The Bridgespan Group

Back to the Frontier: Investing that Puts Impact First

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Collaborating to accelerate social impact

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After five years as a committed impact investor, Diane Isenberg came to a game-changing revelation. Expecting commercial risk-adjusted returns alongside social and environmental benefit leaves a large and growing number of promising impact-focused enterprises on the outside looking in. So in 2018 she set a new course for Ceniarth, her UK-based family investment fund: move all $400 million in assets into an impact-first strategy.

It's a strategy she urges fellow high-net-worth individuals (HNWIs) and family investment offices to consider, knowing full well the limits of its financial appeal. "If your goal is growing richer or, more accurately, ensuring your returns are correlated with the market, then this strategy will be unappealing," Isenberg wrote in *ImpactAlpha.* "If, however, maximizing impact while preserving your money is your goal, we hope to prove that this is very much a viable strategy."[1]

Our aim with this report is to shed light on this largely untapped opportunity. In more than three dozen interviews with HNWIs, family office directors, fund managers, and intermediaries, we heard a lot about the barriers that thwart more impact-first investing. But we also heard how pioneers in the field have overcome those barriers by pursuing a three-step process: clarifying values, building a community of trusted collaborators, and, finally, picking from a growing menu of investing options. Some of those options cater to a do-it-yourself investing approach, others rely on outsourcing to professional advisers and fund managers. Whatever the approach, a consensus emerged among our interviewees that it's time for impact-first investing to shed its poorly understood status and take its place alongside better-known options for putting money to work for social change.

Why Now Is the Time for Impact-First

In short, *impact-first* impact investing puts people and planet ahead of financial returns. Putting impact first doesn't mean, as some fear, bad investing, or that you don't care about returns. It simply means that the returns that matter most are measured in lives changed, not solely financial gain.

Impact-first investing stakes out an unfamiliar and largely neglected middle ground between market-rate impact investments and philanthropic grants. Practitioners often call this underused form of investment "catalytic capital" in recognition of the fact that, but for impact-driven investors, viable enterprises would never get a chance to deliver their full impact. Catalytic capital is well-suited for investors "who want to support enterprises or funds that have high-impact potential but struggle to raise suitable financing because they are too early-stage or otherwise risky, expect to generate only modest returns, or require a longer investment time horizon," explains the Catalytic Capital Consortium, a leading advocate. (See "Pioneers in Impact-First Investing.")

1 Diane Isenberg, "Fighting Poverty and Remaining Rich: Ceniarth Shifts Portfolio to Impact-First Capital Preservation," *ImpactAlpha*, August 20, 2018.

In its most catalytic form, impact-first investing validates market-shaping innovations, giving cautious conventional investors the green light to follow on. Breakthrough Energy Ventures, for example, invests in risky, innovative clean energy businesses like Arnergy, which replaces fossil fuel generators with modularized solar panels and lithium ion storage systems in emerging markets.

Not all impact-first investing strives for market-changing innovations. "Sometimes the most catalytic thing that an impact investor can do is to offer reasonable, low-cost capital where it is most needed," said Greg Neichin, a Ceniarth director and board member.[2] For instance, Ceniarth, which focuses on using its capital to support rural, marginalized communities, extended up to $500,000 in the form of a low-interest loan to Kheyti, an India-based enterprise that supports farmers, most of whom practice subsistence agriculture, with a "greenhouse-in-a-box." It uses 90 percent less water, grows seven times more food, and gives farmers a steady dependable income.[3]

There's no shortage of impact-driven opportunities. The Global Entrepreneurship Monitor reports that thousands of impact enterprises have taken root around the globe, led by entrepreneurs determined to find new ways to deliver social and environmental products and services, especially for low-income and marginalized communities.[4]

Yet, social entrepreneurs have trouble raising that kind of patient, flexible, risk-tolerant capital. Foundations meet a small part of the need with program-related investments, which typically target below-market returns.[5] Conventional impact investment funds that have raised capital from multiple investors with the explicit intent to deliver market rate returns can't participate because of fiduciary obligations. That leaves HNWIs and family offices in a unique position to champion impact-first investing. Their investable assets dwarf that of foundations, and they have the discretionary power to declare impact a priority.

For its part, Ceniarth has set a high bar, committing 100 percent of its assets to impact-first endeavors. But Isenberg is quick to acknowledge it's not an approach for everyone. For most HNWIs and family offices compelled to invest impact-first, the question is how to start, not how to go full tilt.

The COVID-19 pandemic and heightened concerns about climate change, racial injustice, and income inequality have injected fresh urgency into the need for more impact-first investing. The pandemic's devastating effects have laid bare how health and economic crises disproportionately affect families living in poverty, no matter where they live around the globe. Systemic racism and income inequality only exacerbate the pandemic's deadly toll.

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2 Greg Neichin, "For Ceniarth's Impact-First Portfolio, 'Catalytic' Just Means Reasonable," *ImpactAlpha*, December 19, 2019.

3 Catalytic capital also can involve blended finance structures. These allow organizations with different objectives to invest alongside each other while achieving their own objectives, whether financial return, social impact, or a blend of both. Blended finance often is used to de-risk investments to make them more attractive to private capital. See *How to Mobilize Private Investment at Scale in Blended Finance*, Convergence, April 2020.

