FINANCIAL TIMES

INVESTING FOR GLOBAL IMPACT 2014

FAMILY OFFICE RESEARCH

IN PARTNERSHIP WITH METHOD IMPACT

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FOREWORD

Welcome to Investing for Global Impact 2014, our latest Family Office Research report.

Our twice-yearly Family Office studies have made us increasingly aware of the growth in interest in investment undertaken against explicit social as well as financial objectives. Last summer, we introduced preliminary survey questions on philanthropy and impact investing. These confirmed the momentum – activity as well as interest – and indicated an appetite on the part of families to learn more.

It is against this backdrop that we have undertaken this report, in partnership with Method Impact Ltd as lead sponsor. Family wealth owners very often work through Foundations in this arena, and so Family Foundations were invited to contribute, alongside both Single and Multi Family Offices. In total, 125 respondents participated in our detailed survey, conducted between September and October. They range broadly from those with no current involvement in either philanthropy or impact investing, through to those with considerable experience in one or both. In addition, because many of the motivations in this area run deep and we wanted to be able to share some rich context, we have also incorporated a number of direct interviews into the study. We hope that readers will relish the candour and illuminating detail they provide.

Our survey participants have headquarters in 27 countries, and represent wealth owners from 38 countries. And the eight interviewees in Asia, Europe and North America also mirror both the respondent base and readership audience for this survey. We are very grateful to them all for their involvement and allowing us to provide a report that benefits from considerable geographic and cultural breadth, essential given the global dimensions of the subject matter it addresses.

We believe that, as a family member, or representative at either a Family Office or Foundation, this report will be of interest to you. Wherever you sit on a spectrum from current bystander, perhaps with significant misgivings, through to deeply engaged impact investor and / or philanthropist. Our intention, with your involvement, is to make this the first of a series of studies that provide support for decisions and action in this important arena.

Ben Bonney-James
Financial Times
January 2014

COMMENT FROM METHOD IMPACT

Method Impact Ltd is proud to support and be actively involved in this novel research and report. We are confident this effort will contribute to a shared understanding and connectivity among families prepared to address some of humanity's highest priorities, whilst continuing to achieve their individual objectives.

Social impact investing and philanthropy promote unique solutions that make sense for both business and for a sustainable planet. Families and their organisations are growing into a driving force in the financial world and taking back control over the allocation of their capital. They have the passion, independence and the required time horizon to support systemic change. Families can better focus on social challenges because they have the financial and operational flexibility to do so. However, because of the private nature of many of their operations, the positive effects they achieve are mostly less visible to the public at large. We agree with a very clear majority of participants in this research that role models are critical to help society to improve and evolve.

Until recently philanthropy was the principal strategy for willing families to achieve positive change and has been run in entities separated from those dedicated to generating financial return. Today, those managing private pools of capital can see that this trend is changing with the spreading and growth of social impact investments. There is a growing realisation that social and financial objectives can be combined and are indeed entwined for social impact investments due to the embedded culture of achieving a positive contribution for society.

This is of central importance given the widely-shared financial objective of families to preserve wealth across generations, against a backdrop of an increasingly challenging financial environment. Moreover, social impact activities can help bridge the generation gap within families.

This research report has also helped identify the challenges and constraints faced by families wanting to allocate new capital to philanthropy and social impact.

The report confirms that solutions combining the potential for a positive social and financial return represent for numerous families a novel strategic asset class requiring a more sophisticated approach to due-diligence and performance measurement. Moreover the survey findings reinforce the value of transparency across all these activities to pierce the major barriers identified by this research, which arise from misunderstandings and confusion regarding the terminology relating to impact investing. The results also highlight trust as a crucial element.

During the course of this effort, we have been stimulated by leading role models in philanthropy and impact investing and are honoured to share insights and experiences with other families. We take this opportunity to thank each and every one who has contributed to this report.

We observe a growing allocation of capital to social enterprises with reproducible business models at a global scale. This implies the constant development of new creative financial instruments and vehicles.

To build further upon our first research initiative, we are committed to maintaining our dialogue in the months to come and look forward to keep engaging with like-minded individuals around the world.

At Method Impact we support a dynamic community of families which incorporates profound positive social impact in all its investment and business decisions.

Giuseppe Dessì **Gamil de Chadarevian**
Founders, Method Impact Ltd

EXECUTIVE SUMMARY

This report examines wealthy family trends in philanthropy and impact investing, primarily as evidenced through Family Offices and family-backed Foundations. Its purpose is to assess current status, identify barriers and enablers to growth, and open a dialogue with families, impact investors and other stakeholders involved in this arena.

The research base is 125 detailed online survey responses from Single Family Offices, Multi Family Offices and Family-backed Foundations, provided in September and October 2013. Respondents are headquartered in 27 countries, with Switzerland, the UK and the US in the majority. Wealth owner origin is more broadly spread still, across 38 countries. Eight individual interviews, across Asia, Europe and North America, provide additional depth.

The study benefits, and draws its findings, from:

- 1,000+ "organisation-years" of **philanthropy experience** (74 respondents)
- 400+ "organisation-years" of **impact investing experience** (66 respondents)
- 29 Family Offices (23% of respondents) **active in neither philanthropy nor impact investing**

This research, as is requisite for this survey universe, acknowledges the highly individual and heterogeneous nature of wealthy families. In this summary it is only possible to focus on some prominent results, primarily emphasising impact investment. More detailed breakdowns and commentary are provided within the five sections of the main report, as itemised within Contents (Page 1) and List of Charts (Page 42).

Respondents already active in philanthropy

Barriers to increasing philanthropy: Most mentioned are **lack of qualified staff/expert advice** (48%), which is top for both Family Offices and Foundations, and that it is **hard to measure social impact** (47%).

Future intentions, next 12 months: 38% of Family Offices and Foundations currently active in philanthropy but not impact investing, are considering becoming active in impact investing, and some have already dedicated resources.

Respondents already active in impact investing

Priorities: A small majority (55%) of family offices attach equal importance to both social impact and financial return. 34% prioritise social impact, 11% financial return. Surprising perhaps that as many as 44% of Foundations attach equal importance to both, the majority (56%) prioritising social return.

Investment parameters: Broadly half the time the same financial risk (61%), financial return (50%), implementation cost (55%) and due diligence (47%) tolerances are applied as for "traditional" investing.

Financial instruments used: Direct equity investment is the most used route, by 76%, versus 38% direct debt and 55% through funds. Despite the unseasoned profile of much of the activity, 36% have to date exited one or more investments.

Geographic mix of investment: Impact investors are more often active outside the region in which their wealth originated, than are those active in philanthropy. There is a less marked bias towards Western Europe and North America overall, the destination for 41% of impact investment, versus 52% of philanthropy (which mirrors the "traditional" investment profile of those not active in either philanthropy or impact investing at 53%).

Barriers: Confused by terminology relating to impact investing, cited by 37%, is substantially the major barrier to increasing impact investing.

Motivations: Generating transfer of wealth is the standout result (49%).

Importance of role models – 87% agree that **impact investing needs more role models to raise awareness** (4% disagree, 9% not answered). This is net 22% above the second-ranked of ten statements relating to impact investing.

Investment performance: Positive returns to date for all but 12%, with 56% in the 3-10%

range. 81% of impact investments meet or exceed financial objectives; 90% meet or exceed social objectives.

Top investment themes: Offered nineteen categories for current and planned investment, two selected by substantially more respondents than the others are **education and skills** (58%) and **clean energy/green tech** (56%).

Future intentions, next 12 months: A net 45% (direct investment) and 46% (via funds) of current impact investors expect to increase their allocations. A net 11% expect to increase their philanthropy allocations.

Respondents not currently active in either philanthropy or impact investing

Investment influences: 29% are influenced by industry leading CSR credentials in their investment choices; 38% by industries such as tobacco and gambling. Were they to actively consider philanthropy and/or impact investing, the most likely priorities would be **water and sanitation** (65%), and **clean energy/green tech** (59%).

Barriers to considering impact investing and/or philanthropy: Performance is the top concern (46%). And a net 72% agree that **impact investing tends to be difficult to monitor and measure performance** – the highest net score across ten statements.

Future intentions, next 12 months: 19% of Family Offices active in neither philanthropy nor impact investing are considering philanthropy; 10% are considering impact investing.

Themes across respondent groups

"Next Gen" engagement: Intergenerational change influences are explored within the survey and individual interviews. For Foundations already active in impact investing, it is the top motivation for the activity, though not in the top 5 for Family Offices. However, non-engagement by "Next Gen" is a significant barrier for Family Offices (1st for MFO, 4th for SFO). Among respondents not currently active in either philanthropy or impact investing, 24% consider that in future the family next generation is likely to bring a greater focus on social entrepreneurship and impact investing.

Investing at the seed and start up stage: Resources deployed at this vital growth catalyst stage benefit from the blend both of activity and organisation type. A combined 46% of those active in philanthropy and/or impact investing participate at seed and start up stage. Foundations, particularly impact investing foundations, are highly likely to be active at this stage, more so than impact investing Family Offices.

Conclusions

The survey responses show that philanthropy and, particularly, impact investing have good growth momentum. For the latter, performance against financial and social objectives is encouraging, with many existing investors increasing exposure and a healthy pipeline of potential new impact investors.

Some standout results from the survey highlight factors for delivering this potential.

Performance, the top concern for those not active. Requires: developing the track record for impact investment, both financial and social measures; building the scale of opportunity, both through innovation and existing forms – including public equities, for many. Interviews A, F, G, H are particularly rich on these dimensions.

More **impact investment role models,** a short hand for "individuals with whose views I can identify, and whose actions I am inclined to emulate". Inclusivity of the richest diversity of talents demands more role models from unlikely places, including reticent, "traditional" business entrepreneurs.

Terminology relating to impact investing is seen as a barrier. This places a particular onus on product providers and industry associations to help resolve the confusion. Greater transparency is needed to build shared understanding and trust.

We look forward to discussing the detailed findings in this report.

SECTION 1: RESPONDENT PROFILES

Overview

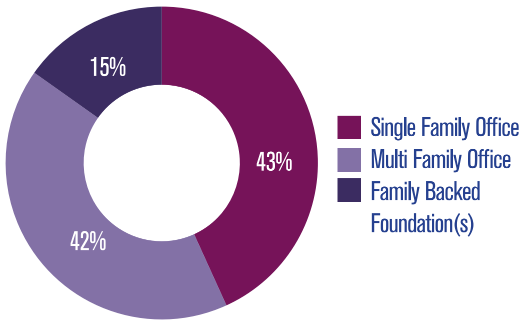
This section is in two parts. The first covers the participating organisations in terms of type, size, geography and family wealth origin and generation. The second part focuses on levels of activity in philanthropy and impact investing, the levels of resource dedicated by those that are active, and when they began their engagement.

Participating organisations

85% of the 125 survey respondents are Family Offices, evenly split between SFOs and MFOs. The balance, 15%, are Family-backed Foundations (Chart 1).

CHART 1

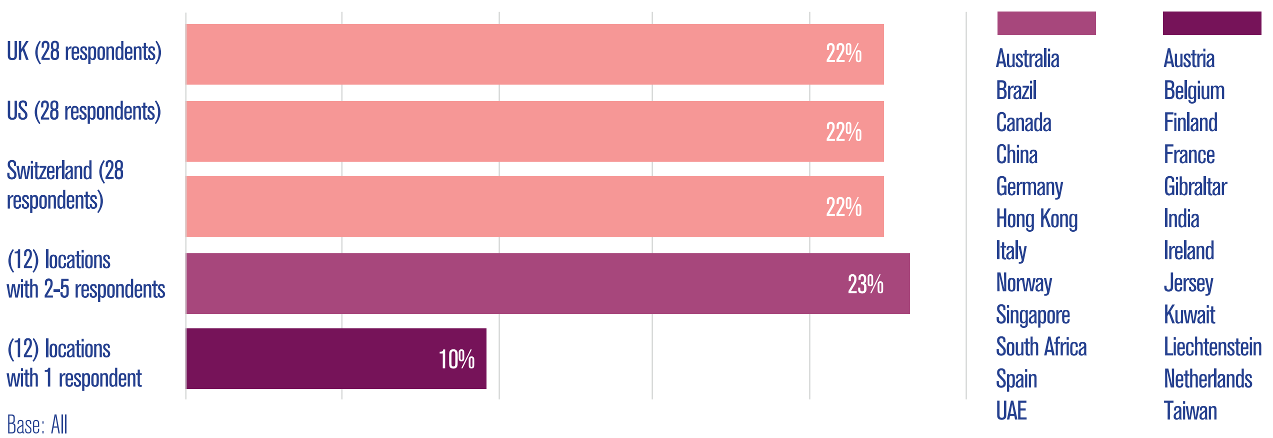
Organisation type



Base: All

CHART 2

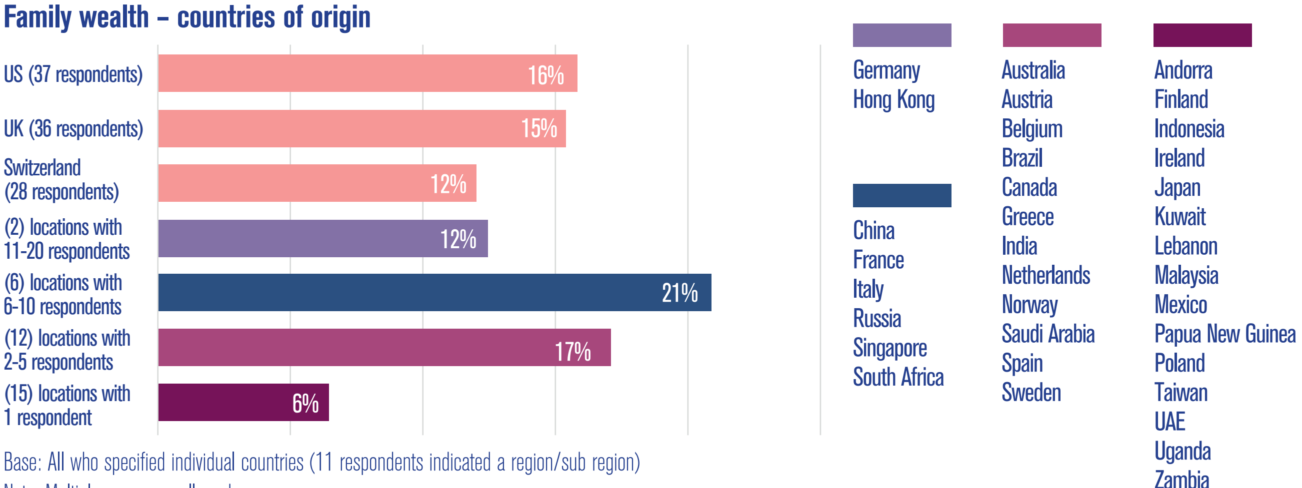
Head office location



Base: All

CHART 3

Family wealth – countries of origin



Base: All who specified individual countries (11 respondents indicated a region/sub region)
Note: Multiple responses allowed

Their **head offices** are in 27 countries, with the UK, US and Switzerland each 22% of the total (28 respondents from each). 12 countries are represented by between 2 and 5 respondents, with a further 12 each with a single representative (Chart 2).

As would be expected, **owners' wealth origin** is more broadly spread, across 38 countries and every continent bar Antarctica. The US, UK and Switzerland maintain a substantial lead, with China/ Hong Kong, Germany, France, Italy, Russia, South Africa and Singapore also well-represented. (Chart 3).

Family generation. First generation families are the most prevalent (39%), followed by second (28%) and third generation (16%). 5% are very long-established families, between 6th-10th generation. (Chart 4).

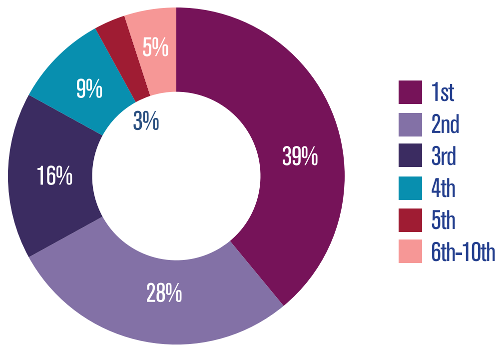
Assets Under Management (AUM). 80% of Family Offices specified their AUM, within a range. Just over two-thirds are under $1bn AUM, a quarter between $1bn-$10bn and the remainder, less than a tenth, above that level. (Chart 5).

Budgets. Three-quarters of Foundations have a current annual budget up to $5m, with 10% holding the largest budgets between $51m-$100m (Chart 6). Focusing on budget alone would substantially understate the financial scale of participating foundations, almost 70% of whom are able to allocate their endowments as well as budgets.

Foundation structure/objectives. In terms of human resources, 58% of Foundations have 1-5 full time equivalent employees, 32% have 6-20 and the largest 10% have between 21-100 employees (Chart 41, Appendix, page 40). The vast majority (79%) of Foundations are structured as not-for-profit. Of the others, 5% are for-profit, and 16% a combination of both. Slightly more than half, 53%, seek financial returns and the split here is between the 32% for whom financial returns are a subsidiary objective behind social returns and the 21% for whom social and financial returns rank as equally important. For 47% of Foundations, only social returns are an objective, with no financial returns allowed.

CHART 4

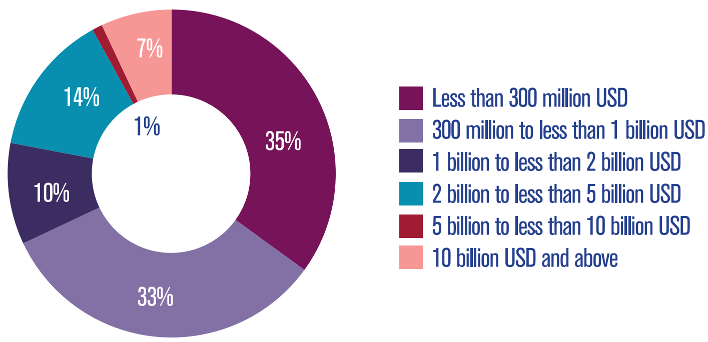
What generation is the family wealth?



