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INVESTING FOR GLOBAL IMPACT

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INDIVIDUALS, FAMILIES, FAMILY OFFICES & FOUNDATIONS

GIST
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CONTENTS

2 **Foreword**

3 **Methodology and Terminology**

4 **Executive Summary**

6 **Profile of Respondents**

8 **Chapter 1: Approach and Outlook**

14 **Sponsor's View: GIST**

15 **Chapter 2: Current Investment Portfolios**

20 **Sponsor's View: Barclays**

21 **Chapter 3: Impact Case Studies**

21 Sarah Butler-Sloss, Ashden Trust and Ashden Awards

24 Scott Wu, Omidyar Network

25 Brian and Meghan Fitzgerald, Tinkergarten

28 His Highness the Aga Khan

31 Erwin Telemans, CCBRT

34 Roundtable: The Impact Management Project, with contributions from: Clara Barby, Bridges Fund Management; Shade Duffy, AXA Investment Managers; Piet Klop, PGGM; Graham MacMillan, Ford Foundation; Kate Wylie, MARS

40 Maja Hoffmann, LUMA Foundation

43 **Sponsor's View: Cleary Gottlieb**

44 **Chapter 4: Performance and Determining Success**

48 **Chapter 5: A Five-Year Retrospective**

53 **Acknowledgements**

FOREWORD

Welcome to Investing for Global Impact 2018

Celebrating this special **fifth anniversary edition** of the Investing for Global Impact report, we are excited to share with our readers a plethora of new features, exclusive interviews and the findings of our biggest global survey to date.

We are honoured to include an **exclusive interview with His Highness the Aga Khan**, speaking in his Jubilee year and sharing best practice from 60 years' experience of international development.

Building on a library of knowledge accrued in previous editions with eminent philanthropists and social entrepreneurs, this year's case study chapter is the largest so far. Contributions this year are the Omidyar Network, Sarah Butler-Sloss of the Ashden Awards, Maja Hoffmann of LUMA Foundation, and social enterprises Tinkergarten (US) and Comprehensive Community Based Rehabilitation in Tanzania (CCBRT). This year a new roundtable brings together perspectives from the Impact Management Project, with contributions from Ford Foundation, Mars, AXA Investment Managers, Bridges Fund Management and pension fund PGGM.

We are thrilled to see this research continuing to gain traction and credence among wealthy families – whether family office, foundation or, newly introduced this year, individual (family member). This year's global survey has grown in scope and volume, with the number of respondents increasing by 32% (on top of last year's 35% growth).

For the first time, this report has (very conservatively) estimated the cumulative wealth its survey respondents represent: a staggering $123 billion (£87.6bn). This comprehensive 90-question survey is becoming an annual staple for the sector, going from strength to strength and providing valuable insights into the experiences and perspectives of wealthy families with regards to philanthropy and impact investing.

In this special edition, we have delved into the past five years of data to extrapolate notable trends in wealthy families' approach to and execution, measurement, perceived successes and satisfaction levels of the way they seek to create positive social/environmental impact.

Uniquely, this survey also explores the perspectives of wealthy families not currently active in philanthropy or impact investing, using their input as a guide to barriers – and therefore opportunities – to the maturity and development of this important sector. Accounting for 17% of respondents, and given the $123bn of cumulative represented wealth, this is not an insignificant volume of capital that could be deployed to solve some of the world's most pressing challenges for the prosperity of investors and well beyond.

At this incredibly exciting juncture for social and environmental investment, we would like to thank all of the participants in this report, not least the 325 survey respondents from 46 countries, for their contribution.

We also thank our partners **GIST, Barclays and Cleary Gottlieb** for their unwavering support of this research project. Their passion is unabated in helping us to facilitate the movement from ideas to action in this transformative area.

Anna Lawlor
Report Author, Financial Times

METHODOLOGY & TERMINOLOGY

Investing for Global Impact 2018 is a Financial Times report, sponsored by GIST, Barclays and Cleary Gottlieb Steen & Hamilton.

The objective of the report is to explore how family offices, family foundations and – new this year – high-net-worth individuals (HNWIs) perceive impact investing and philanthropy. Uniquely, this report also includes the survey findings of respondents who do not currently engage with philanthropy or impact investing: 17% of our total respondents.

Survey Data

The Financial Times global survey was conducted online from September to December 2017, attracting 325 respondents from 46 countries around the world. The respondent mix was 42% high-net-worth individuals, 32% single-family offices and 12% multi-family offices (44% total), with 15% from family-backed foundations.

Survey responses were gathered and processed independently by CoreData Research UK and survey participant anonymity was strictly enforced. Five-year trend data was collated by Barclays. The survey data was analysed and interpreted by report author, Anna Lawlor.

32% year on year increase in survey respondents

Philanthropy

Charitable giving to human causes on a large scale.

Philanthropy must be more than just a charitable donation; it is an effort undertaken by an individual or organisation based on an altruistic desire to improve human welfare.

Wealthy individuals sometimes establish foundations to facilitate their philanthropic efforts.

Source: Investopedia

Impact Investing

Impact investments are investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return.

Impact investments can be made across all markets and target a range of returns from below market to market rate, depending upon the circumstances.

The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, clean technology, microfinance, and affordable and accessible basic services including housing, healthcare and education.

Source: Global Impact Investment Network

NB: A further noteworthy working definition of impact investing is available from the OECD: Social Impact Investment: Building the Evidence Base (2015).

While the methodology remains the same as the previous Financial Times Investing for Global Impact reports, the year-on-year comparison data should be treated as a trend guide rather than a direct numerical comparison between findings; different respondents to each survey would invalidate direct numerical comparisons.

All percentages in this report are rounded to the nearest whole number and therefore will not always aggregate to 100%. Multiple-choice questions (which also do not aggregate to 100%) are highlighted throughout. Charts are produced using the underlying data.

Case Study and Q&A Interviews

The Financial Times conducted these interviews by telephone or face-to-face during late 2017 and early 2018. The interviewees were provided with their own case study prior to publication for fact-checking purposes only. The interviews are editorially independent.

The findings and views expressed in this report do not necessarily reflect the views of the Financial Times, the sponsors or the report author.

EXECUTIVE SUMMARY

Family offices, foundations and high-net-worth individuals (HNWIs) are undeniably committed to applying their capital to being the social/environmental change they wish to see in the world. Their motivations are little changed from previous reports: a sense of 'responsibility to make the world a better place' and to 'contribute to sustainable development'. However, these intrinsic motivations are not inherently linked to formal, international change-making frameworks, this survey found.

Disconnected from International Frameworks

This year, the FT survey included new questions introduced around the United Nations Sustainable Development Goals (SDGs). These are 17 social and economic development themes that apply to all countries and which have attracted broad inter-governmental support. What this year's survey shows is how strategically disconnected family offices, foundations and HNWIs appear to be from these overarching frameworks.

In total, around 18% of respondents had not heard of the UN's SDGs or how they might be relevant to their investment strategy for any portfolio. Interestingly, in terms of motivations for impact investing, 'contributing to the fulfilment of UN SDGs' was consistently among the least important to respondents.

