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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.

*Sonnet 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.