4 Brian Groom, "A Third Of Start-Ups Aim for Social Good," *The Financial Times*, June 14, 2018.

5 Program-related investments (PRIs) can be made in nonprofits or for-profit enterprises, but they must further a foundation's charitable mission. The IRS regards PRIs as akin to grants and includes them in the minimum 5 percent annual payout that a foundation must make to maintain its tax-favored treatment.

Impact-focused enterprises are purpose-built to take on these challenges. They advance solutions to poverty, gender equity, racial justice, climate change, and more. In the United States, many invest in community development initiatives, including business ownership and job skills training. In developing nations, impact-focused enterprises often aim to deliver basic services, such as clean water and sanitation, and access to quality education. Increasingly, investors and intermediaries seek these enterprises out, giving HNWIs and family offices more opportunities to explore investing with impact as the paramount objective.

Pioneers in Impact-First Investing

A seminal 2009 Monitor Institute report touting the enormous potential of impact investing mused: "The pressing question is whether impact investing will remain a small, disorganized, underleveraged niche for years or even decades to come—or whether leaders will come together to fulfill the industry's clear promise."[6]

That promise has burgeoned in the past decade among finance-first investors, who seek market-rate returns alongside social and environmental good. But the sun is also beginning to rise for impact-first investors—those who seek to optimize social and environmental returns and accept nominal financial benefit. They can point to leaders who have shown the value of impact-first.

Foundations played an early and important role in supporting the impact-first approach, primarily in community development. They demonstrated how program-related investments (PRIs), IRS-sanctioned philanthropic investments with a charitable purpose and a modest financial return, can help to revitalize underserved neighborhoods. The Ford, Gates, Kresge, McKnight, Rockefeller, and Surdna foundations, among others, have poured tens of millions into low-interest PRI loans and loan guarantees, for example, to rebuild housing markets and support business development in cities where communities of color historically have been left out.

The MacArthur Foundation has taken the impact-first approach a step further with investments in enterprises that put impact ahead of profits. In 2019 MacArthur spearheaded the launch of the Catalytic Capital Consortium (C3), which aims to invest up to $150 million in impact-first funds and intermediaries that support innovative impact-focused businesses with high growth potential.[7] The Rockefeller Foundation and Omidyar Network joined as strategic partners. To build the field, C3 commissioned Tideline, an impact investing advisor, to develop a practical guide for investors, *Catalytic Capital: Unlocking More Investment and Impact*.

Meanwhile, pioneering investors, including notable early movers like Acumen and Root Capital—both founded circa 2000—have steadfastly advanced both the knowledge and practice of impact investing, including impact-first, on behalf of low-income and marginalized communities across the globe.

For its part, Omidyar Network, launched by Pierre and Pam Omidyar in 2004, evolved from a venture-capital-centric focus on market returns to a nuanced view of impact investing that includes more patient and risk-tolerant capital that emphasizes impact over financial performance. Though focused on generating strong financial returns on its investments, Omidyar Network was willing to accept higher risk or lower return when it felt that a particular investment had the potential to create or accelerate new high-impact markets—as outlined in *Priming the Pump: The Case for a Sector Based Approach to Impact Investing* in 2014.

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6 Jessica Freireich and Katherine Fulton, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*, Monitor Institute, January 2009.

7 The Bridgespan Group worked with the MacArthur Foundation in support of the Catalytic Capital Consortium.

Omidyar's influential *Across the Returns Continuum* report in 2017 clarified the conditions under which it would accept below-market returns and highlighted "that there is a broad range of viable investment profiles, some of which involve a tradeoff between social return and financial impact, and many of which do not."

As a high-profile family investment office, Omidyar Network has advised more than 150 high-net-worth families on how to manage impact portfolios. Ceniarth, Spring Point Partners, and Blue Haven Initiative (all of which you'll read more about in this report) are among those that already have declared a commitment to the impact-first approach.

Wealthy individuals and families, in fact, command the assets and independence that put them at the forefront of developing an impact-first investing infrastructure to mirror that of finance-first. Pioneering work by foundations, investors, and a handful of family offices have shown the way.

Growing Wealth and Social Purpose Find Common Ground

Wealth holders and family offices are well-positioned to experiment and innovate with promising enterprises that don't meet the risk and return requirements of private equity or venture capital. Some individuals relish the ability to chart a unique course. "Ours is a flexible single-family office," said Liesel Pritzker Simmons, cofounder and principal of Blue Haven Initiative, an impact-driven family investment fund. Blue Haven partners with impact enterprises that have a proven track record of outperforming financial markets. But it also has established specific tax-advantaged portfolios to engage in impact-first investments. "If *we* can't get into that messy [impact-first] space, who can? Were it not for HNWIs and family offices, many impact-first enterprises would go without investment."