> **The proportion of total investment portfolios allocated to impact investing has doubled over the past five years, to 31%.**

Single-family offices were the least aware of, or aligned with, the UN SDGs for their impact investments, while multi-family offices were the least aware of or aligned with SDGs for their traditional investments. This suggests that compared with foundations or HNWIs, family offices require more information about what the 17 goals are and how they might be integrated into an investment approach.

Across all respondent groups, almost three-quarters said the UN Sustainable Development Goals were not considered relevant or influential to their traditional investments in the same way as CSR, ESG or even – less formally – the scope for reputational damage.

Why does this matter? Whether through impact investing or philanthropy, families have a crucial role to play in leveraging capital markets to achieve a positive social impact, so aligning portfolio objectives with transnational inter-agency work ensures a more efficient (and, hopefully, effective) use of resources. The SDGs can also provide a framework for wealthy families in how they align their family values with 'making a positive impact' – and in how these are measured, all in line with the international framework. Wealthy families do not need to reinvent the wheel... but it benefits everyone if they roll it down the path that has already been paved for them.

As last year's report found, non-financial metrics such as the corporate social responsibility (CSR), environmental, social and governance (ESG) behaviour and the scope for reputational damage of underlying assets is influencing our respondents' 'traditional' asset allocation decisions. This demonstrates the shift in understanding among the investment community about how influential to risk-adjusted returns such 'non-financial' factors can be.

Portfolio Approaches

This year's survey finds clear evidence that while impact investments continue to gain traction, family offices, foundations and HNWIs are divided in the way they manage social impact assets. While impact investing is considered a "core portion" of the investible portfolio (up 5% on last year), respondents are pretty evenly split between those combining philanthropy and impact investing assets and those holding them in a discrete satellite portfolio of 'alternatives'.

Private equity continues to be the most popular financial instrument used to make impact investments (69%) and is also the financial instrument the majority of respondents (40%) plan to increase their allocation to within 12 months. The majority of respondents (68%) currently hold 1-5 impact investments and continue to hold impact investments for 5-10 years, though this survey found that more are holding these investments for 'longer than planned'. This is the case for half of the respondents (an increase from 44% last year).

Early exits are rare, but where they do happen earlier than planned, it is typically either for under-delivering on the target social and financial return (17%) or where it has already achieved the target social and financial return (16%).

Solid Performance

As this FT survey has indicated for the past few years, the investment 'business case' can be considered well and truly proven for impact investing. This year's survey found that the vast majority of respondents achieved a positive financial return (over the past three years) with the most typical average return being a gain of 6-10%. This same financial return range applied to their traditional (profit-seeking only) investments.

Also notable is that more respondents said their impact investments achieved returns in excess of 15% than applied to their 'traditional' investments. Both ends

of the returns continuum appeared to be longer for impact investing; not a single respondent reported making a financial loss from their 'traditional' investments, compared with 9% for impact investors.

Interestingly, this year's survey found a disparity between the way impact investing respondents measure the success of their efforts: satisfied with financial returns matching their targets but perceiving that the social returns should 'exceed their expectations' to be successful.

By this barometer, only 19%[1] of the respondents might consider their impact investments successful, which seems out of kilter with the other survey statistics that find respondents far more satisfied with their impact investments, and the data that indicates respondents continue to increase their total portfolio allocation to impact investing (see below). Of the 17% of respondents not currently active in either philanthropy or impact investing, 55% plan to consider making their first impact investment within the next 12 months.

Given the (very conservatively) estimated $123bn cumulative wealth represented by this survey's respondents, that is not an inconsiderable volume of capital that could be deployed for positive social benefit.

If they do, they plan to support Clean Energy/Green Tech (55%) followed by Climate and Health/Quality of Life (both 46%), Water & Sanitisation, Education & Skills, Agriculture/Food and Children (each 36%, respectively). This largely mirrors the themes currently receiving the most investment from respondents.

Five-Year Retrospective

In this five-year anniversary edition of the FT Investing for Global Impact report, we have collated and analysed the vast data sets to seek to identify trend behavior of family offices and foundations. Since launching in 2014, this report has garnered increasingly large volumes of respondents, expanding by 111%, from 154 to 325 respondents this year.

Impact investing is accounting for larger swathes of total investment portfolios, doubling in the past five years (to 31%). Across all respondent groups, there has been an undeniable upward trajectory in allocations to impact investing, even among foundation respondents who have continued to report being more active in philanthropy than the other groups.

Past reports have commented on the growing maturity in the impact investing sector, and the increased allocations could simply be in response to respondents experiencing for themselves that the 'business case' of impact investing is evidenced; social impact does not inherently come at the cost of financial performance.

The financial performance of respondents' impact investments is increasingly 'exceeding their expectations', as is social performance. Over the past five years, the FT Investing for Global Impact survey has also found that those reporting financial performance as falling below their expectations has steadily declined.

In terms of priorities for impact investing, financial return recorded a downward trend – until this year. This is perhaps unsurprising given that in the past five years global wealth – and the concentration of that wealth – has boomed. There are now a record 2,257 billionaires in the world, a 55% increase in the past five years[2].

Where financial return is not so crucial to the long-term sustainability of capital or endowment for future social/environmental impact activity, it could indicate that impact investing as a tool – and in its relationship with the investment recipients – is perceived to bring an added dimension or level of engagement that philanthropy falls short in delivering. Perhaps it reflects how complementary and synergistic the approaches to philanthropy and impact investing are, and how philanthropy is becoming more blended as a result.

In 2018, the number of respondents prioritising financial return in their impact investing tripled (from 10% last year to 29% this year), putting it on par with respondents prioritising social impact.

This uptick could reflect increasing participation in this project by high-net-worth individuals who, the survey found, apply principles of impact investing more broadly, with higher expectations of using the pursuit of profit for positive social/environmental purpose.

1 19% of the respondents might consider their impact investments successful, as that is the proportion whose social performance 'exceeded expectations' compared with their social objectives.

2 Hurun Global Rich List 2017

PROFILE OF RESPONDENTS

In total, 325 respondents participated in the 2018 survey; a 32% year-on-year increase.

Cumulative wealth managed by respondents

Respondents were asked the value of the assets currently under their management, choosing from a range of values.

Using the lowest figure within that range, we have conservatively estimated the total wealth under management by respondents who disclosed this figure.

