**White Paper**

# Towards Greater Impact: Family Offices Accelerating Transition to Impact Investing


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## Abstract

Along with a rise of sustainable finance and sustainable investing, for many of the family offices embracing impact investment strategy is a natural step forward. With an estimated $5.9 trillion of assets under management globally, family offices are well positioned to make a meaningful positive impact as well as maintain both a sense of accountability and mission across generations. Education, poverty and the arts have traditionally benefited from philanthropic support of wealthy families. Now nature, biodiversity, and the climate crisis are gaining their attention. Given the fact that family offices have unique investor's profiles, including expertise and resources at disposal as well flexibility in allocating their assets, they may serve as a role model in an ongoing transition.



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### Sustainability Engagement

Family offices are set up for generations and thus keep a long-term perspective on both doing business and investing. Many of the family offices have been actively engaged in sustainability via framing business operations and decision-making around its principles, and through strategic philanthropy. Along with a recent rise of sustainable finance and sustainable investing, for many of the family offices embracing impact investing approach is a natural step forward.

The recent "Campden Wealth Study of Family Offices" confirms an increase in portfolio allocations into sustainable investing from 20% to 36% between 2019 and 2020. Moreover, it is predicted to rise up to 47% in 2022 and further to 54% in 2027. Similarly, the "UBS 2020 Global Family Office Report" shows that about 60% of the 121 family offices surveyed perceived sustainable investing as a necessary step in maintaining sustainability engagement legacies, with 39% declaring to engage even more in coming years.

Family offices are therefore expected to make a transition from sustainability engagement towards investing with sustainability goals in coming years, and play a significant role in supporting UN SDGs. With an estimated $5.9 trillion of assets under management globally, family offices are well positioned to make these meaningful positive impacts as well as maintain both a sense of accountability and mission across generations. Given the fact that they have unique investor's profiles, including expertise and resources at disposal as well flexibility in allocating assets, they may serve as a role model in an ongoing transition.

Among the most prominent examples of sustainability engagement and impact investing are: Bertarelli family - Bertarelli Foundation, focusing on marine protection, health and life science (Switzerland); Kaiser family - Kaiser bank with a responsible investing approach; Grajales family and Inversiones Brembo (Colombia), investing with sustainability and impact lenses; Dilmah family and Dilmah Tea & Conservation (Sri Lanka) uses an impact lenses in investing, with a motto that business success should be shared; Kluczyk family - Kulczyk Foundation (Poland), working towards alleviating inequalities as well as through Incredibles Academy - supporting young entrepreneurs; and Bulgheroni family via Fundación Educando (Argentina), offering education and job trainings to less privileged groups.

### Sustainable & Impact Investing

Currently, an engagement of family offices in sustainable investing varies: "(...) while some families are at the beginning of their learning curve in implementing impact investments, others already have incorporated sustainability/ESG into investment decisions." says Bertelsmann Foundation Report. In order to accelerate the transition towards sustainable and impact investing it is essential to establish a sustainable investing leadership within a family office. It has to be aligned with a family values and mission, and aim at building an internal engagement and awareness of world challenges among employees. In addition to this, communicating both a progress and impact achieved internally and externally is crucial. Once the family office makes a first move, it is likely to continue along the sustainable investing path, says the Bertelsmann Foundation Report. In particular, given the fact that there are many advantages of such an investing approach for family offices, including:

- longer-term horizon of an investment
- verifiable and measurable outcomes of an investment
- continuation of sustainable approach in doing business
- intergenerational transfer of values
- contribution to solving global & regional problems / UN SDGs
- co-creation of powerful innovative products and services
- expanded an individual family impact
- enhanced a mission-driven image of a family office

How all of the above can be achieved by family offices?

**Steps towards Impact**

Among available sustainable investment strategies there is a sustainable-themed investing, ESG-aligned investing, and SDGs-aligned or impact investing. In 2020, the latter approach - an impact investing - experienced the highest growth rate among all sustainable investment approaches, reflected in an annual increase of 70%, according to the Swiss Sustainable Finance study. Impact investing is directly linked to UN 17 SDGs, with the goal to generate significant positive socio-environmental outcomes. It goes beyond simply a declaration that an investment meets sustainability or ESG criteria, and requires credible justification backed with properly performed assessments.

In order to design an impact investing strategy and related policies, it is essential to follow one of the standards. There are multiple approaches and frameworks available to quantify positive socio-environmental impacts generated by investments, including: IRIS (Impact Reporting and Investment Standards), GIIRS Rating (Global Impact Investing Rating System), or SASB Standards. But there is no consensus in terms of how to measure contribution of investments to specific SDGs and their targets. Thus, assessing companies' contributions as well as analysing how investments and portfolios affect SDGs, remains in most cases a manual process.

A credible impact assessment, which needs to be performed during a screening process, should include: materiality analysis, definition of objectives with related targets and metrics, performance monitoring and reporting. Measuring an investment impact on SDGs, on the other hand, should cover an assessment of investments alignment to specific SDGs goals and targets, an assessment of how they affect a corporate performance over time as well as overall outcomes/impacts.

### Impact Themes, Funds & Start-Ups

Family offices nowadays have a choice to allocate capital and expect positive impacts in emerging or underdeveloped regions, as well as developed economies, and choose among various impact investment themes, corresponding best to their values and mission. The top impact investment topics in recent years as indicated by the Swiss Sustainable Finance's market study were: water, environment, microfinance, energy, housing and community development. Education, poverty and the arts have traditionally benefited from philanthropic support of wealthy families, now nature, biodiversity, and the climate crisis are gaining their attention.

A rapidly expanding green industry with a focus on renewable energy, low-carbon transport, energy-efficient buildings, clean technologies, improved waste management or sustainable agriculture presents a great impact investment opportunity for wealthy families. The recent Campden Wealth study shows that 86% of high net worth individuals, family offices and foundations believe their private capital is key in addressing climate change, and the majority of them see the transition to net zero economy as "the greatest commercial opportunity of our age". The study also suggests that those who are already engaged in sustainable investing expect to achieve 50% of portfolios to be sustainability-aligned by 2022.

In addition to engaging more in sustainable investing, family offices may also take a leadership role in educating and expanding an impact investing ecosystem. For instance, by investing in impact start-ups, family offices may co-develop their strategies aligned with SDGs, and provide founders with business advises. Alternatively, family offices may engage in sustainable and impact funds early on, influencing their strategies. A success of a Snowball multi-asset impact investment fund, co-founded by Alexander Hoare, proves that: "it is possible to invest money positively whilst making a sound financial return and to ensure all investors – no matter how much money they have - can invest in this way."

### Conclusions

Family offices are increasingly getting involved in sustainable and impact investing as it is a natural step following their sustainability engagement. Their transition towards a sustainable and impact investing reflects family offices values, legacy and support for resolving global challenges. As sustainable and impact investing brings in novel opportunities and creates value for society at large, now family offices have a unique opportunity to take a lead in this change, contribute to greater positive impacts, educate and accelerate a sustainable investing trend. While education, poverty and the arts have traditionally benefited from their philanthropic support, now green industry and resolving a climate crisis are gaining their attention. Given the fact that family offices have unique investor's profiles, including expertise and resources at disposal as well flexibility in allocating their assets, they may serve as a role model in an ongoing transition.

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