The family office guide to impact investing

Exploring impact series: Part 3

Message from the Chief Sustainability Officer and Global Head Sustainability Strategy, Advisory & Finance

I am delighted to introduce the
family office guide to impact investing.

Family offices have been at the forefront of impact investing since the term was coined in 2007. However, the last five years have seen unprecedented growth in this space as sectors such as climate innovation, sustainable food & agriculture, education technology, and health and wellbeing have blossomed. We believe this growth will continue, offering family offices a deep bench of sustainable and impact opportunities across asset classes.

This paper is Part 3 of our **Exploring impact series**, which examines developments in the sustainable and impact investing sector. For this report, we teamed up with our Single Family Office team to dive into how family offices are taking up the impact challenge.

We look specifically at the role of family offices in deploying capital into this space, and provide guidance on how family offices can develop and implement sustainable and impact investing strategies. We feature case studies from four family offices at the forefront of this movement.

Part 1 of this series, **From ESG to the SDGs**, covers the shift in the market from concentrating solely on company ESG processes and policies to investments which directly address the UN Sustainable Development Goals (SDGs). Part 2, **The double delta of impact investing,** explores how investors need to focus not only on the impact of the companies they are investing in, but also on their own "additionality", that is, the value-add that they can bring to help these companies grow faster.

This paper builds on the thinking of the first two papers within the context of family offices, and offers a template, examples, and guidance for making it happen.

Marisa Drew
Chief Sustainability Officer and Global Head Sustainability Strategy, Advisory & Finance
Credit Suisse

Foreword

At Credit Suisse, we believe family offices can play a key role in financing the growth of the world's most impact-generating companies. Sustainable and impact investing is not a new concept for families that have for generations invested according to their values and financed businesses that have helped to shape the world as we know it.

Yet over the last decade, we have seen a significant increase in the number of family offices consciously moving in this direction. They are aligning their investments with the family's values, engaging the next generation, managing risk in a changing world, and jumping on board fast-growing supertrends to drive the sustainable and impact investing movement forward. This is highly encouraging, and we see this growth continuing.

At the same time, we still have a long way to go when it comes to achieving the 17 UN Sustainable Development Goals (SDGs). An additional several trillion dollars per year will be needed to address these pressing global challenges. While government spending on research and development (R&D) and foreign aid along with private philanthropy are, of course, important, private investment capital will need to do the heavy lifting to pull billions of people out of poverty – and deliver healthcare, housing, and access to finance, infrastructure, and other essential services to the global population. Vast amounts of private capital will also be crucial to scaling up and financing the transition to a low-carbon economy.

Family offices are particularly well-positioned to step up. Large institutional investors such as pension funds have fiduciary duties that limit the risks they can take and the regions where they can operate. Very few are comfortable investing in the seed-stage venture capital funding of, for example, nuclear fusion or carbon-neutral cement startups. And few are willing to invest directly into many of the countries whose citizens constitute the poorest billion people on the planet.

By contrast, family offices and investors of private wealth generally face far fewer constraints. And there can be a more direct connection between the aspirations of the family and their ability to deploy capital to meet those aspirations.

This guide is designed to help families achieve their goals and, if they so choose, focus their investments on creating as much positive impact as possible.

We hope this guide proves useful as your family office embarks on or continues along its impact journey.

Dr. James Gifford
Head of Sustainable & Impact Advisory
Credit Suisse

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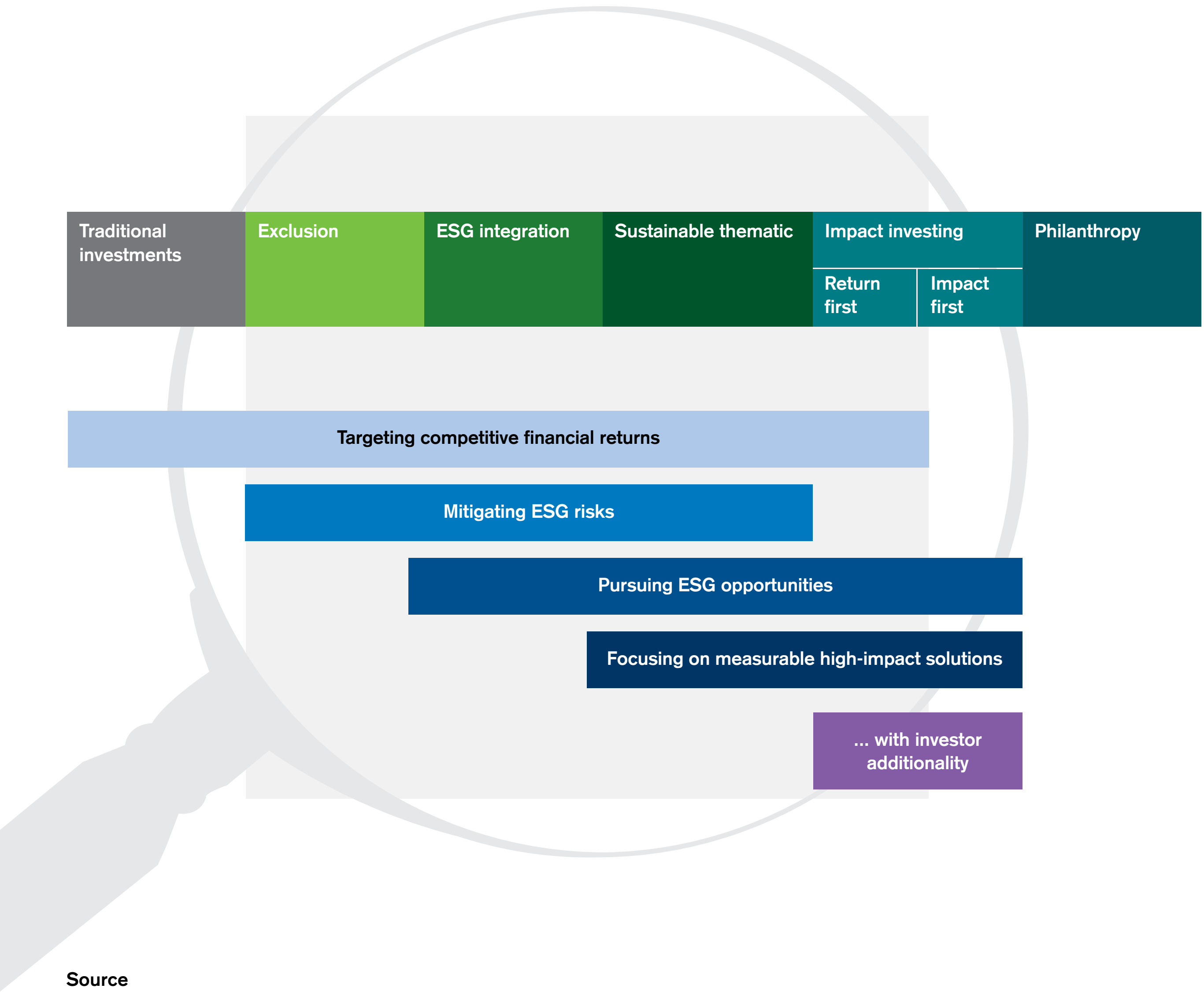
Case studies

Part 1

Understanding sustainable and impact investing

The sustainable investing spectrum

Sustainable investing can be seen as a spectrum of approaches that incorporate sustainability into investment decision making. Four overarching strategies have emerged over the last two decades.



Source
https://www.credit-suisse.com/sustainability/en/sustainable-finance/sustainable-investing.html

Exclusion
Exclusion strategies (also called ESG screening) typically involve the exclusion of firms or sectors that produce so-called sin products, such as tobacco, alcohol, adult entertainment, and weapons; or companies that violate human rights, breach UN norms, or cause severe environmental damage. They can be applied to both passive and active strategies, and in general do not exclude a large proportion of the investable universe.

ESG integration
Catalyzed by the launch of the UN Principles for Responsible Investment (UN PRI) in 2006, these strategies systematically integrate environmental, social, and governance (ESG) factors into the investment process. They tend to focus on risk and opportunity around environmental issues, human capital, human rights, supply chain management, corporate governance, and other pressing issues.
In addition, they often integrate ESG factors that can be material to the financial prospects of the investee companies and are applied most often in active management, with ESG issues considered part of the fundamental analysis of a company.