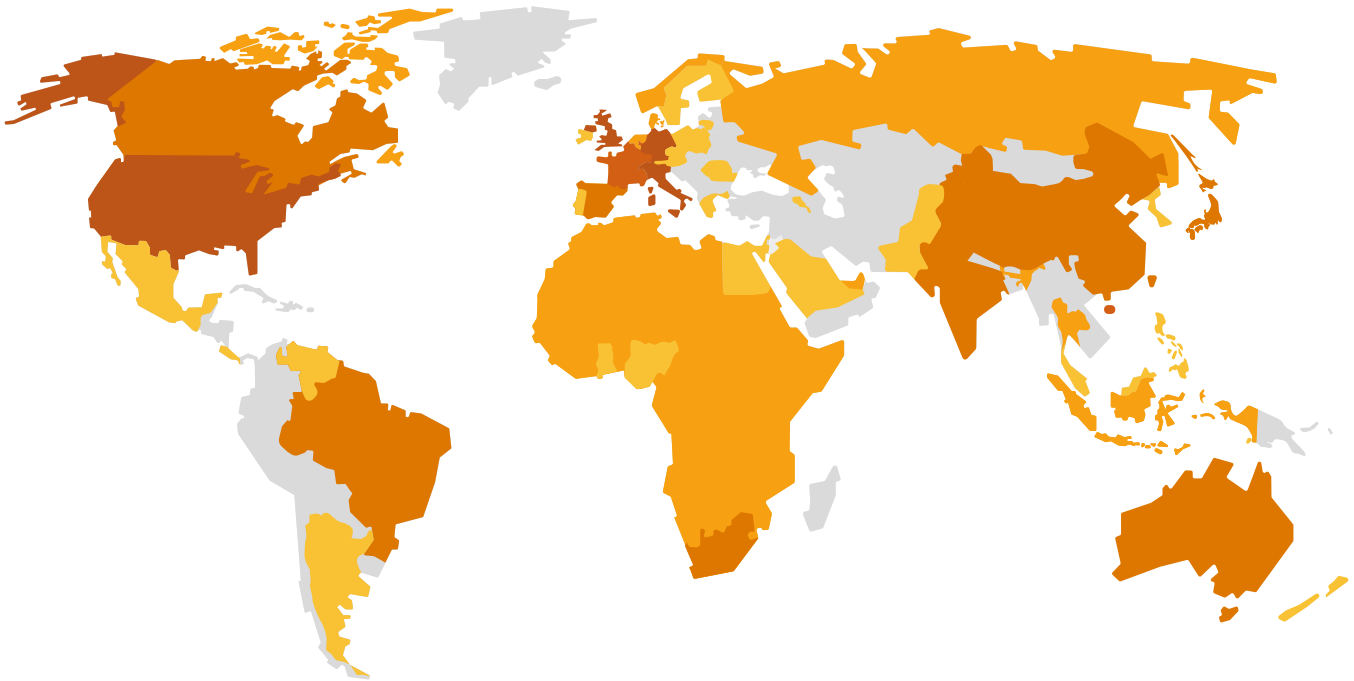
$48bn
HIGH-NET-WORTH INDIVIDUALS

$723m
FOUNDATIONS

$74bn
FAMILY OFFICES

$123bn
TOTAL ESTIMATE

In which country or countries does the **family wealth** originate?

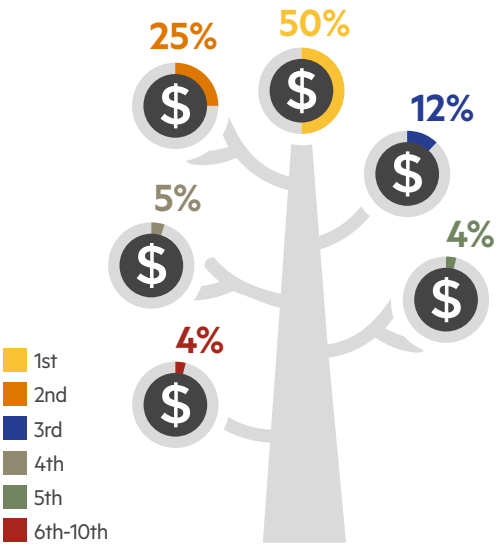


Number of respondents per country:

30+	20-29	10-19	4-9	1-3		
Germany	France	Canada	Africa (unspecified)	Armenia	Nigeria	Malaysia
Switzerland		Japan	Indonesia	Austria	Pakistan	Saudi Arabia
Italy		China	Russia	Costa Rica	Venezuela	South Korea
US		South Africa	Thailand	Finland	Argentina	Greece
UK		Spain	U.A.E	Ghana	Czech Republic	Sweden
		Hong Kong	Denmark	Ireland	Egypt	
		India	Norway	Israel	Korea	
		Australia	Belgium	Mexico	Lithuania	
		Brazil	Netherlands			
		Singapore				

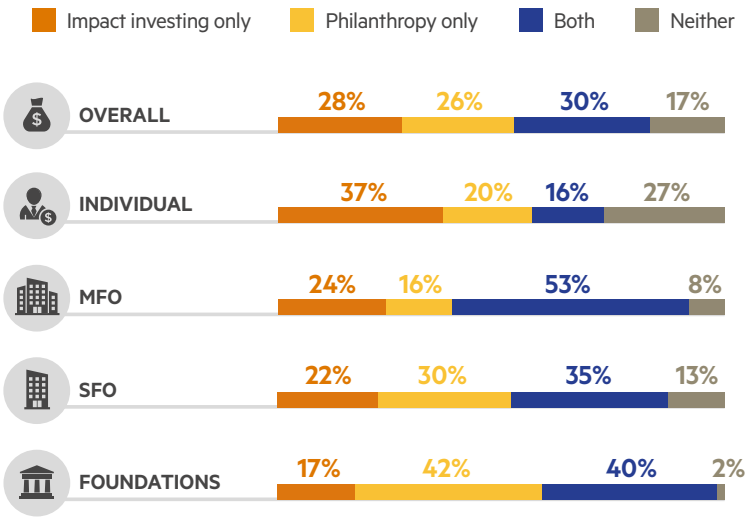
What **generation** is the family wealth?

Base: All



Are you **active** in?

Base: All



What type of **organisation** do you represent?

Base: All

42% High-Net-Worth Individual

32% Single-Family Office / Single-Family

15% Family Backed Foundations

12% Multi-Family Office

What is your foundation's **annual ($) budget**? Base: All

46% < $3M

8% $3M-5M

6% $5M-10M

17% $10M-20M

10% $20M-50M

6% $50M-100M

6% > $100M

What are your **investable ($) assets** (HNWI) or **$AUM** (Single-Family office)?

27% < $1M

23% $1M-5M

8% $5M-10M

9% $10M-50M

8% $50M-100M

15% $100M-1BN

6% > $1BN

5% NOT DISCLOSED

What is the **total $AUM** of the family offices you represent (Multi-Family offices)?

18% < $50M

13% $50M-100M

21% $100M-300M

18% $300M-1BN

3% $1BN-2BN

5% $5BN-10BN

13% > $10BN

8% NOT DISCLOSED

CHAPTER 1: APPROACH & OUTLOOK

For those who are engaged with impact investing, there are signs of ongoing maturity; 40% of respondents consider impact investing to be the 'core portion' of the investible portfolio (up 5% on last year) and the majority of respondents (30%) are active with multiple impact investments, with 28% reporting having made their first impact investment and currently considering more.

While 27% of respondents hold a satellite portfolio combining philanthropic and impact investment assets, the quarter that hold impact investments in a 'discrete satellite portfolio of alternative assets' may more readily suggest a less integrated and holistic approach to targeting financial and social return. Taken together, it is clear that while impact investments continue to gain traction, family offices, foundations and HNWIs are divided in the way they manage social impact assets.

Impact Investing Culture Shift?

The biggest challenge facing impact investing as a 'movement' is education about investment routes and approaches, which will continue to frustrate those already working in the impact investing space, as available literature on the topic (not least reports such as this) are now readily available. Equally, 'general awareness' of impact investing was cited by respondents as a constricting factor, and a further cohort of respondents said the 'definition of impact investing is not widely known or understood'.

A Google search of the term returns 2.5 million results and popular news and management articles abound with stories of 'profit with purpose' businesses, social entrepreneurialism and more. Various family office-led and investment management industry-led organisations, such as The ImPact (co-founder Justin Rockefeller interviewed in the 2017 report) and the Impact Management Project (see page 34), are working to change this and increase understanding.

