the "decision" arrived at might be an intermediate step on the way to fully embracing impact investing. In circumstances where views are entrenched on both sides – some eager to do it, others more comfortable with traditional investment approaches – it can be better to accommodate both views in order to make progress. Resistance might be answered, for example, by initially introducing ESG integration and setting net zero asset allocation targets that can address 'stranded asset' risk (the risk that assets lose their financial value in a low-carbon world). This can then be complemented by a separate impact investing approach for others, delivered by amending existing structures so that family members can select between different mandates. The baseline of the family office starts to manage financial risks from ESG factors, and family members seeking to drive for more impact can "opt-in" to those more impactful outcomes.

Key takeaways

- Impact approaches that genuinely embed a family's values and respond to their history, can give family members a greater sense of ownership and a sense of shared purpose.
- If any family members are resistant, an intermediate approach (for example, greater ESG integration in the portfolio, or a small, standalone impact allocation) may achieve more progress than holding out for a wholesale move to impact.



3.4 **Articulating family values**

Having obtained an in-principle commitment, the next question is how to take this desire to deliver impact, and make it manifest in key documents? This can be particularly challenging when everyone might agree on the generality – "Let's explore impact investing" – and then disagree on the detail – "Let's target poverty / climate change", "Let's go 100% impact".

For some this detailing of values is intuitive and immediate, particularly among "impact by design" family offices where the lead principal is shaping the approach according to their own values. For Jasper Smith at Vala Capital – inspired by companies like Patagonia, his own passion for oceans and the environment – an articulation of values was easy to find: "Planet-first". This simple moniker was then cascaded across the family office:

> We made governance changes such as who was on the investment committee and what their outlook on life was.

"We made governance changes such as who was on the investment committee and what their outlook on life was." We have only hired people who share those values, including a firm belief that effective deployment of capital will be key to making the changes our planet requires."

For other family offices, a structured workshop process may be needed to solicit collective values from family members. This can be fun, but (some have reported!) can also be awkward, as it is not easy to identify intergenerationally the common thread that connects families. It is often helpful if this structured process is led by an experienced and neutral third-party facilitator. They will be practiced in knowing how to encourage frank, cross-generational and deep discussion about values, and how best to come to common ground. As mentioned above in 'Section 3 under 'This is part of who we are', family experience such as business and philanthropic activities, how it has approached estate management, and stories from family lore can act as stimulus for discussing and determining what values are already shared and practised.

Values lists can also assist families in articulating their positive impact ambitions. The American researcher and professor Brené Brown has comprehensive list of values she details in *Dare to Lead*[32] that can support these sessions – see Figure 5. Another good tool is the United Nations Sustainable Development Goals, which can open up discussion about global issues, and their relevance to the family. Particularly when working with larger groups, workshops where family members can vote for different goals can help to structure a conversation about what values a family has, what impact areas are important for different family members, and what themes they want to pursue.

Figure 5: List of Values from Dare to Lead by Brené Brown

dare to lead™

List of
VALUES

Accountability	Ethics	Kindness	Self-respect
Achievement	Excellence	Knowledge	Serenity
Adaptability	Fairness	Leadership	Service
Adventure	Faith	Learning	Simplicity
Altruism	Family	Legacy	Spirituality
Ambition	Financial stability	Leisure	Sportsmanship
Authenticity	Forgiveness	Love	Stewardship
Balance	Freedom	Loyalty	Success
Beauty	Friendship	Making a difference	Teamwork
Being the best	Fun	Nature	Thrift
Belonging	Future generations	Openness	Time
Career	Generosity	Optimism	Tradition
Caring	Giving back	Order	Travel
Collaboration	Grace	Parenting	Trust
Commitment	Gratitude	Patience	Truth
Community	Growth	Patriotism	Understanding
Compassion	Harmony	Peace	Uniqueness
Competence	Health	Perseverance	Usefulness
Confidence	Home	Personal fulfillment	Vision
Connection	Honesty	Power	Vulnerability
Contentment	Hope	Pride	Wealth
Contribution	Humility	Recognition	Well-being
Cooperation	Humor	Reliability	Wholeheartedness
Courage	Inclusion	Resourcefulness	Wisdom
Creativity	Independence	Respect	*Write your own:*
Curiosity	Initiative	Responsibility	
Dignity	Integrity	Risk -taking	
Diversity	Intuition	Safety	
Environment	Job security	Security	
Efficiency	Joy	Self-discipline	
Equality	Justice	Self-expression	

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There is no "right" way to synthesize these workshops into a statement of values. Some families have created statements that feel formal and typical to an investment context; others are more personal and informal. Across the piece however, they are short (fitting on one page), are co-created by key principals and are simply and directly communicated. The statement of values is the starting point for the more formal impact strategy: the words chosen provide shape to the ultimate impact investment strategy and direction to the professionals delivering it. Output delivered from these session/s in turn can be used to generate more detailed investment policy statements and impact frameworks.

An example from the formal wing of the values statement might detail:

- That capital should be aligned to family values, and some detailing on what those values are.
- Reference to external environmental and social reference points that shape this set of values: for example alignment with the 2015 Paris Agreement on global warming, or with some or all of the UN Sustainable Development Goals.
- Clear steers that there is family interest in delivering impact investing using the Spectrum of Capital shown in Figure 2 as a reference point.
- Narrative around how the family seeks to balance impact against achieving financial return, and whether each are of equal or differing importance.

Key takeaways

- Take the time to explore what the family's values are to find the common thread between family members. Even if this can be awkward and lead to difficult conversations – it will set a good foundation for the future.
- Keep a statement of values succinct – landing on a simple, authentic phrase like Vala Capital's "planet-first" can act as a powerful and memorable steer for everyone.

3.5 **Creating an impact investing strategy and theory of change**

The work to articulate family values can then cascade across a multiplicity of governance tools for a family's strategy. The most important of these are the impact investing strategy and theory of change, which are primarily internal tools; and the investment policy statement (IPS) – the document that will guide both internal and external professionals when determining appropriate products to deliver the agreed strategy (see Section 6 for about creating an IPS).

The impact investing strategy

For some families, developing the impact investing strategy is a natural next step prior to creating the investment policy statement. As one family office outlined, one of their "interesting false starts" was trying to detail values directly into an IPS without a period of rigorous reflection on what translating their values into an impact investing strategy might look like. Their first run at this resulted in generic broad brush impact statements in the IPS. Due to the lack of detail, investments were proposed under the strategy that did not meet the family's expectations. While professionals and the family thought they had a common understanding, they did not. The family office thereafter went back and did more work to articulate their own approach to an impact investing strategy, and thereafter could better direct managers to what they wanted to achieve in the market.

Creating an impact investing strategy can be simplified into six key steps that reinforce and build off another (see Figure

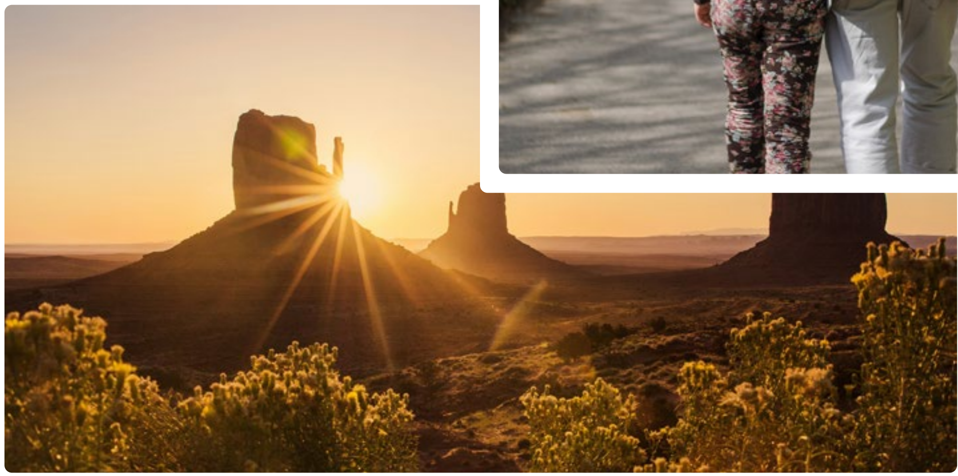


Figure 6: Building blocks of an impact investing strategy

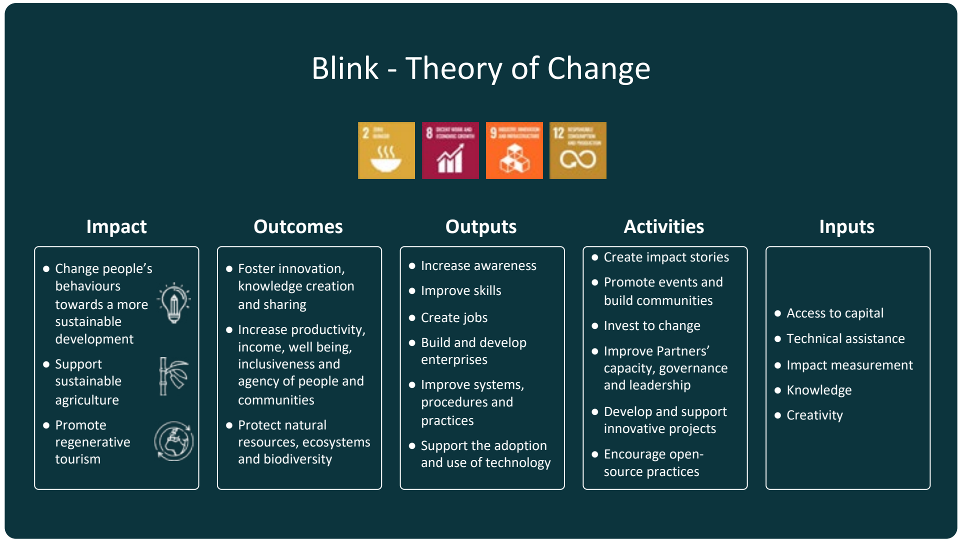
1. The problem	2. Mission	3. Theory of change	4. Metrics	5. Impact reporting	6. Impact management
Outline the challenge or issue as we/stakeholders see it	The work we will do to contribute a solution to that problem	Our hypothesis of how we meet our mission	How we will track our success	How we will report to stakeholders on the efficacy of our strategy	How will we improve the delivery of impact

6: Building blocks of an impact investing strategy). At this stage in the impact investing journey, a family will mostly be concerned with the first three of these building blocks: (1) getting to grips with the social or environmental problem they are seeking to solve (which we will be informed by their statement of values), (2) reflecting on their "mission" or the work that they as a family office are intending to do to address the problem, (3) and thereafter detailing a theory of change, or how the family expect to achieve its mission. This helpful 'theory of change checklist'[33] resource from GIIN can help a family walk through its strategy process.