Sustainable thematic
Due to strong growth in opportunities in the education, plant-based meat, healthcare, electric mobility, and clean energy sectors, fund managers have set up funds to invest in these themes. The interest in investing in solution-oriented companies has grown considerably since the launch of the UN Sustainable Development Goals (SDGs) in 2015, with mainstream investors now mobilizing significant capital in this direction. While ESG integration strategies tend to focus on the sustainability of the company's operations and processes, sustainable thematic strategies focus on investing in companies, primarily in public markets, whose products and services are inherently impactful.

To dive deeper into the evolution of ESG and sustainable thematic approaches, see:
From ESG to the SDGs: The shift from process and policies to delivering positive contribution.[1]

Impact investing
The term impact investing, coined by the Rockefeller Foundation in 2007, describes the subset of sustainable investing strategies that can deliver measurable impact. A key element is the investor contribution or additionality (see below). Impact investing has primarily focused on funding the growth of high-impact companies in private markets, in particular early stage companies and those active in developing countries, green infrastructure, and green/affordable housing. In terms of the public markets, the key mechanism for delivering measurable impact is via shareholder engagement and activism.

For more information on the Credit Suisse approach to impact investing, see:
The double delta of impact investing: Impact at both the investor and company level.[2]

While this guide will dig deeper into the impact investing section of the spectrum, it is important to note that most sustainable portfolios will contain elements of all four sustainable investing approaches to balance out the higher-risk, less liquid part of the portfolio.

[1] https://www.credit-suisse.com/media/assets/microsite/docs/responsibleinvesting/esg-to-sdgs-2020.pdf
[2] https://www.credit-suisse.com/media/assets/microsite/docs/responsibleinvesting/the-double-delta-of-impact-investing.pdf

Additionality: The secret to impact investing

For families wishing to use their capital to make a tangible difference in the world, impact investing is essential.

According to the Global Impact Investing Network, impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.[3] A key element of impact investing is the investor contribution or additionality. That is, would the impact have happened without the investment or the activities of the investor? Put another way, it refers to the value-add an investor can bring to a company by generating more impact than if the investor had not invested at all.

Additionality can be realized via two mechanisms: financing the growth of impact-generating companies in private markets or, in the case of public companies, investing in strategies that press for improvement through shareholder engagement and voting at annual general meetings (AGMs).

An important concept is what we call the double delta of impact investing, which is explored in depth in "The double delta of impact investing" publication.[4] For an investment to have impact, it must demonstrate that it can create change on two levels:

- **Company impact (Delta 1):** the positive impact/change a company generates through its products and services, for example by delivering low-carbon technologies, life-saving therapies, or access to financial services for low-income populations

- **Investor impact (Delta 2):** the additional impact/change an investor helps the company generate by enabling it to grow faster or be more effective, either via financing growth or through active ownership activities

[3] https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing
[4] https://www.credit-suisse.com/media/assets/microsite/docs/responsibleinvesting/the-double-delta-of-impact-investing.pdf

Case study

Peter Brock

We spoke with Peter Brock, Investment Director at 4L Vision, a single family office committed to 100% impact.

Q. How did the family office get into impact investing?

Our story starts with our principal, who sold an IT service provider for the legal industry back in 2016. He wanted to re-focus his life on making a difference, which triggered his interest in creating impact through his investments. He really wanted to focus on impact investments and not just ESG, where investing in the "best" companies or leaving out the "worst" can only do so much. He really wanted investments that can make the world a better place.

After the sale of the company, he joined forces with a colleague and created his family office, 4L Vision, for his direct entrepreneurial investments.

Q. What is your approach to impact investing?

Through 4L Vision, we have made over 20 direct impact investments to date. 4L Vision is the more entrepreneurial arm where the illiquid investments are made. We believe that impact can nowadays be achieved via all asset classes, and we currently also have a focused global listed equities portfolio and achieve diversification through direct investments and venture capital funds.

The family office has developed its own stock picking process to choose impactful companies based initially on standard ESG criteria. But for us, ESG integration is not enough. We do an analysis of fundamental company data, alongside micro and macroeconomic data. As well as this, the impact selection process starts with a very strict negative and positive screen alongside alignment with the SDGs. I would say that we exclude around one third of companies in the broader universe.

We also like to invest in small- and medium-sized enterprises where opportunities exist to drive real, positive impact. We focus on three themes: food, digital/education, and climate. These themes allow us to build a diversified portfolio of investments, which have grown organically over the years.

Please note that these individuals are not associated with/related to Credit Suisse and do not act for and on behalf of Credit Suisse.
Please, contact your Relationship Manager for further information.

Q. How do you measure sustainability and impact within the portfolio?

For our public market investments, we use a number of tools for ESG integration and reporting, including some of the standard ESG research providers. As there is still no standardized measurement process for impact investments, impact is measured and monitored on a case-by-case basis in the direct investment portfolio. For example, how do you compare and judge which impact is more important between two very different companies or themes? For example, is it better saving X tons of CO2 with a carbon reduction strategy or saving Y number of cancer patients through businesses involved in medical innovation? This is not an "apples to apples" comparison.

On the direct investment side, we agree on a number of impact/sustainability key performance indicators (KPIs) with the underlying companies alongside investment goals that we then measure as we undertake the investments. The same is true for the impact venture funds that we are invested in, where we take an active entrepreneurial approach. We also want to see that the fund management team measures their performance not only financially, but also with regard to achieving the intended impact.

Q. How did you build out your team and capabilities? And how about collaborations with other family offices?

We have a team of seven or eight people doing portfolio management and research for the liquid side of things. On the private markets side, we collaborate with another single family office, and combined, we have around five people looking at direct deal flow and VC funds.

We are set up with a network of partners that have enabled us to operate as a fully-fledged family office. 4L Vision works together with a law firm and we also have a bookkeeping company as part of our network.

Regarding external networks, we are a member of Toniic, a network of family office investors focused on impact. We are also active in the German Federal Initiative for Impact Investing (Bundesinitivative Impact Investing), of which I am a founder, and actively contribute to the impact ecosystem – there is still a lot to do to make impact investing the new normal.

Q. What advice do you have for other family offices interested in this space?

For those wishing to get involved in impact investing, I would suggest that they start by exploring the family's values. What values do you have as a family? What intentions bring you to impact investing? If you want to employ your capital wisely then start with your values. Once you have done this, you can see how the values transfer to your investment policy statement.

And know that financial returns and impact aren't mutually exclusive. Good investments with good impact and good returns exist. Simply get started – there are enough great impact investments out there (both liquid and illiquid) for your individual investment strategy. No excuses – the time is now!

Part 2

The role of family offices in sustainable and impact investing

Introduction

In 1882, John D. Rockefeller Sr. established the Rockefeller family office, which was the first family office as we know it today.[4] Over a century later, in 2007, the Rockefeller Foundation coined the term impact investing to encourage a greater focus on – and the building of a community of investors around – the high-impact end of the sustainable investing spectrum. The strategy was primarily centered on private market investments in developing countries and disadvantaged communities in developed markets.

Since then, family offices and the impact investment sector have grown in terms of both assets and sophistication. According to a 2020 survey by the Global Impact Investing Network (GIIN), the impact investing market is worth USD 715 billion and is one of the fastest-growing subsets of the investment industry.[5] Many family offices are incorporating impact investing into discussions about the responsibility of wealth ownership, financial objectives, diversification, philanthropy, succession planning, and legacy creation.

49% of SFOs plan to increase sustainable investments in the next 2-3 years

Source: Credit Suisse SFO Survey Report 2021[6]

[4] Family offices: a history of stewardship, Financial Times 2017
[5] www.thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf
[6] https://www.credit-suisse.com/international-wealth-management/en/insights/single-family-offices/2021-10-the-big-picture-sfo-survey-findings.html
[7] https://www.ncfp.org/wp-content/uploads/2021/06/Mapping-Families-Interests-and-Activities-in-2020-The-Impact-2021.pdf

The growth in this space

Family offices are rapidly becoming more engaged in the sustainable and impact investing market. A recent survey from 2021 by the University of Zurich and The ImPact found that up to 30% of the total assets held by the families surveyed is allocated to impact investing.[7]

A recent survey by Credit Suisse from 2021 revealed that nearly half of the single family offices (SFOs) surveyed intend to increase their sustainable investments in the next two to three years.