The resources available to HNWIs and families have grown at a rapid pace in recent years. (See Figure 1.) Today, HNWIs (defined as those with more than $1 million in liquid assets) control 40 percent of global financial assets; ultra-high-net-worth individuals (those with more than $30 million) control 14 percent.[8] Moreover, the number of billionaires globally almost tripled between 2010 and 2019, from 1,011 to 2,825, according to market research firm Wealth-X. Their combined worth topped $9.4 trillion, up sharply from $3.6 trillion in 2010.[9]

The number of families that have established their own wealth-management advisory services, called family offices, topped an estimated 7,300 worldwide in 2019, up 38 percent in just two years, according to Campden Research.[10] Most family offices manage at least $100 million, the rule-of-thumb minimum to justify the expense. Campden estimates total family office assets under management at $5.9 trillion, compared to $1.2 trillion for all US foundations.[11]

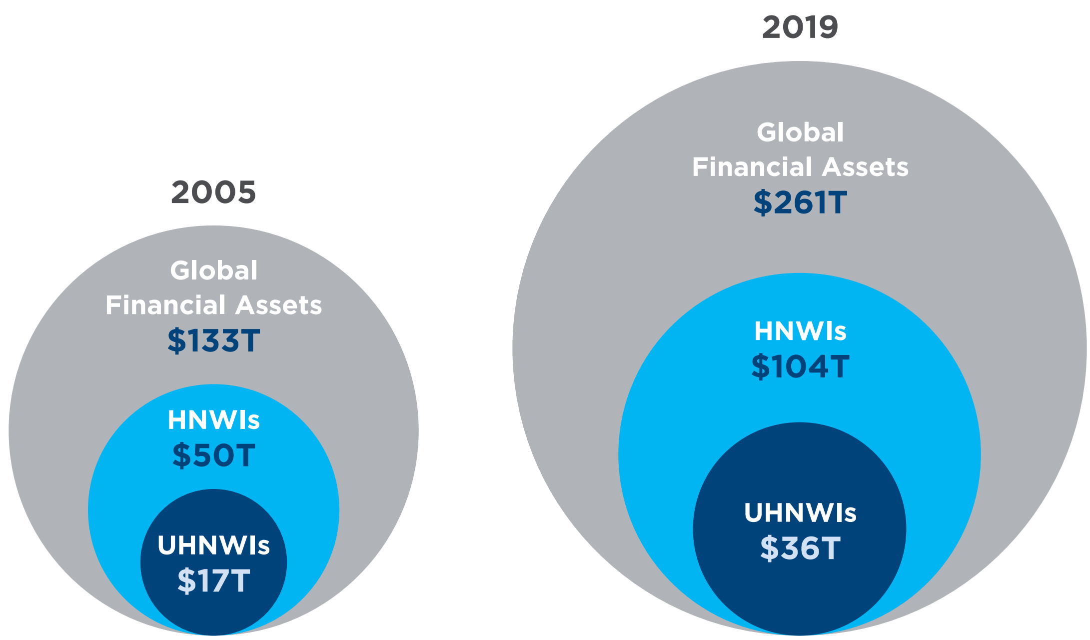
8 Maya Imberg and Maeen Shaban, *A Decade of Wealth*, Wealth-X, May 2020.

9 Catherine Clifford, "2019 Had a Record-High Number of Billionaires—Here's How Many and Why," CNBC, June 20, 2020.

10 James Beech, "Global Family Office Growth Soars, Manages $5.9 Trillion," Campden.com, July 18, 2019.

11 "Key Facts on U.S. Nonprofits and Foundations," candid.org, April 2020,

Figure 1: The Wealth of High-Net-Worth Families Has Doubled Over the Past 15 Years



Note: High-net-worth individuals (HNWIs) are those with $1 million-plus in investible assets; ultra-high-net-worth individuals (UHNWIs) are those with $30 million-plus.

Source: Maya Imberg and Maeen Shaban, *A Decade of Wealth*, Wealth-X, May 2020; *Asset & Wealth Management Revolution: Embracing Exponential Change*, PwC, 2017.

Among this group of families and individuals, many already allocate part of their wealth for social or environmental benefit. The Giving Pledge, launched 10 years ago by Bill and Melinda Gates and Warren Buffett, today includes 200 of the world's wealthiest households who have committed to give the majority of their wealth to address some of society's most pressing problems. Campden reports that the average portfolio allocation to impact investing among wealthy investors is expected to increase from 20 percent in 2019 to 35 percent by 2025.[12] One in four family offices globally engage in impact investing, but most allocate under 10 percent of their assets to that approach.[13]

Meanwhile, impact-first investing remains a flicker, not a flame. The Global Impact Investing Network (GIIN) reports that impact investors responding to its survey deployed only $3.5 billion in catalytic capital 2019—7.5 percent of the $47 billion in new impact investments made that year.[14]

12 *Investing for Global Impact: A Power for Good 2020*, Campden Wealth, Global Impact Solutions Today, and Barclays Private Bank, October 12, 2020.

13 *The Global Family Office Report 2019*, Campden Research and UBS, September 24, 2019.

14 Dean Hand, Hannah Dithrich, Sophia Sunderji, and Noshin Nova, *2020 Annual Impact Investor Survey*, Global Impact Investing Network, June 11, 2020.

Mindsets Are a Barrier to Impact-First Investing

Impact-first investing is not a new idea. A groundbreaking 2009 report from Monitor Institute on the emerging market for impact investing described *impact-first investors* as those "willing to give up some financial return if they have to," as opposed to *finance-first investors*, who seek impact without compromising on financial performance.[15] Finance-first has turned out to be more attractive among global investors over the past decade.

Impact-first has lagged, in part, because the concept lies between two overarching categories: market-rate returns or philanthropic grants. Many of our interviewees described this as a major psychological and organizational barrier standing in the way of impact-first investing.

