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The New Family Philanthropy: Investing for Social and Environmental Change

Lisa A. Hagerman
DBL Investors

Daniel W. Geballe
Stanford Graduate School of Business

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101 Market Street
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www.frbsf.org/cdinvestments

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The New Family Philanthropy: Investing for Social and Environmental Change

Lisa A. Hagerman*
DBL Investors

Daniel W. Geballe*
Stanford Graduate School of Business

August, 2013

* Lisa A. Hagerman is the director of programs at DBL Investors. Daniel W. Geballe is an MBA student at the Stanford Graduate School of Business and a former summer associate at DBL Investors. Acknowledgements: We would like to thank Nancy Pfund, Managing Partner, DBL Investors; Cynthia Ringo, Managing Partner, DBL Investors, and Patrick Sagisi, Associate, DBL Investors. We would like to thank the practitioners and investors in the interview list for their time and expertise. We also would like to thank Ian Galloway at the Federal Reserve Bank of San Francisco for his support of the paper. None of the above should be held accountable for the views expressed, errors, or omissions.

Abstract

The impact investing marketplace is gaining traction–investment vehicles now span asset classes, infrastructural improvements are enhancing transparency and investor confidence, and social enterprise is maturing with a new generation of entrepreneurs. On the investor side, industry growth is being driven by large institutional investors such as public sector pension funds, banks, and private foundations. Today, we are also seeing a growing movement by families who seek to realize their core values, and effect societal change, through their family assets. This paper focuses on family investing through family offices and foundations. Data was compiled from 17 research interviews in August of 2012 with trustees and staff of family foundations and offices as well as investment advisors and consultants. The authors acknowledge that the data from this study comes from a relatively small sample size of qualitative research interviewees. The paper communicates themes heard through research interviews, and does not intend to make definitive claims based on quantitative data. Interviews centered on the following topics: (1) the current perception of impact investing among those affiliated with family foundations and offices; (2) the factors that families and advisors consider when deciding whether or not to invest for impact, with specific attention to the asset class of impact-oriented venture capital (Impact VC); and (3) the distinct characteristics of Impact VC for family foundations and family offices that are complementary. The paper concludes with thoughts on strategies for the continued growth of impact investing among families.

Key Findings

Impact Investing through Venture Capital: high impact and well suited to family investing. The types of impact generated through venture capital–geographically targeted job creation, product innovation, environmental stewardship, and community engagement among others–overlap with the philanthropic motivations of many families who seek local impact that they can "see, touch, and feel" on issues about which they care deeply. The mechanism of Impact VC–enabling entrepreneurs to solve problems through innovation and business development–seems to resonate with many trustees who themselves have been entrepreneurial in their careers. In some cases, families may be more comfortable experimenting with Impact VC given they are more intimately connected to the foundation's assets (as fiduciaries of their own money), more empowered to direct the use of their assets and less concerned of possible reputational repercussions tied to the riskiness of a new form of investment.

Internal Champion and Generational Dynamics: leadership is important and often comes from the younger generations. Based on our interviews, impact investing for family foundations and offices generally happens when there is an internal champion who may be a family trustee, staff member, or advisor leading the family through a reflective exercise to re-evaluate philanthropic goals. Many of these champions are relatively young, generally see a less rigid division between investing and philanthropy, and view impact investing as a way to assert themselves within their family or institution. For older generations, embracing the interest of the younger generations can be a means to teach the discipline of traditional investing while encouraging the next generation's engagement. The mutual teaching and learning that takes place, through the exploration of impact investing, can connect generations in a unique and meaningful way.

Perception of Tradeoff between Financial Return and Impact: it depends. While some may believe that one must necessarily forego financial returns to have impact, our survey respondents generally disagreed. Most financial advisors and consultants expressed that they can construct portfolios with impact components while subjecting impact investments to the same financial due diligence that they would for traditional investments. Respondents further noted that they could not yet easily construct market-rate, impact portfolios across *all* asset classes or geographic/issue areas due to a lack of managers with proven track records. We also acknowledge that there is a group of individual and institutional investors that may not seek market rate returns, accepting below-market returns, or blended returns, given their intent for investing is driven principally by a social mandate.

Family Foundations and Family Offices: separate strategies, but opportunity for future synergy. Many families who have both family foundations and family offices test out impact investing through the foundation's endowment assets. Families expressed an intention of implementing successful impact investment strategies in their (generally much larger) taxable family office portfolios. To date, though, we have not seen much evidence of this transition.

Investment Advisors and Consultants: positioning in a developing industry. Most advisors interviewed saw increasing demand for impact investing among their clients. Some advisors are accommodating their client requests on a one-off basis, while others are actively building internal impact investing expertise to capitalize on market growth and better serve their clients. Advisors who explored impact investing with their clients felt that it deepened their existing client relationships and often was a competitive advantage in new client acquisition.

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Introduction

The impact investing marketplace is gaining traction–investment vehicles now span asset classes, infrastructural improvements are enhancing transparency and investor confidence, and social enterprise is maturing with a new generation of entrepreneurs. On the investor side, industry growth is being driven by large institutional investors such as public sector pension funds, banks, and private foundations. Today, we are also seeing a growing movement by families who seek to realize their core values, and effect societal change, through their family assets.[1]

Traditionally, similar to private foundations, for many families financial goals and resources have been kept separate from philanthropic goals and resources. Structurally, this separation was justified under the prevailing sentiment of, as one of our survey respondents put it, "make as much as you can, so you can give as much as you want"–implying that "making" money and "giving" to create impact are separate acts. However, impact investing is disrupting the traditional ways in which many families think about creating social and environmental change and subsequently how they balance financial and social objectives. No longer is allocation a binary decision between that which generates market returns, and that which has philanthropic impact. The line has blurred. While traditional philanthropic giving will likely always have an important and needed role to play, the sector now sees impact investing as a means to leverage more resources for social and environmental benefit.

Early champions of impact investing, be they trustees, staff, or investment advisors, often meet resistance in the form of a rigid institutional structure–the strict separation of investments and philanthropy. Accordingly, the consideration of impact investing within a family foundation or office often causes a reevaluation of philosophy and roles among trustees, their staff, and the investment advisors who seek to help families reach their investment objectives. Despite the challenges associated with a strategic shift within a foundation or office, families are increasingly embracing impact investing, and through this research we hope to better understand this important trend.

Significant research has focused on the emergence of impact investing and potential for growth in the field.[2] Recent research has examined the issues faced by family offices and high net worth individuals when contemplating and implementing an impact investing strategy.[3] This paper builds on the existing research by focusing on family investing through offices and foundations, specifically foundations still largely managed by family members as opposed to some of the now institutionalized family foundations. We conducted 17 qualitative research interviews with trustees and staff of family foundations and offices as well as investment advisors. We believe these three groups each have a unique role in the investment decision making process and a perspective on impact investing. Our interview questions focused on: (1) the current perception of impact investing among those affiliated with family foundations and offices; (2) the factors that families and advisors consider when deciding whether to invest for impact (or, in the case of advisors, recommend impact investments), with specific attention to the asset class of impact-oriented venture capital (Impact VC); and (3) the distinct characteristics of Impact VC for family foundations and family offices that often complement each other. The paper concludes with observations and recommendations for continued growth in impact investing among families.