Base: All
Note: MFOs were asked to specify the most prevalent generation amongst their Families

CHART 5

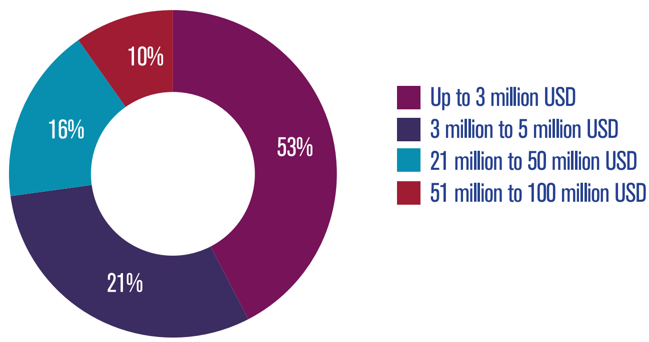
AUM (Assets Under Management) in USD



Base: All Family Offices (SFO and MFO) that specified AUM range

CHART 6

Current annual budget (Foundations)



Base: All Foundations
Note: No respondents indicated an annual budget between 6 million-20 million USD

Establishing activity in philanthropy and/or impact investing.

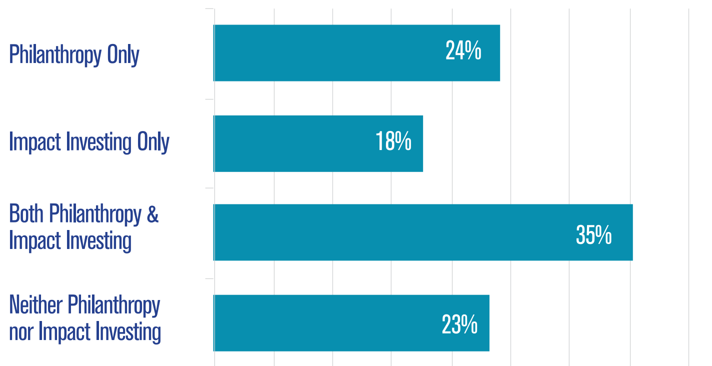
To understand the results, it is necessary to appreciate how the question is framed in the survey. This is the guidance provided to respondents:

Social benefit is common and fundamental to the purpose of both philanthropy and impact investing.

- Where there is also an objective of financial return to you as the provider of funds, at whatever the level of return you set: Please select impact investing.
- Where there is no objective of financial return to you as the provider of funds: Please select philanthropy.

CHART 7

Is your Family Office/Foundation active in Philanthropy and Impact Investing?



Base: All

Active in philanthropy and/or impact investing (Chart 7)**.** Responses are well-spread across the four component areas, with the smallest group those who are active in impact investing only (18%), and the largest those who are active in both philanthropy and impact investing (35%). This spread of representation is important as responses to this question primarily determined the routing for respondents through the balance of the survey.

Not active in either philanthropy or impact investing. 23% of respondents, all Family Offices, are in this category.

Looking at the composition by **organisation type** (Chart 8).

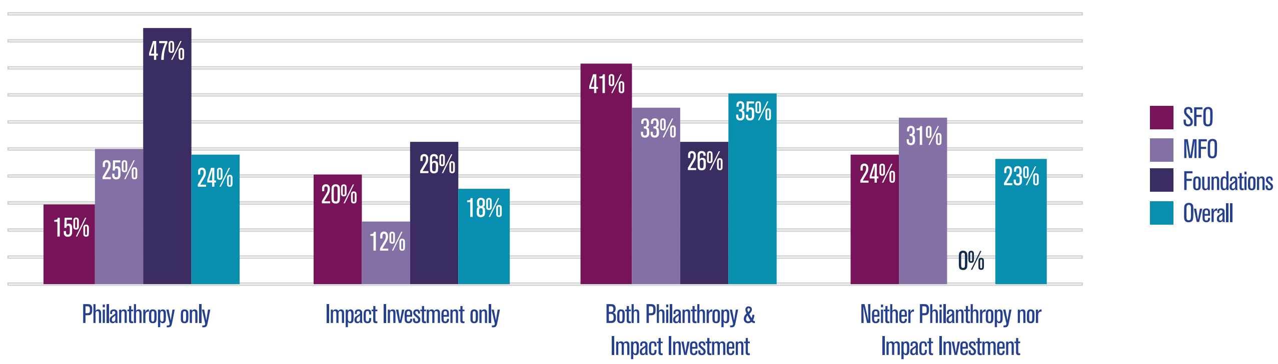
Both SFOs (ranging 15%-41%) and MFOs (ranging 12%-33%) are also well spread across the four categories.

As expected, all Foundations are active in at least one of the two areas, with almost half (47%) active in philanthropy only. The remainder are equally split between being active only in impact investing (26%) and active in both philanthropy and impact investing (26%).

Over twice as many MFO family clients are active in philanthropy as are active in impact investing. And 94% of MFOs work with Foundations with respect to philanthropy and / or impact investing, for either a majority (56%) or a minority (38%) of their families (Chart 9).

CHART 8

Active in…. (by organisation type)



Base: All

The following established definitions of philanthropy and impact investing were also available to respondents:

Philanthropy

The most conventional modern definition is “private initiatives, for public good, focusing on quality of life”. Etymologically, philanthropy means “love of humanity” in the sense of caring for, nourishing, developing, and enhancing “what it is to be human” on both the benefactors’ (by identifying and exercising their values in giving and volunteering) and beneficiaries’ (by benefitting) parts. Source: Wikipedia

Impact Investing

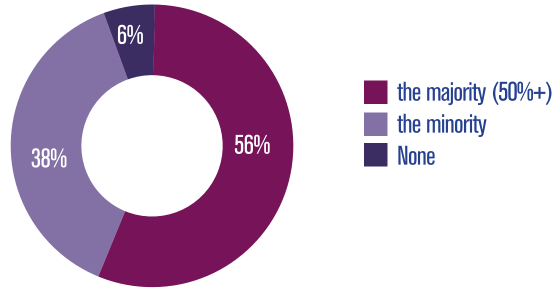
Impact investments aim to create social or environmental benefit while generating financial returns. They vary in size, vehicle, and expected returns, but are generally made to private organizations with business operations and/or goods and services designed to produce social or environmental benefits. Impact investments are made around the world, targeting a range of social and environmental issues, including affordable housing, healthcare, education, clean water, and alternative energy. All effective impact investing requires informed management of social, environmental, and financial performance. Source: Global Impact Investing Network (GIIN)

Dedicated human resource. We are a little surprised at the narrowness of the gap between resources dedicated to the two activities - 62% for philanthropy, impact investing only a short way behind, at 56%. (Chart 10). The main difference between Family Offices and Foundations is a slightly higher proportion of the former have resources dedicated to impact investing (59% versus 47%). Notably, a minority who are active only in philanthropy currently, have begun to dedicate resources towards impact investing. An indicator that they may become active in the near future.

Financial allocations. 68% of Family Offices consider impact investing part of their asset allocation. Both SFO and MFO allocate an average of 17% of their AUM to impact investing. The spread is considerable: For a substantial number it constitutes no more than 1% of AUM, but there are significant exceptions – more numerous in US headquartered firms and those outside either the UK or Switzerland – where a much higher proportion is allocated – up to 80% for MFO and 100% for SFO.

CHART 9

With respect to Philanthropy and / or Impact Investments what proportion of your families have Foundations that you work with?



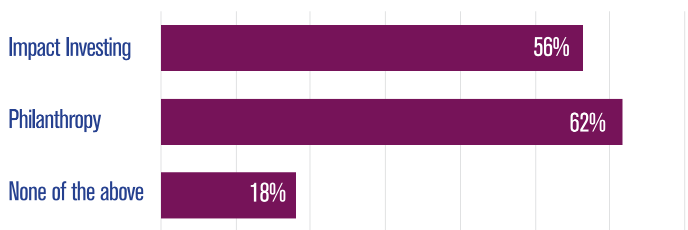
Base: All MFO active in philanthropy and/or impact investing

59% of respondents are active in philanthropy. 53% are active in impact investing

Two thirds of Single Family Offices active in philanthropy discuss a budget allocation towards it. This is broadly consistent with Multi Family Offices where only a 15% minority **never** discuss such an allocation with their family clients. 46% have philanthropy budget conversations with a majority of their clients, 38% with a minority of them.

CHART 10

Do you have dedicated external or internal resources for the following?



Base: All active in philanthropy and/or impact investing

Foundations active in both impact investing and philanthropy presently allocate an average of 78% of their budget towards Philanthropy, and 22% to impact investing. Underlying this, four-fifths have a still-higher philanthropic allocation – between 80-100%, with the remaining one-fifth operating under a different model where the majority of their budget is in impact investing. As noted elsewhere, a majority of Foundations are able to allocate from an endowment as well as an annual budget. Of those that can, and who are active in impact investment, two-thirds do so.

Philanthropy: When did your engagement begin? In providing this date, the majority of Foundations will be referencing the year in which they were established. The pattern between Family Offices and Foundations is broadly similar, with around 40% of both established pre-2000, and under 10% within the last three years **(Chart 11).**

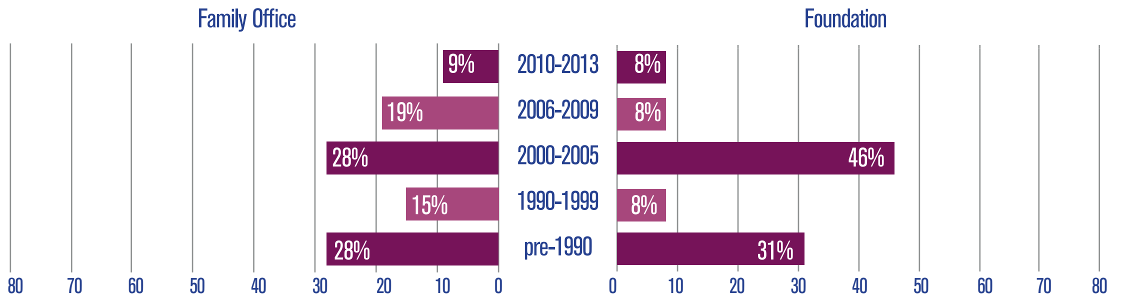
Impact investing: When did your engagement begin? The critical point is that this activity is in no way dependent upon, and substantially pre-dates, the introduction of impact investment as a defined term. The guidance respondents were asked to apply as reproduced on page 8 above, relates entirely to the motivation and objectives for investing and not as to whether or not the investment vehicle or product is "badged" as an impact and/ or social investment.

There is considerable divergence between Family Offices and Foundations as far as impact investing is concerned – contrasting with the similar pattern for the two in respect of philanthropy. 15% of Family Offices began their impact investment engagement before the Millennium, 29% since 2010. Whereas all Foundation respondents began their engagement post 2000, and 70% of them since 2010 **(Chart 12).**

There is no marked variation in timing between Single and Multi Family Offices, or between different countries in terms of HQ location.

CHART 11

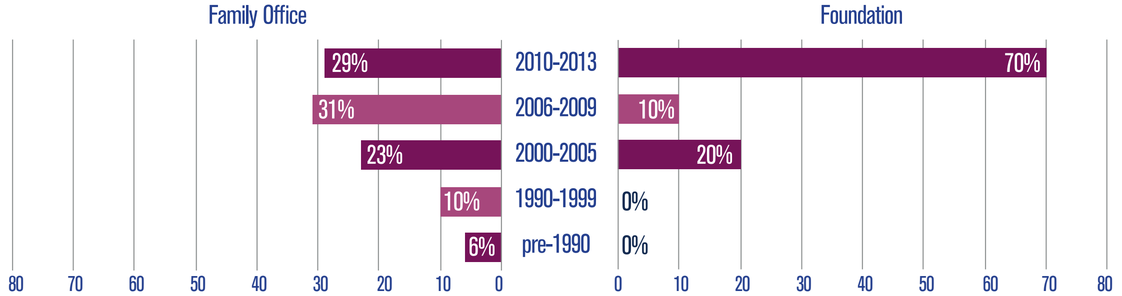
When did you start engaging in Philanthropy?



Base: All Family Offices active in philanthropy, then All Foundations active in philanthropy

CHART 12

When did you start engaging in Impact Investing?



Base: All Family Offices active in impact investing, then All Foundations active in impact investing

SECTION 2: INVESTMENT DECISION MAKING

Overview

This section of the report considers key influences on decision making in relation to impact investments. Respondents are asked to identify differences between their "traditional" and impact investment processes, as well as in terms of sourcing, between impact investment and philanthropic opportunities. It includes analysis of current investment practice and holdings in terms of investment lifecycle stage, geographic distribution and financial instruments used.

For impact investments, which comes first – social impact or financial return? (Chart 13) For a small majority of family offices (57% of SFOs and 53% of MFOs), they are of equal importance. 44% of Foundations give the same response of equal ranking to both social and financial returns. This may be a higher reading than many would have thought, given the majority of Foundations at their inception will have been focused wholly on grants and donations.

Social impact is the priority for 36% (SFOs), 56% (Foundations), and 31% (MFOs).

For one in six MFOs, financial return is the top priority, higher than for SFOs, at one in fourteen.

To gain some insight into the extent to which non-financial criteria influence primary investment selection for those not currently active in either philanthropy or impact investing, respondents were asked two questions (Chart 14). In the majority of cases, industry-leading CSR credentials (71%) and industry sectors such as tobacco and gambling (62%) do not influence investment choices.

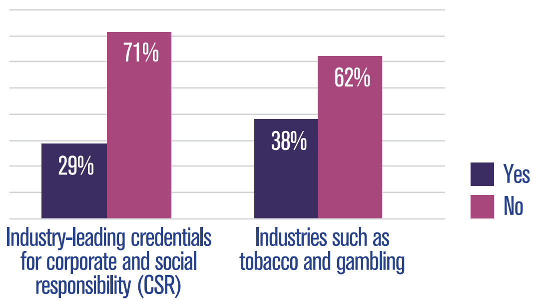
Combining philanthropic and "traditional" investing skills - see interview P.32

Sourcing opportunities. Comparative analysis of philanthropic and impact investment opportunity sourcing shows a similar overall pattern (Chart 15). Internal sourcing leads in both cases, cited by broadly two-thirds of respondents. The principal distinction is that external sources overall play a larger part in respect of impact investing: non Next Gen family members (59% for philanthropy, 39% for impact investment), clubs and networks (45% for impact investment, 23% for philanthropy) and events/conventions (34% for impact investment, 20% for philanthropy). This reflects a contribution from social investment supportive infrastructures that have been created in recent years.

On average respondents indicated 3.4 sources for impact investing opportunities, versus 2.8 sources for philanthropic opportunities. The difference

CHART 14

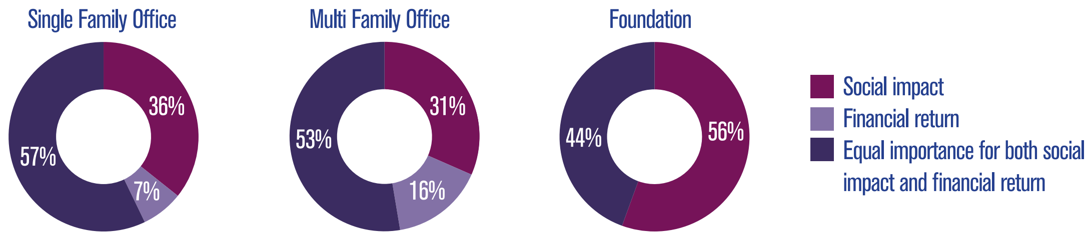
Do the following influence your investment choices?



Base: All active in neither philanthropy nor impact investing

CHART 13

What is your top priority when it comes to impact investing?

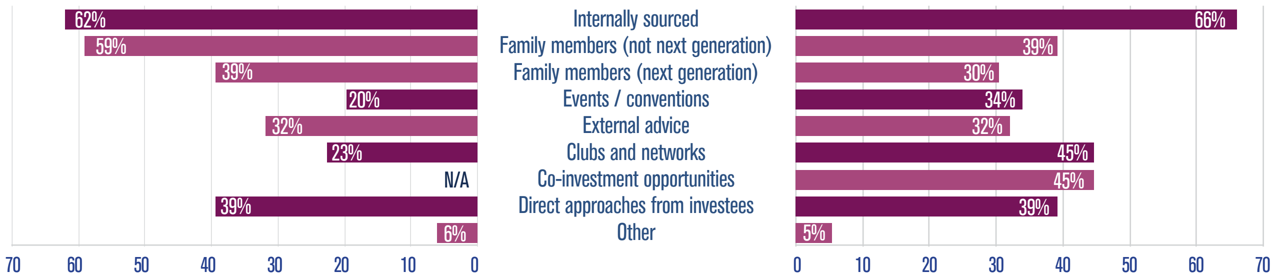


Base: All Family Offices and Foundations active in impact investing
Note: MFOs were asked the question in respect of the majority of their families

CHART 15

Where do you source your Philanthropic opportunities?

Where do you source your Impact Investment opportunities?



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

CHART 17

How does Impact Investment due diligence differ?

"An assessment of impact comes as a separate area of evaluation and additional screening criterion"

"Analysis of impact."

"Can't expect the same level of financial information"

"Case by case studies"

"Completely different!"

"Contains explicit impact parameters"

"Different metric"

"Factors in impact, passion, relationships"

"Family much more involved, less the family office"

"Have to consider the impact and the method of determining this. More to the point, have to think about what happens if they withdraw from the impact area"

"Have to do social research"

"Includes social or ecological change"

"Integration/ evaluation of ESG metrics."