What this survey finding seems to suggest, however, is that a broader culture shift at board level, at advisory level and at investment manager level has yet to take place, and that lack of implicit and explicit peer support for impact investing as an investment approach may be a conscious or unconscious barrier to participation.

As we found in last year's report, non-financial metrics such as the corporate, social responsibility (CSR), environmental, social and governance (ESG) behaviour and the scope for reputational damage of underlying assets is influencing our respondents' 'traditional' asset allocation decisions. In embracing such investment 'screening' processes in the pursuit of more robust risk-adjusted investments, there is a tacit acknowledgement of the importance of social, ethical and other 'non-financial' factors in achieving desired financial returns.

That said, the link between risk-adjustment from such factors, and explicit alignment with a 'more than financial' outcome as a result of the 'traditional' investment pool is a tougher sell. Across all respondent groups, almost three-quarters said the UN Sustainable Development Goals were not considered relevant or influential to their traditional investments in the same way as CSR, ESG or even – less formally – the scope for reputational damage.

CHART 1

At what stage do you feel your impact investing experience to be?

Base: All active in impact investing

30%
Active with multiple impact investments across asset classes or causes

28%
Have made our first impact investment and considering further impact opportunities

16%
Actively researching impact investment opportunities but no investment made yet

14%
Consider impact investing to be our primary approach to the portfolio

12%
Exploring impact investing, with no investment opportunities identified

Fossil Fuel Divestment

While a significant number of foundations (43%) and multi-family offices (MFOs, 35%) admitted that such divesting from companies that contribute to climate change has 'not yet factored into our thinking', 28% of HNWIs – the largest among the respondent groups – said they no longer held investments that could harm the environment and a further 26% reported having divested 'some of our holdings on this basis'. By comparison to this 54% of HNWIs have taken some steps towards fossil fuel divestment, this was the case for 45% of single-family offices (SFOs) and MFOs, and only 38% of foundations.

SFOs appear to be the most sluggish in taking such action, as almost one third said they had considered such divestment but had not yet taken action: the highest proportion of respondents. They were also the least aware of or aligned with the UN SDGs for their impact investments (40% had not considered, 23% were unaware of SDGs). While a similar number of SFOs reported being unaware of and unaligned with the UN SDGs also for their traditional investments (64%), the largest cohort in this category were MFOs (38% had not considered SDGs for their traditional investments, 29% were unaware of them). This suggests that family offices are laggards in this area and require more information about what the 17 goals are and how they might be integrated into an investment approach.

Combining data from all respondent groups, we find that consideration of aligning with the UN SDGs is at an early stage; the largest group – by a whisker – have begun to do this for their impact investments (29%) but a significant number (27%) have not yet done this. A quarter, however, report their investment strategy to be completely aligned with the SDGs, meaning more than half of respondents have made moves in this direction. Interestingly, 59% of all respondents were either unaware of or had not yet considered applying the SDGs to traditional investments, indicating perhaps that such

CHART 2

At which stage(s) do you invest?

Base: All active in impact investing. Multiple responses allowed

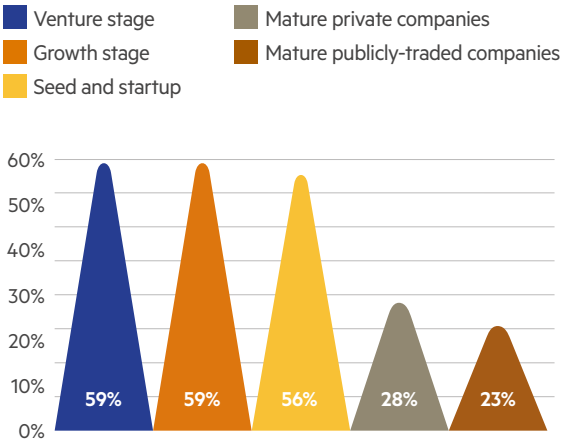
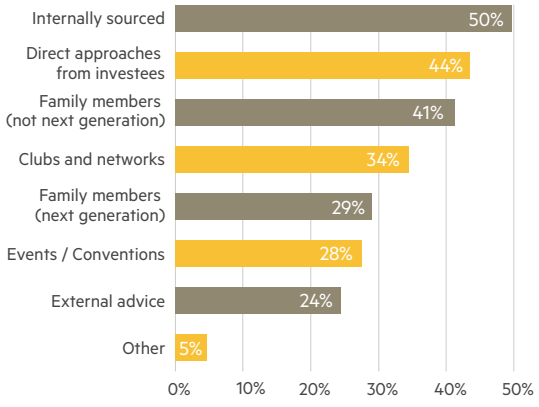
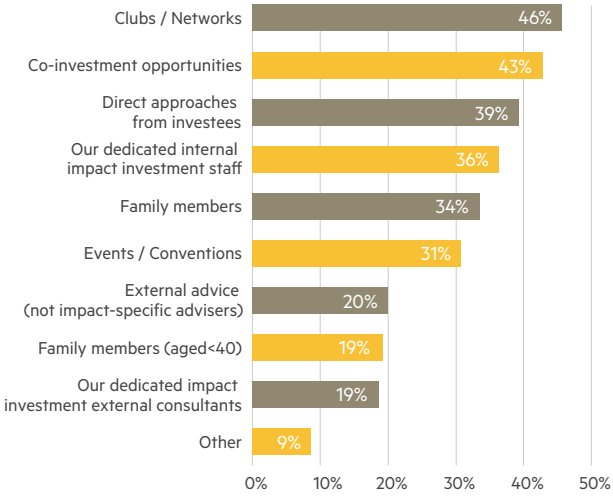


CHART 3

Where do you source your philanthropic opportunities?



Where do you source your impact investment opportunities?



Base: All active in philanthropy then all in impact investing. Multiple responses allowed.

contributions to 'more-than-financial returns' is really the preserve of non-traditional investment strategies, rather than applying this approach more holistically to their fund management and portfolio risk mitigation. In total, around 18% of respondents had not heard of the UN's SDGs or how they might be relevant to their investment strategy for any portfolio. Interestingly, in terms of motivations for impact investing, 'contributing to the fulfilment of UN SDGs' was consistently among the least important.

Philanthropy

Respondents' decision making with regards to impact investing and philanthropy reveals that, while respondents said the elements we asked about do apply to both, almost one quarter said the 'opportunity cost of pursuing this route' applied only to their impact investments, as did 14% of the 'risk of failing to create the desired outcome(s) from this activity' – an element that not a single respondent reported worrying about in regards to philanthropy.

Across all respondents, only one third report solely targeting social return with 'no financial return allowed', and this is especially true of foundations, as one might expect, for whom it is the overarching priority of their organisations. By comparison, family offices both prioritise 'social and financial return as equally important'.

The biggest barrier to increasing allocations to philanthropy is the lack of additional funds. The secondary barrier across all groups is the challenge of measuring social impact, a perennial difficulty often referenced through the past five years of this survey, despite the contention by the interviewees featured in these pages that social impact measurement is entirely possible. Perhaps the truth of it is in one of the comments from a survey respondent: 'There are no real barriers to increasing our philanthropy, it just takes time to do this properly.'