For most investors, the idea of leaving returns on the table in the name of impact runs counter to deeply ingrained beliefs about the primacy of growing one's wealth. Many impact-first skeptics also worry about the potential for concessionary investments to simply subsidize low-potential businesses or distort markets. Indeed, for skeptics, impact-first has the ring of bad investing. "People don't feel comfortable with this approach initially," said Margot Kane, chief investment officer at Spring Point Partners, a Philadelphia-based family office committed to impact-driven investments. "You have to challenge all of the accepted dynamics that come with investing and philanthropy."

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No dynamic is more pervasive than the desire to do well in the marketplace. "It's next to impossible to get families out of the mindset of expecting to compound returns at 15 percent, which is just not feasible when investing in basic needs, like access to electricity and housing," said Ion Yadigaroglu, partner of Capricorn Investment Group, which oversees the assets of former eBay president Jeff Skoll, the Skoll Foundation, and other clients.

Fund managers and professional advisers can be even more wedded to financial performance as a measure of success than their clients. Brian Trelstad, a Bridges Fund Management partner, considers professional fund managers a major barrier to more impact investing happening within family offices. "The more you professionalize the staff of the family office, the more you recruit from traditional asset management, and the more you incent them with traditional returns-based compensation, the less risk-seeking the family office is likely going to be," said Trelstad. In fact, the ability of professional managers to deliver returns for clients is a point of competitive advantage. Moreover, their compensation often is tied to performance against market benchmarks. "Ninety-nine percent of advisers can't believe you'd want to do this: demand that part of the financial upside of intermediaries and fund managers—like the carry—is tied to achieved impact," said Charly Kleissner, cofounder of Toniic, a global network of impact investors.

15 Freireich and Fulton, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*.

Hence, overcoming the psychological barrier to impact-first investing requires recognizing it as one more option on the returns continuum, an option best suited for enterprises that champion social and environmental change but need risk-tolerant, patient investors to help them thrive. It's not sloppy investing. It's a different way to think about investing. Impact complements financial reward as the currency of success. "We need to change the psychology so that returns aren't the focal point," said John Arnold, a philanthropist and former hedge fund manager. "When you get your money back, you should celebrate because you can recycle the capital."

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>
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Unlike for conventional investments, there are no agreed-upon benchmarks for impact-first financial returns. What is an "acceptable" target: public market equivalent, 5 percent, inflation, or even 0 percent? Is partial capital recovery acceptable?

And, what should an impact investor expect—in terms of measureable social impact—for a concessioary investment? Indeed, impact measurement and management, the cornerstone of impact-first investing, remain a work in progress. "[Both] have evolved over the past decade and now reflect an increasingly strategic use of tools for different purposes at different stages," found GIIN's 2020 *Impact Investor Survey*. Yet, survey respondents still see opportunity for further development of measurement and management practices.[16] Effective and efficient impact measurement is cited by GIIN investors as the single biggest impediment to the development of impact investing.

Meanwhile, advisers and fund managers lack guidance on how to remain faithful to their clients' impact objectives. In the conventional investment world, everyone understands fiduciary duty, an obligation of money managers to act in the best interests of their clients—typically centered on financial performance. "What we lack is the notion of 'impact fidelity,' a counterweight to fiduciary duty, that can help money managers invest with fidelity to their clients' impact intentions," said Trelstad.

The structure of family offices also came up in interviews as an obstacle. The more family members who are involved in decision making, the more difficult it becomes to align on investment goals and pick the best investment tool to address the problem at hand. "It's hard if there are a lot of trustees for them to make [impact-first] decisions, because the most conservative denominator wins," observed Ellen Remmer, senior partner at The Philanthropic Initiative in Boston.

Generational divides also complicate decision making. "Winning the support of older generations for new approaches to wealth management is not always easy," noted the *Financial Times*. "But as younger family members take up the reins at family offices, many are asking one question: how can they put more of their family's wealth to work for good?"[17]

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16 Dean Hand, et al., *Annual Impact Investor Survey 2020*, Global Impact Investing Network, June 2020.

17 Sarah Murray, "Rich Millennials Push to Put Family Wealth into Impact Investments," *The Financial Times*, October 16, 2019.

Many of our interviewees noted that Millennial and Gen Z family members care deeply about social and economic justice, and the environment. They also actively seek investments aligned with their values.

Three Steps to Putting Impact First

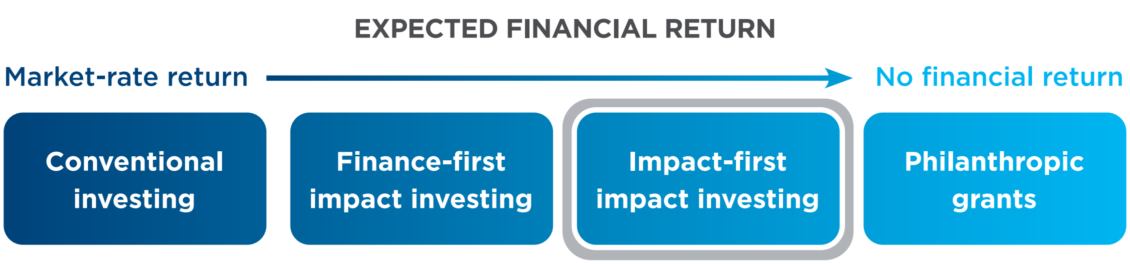
Structural and generational barriers to impact-first investing are formidable, but not insurmountable. A number of our interviewees summoned the patience and sustained effort to step boldly forward. Drawing on the experience and advice we heard from investors and asset managers, getting started with impact-first investing typically involves a three-step journey: 1) clarifying a commitment to impact and 2) relying on trusted collaborators, set the stage for 3) choosing the investment approach that best fits your needs.