"It is a lot more intuitive as often key data is missing."

"It was not as thorough and we expected it to take longer to give positive return"

"Less formulaic"

"More due diligence"

"More intense focus on investee's business plan and finances"

"More stringent"

"More stringent criteria (ESG)"

"On top of commercial due diligence, deep analysis of social and environmental impact on disadvantaged people"

"Same, typically try to see end game in return - both socially and financially - balance"

"Social impact measurement; beneficiary evaluation; focus on early stage"

"Social impact measures and our active involvement and value add are more important"

"Social impact. More leadership & sector focus in decision"

"Targeted "themes" for impact, review of ability to report on impact."

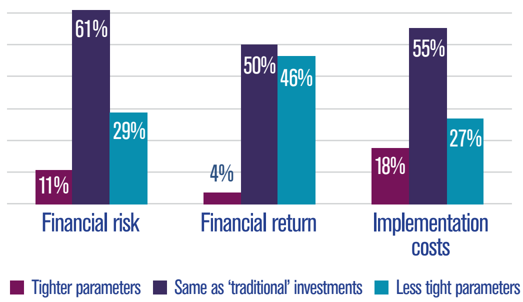
"We have a strong social impact analysis component."

being mostly accounted for by the availability of co-investment opportunities to impact investors, which were selected by almost half of all respondents.

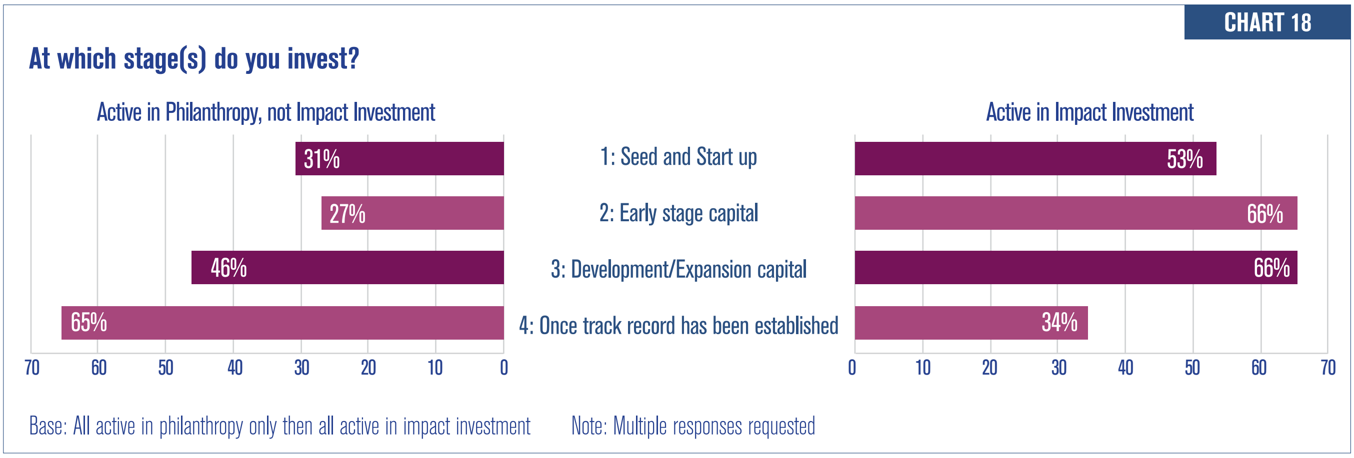
Financial parameters (Chart 16). By a narrow majority, the same financial parameters are applied for impact investing compared to "traditional" investing (61% financial risks, 55% implementation costs, 50% financial returns). But almost as many – 46% - apply less tight parameters for financial return. And over a quarter do likewise in respect of financial risks and implementation costs. Just a few specify tighter parameters, mainly in respect of implementation costs (18%). This could reflect a discipline towards balancing out greater variability in financial risks and returns to achieve the project's overall financial goals, including breakeven for start-up/ early stage investments. Some social venture

CHART 16

Do you apply different financial parameters for impact investing when compared to "traditional" investing?



Base: All active in impact investing



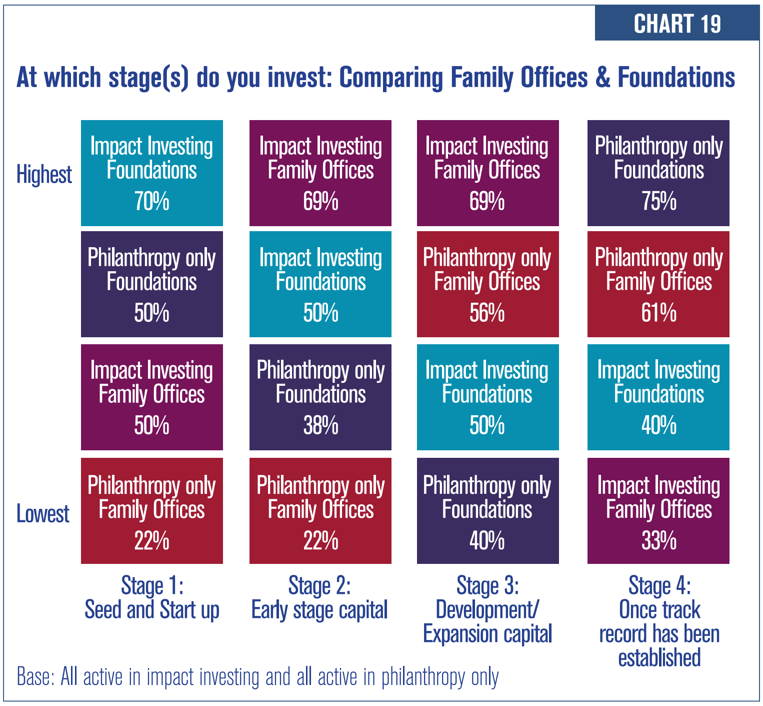
funds consider a heightened level of financial rigour essential in business case creation and validation.

Due Diligence. For a small majority – 53% - this differs for impact investing compared to "traditional" investment decisions. Chart 17 details how it differs, most often through inclusion of social impact measures. Other features are the tension between having additional factors to incorporate, frequently softer and more intuitive dimensions and so harder to assess, with a compensating greater rigour – tougher focus on business plan and finances. Greater family involvement is also referenced, together with taking into account the scenario where at some stage the family themselves withdraw from the impact area.

At which stage(s) do you invest? Chart 18 show both responses for impact investing and for those active in philanthropy only. There are, as expected, sharp contrasts between the two, with a greater focus on the higher risk earlier investment stages from impact investors. As a corollary, the last stage, once track record has been established, ranks fourth amongst impact investors but first for those active in philanthropy only. Impact investors on average are active at more stages (2.2) than are those active in philanthropy only (1.7). The most important conclusion is the complementary nature of the two approaches. Given the catalytic contribution that early stage investing makes to growth, the fact that a combined 46% of active respondents (53% impact investing, 31% philanthropy only) invest at the seed and start up stage, is of huge value.

Foundations and Family Offices are also a complementary blend, looking at the breakdown by organisation type (Chart 19). Foundations have the highest percentage involvement at both Stage 1 and Stage 4. There is no substantial difference in the number of stages at which the different organisation types are active.

Financial risk: 61% of impact investors apply same parameters as for "traditional" investing (29% less tight, 11% tighter)

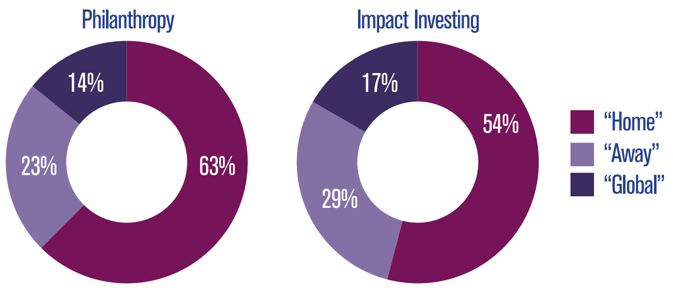


See interview F P.29 - Overseas investments. Should work locally with strategic partners

Geographic distribution of investments. Cross-referencing wealth owners' countries of origin with the regional geographic distribution of both philanthropic and impact investing activities, shows an expected majority of "Home" region investments. This is most markedly the case for philanthropy (63%) and rather less so for impact investing (54%) **(Chart 20)**. Why the difference? One hypothesis would be that the greater level of investment discipline required in impact investment provides a structure that enables better management of the increased risks inherent in "long-distance" investment projects.

CHART 20

Geographic distribution of investments

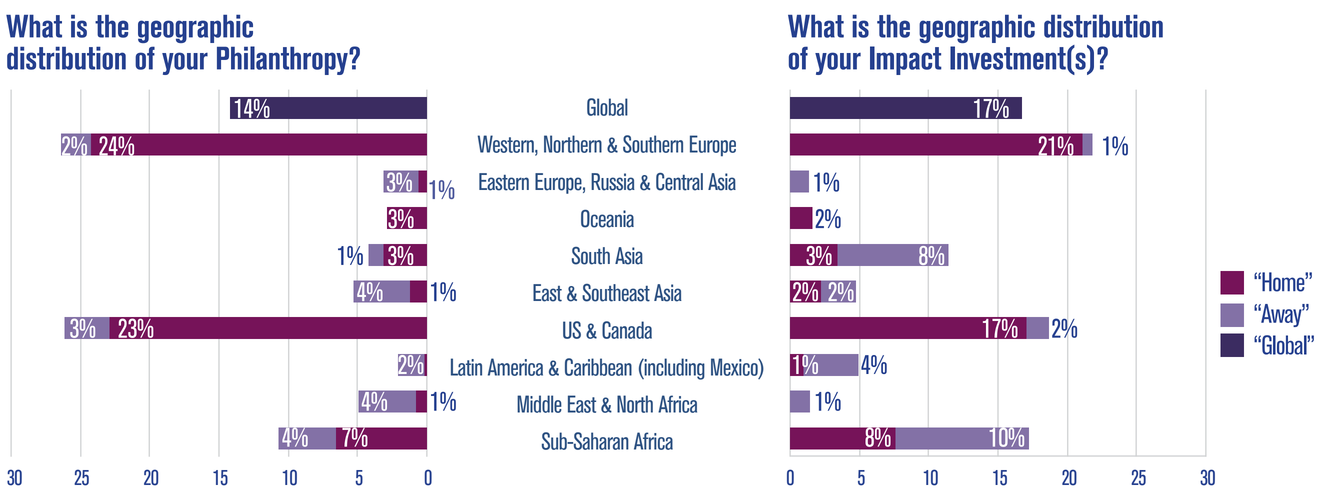


Base: All active in philanthropy and/or impact investing

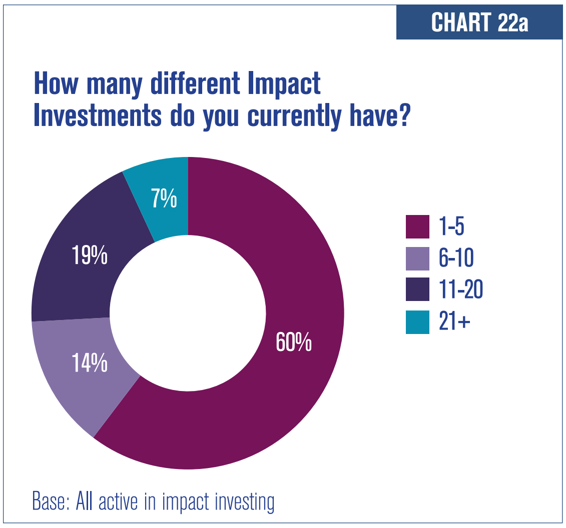
Looking at the regional breakdown **(Chart 21)** the major difference between philanthropy and impact investing distribution is a reduced lead for Western Europe and North America, with Sub Saharan Africa, South Asia and global allocation upweighted. As a crude simplification, some switching from developed and into emerging and frontier markets. In fact, while the 52% aggregate philanthropy distribution for Western Europe and Northern Europe combined closely matches the "traditional" investment distribution of survey respondents who are active neither in impact investing nor philanthropy at 53% **(Chart 45 Appendix P.41)**, impact investing at 41% shows a significant re-weighting.

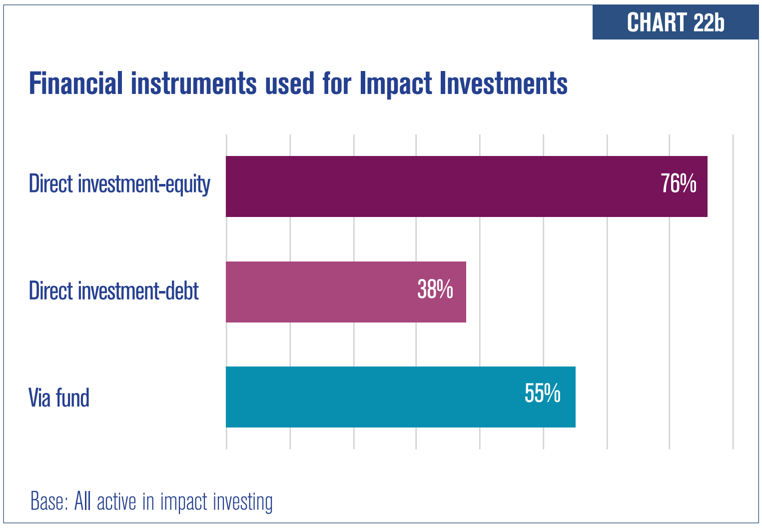
Current impact investments – how many, and what financial instruments? 60% of those active in impact investing hold between 1-5 individual investments, with the second highest category the 19% holding 11-20 investments **(Chart 22a)**. Direct equity investment is the most frequently used route (76%), ahead of indirect investment via funds (55%) and direct debt investment (38%) **(Chart 22b)**. Whilst the minority (7%) with over 21 impact investments use all three generic routes, the average across all respondents with fewer than 21 investments is below 2 **(Chart 23)**. 48% of respondents use a single route, 35% use 2 routes, and 17% use all three.

CHART 21



Base: All active in philanthropy and/or impact investing





Foundations comprise 20% of those using all 3 routes, which is broadly in proportion to their participation in the overall study.

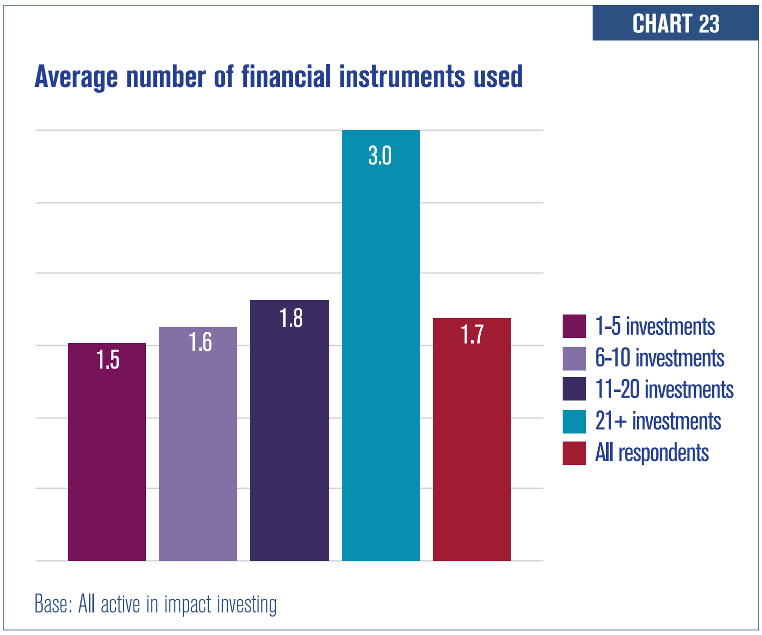
Twice as many respondents using only one route do so via direct equity investment as indirectly via funds. On the assumption that current impact investments largely mirror the initial impact investment routes selected, there appear to be relatively few who make their first investment via the less resource intensive indirect route. Contributory factors are likely to be the limited availability of impact investment fund routes (particularly outside public equities, discussed by a number of interviewees in Section 4 of this report) also the well-recognised Family Office predisposition towards direct investment.

See interviews A, G & H re impact portfolio composition, including for many, public equities

Direct debt impact investments – what's the mix? Most who are active in this category hold social investment bonds - 58% private sector and 26% related to government initiatives. Other responses reference private company debt structures rather than bond issues, including loans to charities and equity-linked debt to graduating SMEs (Small and Medium Enterprises).

What about exited investments? Whilst almost two-thirds (64%) of investors have yet to exit any of their impact investments, 31% have made between 1 and 3 exits, and 5% have exited between 4 -7 investments. In terms of financial instruments, the exits are in almost identical proportion to the overall holdings of impact investments, with a slightly higher proportion of direct equity investment exits offset by marginally lower exits from both direct debt and indirect fund investments.

Examples of current activities– in respondents' own words. Right at the end of the survey,



respondents were asked if they would like to give a representative example of their current activities in impact investing and/or philanthropy. Survey fatigue will have been a factor by this stage, so we are particularly appreciative of those who gave examples, and conclude this section of the report by sharing a number of them, below **(Chart 24)**.

64% of investors have yet to exit any of their impact investments. 31% have made between 1 and 3 exits, and 5% have exited between 4 -7

CHART 24

Impact Investing (predominantly)

"Global Sustainable Real Assets"

"Financial backing in combination with advisory support for start-ups"

"Set up a microfinance fund with the Government of Norway. We have our own social entrepreneurship strategy with 11 in our current portfolio. This strategy could be turned into a financial return strategy, but currently, it is not."

"We are invested in a local social impact private equity fund which focuses on European growth equity. Next to that, we are invested in Brazilian affordable housing."

"We founded jointly with some of our key families Blue Orchard, one of the world leaders in impact investing."