Notably, foundations report a higher level of dissatisfaction with their current, existing philanthropic activities, making it the third highest barrier for this respondent group. Interestingly, when foundations who are active in impact investing were asked about their satisfaction with the social returns achieved, a whopping 81% said they 'met expectations' (and the remainder were equally split between 'exceeded' and 'fell below' expectations).

While the same question was not asked of expectations about philanthropic returns, it will be interesting to see in future surveys in which ways philanthropy might be falling short of its social impact objectives, or whether it is the process (rather than the 'return') that is currently dissatisfactory to respondents.

For those respondents not active in philanthropy, the biggest challenges to their considering philanthropy are equally lack of awareness of philanthropic opportunities and that 'traditional' philanthropic activity generates no financial return. As an investment approach, philanthropy continues to be dogged by mistrust and skepticism, with

CHART 4

Do the following influence your existing (traditional) asset allocation decisions?

Base: All active in impact investing, multiple responses allowed

concerns about 'green washing' cited as a real challenge. Interestingly, significantly fewer respondents expressed concerns of 'green washing' or similar mistrust about impact investments.

High-Net-Worth Individuals Playing Crucial Role

When considering the overarching priorities of their impact investments, this survey has found that high-net-worth individuals (HNWIs) are least concerned about financial return compared with the other respondent groups – and HNWIs were also significantly ahead of the pack in divesting from companies with a potentially negative impact on the climate. HNWIs were also the most active in aligning their impact investments with the United Nations' Sustainable Development Guidelines; almost one third reported being fully compliant with the SDGs and 35% had begun to align their investment strategy with the SDGs.

While care must be taken to consider the umbrella term of 'high-net-worth individual' in this context (see page 3), these are interesting findings and would support the importance of sharing perspectives and approaches across and between such respondent groups. While it is tempting to use this data to suggest wealthy individuals are more advanced in their approach to impact investing – and there may be an element of truth to this – the considerations of multi-stakeholders and potential for bureaucracy within family offices and foundations is perhaps greater and could account for slower progress or adoption in these areas, especially when compared with HNWIs.

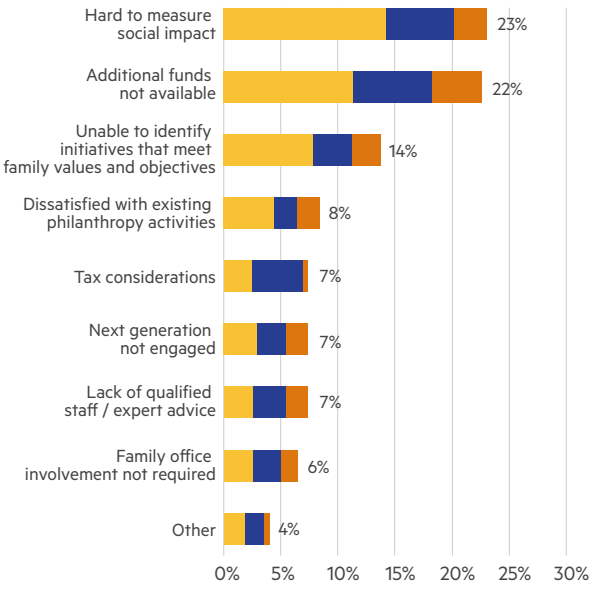
In terms of the major motivations driving their impact investing behavior, this survey finds clear differences between the respondent groups. While HNWIs and foundations are aligned in their top motivation being the 'contribution to sustainable development and future' (highest within Rank 1), and family offices are aligned in this also being a key motivation (highest for SFOs and MFOs within Rank 2), HNWIs report this as their key motivation across first, second and third rankings. A close second for HNWIs is their felt 'responsibility to make the world a better place', which was top of Rank 1 for MFOs.

Using their motivations as a proxy for how each respondent group perceives 'making an impact', it appears SFOs and MFOs are more aligned (as may be expected) to motivations related to family values, while HNWIs and foundations are more drawn to structural changes, such as 'influencing how the capital markets and financial systems operate' and 'addressing societal issues more effectively than donating philanthropically'.

CHART 5

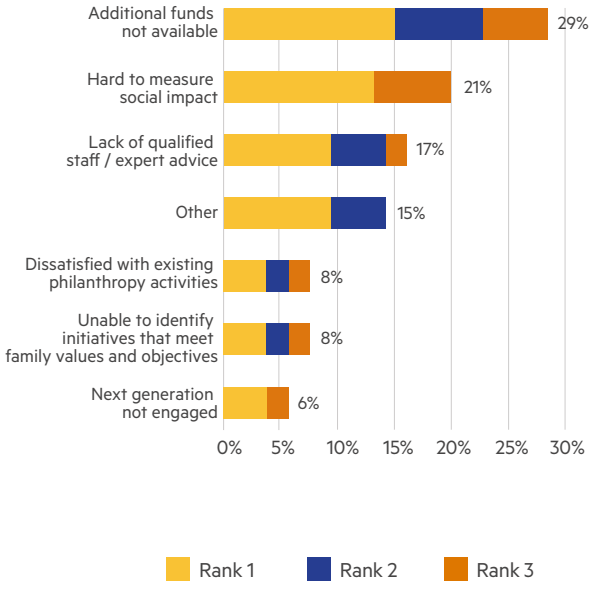
Barriers to increasing engagement in philanthropy for HNWIs and family offices

Base: HNWIs, MFOs, SFOs active in philanthropy



Barriers to increasing engagement in philanthropy for foundations

Base: Foundations active in philanthropy



Non-Philanthropy/Impact Investing Families

Importantly, this survey values the input of family offices, foundations and HNWIs who currently do not engage in philanthropy or impact investing. At 21% of our total respondents – almost double last year's figure – this could represent in the region of $12.5bn[1]-$20.9bn[2] of capital un-deployed outside of 'traditional' investments, which could contribute to increasing social impact. This year, 82% of the 'neither/nor' cohort are SFOs, and the remainder are MFOs.

This not insubstantial cohort appears less likely to be encouraged into philanthropic activity, given that the largest of all the barriers found in the survey was that 'philanthropy generates no financial return'. By contrast, the biggest barrier this group had to impact investing was the (perceived) 'lack of successful investment track record', also hinting at the financial motivation driving this respondent group.