The data from this study is largely anecdotal and comes from a relatively small sample size of interviewees. Accordingly, the scope of this study was limited to the identification of themes that can guide future research and thinking with regard to impact investing in family foundations and offices. During the interviews, we began to appreciate the heterogeneity among family foundations and offices in terms of their goals, strategies, sizes, and histories. We also found significant commonality when it came to their experiences with and perceptions of impact investing. We hope these findings will be useful to the impact investing field as a whole, and particularly for those affiliated with family foundations and offices who are considering incorporating impact investing into their investment strategy.

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1 The National Center for Family Philanthropy defines a family foundation as: "[A foundation] whose funds are derived from members of a single family. At least one family member must continue to serve as an officer or board member of the foundation and, as the donor, that individual (or a relative) must play a significant role in governing and/or managing the foundation." Family Office Exchange defines a family office as, "An organization that is created to support the financial needs of a specific family group."

2 See range of publications that include: Rockefeller Philanthropy Advisors, Monitor Institute, J.P. Morgan, Pacific Community Ventures, Mission Investors Exchange, among others, as footnoted in this paper.

3 Jaquier, Julia Balandina, Guide to Impact Investing for Family Offices and High Net Worth Individuals. Self Published, 2011. See: http://www.guidetoimpactinvesting.net/index.php/buy-the-book/.

Growth in the Field of Impact Investing

The Monitor Institute draws an important distinction between the term "impact investing" and the commonly confused term "socially responsible investing" (SRI), noting that the former is an active attempt on the part of an investor to create a deliberate and focused social or environmental impact through their investments, while the latter is a more general strategy to be "responsible" and at least do no harm through investing.[4] In our interviews, impact investing was defined as a separate category of investments from SRI or responsible investing that would, for example, not include strategies such as screening stock portfolios to avoid tobacco companies, but would include investment vehicles with an explicit intention of furthering social or environmental change.

Using the Monitor Institute's definition, the impact investing market is projected to grow to between $400 billion and $1 trillion in invested capital by the end of the decade.[5,6] A recent JP Morgan survey of fifty four investors revealed an intention of investing roughly $4 billion in new impact investments in 2012 alone and estimated that such investments would comprise 5-10 percent of the overall portfolios of high-net-worth individuals and institutional investors by 2019.[7] A separate study by US SIF Foundation estimated the US market for socially-oriented alternative investments to be roughly $80 billion in 2011 comprised of 375 funds across asset classes.[8]

Though it is hard to pinpoint the exact size of the impact investing market due to its rapid growth and varying definitions, it appears that this once small, cottage industry is moving toward a mainstream component of the broader investment ecosystem. The growth of the field has in part been facilitated by the emergence of a new investing infrastructure.

Social investment infrastructure organizations consist of advocacy and information-sharing organizations whose goal is to promote social investment, facilitate the flow of information, and encourage investors to participate in the field of impact investing.[9] There are a growing number of organizations that help link investors to investment intermediaries and social enterprises. The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing.[10] GIIN has developed ImpactBase, a searchable, online database of impact investment funds and products with over 1,000 accredited investors and 256 funds and products profiled across geographies and issue areas.[11] Another resource is ImpactAssets 50 (IA 50), an open-source, public database of experienced private debt and equity impact investment fund managers.[12] Other organizations building impact investing platforms include, among others, Mission Markets and Nexii.[13]

In addition, trade organizations are supporting foundations across the mission investing spectrum, from below-market program-related investments (PRIs) intended to meet specific programmatic objectives[14] to market-rate mission related investments (MRIs) that broadly support mission and financial goals across asset classes, issues areas, and geographies. In May of 2012, More for Mission, formerly based at the Harvard Kennedy School, merged with PRI Makers Network to create Mission Investors Exchange. Other field building organizations include Confluence Philanthropy with a focus on environmental sustainability and Toniic, which focuses on angel investors, entrepreneurs, and social enterprises.[15]

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4 Freireich, Jessica and Fulton, Katherine, Investing for Social and Environmental Impact. Monitor Institute, 2009. Page 5. See: http://www.monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf.

5 Ibid, page 9.

6 Impact Investments, An Emerging Asset Class. JP Morgan Global Research, Rockefeller Foundation, 2011. Page 11. See: http://www.rockefellerfoundation.org/uploads/files/2b053b2b-8feb-46ea-adbd-f89068d59785-impact.pdf.

7 Insight into the Impact Investment Market. JP Morgan Social Finance, Global Impact Investing Network, 2011. Page 5. See: http://www.thegiin.org/cgi-bin/iowa/download?row=334&field=gated_download_1.

8 Sustainability Trends in US Alternative Investments. Center for Social Philanthropy. US SIF Foundation, 2011. See: http://www.ussif.org/store_product.asp?prodid=6.

9 See Hagerman, L.A. and Wood D. (Forthcoming)."Enterprise Brokers: Linking Investors to Mission-Related Investments" In: "New Frontiers in Philanthropy." ED, Salamon, L. *Jossey-Bass*.

10 Founding and current supporters of GIIN include J.P. Morgan, the Rockefeller Foundation, Gates Foundation, and US AID http://www.thegiin.org/cgi-bin/iowa/home/index.html.

11 See ImpactBase: http://www.impactbase.org.

12 See Impact Assets: http://www.impactassets.org/impactassets-50.

13 See Mission Markets and Nexii: http://missionmarkets.com and http://www.nexii.com.

14 The types of investments that qualify as PRIs were recently more broadly interpreted by the IRS. For more information, see: http://www.cofinteract.org/rephilanthropy/?p=5429&utm_source=Mission+Investors +Exchange+Newsletter&utm_campaign=273d570141-MIE_July_2012_Newsletter&utm_medium=email.

15 For additional information on support organizations, see: http://www.unpri.org; http://www.socialinvest.org; http://www.moreformission.org; http://www.primakers.net/about; http://www.missioninvestors.org; http://www.confluencephilanthropy.org; and http://www.toniic.com.

While many large private foundations, public sector pension funds[16] and banks have been pioneers in impact investing, anecdotal evidence suggests that there is a growing movement among a more private group–families who look to impact investing as a way to align their investing with their family values. **Families represent a major growth opportunity for the field. The Council on Foundations estimates that family foundations alone hold roughly $245 billion in assets[17] while the Family Wealth Alliance estimates that single and multi-family offices manage roughly $1.6 trillion in assets.[18]**

To better understand why families are increasingly interested in impact investing and which asset classes families find most appropriate given their goals, we shift our focus from a macro view of the field to the specific circumstances and characteristics of families contemplating impact investing.

Family and Staff Perspectives on Impact Investing

Exploring a New Approach to Philanthropy

> "Money and investing is fraught with a lot of values, politics, and assumptions about how the world works, and so when you bring an investment to somebody, it's never a secular decision."
>
> –Richard Woo, CEO, The Russell Family Foundation

Despite the many ways in which family members can be different from one another, many families share a set of core values–a distinct world view constructed by the family's history and shared experiences. Family foundations allow families to express these values in the world–to use their capital in an attempt to create societal change. Furthermore, foundations can serve to perpetuate the values and the connectivity of the family as it expands over generations.