This is the start of articulating your impact investing strategy. The impact measurement, management and reporting approach one can take (elements 4-6 of Figure 6) is subject to further discussion in Section 11: Impact measurement and management.

The Blink CV team went through a rigorous process to settle on their impact investing strategy and framework. They hired an impact investing specialist who

Figure 7: Blink CV's Theory of Change



worked together with the family and the other family office professionals to develop a theory of change for the family office, and started to detail how the family would seek to pursue these outcomes. Their three goals are to:

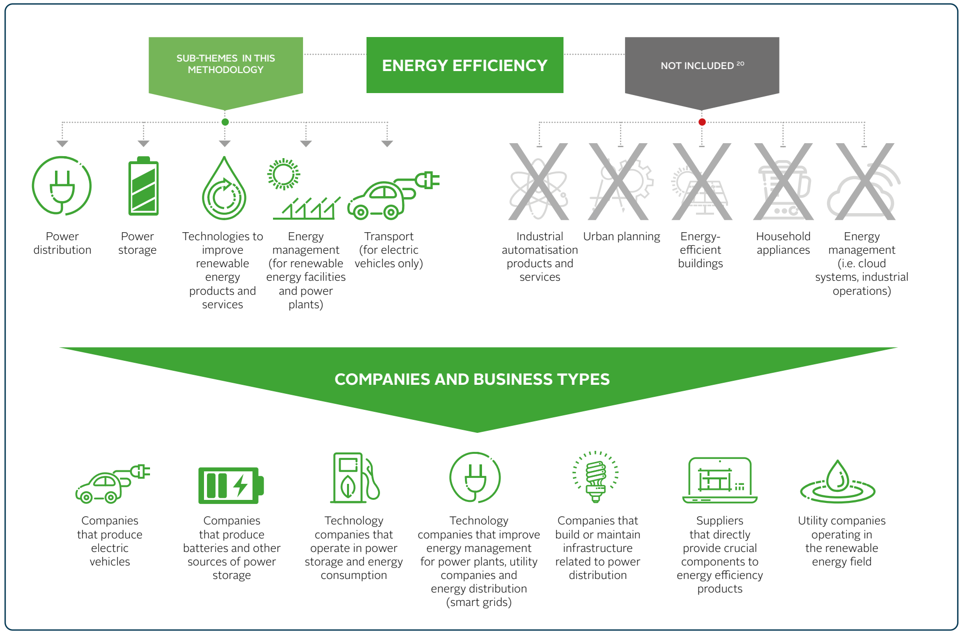
- Influence people's behaviours towards a more sustainable future;
- Support sustainable, innovative agriculture initiatives; and
- Promote regenerative tourism practices.

Blink's theory of change seeks to articulate how these goals above will be achieved – see Figure 7. They highlight how the goals are connected to: the long and medium-term expected social and environmental changes (outcomes); short-term changes (outputs); activities necessary to achieve the outputs and outcomes; and the inputs or resources used to develop their activities. The aspiration is that Blink's theory of change guides all decision-making processes although they believe that a theory of change is not static and may change in the future to reflect the family's evolving impact aspirations and goals.

A great stimulus to guide thinking on impact strategies and how that might lead to an investment approach, (that can also be helpful as you start to craft your IPS), is the Market Map created by the UN Principles for Responsible Investment (PRI).[34] This gives a detailed breakdown of investment themes (see Figure 8: Illustrative resource efficiency sample from the UNPRI Market Map, which gives an example detail on energy efficiency) and opportunities that could unlock UN SDG goals across eight different themes: energy efficiency, green buildings, renewable energy, sustainable agriculture, sustainable forestry, water, affordable housing, education, health, and inclusive finance. As families work up their theory of change, this document can help them think through the investable solutions that could be a part of their future portfolio.

At the initial stages, it is often better to stay broad, gain experience in asset classes that have a longer track record in impact, and focus in over time. There are some impact themes and asset classes that are more well-trodden than others: climate mitigation and adaptation strategies, financial inclusion, and affordable housing, for example, all have a strong track record in terms of both impact and financial performance. As many experienced practitioners share "do not let the perfect be the enemy of the good." When reflecting on your impact framework, that is a principle to bear in mind.

Figure 8: Illustrative resource efficiency sample from the UNPRI Market Map



Key takeaways

- An impact investment strategy and theory of change are primarily to be used internally to ensure a common understanding of what impacts a family wishes to achieve and through what investable solutions.
- Although it is highly beneficial for families to develop these documents themselves, the help of a third-party specialist as a guide and sounding board can be valuable at this stage.
- Resist the urge to allow impact themes to get too granular or complex at this stage: better to start in mature impact areas and build confidence.

3.6 **Developing an investment policy statement (IPS)**

The statement of values and impact investing strategy lay the foundation for an impact investment policy statement (IPS). For many this is the lynchpin of the strategy: it is the interlocutor between the family's investment ambitions, and the capital markets managers that will carry out the investment mandates. For most families doing this work, the IPS will need to either be created (if the family office is new) or revisited (if an established family office).

The distinction between an impact IPS, and a traditional IPS is the clear outlining of values and impact intention threaded through the document.

For many this is the lynchpin of the strategy: it is the interlocutor between the family's investment ambitions, and the capital markets managers that will carry out the investment mandates.

The IPS will detail:

- The values and principles that are driving families to do this work (already documented in the statement of values and impact investing strategy above).
- The macro "why" of the family's intent: the set of beliefs that the family has around social and environmental factors and the interplay with investment outcomes. This might include mention of key concerns such as natural capital depletion, climate risk, political risks from social inequality etc. It might also make reference to global frameworks like the Paris Agreement or UN SDG alignment.
- Clear steers on the type of opportunities the family would like to see and not to see:
    - Targeting specific impact goals (use of the UN SDGs as a framing can be helpful), harnessing the UNPRI Market Map sampled in Figure 8 in Section 5. Creating an impact framework and theory of change to give indicators of where one welcome opportunities – bearing in mind the danger of overspecifying.
- Steers on how to think about how capital should be allocated across the Spectrum of Capital shown in Figure 2: this could be framed as the targeted percentage for strategies that avoid harm, benefit stakeholders or contribute to solutions. It could also be framed as the split between responsible and sustainable investing approaches, finance-first impact investing, and more concessionary, impact-first social investment strategies.

  - The approach that should be taken on asset allocation: private/public markets split, equities versus bonds versus real assets.
  - Approaches to shareholder engagement and voting at AGMs.
  - Expectations around the impact measurement and reporting.
  - The geography that you would welcome investments in.
  - Details on exclusions.
- Clear steers on financial expectations including: risk / return / liquidity / income distributions / investment time horizon and the interplay with the impact investing approach. For example, what are the guardrails for financial return and capital loss? Would the family ever consider concede financial return in order to achieve more impact? On what grounds?

Helpfully, impact-led IPSs from a number of major investors are available for reference. Three IPSs that are especially clear, helpful and publicly available are from Friends Provident Foundation[35], FB Heron[36], and Rockefeller Brothers Fund[37].

Creating the IPS is a crucial step in a family's impact investing journey. Therefore, helping colleagues and stakeholders internally and externally understand and commit to the IPS is just as important. The section "Building and equipping an impact team" shares some of the steps that one family office, PFC, has taken to build and sustain a culture of understanding and commitment among its people.

Key takeaways

- The investment policy statement (IPS) is a critical tool to translate the family's impact investment ambitions into practical guidelines for all investment teams.
- A good IPS will clearly show how values are expressed as impact aims and how these then translate into potential asset allocation, with specific expectations on return, risk, liquidity and measurement and reporting.
- Be as specific in your IPS on the impact themes, assets and markets you do not want to invest as those you do.

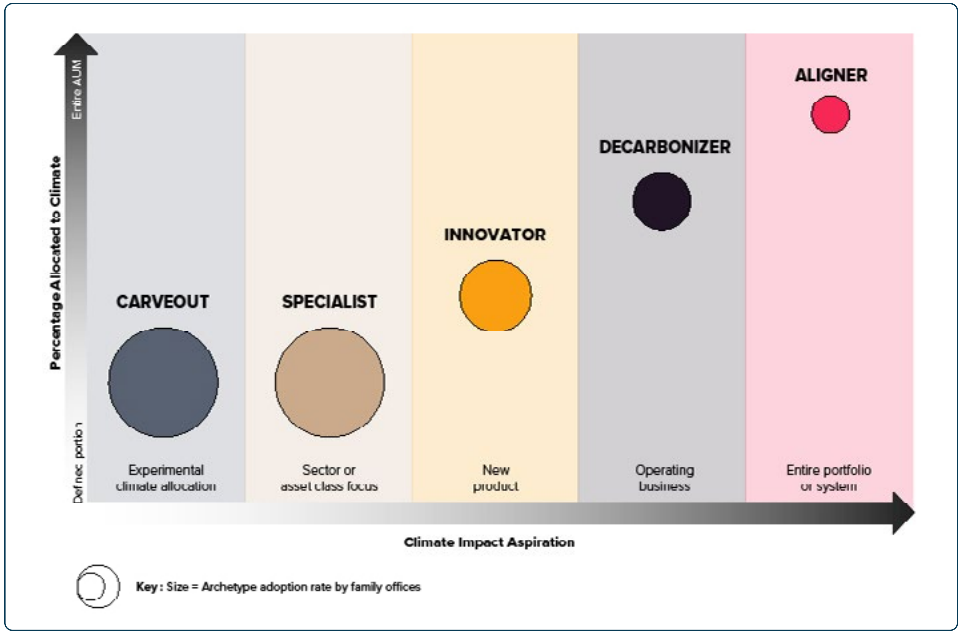
3.7 **How to start allocating capital for impact**

Two critical questions for family offices becoming an impact investor, particularly those in the "shifting to impact" category, is 'How do we practically start doing this work?' and 'How do we frame an experiment that will help us learn and grow in the approach?'