1 Clarify your commitment to impact

Wealth building and philanthropy often go hand-in-hand; both are familiar territory for those with significant means. But investing for impact first upends this conventional dichotomy. It's neither a wealth-building strategy nor charity. Rather, it's an impact strategy that accepts lower returns for greater good. Advocates view it as one more stop on a continuum of returns from market-rate investing to philanthropic grants. (See Figure 2.) The question for wealthy individuals and families is whether to make that stop at all.

Those who do are choosing to embrace values that place social or environmental good ahead of financial return. "Values-based touchstones are just as important as strategic financial reviews," advised a report coauthored by CREO and Cambridge Associates.[18]

Figure 2: Where Impact-First Impact Investing Sits on the Returns Continuum



Source: Matt Bannick with The Bridgespan Group; adapted from: Matt Bannick, Paula Goldman, et al., "Across the Returns Continuum," *Stanford Social Innovation Review*, Winter 2017.

18 Daniel Matross and Liqian Ma, *Pathways to Sustainable Investing, Insights from Families and Peers,* CREO and Cambridge Associates, August 2019.

For Spring Point, articulating values meant asking hard questions about how to align investments with the family directors' commitment to diversity, equity, and inclusion. "Until you understand where you sit in the systems that are perpetrating inequity, or environmental injustice, and climate change, you can't take meaningful actions and feel confident as you progress in your decision making about how you want to show up in the world," said Kane, Spring Point's chief investment officer. "So introspection is a not skippable first step for folks on this journey." Today, Spring Point aims to infuse equity at every layer of its work, "and we are still learning," added Kane. (See "Opportunities to Advance Equity Through Impact-First Investing.")

Making a values-based commitment to impact-first investments prompts follow-on questions. What specific issues do you most care about, and what outcomes do you want to achieve? For example, are you most passionate about climate change, racial equity, education, or water and sanitation? Within any such broad category, focus on what you want to accomplish and how you want to make that happen. Hone an impact-first strategy that is as sharp and disciplined as that of any return-seeking investor.

Investment decisions often are deeply personal. At Spring Point, the four siblings who are principals each have chosen a separate issue—strengths-based youth development, animal welfare, revitalizing America's water systems, and learning innovations—and are deeply involved in investment decision making. Other impact investors may identify only a single issue.

In many cases, the values you articulate will frame the choice of investments and outcome goals. Those who prioritize mitigating climate change might seek investments in cutting-edge technologies to pull carbon out of the atmosphere, for example, or in retrofitting affordable housing to be more energy efficient. Those prioritizing clean water might face choices, such as investing in developing advanced purification systems or drilling low-cost wells, that their values could help them prioritize among.

Pushing the boundaries of investment options also requires committed leadership to manage the inevitable resistance to breeching the status quo. "You have to challenge all of the accepted structures and hierarchies and power dynamics that exist both within investing, philanthropy, and a lot of families," said Kane. "Suddenly you're asking them [HNWIs] to step out on a limb, challenge all the gatekeepers, challenge the accepted wisdom, challenge how things have been done, challenge their bankers, break ranks with the philanthropic community, and take on work that doesn't have clear answers. … You really have to be comfortable with risk and ambiguity and learning as you go."

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Anecdotally, at least, more families are weighing the merits of impact-first investing. "I've had an increasing number of families asking me for advice in this area," said Ronald Cohen, the "father of impact investing," as he's become known, and chair of the Global Steering Group for Impact Investment. "It's still early days [for broad adoption of impact-first].

The idea that you do any concessionary investment is a bit of a tough sell." But Cohen anticipates that in time, with the spread of dependable impact measurement, "more families will accept concessionary rates in return for measurable social and environmental impact they value."

Opportunities to Advance Equity through Impact-First Investing

In the intense, ongoing global conversation about deep-seated structural inequities and specifically racial injustice in the United States, we took a closer look at how equity concerns manifest as impact-first opportunities. Data on how wealthy individuals and families invest to advance racial equity is largely anecdotal. But if US philanthropic giving is a reasonable proxy, it's safe to say there's room for substantial growth.

Between 2008 and May 25, 2020, the day a police officer choked George Floyd to death, philanthropic racial equity funding totaled $3.9 billion. That figure grew to $5 billion within six weeks, according to Candid, an organization that tracks nonprofit funding. Sixty-four percent of those donations came from corporations, 20 percent from foundations and charities, and only 16 percent from high-net-worth individuals.[19] Similarly, in our interviews with wealthy families for this report, most conducted in the second half of 2020, only a handful of interviewees, like Margot Kane, chief investment officer at Spring Point Partners, offered unprompted comments about investing for racial equity.

Nonetheless, those who choose to invest with racial equity will find a range of investment opportunities. Bridgespan recently compiled a list of 170-plus market- and below-market-rate investment funds with an economic mobility and/or racial equity focus in the United States.