Family foundations and family offices can often have a set of shared core values. While there is an attempt to create shared values in more institutionalized settings through mission statements or investment policy statements, at the family level these values are intrinsic.[19] Furthermore, family foundation decision-making is generally not burdened with the pressure of institution perpetuation and liability-shielding bureaucracy; it is often a more fluid environment reflecting family dynamics where decisions and shifts in strategy can happen swiftly. In this context it is not surprising that with growing awareness of impact investing among trustees, staff, and advisors, many families are reevaluating investment strategies and exploring impact investing options.

Common Challenges Faced by Families when Considering Impact Investing

Based on our research interviews, the process that each foundation goes through to evaluate impact investing is distinct, while common challenges are shared.

1) Several interviewed trustees at family foundations expressed frustration that their investment advisors were not well informed on impact investing options. Unsurprisingly, when initially exploring impact investing, families often turn first to their investment professionals for advice and information. Though many advisors are learning about impact investing and others are pioneers in the field, a large percentage of advisors still have limited awareness of impact investing. Respondents have handled this situation in different ways, from asking their advisor to move up the learning curve to finding a new advisor who is well versed in impact investing. The implications of the emerging interest in impact investing among clients are significant for advisors and are discussed in the section on "Investment Advisor Perspectives on Family Impact Investing."

2) Several of those interviewed said they were uncertain about the perceived trade-off between impact and financial returns. The lack of familiarity with how to evaluate Total Return (financial plus impact) is compounded by a common perception that it is difficult to measure the social and environmental impacts of investments. In some instances it can be difficult to assess the risk-adjusted total return profile of impact investments, which can be unsettling for investors.

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16 See: Annie E Casey Foundation, F.B. Heron Foundation, Meyer Memorial Trust, W.K. Kellogg Foundation, John S. and James L. Knight Foundation, The California Endowment, The Kresge Foundation, David & Lucille Packard Foundation, Mary Reynolds Babcock Foundation, among others, for examples of private foundations engaged in impact investing. On public pension fund investments and leaders see: Hagerman et al. (2007). Investment intermediaries in economic development: Linking public pension funds to urban revitalization. Federal Reserve Bank of San Francisco *Community Development Investment Review*, 3(1), 45–65.

17 Family Foundation Basics. Council on Foundations, accessed 8/15/12. See: http://www.cof.org/whoweserve/templates/311.cfm?ItemNumber=15753&navItemNumber=14851.

18 Family Wealth Alliance, as cited in Black, Pamela J., The Rise of the Multi Family Office. Financial Planning, 2010. See: http://www.financial-planning.com/news/family-office-wealthy-2666609-1.html.

19 See Mission Investors Exchange website for more information and examples: http://www.missioninvestors.org.

3) In some larger family foundations there are strong internal cultural divides that exist between the program staff and investment staff, limiting collaboration on investment strategies. Silos are quite common from the traditional division of labor and can be challenging to bridge.

4) Investment advisors mentioned that some of their family foundation trustee clients were concerned about whether there were legal or tax implications associated with impact investing per prudent investor requirements. This concern may stem from a lack of access to quality sources of legal or tax advice regarding impact investing.[20]

5) Families may have skeptics within the organization who take a strong opposing position. Jennifer Murtie of Federal Street Advisors observed, "It's a hurdle particularly for some foundation boards. Half of the board gets it, they want to do it, they're ready to go, but it only takes one or two skeptics to halt the process. We've seen it in many, many different scenarios."

As with many industry disruptions, the emergence of impact investing has caused a period of uncertainty in the established processes within established institutions. Richard Woo of The Russell Family Foundation summarized this challenge with a broader observation: **"The impact investing bottlenecks are often at the level of the investment advisory firm or the trustee/investment committee. That's because…they're defining their fiduciary responsibility in very narrow financial terms. So part of the challenge is redefining what that responsibility is."**

While there are many challenges, families also have a set of characteristics and complementary organizational goals that position them well for impact investing. These characteristics also often enable families to work through the challenges described above.

Unique Characteristics of Families that Support Impact Investing

Despite the challenges highlighted above, there are many characteristics of families that allow them to uniquely manage a transition to a broader definition of fiduciary responsibility, address the obstacles listed above, and implement impact investing strategies. The following three characteristics of families make them uniquely likely to explore and embrace impact investing as a concept:

- having an intimate connection to their assets
- being agile in decision making and integrated across functions
- seeking opportunities for next generation engagement

1) Interview respondents noted the unique relationship between trustees and foundation assets in the context of a family–they are the fiduciary for assets that they themselves have donated. One of our interviewees told us, "If any of the clients of the firm would be more likely to be more innovative…it probably would be the families–it's their money–but the rest of our clients are fiduciaries for someone else's money." In some cases families may be more comfortable in experimenting with a new field such as impact investing because they feel more intimately connected to the assets of the foundation, more empowered to direct the use of the assets, and less fearful of any reputational repercussions associated with the risk of trying something new. As will be discussed in a later section, this is also a reason why families are interested in venture capital as an impact asset class.

2) Family foundations and offices are "lean" and "agile." Though there is a great deal of variation in the size and structure of family foundations and offices, generally they are lightly staffed and often staff will serve functions for both the foundation and the family office. In a more intimate setting, families are less likely to run into the institutional silos between philanthropy and investing that can make a hybrid strategy like impact investing more difficult to understand and implement. Breaking the silos can also be done intentionally. In the case of The Russell Family Foundation, a committee was established to evaluate potential program related investments (PRIs). This committee was composed of a cross section of people with different skill sets and perspectives–two foundation program staff and two analysts from the foundation's outside investment advisory firm, the Threshold Group. Together the committee could evaluate investments in terms of risk and return, fit with mission, and implementation/monitoring, respectively.[21] Additionally, families can act quickly on ideas–a discussion of impact investing at a board meeting can quickly lead to a vote on a particular investment or carve-out strategy because there is generally less bureaucracy than one might find in a non-family foundation.

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20 A listing of sources for legal counsel can be found at Mission Investors Exchange. See: http://www.missioninvestors.org/tools/search/?solrsort=sort_label%20asc&f%5B0%5D=im_field_tool _type%3A348.

21 For more information on how foundations can collaborate effectively with advisors, see: Muska, Craig, *Evaluating Collaboration Models for Family Foundations and Their Investment Advisors*. Threshold Group, 2010. See: https://www.missioninvestors.org/tools/evaluating-collaboration-models-family-foundations-and-their-investment-advisors.