As with any investment strategy, it takes time to develop the approach, understand if the current managers can deliver on it, find new investment partners and ultimately start allocating capital. Across the interviews for this report, we have observed two main paths, each with two branches, that family offices take. The first path focuses on carving out an impact allocation: this can be achieved through either an investment selection or a portfolio approach (see below). The second path focuses on the whole portfolio and potentially considering a move to 100% impact. In practice, many families have moved between these paths over time.

These alternate approaches can be mapped on a graph with the Y axis focused on % of assets allocated to impact and the X axis, the ambition of impacts targeted. For example, in the climate space, CREO has developed five archetypes that define climate strategies implemented by families (see Figure 9). It presents a carve-out as one of the two most popular archetypes (as measured by adoption rate among family offices), which uses a defined portion of assets as an experimental allocation. By contrast, the rarest archetype is currently the 'Aligner' category – the family office that mobilises its entire portfolio towards climate and, as a result, aims to deliver systemic change in the fight against climate change."[38]

Figure 9: CREO's Five archetypes of climate investing[39]



The Carve-Out – investment selection

A common approach is to carve out an allocation of 5-10% of assets under management (AUM) to experiment with impact investing. Investors will typically use an initial allocation – for example, £10mn – and identify individual impact investments to back, such as an impact private equity fund. The investment team will, in effect, extract this investment from the main investment strategy and take an expressly different approach with it. One family office spoken to had established a green bond fund with a £10mn allocation and were intending to invest the yield from it in high-risk impact venture capital (VC) opportunities, for example. This approach can be particularly effective within trust structures (see Section 9: Applying impact principles across multiple family entities) where the small relative size to the rest of the portfolio gives comfort to the trustees that prudence is still being maintained while the experiment takes place.

One risk of a carve-out approach is that the impact investing experiment can become marginalised. This is particularly the case if a specific team member is charged with the "carve-out" and they are siloed from the broader investment team. Reviewing an investment approach on the strength of one or two investments may also mean that categoric judgements on impact investing more broadly are made on the basis of the success or failure of a couple of investment choices.

The Carve-Out – Portfolio Approach

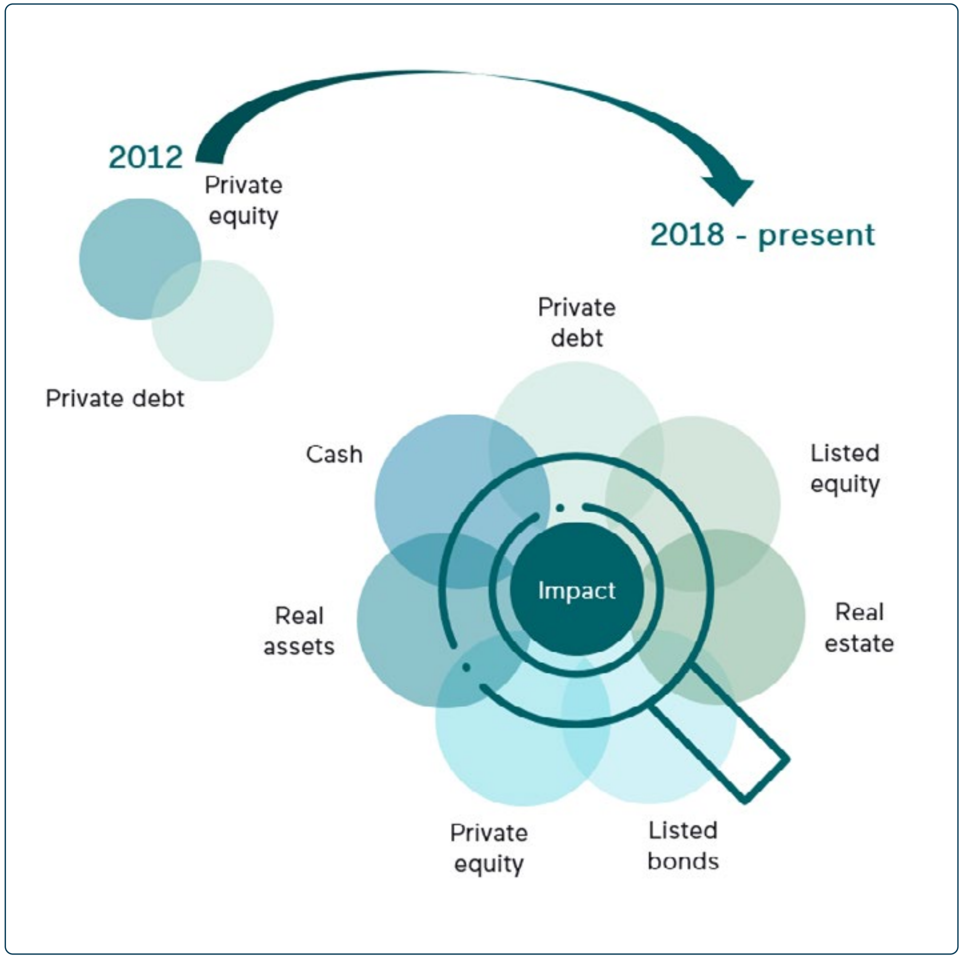
Another route, if the intention is still only to allocate 5-10%, is to create a portfolio approach where the carve-out is treated as a small, self-contained multi asset-portfolio, rather than just one or two impact investments.

Anthos, for example, started their journey using a carve-out private markets approach, only to change it to a broader multi-asset approach in 2018 (see Figure 10). They described the limitations of their initial approach: private assets by their nature have long lock-in periods, no liquidity and – particularly for the more risky venture wing of private capital markets – no guarantee of success. Additionally, many of Anthos's initial investments were catalytic (designed to catalyse investment from other investors by absorbing some of the downside risk), direct (and therefore less diversified than a fund) and impact-first (making financial return a secondary priority). While all of these investments may have yielded good results, the experience of them – concessionary, long pay-off periods, illiquidity – can come to dominate what people consider impact investing is, and can stall broader adoption.

As Lyn Tomlinson of Cazenove put it: "It's important to have good financial success with your first impact investments: you do not want them to become the cautionary tale. That is why you need to take a portfolio approach combining some venture that is strongly mission aligned, with a broader approach that delivers impact across asset classes."

The carve-out portfolio can include investment across a number of asset classes (for example, listed equities, private equity, bonds, and real assets) so the family office can get a real feel for how different assets relate to impact investing. A few impact managers are offering this asset mix, typically using a 'fund of funds' approach to ensure liquidity, diversify risk, and target investors' specific return needs (for

Figure 10: Anthos Family Office's change in investment approach[42]

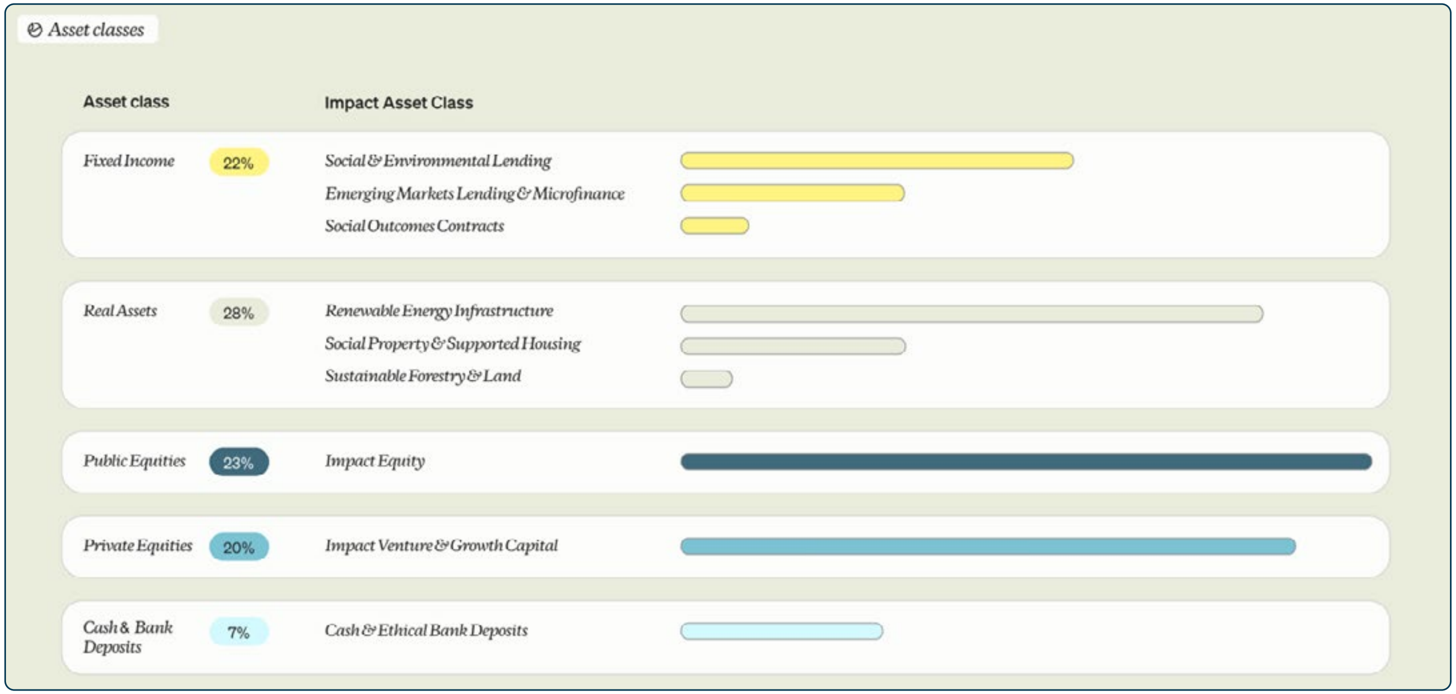


example, see Figure 11). This portfolio approach can be highly valuable in showing new impact investors how multiple asset classes can perform within an impact investing framework.