According to the same survey, renewable energy, health, and education are considered the most compelling impact investment areas for SFOs.

SFO areas of interest for sustainable investing

63%	Renewable energy
61%	Health
48%	Education
36%	Infrastructure
36%	Food
36%	Environment and biodiversity
36%	Agriculture
32%	Climate action
28%	Poverty and social inequality
23%	Responsible consumption and production
20%	Circular economy
19%	Sustainable cities
16%	Don't know
9%	Gender equality
7%	Communities
5%	Governance

For more information regarding the survey on SFOs, please see our publication: **Single family offices. A view of today and tomorrow**[6]

Drivers of impact investing

A number of factors are driving the growing interest in sustainable and impact investing.

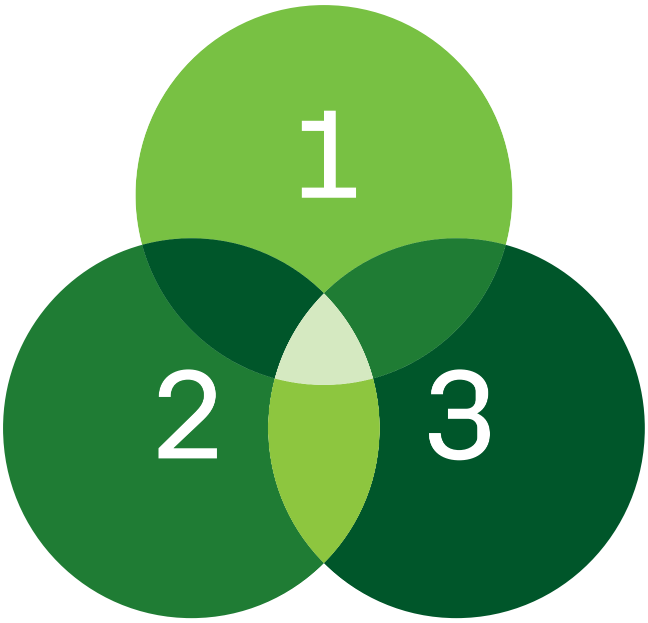
Capturing returns from fast-growing sectors

Society is creating demand for more environmentally and socially friendly approaches to business, which is propelling the rise of technology-driven and disruptive companies. While many are still early-stage companies that involve higher risk, some family offices are building portfolios of these companies with the expectation of capturing outsize returns. Disruptive sectors range from education technologies (which have boomed due to COVID), medical devices, and remote diagnostics to low-carbon technologies, including new battery technologies and the next generation of solar, wind, and nuclear energy. There has also been tremendous growth in high-impact companies in developing countries that deliver financial services to underserved populations, increase crop yields, and disintermediate inefficient supply chains, to name just a few examples.

Three dimensions of returns

While traditional investments are designed to deliver only one type of return – financial – impact investing can deliver three distinct types of return.

1. Financial returns
2. Societal returns
3. Experiential and family returns



[8] Friede, Busch & Bassen (2015)

Financial returns

As with traditional investments, sustainable and impact investments aim to deliver financial returns. For most of the vehicles in the market, there is no expectation of sacrificing financial returns for impact or sustainability attributes.

As large pools of capital shift from old industries to new (e.g. fossil fuels to renewable energy, physical to digital), this increases the flow of money into more sustainable businesses while creating an opportunity for passionate entrepreneurs who want to solve societal problems through commercial business models. Family offices can potentially generate strong returns from investment in these innovative companies.

At the same time, traditional businesses are responding to the demands of customers, regulators, activists, and their own employees by becoming more sustainable, and for good business reasons. A meta-study by Friede, Busch & Bassen (2015) of more than 2,000 peer-reviewed academic studies found that over 90% showed a positive or neutral relationship between ESG and financial performance.[8]

Societal returns

The world is facing significant environmental and social challenges, notably climate change, resource scarcity, and human rights issues. Climate change alone – arguably one of the most challenging tests of our time – threatens the livelihoods of billions of people and the planet's biodiversity. As the COVID-19 pandemic has exposed the fragility of society, many investors now recognize the need to act. Impact investing offers families a way to address pressing global problems, mitigate risk, and underpin long-term value creation.

It is important to point out that while philanthropy is vital in helping to tackle many issues, it represents a relatively small proportion of global economic activity. It is also insufficient for tackling certain challenges, such as unemployment and the lack of growth in underdeveloped economies. While philanthropy can be a catalyst to change, a large-scale deployment of commercial capital will be instrumental to the growth of impact-generating businesses and the scale-up of new technologies. Impact investing can allow families to complement their philanthropic activities with investments that solve different problems while delivering financial returns.

A recent Credit Suisse survey of the “NextGen” revealed:

27% view creating a positive impact in society as the most important factor when building a family legacy

62% are investing in impact investments

97% are interested in actively managing their family’s investments

Source: The Global Next Generation Report “Creating a world with the Next Generation”[9]

Experiential and family returns

Impact investing also delivers experiential returns directly to the family, including:

- **Aligning and passing down family values:** An impact investment approach enables families to build and preserve their family’s legacy and align their values with their investments over generations.
- **Strengthening family unity:** Impact investing can bring a family together through a shared mission to invest in a way that creates impact. Philanthropy has long served this purpose, with different branches of the family uniting for philanthropic activities. Impact investing can serve a similar function, but with the dual function of building commercial investment portfolios while delivering social and environmental returns.
- **Developing next generation skills:** Families can leverage impact investing to engage younger members of the family and help develop their investment skills. Many families are concerned that future generations may not have the financial skills to protect and grow the family’s capital. Sustainable and impact investing strategies offer a values-aligned way to learn about investing in areas of greater interest to younger generations.
- **Developing new areas of domain expertise:** Families that own or used to own legacy businesses often have deep and specific domain expertise. In this fast-changing world, however, families and businesses need to adapt. Investing in sustainable and impact themes – such as tech disruptors in developing countries, climate innovation, education technology, and healthcare – can provide families with a powerful learning platform, where they can diligence funds run by specialist fund managers and then co-invest with them.

See Credit Suisse & the Young Investors Organization (YIO) (2019)
Creating a world with the Next Generation[9]

[9] https://www.credit-suisse.com/microsites/next-generation-and-families/en/next-gen.html
[10] https://www.ubs.com/global/en/wealth-management/uhnw/global-family-office-report/old-edition/global-family-office-report-2018.html
[11] https://www.mckinsey.com/business-functions/organization/our-insights/six-building-blocks-for-creating-a-high-performing-digital-enterprise

Why family offices are well positioned to embrace impact investing

Most family offices are relatively young and agile, established to manage significant capital only in the last two decades (see graph).[10]