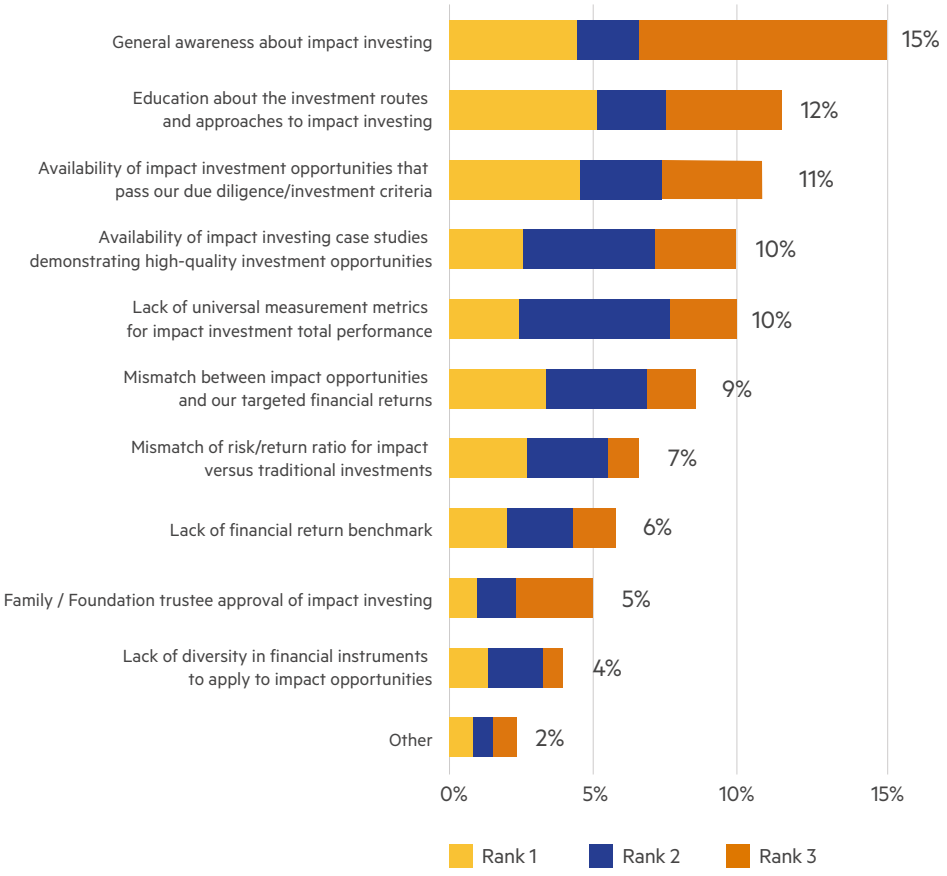
That said, a significant number noted that the 'family manages their own social investments', reinforcing the idea of a satellite approach to non-purely-financial-targeting activities. The survey also found that the 'neither philanthropy, nor impact investing' respondent group has a greater mistrust and skepticism of philanthropy than it does of impact investing.

More than half of this cohort (55%) are considering making their first impact investment within the next 12 months, a significant upswing on last year when this was the case for only 29% of this demographic, and the highest rate since the survey began. However, only 27% reported they would be 'actively looking for impact investment opportunities' so there may be some time-lag between moving from consideration to action, as we have seen with the gradual approach of other respondent groups towards impact investing.

CHART 6

What are the biggest challenges for impact investing, thematically (not your organisation's experience)?

Base: All active in impact investing



1 Calculation: 17% of total Family Office wealth $73.5bn = $12.5bn

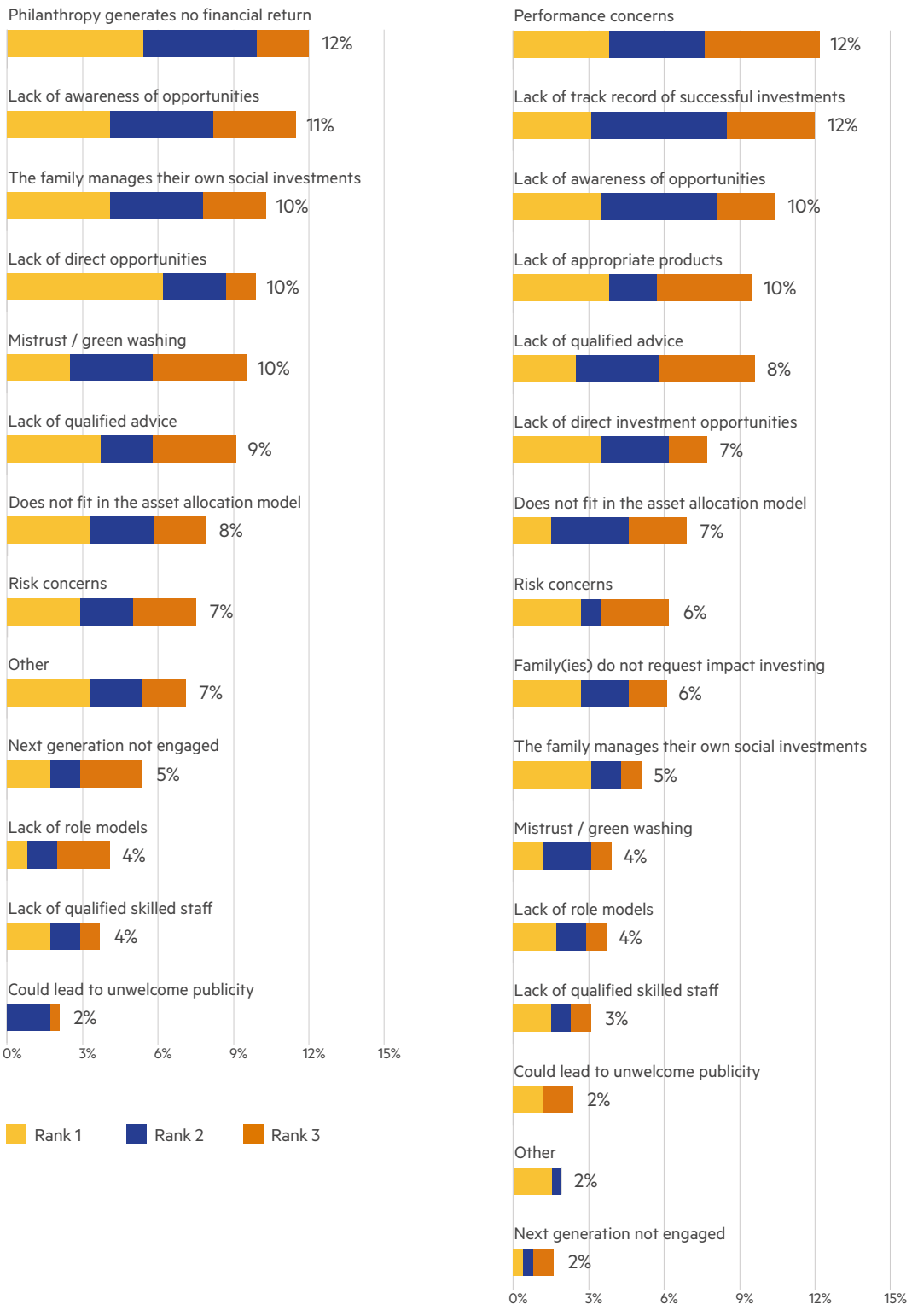
2 Calculation: 17% of total wealth $122.7bn = $20.9bn

CHART 7

What are the barriers to your organisation considering philanthropic participation?

What are the barriers to your organisation considering impact investments?

Base: Those not active in either impact investing or philanthropy



GIST Initiatives Ltd. (Global Impact Solutions Today), Founding Partner of Investing for Global Impact, is proud to introduce and celebrate the fifth anniversary issue of this report.

The impact space is progressing and developing fast whilst generating sustainable, systemic change in a globally ever more challenging, social environment. It is indisputable that individuals, families, family offices & foundations remain the driving force behind this gripping movement and are taking increased personal responsibility.