However, building a multi-asset strategy is not the only way to scale. Kunle Apampa at Capricorn talks about creating "circles of competency" as an impact investor: becoming dextrous in a specific sector or impact thesis and then steadily building on it. That of course, could be applied to a small carve-out – the key is that while small experiments are a great place to start, they are best conducted with a clear sense of how (and when) they will start to influence the broader portfolio.

Another important consideration in a carve-out approach is family engagement. Impact investing in a family office context is most effective when it makes both the investment and the family engagement case. Reflecting on the engagement spectrum in Figure 3, it may be that part of the driving interest in creating an impact investing strategy is to give children a greater understanding and appreciation of their wealth. Part of the carve-out portfolio might address that need very specifically – with a focus on smaller-scale retail or consumer businesses that children can visit with products they can experience for themselves.

Figure 11: Example portfolio mix from Snowball Impact Investment[43]



Tackling the whole portfolio – own what you own

Another way into impact is to interrogate the current investment portfolio. Instead of focusing on new allocations, understand what the family is invested in now and, as Confluence Philanthropy puts it, "own what you own".[40] This will involve categorising current investment approaches in a way that makes sense for the family office in tandem with impact investing frameworks. One family does this by delivering a compatibility check with the impact investing strategy it has detailed, asking managers to grade underlying holdings in their portfolio across the four buckets in Figure 12, with the ambition of tilting over time towards acceleration, and away from inconsistency.

PFC asks its managers across asset classes to situate themselves on the Spectrum of Capital shown in Figure 2. Instead of requiring impact product from every manager, PFC's approach is (in part) to keep holding what they own, but to educate and shift those they are currently working with. As Gullo Notarbartolo put it, "We ask people where do you sit? Are you responsible or traditional? How can we work together to progress you through the spectrum?" He frames the work as relational: ultimately changing the system will be about both owning what you own, and changing people's minds that things can be done differently.

> Instead of focusing on new allocations, understand what the family is invested in now and, as Confluence Philanthropy puts it, "own what you own".

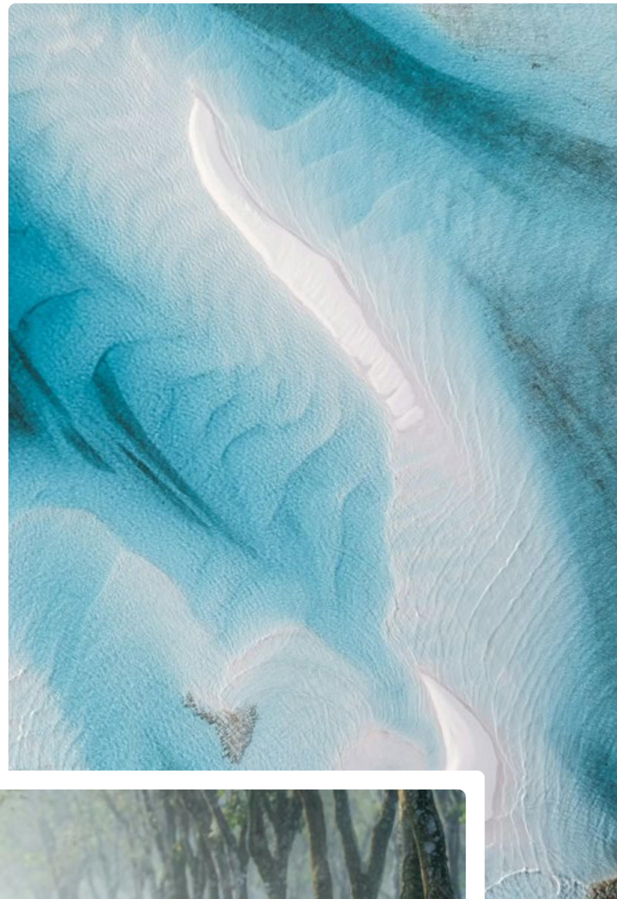
Figure 12: Appraisal of Impact

Inconsistent	Material negative impacts on the strategy
Neutral	No material positive or negative impacts on strategy
Contributing	Positive contribution to the strategy
Accelerating	Accelerating

Tackling the whole portfolio – building 100% impact

The fullest embodiment of this approach is building an 100% impact family office. Many of the case studies interviewed for this work were all ultimately pushing to this end. If starting with a blank slate as an 'impact by design' family office, crafting a portfolio that is 100% impact is possible; for those 'shifting to impact' the concept of 100% impact can be a helpful guide star that drives initial impact experiments (as detailed above) to build towards an ultimate scale ambition.

Just as family offices are extremely varied, so a 100% impact approach can play through in very different ways. Some family offices, leveraging their passions and unique capabilities – like Vala Capital – have adopted an venture



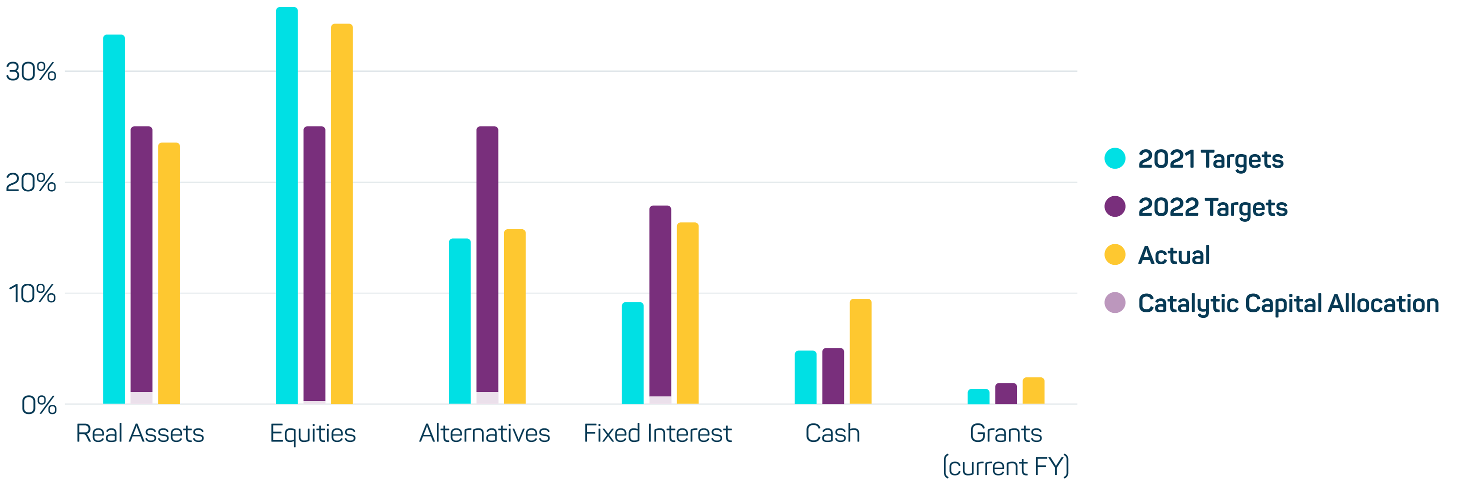
capital impact approach. Some, like Tripple, take a balanced portfolio impact approach. Others, like Capricorn and Anthos, have adopted an 'endowment style' total portfolio approach (TPA). This, they argue, enables more latitude and a more dynamic approach to risk, return and impact. For example, it enables an investor to use the lower volatility of some assets to offset the higher risk profile of others.

Most seeking to build an 100% impact approach will be taking a broad view across asset classes. For example, Tripple's focus is on "using our capital as a force for good, and help bring others along on the journey". They therefore developed a "vanilla" portfolio that could act as attainable inspiration to other investors. This involved creating a classic asset allocation to mirror what other mainstream asset owners were doing but with an impact investing approach (See Figure 13). Specifically, the Tripple team worked towards building a balanced growth portfolio aiming for long-term returns of 6-8% p.a., with that return providing an allocation equivalent to up to 2% p.a. of their assets to be used for grant-making.[41]

Key takeaways

- A carve-out approach, where 5%+ of the portfolio is allocated to impact, can give family members confidence to try new approaches.
- But any initial allocation can benefit from being diversified enough that stakeholders get an accurate experience of how impact investments perform in different asset classes and what they can deliver – avoid the first allocation to impact becoming "a cautionary tale".
- Instead of initially focusing on new allocations, an interrogation of existing investments and encouragement to gradually progress them across the 'Spectrum of Capital' towards impact can be a practical approach.

Figure 13: Tripple's asset allocation and targets[44]



3.8 **Building and equipping an impact team**

Particularly in an 'impact by design' family where a whole new entity is being created, principals will initially drive the work of developing an impact investing approach. Indeed, there may be no "team" to speak of.