"Clean water resources and availability in Africa"

"Organic feminine care products. We consider investing in B Corporations* to be a great form of impact investing."

* US corporate for profit form whose purpose is to create material positive impact on society and the environment

"Invested in one of the largest B Corps, Etsy."

"Will proactively engage in conversations about impact investing with more families. Researching finance-first impact fund opportunities."

"Special Needs persons to be able to sustain and live an independent life in society"

"Structured deals for loans to micro finance institutions"

"I&P Developpement. Investisseurs & Partenaires (I&P) is an impact investor specialized in financing Small and Medium size companies in Africa."

Philanthropy

"I have two foundations for philanthropy, but I have a social business company which raises money for the foundations"

"Funding Higher Education Scholarships for economically disadvantaged Lebanese Students"

"Educate and transfer skills to unemployed, unskilled rural women between the ages of 19 and 35 years empowering them to enter the job market."

"Fighting overexploitation of natural resources"

"Financial help (additional to state provided obligatory insurances such as health-insurance) to people in need, i.e. single parent-families, elderly people, jobless etc. pure philanthropy, no ROE"

"Markets-based campaigns that tackle the drivers of tropical deforestation such as pulp and paper industry, palm oil and illegal timber. Through organisations like Greenpeace, Rainforest Action Network, Global Witness, Environmental Investigation Agency."

"Education"

"Setting up small businesses in South Pacific villages"

SECTION 3: BARRIERS AND MOTIVATIONS

Overview

Respondents were asked to give their top three choices, ranked from first to third in order of significance. If preferred, a single answer was accepted but virtually all respondents provided three.

The bulk of these responses are informed by practical experience, with both barriers and motivators provided by Family Offices and Foundations already active in impact investing and/or philanthropy. So, well positioned to prioritise issues across the spectrum of design, execution and monitoring.

To complete the picture, respondents who are **not** active in either area have also provided their views on major barriers to their considering impact investing or philanthropy.

Selectively, responses are broken down between Single Family Offices, Multi Family Offices and Foundations. Perspectives will differ at times, for example MFOs have additional context relating to family clients who are currently inactive in impact investing and/or philanthropy, alongside those who are involved.

Confused by terminology relating to impact investing (37%). Significantly the top barrier for those currently active, & most often ranked first

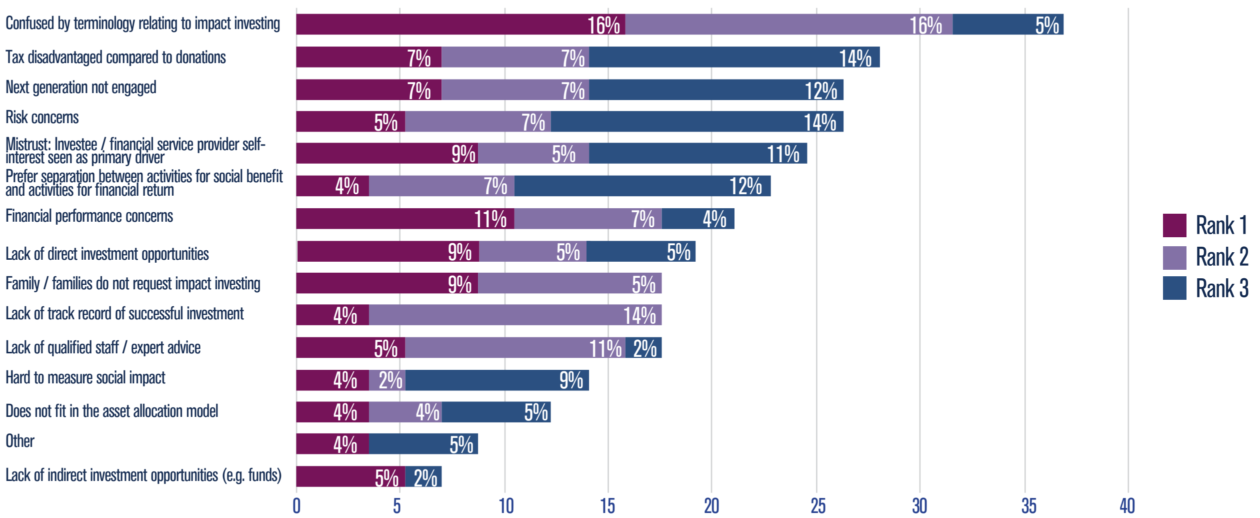
A number of barriers and motivations evidenced here as having a particularly strong bearing on success, are explored in the next part of this report, Section 4, in which interviewees share their perspectives.

Active in philanthropy and/or impact investing

Major barriers to increasing impact investing (Chart 25). Given the mean score (20%) for this question, scores both well above and below this level are of interest. **Confused by terminology relating to impact investing** is significantly the most-selected barrier, at 37%, also ranked first by substantially the largest number of respondents. This transparency gap will be a particular concern to the various groups committed to support the development of impact investing, who will collectively be highly motivated to ensure that they are part of the solution, and not in any way contributors to the confusion.

CHART 25

Major barriers to increasing Impact Investing



Base: All active in impact investing   Note: the mean score is 20%

CHART 26

Major barriers to increasing your Impact Investments: Top 5 by organisation type

	SFO	MFO	Foundation
1	Confused by terminology relating to impact investing (43%)	Next generation not engaged (37%)	Hard to measure social impact (50%)
2	Tax disadvantaged compared to donations (32%)	Confused by terminology relating to impact investing (26%)	Confused by terminology relating to impact investing (40%)
3	Mistrust: Investee/financial service provider self-interest seen as primary driver (29%)	Mistrust: Investee/financial service provider self-interest seen as primary driver (26%)	Risk concerns (40%)
4	Next generation not engaged (25%)	Tax disadvantaged compared to donations (26%)	Financial performance concerns (30%)
5	Prefer separation between activities for social benefit and activities for financial return (22%)	Lack of direct investment opportunities (26%)	Lack of track record of successful investment (30%)

Base: All active in impact investing

There are three other results scoring above 25% across all respondents: **Tax disadvantaged compared to donations; Next generation not engaged** and **Risk concerns.**

There is one result (excluding the open category) below 10%, constituting a major barrier only to a minority of overall respondents: **Lack of indirect investment opportunities (i.e. funds).**

In the open category, other barriers cited include **regulation**, as well as reinforcing financial and human resource challenges: "There is never enough money!" and "Lack of experienced teams on the ground".

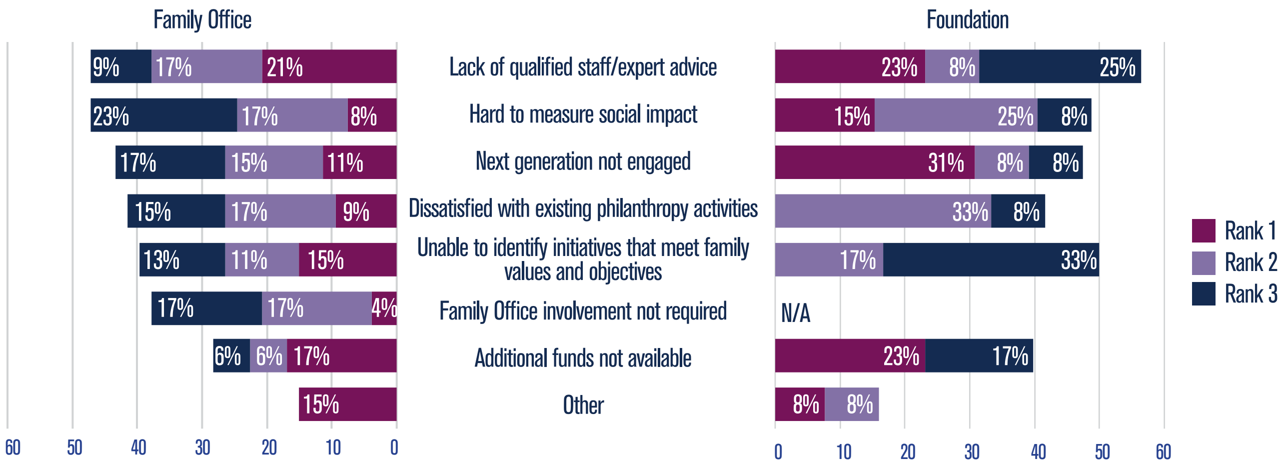
At this point it is useful to look at a partial breakdown by organisation type. Chart 26 shows the top 5 barriers for SFOs, MFOs and Foundations. Unsurprisingly, **Confused by terminology relating to impact investing** is the only selection common to all three groups, with the other 25% plus results featured for both SFOs and MFOs. It is noteworthy that for both SFOs and MFOs **Mistrust: Investee / financial service provider self-interest seen as primary driver** ranks top 5. Also, the top-ranked barrier for Foundations, selected by 50%, is **Hard to measure social impact.**

Major barriers to increasing engagement in philanthropy (Chart 27). Family Office and Foundation perspectives are sufficiently different for these results to be more meaningful on an organisational basis.

For Family Offices, the three scores substantially above the mean (38%) are **Lack of qualified staff/expert advice** (47%), **Hard to measure social impact** (47%), and **Next generation not engaged** (43%).

CHART 27

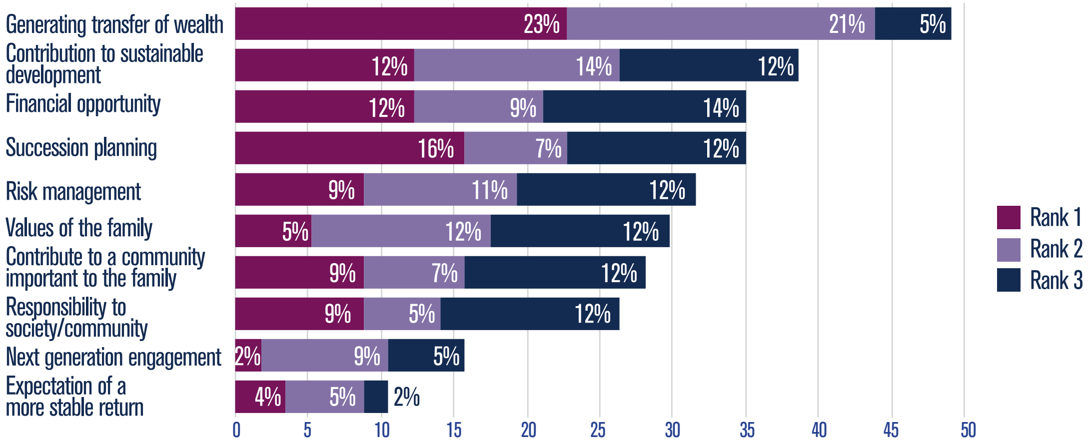
Major barriers to increasing engagement in Philanthropy



Base: All Family Offices active in philanthropy, then All Foundations active in philanthropy Note: Mean score for Family Offices is 38%. Mean score for Foundations is 43%

CHART 28

Major motivations for your Impact Investments



Base: All active in impact investing   Note: Mean score is 30%

Two of the same barriers are also top 3 ranked for Foundations. Against the mean of 43%, **Lack of qualified staff/expert advice** (56%), **Unable to identify initiatives that meet family values and objectives** (50%) and **Hard to measure social impact** (48%) are highest-ranked.

Turning to enablers, **what are the major motivations for impact investments, for those already active?** (Chart 28). Societal objectives are top-ranked with **Generating transfer of wealth** the stand-out result (49%), as well as second place with **Contribution to sustainable development** (39%). Both **Financial opportunity,** so the attractiveness of impact investing on a monetary return basis, and **Succession planning,** rated well at 35%. Well below the mean (30%) is **Expectation of a more stable return** (11%).

Looking at the organisational level, top 5 analysis Chart 29 shows close alignment between SFO and MFO, driving the top two societally focused results. It is important to note that while **Next generation engagement** does not feature for Family Offices, it is the top-rated motivation for Foundations, selected by 60%. **Financial opportunity** is also highly rated by Foundations (50%). **Succession planning** is a top 5 factor across all three groups.

Interview B, P.25, Foundation Principal on barriers to philanthropy specific to the UK

Interview D, P.27, an MFO on impact investing in an entrepreneurialism and succession context

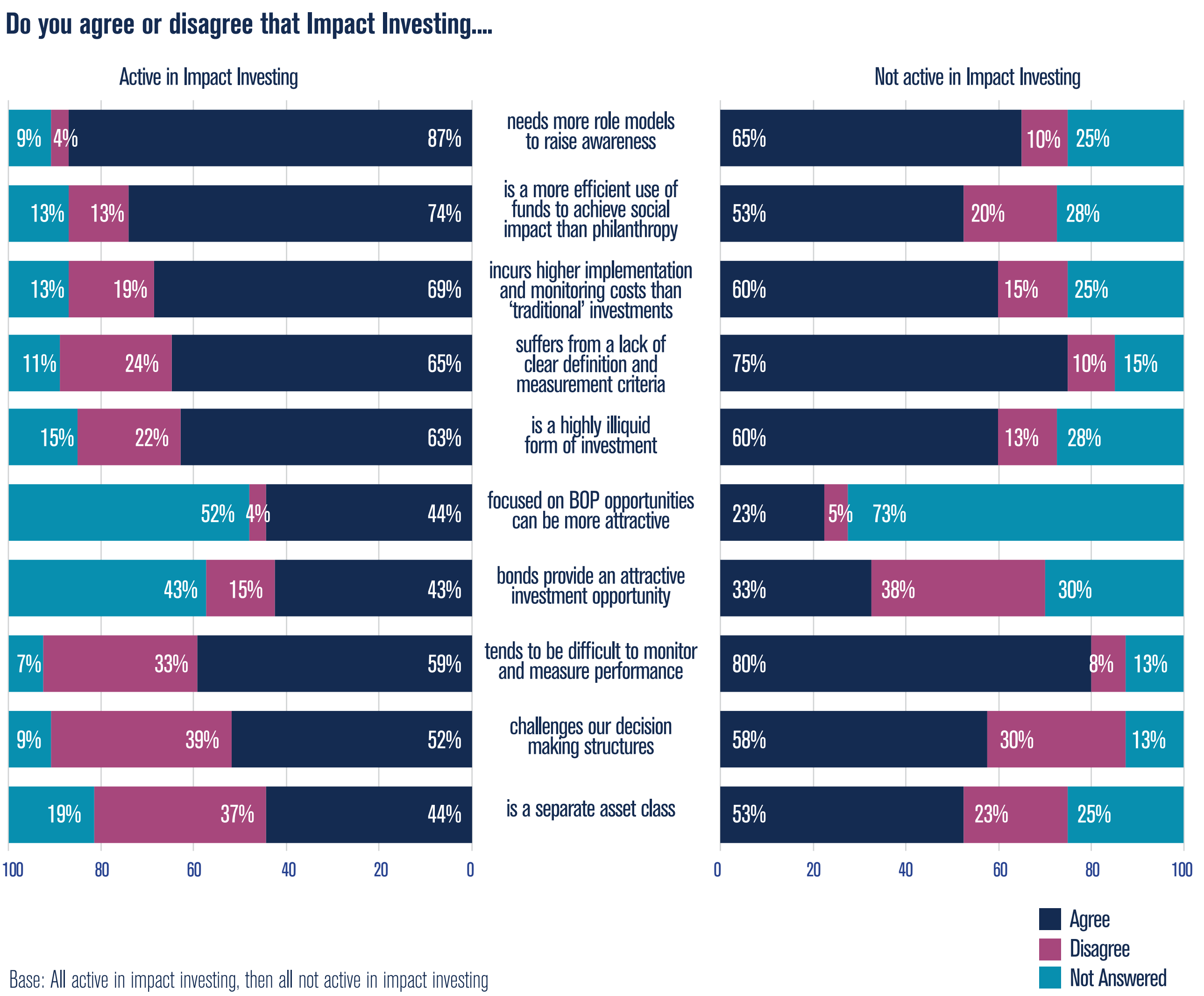
CHART 29

Major motivations for your Impact Investments: Top 5 by organisation type

	SFO	MFO	Foundation
1	Generating transfer of wealth (57%)	Generating transfer of wealth (58%)	Next generation engagement (60%)
2	Contribution to sustainable development (43%)	Contribution to sustainable development (37%)	Financial opportunity (50%)
3	Risk Management (36%)	Values of the family (37%)	Succession planning (40%)
4	Contribute to a community important to the family (36%)	Financial opportunity (37%)	Responsibility to society/ community (30%)
5	Succession planning (32%)	Succession planning (37%)	Contribution to sustainable development (30%)

Base: All active in impact investing
Note: Where % are equal, scores are weighted by no. 1, no.2, no. 3 rankings to determine order

CHART 30



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

Views on impact investing (Chart 30). Respondents were asked if they agree or disagree with ten statements, and could answer as few or many as they wished (on average, they give 8 responses). The results have been split to distinguish the perspectives of current impact investors from those who are not active in impact investment (whether or not they are active in philanthropy).

Among impact investors the top result by some distance is **Impact investing needs more role models to raise awareness** (87% agree, 4% disagree). Then **Impact investing is a more efficient use of funds to achieve social impact than philanthropy** (74% agree, 13% disagree) with the top 3 completed by **Impact investing incurs higher implementation and monitoring costs than "traditional" investments** (69% agree, 19% disagree). The two responses with the closest balance between those who agree and disagree are **Impact investing challenges our decision making structures** (52% agree, 39% disagree) and **Impact investing is a separate asset class** (44% agree, 37% disagree).

For those **not active in impact investing,** the emphasis differs, as highlighted by examining the top 3 results, also 2 more that diverge from the general pattern of result distribution.

The top result is **Impact investing tends to be difficult to monitor and measure performance** (80% agree, 8% disagree, net 72%). Of all ten statements, this drives by far the biggest gap between the views of those who are (net score of just 26%, reflecting the largest number who disagree for any of the statements) and are not currently active in impact investing.