If we want to make finance and investment more just investors must rise to the moment and commit to racial equity, said Debra Schwartz, head of impact investing at the MacArthur Foundation, investors must rise to the moment and commit to racial equity. "Catalytic capital is about including people who have been long overlooked by mainstream investors or deemed 'too undesirable' to be worthy of investment," she added. "It is not *the* essential ingredient to achieving racial equity or justice, but I'm not sure how we get there without it."

2 Rely on trusted collaborators

With so much uncharted territory around impact-first investing, trusted relationships take on an outsized role. The next step involves cultivating those relationships.

People who have accumulated wealth are accustomed to tapping friends and peers for advice, particularly when evaluating unfamiliar investment opportunities. The same holds true for impact-first investing. Although the number of experienced hands remains relatively small, the pioneers often share knowledge and offer advice. "People come to us for a pipeline they can trust, and we share as much as we can in hopes of attracting additional capital to the types of opportunities in front of our one little office," said Ceniarth's Neichin.

Investors also turn to expert advisers and intermediaries, many of whom develop trusted relationships with leaders of impact-first enterprises working with families living in poverty or

19 Fang Block, "MacKenzie Scott Becomes the Second-Largest Funder for Racial Equity," *Barron's*, July 29, 2020.

in marginalized communities. “I’ve learned the highest impact thing I can do now is help create communities of deep trust,” said Kleissner, Toniic’s cofounder. The organization facilitates connections and coinvesting among its 400 HNWI, family office, and foundation clients.

Trust is a central mission of an emerging ecosystem of organizations that serve HNWIs and family offices as they venture into impact-first investing. A few peer-to-peer organizations that are examples of this ecosystem include:

- **The ImPact** launched in 2016 to provide families an opportunity to “realize their full potential as impact investors, ecosystem builders, and market influencers,” according to its website.[20] It provides a platform for its 75 member families from more than 20 countries to share investing experiences and opportunities.
- **Toniic** hosts in-person and virtual gatherings and maintains a directory of some 1,500 peer-sourced impact investment opportunities. It also matches its clients with potential coinvestments.
- **The CREO Syndicate** formed in 2011 as a charity to assist a group of family offices in making more effective environmental and clean technology investments. Today, it is a platform for over 1,000 family offices, HNWIs, and institutional investors to explore new ways to collaborate and invest to meet their financial and environmental impact objectives.

3 Choose the investment approach that best fits your needs

Step three makes impact-first investing operational, through three broad—albeit sometimes overlapping—options: 1. Outsource to advisers and fund managers; 2. take a lean approach with one or two impact specialists who, in many cases, complement an existing family office staff and investment portfolio; or 3. hire a team and build an organization dedicated full time to impact investing.

Outsourcing has never been easier. Increased demand for impact investing has spurred growth in the number of funds, advisers, and intermediaries that have added impact-first as an option for their clients. Jordan Park, Tiedemann Advisers, Align Impact, and Avivar Capital, to name a few, provide families and institutions a range of wealth management and impact investing services, including access to impact-first opportunities.

For example, Jordan Park, founded in 2017, provides impact-driven financial advisory and investment services to HNWIs and family offices. Today, it manages $16 billion for 80 families. Tiedemann Advisers also works with HNWIs and families to develop impact investment portfolios centered on environmental sustainability and socio-economic development.

In the United States, donor-advised funds (DAFs) provide perhaps the easiest outsourcing path to impact-first investing. Many families already have substantial assets set aside

20 The ImPact, “Our Theory of Change.”

in DAFs for charitable purposes.[21] Total DAF grants in 2018 exceeded $23 billion. DAFs, however, are a largely untapped capital pool for impact-first investing, something that a growing number of sponsors are attempting to change. (See "Impact-First Options Aim for Donor-Advised Funds.") For example, Impact Assets, RSF Social Finance, and the Tides Foundation already provide their DAF donors a relatively easy on-ramp to invest in impact-first enterprises.

Most DAF sponsors, however, don't have the staff or expertise to source or vet impact investing options for donors. CapShift saw this as a business opportunity when it launched two years ago. It allows DAF sponsors "to outsource all the complexity and hassle of identifying and screening potential impact investments," explained Adam Rein, the cofounder and president. CapShift already works with seven of the nation's largest DAF providers, including Fidelity Charitable, National Philanthropic Trust, Chicago Community Trust, and Vanguard Charitable. It hopes to partner with more DAF sponsors to offer impact investing options in the future.

The lean-team approach builds on existing family office staffing to augment, rather than supplant, ongoing portfolio investments. It's a practical first option for those who are new to impact-first investing. And experienced investors often choose this option to make room for impact-first investing within their portfolios, without going all-in just yet.

The lean-team approach has emerged as a viable option for family offices over the past five years as more funds and advisers opt to specialize in impact-first opportunities, driving down the cost of sourcing and conducting due diligence on potential investments. More than ever, it's possible to pursue impact-first investing by bringing a few of the right people on board.

For example, hedge-fund manager and philanthropist Ray Dalio's philanthropic portfolio includes impact investments in funds such as Acumen, Accion Frontier Inclusion Fund, BlackIvy, the Global Health Investment Fund, and the CFPA Microfinance Inclusive Growth Fund in China. Dalio has a small impact-focused team and sourced these opportunities within the context of a broader investment and philanthropic portfolio.

Building an in-house team has the advantage of putting the investor, whether an individual or family, in the driver's seat. Bringing decision making in-house tightly links the investors' values and goals with investment decisions. It also signals a commitment to make impact investing, whether finance-first or impact-first, a full-time endeavor, not a side bet.