Impact Pilot Approach

At GIST we focus our investment efforts on 'pilots' that will hopefully pave the way for individuals and families – encouraging replication and a growing stream of impact driven investments. Our current investments are models and innovations that aim to accelerate growth, create good jobs and provide a fair share of the respective value chain to all contributing stakeholders. We support and grow our pilots though hybrid investments, and enjoy working with engaged families and impact entrepreneurs as a key part of our focus on blending partnerships, expertise and capital.

One of our favourite pilots is KuanZa Ltd which has recently launched the MIA (Made In Africa) brand of chocolate. MIA is a line of chocolate made solely in Madagascar, certified by 'Proudly Made in Africa', a European NGO. KuanZa has also entered into a unique partnership with the Aga Khan Foundation in Madagascar to further improve the social and economic value added. Defying industry practice that sees more than 65% of cocoa grown in Africa but less than 1% of value-added chocolate produced on the continent, MIA is from local cocoa beans to finished product made in Madagascar only and thus generates up to three times more revenue for the local communities. This trade model helps change consumer perceptions of Africa from a supplier of raw materials only to a producer of premium products. Another important impact generated by KuanZa are stable employment opportunities in rural farming areas, contributing to the mitigation of economic migration both nationally and internationally. It is through endeavours like these that we can embody the aspirations of impact investors who want to create positive change by supporting sustainable and profitable social businesses.

In future, MIA plans to produce more food products in other African countries as well and to expand its impact and pioneering social business model. KuanZa is a successful example of the many exciting new businesses developing around the world, providing sustainable solutions to many deep routed social and environmental challenges. This report provides a glimpse into some of the inspiring work of many social entrepreneurs, impact investors and philanthropists working together for our sustainable, collective future.

It is clear that the space is growing and experimenting with a multitude of new approaches. The challenge remains to guarantee the long-term sustainability of this space. Each and every one of us needs to ensure that we continue to move forward and not revert back to previous – less satisfactory – practices.

We trust you enjoy reading this fifth anniversary Investing for Global Impact report and welcome your feedback and suggestions. A heartfelt thank you to all participants, contributors and in particular the Financial Times and its passionate team. A special thank you to Barclays, our key sponsor, and to Cleary Gottlieb, our new sponsor. We look forward to a chance to personally connect with you and together enjoy our chocolate in the near future. We anticipate continuing this journey with you all.

GIST – Global Impact Solutions Today

GIST is a leader and brand in best practice impact endeavours and philanthropy initiatives. GIST develops and delivers effective impact solutions – where social, environmental and economic goals are inextricably and holistically linked. We serve as a unique vehicle and aggregator for a select group of like-minded families, family foundations and new generation leaders. We intentionally choose to see an opportunity where others see mountains; we remain strong on our purpose and values.

www.gistltd.com

Gamil de Chadarevian
Founder

Giuseppe Dessi
Founder

CHAPTER 2: CURRENT INVESTMENT PORTFOLIOS

Single-family offices (SFOs) and high-net-worth individuals (HNWIs) are leading the way in regards to treating impact investments as a core portion of their investible portfolio, with the total number of respondents growing to 40% in this year's survey (up 5% on last year) and taking over as the approach most adopted by our respondents. It replaces the satellite portfolio approach to philanthropy activity and impact investments (which is down from 35% last year to 27%).

SFOs and HNWIs overwhelmingly consider impact investments as core to their investable portfolio – at 47% and 45%, respectively. Though a considerable 38% of foundations also consider them to be core to their investment portfolio, the majority of foundations (46%) continue to separate traditional (profit-seeking only) investments from their philanthropy and impact investment assets, operating a satellite portfolio.

While this might lead us to conclude that foundations and multi-family offices (MFOs) take a less holistic and integrated approach to impact investing, it is precisely these respondent groups that consider themselves to be at the more mature stage of their impact investments.

Half of foundations and 38% of MFOs report being 'active with multiple impact investments across asset classes and causes', the majority for both cohorts. Foundations also represented the largest group of respondents to 'consider impact investing to be our primary approach to the portfolio' (a quarter of them), closely followed by 18% of HNWIs. By contrast, the majority of HNWIs (at 30%) and the majority of SFOs (one third) report 'having made our first impact investment and now considering further impact investments'.

The most likely explanation for this is the legacy of impact investments targeting specific causes for accepted below-market returns, or where illiquid financial instruments (such as venture capital and private equity) are used, being separated from the core (and traditional) investment portfolio.

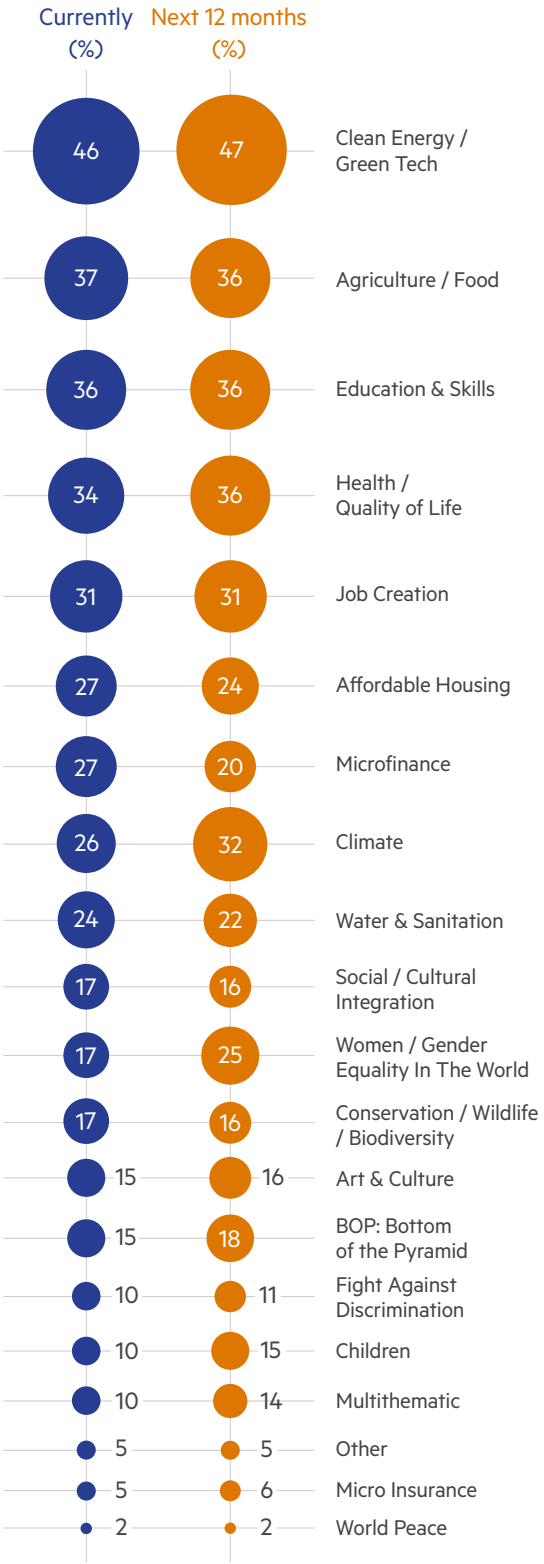
In addition, foundations' impact investments may differ between those that are mission-related and those that are program-related (an alternative to grant-making), and so were previously treated in a more fragmented, less integrated way.

However, as the financial instruments available for impact investing have proliferated and impact investing matures, it is increasingly being considered an approach to be applied across the whole (or larger swathes) of the investment portfolio, which is the progression expressed in this year's survey.