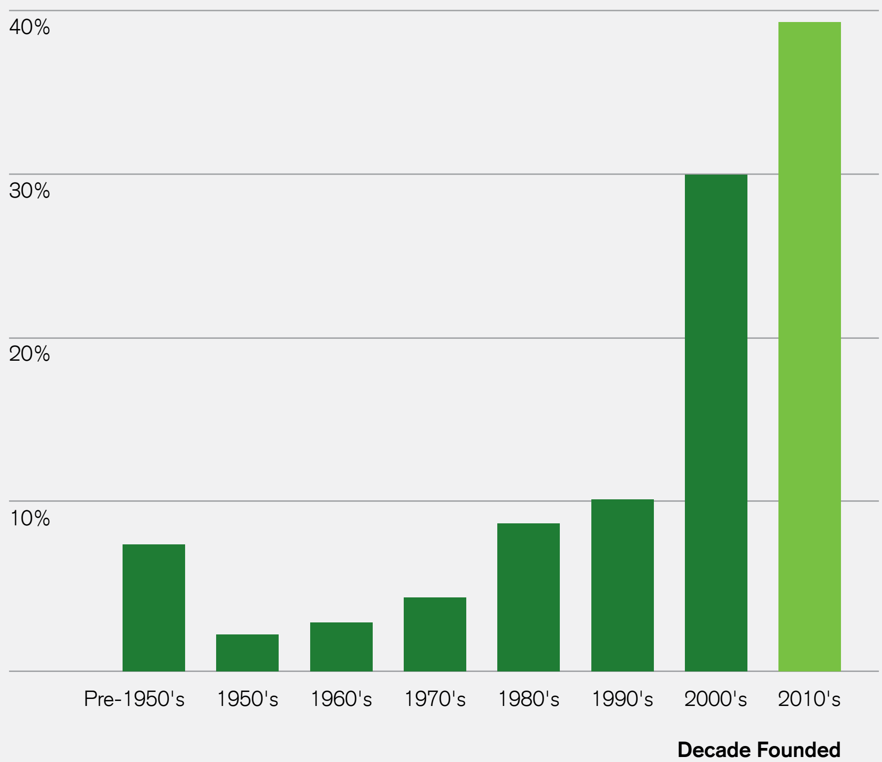
While some family offices are still connected to legacy businesses, many are not. A recent study by McKinsey found that the average lifespan of companies in the S&P 500 in 1958 was 61 years. Today, it is less than 18 years. The authors believe that by 2027, 75% of the companies currently quoted on the S&P 500 will have disappeared.[11]

As the majority of family offices have grown up in a climate of rapid corporate evolution and innovation, they are less afraid to back new ideas, allocate capital, and pursue dynamic risk management.

Family offices can also benefit from institutional scale and are able, for example, to hire highly skilled investment professionals with fewer regulatory (and other) constraints. This allows family offices to get involved in early-stage ventures where the returns, need for financing, and potential for impact are high.

Millennium boom

Most family offices have been set up this century



Source:
The Global Family Office Report 2018
UBS and Campden Wealth

Case study

Fernando Scodro

Fernando Scodro is a third-generation member of an entrepreneurial family in Brazil. Some years ago, his father sold his company and established a family office. Fernando had a mission: to develop the impact investing arm of the family office.

Q. How did your family get into sustainable and impact investing?

I was invited by the Young Investors Organization (YIO) to participate in a course on impact investing for the next generation at Harvard. While participating in the course (now jointly run with the University of Zurich), I was working at one of my family's investment companies in the area of energy efficiency and instantly fell in love with the company. The business model of the company allowed for both the clients and the environment to profit as clients would make money while reducing their energy usage. It was a win-win.

In the Harvard course, I learned that what the company was doing was simply impact investing. This got me thinking. Why don't I do this with my family? And why not across my family's entire portfolio? And so, my family's impact investing journey began.

Q. Once you had decided to pursue impact investing, how did you start?

Although I was eager to get involved, my dad was the main person taking care of the family office at the time. While my family speaks English, it is not their native language. So I translated the entire Harvard course into Portuguese to help my family better understand impact investing and what it was that I was trying to do. This was an important step. It was also a very good way of engaging my mother and sister who weren't a part of the business before. I felt that since we would project the family's values into the portfolio, they should also have a say.

Q. How did you move from vision to execution and implementation? What was your strategy?

I started by asking my family for some time off to fully understand impact investing and how I could make my thoughts and ideas actionable. Together with The ImPact – an impact investing collaboration of family offices – I started doing some translation work while working with other families and looking at what they were doing within their portfolios. I started to get a feel for what it was that I needed to do.

The first step of the Harvard program is "Know what you own!" I took the phrase very literally at the beginning. What do we currently have in the portfolio? Once you know what it is that you own, you can start working with partners and advisors to assess the best approach for each asset class to transition to impact investing.

We didn't want to over-engineer things or focus solely on metrics, so we decided on five broad themes to guide our investments: access to education, access to healthcare, gender equality, access to better food, and climate change.

Q. You mentioned working with advisors. Who else is part of your impact team?

Each family office is different, and we tend to do a lot in-house. I didn't see much point in hiring a consultant as that was a role that I had decided to take on. But we did have some advisors, including within banks, who provided us with financial knowledge and guidance.

We now also have the operating partners from our companies as well as other families that we co-invest with. I would say that having a smaller team of decision-makers allows us to be more agile when it comes to investing.

Q. How long did it take to get your strategy up and running?

I would say the entire process took around two to three years to get our investment portfolio to where we are now, around 20% sustainable, with the intention of achieving 100% in the coming years.

Q. Was there anything that you found particularly challenging?

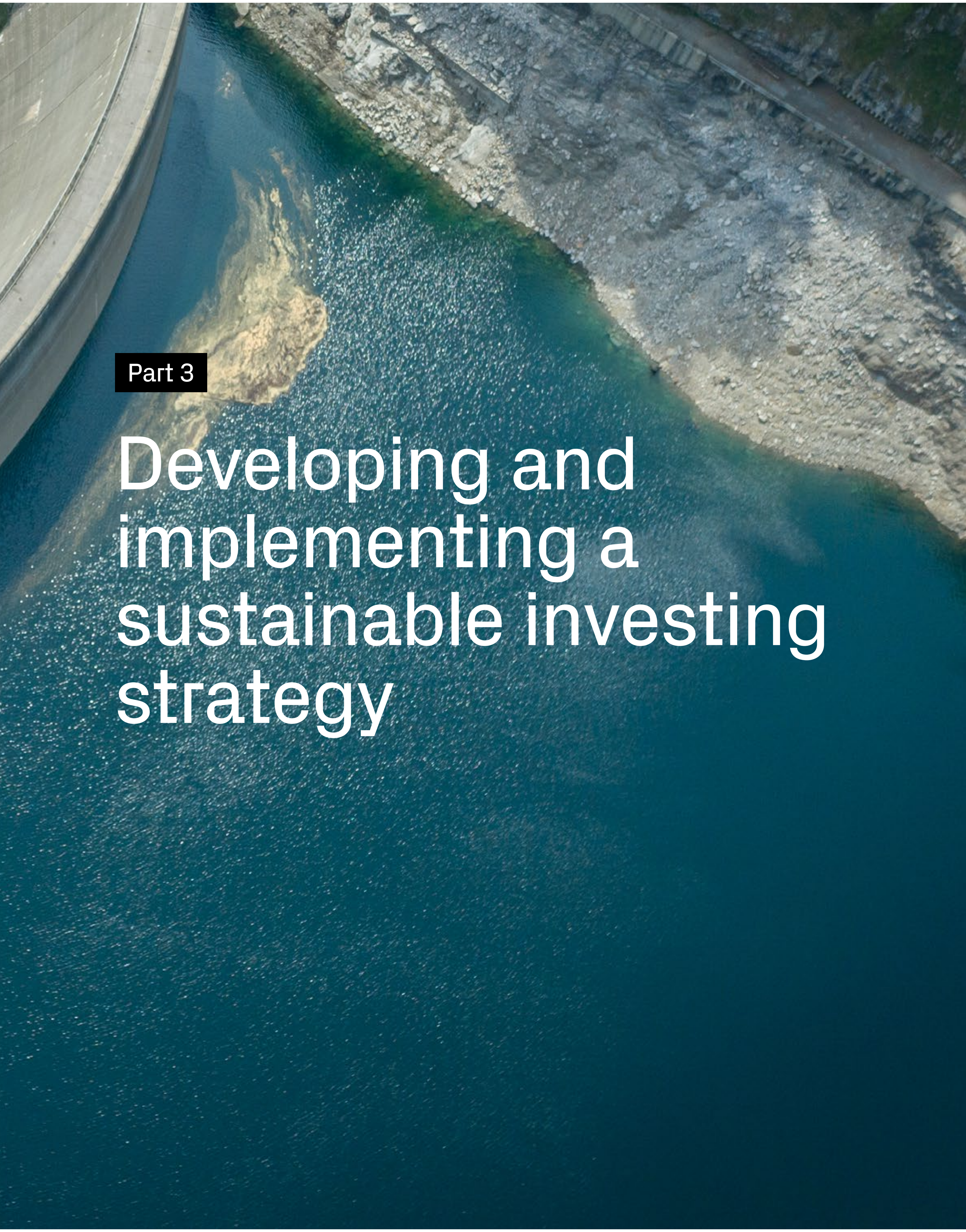
I found that impact investing varies in terms of difficulty depending on the asset class. As an example, with venture capital, it's relatively simple to measure the additionality and theory of change of the investments. Other asset classes, such as public equities and real estate, are a lot trickier.