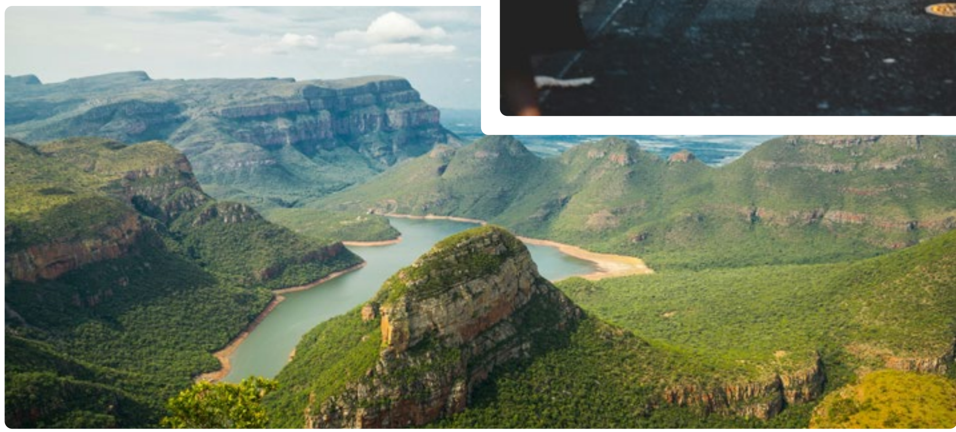
For the first two years at Tripple, the work of building and running a family office was done by the three sibling principals, "moving at the pace of thoughtfulness". In other words, they allowed themselves the time to learn about the sector, what they wanted to achieve, and how they wanted to deliver it. After two years, they brought in 3.5 colleagues (an investment associate, administrative support, a general manager, and a part-time philanthropy manager). Delivering the family office investment approach now takes this team of 3.5, plus the three siblings working one to two days a week as active board members.

For each of the family offices spoken to, an impact investing lead who is experienced and adept at these novel approaches was key to the core investment team. Crucially, the impact lead was integrated into the main investment team and did not sit apart (for example in the philanthropy team). As Claudia Coppenolle from The ImPact put it, an impact investing approach should be considered a broader "change management" strategy, not a satellite approach. That accords with Jasper Smith's experience. The majority of his team bought into the 'planet-first' vision from day one. But for some, particularly those on the VC deal-making side, there "was a perception that impact meant no profit – or slower profit". A process of change was therefore required to create a team that was fully on board with the approach.

Internal culture is important to assure ongoing team understanding and support. At PFC, the professional team have an array of internal development opportunities to keep them focused on and inspired about the family office's impact goals. These range from weekly mindfulness sessions to a monthly cineforum where impact documentaries are screened and discussed to a four-day week to support a work/life balance.

Key takeaways

- Principals of completely new 'impact by design' family offices must usually be prepared to lead this work before starting to bring a team on board.
- A dedicated impact lead, integrated into the main investment team, is a key hire.
- Building a culture where all team members value the delivery of impact as much as financial return can take time and a readiness for some turnover of personnel.



3.9 Applying impact principles across multiple family investment entities

Families have a multiplicity of wealth and investment structures that can be used to deliver impact. They may have family-managed estates, philanthropic assets used to power grant-making, active business ownership interests, and wealth in trusts – all managed by or adjacent to the family office.

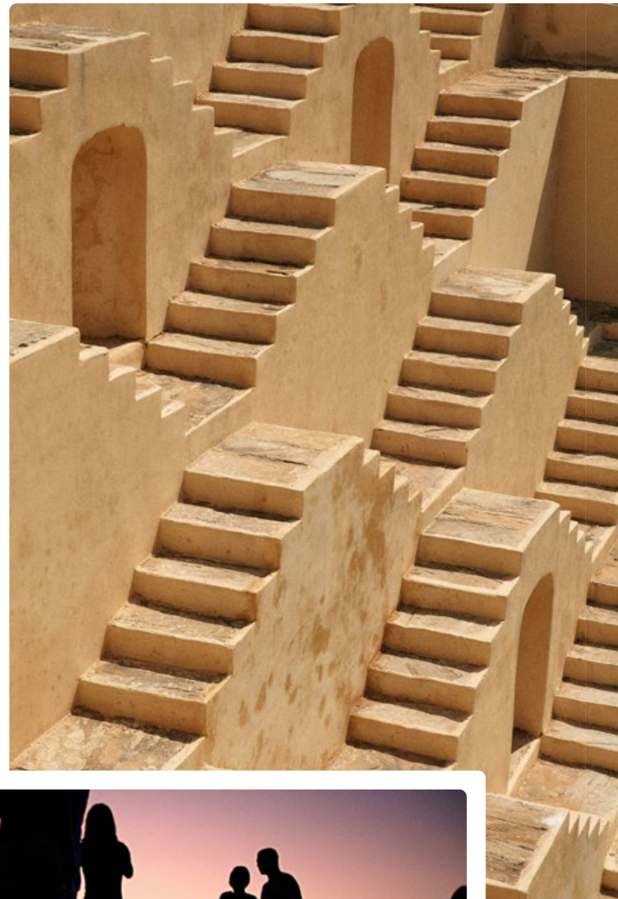
As a family approaches its impact investing journey it is worthwhile exploring how all these assets can deliver impact. Across our research, we found multiple families were exploring and delivering thoughtful work to deliver impact across their different entities. And often, delivering impact in one area had a powerful read across and relevance to another.

Delivering impact in family estates

Many families' impact investment commitment is first expressed in their family estates. Here they are often using for-profit business models while delivering positive impacts for local communities and the broader environment.

Examples of families delivering outsize impact include one estate comprising over 15,000 acres of hill lands and uplands with operational farms, 30-40 houses, and an active fishing and shooting business. The estate plays a key role in local infrastructure, community work and housing, seeking to deliver positive impact in a multiplicity of ways. This includes: housing key workers; setting up a food bank and supporting those struggling particularly during the Covid-19 pandemic; and supporting local charities that are delivering vital social services on issues like addiction and beyond. Over eight years the estate has also taken steps to drive pioneering environmental projects: it has planted over 250,000 trees and started actively restoring 750 acres of peatlands, using a carbon credits programme, claimed through the greenhouse gas emission reduction delivered, to go further and do more. Across the board, the management and the family combine the financial success of the business with a simple maxim: "How can we help, and how can we make it better?"

In London, the Cadogan family own 93 acres of Chelsea, and have been custodians of those properties for over 300 years. The family office that manages the estate is focused on long-term, intergenerational thinking, and as a result considers how best to be good, responsible neighbours, as detailed in their Chelsea 2030 strategy.[45] That impact orientation is visible at the Pavilion Road development, part of London's most valuable real estate, running parallel to Sloane Street.[46] Here the family could have developed the old garages into prime, luxury, retail and residential opportunities. Instead they created a "pedestrianised village hub" with



rents kept lower than the surrounding properties in order to enable independent stores to be the tenants. More broadly, community housing is provided across the estate, with key worker housing at cheaper rents made available to those working in local primary schools and hospitals. The family ownership and commitment over the long-term to the place means that the family office has more licence to make impactful choices.

Impact investing in family philanthropy

All of the family offices spoken to across this project have active philanthropic programmes alongside taking an impact investing approach with their wealth. For many of those interviewed, exposure to impact practices had started with philanthropy. For some it was in the investments funding their grant-making where their impact investing journey began.

Impact investing is highly compatible with family foundations. These are purpose-driven entities in which typically only 5% of the organisation's capital is delivering positive impact through the grants the foundation makes from the yield on their investments. Families are recognising that, given today's growing impact investment market, they can start to activate the other 95% of capital to deliver positive impact too.

That is the case at DOB Equity. The family office was capitalised by the sale of a Dutch origin retailer in the early 2000s. The family were highly committed philanthropically, funding schools and hospitals in the Global South. The impact investing journey started for DOB, when family members began to focus on improving the financial sustainability of the schools and hospitals they were partnering with, for example, by seeding businesses like bakeries adjacent to the schools to help create ongoing funding streams. Ultimately, this idea of enterprise sustainability combined with impact would become manifest in a fully-fledged impact investing private equity approach deploying €75m across 26 portfolio companies, with a locally-led office in Kenya.

DOB is a highly advanced example of evolving from philanthropy into impact investment. But many families will have a charitable foundation that is doing a small amount of impact investing within their programmatic work. The challenge is that there is often limited read-across from that investment activity to the broader family wealth entity where traditional investment approaches will usually maintain precedence.

For those families that do have their family wealth entity and their charitable foundation/s within one investment vehicle, the opportunity to build connections and education on impact investing across teams is huge. A family foundation that is delivering impact investment as part of its day-to-day can act as a helpful bridge and tool for family offices to learn about it too. Conversely, the foundation team can support the non-impact professionals in developing impact strategies, and helping to measure and manage the outcomes they deliver. Global peer-to-peer network Toniic has created a helpful analysis of 18 of the foundations that it works with that have become 100% impact:[47] These examples highlight how investment approaches that are becoming more common in family foundations can also be highly relevant to those same families' personal investments.

Families adept in impact investing today - like PFC, RS Group and Tripple - ultimately come to consider their activities across the Spectrum of Capital shown in

Figure 2. They see philanthropy as an extension of the same impact strategy that is playing through their investment approach. Generation Pledge, a network of next-generation inheritors, refers to the concept of PolyCapital: the idea of driving "economical, social, career and political capital for impact"[48] and seeing every aspect of a next-generation person's capabilities as a different tool for advancing positive change. For longstanding impact investors and philanthropists, that fluency becomes baked into the team. RS Group looks for people "who already have a blended mindset about capital". At Capricorn, every member of the team is tasked with evaluating impact. There is not one investment team member that is the "impact person" the whole organisation is impact fluent.