3) Another aspect of smaller and less institutionalized organizations such as family foundations and offices is that a single outspoken champion can have an outsized influence over the decision-making process. Champions for impact investing can emerge from trustees, staff, or advisors. Unlike the case in consensus-driven groups where minority viewpoints are often marginalized if voiced at all, in the family context, minority viewpoints are commonly voiced. An interesting nuance of this fact is that the champions for impact investing are often young. Unlike non-family foundations where boards are generally age agnostic, one of the key functions of a family foundation–and often one of the reasons the foundation is established to begin with–is to nurture the next generation of family members and cultivate their interest in philanthropy and financial knowhow. Accordingly, young family members who voice an interest in impact investing are often heard not necessarily because of a shared interest in impact investing among other board members, but also because the interest itself is valued by the board as a means of *next generation engagement*. Craig Muska at Threshold Group illustrated this point when recalling a conversation with a trustee at a client foundation, "This individual has no interest in anything related to impact, but yet at the foundation he is willing to explore it because he wants to bring his grandkids up to speed. He wants to get his grandkids engaged in the family foundation and he gets that it's important to them." This occurrence was observed across nearly every family interviewed and was also noted by multiple staff and advisors who work with families.

In addition to sharing a set of common characteristics, we also found that there were common themes in terms of how families moved from *interest* in impact investing to *implementation*.

Tactics for Implementation and Bringing Impact Investing to Scale

For foundations to move beyond the concept of impact investing and towards implementation, a foundation will adopt a strategy that is most appropriate for their asset size, culture, geographic focus, programmatic goals, and financial return considerations. Foundations take different paths in integrating their philanthropic goals with their investing approach.

A common first step toward implementation is the creation of the foundation's stand-alone mission investing policy statement or an amendment of mission-investing language within the broader investment policy statements.[22] The statement allows the foundation to pursue mission investing and establishes the guidelines for the investment strategy. Such a policy can also serve as a clear signal to foundation investment and program officers that they are working towards the same goals, and that they can better achieve those goals if they work together–collaboration often new to conventional practice.

Executing on a mission investing strategy is the next step to putting mission investing into practice. As noted, a foundation's mission investing strategy by necessity varies. Some foundations start by creating a carve-out (often a percentage) of a pool of assets from their endowment that is dedicated to impact investing.[23] A more aggressive approach to mission investing is an "integrated approach" in which a foundation allocates a percentage of each of their asset classes to mission investments. This approach allows for foundations to think about the practice as part of a broader strategic asset allocation policy.[24]

Regardless of the approach, a key lesson learned from our research interviews is that when family foundations or offices try impact investing, they often continue to increase their allocation to impact investing. For example, in May of 2013, after nearly a decade of mission-related investing (MRI),[25] The Russell Family Foundation decided to expand its MRI strategy to work towards addressing the impact of carbon in the atmosphere. The Foundation's board of directors approved plans to divest its portfolio of the "Filthy Fifteen" (considered to be some of the largest, dirtiest coal company stocks in the U.S.) while also seeking out reinvestment opportunities in renewable energy. Prior to the May 2013 meeting, the Foundation undertook six months of research, interviews, and learning to help the board of directors come to its decision. Richard Woo explains here the foundation's decision process and looks ahead by way of the foundation's organizational compass:

> The Foundation board, staff and investment advisors approached the work like the points of a compass. We looked to all four points of our organizational compass–externally, internally, past legacy, and future direction. Externally, we did numerous interviews with investment analysts, leading foundations, climate change advocates, shareholder action groups, and energy company executives (past & present). These folks were provocative, generous in spirit, and encouraging of inquiry. Internally, we examined our own portfo-

22 For more information on how investment policy statements have been used to allow for or encourage impact investing, see: http://www.moreformission.org/page/11/mission-investing-policy.

23 For example, one of the larger US foundations, the W.K. Kellogg Foundation, has taken this approach with a carve-out of $100 million to their mission-driven investing (MDI) program see, http://mdi.wkkf.org/.

24 An example of a foundation that takes this approach is the KL Felicitas Foundation. As of December 31, 2012, 86.6 percent of KL Felicitas Foundation assets were allocated to Impact Investing see, http://www.klfelicitasfoundation.org/index.php/.

25 For more information on The Russell Family Foundation's history in mission investing since 2005, and lessons learned, see: http://www.trff.org/mission-investing/.

> lio holdings, across both the public and private markets, and surveyed the board of directors for views on climate change, greenhouse gas emissions, and investment policy approaches. We reflected on the Russell Family legacies both in investment services and philanthropy[26] as possible assets for influencing the wider field of impact investing. And finally, we looked to our Foundation's vision statement for future guidance: 'a sustainable and peaceful world for people, places and communities.' Now the hard work begins. This will be action learning with others through small wins, instructive failures and constant changes.

In another example, the HRK Foundation started its impact investing portfolio with a single initial investment into a high-profile global public equity manager based in London. After having a positive experience with the investment, HRK then looked for other impact investments across both public equity managers and private equity managers, and is now aiming to deploy a full 20 percent of its foundation portfolio assets into impact investing. Other foundations have gone through a similar progression, some even targeting a full 100 percent allocation to impact investing.

While foundations' allocations to impact investing are increasing and perhaps the best evidence that the market, while still in its infancy, is developing, a major breakthrough for scale in the impact investing market could come from families taking strategies that are successful in their foundation portfolios and *implementing them in their family office portfolios.* While impact investing from family offices represents a major opportunity to the field, it is too early to tell if the lessons learned through foundation impact investing will translate to family office investing.

A foundation's ability to execute on its mission investing strategy, whether a pilot program or as an integrated approach, depends on the foundation's internal staff capacity and dedicated resources. A foundation often has strict firewalls in place between investment officers managing the foundation's endowment and program officers managing the grant making. For a foundation to move from conceptually thinking about mission investing to committing capital, breaking down these silos is important. Integrating mission investments within a foundation's strategic asset allocation policy can help overcome this barrier. In some cases foundations hire dedicated staff to execute their mission investing strategy–sourcing deals, deploying capital, and monitoring and evaluating direct investments or hiring fund managers. Smaller foundations may not have the resources to dedicate staff to these tasks and will instead rely on investment advisors and consultants.

In some cases, foundations are completely deferential to their advisors on investment decisions. In other cases, they simply use the advisors/consultants for research and investment ideas. In both cases, it is important to consider the perspective of the advisors to better understand family foundation and family office investment decision making with regard to impact investing.

Investment Advisor Perspectives on Family Impact Investing

Outlook on the Field and Strategic Positioning

While some family foundations handle investment decisions entirely in-house, many use outside professionals. Investment advisors and consultants work with social investors in designing a mission-related investment strategy, and in some cases they may also manage and deploy assets on behalf of their clients. The central goal of investment advisors is to help each client create and manage a suitable portfolio based on a client's unique profile, which is a function of a variety of factors including risk tolerance, liquidity needs, tax considerations, age, estate planning and long-term goals, among others.

Impact investing adds an additional dimension to the client profile. In addition to maximizing risk-adjusted returns based on the profile, the advisor must consider the potential social and environmental repercussions of the investments. While many investment advisors are familiar with implementing common SRI measures in a portfolio, such as socially responsible mutual funds or screening the portfolio to avoid certain types of holdings (e.g., stock in tobacco companies), fewer advisors have direct experience with impact investing. Will Tickle of Ballentine Partners noted the difference–the mentality of the SRI investor is, "I want a clean conscience, so I want to look at my portfolio and not see companies that are doing bad things," whereas for the impact investing client, the mentality is, "By putting capital to work I am doing good things, and having an impact and proactive effect." This distinction has important implications for advisors. Advisors need to know why their clients are interested in multiple bottom line investing and pursue the approach that suits not only their clients' financial goals, but also their personalities and values.[27]

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26 For more information on the foundation's legacy and investing pioneer George F. Russell, Jr. see: http://www.trff.org/george-f-russell-jr-fund/http://www.trff.org/george-f-russell-jr-fund/ and the Russell's company history and creation of the Russell Indexes – one of the most widely used benchmarks today, see: Russell Investments at http://www.russell.com/us/about-russell/russell-history/default.page.