As a family office based in Brazil, we were unable to invest in a lot of funds domiciled outside of Brazil. This lack of access meant that we missed out on some of the best impact investing deals and products. But for every challenge, there is an opportunity. The lack of access to impact investments meant that we had to set up an arm of the family office elsewhere, and we chose Singapore. This provides us with direct access to advisors and products in the APAC region.

Q. Do you have any suggestions for other families wishing to embark on a similar impactful journey?

Every family should start by really "knowing what they own." This should be the first step and it isn't at all time-consuming. Once you do, you can start progressively investing sustainably without necessarily affecting the investment structure of the family office. I think that impact investing helped shine a light on what it means to guide a family office while bringing some structure to what we are doing.

In terms of family dynamics, impact investing can also be a great way to bring a family together. For me, it brought my mother and my sister into the investment conversation smoothly.



Part 3

Developing and implementing a sustainable investing strategy

It is important for family offices to develop a clear strategy regarding their sustainable and impact investments, and investments as a whole. The strategy development process – the output of which is captured in an investment policy statement (IPS) – can take significant time, particularly when many stakeholders are engaged in the process. However, taking the time to undertake this process and come to agreement can not only prevent conflict, but also ensure that areas of potential disagreement among stakeholders are addressed up front.

An IPS documents a family's investment preferences, philosophies, governance, and key elements of the investment process. It provides clear guidance for advisors and other intermediaries to help them implement the wishes of the family in a disciplined way. An IPS should be viewed as a long-term plan and reviewed at least annually, with amendments made if necessary to reflect the changing circumstances.

The following sections outline the key elements of the strategy process that are most relevant to sustainable and impact investing.

Step 1

Developing your strategy

1.1. Defining the values and mission

It is important for families to define their values – setting out their motivations and philosophies regarding their investments – and the role they see for sustainable and impact investing.

The IPS often starts with a values or mission statement.

■ Example 1

The mission of our family office is to safeguard the future of the family – current and future generations – by delivering financial security to the family and leaving a better world than the one we inherited. Our investments should have a positive social or environmental impact. We aim to make a positive contribution to climate action, ocean, health, and biodiversity – and to deliver social outcomes in education and empower underprivileged and marginalized groups.

Some families are clear about their values, making the process of developing a mission statement simple. Other families go through a lengthy values exploration exercise, which can be facilitated by consultants experienced in such processes or by family members themselves.

Questions that families would typically consider in these processes include:

- What is our wealth for?
- To what degree should it be aligned with our values?
- What are our common values?
- What are our views about the future of the environment and society, and what is the role or potential role of our capital in that?
- How relevant are sustainability factors in the future of the economy, and do we believe that sustainable companies, or companies that leverage sustainable megatrends, can outperform?
- How could our capital be leveraged to develop the skills of the next generation?
- How could our capital be used to build domain expertise within the family in new and innovative industries?
- How could we use our capital to help bring family members together and forge a powerful set of ethical values to be passed down to future generations?
- How could our capital be used to engage family members and keep the family taking part in meaningful activities together?

Example 2

Our mission is to have a real and positive impact on the world by investing in high-impact strategies, while increasing family unity and transferring family wealth, values, and heritage from one generation to the next.

- We believe that sustainability can add value to the investment process and should be incorporated into all investment decisions
- We believe that many of the industries of the future are focused on sustainability, and we would like to invest in innovation
- We believe our capital can deliver not only attractive financial returns, but also measurable positive impact

1.2. Establishing sustainability and impact preferences

The next step is to identify a set of preferences that guide the family's sustainable and impact investing strategy.

Example 3

Given the risk/return, liquidity, and other financial constraints set out in the investment objectives, we prefer, where possible:

- High-impact strategies over low-impact strategies
- Strategies or funds with quantitative impact metrics
- Early-stage over later-stage companies/funds
- In listed equities, we prefer:
  - Funds that undertake robust shareholder engagement and report on outcomes
  - Funds that vote their shares in support of ESG-related shareholder proposals
- Higher exposure to emerging and developing economies

Most families also include basic exclusions of sectors or companies that are not aligned with the family's values.

■ Example 4

No investments will be made in companies that derive more than five percent of their revenue from products or services that are contrary to our values. These include:

- Tobacco
- Weapons that are subject to UN conventions seeking their elimination (e.g. cluster munitions and anti-personnel landmines)
- Companies that are in severe breach of UN norms or accused of serious environmental or human rights violations

The relevant advisors and fund managers will review the portfolio holdings monthly to ensure that such companies are not included and will otherwise dispose of them immediately. No fund that includes such companies will be included in the portfolio.

Some families have clear thematic preferences and would like to address specific challenges, such as climate change, social justice, or education. The UN Sustainable Development Goals (SDGs) are now a standard reference and can help define the family's priority issues.

■ Example 5

Through our investments, we aim, where possible, to have positive impact that is aligned with the UN Sustainable Development Goals (SDGs), in particular:

- UN SDG 1: No Poverty
- UN SDG 4: Quality Education
- UN SDG 13: Climate Action
- UN SDG 14: Life Under Water

SUSTAINABLE DEVELOPMENT GOALS

Learn more about:
UN Sustainable Development Goals (SDGs)
https://sdgs.un.org/goals

While it is possible to seek out investments in specific areas, only a few themes such as Climate Action offer sufficient depth of investment products to build a diversified portfolio. It may be easier to seek to maximize impact more broadly through an increased allocation in private markets and shareholder engagement strategies. If investment opportunities then arise in the preferred themes, they can be pursued. Setting thematic constraints that are too strict can make investment difficult. A narrow approach could also result in less effective strategies that match the theme (e.g. in listed equities) rather than strategies that create more impact (e.g. in private markets), but in another theme.

1.3. Developing an impact investing transition plan

Family offices that start with a traditional portfolio must decide how best to transition to a sustainable, impact-generating portfolio. Options include:

Carve-out:
This is for families that would like to experiment with sustainable investing but are not yet ready to implement it across the whole portfolio. One advantage of this approach is that it offers a test portfolio with a smaller volume of capital which can be evaluated against the expected outcomes and potentially scaled up over time. The carve-out also allows families to take considerable risk in high-impact strategies without worrying about the financial implications on the core portfolio.

Integrated:
This approach integrates sustainable and impact investments into the overall portfolio allocation step by step. A family's existing return expectations, risk tolerance, and target asset allocation – as defined in their investment policy statement – serve as the basis for their investments. Assets can be shifted or swapped out over time in favor of more sustainability and impact.

Total portfolio:
Families deciding to go "all in" can develop a plan to transition the entire portfolio into sustainable and impact strategies. In most cases, families start with a carve-out or integrated approach before transitioning 100% of their portfolio. Families that benefit from a liquidity event and are already confident in their direction may opt to build a sustainable and impact-focused portfolio from day one.

1.4. Establishing investment objectives

The family office needs to determine a set of clearly defined investment objectives. Even if the family prefers to direct a significant proportion of their portfolio to impact-first investments, they will need to establish financial objectives and constraints – as is the case with any investment.

Typical investment objectives set out in the family's investment policy statement include:

- Return objective
- Risk tolerance
- Distributions
- Asset allocation
- Investment time horizon
- Liquidity constraints

For more information on the important elements of an IPS, we suggest consulting the many resources available for family offices on this topic.

1.5. How do impact objectives interact with investment objectives?

“Returns first” allocations
It is important to clarify which objectives are the most important and which are secondary. Because this is investing rather than philanthropy, financial objectives typically come first. Family offices often seek market-rate risk-adjusted returns for most of their assets – that is, returns that are in line with or exceed relevant asset class benchmarks. For these assets, the financial objectives should be set, and then the most sustainable and impact-focused investment strategies per asset class identified (please see Example 3 above).