Omidyar Network, established in 2004 by eBay founder Pierre Omidyar and his wife Pam, is a pioneer in the organization-building approach. It created a hybrid structure for deploying family wealth for social good, combining a limited liability company (LLC) with a private philanthropic foundation. The foundation makes grants to nonprofits, and the LLC invests in innovative for-profit start-ups that work to bring about social change. Since its inception,

21 DAFS are the most popular charitable investment vehicle in the United States, but they are not without controversy. For example, critics complain that DAFs don't have an annual minimum distribution requirement similar to the 5 percent annual distribution required of foundations, something that reform-minded advocates want to change.

Omidyar Network has put over $1.5 billion into impact investments and nonprofits that tackle global problems. In 2018, Omidyar Network spun out several independent entities, which today collectively employ more than 100 professionals across eight countries.

Impact-First Options for Donor-Advised Funds

Donor-advised funds (DAFs) are emerging as a vehicle for impact-first investing despite longstanding barriers. Among them: donors don't know that impact investing is an option, DAF sponsors aren't staffed to identify and conduct due diligence on investment options, and donors and sponsors often don't feel comfortable elevating impact over returns.

Deborah Frieze, cofounder and president of Boston Impact Initiative, a nonprofit charitable loan fund, has confronted all three barriers while raising DAF funds for the initiative's investees. To illustrate, she recounts her struggle to secure an impact-first investment for a local start-up.

"Imagine that you're part of a group of Black, brown and queer low-income activist entrepreneurs who have a big vision and a business plan for hauling and recycling organic waste," said Frieze. "You have no personal savings. You have no collateral, and no history of business operations. What's more, you formed as a worker-owned cooperative so you don't really want to give up any equity, yet you need to raise about a million dollars over four years, and you're starting at zero. Who would want to invest in this business, right?"

The Boston Impact Initiative stepped up along with a Boston-based community development finance institution. Seven years after launch, CERO (which stands for Cooperative Energy, Recycling, and Organics) employed up to 10 workers and had growing revenues until COVID-19 arrived. But it expects to rebound, said Frieze. The Boston Impact Initiative drew on its $7 million investment fund to extend low-interest operating loans in 2017. Roughly a quarter of that capital came from DAFs.

Securing DAF funds wasn't easy, said Frieze. "It took five years of talking to chief investment officers, five years of working with program officers to advocate for us, to get approved," she recounted. More recently, she has seen rising donor interest in community-based investing, making it somewhat easier to secure DAF investments.

In fact, a small number of DAF sponsors have created impact-first portfolios to tap and stoke DAF donors' interest in impact investing. RSF Social Finance, for instance, has offered an impact portfolio to its DAF investors for more than a decade. It aims for impact over market-rate returns. ImpactAssets, which spun off from Calvert Impact Capital in 2010, offers DAF donors a number of impact investment funds, as well as direct investments.

The Tides Foundation manages close to 400 DAFs and has a long history of channeling those funds into values-aligned investments. "Philanthropy, and specifically DAF providers, needs to take a more proactive and principled stand on the big issues of our time," Peter Martin, director of philanthropy, wrote on the Tides website. "We are actively encouraging our partners to step up to push the boundary with every dollar to fuel real and lasting change. But we need more donors and DAF providers to join us."

In-house teams, such as Ceniarth's 13-member staff or Blue Haven Initiative's 10-person staff, include specialists who know how to identify and conduct due diligence on potential investments, structure a range of deal types, and monitor investments after a deal closes. They also continue to learn and improve their practices. Spring Point Partners, with a staff of some 30 employees, learns from both success and failures, said President Catherine Murphy. "We make decisions quickly, and we are a learning machine," she said. "We capture when things succeed, but more importantly, when they fail, and we learn from those mistakes."

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>
> CATHERINE MURPHY, PRESIDENT, SPRING POINT PARTNERS

Where to Invest: Themes, Sectors, and Geographies

When the time comes to choose where to invest, there's something for everyone, a tribute to the fast-paced changes in the impact-first area over the past several years. HNWIs and families can turn to the growing number of investment funds that source and conduct due diligence on impact businesses. Some funds are agnostic about the types of businesses they choose. Others target specific sectors, themes, or geographies. Here's a representative sample:

- **Prime Coalition** launched the Prime Impact Fund in 2018 to invest in start-ups that meet three criteria: reduce carbon emissions, fail to attract conventional investors, and have the potential to attract follow-on market-rate investors. The fund closed in June 2020 with $52 million. About a third of the funds came in the form of recoverable grants.[22]
- **WaterEquity** focuses solely on the global water and climate crises. Its funds invest in a portfolio of water and sanitation enterprises in emerging markets. While Water Equity strives for market returns, it takes on higher risks and exercises greater flexibility than conventional investors.
- **Global Partnerships** creates and manages impact-first investment funds that seek social impact while preserving capital, adding a modest financial return for investors. In late 2020, it had an active portfolio of more than $121.6 million in impact-first loans outstanding to 88 social enterprise partners in 24 countries in Latin America, the Caribbean, and sub-Saharan Africa.
- The **Perennial Fund** supports sustainable agriculture in the United States. It helps farmers transition from traditional to organic production over three years. Loan amounts vary from $50-$1,000 per acre depending on the production costs and operating needs during the organic transition. Repayment follows an outcomes-based model in which farmers only begin repaying the loan once they start to make profits.