27 For more information on the dynamics between investors and advisors, see Hagerman, L.A. and Wood D. (Forthcoming)."Enterprise Brokers: Linking Investors to Mission-Related Investments" In: "New Frontiers in Philanthropy." ED, Salamon, L. *Jossey-Bass.*

Though most of the advisors interviewed said that, based on their close relationships with clients, they knew which clients might be interested in impact investing; advisors also noted that they may not proactively raise the topic given the firm may not have dedicated resources to knowledgeably present viable options to an interested client. Some advisors noted that there were not enough quality products and managers in the space, and/or there was not an adequate grasp of a client's social or environmental issues they would want to address through impact investments. For example, one advisor said that he had a client who was an expert on climate change. This advisor had a concern that his client would want to definitively be able to see the impacts of his investments on climate change, but the advisor may not have the knowledge base to assess environmental impact with the same lens as the investor. Conversely, advisors who are well versed in impact investing across issue areas widely reported that their ability to connect with clients through impact investing can deepen their relationship. Many advisors mentioned that they would be more comfortable discussing impact investing with clients if there were more transparent and quantitative metrics to evaluate impact.

At the investment advisor/consultant firm level, the strategic response to the emergence of impact investing has differed. Some of the advisors we interviewed said that while it is true they are hearing more interest in impact investing, they do not believe that the interest is matched proportionately with actual capital deployment. Some of these firms are treating impact investing mandates from clients as one-off requests and are not yet seeing enough client demand to warrant a strategic commitment from the firm to dedicate additional resources to build a pipeline of impact investments. Other firms are embracing impact investing into their core identity. For example, one advisor said, "We view [impact investing] as a value-add and a benefit that we're able to offer to clients. And the new clients we've taken on this year–every single one of them has come to us because of our capability in SRI and the impact investing space. I would say that investment firms that aren't offering this now are at a big disadvantage because more and more families and foundations want to do this."

Across the spectrum of firm strategies and levels of experience we noticed an interesting parallel between advisory firms and families themselves. While acknowledging research based on a small set of qualitative interviews, for both the advisory firms and the families, impact investing leadership often came from the younger generations. In investment firms, it was often young associates who were not only advocating for impact investing internally, but also tasked with educating the firm about impact investing and even interacting with interested clients. In the same way that young family members use impact investing as a way to have a voice in the board room, so too is impact investing a way for young professionals to take on leadership responsibility within asset advisory firms.

Impact Investments Often Evaluated with Same Diligence Standards as Traditional Investments

A pronounced trend in our interviews with both advisors and families was that the area of greatest interest in the impact investing market was market-rate investments, also known as Mission Related Investments (MRIs) within the foundation sector. While some interviewees noted continued interest in below-market PRI strategies, the source of new interest among family foundations and offices was for investments that could create impact without compromising financial performance.

Most advisors expressed that they are able to construct portfolios with impact components while subjecting impact investments to exactly the same financial due diligence process for a purely financially motivated portfolio. In fact, many advisors said they would only consider an impact investment if it could withstand the full battery of diligence used on all other investments. For example, one investment professional that has an investment in an impact-oriented private equity fund said, "Impact investing is not in our vocabulary;" in other words, the impact fund was appealing financially without any regard to the impact generated.

Jennifer Murtie at Federal Street Advisors commented, **"Unfortunately there is still the myth out there that you have to give up performance to do social investing…they say 'it's our fiduciary responsibility on the foundation to make as much money as possible. We can't do social investing because we'll give up performance.' So then we explain why we don't think that's necessarily the case because we have been able to find exceptional managers and funds through our due diligence process. We expect our social/impact managers to at least match their respective broad index and we compare them to the broad universe of their peers not just other social/impact managers."** Jessica Matthews at Cambridge Associates echoed this point saying, "We think there still should be, as with any asset class, a focus on portfolio management and then the team and all of those factors where it's really up to the portfolio management to out-perform. We don't model in any kind of hair cut for [impact investments]–definitely not." Rochelle Gunn at HRK Group summarized the philosophical shift that is occurring in investment strategy, **"…this whole area of the investment world has evolved and today you can actually make investments with very specific social or environmental goals that are bringing you competitive, market-like returns, and so it is the 'and' question instead of the 'or' question."** The emerging belief

that investors do not necessarily have to give up returns for impact is also substantiated in a JP Morgan report showing that a strong majority of advisors (from a much larger sample) do not think a trade-off exists.[28]

Eric Thurber, founder of Three Bridge Wealth Advisors added a variation to this point. Eric noted that regarding performance, some impact investments can improve portfolio diversification through access to investments that are commonly beyond the purview of traditional investing. However, because the prevailing assumption is that one might give up performance for impact, "If an impact investment ends up being our worst performer, we concern ourselves with a client's perception that there was a bias in our decision making versus other venture and private equity opportunities in which we invest."

The aspect of the due diligence that advisors found most difficult to evaluate was track record. Jessica Matthews of Cambridge Associates articulated this point saying, "There aren't a lot of [impact investing] firms that are on Fund 5 or Fund 6, so I think this has sort of bucked the natural trend of only looking at more established firms because this space, across the asset classes, not even just in private, is a little bit newer." While there is a growing demand for impact investing among clients, some advisors who are accustomed to exclusively investing with established funds may find it challenging to locate sufficient deal flow, though this challenge should naturally abate with time.

The Unique Value of Impact VC for Family Investors

The current impact-oriented private equity market is estimated to top $4 billion and is comprised of roughly seventy funds.[29] There are a variety of strategies employed by managers in this market, ranging from intentionally below market social venture funds designed to achieve specific mission/programmatic objectives of a foundation's PRIs, to market-competitive MRI funds. Impact investments exist across asset classes, and each asset class generally has a distinct type of impact. For example, buying certificates of deposit at a federally designated community bank or credit union can bolster credit markets in underserved areas; buying charter school bonds or municipal bonds can finance community infrastructure; using foundation endowment assets as a credit guarantee can enable financing for entities that may otherwise not receive credit from a traditional lender; buying public equities that can incorporate ESG (environmental, social, governance) screens and/or enable shareholder advocacy through proxy voting and shareholder resolutions.

Venture capital investments in early to later stage emerging growth companies can be a powerful mechanism to create new businesses, expand existing ones and create sustainable, scalable, impact in targeted geographies. Venture capital fund managers are intimately connected to their portfolio companies, often having a seat on the board of directors or as a board observer, advising management on strategy and key management hires, finding sources for additional equity and non-dilutive financing, and building strategic partnerships. In other words, they are active participants in shaping the growth trajectories of sustainable, scalable, and market-leading companies.