Impact investing in family business

Family offices typically emerge from the fruits of a successful family business, with many family offices continuing to have both major ownership stakes in those origin businesses and be directly involved operationally. These major business holdings can be fertile ground to deliver impact: both by advocating for better sustainability practices within the businesses themselves and by encouraging the financing of sustainable ventures that could be solutions to the social and environmental issues that the business is facing.

PFC, for example, is a majority shareholder in global clothing brand Hugo Boss and holds two board seats. Although fashion is one of the most polluting industries in the world (and therefore seemingly at odds with PFC's impact work), it took the decision to maintain its holdings and use that ownership position to be an advocate of greater sustainability within the business and hopefully, in turn, influence the wider fashion sector.

An additional approach that some families are taking is impact corporate venturing. One example is the Swedish impact fund FMG Circular Invest. This is a joint investment initiative between Feralco Group (a leading supplier of water treatment chemicals) and its family office owner Mellby Gård, the purpose of which is scale up sustainable water treatment solutions. FMG Circular Invest invests in businesses that are innovating more sustainable cleaner water solutions. Clearly, if successful, these innovations can thereafter be directly integrated into Feraclo, supporting the Mellby Gård family both in its impact and financial ambitions.[49]

Impact investing in trust structures

Next-generation asset owners interested in impact may also wish to invest within trust structures. Trusts are key tools for intergenerational wealth transfer and will often be a major vehicle for family wealth. However, becoming an impact investor within a trust can present its own challenges due to trusts' unique governance structure and overarching legal rules and fiduciary principles. These would normally include the duty to take and consider professional investment advice, to review the investment portfolio regularly and to ensure the investments are suitable for the trust, taking account of the settlor's wishes, the needs of beneficiaries, the law governing the trust and the tax treatment of the investments.

In trust structures, the beneficiaries may be recipients of the income (and also ultimately the capital) from a set of investments, but they have limited rights in relation to the investment strategy. The responsibility for the investment strategy is owned by the trustees who are appointed by the settlor (typically the initial wealth creator) and may serve for many decades. A trustee is also often a unique combination of the personal and the professional: they might be a longstanding family friend, a relative, or the trusted counsel of a now-deceased patriarch or matriarch; equally they could be a family professional adviser or a trust company whose directors manage the trusteeship. The latter is most common for trusts set up in offshore jurisdictions. Individual trustees are typically older and may have a career or experience in more traditional investment practices. The reality is that these individuals – acting always in their understanding of the fiduciary duties they owe the trust fund and the beneficiaries – can be reluctant to try new ways of delivering investment.

Additionally, all trustees are bound to act for the benefit of the trust as a whole, which may be multi-generational. They may also be potentially sceptical about an impact approach and it is evident that professional trustees may feel particularly reluctant to make a radical change, particularly during the settlor's lifetime and potentially against their express wishes.

Across this project however, we have spoken to many trustees that are embodying the idea of a "modern trust", navigating barriers to achieve impactful outcomes. Ultimately, these new trustee practitioners advocate that being a modern trustee entails having a partnership approach with beneficiaries, getting to know them and their passions, and being ready to have conversation on social and environmental issues, and how that can and should play through to influence the investment approach.

A few points to bear in mind when seeking to introduce impact into a trust structure:

- **Evidence the potential for returns:** Trustees are bound by fiduciary concepts of "prudence" in investing and a mandate to "preserve and enhance" the capital they oversee. Scepticism about impact (particularly among offshore trustees) may therefore be anchored in concerns about financial performance. Beneficiaries wanting an impactful approach therefore need to share data evidencing that the market can deliver risk-adjusted, market-rate return. Being able to show that impact can play a role in a commercial portfolio will give comfort on the fiduciary side. Beneficiaries should be prepared to speak to all the headline information in Section 2: Getting informed about the market.
- **Seek out trustees with experience in sustainability:** There is a new generation of trustees including professional trust companies that have made a virtue of competency in sustainable finance. Although sustainable investing is not impact investing, many investment management firms advising trustees now often start from an ESG perspective so trustees have the confidence to hold more impact-driven conversations. Working with trustees and investment managers that "get" the importance of sustainability issues ultimately means that if beneficiaries push for a more impact-enabled approach, trustees are more minded to facilitate it.
- **Start with property and land:** Initiating an impact approach by focusing on property held within the trust can be a fruitful route. Affinity Private Wealth, a Jersey-based Trust Company, shared examples where sustainability conversations were anchored in upgrading the environmental performance of beneficiaries' homes or trust-owned properties. These concrete actions were intuitive for non-investment professionals both in terms of impact and the financial business case. Natural capital investments, for example in land and environmental projects, have also been successful avenues for starting trustees and beneficiaries on impact investing journeys. Across our interviews, several families had been engaged in rewilding projects, restoring peatlands or sustainable forestry as part of business models that were delivering high quality local jobs and carbon reduction strategies.
- **Start small:** For some, the secret to unlocking impact investing in a trust is to find a balance between beneficiaries and the trustees themselves. One solution is to frame an experimental 5% allocation within the trust as "the nursery" or "incubator": if the experiment in the nursery/incubator is successful, then impact investing can be brought into the mainstream investing approach. If it fails, then the quantum is not so significant that it challenges concepts of prudence or affects the broader investment performance. See Section 7: How to start allocating capital for impact for framing carve-out approaches that can scale up.
- **Appoint third-party expertise:** Finally, some trust beneficiaries have appointed advisory groups to work with their trustees to support decision-making around investment areas on which trustees might be less knowledgeable or confident, such as impact investing. Although these advisory groups have no legal power, they can be helpful in supporting conversations with trustees. In particular, an adviser who has been involved in using impact investment to deliver market-rate returns can give trustees access to the latest performance data and – critically – confidence to make more impactful capital allocation decisions.

Key takeaways

- Explore all family assets, from family estates to philanthropic assets and business interests, as an opportunity to deliver impact and connect teams across different entities.
- Property and land in particular provide a tangible and highly visible means to put social and environmental impact aims into practice.
- Adopting impact in legal trust structures can be more challenging, given outdated perceptions of fiduciary duty and investment prudence – but a new generation of sustainability-focused trustees is providing a counterpoint to this mindset.

3.10 **Working with external advisers and managers**

All of the internal work that has occurred above – the values creation, the reflection on impact investing strategy and policy, and the creation of an approach and a team – ultimately needs to be realised through a relationship with external professional investment managers. Capital markets players need to deliver the new investment mandates issued by family offices.

Good investment products, investment managers, and associated legal, trust, tax and investment advice, are out there for families wanting to deliver impact investment. However, some elements of the markets are under-informed on how to deliver this work. That means that when a family instructs its external lawyer, investment adviser or wealth manager, it may encounter scepticism, ignorance, or an outdated view of the impact market. Concerns may be raised that impact investing is 'concessionary' (i.e. some financial return has to be conceded in return for delivery impact); it is only available within higher-risk and less-liquid private markets such as private equity; the opportunities are small scale; or that impact is best achieved by making as much money as possible that can then be directed to philanthropy.

At this juncture, the points detailed in Section 3: Advocating internally for impact can be used to make the arguments for impact investment to external stakeholders working with the family's investable capital.

Certainly for those active in impact investing across public and private markets the nature of the family office's relationship with its investment manager, and the time spent with them may change. As one family office put it "we have line-by-line discussions, there is no shortcut". This approach does ask more of the internal and external investment professionals, and requires interrogation of both the impact proposition shared, as well as the traditional financial analysis.

As RS Group shared: "Our approach is at the outset to spend a lot of time with the fund manager or the entrepreneur, asking often very personal questions, to make sure that the mission alignment is there. Once you have ascertained that alignment and built that trust, everything tends to flow quite smoothly from there." For many investors, there is concern about green-washing and how they can be sure that the promised impact is actually being achieved. Again for RS Group, the answer is to do the necessary hard work up front: "[We have confidence in our impact because of] our approach to really grilling the fund manager before we invest. We do have a long due diligence process and ask a lot of questions such as the fund manager's own motivation and what is driving them to join this sector. We make sure our concerns are shared and acted on and we have divested when we have felt managers are not aligned with us."

Figure 14 details some questions that family offices can ask managers to help determine their commitment to and depth of resources for impact investing.[50]

Tips for investment professionals facilitating family office impact investment

- **Do** think and ask about a family's approach across the Spectrum of Capital shown in Figure 2: conversations on philanthropy can inform an investment approach and vice versa.
- **Do** think about the family's engagement with the Spectrum of Engagement shown in Figure 3. What investments might work for younger or older family members? How can the impact investing agenda help young people come to feel agency over their investments?
- **Do not** "speak city" to non-investment professional family members. Technical language on both the finance and impact side might be getting in the way of an important client discussion that will deepen the engagement on both sides. Impact investing is full of jargon that can disguise the simple idea that the approach is about using investment to deliver positive real-world outcomes alongside a financial return.

Figure 14: Questions to ask managers

The team	• How big is the team that services impact investing? • How longstanding are they within the business? 5+ years? • How is their influence secured within the business? Are there governance links to the CEO? • Can they speak to their personal commitment to this field: what brought them into this work and why?
Impact approach	• Can they articulate how they manage their own impact, as well as how others do it? • Are they thoughtful and reflective on creating impact in capital markets? • Can they speak to what is reasonable to expect in impact investing in private / public markets?