Second is **Impact investing suffers from a lack of clear definition and measurement criteria** (net 65%). **Impact investing needs more role models to raise awareness** (55% net agree) ranks third, the only top 3 result for both constituencies.

The one statement where more disagree than agree is **Impact investing bonds provide an attractive investment opportunity** (5% net disagree). The statement with lowest traction is **Impact Investing focused on Base of Pyramid opportunities can be more attractive,** unanswered by 73% although those that did give a view were mostly positive (18% net agreement)

Impact investing needs more role models to raise awareness; 87% of those currently active and 65% of those not active, agree

Not active in either philanthropy or impact investing

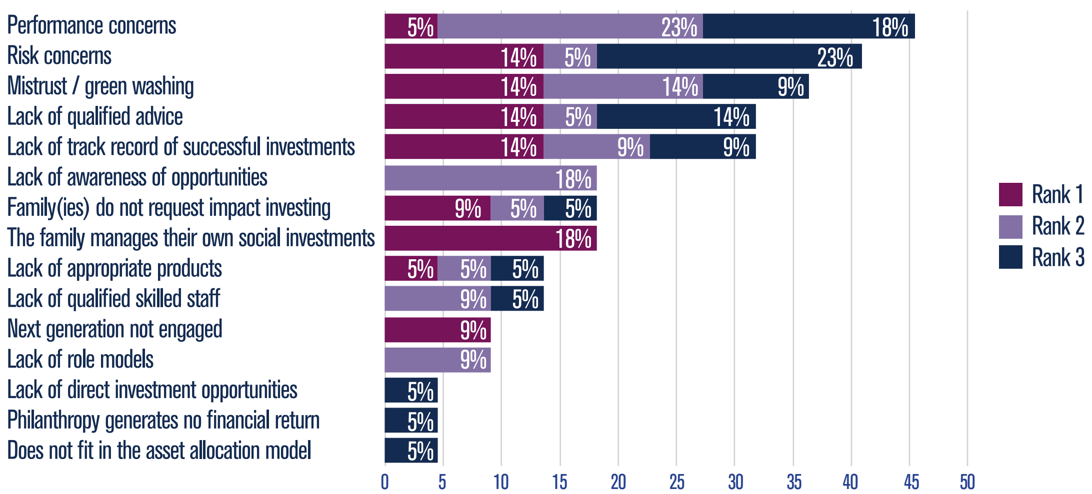
This respondent category entirely comprises Family Offices, as all Foundations in the survey are active in either one or both areas.

For those not active in either area, what are the major barriers to considering them? **(Chart 31).** Noting the mean score of 20%, overall the major barriers are more pronounced for this group than for those who are active in either philanthropy or impact investing. **Performance concerns** (46%); **Risk concerns** (42%); **Mistrust/green washing** (37%); **Lack of qualified advice** (32%) and **Lack of track record of successful investments** (32%) are clearly ahead of the other criteria.

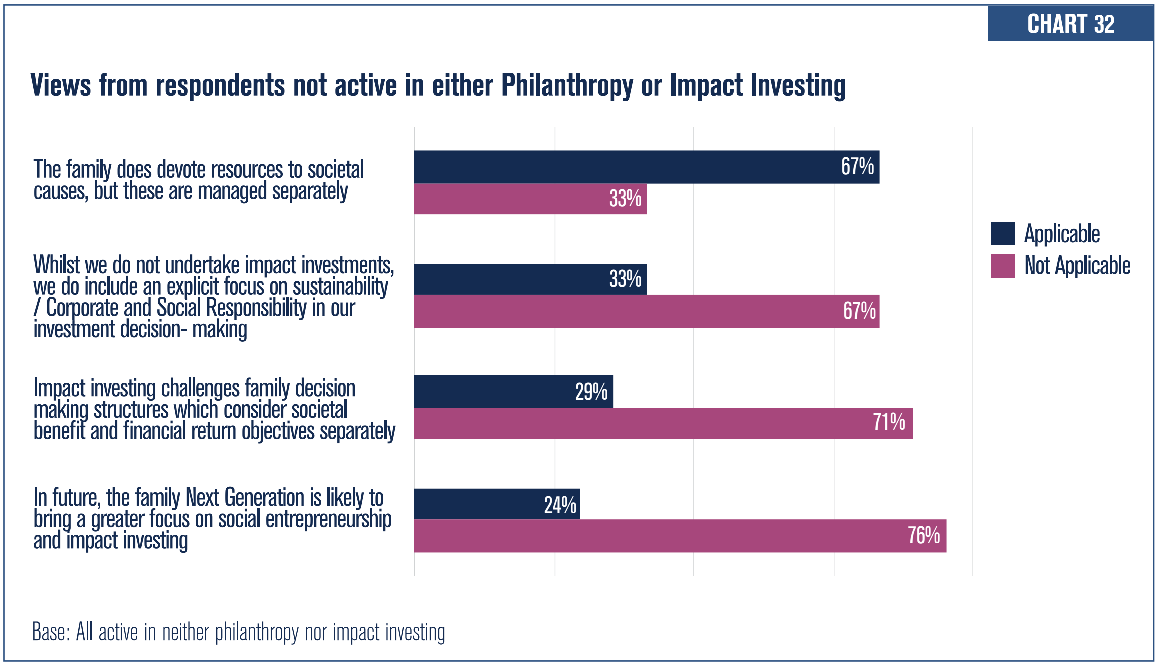
Also noteworthy is that **the family manages their own social investments** is most frequently mentioned as the top barrier. In such cases, involvement in philanthropy or impact investment simply is not part of the current Family Office remit.

CHART 31

Major Barriers to Considering Philanthropy and Impact Investments



Base: All active in neither philanthropy nor impact investing
Note: the mean score is 20%



#1 impact investment motivation for active SFO/MFO: Generating transfer of wealth

For a Family Office who is not currently active in either philanthropy or impact investment to participate in our survey is clearly an indication of their engagement with the subject-matter. We took the opportunity to ask for their views on four additional questions, the results to which are shown in Chart 32.

There are clear majorities for each of the questions, with only one **The family does devote resources to societal causes, but these are managed separately** applicable in most instances (2:1 ratio). Only between a quarter and a third of respondents consider that the future focus on **social entrepreneurship will increase through the Family next generation**, that **impact investing challenges decision making structures** or that **Corporate and Social Responsibility is an explicit factor in their investment decision-making.**

#1 impact investment motivation for active Foundations: Next Generation engagement

Concluding this section

The greater relevance of the preceding examination of barriers and motivations, must be a function of whether, beyond being of anecdotal interest, it can inform decision-making and action. And so contribute to enhancing the performance and momentum behind impact investing and philanthropy that is the subject of Section 5 of this report.

The findings highlight opportunities for knowledge sharing: With others at a similar point; and particularly by strengthening connections between those experienced in impact investing and/ or philanthropy, and those who have not, so far, become active.

In the space available, it is possible only to draw attention to the “stand-out” results, and briefly. For those who take more time to look at the responses, particularly in combination with the next section interviews, a number of recurrent themes may be evident. Including:

- Tensions between trust and (the need for) control
- Distinguishing between ideological differences and underlying common cause obscured by the absence of common language/ terms.

SECTION 4: IN THEIR OWN WORDS – PERSPECTIVES ACROSS CONTINENTS

Overview

8 interviewees from Europe, North America and Asia share their frank perspectives in this section. SFO and MFO professionals and family principals operating through Family Offices and Foundations, are represented. Some are experienced impact investors and/or philanthropists, potential role models. Others are not professionally active in philanthropy or impact investing. Collectively our interviewees mirror both the respondent base and readership audience for this survey.

Below, several themes are cross-referenced against the interviews, coded by letter:

	Interview
• Definitions and definitional challenges	ABC
• Barriers to philanthropy and/or impact investing	BCEGH
• Perspectives on role models	CGH
• Entrepreneurialism	DF
• Succession, including "Next Gen", and control	All
• Impact Investing practicalities:	
› Portfolio design and composition, including, for many, public equities.	ADGH
› Achieving scale	AFH
› Learnings to share	AEFH

A ROCKEFELLER & CO., US-BASED MULTI FAMILY OFFICE

Long-Term Impact Investors

At Rockefeller & Co., we have a long tradition of seeking to align the philanthropic values of our clients with our investment process. Over our 30 years of experience across multiple asset classes, we have concluded that the ability to create an impact is significantly linked to the efforts placed in building an appropriate investment portfolio.

First, it is important to highlight that capital can create transformative change in society. As large multinational corporations have become so important to many economies, we believe as investors that these corporations need to adjust their attitudes and behaviors.

The transformative potential that large companies have in the market place is eminent. It can allow for emerging businesses to thrive, and create new processes and models that can be shared across industries. Second, impact investing is an approach; it is about being deliberate, being intentional and paying attention. So whether one is investing directly, or through the expertise of an asset manager, impact investing is a different method of investing that requires distinct metrics. Finally, attention to one's effect must be paid in order for business to be conducted for the greater good of society as well as for the economic gain of the owners. As a result, investors should be clear about their intention across all asset classes, and then make sure that a consistent process is followed and assessed.

Rockefeller believes that selection is only the beginning of seeking a successful impact investment. It requires serious engagement and commitment over the years. After the selection process, we then seek to nurture long-term relationships of trust with management in order to help generate a solid record of improved transparency and accountability of their business practices. Through company dialogues and meetings with senior management, we have worked with companies to help improve their impact on society and have encouraged them to minimize their environmental footprint.

These efforts may include offering solutions to existing challenges such as water stress, resource scarcity, air pollution, and the protection of biodiversity and ecosystems. Through our investments, we seek to hold companies accountable for their societal impact and the value they create to their employees, communities of operations, and other stakeholders.

Through engagements with companies, we learn about their strategies and encourage them to improve corporate citizenship and their behavior in global operations. For example, we have engaged with one particular oil and gas business for over 10 years and together with other stakeholders we believe that we have been able to positively impact their culture of sustainability and transparency. These efforts include hosting annual meetings with the company's CEO during which we discuss a wide variety of issues that range from business strategy, environmental responsibility, hydraulic fracturing, deep water drilling, and human rights. The company, as part of its industry leadership, has engaged investors to promote best practices in shale gas fracking operations in North America, and has participated in investor dialogues that have increased disclosure of fracking chemicals and sought to minimize environmental impact on communities. Following the Arab Spring in the winter of 2011 and the deep political changes in Northern Africa and Egypt, we also encouraged the company to adopt a set of Human Rights Principles. This conversation not only focused on improving business practices, but was also positioned as a form of risk mitigation. Informed by our suggestions, the company has committed to develop its own Human Rights Framework that will seek to strengthen the company's internal business processes and sustainability practices.

A more recent sustainability dialogue with one of our investee companies commenced in February 2012. We identified this company because of its good workplace practices in an industry with many issues in that area. It was the first meeting for the company with representatives of the responsible investment community. As one of the world's largest delivery companies, it has a high impact on the environment and its communities of operation. The company's operations are energy intensive and have a high carbon footprint; its trucks produce noise and traffic, and its air planes depend on fossil fuel. As investors, we look at the company's best practices and the ways in which the company is seeking to mitigate the risk of one-source energy dependency. We found that the company has been increasing its investments in alternative fuel vehicles and more efficient aircraft models, and searching for new investment options in rails as a less carbon intensive solution. We have been pleased with the company's best practices on carbon management and their first-rate score in the Climate Disclosure Leadership Index.

Today the company has assumed a cross-industry leadership role about the future of fuels in North America and is seeking solutions in low carbon economy.

On the social side, the company is focused on increasing employee productivity and safety through the use of innovative technology. As with many factors, the goal of increased productivity seeks more efficient route management, thus aiding lower carbon emissions.

These are two examples on how "paying attention" to the engagement part of impact investing has the potential to yield benefits for both society and investment portfolios.

What do we wish we had known before?

Understand the influence of the next generation in a family

The next generation generally brings a new attitude towards business and philanthropy, which often translates into their approach to investments. On the one hand, because of all of the interesting start up activity in technology during their years growing up, they believe that business can be a source of creativity. On the other hand, the financial crisis has resulted in a lack of trust in large institutions.

In general, the current next generation is not as immediately suspicious of business as many baby boomers were in the 1970's, but the financial crisis has certainly made them more careful.

They have seen how companies contributed to the global distress of the financial crisis. They are worried about the erosion of environmental and social infrastructure, but they are also worried about their financial future. They expect that they will not do as well as their parents, but they don't necessarily see inequality as a good thing. They expect more from their investments. As a result, they are eager to invest in order to improve society and they are eager for information and an understanding of the "impacts" both social and financial of their investments. They personify investing with "intention and attention".

Look for people with a common interest

At Rockefeller, we believe that our clients can learn from our expertise and perspectives, other resources we provide and each other. Over the years, we have arranged conference calls and meetings with a number of clients as "learning circles." The participants can vary: sometimes they are the trustees of a family foundation, a particular client and/or members of that family, or others who have a common interest in a company, an industry or an issue.

Advocacy and action are two sides of the impact investing coin. The advocacy spectrum includes participating in shareholder resolutions, researching a subsidiary or new project, or providing data on the governance structure of the C-suite and the Board. Action can take place within the family (i.e., mobilizing support for the movement of capital away from a certain stock) or externally. We have the flexibility to be engaged shareholders on behalf of our clients or assist them with their direct engagement efforts.

Be comfortable in your point of view
Each family has their own set of values and approaches decision making differently. As stated above, there are many resources available, but like any situation, the course of action will depend on a point of view and a plan. It is important to understand how each asset class can have different intentions, and therefore can play a distinctive role. For example, investing directly in a clean tech company may provide the opportunity for a board seat, yet the direct exposure to the company's performance may have a more dramatic impact (positive or negative) on the family's portfolio.

As a family develops their plan, another factor to consider is how to monitor the results. Often, a specific group of individuals assumes this responsibility – we have seen this to be a terrific way for families to work across the generations.
The above commentary and case studies are for informational and educational purposes only.

B EUROPEAN FOUNDATION – FAMILY PRINCIPAL

Impact investing definition. The survey definition is fine. But it blurs the distinction between a decent good person working for a private sector, decent good company, and whatever you want to capture that is narrower than that.

If you run a company, if you think of the purpose of that company only to yield profits you cannot run the company. Because you cannot animate the company and inspire the team members by the profit that will flow to the owner.

Our family has two operating companies. From one of them, that sells largely in the Third World, I get hope. There is an energy and entrepreneurial spirit. The lives of the poorest of the poor are improving. Yet through the family investment in global commercial farming, I get something akin to despair. We have a long term sustainable vision, and the measurements and management to ensure we stick to it. Wherever we go - and this may change as there are interesting technologies coming online – most farmers are still largely "farming to quit". They run down resources like soil, fossil water and fossil fuels, not to mention biodiversity, that renew only very slowly or not at all.

Will the "Next Generation" bring a different perspective? My generation will do what previous did: let each generation decide for themselves what they care about and where they want to make a difference. We have no intention of handing down built up structures with narrow guidelines of what should be done. That is demotivating, and their skillset or knowledge base might not match it.

Barriers to Philanthropy in the UK
The Charities Aid Foundation is dysfunctional and a barrier, because they don't understand modern portfolio theory. So they don't grasp the notion that a Yale type structured set of investments (where one or two funds might be highly risky) still means that, with proper diversification, overall the risk of the portfolio evens out to something lower than public equity … they don't understand diversification, and they don't understand more complex investments. We only invest with low leverage people so I'm not talking about presenting them with something that clearly is inappropriate. But since they don't understand it, they take up a lot of our people's time. Therefore, we are running down our earmarked charitable money that is already in onshore funds in Britain. We will continue to do exactly the same things in terms of outcome. But we will not secure the money into British governed public charities beforehand.

Also excepting a handful of institutions, including the elite universities of Oxford and Cambridge, that are really excellent to work with, institutions including British cultural institutions are less well run compared to their American counterparts. Response times are strikingly slower, fund raising is weak and innovation levels are lower.

C SINGAPORE-BASED FAMILY PRINCIPAL

Definitions of philanthropy and impact investing / Trust. These terms make me very uncomfortable as a general rule. Because you create terminology and pretty soon you create a marketing spiel around it and thereafter you have what can cynically be described as the world's worst form of carpetbaggers coming round to offer investments under that aegis. That's the starting point for me for this. On why people create these terms and use these terms, rather than what I think about these terms themselves.

I don't like impact investing as a term. You used the term in the survey green-washing and I feel that impact investing should not be considered as a separate topic.

You should either be a decent human being or not. And if you are a decent human being then you are by definition impact investing, certainly in the industries in which we invest.

Philanthropy & governments. Philanthropy is essentially doing good for your fellow man and I think everyone does that in a very personal way. From my perspective I support a number of things that are very important to me. I want my money to go directly to helping people and I'm not looking for acknowledgements in these things, I don't want to be seen to be doing these things, I don't care about any of that. I would like to do a lot more but sadly we are in a position where we are getting taxed into submission by governments around the world.

You cannot consider philanthropy without considering the tax regime or the monetary regime within which you operate.

And the amount of fiscal and financial repression combined that people like us are facing now puts enormous amounts of pressure on our ability to continue with philanthropic efforts.

Intergenerational change? I just remember what I was like in my twenties, I had a lot of opinions, no ability to effect any of them and as I have grown older I have realised how stupid I was. I don't think that is a discrete period - it happens in every generation as it grows up. This sounds incredibly old fashioned: Ultimately you have the values that you have bred and beaten into you; you come to some degree of comfort as you get to your forties with who you are and what you believe.