If a family aims to maximize impact through investing, liquidity could be the most important variable and greatest obstacle to overcome. While there are some shareholder engagement and activist funds available in listed equities, most impact investments are found in the private markets, notably in venture capital, private equity, private debt, green/affordable real estate, real assets (forestry and agriculture), and green infrastructure. In short, a family aiming for impact will need to have a significant allocation in illiquid private market investments.

Robust financial planning allows the family to ensure it has sufficient liquid assets, income, and distributions to support its needs – including a buffer for contingencies – while allowing for a significant increase in illiquid investments. Rather than making a liquid portfolio the default, the family seeking maximum impact can opt for a portfolio that is liquid enough to meet their cash flow needs, and then allocate the rest to illiquid, high-impact strategies.

See Paolo Fresia Case Study, Page 32

“Impact first” allocations
Some families have specific allocations for high-impact investments, where the returns are not as important as the impact. With these allocations, impact objectives would be established, and then the best investments would be found that reach those impact hurdles.

Whether the priority is on returns or impact, it is important to clarify these objectives for each asset class.

■ **Example 6**

High-impact allocation:
Up to ten percent of the portfolio is allocated to “impact first” investments that can deliver significant and measurable impact in line with the thematic preferences set out above. Within this allocation, investments that can catalyze new industries and technologies or deliver fundamental change should be prioritized. While these investments do not need to align with the investment objectives, they should aim to return capital that can be deployed in future high-impact investments. If capital is not returned but significant impact is achieved, these investments should be considered successful.

Case study

Paolo Fresia

Paolo is an impact investor and investment director at 100% Sustainability, his family office based in London.

His main areas of focus include:
1. Mitigating climate change
2. Promoting sustainable production and consumption
3. Reducing gender and LGBTQI+ inequalities.

Q. How did you get into impact investing? How did you kick off the process?

I inherited capital and was tied into a family office where priorities didn't align, in terms of both impact and financial needs. As such, I decided to spilt from the family office and start my own. At the beginning, a lot of my financial assets were tied up as mandates, mainly in large single stock positions and cash. I had to restart from zero.

I began by gaining better clarity on my vision and mission: what are the biggest social and environmental issues the world is facing? Where can my flexible, patient investable capital generate the most impact? What am I passionate about, so that I can throw my full weight behind what I get involved in? Answering these questions allowed me to find a broad thematic focus and provide initial guidance to my advisors.

Q. How did you structure your team: in-house or outsourced?

I decided to assemble an outsourced team of specialists to provide all of the functions that make running a private investment office possible. I believe this approach is cheaper, more flexible, and allows me to leverage the best in each field rather than attempt to train in-house staff. I ran several parallel selection processes for advisors ranging from admin functions such as tax, custody, and reporting software, to, of course, the investment consultants. I had an independent advisor coordinate these searches and ensure that all the firms selected were aligned with my values and mission.

I started with the liquid part of the asset allocation and appointed two outsourced CIOs (chief investment officers). One selects actively managed funds that invest in companies whose products and services help solve social and environmental problems. The other implements a passively managed strategy that applies highly customized ESG filters to a wider investment universe, and layers engagement via proxy voting and participation in shareholder resolutions. The latter is important to me since with the public side of the portfolio, my impact is primarily generated through active ownership activities.

The rest of my portfolio is private. In fact, around half of my funds are private market investments, as this is where I can have the most impact by providing additional and often flexible capital.

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Q. How did you come to such a large private market allocation?

I would say that such a high allocation to private markets is sadly very unusual even for other people like me, i.e. of relatively young age and ample financial means. By remaining too liquid and risk-averse, too many investors sacrifice opportunities to maximize their impact, and I was in that camp until recently.

With the third CIO I appointed, however, I undertook a process of detailed financial planning which allowed me to gain the confidence to make bolder choices in terms of risk. I ended up planning my finances with a lot of buffer that would allow me to live knowing that all my family's needs would be met even if I lived until the age of 105.

The idea behind such detailed financial planning has been to understand the cash flows that I really need, isolate that amount in very conservative assets, and take on more risk and illiquidity with the rest of the investments and philanthropy, with the goal of maximizing my impact across the two over the course of my lifetime. These findings now inform my investment policy statement and my strategic asset allocation.

[19] https://www.impactalliance.co.uk

Q. Would you say that your direct deals have been both high impact and high risk?

Not necessarily. High impact doesn't always equate to high risk, especially on the real asset side. Think about investing in forestry, for instance. To generate strong impact, I always compare the investment universe to a benchmark. For example, how many tons of CO_2 per dollar invested can I contribute to sequester from the atmosphere by investing in this sustainable forest, versus donating the same amount to a charity that plants trees? Thanks to some very thoughtful advisors, I can now explicitly model these calculations and make more informed choices about the expected impact of an investment vis-à-vis its risk and return profile. Of course, quantitative metrics are only a part of the impact measurement process. I also spend a lot of time evaluating qualitative criteria such as, for example, geography: could more impact per dollar be achieved in developing countries? How does that stack up against higher investment risk, but also higher social or human rights impact risks? Again, in my due diligence process I try to make all the assumptions as explicit as possible, so as to enable meaningful comparison with other opportunities.

Q. Any tips on the measurement and reporting of impact for other families wishing to invest sustainably?

I have adopted the Impact Management Project's (IMP) Impact Classification System (ICS), a digital tool which aims to make the social and environmental impact of investments more transparent and easier to analyze.

I would encourage other families to use this tool, not only because it is free.
It has allowed me to better question the investment methodology of fund managers while encouraging them to think more holistically and in-depth about the social and environmental impact of their investments.

Step 2

Implementing your strategy

2.1. Constructing a sustainable and impact portfolio

When constructing their portfolio, family offices can choose from a vast range of sustainable and impact funds as well as direct investments across asset classes. Over the past decade, thousands of new funds have been launched. There has also been considerable growth in impact-driven sectors, such as climate innovation, food and agriculture, healthcare, and education technology, which make impact investments more accessible.

It is now possible to construct a portfolio using only sustainable and impact vehicles across most asset classes, working with fund managers with strong track records and experienced teams. New products, such as climate-focused hedge funds and “green” gold, have also emerged.

Despite certain gaps – namely in commodities as well as in regions and markets that lack depth in sustainable investment products – many institution-quality strategies today can replicate traditional investment products in a more sustainable, impact-generating way.

While many families would like to create as much positive impact as possible, it is important to recognize that not everything in a diversified investment portfolio can follow a high-impact strategy. Impact investments, which are mostly found in private market alternative asset classes, are likely to represent the smaller, illiquid proportion of the portfolios of most family offices. Exclusions, ESG integration, and sustainable thematic approaches all have a role to play in constructing a well-diversified sustainable and impact portfolio.

For families wishing to build a sustainable portfolio, the chart below provides an overview of the opportunities across asset classes and the diverse approaches to sustainable and impact investing.

Family offices with different preferences or portfolio allocations can now access sustainable versions of traditional investments to fulfill the following goals:

Higher return allocation
Families seeking higher-return strategies can deploy capital into:

- High-conviction ESG integration equities
- Engagement equities (often small-cap)
- Sustainable thematic equities, with a focus on specific high-conviction themes
- Impact private equity and venture capital
- Climate-focused and ESG hedge funds

Lower risk allocation
Those looking for lower-risk investments can focus on:

- Fixed income climate-aligned and ESG strategies bonds and bond funds
- Green and transition bonds
- Lower-risk illiquid alternatives, such as impact private debt and de-risked green infrastructure
- Green property

High liquidity allocation
Those with liquidity needs have a vast choice of strategies:

- Sustainable equities and fixed income funds, which now form the bulk of the sustainable investment market and offer daily liquidity (with certain strategies, e.g. open-ended green real estate and hedge funds, semi-liquid, and microfinance, a high-impact private debt strategy, often offering weekly or monthly liquidity)
- High-impact liquid strategies deploying in shareholder engagement and activism

High impact allocation
Family offices wishing to create maximum impact would typically focus on:

- Illiquid alternatives such as impact private equity/debt, venture capital, green real estate, and infrastructure. And within these private market investments, the earlier stage the companies, or the more challenging the investment environment (for example, in frontier markets), the more likely it is to be impactful
- Equity funds that undertake robust shareholder engagement or activism