Knowledge and fluency	• Are they aware of:
	  ◦ key tenets of the impact investing eco-system: Spectrum of Capital, Impact Management Project, GIIN, Iris+, Bluemark etc
	  ◦ reference key gatherings, networks and pieces of research
	  ◦ a range of asset owners and managers in the impact investing field and have knowledge of their varied practices
	• Can they speak with fluency on:
	  ◦ impact frameworks: how to generate one and their practical use
	  ◦ dynamic questions on impact / finance trade-offs
	  ◦ how they approach impact measurement and reporting

Commitments	• Is the manager a signatory to the UNPRI and the Operating Principles for Impact Management? • Do they go beyond SDG alignment and adopt the Impact Management Project norms as a way of thinking through impact measurement and management?
Client relationships	• Can they share at least five examples of impact investing strategies they have worked on? • Do they acknowledge limitations in doing this work and share challenges? • Do they express awareness of the resourcing needed to deliver a strategy of this kind and detail the resource that they will be put behind it?

Key takeaways

- Many family office, legal and investment professionals will be sceptical about impact investment – the advocacy case used with family members can be deployed here.
- An extended due diligence process is required in order to assess investment managers on their impact as well as their financial performance credentials.
- Genuine agreement with the family's own values is essential so be prepared to interrogate investment managers and other potential team members on their personal values and outlook.

3.11 **Impact measurement and management**

Once the family office is actively delivering its impact investing strategy, it is essential to measure and manage what impact is really being achieved. This is one of the more challenging aspects of an impact investing approach. Families in particular mention:

- the lack of robust and consistent data
- the difficulty of measuring certain outcomes (for example, changes in people's behaviour)
- how to attribute outcomes to their impact activity

Figure 15: Impact management dimensions

Impact dimension	Impact questions each dimension seeks to answer
What	What outcome occurs? Is it positive or negative? Is it important to the people or planet experiencing it?
Who	Who experiences the outcome? How underserved were they in relation to it?
How Much	How much of the outcome occurs – in terms of how many people experience it, the degree of change and how long it lasts for?
Contribution	What is the enterprise's contribution to the outcome, relative to what would likely happen anyway?
Risk	What is the risk to people and planet that impact does not occur as expected?

The second half of the impact investing strategy articulated in Section 5: Creating an impact strategy and theory of change address this. As steps 4 to 6 in Figure 6 detail, family offices need to: monitor performance against the metrics chosen to measure impact progress; find a way to report impact, making sense of the data collected; and, finally, manage that impact, amending the approach where necessary as insight about the results being achieved (or not achieved) is gathered.

There is an array of good resources out there for families to develop their impact measurement and management, particularly the Impact Investing Institute's own Learning Hub.[51] A first step is to get to grips with best practice in impact measurement. The industry has coalesced behind a set of draft dimensions for impact performance originated by the Impact Management Project (IMP) and now hosted by Impact Frontiers – see Figure 15.[52]

The IMP/Impact Frontiers norms approach combined with the use of the GIIN Iris+[53] metrics indicate that an investment manager is aware of best practice in impact investing measurement. Being familiar with these approaches as an asset owner will also strengthen a family office's hand in discussion with investment managers.

Even for families that have been doing this work for a while, measurement is difficult and needs to evolve over time. RS Group describe their measurement approach when they started in 2016 as, "a bit of a 'patchwork' approach", using a combination of general carbon footprint metrics such as Sustainalytics, an independant rating agency, for their public markets investments and collating a few key metrics for their private

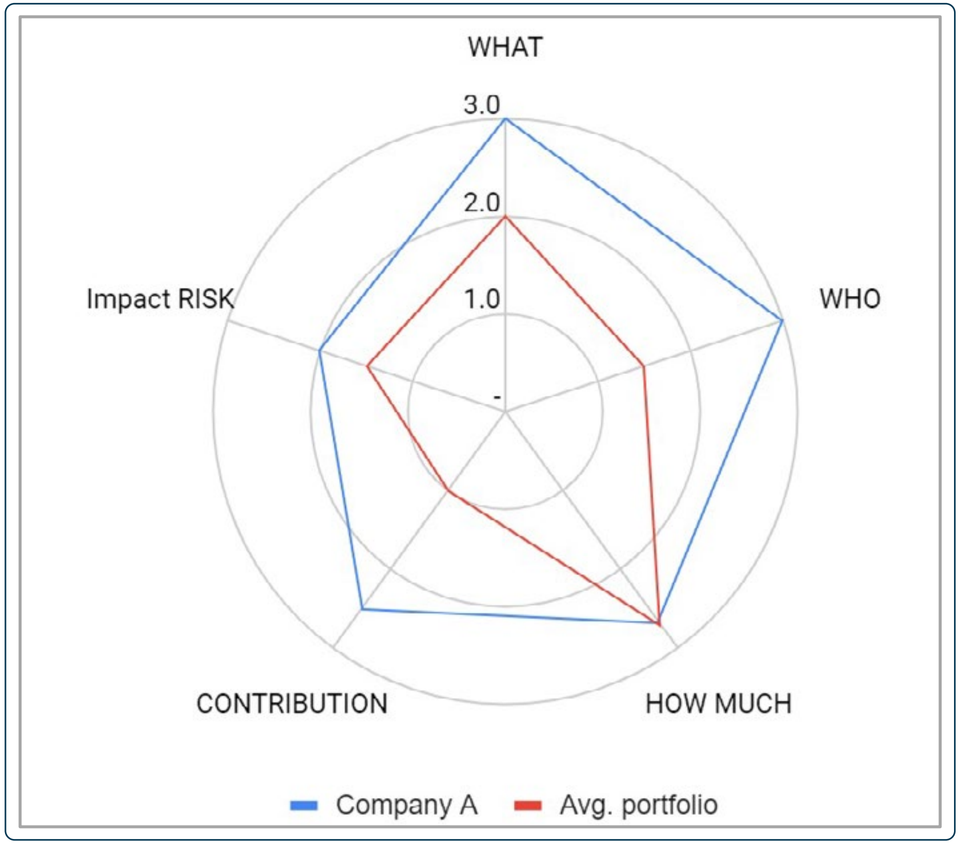
equity approach. Since then, they have developed an internal impact assessment tool in collaboration with Impact Frontiers and with their partner, the Asia Venture Philanthropy Network. They now ask similar questions across both public and private asset classes and are also looking to see how they can adapt these questions to their philanthropy too.

Tripple developed an impact calculator that they helpfully document in their annual reporting cycle, that uses the Impact Management Project as its jumping-off point. They give a clear overview of the calculator in their annual reports[54] and provide a downloadable Google version of the tool too.[55] The calculator in combination with the Spectrum of Capital shown in Figure 2, and the concepts ABC – Avoid Harm, Benefit Communities, and Contribute to Solutions – help them understand how their key themes such as Responsible Consumption and Social Justice are performing both an impact and a financial return perspective[56] – see Figure 16.

Blink CV developed a scorecard based on the five dimensions of the IMP. Each of the dimensions (What, Who, How Much, Contribution, Risk) comprises two or three categories, and to each of these a score between 1 and 3 is attributed. In order to determine the score, a few other frameworks (for example, the SDGs, Theory of Change, IMP Risks) and evidence (for example, OECD Environmental Challenges, academic research) are used. The score for each of the dimensions is then compared to the average score of the current portfolio (see Figure 17) to be able to assess the impact of each investment and contribute to the internal decision-making processes. At the same time, a combination of key outcomes and outputs are defined (together with each investment) including baselines and targets (when applicable). These key indicators are now included in the reporting requirements for each new investment Blink makes.

Figure 16: Tripple's mapping of financial and impact returns[61]

Figure 17: Scorecard based on the IMP, developed by Blink CV to assess impact



Some families are evolving their measurement approach to incorporate advanced technology solutions.

When DOB Equity started, their hunger for impact data was at odds with the time their early growth-stage companies were able to spend on data collection. Originally, they took a hands-off approach, tracking just three metrics per company per quarter, satisfied if the theory of change of the underlying enterprise was clear and they knew a company had not fundamentally changed what it is doing. Over time, however, they continued to press the case for impact measurement. They tailored a data request form that uses the GIIN Iris+ data points[57] and sent it out to all the companies in their portfolio. Companies could then come onto a bespoke platform and be assisted by DOB's impact investing experts to originate the requested data points.

DOB has subsequently used its data approach to anchor a service, Supernova.AI.[58] This enables other investors to access impact data on portfolio companies in one place, reducing portfolio company reporting fatigue. There are now a number of such platforms available to family offices and investors. Vala Capital for example not only uses FuturePlus[59] to measure the sustainability performance of its investments, and report, it also invests directly in the platform. Other key players in this field include Toniic's Tracer platform that enables investors, entrepreneurs, and funds to share and compare data about impact investments, along with corresponding goals, performance, and outcomes.[60] All three platforms are responding to the reality that – even when working with high-quality managers adept at impact - the complexity of managing multiple impact products is high. Family offices new to this space would be advised to look at the broad landscape of players out there to support their measurement approaches, before either committing to one, and particularly before creating their own proprietary system.

Jasper Smith at Vala Capital, speaking about his experiences in impact felt that, "the biggest decision we made on that journey was around FuturePlus.... [We said] "What should five years out look like?"... Having that platform took out so much complexity."

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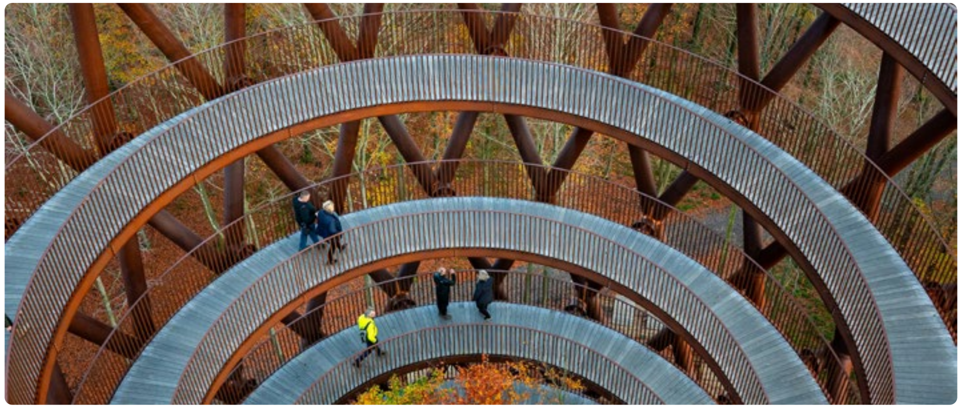
Key takeaways

- Accept that your impact measurement approach will evolve over time as your reporting needs become clearer.
- Explore approaches that allow both a holding's financial return and impact to be plotted against one another – learn from the scorecard approaches others have used, and align with impact management common practice.
- See how you might draw on the impact reporting and analytics tools that other family offices have developed such as SuperNova.AI, FuturePlus or the Toniic network's Tracer platform.