In this capacity, venture capital fund managers who seek risk-adjusted market rates of return and social impacts are in a position to guide and support management teams in their efforts to promote socially responsible product development, environmental stewardship, targeted large-scale job creation, and ethical business practices. Over time, these practices become an integral part of a company's cultural DNA. Furthermore, in many instances, helping companies to capitalize on opportunities to have impact can improve the financial performance of the company. For example, a company that locates a manufacturing plant or assembly facility in a low-to-moderate income area or enterprise zone not only creates new jobs and positively impacts the local tax base, but also may benefit from federal, state, and local financial incentives which lower both the capital cost and operating expenses of the facility.

Considering the impact profile of Impact VC and the distinctive goals of families described in the previous sections, one can see the complementary properties inherent in a family philanthropy strategy involving Impact VC. The synergy exists across the following five dimensions:

1) **Through Impact VC, investors can maximize their impact and target specific issues/themes (e.g. climate change, economic development) or geographic area (e.g. state, region) that aligns (tightly or more loosely) with a family's investment objectives, values, and desire to effect change.** Jennifer Murtie at Federal Street Advisors commented, "My perspective and the firm's perspective is that you can have the biggest impact through VC. I think it's the most direct way to see change and create change for foundations as it is the clearest line to matching something with the mission. That being said, we strongly believe that you can have impact across all asset classes." Because venture capital is a direct investment into individual companies, investors may allocate resources to a manager/fund

28 Insight into the Impact Investment Market. JP Morgan Social Finance, Global Impact Investing Network, 2011. Page 10. See: http://www.thegiin.org/cgi-bin/iowa/download?row=334&field=gated_download_1.

29 Market for Social Impact Investing by Private Equity Funds Stands at $4 Billion in the United States. Insight, Pacific Community Ventures, 2012. See: http://www.pacificcommunityventures.org/uploads/reports-and-publications/PCV_Social_Impact_Investing_wp_final.pdf.

focused on a sector/innovation in the former's area of interest. One advisor interviewed spoke of a client who wanted to focus her impact on life sciences due to a personal situation. The advisor helped customize a separate account program composed of a concentrated portfolio of life science venture capital fund managers. There is a tangible element of Impact VC in seeing the growth of a sector and new innovation that is difficult to find elsewhere.

2) **As fiduciaries of their own money, since they themselves donated the funds, families may be more likely to have the risk appetite for venture capital and be innovative in their approach to philanthropy.** As described earlier, trustees of family foundations and offices may have a personal connection to the assets they manage. Accordingly, they may be more open to higher risk, higher reward investments such as venture capital. In addition, Impact VC funds have the potential to match the risk-return profiles of traditional investments because there are several emerging growth industries with positive social potential, such as cleantech and sustainable consumer products.

3) **Venture capital as an asset class can strongly resonate with families, many of whom made their wealth through entrepreneurship.** Entrepreneurs who become involved in philanthropy may relate to the approach of Impact VC and have a certain perspective on the potential effects of the approach. They have seen first-hand how a growing enterprise can create jobs and form norms about community engagement and socially responsible business practices. They may appreciate how investors can augment this evolution in a socially positive manner.

4) **Impact VC generally has sound impact metrics. While financial returns are typically measured against established benchmarks, measuring social and environmental returns remains a challenging task with fewer established conventions for measurement.** For Impact VC, impact evaluation can come in the form of qualitative reports or quantification of certain outcomes. For example, DBL Investors produces a semi-annual Double Bottom Line Report that provides a summary of the financial performance (the first bottom line) as well as the social, environmental, and economic impact (the second bottom line) for each of its portfolio companies. The summary and narratives profile second bottom line programs and practices that strengthen the local communities in which the Fund's portfolio companies operate. The report quantitatively highlights total jobs created in the current reporting period and percentage of employees that are entry-level–either earning LMI wages and/or living in LMI areas, employee benefits such as employer co-pay health care, retirement/401k plan, employee stock ownership program, as well as diversity in management. While many of the benefits of Impact VC are still difficult to quantify and report on, due to the focused nature of VC impact, many of the benefits can be measured relative to impact investments in other asset classes.

5) **Impact VC can uniquely engage younger generations**. There is an excitement that surrounds venture capital and the opportunity to help fund the emergence of the next wave of great companies. Impact VC as an approach seems to resonate with young people, perhaps because the effects are more tangible relative to other types of SRI, like screens on public equities or buying CDs through a community development financial institution. The fact that Impact VC appeals to young people means that it can be a next-gen engagement tool for family foundations.

Considered in the context of family foundations and offices as well as advisors, our findings can be summarized in the following table:

Table 1. Impact VC is Aligned with the Goals of Family Foundations, Offices, and Advisors

Topic	Family Foundations & Family Offices	Investment Advisors	Impact VC
Geography/Issue Alignment	Want geographic and/or issue-targeted impact	Want to connect clients to optimal investment vehicles	Invest in specific companies or funds with specific locations in specific industries
Implementation	Family entities are agile and often integrated across staff functions	Can assist with implementation once a family has chosen a high-level strategy	Impact investing is for those who seek both a financial return and impact and who are not siloed by traditional institutional division between philanthropy and investing

Topic	Family Foundations & Family Offices	Investment Advisors	Impact VC
Align investments with values in an innovative way	Families have an intimate connection to their assets, which allows them to be novel in their approach to philanthropy	Can help families explore new options such as impact investing. May act as a conservative voice, focused on traditional investment approaches.	Impact VC is a relatively new asset class, without a long track record, but with significant potential for impact and opportunity to achieve market returns
Role of Next Generation	Older members want to engage the next generation in investment and philanthropic activities	Want to help families achieve goals, including non-financial goals such as next generation engagement	VC is an asset class where you can see the growth of future companies. Appeals to younger demographic and often a means of next-gen engagement
Seeking market rate returns and impact	Looking to invest in alignment with values	May have the expertise to evaluate investments and source potential deals	Some evidence, although limited, suggests that Impact VC has strong "bang for your buck" and VC funds with impact focus have performed competitively with the market
Impact Measurement	Are often more flexible in reporting requirements than institutional investors, and can value impacts that are difficult to measure	Can serve as intermediary between managers and clients to ensure adequate reporting	Impact VC has impact metrics that can be quantified, such as job creation, but also others that are more challenging to measure such as long term impacts in a revitalized area

Conclusion

Many families understand the value proposition of impact investing and are challenging the notion that foundations should "make as much as they can, so they can give as much as they want." They are recognizing that there is an opportunity cost to deploying only 5 percent of assets toward impact, and they are rejecting that one must choose between the compounding of returns and the compounding of problems. These families are exploring a new axiom, "Make as much as you otherwise would have while also driving targeted social and environmental impact through investments."

Given the growing family interest in Impact VC, below are recommendations of potential ideas for developing the market.

1) **Trustees Interested in Impact Investing Should Voice their Interest to Staff and Advisors.** With the basic infrastructure in place, what is needed for the field to mature is both capacity building and increased demand. Some trustees may not broach the issue of impact investing, deferring investment decisions to staff or advisors. Recognizing that impact investing may be a fit for family foundations, but that advisors may not always present the idea, trustees should address, and promote, the concept with advisors and staff.