Barriers to impact investing/role models. Identifying role models is difficult. It requires finding a way of talking about good business and good business sense and its impacts that can appeal to the romantics as well as to the hard headed. It is why effective people are so few and far between. Because the skills of being a detail oriented hard working guy who gets things done, who is also a romantic and appealing individual; they don't exist very often in one individual or in one group of people. But part of the problem I think we face with these subjects and I am part of the problem when I left university 20 years ago I wanted to go off and work for a large company. You live in a very cocooned world if you work for a large company or a bureaucracy in any form. You want to know how hard things really are in this world; don't go and work for someone else, try doing it for yourself. And you'll soon work out that actually it's not very easy. And having started to work for our family company over the last 5 years, boy o boy do I understand that now!

D UK MFO, WITH EUROPEAN, MIDDLE EASTERN AND NORTH AMERICAN FAMILY CLIENTS

Our job as the MFO is the boring bit! Our clients have a highly entrepreneurial spirit whereas what we do on the funds side and we say this candidly, is quite boring to our clients and we do it deliberately - being boring about preserving wealth so they can be liberated to do the things that they are interested in. **So on the direct side they will bring us things to advise on that we would never go out and find ourselves** – usually they lack scale and are highly individualistic and that reflects who the clients are. And then the client will read our advice and agree with it or not agree with it and sometimes do the investment anyway. So for example we will have a

$200m portfolio and they will take as much interest in a $1m position because they are interested in some small start-up business. Obviously they are hoping this will work out but from a purely rational financial point of view it doesn't make any sense. But there's clearly something else going on which is that "this speaks to a part of me that I can't capture in your boring fund work". It is very powerful for them and we are very happy advising our clients. So families from various parts of the Middle East will be interested in perhaps an infrastructure project in the Middle East. And the top line is financial reasons but actually there is also an emotional connection which is on some level developing infrastructure in my homeland and I like to think – I don't think it goes beyond this for ours - that I'm helping to build something valuable in my country of origin. So I wouldn't call it impact investing but there's more to it than simply the financial return because of the clustering.

Intergenerational change in perspective. Some of our 2nd generation clients see the world in a slightly more holistic way and frankly are in a more comfortable position than their parents were. So they have the time and energy to do something different and also they don't want to follow in their parents' footsteps because it is hard - you have to find a new way to make your mark. So that is definitely a strong motivator for the subsequent generation groups but then we also see that sometimes the wealth generator sees the need to put some of the wealth back into either their own country of origin or the industry of origin. And I think very often they have their hands on the tiller so they can make things happen; that perhaps has a slightly bigger impact if it comes from the originator. Because they can decide right now we are doing it and don't have to wait for the family trust to agree to x y and z. They can make it happen.

Entrepreneurialism and succession. As you go through the generations and the number of beneficiaries grows you are sweating your assets really hard and it's a low return environment. With the best will in the world a portfolio is not going to build a fortune; you are going to sustain it, maybe grow a bit and as you are bringing family on, then one is going to outpace the other.

Understanding that, family officers are increasingly saying we need to encourage entrepreneurship among the subsequent generations because that's the key.

We are going to allocate pots of capital to our younger people and they are going to go out and build a new fortune and that is how we are going to keep growing and manage generations 5, 6, 7 as the numbers keep growing. Obviously it doesn't necessarily work because you can't just generate entrepreneurs, and one of the issues is that very successful families have got a huge survivorship bias problem because they know their parent or grandparent made an enormous amount of money and that's what you do, that's how it works! They don't see that 3 million people went into business on the same day and only one of them ended up making a vast amount of money. So there's a lot of skill but also a huge amount of luck and path dependency. I'm sceptical about that element and also that you can teach entrepreneurship to anyone. As successful people and entrepreneurs become very successful and wealthy, they give their children the best possible education. All of which is tailored around reducing your risk and ensuring you are very fit for purpose in a very narrow space. And so the chance that you are going to go to Eton and Oxford then go and set up some niche business somewhere that has a one in a million chance of making a billion is quite slim. Everything about your education has taught you to be risk averse.

So anyway, I think entrepreneurship as the solution is problematic. But it's definitely a need and what might be more valuable is to use impact investing as a way to keep the subsequent generations connected with the family enterprise, not the business but as a family.

So it could be entrepreneurial, it is innovative and is going to be a way of the new generation understanding things that the old generation did not understand. That in itself is interesting, engaging, gives them a purpose and ties them into family values. It may also be a way to generate returns to the family and certainly in a low return environment as indicated.

It is most interesting how different families negotiate **passing on control** and around what the money represents in their family. There are families where the money is a goal in itself and I don't mean just you need to make more money, but you are custodians, it's a legacy and it must be preserved for some unspecified reason. It's no sense of I want to do this for my children or grandchildren. It's a bit like primogeniture - the house passed on with integrity, not split up. The house is more important than making sure all the children have an equal share. You've got that approach and alternatively you've got "I'm going to share it all out, I'm ceding control", and we're just going to let a thousand flowers bloom and see what happens. Obviously pros and cons of both but share it out and let them get on with it is really powerful. OK you've lost the house, divided it up but you've given people an opportunity to take control to do things their way and they're not constantly wrangling with their cousin about what to do and they can bring their own priorities to the situation. One recent discussion with an English family with 350 years of being a massive family. They have been through everything, probably including the Civil War! They've been through conscription, state acquisition of assets, enormous tax regimes, and the only thing that has ever come near to damaging them is family strife. Knowing that, maybe you're actually better not baking it in and give people a bit of control. Let them live with the choices they make, value different things. That's actually quite far from how a lot of families work. It is very hard to do and hardly ever done but I do think there is value in it to be honest.

E HONG KONG-BASED SFO, 2ND/3RD GENERATION

Family involvement in philanthropy and impact investing: Varies greatly; certain family members are running charities full-time, others are working commercially full-time but on the side active in philanthropy and impact investing. Some is well known publicly, much is very low-key.

The shared objective is basically one sentence. "Giving back to society".

Philanthropy in Asia. In philanthropy we don't see a lot of barriers and there is no organised effort where we sit down and do philanthropy. It is basically choosing which of many approaches to respond to and there is no overall family structure for philanthropy, nor is there a specific annual budget.

Impact investing barriers and activities. Impact investing is different. To summarise, **the barriers basically relate to projects and people.** First of all, in this part of the world (Hong Kong), there are not as many impact investing labelled opportunities although there are many investments that are in fact impact investing. It is just that it is relatively new in this part of the world. The second barrier is finding the right management to really execute on impact investing and not forget about the impact part of the investment. For our impact investment projects, we are likely to have to build teams from scratch to execute. And in other cases we have to leverage our partners' talents. In one case we invested into an existing activity, changing it into an impact investing project. Before our involvement, the original investor was purely financial, to the extent that the social and environmental impact would be negative, if measured. When we took majority control, we had to unwind some areas, so as to be environmentally more conscious, for job creation, and more conscious about the impact on society overall, as well as the quality of the product. We had to hire a CEO, chairman of the board, everybody. We had to put in the top people and also hire agricultural experts so basically the whole executive team. The impact part becomes positive rather than negative. If you ask me the qualities of the Chief Executive, the executive team, I would rank them in this order 1) integrity 2) long term vision of things, meaning no quick money 3) leadership.

Intergenerational changes?
Our Hong Kong-based family is led by the second generation, and contains both 2nd and 3rd generations. Perhaps because social investing is a relatively new phenomenon here, we don't see much difference in attitudes between generations.

STEPHEN BRENNINKMEIJER, EUROPEAN IMPACT INVESTOR, WILLOWS INVESTMENTS

Creating scale in impact investing

Size certainly matters. I should perhaps summarise first how my own direct involvement in this area has developed and then describe two specific investment examples. One of them has grown strongly and achieved significant scale; the other is in its very early stages but provides a platform with the potential to drive future growth through investors who today may feel they are largely excluded from impact investment opportunities.

My involvement began in 2002, after 27 years working with our family retail business. After researching venture philanthropy and social investing (impact investing was not in use as a term at that time), in 2003 we launched what I believe to be the first bottom of the pyramid private equity fund, funded from our family group. It invested in several businesses, including social finance and microcredit platforms, as well as the first mobile telephone network in rural East Africa. Then in 2007, I started my personal investment activity in social business. Over the last five years, we have been able to demonstrate that we have a very attractive investment proposition.

One of my businesses is **responsAbility**, based in Switzerland. I was the first investor in 2002 and those early years were not without their uncertainty. But today we have $1.8bn AUM, 130 full time employees, and offices in Lima, Nairobi, Mumbai, Hong Kong, Zurich and Paris. It is an asset finance business; we run a couple of microfinance funds, a Fairtrade fund, a venture capital fund and a private equity fund. It has a management firm that invests in development finance. They refinance banks in the emerging markets who work in the field of microfinance. They also work with cooperatives in emerging markets, small-hold farmers for example, financing the whole value chain of Fairtrade. They work through a venture capital fund, investing into small businesses in emerging markets, with focus on east Africa, Latin America and also India. These are just examples of what they do. The scale we are achieving is highly relevant from an investor perspective, of course. A pension fund generally has to invest €50m plus and in the impact investing space that is not easy because you can do a lot with a little.

responsAbility is obviously one of the largest organisations in the impact investment industry, with an average institutional/family investment size between €1.5m-10m.

We do though have pension funds invested in responsAbility, for example the Swiss Post Office pension fund, where clearly it would be difficult for them to invest in individual social enterprises. Towards the other end of the spectrum, my retail background taught me the central importance of this market to achieving scale. **responsAbility**, as well as family investors, has been able to attract middle- income Swiss investors. The individual who talks to his/her private banker and says "I would like to invest 5% or 10% into something that has more meaning than the average investment that I hold". On average, they invest about 10,000 Swiss Francs.

My second example is in its very early stages.

Making impact investing opportunity inclusive is critical, and one of my passions is the Social Stock Exchange, which we launched in June in the UK.

This is a platform offering organisations visibility as social enterprises, rather than through the regulated exchange. One member of the Social Stock Exchange is Good Energy, an energy company listed on AIM. They seek to lower UK carbon emissions, sourcing their energy only through renewable resources.

Impact Investment learnings? If there's one stand-out piece of advice I'd give, it's to work locally with strategic partners. Freecom is a South African company I invested in several years ago. The model was beautiful: sourcing second-hand computers from the West, the US or wherever and then shipping them down to Cape Town. The computers were repurposed, new software installed, and sold into the second-hand computer market in South Africa. The concept worked: we used young people from the townships thereby adding value locally. But there were problems: the management were unable to take the business to the next level. Also, politics specific to the region; we needed to be a black empowered company. We were two investors, myself and a Swiss investor, but helping the management to find African investors proved very difficult. The business folded after 2/3 years. The other big issue was that we were too remote. So for me the lesson is always to work with strategic partners who know their field and to surround yourself with knowledgeable, local advisors.

Intergenerational change and entrepreneurship. My children are in their 20s and 30s. How would I compare their situation with that same period in my life, when I was working within the family business, as I continued to do for 27 years?

Obviously the tools of business have changed greatly during that time. 25 years. Some aspects, however, remain constant: one still has to perform, to create a basis for one's career. My children have travelled the world; the furthest I'd travelled by their age was probably Southern Spain! So theirs is a totally different world; because their horizons are much wider. And although their opportunities are increased their choices become more difficult with so much to choose from. Decades of business experience have helped me enormously.

I meet a lot of young social entrepreneurs who are incredibly creative and focused, and who are producing wonderful results. Equally, I meet a lot of people who are very creative, passionate, but who are struggling.

They've come up with that phenomenal idea but are unable to take it to the next level. I think from that perspective my kids are very interested in what I do. Some of them join me in certain things, for instance field trips to Kenya and other places. This is a great way of learning with one another but everybody has to create their own path. They will not follow my path; they will find their own ways.

I have been involved with **Network For Training Entrepreneurs (NFTE)** in the UK and Germany for several years. We work with 14-16 year olds, exposing them to entrepreneurship training and practice. I've learned that some, but not all, aspects of entrepreneurship can be taught. At the heart of what we are teaching is attitude. Not everybody has that "can do" attitude which is what it really takes. As in the army, who are the true leaders? The answer is twofold: both the general who sits 500 miles behind the front line, and the corporal who is directly in charge of you. Our focus with the kids we work with is to help them to create their own passion for something. We help them to lose an inbuilt scepticism about business, to understand that business is fun. But also to make them understand that ownership brings responsibility. It is a great way of engaging with kids, and those of us who are involved, are also learning every day. We learn what makes these children tick. Often, they see the school environment, the classroom, as their home. Because frequently they come from such challenging backgrounds that, as soon as they leave that environment, they are back in their own "warzone". It is not easy to really appreciate what it means to grow up in that type of scenario and then enter a safe environment. Often the children don't want to leave. These are all challenges that we work with and it is very rewarding – wonderful, in fact - to see how these kids grow, and to celebrate their successes. This is a key element of the work we do.

ANNIE CHEN, CHAIR OF RS GROUP, HONG KONG-BASED SINGLE FAMILY OFFICE

Decision to create impact investment portfolio: One major influence for me after I took responsibility for the portfolio, was our previous family office head, Bonny Landers, who introduced me to sustainable investing. Though I don't have a background in investments, I was interested in the consequences from investment decisions beyond strictly the return performance. Sustainable investing just made sense to me. Consequently, I decided that I would start moving my portfolio into investments that qualify as sustainable and responsible investments. At the same time, I was also looking at how to deploy my assets philanthropically, as there is a strong tradition of philanthropy within my family. When I came across social entrepreneurship, I recognized it as an area complementary to impact investing. I could see that what needs to happen, if one cares about our environment, about the health of the planet etc., is to create ways for mainstream investors to invest more consciously, with an eye on what values and what impact their investments are delivering. Fairly soon afterwards I met Jed Emerson. After reading his writings I became even more convinced that taking a holistic approach was right for me. Rather than practicing the traditional model of separating philanthropy and investing, I was really looking at the portfolio as a whole, and that is what put us onto this total portfolio approach.

Financial performance is not the be-all and the end-all, especially when one could see that a lot of problems that we face today have their roots in the traditional way of doing business.

There is a choice to be made, and in my case I had the relative freedom to call the shots, if you will, about my entire portfolio. In many other situations where there is already a very advanced or well defined structure about who manages the investment, what they need to be delivering in terms of return, and liquidity needs etc., there isn't so much room to take this holistic approach. Making the decision was the easy part, the implementation is the real deal.

Impact investing in Hong Kong: When we started a few years back, there were really not many impact investing opportunities in Hong Kong. The approach we took was that this is a space that matters to us, and we could see that it was already taking shape in other parts of the world, with some seeds of activity in Hong Kong—but our dilemma was, how can we support those initiatives? In the early days we directed some of our philanthropic and impact investment activities towards local efforts. We recognised those as clearly risky if you are looking for potential return of capital but we decided at that point in time it is necessary to take on some of these risks in order to grow the space. Now that we've had a few years of experience and the space itself has grown somewhat, we have to keep assessing where our value add would be and take a fairly fluid and opportunistic approach because we are not simply focused on a particular theme or sector, but are instead interested in supporting the development of impact investing more broadly.

Like investment in general, impact investing hasn't been without its ups and downs. One of our more noteworthy investments so far began as a direct investment into a very small independent ESG research company based in Asia. I invested in it because I believed that there had to be room for an independent research house for sustainable investors, as opposed to in-house research, which frequently cannot set their own agenda. I did not realise that the market for independent research was not quite established, especially for ESG research, which is considered a niche player. Nor did I fully appreciate the extent, as a significant investor, of our obligations and motivation both to protect our investment and to help the company manage its challenges. It took a lot of time and sweat by me and my team to manage and remediate for factors that were sometimes beyond our control. However, the company was eventually acquired by a larger global ESG research house, of which we have become a shareholder. This investment has allowed us to continue demonstrating our commitment to the space, and also show that there is buy-in not only from traditional "enlightened" investors from the West, but that there are also Asian investors who put sustainability in a very important place.

Public equities: We do not have the resources or the manpower to have a highly tailored portfolio, and therefore prefer to access public equities through funds.

We select managers that either have a basic negative screen, e.g. avoiding tobacco, armaments and other negative industries or engage in active strategies that incorporate environmental, social and governance ("ESG") considerations into their investment processes.

We have spent quite a bit of time on finding the right managers. There are umpteen public equity funds out there and now, there is an increasingly growing universe of funds claiming to be engaged in sustainable and responsible investing. Through our financial advisors we have found managers who have a solid track record and can help produce the liquidity, cash flow and financial performance that we deem necessary. As we are transforming our portfolio into a responsible and sustainable portfolio, we also look closely at how our managers really invest in relation to ESG factors. There are many that claim that they pay attention to these, but have little to show for it. Before investing, our team will undertake due diligence and vetting of the manager and their products, once we have gone through the process of deliberating and selecting a manager, we will usually try to stay with them for at least 3 years to give them time to perform.

In addition to staying engaged with them throughout the year, we conduct annual reviews with all of our managers and ask them very specific questions about how they engage with their portfolio companies on ESG matters.

We do this to both see how much sustainability is in their DNA and also to remind them that this is what we are focused on and so they shouldn't let up on it.

Next Generation: A thought central to my portfolio is I would like to "invest in the future that I want to create". I think the world that our next generation sees is quite different from the world we experienced growing up, and it is becoming increasingly difficult for the younger generation to ignore global problems that are having a deep impact on their daily lives, such as natural disasters brought on by climate change, and air pollution.

All the issues that we are worrying about now will become much more real to them. I look at my kids and I can't help but feel bad for them.

My generation had a good life. Our next generation are going to inherit a planet that is going to be worse for wear because of what we have and have not done. While young people are often motivated to act by idealism of creating a better world, the next generation will likely be forced into action as they are confronted and have to live with the consequences of the lifestyle choices of the older generation. I'm naturally a pessimist, but I cannot let that prevent me from trying to do something about this world!