22 Dennis Price, "Prime Impact Fund raises $52 million to jumpstart climate-tech pipeline," *ImpactAlpha*, June 16, 2020.

- The **Olamina Fund**, launched in October 2019 by Candide Group, targets underserved groups, notably Black and Native American communities. The fund focuses on places where capital is most scarce, including rural areas, Native lands, and the Deep South. Early investees included Oweesta, a CDFI (see below) serving Native populations, and UP Community Fund, a Black-led organization which lends to entrepreneurs of color in the Southeast.

There are also community development financial institutions (CDFIs), which aren't investment funds but serve a similar purpose by providing HNWIs and family offices a vehicle for investing in the economic development of marginalized communities across the United States.[23] Historically, banks, government, and foundations have been major financial backers of CDFIs. More recently, CDFIs have begun to make it easier for individuals to invest.

CDFIs grew out of the civil rights era when redlining and other discriminatory practices had left many communities underserved by traditional finance. Today, more than 1,000 CDFIs dot the United States, managing over $150 billion. They most commonly make low-interest loans, typically on concessionary terms which may include lower interest rates than conventional loans, a longer payback period, or grace periods.[24] Others make direct investments in businesses owned by women and people of color.

In the wake of COVID-19's devastating impact on communities of color, champions of Black-led CDFIs sounded the alarm that they are underfunded compared to their white-led counterparts. "This asset gap and what it means for future growth is critically important because minority-led CDFIs serve in communities that are disproportionately vulnerable, which amplifies their need for adequate funding," concluded a Hope Policy Institute study.[25]

A new coalition launched in late 2020 aims to address these concerns. The African American Alliance of CDFI CEOs represents 41 Black-led organizations. The alliance will focus on increasing capital and financial services to Black-owned businesses in underserved communities across the country. Financial support for the loan programs offered by these and other CDFIs presents HNWIs and family offices an opportunity to invest in community-based equity and wealth building.

Investors interested in CDFIs but unsure where to start can also turn to CNote, an intermediary that pools investors' money and invests it in selected CDFIs. Like the CDFIs it serves, CNote, founded in 2016, is committed to increasing economic inclusion and supporting financially underserved communities. The for-profit firm offers three investment funds with expected returns in the low single digits.

23 Willa Seldon and Isabelle Brantley, "Back to the Future: Why Philanthropies Should (Re)turn to CDFIs to Support an Equitable Recovery from COVID-19," The Bridgespan Group, August 8. 2020.

24 "Making an Impact: How to Invest in Community Development Financial Institutions (CDFIs)," CNote, December 4, 2019.

25 Kiyadh Burt, "Closing the CDFI Asset Gap," Hope Policy Institute, April 21, 2020.

The Future of Impact-First Investing

Only a decade ago, impact investing struck most people in the finance community as a novel, even improbable concept. Today, it has achieved mainstream status by demonstrating that an impact mandate can successfully deliver against traditional financial benchmarks. That's the finance-first approach to impact investing.

Advocates for the impact-first approach to impact investing hope to chart a similarly successful trajectory by demonstrating that impact need not be constrained by financial performance. This is the new frontier for impact investing.

In fact, a growing number HNWIs and family offices are making impact-first part of their investment portfolio asset allocation. They are taking advantage of the opportunities created by fund managers, advisers, and intermediaries to explore investment opportunities in the middle ground between philanthropic grants and market-rate impact investments.

Yet, a significant gap remains between aspiration and execution. Campden's research found that 82 percent of family offices believe that the world's wealthiest individuals increasingly will tackle global challenges. Sixty-five percent believe family offices have a role to play in alleviating economic inequality.[26] Nonetheless, impact investing represents only 9 percent of survey participants' portfolios, and financial return remains the top performance indicator. Thus, only a tiny amount of their collective wealth currently flows to the impact-first investments purpose-built to alleviate poverty, disease, inequality, social injustice, environmental degradation, and more.

Getting started has never been easier. Wealth holders can consult with peers and tap into the growing pool of advisers and funds that champion impact-first. They can test the waters with a modest commitment: Ceniarth's Isenberg suggests 10 percent of investable assets. With an eye toward learning from their experiences, they can then gain the experience and confidence to go bigger.

If impact-first means leaving returns on the table in exchange for social or environmental benefit, it's a tradeoff worth making, contends ImPact, the global group of wealthy families committed to aligning their assets with their values. Its goal is nothing short of transformational: "By making impact the market norm, not the exception, families will help unlock the trillions of dollars of capital needed to address the world's toughest social and environmental challenges."

26 *The Global Family Office Report 2019*, Campden Research and UBS, 2019; *Global Family Office Report 2020*, Campden Research and UBS, 2020.

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About The Bridgespan Group

The Bridgespan Group is a global nonprofit organization that collaborates with mission-driven organizations, philanthropists, and investors to break cycles of poverty and dramatically improve the quality of life for those in need. With offices in Boston, Mumbai, New York, San Francisco, and Johannesburg, Bridgespan's services include strategy consulting, leadership development, impact investing, philanthropy and nonprofit advising, and developing and sharing practical insights. Services to the institutional impact investing industry are provided by TBG Social Impact, Inc., a wholly owned subsidiary of The Bridgespan Group.

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