2) **Development of Venture Capital Co-investment Funds.** A challenge for family philanthropists in making an Impact VC investment is the inability to meet a foundation's geographic mandate given the geographic flexibility, and portfolio diversification, needed on the part of venture capital funds. A possible solution would be to alter the investment model to allow families to invest in specific deals, in addition to becoming limited partners in the larger fund. For example, a family foundation focused on creating impact in Oakland, CA, could co-invest in companies located in Oakland that are surfaced and diligenced by a venture capital fund that may have a national or regional focus. The financial arrangement between the foundation and the VCs would need to be established to create a win-win for all. For example, a pre-requisite may be that the family investor is already an investor in the VC fund reviewing the

prospective companies. A similar model could be used for families interested in driving impact on a thematic issue important to the family foundation. Venture capital can be highly targeted in impact, and a co-investment strategy would allow VCs to meet diversified investment portfolio targets to generate competitive returns, while allowing foundations to more tightly align their investments with their targeted mission and programmatic objectives.

3) **Venture Capital Funds Assist Families in their Effort to Educate and Engage the Next Generation.** Recognizing that next generation engagement is a core goal of family foundations and that VCs have insights into exciting markets and the business development process, VCs could offer educational workshops on how they make investment decisions and developments in new markets. Connecting with the younger generations is not only beneficial to the older generations at family foundations, but it is also needed to cultivate the young 'internal champions' critical for field development in both families and institutions. VCs could also consider cultivating this cohort through internship programs at their fund or portfolio companies.

4) **Educate Advisors, Who are Often Gatekeepers.** Learning more about impact investing can offer a number of benefits to advisors. It can help advisors attract new clients who are interested in impact investing, help advisors retain clients interested in the field, deepen the connection between advisors and their existing clients, and, most importantly, as a new tool, help advisors to better serve their clients. Advisors are often "gatekeepers" to family foundations and offices because, over time, they have earned the families' trust and confidence. While awareness of impact investing is increasing among advisors and many are leaders, further engagement is needed for the growth of the field.

It is clear that many family foundations and offices are taking up the practice of impact investing. While we acknowledge that the data-set in this study is relatively small, consistent themes appear among family foundations in terms of the barriers, as well as the benefits, that ultimately lead family foundations to make impact investments. The characteristics of family investing–willingness to explore novel approaches to philanthropy, desire to embrace younger generations, integration between staff, advisors, and trustees; flexibility with metrics and bureaucracy, among others–match well with the characteristics of the current impact investing field. Within the broader impact investing market, families and Impact VC fit particularly well because Impact VC is an asset class that can produce meaningful impact targeted to specific sectors, issues, and geographies; resonates with the entrepreneurial histories of trustees, is exciting and engaging for next generation trustees, staff, and advisors; and often has comparable risk-return profiles to traditional investment funds along with measurable impact metrics. An increasing number of investment advisors are recognizing the growth of the impact investing market and helping their clients to explore new investment types while positioning their firms to benefit from the sector's expansion.

The field of impact investing is young and time will tell whether it will be an industry that causes a transformative, paradigmatic shift in family philanthropy or becomes a niche market for select investors. What is clear is that there is a lot of interest around the concept of impact investing and many stakeholders at family foundations/offices and advisory firms are evaluating if and how impact investing might enhance their current philanthropic and financial strategies.

Lisa A. Hagerman, PhD, is the director of programs at DBL Investors, a double bottom line venture capital firm in San Francisco, where she leads the strategy and implementation of double bottom line practices working with DBL Investors' portfolio companies across workforce development, environmental stewardship, community engagement, and public policy. Lisa was previously the director of More for Mission at the Harvard Kennedy School, a research and advocacy initiative promoting mission investing, in which she built a network of over 90 foundations representing over $38 billion in total assets. In May of 2012, More for Mission merged with PRI Makers to form Mission Investors Exchange. Prior to her role at More for Mission, she completed her doctorate in economic geography. Her doctoral thesis was in economic geography on public pension fund investment in urban revitalization, a project supported by the Ford and Rockefeller Foundations. She was previously a vice president of Economic Innovation International. In addition, Lisa has ten years of banking experience, three of which were with Wells Fargo Bank in government relations where she worked with the community development department and promoted the Bank's minority lending initiatives. She worked at Citibank for seven years in the Latin American marketing division. Lisa holds a visiting research associate position at Oxford University, School of Geography and the Environment. Lisa received her bachelor of arts from Bucknell University and her master of arts in political science from the University of North Carolina at Chapel Hill.

Daniel W. Geballe is an MBA student at the Stanford Graduate School of Business and a former summer associate at DBL Investors. Prior to Stanford, Dan worked for Corporation for Enterprise Development, a nonprofit organization that encourages and enables asset accrual among low-income families in the United States, and Fisher Investments, a private wealth management firm. Dan studied at Yale University, earning his master of environmental management with a focus in social ecology and bachelor of arts, majoring in anthropology. He serves on the boards of the Levi Strauss Foundation and the Koshland Committee of the San Francisco Foundation.

Further Reading

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List of Interviewees

Special thanks to those interviewed who were so generous with their time and thoughts:

Alan Bloch	Philip and Muriel Berman Foundation
Jason Born	National Center for Family Philanthropy
Annie Feldman	Athena Capital Advisors
Bob Friedman	Friedman Family Foundation
Rochelle Gunn	HRK Group & Foundation
Wally Haas	Evelyn and Walter Haas Jr. Fund
Jessica Matthews	Cambridge Associates
Jennifer Murtie	Federal Street Advisors
Craig Muska	Threshold Group
Mark Newberg	5 Stone Green Capital
Paul Parrington	Northern Trust
Pamela Pavkov	Oak Hill Investment Management
Richard Robb	Crown Family Philanthropy
Will Tickle	Ballentine Partners
Eric Thurber	Three Bridge Wealth Advisors
Raj Vora	Northern Trust
Richard Woo	The Russell Family Foundation

Appendix

Family Philanthropy & Impact Investing Roundtable
June 18, 2013, 9:00 a.m. to Noon
Federal Reserve Bank of San Francisco

Roundtable Participants

Jason Bade, Researcher, Stanford University

Patricia Farrar-Rivas, CEO, Veris Wealth Partners, LLC

Drew Fink, Associate, Bain

Jon Finney, Senior Analyst, CTC Consulting

Ian Galloway, Senior Research Associate, Federal Reserve Bank of San Francisco

Daniel Geballe, Summer Associate, DBL Investors

Loretta Gallegos, Assistant Director, Public Mgmt & Social Innovation, Stanford Graduate School of Business

Lisa Hagerman, Director of Programs, DBL Investors

Suresh Nayakanmarkudy, Investment Associate, Ascent Private Capital Management of U.S. Bank

Sean Olesen, Director, Private Capital, Ascent Private Capital Management of U.S. Bank

Nancy Pfund. Managing Partner, DBL Investors

Adam Rein, Principal, MissionPoint Capital

Lili Stiefel, President, Stiefel Family Foundation

Sarah Vared, Summer Associate, MissionPoint Capital Partners

Gwen Walden, Managing Director, Arabella Advisors

Executive Summary

The Roundtable on Family Philanthropy and Impact Investing was held on June 18, 2013 at the Federal Reserve Bank of San Francisco. The following are summary notes on the discussion and recommendations for continuing the conversation.