CHARLY KLEISSNER, US-BASED IMPACT INVESTOR

Developing the impact investment ecosystem. An inhibitor of both institutional and other investment capital is the lack of portfolio results that prove in the language of the financial community that it is possible to accomplish impact alongside competitive financial results. We provided our report* in the context of that financial objective. We see this as the opening shot of a longer term strategy through the global organisations that we co-create and influence like Toniic (a global action oriented network of impact investors) and the 100%IMPACT Network. We will provide more data over the next 3 to 4 years, as we create and document at least a dozen of these multi $100m portfolios that implement various impact themes. This will address the arguments from the investment offices and intermediaries that this is not doable. We are developing a very explicit communication and PR strategy around this, collaborating with partners.

Once we show that a dozen multi $100m impact portfolios not only have tremendous positive impact, but competitive financial returns, institutional capital with multiple billions under management will be able to follow.

*Sonen Capital: Evolution of an impact portfolio: From implementation to results, October 2013

Role models for impact investing: We are particularly delighted to see the next generation stepping up as role models. 30-45 year olds who either are very entrepreneurial and / or have made their money are the ones that need to carry this forward. We provide tools, networks and inspiration to enable that. For example, here in the US Liesel Pritzker and Ian Simmons are stepping up as role models with significant wealth and inherited wealth. And when you hear Liesel and Ian talk about the responsibility that comes with that, it's exactly what their peers need to hear right now. And in Europe, Johannes Weber [founder of Social Venture Fund] and his wife Melinda are in the same age group. They are not only committed but are showing through their deep infrastructure work that they are stepping up to the challenge.

Our growth strategy is focused on enabling this new generation of millennial leaders from all around the world.

To give another example, the second largest wealth family in Australia - which is part of Toniic and the 100%IMPACT Network - is led by next gen leaders who are stepping up in their region, helping to inspire other regional leaders, together tapping into the global network.

Combining philanthropic and "traditional" investing skills.

There is an approach to impact investing that originates more from the philanthropic side and then there is an approach that originates more from the "traditional" investment side. One of the differences is terminology, the way that the people that come from one side think about things and the way their experience and context guides them in what they are looking for. In the context of Toniic, it is beautiful to observe **both kinds of members and how they influence each other to do positive things.** Sometimes it is very difficult for what the impact community calls 'impact first investors' - who are the more philanthropically trained and experienced people - to get the financial results that they are looking for. Because they don't know how to do the financial due diligence, they have never done the monitoring and hand-holding on the financial side. And yet if they collaborate and partner with people who actually know how to do that then they learn by doing. And that actually influences both sides. Our approach is not to fall back into finger-pointing but to transparently move forward together and combine these 2 approaches.

I recently had a chance to work with 12 CIOs of substantial family offices in Frankfurt and then another 12 in Zurich. These were very intentional meetings where nobody else was in the room such that it was really safe for these CIOs to ask questions that otherwise they maybe wouldn't ask. Creating these safe, small gatherings is a very effective way to move people outside their comfort zones and to have them open up in a way that otherwise would not happen. Lisa and I have been doing this with Trustees of Foundations. Many times these Trustees have similar fears and insecurities around this topic.

Showing them how we implemented our impact portfolio - without selling them something - is a very effective peer to peer way of influencing them.

I have made the rounds in Europe with hedge fund managers and many others to present our impact portfolio. We make the claim that our methodology works for portfolios at least between $5m and $500m. And the way that I present this to financial professionals who are not necessarily expressing a personal interest, nor an interest in expressing their values in their jobs, is with a financial argument. I show them how impact investing may be a hedge against the next downturn. I show that – during the financial crisis of 2008 / 2009 - a lot of our impact investments indeed were not correlated to the main markets since they were outside the main markets - so no wonder. I usually leave it at this, unless questions like "What does impact really mean, what asset classes work, what impact themes work, what does this mean with respect to educating my principals, my peers, my company?" are raised. And this is where my real interest starts, if I can switch from the fear based arguments of trying to avoid the next catastrophe and hedging against the next downturn to engaging in impact investing as an optimistic and joyful activity to make a positive contribution to a better world.

Instead of trying to partially mitigate the next downturn we invest to make a positive contribution to humanity, to allowing humanity to live within the carrying capacity of our planet.

When I articulate it that way, there's always a minority of the hard core hedge fund managers who listen intently as I make the point that they can do it too. That leads to the bigger question of how to change the financial industry as a whole for the positive. The last piece in my argument how to accomplish this systemic change is usually quite esoteric for most CIOs. As it requires changing yourself, i.e., your own personal transformation.

If you want to lead a meaningful life, then you need to align what you do with your values and beliefs, as your life is the ultimate expression of who you really are.

This is a more advanced topic, and I usually don't lead with it. But it is also a fact that the people who make the 100% commitment to impact totally understand this, as they have made an explicit choice based on a certain level of awareness and consciousness.

More prominently coming into our lives is the **leadership of the millennial generation.** They are absolutely not willing any more to take on just "any" job. They want to lead a meaningful life. And that's great. For the last 2 or 3 years particularly we have tremendously qualified people coming into our impact investing ecosystem and they don't expect Wall Street types of salaries anymore, because that is not the type of impact they want to have.

For the older generation - particularly males - it often times seems quite difficult to make very fundamental changes - some feel very uncomfortable even contemplating change. And we should not judge what people need to change in their lives. If they decide to change something we should support them but it would be very inappropriate for any of us to judge others on their journey. If someone is not ready yet, then we don't work with them. Because there is no way that we can convince somebody to do something they are not ready to do because their consciousness does not enable them to ask the real questions. And that's ok; it's not bad, it's not good, that's how it is.

Types of impact portfolios. 3 or 4 very different kinds of impact portfolios depending upon how you define impact and think about impact.

We want to publish them as archetypal portfolios to inspire others.

1) One archetype impact portfolio is Lisa and mine. We created a **typical asset allocation model** and overlaid it with impact. We maximize our impact within this framework across major impact themes like social entrepreneurs and holistic sustainability. In some asset classes – like Public Equities – it is harder to maximize for impact, as the investor is removed from the investment. In other asset classes – like Private Equity and Real Assets – the investor is closer to the investment and can often times invest more directly. In public equities, for instance, we insist on a minimum threshold of impact (as expressed by ESG criteria) but we certainly don't maximise impact as compared to other asset classes. In some asset classes – like public equities – it can be tricky to prove your impact, as you are a very small minority investor in a big company. Consequently, we key off the European leadership on the ESG criteria, then augment that with as much transparency as we can get. We evaluate what level of reporting they do and check if it goes deeper than pure marketing campaigns. And if it does, we continue with our due diligence and might invest.

2) A second kind of archetypal impact portfolio takes the complementary approach by first selecting the major **impact themes** and then expressing these themes in most asset classes. An example of a portfolio that follows this methodology would be a portfolio mitigating against climate change. This turns out to be a theme that can be expressed in most / all asset classes. There is an argument to be made that certain public companies are working towards mitigating climate change, and others are not so we have choices in most asset classes. If your impact themes are narrower, then it could become more difficult to find investments in most asset classes. In that case you might have to go outside your core themes in order to implement a portfolio across most major asset classes. We will publish a couple of archetypal portfolios over the next few months and years.

3) A third consideration in some impact portfolios (which could be an overlay of the first two types of impact portfolio) is a **regional focus.** We have impact portfolios in our 100%IMPACT network whose owners say "I want to make a big holistically sustainable positive impact on a region in this world by helping its population, its environment, its social fabric, its community, and its small and medium enterprises". There is usually an opportunity to deploy blended capital including grants and subsidized capital.

4) Lastly, a fourth approach to an impact portfolio is to focus more on direct investments, and not to invest in public equities and alternatives. The first 3 portfolio types could – of course – be tilted more towards direct as well without going all direct. We have a couple of people in the 100%IMPACT Network who don't invest in public equities and who believe that impact has to be and should be expressed in **direct themes and direct investments** including private equity and private

holdings for REIT assets and what have you. There's no comprehensive portfolio analysis that I'm aware of with that approach yet. But we will be able to look at this, conscious that most financial advisors would claim that you should not do this as you would take on too much risk. This remains to be seen as these impact investors claim they understand the long term risks better than the old risk assessments.

I consider the 100%IMPACT Network to be the most robust global financial lab, to prove or disprove theories that go beyond Modern Portfolio Theory.

The time is now to question prevailing risk/return assumptions in the context of long-term impact.

After all, you'll find few if any industry professionals who continue to believe that investors are "rational", that markets are "perfect" – building blocks of Modern Portfolio theory.

Exits are a very big topic for any investor, including impact investors. We are in the middle of defining new types of term sheets for different types of investments that go beyond the classical pure equity investment, particularly for early stage investments.

Blended capital deployment.
We are deploying Blended Capital where the blend accomplishes more impact than the individual money streams. It is a trend for very enlightened investors who have multiple tools at their disposal to make a bigger impact by deploying a mixture of grants and subsidised capital and commercial capital. We have 3 or 4 templates for that and we have started teaching it in our incubators and accelerators.

What inspires us most? The new opportunity of collaborating globally while absolutely respecting regional independence, regional specificity and cultural context. So it is not one or the other, but both. When we talk to impact investors all around the world, many of them want to collaborate, want to invest internationally and want syndication with local skin in the game. What better way of doing that than having a partner on the ground who absolutely understands what is going on? It is absolutely a win-win scenario. And with my technical background I have to put in a plug for **modern networks.** It is a consequence of what we worked hard on in Silicon Valley in the 90s and 2000s.

To have really robust global backbones that enable global membership platforms, global transaction platforms, and the emergence of global crowd sourcing and crowd funding platforms.

Which are absolutely key in enabling impact investors to make a meaningful difference in the capital systems of this world.

SECTION 5: PERFORMANCE AND OUTLOOK

Overview

This section addresses impact investment performance and expectations. It also looks forward in terms of potential for changing allocations to both impact investment and philanthropy on the part of all respondents to the survey – existing impact investors, those currently active in philanthropy and those currently not active in either.

The picture overall is a healthy one, showing positive momentum. Impact investments have for the most part performed well financially, as well as against their social objectives. Existing impact investors are much more likely to increase than reduce their involvement, many of those involved currently in philanthropy are considering beginning impact investing, as are a minority of respondents active in neither philanthropy nor impact investing. We are given a sense of the types of project – both the areas in which Family Offices and Foundations expect to focus and, at a generic level, the financial instruments they are inclined towards using.

For those active in impact investing

Financial returns on impact investments.

How well have they performed to date, and what are expectations for the next 12 months? **(Chart 33)**

To date, 88% are in positive territory, with ranges of 6%-10% and 3%-5% the most frequent results, each accounting for a little over a quarter of all respondents. 17% report double digit gains. Amongst the loss-makers, three-quarters are in single digits, the remainder over 15%.

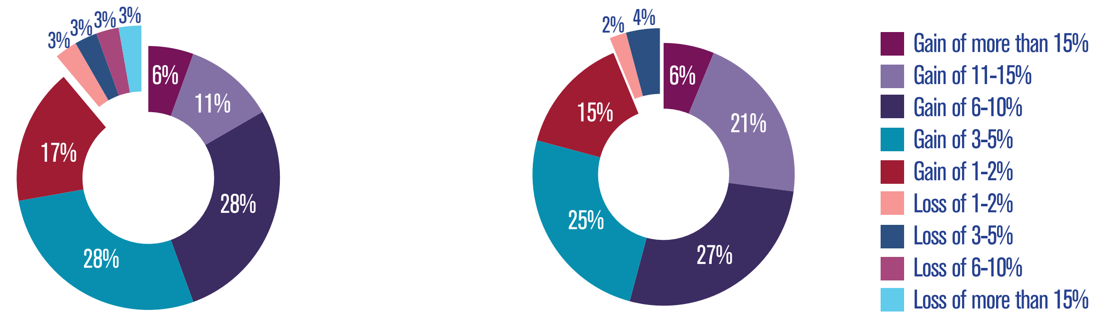
Next 12 months' expectations are that loss-making will halve, to 6%. And that the 94% who make gains will again be most often in the 3%-10% range. Over a quarter are particularly optimistic, anticipating double digit percentage gains.

It should be noted that a minority of respondents opted not to disclose return information, and that a small number also advised that it is too early for them to assess returns.

CHART 33

What has been the average annual financial return on your Impact Investments to date?

What is the expected financial return for your Impact Investments in the next 12 months?



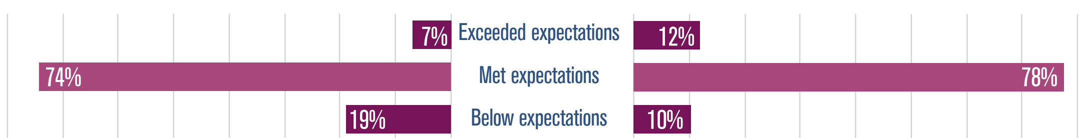
Base: All active in impact investing

Note: Some respondents preferred not to disclose return information. Others advised that it is too early to assess returns. No respondents indicate losses of 11-15%

CHART 34

How did the overall financial performance of your Impact Investments compare to your financial objectives?

How did the social performance of your Impact Investments compare to your social objectives?



Base: All active in impact investing

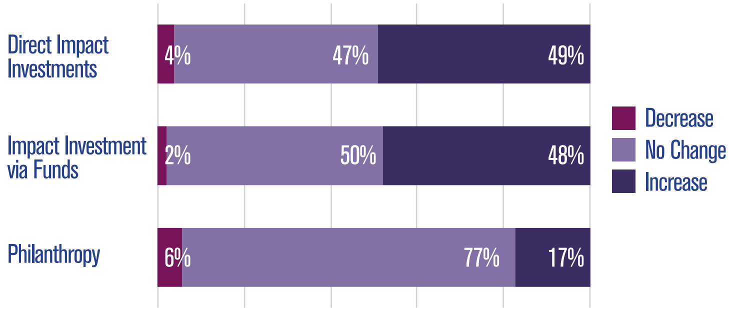
Impact investment performance against objectives (Chart 34). Both social and financial objectives have been met for broadly three-quarters of respondents. Netting the remainder – those that exceeded expectations against those that came in below expectations, there is some distinction between financial performance (net -12%), and social performance (net +2%).

How might impact investors' allocations change over the next 12 months? Chart 35 shows that there is considerable positive momentum, with net 45% and 46% likely to increase impact investment levels via direct and fund routes respectively. This group, which is a mix of those active and not active in philanthropy currently, are also likely to somewhat increase (net 11%) their philanthropy involvement in the next 12 months, although 77% do not anticipate any change.

Where are impact investors currently invested, or planning to invest over the next 12 months? (Chart 36) The question listed 19 different thematic

CHART 35

As an estimate, how might your allocation(s) to the following change over the next 12 months?

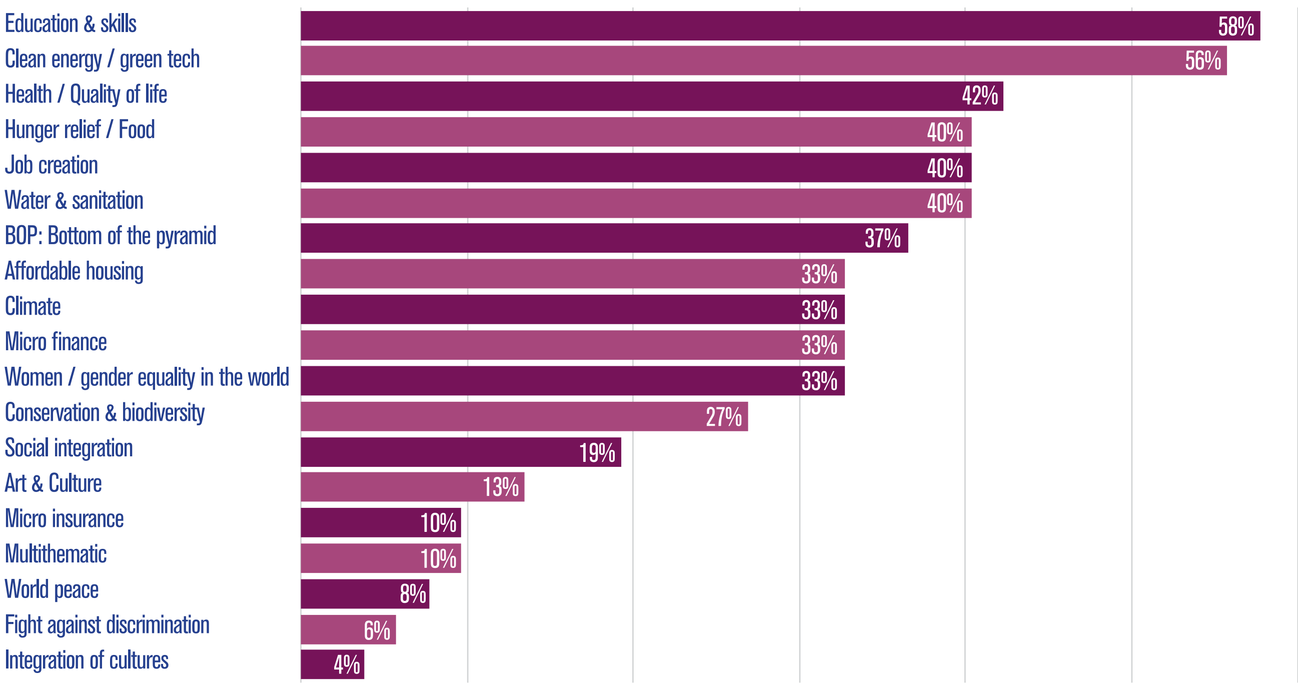


Base: All active in impact investing

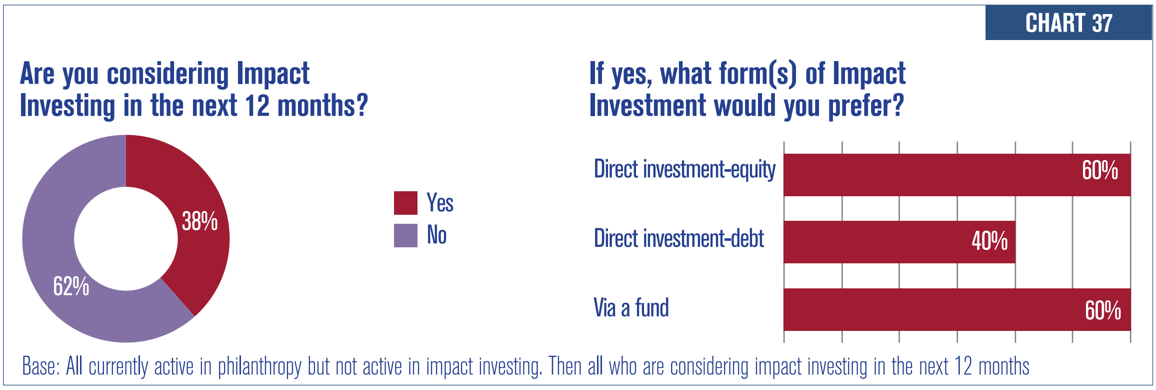
A very substantial minority of those active in philanthropy – 38% - and with Family Offices and Foundations in near-identical proportions, are considering beginning impact investing within a year

CHART 36

Which of the following are you currently invested in or planning to invest in over the next 12 months?