For more information on how to construct a sustainable and impact portfolio with a low-carbon focus, please see our publication:
The decarbonizing portfolio[12]

[12] https://www.credit-suisse.com/microsites/decarbonizingyourportfolio/en.html

Asset allocation building blocks for a sustainable portfolio

Equity

1 Sustainable single stock portfolio
2 ESG integration equities
3 Sustainable thematic equities
4 Engagement equities

Fixed income

5 Sustainable single bond portfolio
6 Green and transition bonds
7 Development bank bonds
8 ESG investment grade corporate bonds
9 ESG high yield corporate bonds

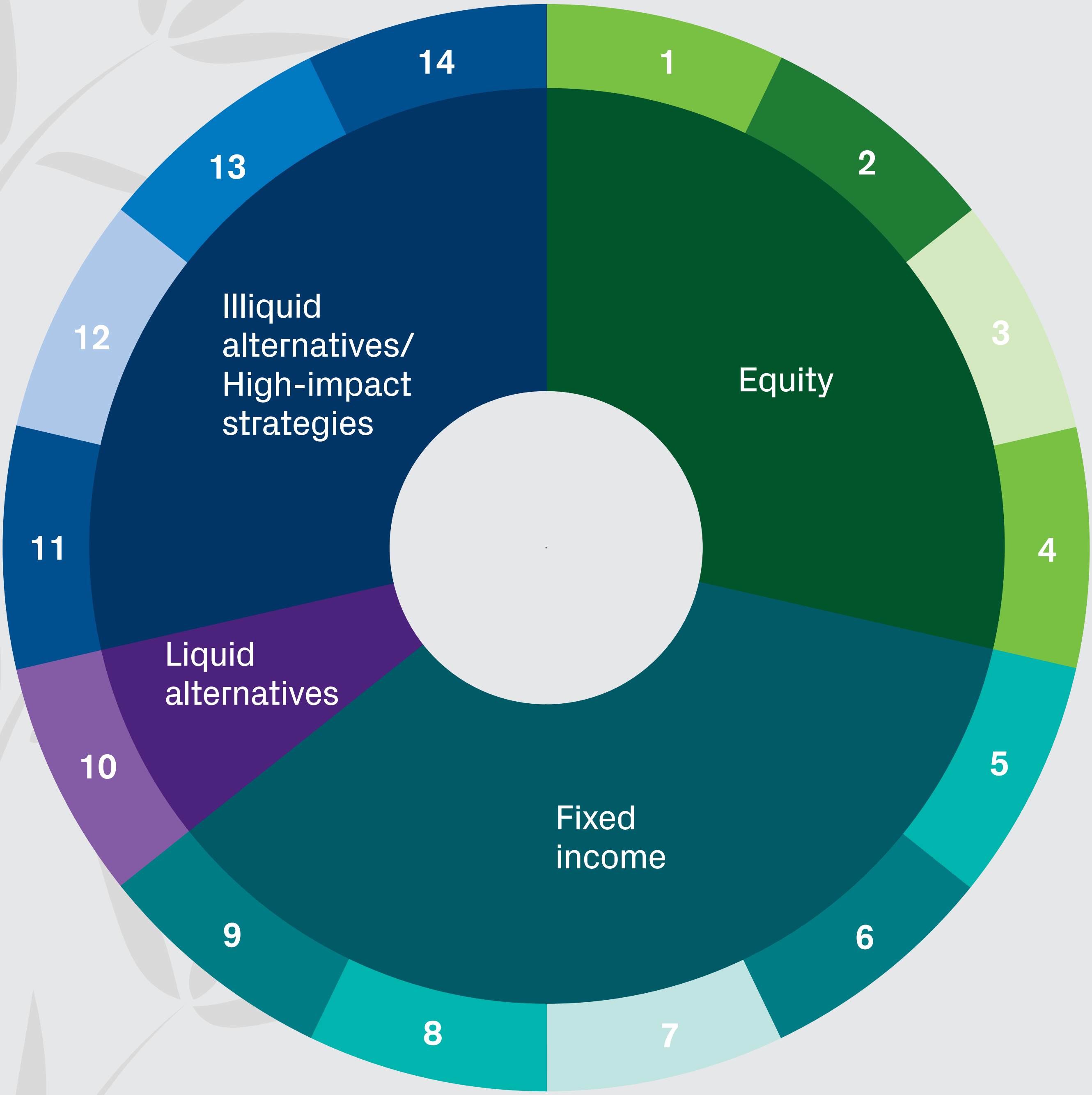
Liquid alternatives

10 ESG hedge funds

Illiquid alternatives/High-impact strategies

11 Impact private equity and venture capital
12 Green infrastructure
13 Green real estate
14 Impact private debt

Source:
Credit Suisse



Above asset allocation is for illustrative purposes only and should not be used as the basis for investment decisions without getting professional advice.

2.2. Active ownership: engagement and voting

While public markets provide an important exit route for private companies, most public market investing represents a change of ownership from one shareholder to another, without additional capital going into the company to generate measurable impact. However, there is a mechanism of direct impact in public markets – active ownership – which includes an array of activities undertaken during the investment period to generate additional impact, such as:

- Participating on boards and driving an impact agenda
- Pursuing shareholder engagement and activism on sustainability issues
- Providing technical assistance and strategic advice
- Enhancing access to networks
- Supporting management in sourcing senior hires
- Assisting with fundraising
- Helping a company enhance its overall sustainability or impact performance

In private markets, fund managers can leverage their considerable influence to enhance the sustainability and impact performance of investee companies. In cases where the fund takes a significant share of a company's equity, fund managers can set clear requirements for a company to meet ESG and impact goals, and further encourage and monitor these practices through participation on boards.

In liquid markets, shareholder engagement and activism – through the filing of shareholder proposals at a company's annual general meeting – can be a powerful strategy to generate impact on sustainability performance.

Family offices seeking impact should select fund managers that have robust shareholder engagement programs and vote their shares in support of sustainability-focused shareholder proposals. They should also ensure that fund managers set clear milestones for their engagements with companies and report their progress on a regular basis.

In 2021, proponents filed at least 435 shareholder resolutions on environmental, social, and sustainability issues. Some of the most important issues for investors include corporate political activity, workplace diversity, and climate change.[13]

While dozens of shareholder resolutions have resulted in majority votes in 2021, any vote above 15 or 20% sends a strong signal to company management that there is considerable shareholder concern about the issue under debate. For that reason, it is important that family offices ensure all their direct holdings of stocks are voted when shareholder proposals call for improved corporate sustainability performance.

This type of activism can be highly impactful. For example, a small improvement in the procurement policy of a large multinational company could deliver substantial positive impact on the global level. In some cases, this could generate much larger impact than what would be achieved through many small private market impact investments.

Family offices often have substantial direct holdings of listed equities that are not managed through fund strategies. Today, it is possible to work with banks and custodians to vote these shares in line with a family's sustainability expectations.

See case study with Giorgiana Notarbartolo. Page 42

[13] https://www.proxypreview.org
[14] https://www.theimpact.org | https://thegiin.org | https://toniic.com | https://pymwymic.com | https://creosyndicate.org
[15] https://omidyar.com/building-an-impact-investing-team

2.3. Collaborating to create impact

Family offices are well known for collaborating and sharing deal flow within private networks. This is no different when it comes to sustainable and impact investing. The growth in family office assets and in their interest in impact investing has resulted in a growing number of collaborative networks.

These emerging networks include[14]:

- **The ImPact:** is a membership community of family offices committed to aligning their assets with their values, particularly at the high-impact end of the spectrum. Their publications offer guidance and case studies of family offices' sustainable and impact investments across a range of asset classes
- **The Global Impact Investing Network (GIIN):** is an impact investing industry association which aims to reduce the barriers to impact investing and offers a comprehensive library of resources for impact investors
- **Toniic:** is a community of around 500 individuals, family offices, and foundations that share deal flow and expertise
- **Pymwymic:** is an impact investment collaboration of families focusing on impact-driven investment opportunities
- **The CREO Syndicate:** is a network of family offices and wealth owners with a mission to address some of the most pressing environmental challenges of our time by catalyzing private capital into innovative solutions to protect and preserve the environment

Joining these networks can be a good way for a family office to learn about sustainable and impact investing, and work with other like-minded families to share due diligence, experience, and deal flow.