Practitioners and academics came together to discuss the role of family foundations and family offices in growing the field of impact investing. The participants included a broad group of stakeholders that included investment advisors and consultants, family foundation trustees, and academics. The roundtable discussion, organized by the Federal Reserve Bank of San Francisco and DBL Investors, was kept to a small number of attendees to encourage thoughtful discussion. The half-day session provided an opportunity for the seminar participants to share their current practices in the area of impact investing for family foundations and family offices.

Lisa Hagerman led off the morning with an overview of the key themes highlighted in the paper "The New Family Philanthropy: Investing for Social and Environmental Change" co-authored with Daniel Geballe and available on the Federal Reserve Bank of San Francisco's website: http://www.frbsf.org/community-development/. Key themes from the paper included:

1) **Growth in the Field of Impact Investing:** Using the Monitor Institute's definition, the impact investing market is projected to grow to between $400 billion and $1 trillion in invested capital by the end of the decade.[30,31]A recent JP Morgan survey of fifty four investors revealed an intention of investing roughly $4 billion in new impact investments in 2012 alone and estimated that such investments would comprise 5-10 percent of the overall portfolios of high-net-worth individuals and institutional investors by 2019.[32] A separate study by US SIF Foundation estimated the US market for socially-oriented alternative investments to be roughly $80 billion in 2011 comprised of 375 funds across asset classes.[33]

2) **Strategies and Tactics for Implementation:** Some foundations carve out a percentage of their corpus for impact investing while others seek to integrate impact investing across asset classes in the core investment strategy. The approaches by the Russell Family Foundation (see pgs. 5-6) and the HRK Foundation (pg. 5) among other examples in the paper illustrates the variation in implementation tactics. Families often embrace the concept of impact investing as they:

- Have an intimate connection to their assets as fiduciaries of their own money
- May be more agile in decision making as boards are small compared to private or corporate foundations
- Seek opportunities for next generation engagement

3) **Impact Investing through Venture Capital:** High impact and well suited to family investing. The types of impact generated through venture capital–geographically targeted job creation, product innovation, environmental stewardship, and community engagement among others–overlap with the philanthropic motivations of many families who seek local impact that they can "see, touch, and feel" on issues about which they care deeply.

4) **Family Foundations and Family Offices:** Separate strategies, but opportunity for future synergy. There is an opportunity for family foundations to implement successful impact investment strategies in their (generally much larger) taxable family office portfolios. Families represent a major growth opportunity for the field. The Council on Foundations estimates that family foundations alone hold roughly $245 billion in assets[34] while the Family Wealth Alliance estimates that single and multi-family offices manage roughly $1.6 trillion in assets.[35]

5) **Need for Quality Managers:** Research found, and echoed in roundtable discussion, that for some very issue-specific clients advisors found it challenging to construct market-rate, impact portfolios across all asset classes or geographic/issue areas due to a lack of managers with proven track records.

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30 Investing for Social and Environmental Impact. Monitor Institute, 2009.

31 Impact Investments, An Emerging Asset Class. JP Morgan Global Research, Rockefeller Foundation, 2011. Page 11. See: http://www.rockefellerfoundation.org/uploads/files/2b053b2b-8feb-46ea-adbd-f89068d59785-impact.pdf.

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34 Family Foundation Basics. Council on Foundations, accessed 8/15/12. See: http://www.cof.org/whoweserve/templates/311.cfm?ItemNumber=15753&navItemNumber=14851.

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6) **Internal Champion and Generational Dynamics:** Findings showed impact investing for family foundations and offices generally happens when there is an internal champion who may be a family trustee, staff member, or advisor leading the family through a reflective exercise to re-evaluate philanthropic goals.

7) **Investment Advisors and Consultants:** Research found that some advisors are accommodating their client requests on a one-off basis, while others are actively building internal impact investing expertise to capitalize on market growth and better serve their clients. There is an opportunity for education in the field, across stakeholders, to continue to raise awareness among both advisors and investors.

Daniel Geballe, who serves on the boards of the Levi Strauss Foundation and the Koshland Committee of the San Francisco Foundation, commented on the next generation's role in impact investing highlighting:

1) Next generation engagement within family foundations is often a core goal of the foundation–not just a peripheral objective.

2) Many of the impact investing champions within family foundations are relatively young, generally see a less rigid division between investing and philanthropy, and view impact investing as a way to assert themselves within their family or institution while enhancing the impact of the foundation.

3) For older generations, embracing the interest of the younger generations can be a means to teach the discipline of traditional investing while encouraging the next generation's engagement.

4) The mutual teaching and learning that takes place, through the exploration and implementation of impact investing, can connect generations in a unique and meaningful way.

In the group discussion Lili Stiefel of the Stiefel Family Foundation and Drew Fink of the Betsy and Jesse Fink Foundation commented on how there is an opportunity to more fully employ the younger generations. Educational forums through trade associations, including the National Center for Family Philanthropy, Confluence Philanthropy, and the Association of Small Foundations to name a few, are helping to educate and inspire the next generation in the area of impact investing. The question was raised as to what is the "point of engagement for the younger generation"–is it an issue or cause, desire to learn the discipline of investing, or simply begin to engage with the family on broad issues to effect social and environmental change? Are formal or less formal networking groups the way to nurture this growing movement? How do families navigate intergenerational issues? These were some of the questions debated and in next steps will continue to be a part of the discussion for future forums.

Patricia Farrar-Rivas (CEO, Veris Wealth Partners) commented that approximately 30 percent of their new clients are family foundations. Veris' approach is one that believes superior investment performance and creating positive impact are complementary parts of a holistic investment strategy. The firm's work is grounded in research showing that investing in companies committed to sustainable business practices creates the opportunity to deliver superior investment results. Patricia cited client interests in impact investing that range from community wealth building to gender lens investing to limiting exposure in fossil fuels–adding that Veris' approach is one across asset classes and while there is growing interest from the investor base and a growing number of investment solutions, more institutional impact investment products and private impact funds with proven track records are still needed.

On impact measurement, standards such as SASB that provides standards for use by publicly-listed corporations in the U.S. in disclosing material sustainability issues for the benefit of investors and the public were mentioned. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F (http://www.sasb.org/).

While there was not significant discussion on jargon used in the field, Ian Galloway of the Federal Reserve Bank of San Francisco, posed the question of whether this type of investing is really values-based investing or impact-based investing? The discussion centered on how families are unique as investors–motivated by a distinct set of values to impact societal change.

With the basic infrastructure in place, what is needed for the field to mature is both capacity building and increased demand. Some trustees may not broach the issue of impact investing, deferring investment decisions to staff or advisors. There was group consensus that there is a need, as an industry, to promote education in the field. A follow-on discussion with a similar group of stakeholders on the east coast is being scheduled for October 2013 to be held at the Federal Reserve Bank of Boston.

Federal Reserve Bank of San Francisco
101 Market Street
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