3.12 **Finding community and collaboration**

Investing for impact can be inspiring, exciting, but also can be overwhelming. Particularly at the start of the journey principals can often feel quite isolated. All families shared how important it was to be in community with others doing this work, to find networks and collaborators in this fragmented field.

Communities that have been cited as helpful to families interested in impact include the following:

Networks and community

- **The ImPact** is a global membership community 'by families, for families' committed to aligning their assets with their values. Launched in 2014, it has a mission to improve the probability and pace of solving social and environmental problems by increasing the flow of capital to investments generating measurable impact. It hosts 85+ members from over 20 countries on five continents.[62]
- **TONIIC** is a global membership body of around 500 asset owners representing foundations, family offices and high net worth individuals in 25 countries around the world, committed to creating a community of impact investors. Through their network, they convene investors with opportunities, host peer-to-peer events and connect investors around the world.[63]
- **CREO** is a non-profit working to catalyze $1 trillion of investment capital specifically into climate and sustainability solutions to support decarbonisation by 2025.[64]

Networks that overlap with the philanthropy community

- **Generation Pledge** is a community of inheritors that have pledged a significant percentage of their wealth towards major philanthropic gifts and commit to focus their economic, political and professional career to creating positive impact.[65]
- **Nexus** is a global community of high net worth individuals coming together with social entrepreneurs to advance social, financial and environmental justice.[66]
- **Beacon Collective** is a collective impact charity whose goal is to increase philanthropy and social investment in the UK by supporting donors and social investors.[67]

Courses to support family offices on impact investing:

- The Impact Investing Institute delivers multi-day programmes, tailored workshops and 1-to-1 practical guidance to support family offices and charitable endowments become impact investors.
- PFC has set up a three-day "Investing for impact course" in partnership with Bocconi University to support family offices and fund managers to become impact investors.
- The Center for Sustainable Finance and Private Wealth[68] at the University of Zurich (CPS) is an academic research and teaching institution at the Department of Banking and Finance at the University of Zurich. Their course "Impact Investing for the Next Generation", initiated by the Initiative for Responsible Investment (IRI) at the Harvard Kennedy School, runs annually.

Asia-specific networks and support:

- **Asia Venture Philanthropy Network (AVPN)** is Asia's leading network of social investors.[69]
- **The Sustainable Finance Initiative (SFi)**, is a platform incubated by RS Group focused on building a community of asset owners in Asia looking to build impact into their portfolio.[70]

- **The Temasek Trust** is a sub-entity of the main Sovereign Wealth fund which set up the Centre for Impact Investment and Practices (CIIP) to foster impact investing and practices in Asia and beyond.[71]
- **The Family Office Development Team (FODT)**, a joint office by the Monetary Authority of Singapore (MAS) and the Singapore Economic Development Board (EDB) set up in 2019 to enhance the operating environment for family offices and deepen capabilities of family office professionals and service providers.[72]

Next-generation networks

Next-generation family office networks that do not have a specific impact focus but do feature inspiring impact practitioners include:

- **Horizons** – a global network of millennial next-generation investors and founders.[73]
- **The Family Business Network (FBN)** – a global organisation of business families.[74]
- **Summit Series** – an American organisation that hosts conferences and events for young entrepreneurs, artists and activists.[75]
- **The Young Presidents' Organization (YPO)** - a global membership body representing business leaders and chief executives.[76]

Progressive impact advisers

Over the past five years a new group of advisers with a more radical and political vision of impact in a family wealth context has evolved. These groups are well placed to advise on those with more progressive ambitions around organising their wealth. They include:

- **Resource Generation** is a multiracial membership community in the US made up of high net worth young people in the US wanting to commit resources to social and economic redistributive justice.[77]
- **Progressive Advisors' Movement** is based in the UK and is facilitated by pioneering advisory firm the Good Ancestor Movement, which supports individuals and organisations with responsible wealth stewardship and radical redistribution.[78]

Other investor networks

Alongside these convening, education and advisory opportunities are networks that surround specific investment opportunities. These include:

- **Conduit Connect** exists to scale innovative impact technologies and businesses that are solving some of the most challenging and critical issues of our time. It does this by connecting entrepreneurs and fund managers to values aligned impact investors and experts.[79]
- **PYMWYMIC** or (Put Your Money Where Your Meaning Is Community) is one of Europe's largest communities of impact investors. Since 1994, the Pymwymic group of families, philanthropists and individual investors have invested capital and resources into impactful for-profit companies.[80]
- **Katapult Future Fest:** Convened by Katapult VC, this festival takes place in Oslo and brings together investors and start-up leaders.[81]

General impact investing advice and guidance:

- **The Impact Investing Institute** has a range of resources on impact investing with a particularly focus on materials relevant to institutional asset owners (pensions, family offices, endowments), and with materials exploring impact investing in place, and how investors can accelerate the just transition in the global south.[82]
- **The Global Steering Group for Impact Investing** is a good port of call to find your 'local' national advisory boards. There are now 40 internationally who will know the latest on impact investing within a local national market.[83]
- **The Global Impact Investing Network (GIIN)** is a global members organisation building the market for impact investing around the world with high-quality research and events.[84]
- **Big Society Capital (BSC)** is the UK's leading Social Impact investor with a wide range of resources to help investors begin their journey into social impact investing.[85]

Key takeaways

- There is a growing and global array of impact-focused networks, communities and organisations to support, inspire and educate family offices and their principals.
- Families attest that connecting with other impact family offices at an early stage enables invaluable and candid conversations about the practicalities and the psychology of deploying personal wealth.

Appendix

A checklist to get started

Here is a list of initial actions if you are a member of a family office and considering investing for impact.

The relevance of some of these questions will depend on whether you are setting up an impact-focused family office from scratch ('impact by design') or hoping to shift an existing family office to towards impact.

- [ ] **Identify your values:** Analyse why you wish to invest for impact – what has triggered this desire? What values do you and other family members want to reflect, what do you (individually and collectively) see as the long-term purpose of your wealth? How best to formally articulate these values?

- [ ] **Determine your scope of interest:** In what specific areas and in which markets do you (and fellow family members) wish to deliver positive outcomes or solutions? Health, housing, education, agriculture, the natural world, climate action, for example? Should these link back to the family's current or past activities, principles and values in any way?

- [ ] **Assess your existing impact:** To what extent is the family already delivering positive social or environmental impact through its philanthropy, business activities or estates management? How can this experience be leveraged?

- [ ] **Assess your commitment:** Determine how much time you can/realistically wish to commit to this work initially and on an ongoing basis? How much support can you expect to receive from family members? What level of outsourcing is required? Who and what can keep you motivated to do this work?

- [ ] **Identify your allies:** If you are not the sole principal, who else in the family is interested in investing in for impact or could be interested? What is the likely proportion of advocates vs non-advocates and how might this be changed?

- [ ] **Gather your supporting evidence:** Where needed, determine how you will put the case for impact to other family members – what other family office exemplars and performance data can you draw on?

- [ ] **Consider your impact vs financial return priorities:** Are positive impact and financial return equally important? Or does one take precedence? Are you willing to take more risk/receive lower financial return to increase your capital's impact and/or help calatyse impact investment from others?

- [ ] **Determine the allocation to impact:** Do you want to use the whole investment portfolio for impact or just a proportion (a carve-out)? Should this proportion evolve over time?

- [ ] **Determine the range of impact:** What is the family's preferred 'spectrum of capital' allocation? To what extent should capital be deployed to actively contribute to positive solutions versus reducing negative outcomes?

- [ ] **Decide how to get informed about impact:** Do you and family members need to speak to other family offices, go on courses, get hands-on experience within an impact investment firm? Should this happen prior to building a strategy or concurrently?

- [ ] **Explore the tools to articulate your strategy:** Start with a statement of values to an impact framework, theory of change and, finally, an investment policy statement – what documentation is needed to explain, define and govern your impact investing strategy? What outside expertise do you need to create these?

- [ ] **Decide your governance structures:** How will the family approve and monitor and, where necessary amend, strategic impact decisions? What family structures are needed to help ensure inclusion, buy-in and oversight for all family members?

- [ ] **Start building your network:** What peers, networks and communities can you learn from and continue to be supported and inspired by?

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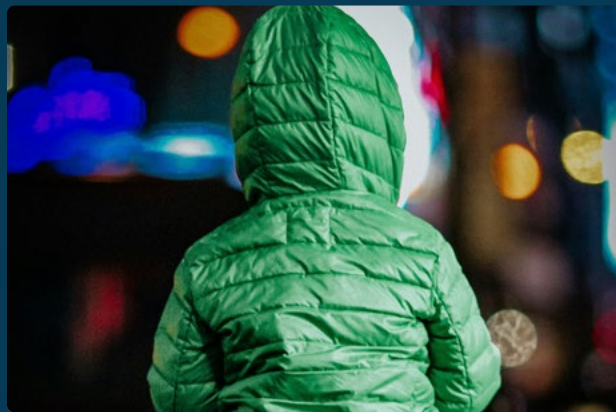

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