Base: All active in impact investing



/focus areas, so plenty of choice. Respondents made 5 selections on average, so the mean score is around 26%. **Education and skills** (58%) and **Clean energy/green tech** (56%) obtain the highest ratings. Five other areas score well above the mean: **Health/ quality of life** (40%); **Hunger relief/ food** (40%); **Job creation** (40%); **Water & sanitation** (40%) and **Bottom of the Pyramid** (37%). Later in this section, these results are compared with the same choices made by respondents **not** currently active in either philanthropy or impact investing.

For those active in philanthropy but not impact investing

Are you considering impact investing in the next 12 months? And if so, what generic financing routes are you likely to prefer? (Chart 37) A very substantial minority of those active in philanthropy – 38% - and with Family Offices and Foundations in near-identical proportions, are considering beginning impact investing within a year. A 60% majority are inclined towards each of the direct equity investment and funds route. And 40% are considering debt, comprising private sector, rather than government linked.

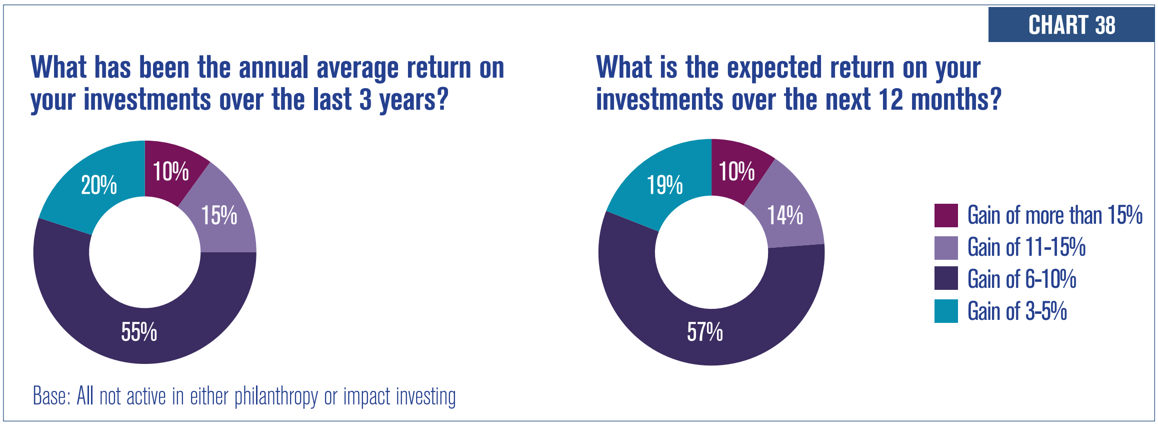
Among Foundations who would consider impact investing, four out of five would do so in respect of both capital and income. The remaining 20% will consider it in respect of income but not capital.

For those not active in philanthropy or impact investing

Financial portfolio returns have been universally positive over the last 3 years, with the majority in the 6-10% range. And projections for the next 12 months are almost identical (Chart 38).

Are you considering investing in the next 12 months? (Chart 39) For most, the answer is no. But 10% are considering impact investment, and twice as many, 19% are considering philanthropy.

If you were to actively consider philanthropy and/or impact investing which of the following might you prioritise? (Chart 40) Respondents gave four choices on average, and against a mean

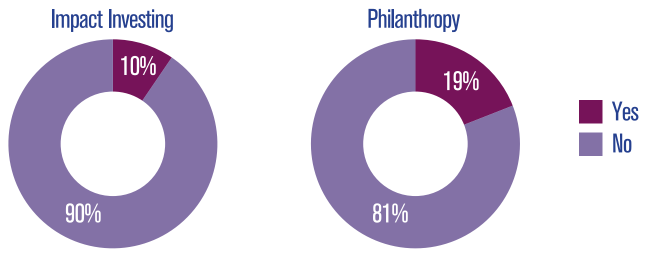


of 21%, there are 5 stand-out results. **Water & sanitation** is by a distance the first choice (65%), followed by **Clean energy / green tech** (59%) **Affordable housing** (47%), **Hunger relief/food** (41%) and **Education and skills** (41%).

Four of these also scored well above the mean for impact investors (Chart 36, page 37), the one exception being **Health/Quality of life** (impact investors' selection) rather than **Affordable housing.** The most striking differences are that none of those not currently active in either philanthropy or impact investing selected either **Bottom of the Pyramid or Women/gender equality.** Both of which are frequent choices among existing impact investors, whether Family Offices or Foundations.

CHART 39

Are you considering investing in the following in the next 12 months?

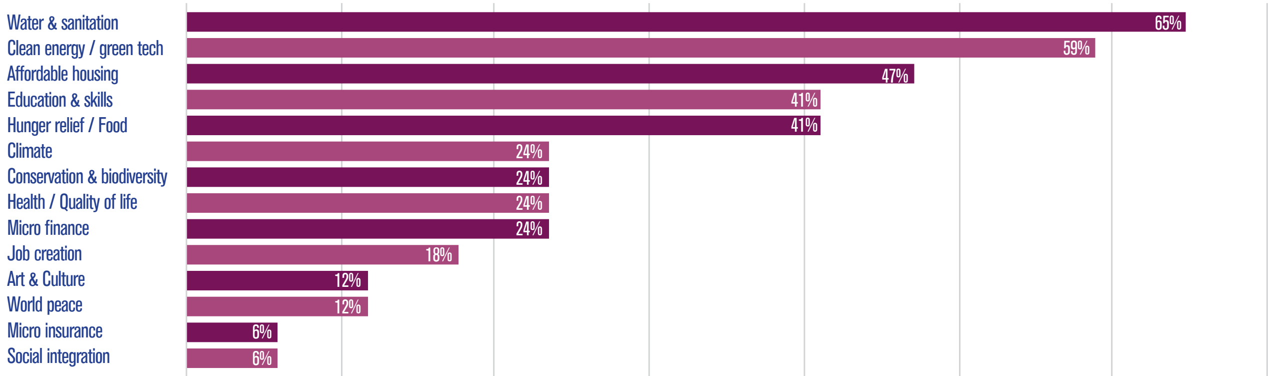


Base: All not active in either philanthropy or impact investing

Education & skills, Water & sanitation, Clean energy/green tech, and Hunger relief/food are shared priorities for all respondents, whether active or not in impact investing or philanthropy

CHART 40

If you were to actively consider Philanthropy and/or Impact Investing which of the following might you prioritise?



Base: All not active in either philanthropy or impact investing Note: Multiple responses provided. Mean scores c.21%. No respondents selected BOP: Bottom of the pyramid, Women/gender equality in the world, Multithematic, Fight against discrimination, Integration of cultures

Conclusion. In next year's survey, we will examine the extent to which the following significant potential growth identified in this report, from both existing and new investors, has materialised.

Philanthropy:

- One in ten (11%) impact investing Family Offices and Foundations expect to increase their allocations to philanthropy
- One in five (19%) Family Offices active in neither philanthropy nor impact investing are considering philanthropy

Impact investing:

- Almost half (45/46%) of current impact investors expect to increase their allocations
- Well over a third (38%) of Family Offices and Foundations currently active in philanthropy but not impact investing, are considering becoming active in impact investing
- One in ten (10%) Family Offices active in neither philanthropy nor impact investing are considering impact investing

81% of impact investments meet or exceed financial objectives; 90% meet or exceed social objectives

APPENDIX: ADDITIONAL RESPONDENT PROFILE DATA

This appendix should be viewed in conjunction with Section 1. It contains additional profile data on Family-backed Foundations (employee numbers), Single Family Offices (sources of family funds) and Multi-Family Offices (numbers of families represented and the proportion retaining core holdings in operating businesses).

It also shows family wealth countries of origin and geographic distribution of investments for those family office respondents who are **not** currently active in either philanthropy or impact investing.

Family-Backed Foundations

Employee numbers. The majority (58%) have 1-5 full time equivalent employees. 10% have 21 or more (Chart 41).

Single Family Offices

Source of family funds. For the majority of families (61%), income is both from existing investments and family operating businesses. This is unsurprising given a near-identical percentage of first and second generation families. For the remainder (39%), income is entirely from existing investments (Chart 42).

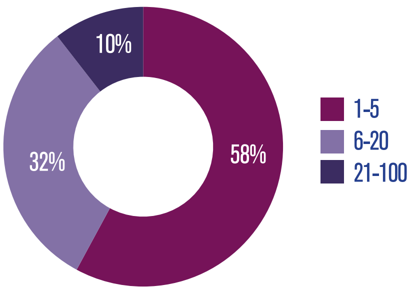
Multi Family Offices

Number of families represented. Almost half (48%) of MFOs represent 21 or more clients, with 29% representing 10 or less, and 23% representing between 11 and 21 (Chart 43a).

Source of family funds. 94% of MFOs have family clients who retain core holdings in family businesses or operating companies (Chart 43b). This

CHART 41

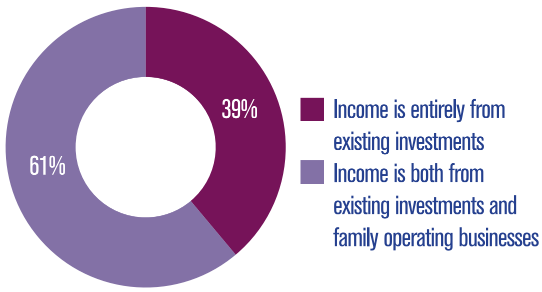
Foundation employees (full-time equivalent)



Base: All Foundations Note: Respondents were asked to include paid, volunteering, directly employed and retained consultants

CHART 42

Source of family funds - Single Family Offices

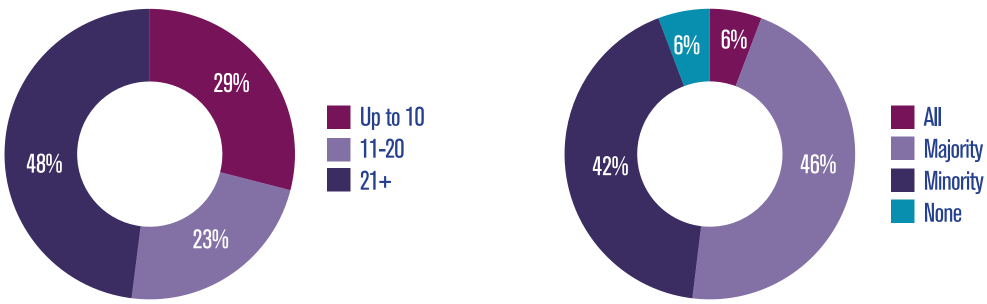


Base: All SFO

CHART 43

(a) How many families does your MFO represent?

(b) What proportion of your families retain core holdings in family business or operating companies?



Base: All MFOs

is unsurprising given first and second generation families are the most prevalent generation for 77% of MFOs in the study.

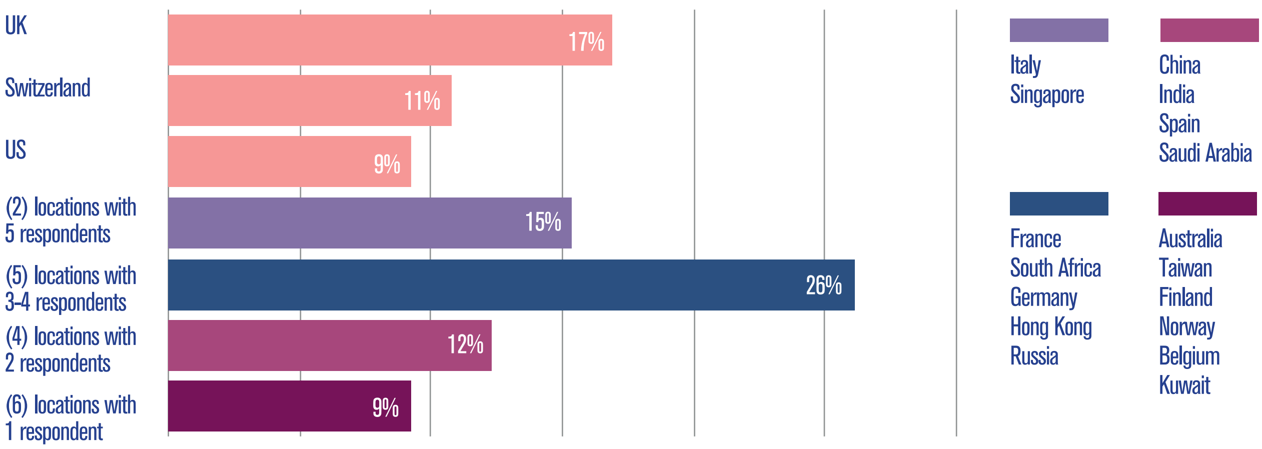
Family Offices currently not active in either Philanthropy or Impact Investing

Geographic location of wealth owners. Largely follows the distribution for all respondents, with the same countries as top 3, albeit Switzerland is relatively more prominent and the US less so (Chart 44). 20 countries represented in total.

Geographic distribution of "traditional" investments. The combined 53% across Western Europe and North America (Chart 45) is similar to the philanthropy distribution (52% - see Chart 21, page 14) and significantly higher than that for impact investing (41% - see Chart 21, page 14). Middle East North Africa (MENA) allocations at 15% are higher than for either philanthropy or impact investing.

CHART 44

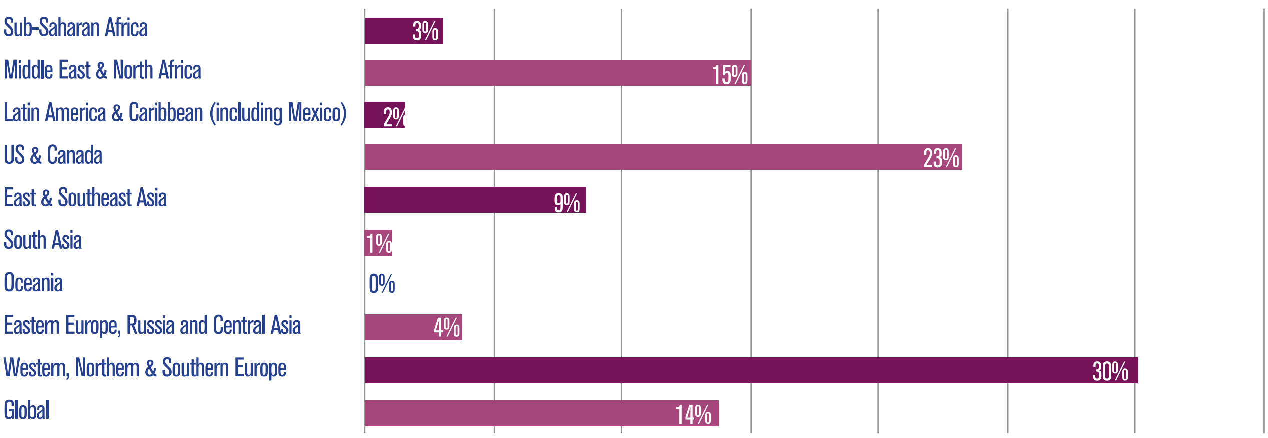
Family wealth – countries of origin



Base: All not active in either philanthropy or impact investing

CHART 45

Geographic distribution of "traditional" investments



Base: All not active in either philanthropy or impact investing

LIST OF CHARTS

METHODOLOGY

This report is relevant to those who are active in one or both of impact investment and philanthropy, as well as to readers who have some interest but are not currently active in either category. One of the principal strengths of the survey is the ability to compare and contrast responses across very different levels of involvement and through a variety of organisational structures, as each of these perspectives is well-represented.

The core of the report is an in-depth online Financial Times global survey conducted between September and October 2013. It attracted 125 responses, from 54 Single Family Offices, 52 Multi Family Offices, and 19 Foundations.

Respondents have head offices in 27 countries, with wealth owners more widely spread across 38 countries and every continent bar Antarctica. The three countries with substantially the largest representation are Switzerland, the UK and the US.

Survey participant anonymity is strictly enforced, with nothing attributed to specific organisations. Responses were gathered and processed independently by Coredata Research.

The survey findings are significantly enriched through eight individual interviews, conducted either by phone or face-to-face, reproduced in Section 4 of the report. SFO and MFO professionals, as well as family principals operating through both Foundations and Family Offices, are represented. Collectively our interviewees - from Europe, North America and Asia - mirror both the respondent base and readership audience for this survey.

All percentages in the report are shown to the nearest whole number. Due to roundings, they will not always aggregate to 100%.

FURTHER INFORMATION AND ACKNOWLEDGEMENTS

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FINANCIAL TIMES

IN PARTNERSHIP WITH METHOD IMPACT