2.4. Building an impact team

Family offices can leverage a spectrum of in-house staff, external consultants, wealth managers, and fund managers to deliver their sustainable and impact investing strategies. Capabilities are often built over time, starting with portfolios at banks or wealth managers that are transitioned to more sustainable strategies. External consultants and boutique specialists would then be brought in to fulfill additional needs. Finally, if there is clear, long-term demand, in-house capabilities would be built up within the family office. Many of these decisions are driven by the types of investments the family wishes to make, and by the teams and advisors best suited to execute and manage these investments.

One family office started using a wealth manager that provided access to sustainable funds in liquid markets and private market impact funds each year. After investing in funds for a number of years, the family decided to focus on direct investments in African renewable energy companies. They hired a specialist to execute these direct deals while retaining the wealth manager for the fund investments, both liquid and illiquid.

Of note, it is important to assess the degree to which family members want to be involved. Implementing sustainable and impact investing strategies can provide an important platform for family members to build their own investing capabilities in established and new domains. In addition, non-finance-oriented members of the family can take on the important role of evaluating and monitoring the impact dimension of the investments.

For more information on how to build an impact investing team, see: Omidyar Network: Building an Impact Investing Team[15]

2.5. Measurement and reporting of impact investments

The measurement and reporting of impact from investments is still in its early stages. This is a fast-growing and increasingly complex area of specialization, and the references below are an excellent starting point for family offices to explore.

While financial due diligence can normally be performed by family office investment professionals, impact assessment is a new competency that currently sits at the fund or wealth manager level. Over time, however, these capabilities can be brought into the family office by new staff members, consultants, and sometimes family members.

When investing directly in companies, investors should seek reliable measurement and impact reporting based on widely adopted frameworks and indicator sets, such as IRIS+[16] and the Impact Management Project (IMP).[17]

The Impact Management Project has defined five dimensions of impact which are now used across the impact investing industry. These dimensions can also help families develop their thematic preferences and the global issues they would like to address through their investments.

The IMP evaluates impact across five dimensions:

Impact dimension	Impact questions each dimension seeks to answer
What	▪ What outcome occurs in the period? ▪ How important is the outcome to the people (or planet) experiencing it?
Who	▪ Who experiences the outcome? ▪ How underserved are the affected stakeholders in relation to the outcome?
How much	▪ How much of the outcome occurs - across scale, depth, and duration?
Contribution	▪ Would this change likely have happened anyway?
Risk	▪ What is the risk to people and planet if the impact does not occur as expected?

Source: Impact Management Project

Fund managers should also monitor and report on the impact not only of their capital allocation and active ownership contributions, but also of the underlying investee companies. This is not easy, and to date, few fund managers are doing this at the required level. This is because at the core of reporting on investor contribution and impact lies the assessment of additionality. In effect, improvement across various sustainability and impact metrics – or the growth of an impact-generating company's business – may stem from different factors. As a result, it can be difficult to identify the proportion of impact that can be attributed to the investor or investment.

1. A clear articulation of the theory of change

2. Evidence/an explanation of how their investment or active ownership activities are generating impact

3. Transparency around the execution of the strategy to ensure accountability for the impact claims being made

While it can be challenging to evaluate and report on the contribution of the capital allocation and active ownership by a fund manager or investor, it is critical to do so. All industry participants should be open about what they are doing or not doing to generate outcomes that will help solve the challenges facing humanity.

See **The double delta of impact investing: Credit Suisse**[18] for an exploration of impact from a fund allocator perspective.

[16] https://iris.thegiin.org
[17] https://impactmanagementproject.com
[18] https://www.credit-suisse.com/media/assets/microsite/docs/responsibleinvesting/the-double-delta-of-impact-investing.pdf

Case study

Giorgiana Notarbartolo

We spoke to Giorgiana Notarbartolo, an impact investor and member of a family office that manages the wealth of a branch of the Marzotto family.

Q. How did you move into sustainable and impact investing?

Our family office was born out of a branch of the Marzotto family, which made its fortune in textiles and fashion. Most notably, my family owned the Valentino Fashion Group (VFG), which included a number of luxury fashion brands, including Hugo Boss and Valentino. VFG was partially sold in the early 2000s, and this marked the beginning of our transition from an industrial to a financial entity.

In 2015, there was a generational transition within our family office, with my brother becoming further involved in the day-to-day, and leading our family office to its current state. Around the same time, I had discovered impact investing and decided to invest my time and energy in this direction, including engaging with my family on the topic. In the beginning, it was not easy. I would say that they did not fully grasp the investment viability of these approaches and how they can be integrated into the family's investments.

In 2016, at one of the Marzotto extended family annual gatherings, I presented the case for impact investing and what I had been researching on the topic. A year later, my uncle suggested we start to integrate ESG considerations into our public equity portfolio.

At the time, around 98% of our investments were in single stocks. So this ESG integration process was our first step in aligning our investments with our values.

Q. What was your next step in terms of creating impact?

Given the large proportion of our investments in single stocks, the natural next step was voting these shares in a sustainable way at company AGMs. For me, once you have analyzed your portfolio and considered what you are invested in, voting should come next. Since I work in impact investing, I knew that voting in favor of sustainable shareholder proposals is considered best practice. I see it as the right way to move from just applying ESG considerations towards generating impact within public equities.

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Q. Did you face any challenges when implementing your voting strategy?

Things are now working but at the beginning, this was not the case. There were a number of hurdles along the way, especially around trust, workload, and cost. One of those challenges was different systems in different countries. A large part of my impact investing network is in the US, where a strong culture of (sustainable) voting exists – more so than in Europe, where there is no such culture of voting, nor the systems to allow it. We struggled to set up proxy voting for our shares, and in particular for the Italian ones, as the custodian bank did not allow for the separation of accounts. We probably exchanged around 50 emails with all our banks to figure out how we could vote. At the time, it seemed like no one really knew where to start.

As with any new initiative in an organization, we had to work through many challenges: Who will do it? How much time will it take? How expensive will it be? One of the greatest challenges was that we had a small team and over 100 ballots. As such, identifying someone we could trust to act as a proxy to vote on our behalf was very important to us.

The entire process was kicked off in 2019 and I only really started to vote properly in 2021.

Q. Do you work with your proxy advisor closely?

Luckily for us, we managed to find a proxy advisor who really met our needs, giving us the attention and support we required. We definitely trust him to make voting recommendations. While we do review the votes, there is only one position that is very significant in our portfolio where our family gives an indication on how to vote.

Everywhere else, we know how our advisor approaches voting and we trust his recommendations.

Q. Do you have any advice for other families?

I would say that the impact generated outweighs any cost. While we struggled to overcome a number of challenges in the beginning, we feel there is a strong potential for impact through voting, and it is not a huge investment. There are moral responsibilities tied to how we invest our money and it is not all about ESG and sustainable investing, but also about helping companies to improve. You can invest in the “worst” companies and create a positive impact by supporting the shareholder proposals filed by other shareholders calling for improvement in sustainability performance.

Nowadays, many banks offer a basic proxy voting service for large clients. I would say that any form of voting is better than not voting. Therefore, making the most of what is offered by your existing financial institutions could be a good option for many clients.

The level of impact you can achieve with proxy voting without doing anything else is phenomenal.

Conclusion

Sustainable and impact investing have come a long way in recent years. Since the term was coined in 2007, impact investing has become an increasingly vital tool for family offices to align the family's values and aspirations with the behavior of their capital in the capital markets.

Despite their enthusiasm for impact investing, family offices still face many challenges. Impact investing is often carried out ad hoc, unintegrated in the family's core investment strategy. In addition, confusion lingers around the terminology and range of approaches, potential for financial returns, alignment between families and their advisory ecosystem, impact measurement, and the best way to develop investment strategies.

We hope this guide has provided clarity on this dynamic field of investment – and that it continues to be useful to any family office embarking on a meaningful impact investing journey, which we are convinced can deliver returns to families and society as a whole.

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