CHART 8

Which themes are you invested in / do you plan to invest in?

Base: All active in impact investing



Investment Horizon

The majority of respondents (68%) currently hold 1-5 impact investments, with 13% holding 6-10 in their portfolio, and 11% holding 21 or more impact investments. However, it is notable that foundations are largely responsible for the latter findings, as a considerable 29% of foundations report holding more than 21 impact investments, far in excess of the single-digit percentages of the other respondent groups.

The majority of respondents (30%) continue to hold impact investments for 5-10 years , followed by 3-5 years (for 21% of respondents), though this year's survey found that more are holding these investments for 'longer than planned'. This is the case for half of the respondents (an increase from 44% last year), while 40% said they hold impact investments for a pre-determined fixed period.

With this in mind, it doesn't seem that early exits are particularly common; in fact, 42% have not needed to exit early and more than half of respondents haven't exited an impact investment in the past three years. Where early exits do occur, it is typically either for under-delivering on the target social and financial return (17%) or where it has already achieved the target social and financial return (16%).

Broader Investable Themes

The themes in which respondents invest appear to be far less concentrated than in previous years, spreading investments among a wider array of investment causes. Clean Energy/Green Tech continues to be the most popular theme among respondents – for the second year running, and in line with the theme respondents said they most planned to invest in within 12 months.

However, while Clean Energy/Green Tech has consistently been among the top three most investable themes for our survey respondents, it has fallen from its peak popularity in 2014 (then accounting for 60%[1]), now in 46%[1] of respondent portfolios.

What we see in the survey data for 2018 is that respondents are spreading their investments across a broader range of investment themes/causes, with a lower percentage of responses per theme but less concentration on the top three themes of Clean Energy, Agriculture/Food and Education & Skills.

In terms of the themes/causes respondents plan to invest in within the coming 12 months – outside of further contributions to the same top three themes noted above – plans to invest in assets related to Climate, Women/Gender Equality, Water & Sanitisation, Bottom of the pyramid, and Conservation/Wildlife/Biodiversity would increase their current position in portfolios quite considerably. If, as we have seen in Chapter 1, the 17% of survey respondents who are not currently active in either philanthropy or impact investing, do go ahead with the plan to consider making their first impact investment within the next 12 months – as 55% of them report – then the majority would select Clean Energy/Green Tech (55%) followed by Climate and Health/Quality of Life (both 46%), Water & Sanitisation, Education & Skills, Agriculture/Food and Children (each 36%, respectively). This largely mirrors the themes currently receiving the most investment and interest from respondents and those they plan to support in the coming 12 months.

Rising Use of Public Equity & Debt

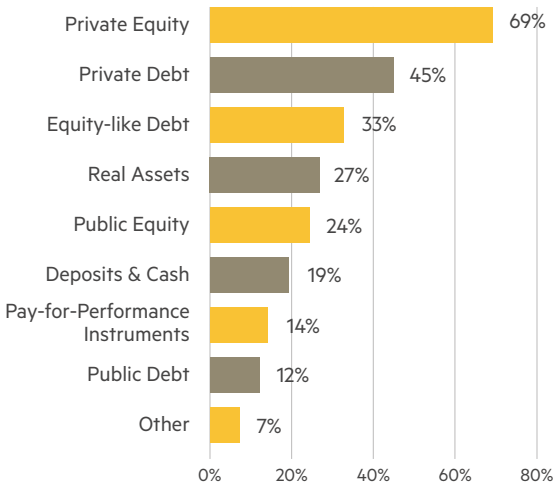
Private Equity continues to be the most popular financial instrument used to make impact investments (69%[1]) and is also the financial instrument the majority of respondents (40%[1]) plan to increase their allocation to within 12 months. The respondents' use of Public Debt has increased considerably this year compared to the 2017 report (doubling from 6% to 12%), as has the use of Public Equity (increasing from 15% to 24%).

The survey also found an increasing number of respondents stating that they tend to invest at the 'mature' end of the investable spectrum, making investments in publicly-traded companies. This was the case for almost a quarter of respondents (23%) compared with 18% in last year's survey, (although it should be noted this is a multiple choice question[1]).

CHART 9

Which of the following financial instrument(s) are you using?

Base: All active in impact investing. Multiple responses allowed



1 This is a multiple choice question so the total responses exceed 100%.

The majority (59%) invest in both venture and growth stage impact investments. This increasing role of publicly investable markets is an interesting one to watch, as it could involve various 'impact' motivations (such as shareholder 'engagement' to improve governance and influence corporate behavior from within) and reflect the themes most attractive to respondents (given the limited number of listed equity impact funds and type of public equity/debt available).

There are now more funds available offering a more direct approach, such as the Impax Environmental Markets investment trust, which invests in companies deriving at least 50% of their revenues from solving environmental problems. That said, respondents overwhelmingly reported that they applied the same or less restrictive financial parameters to their impact investments (compared with 'traditional' investments) across financial risk, financial return and investment implementation costs. The majority of respondents (36%) also confirmed they apply the 'same due diligence' to their impact investments as they do to their 'traditional' investments (and 32% said they also applied additional impact-only screens).

However, respondents reported that Public Debt and Public Equity were both the second most-likely financial instrument they would reduce exposure to in their impact portfolios, just behind 'pay-for-performance' instruments, over the next 12 months. Private Equity looks set to continue its dominance in impact portfolios, with 40% of respondents reporting plans to increase their allocation to PE in the next 12 months and 35% planning to maintain their current allocation to PE. More than a quarter also plan to increase exposure to Equity-like Debt (27%) and Private Debt (26%).

CHART 10

Do you consider your impact investments to be:

Base: All active in impact investing

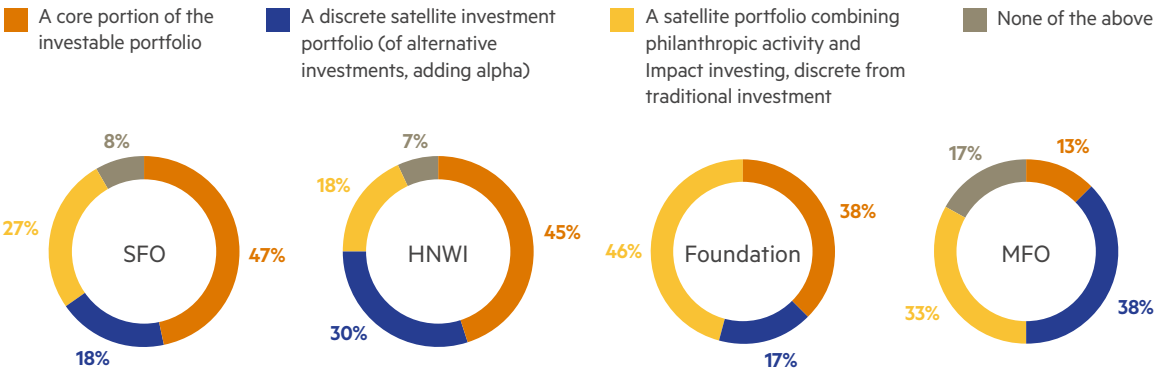


CHART 11

How many different impact investments do you currently hold?

Base: All active in impact investing

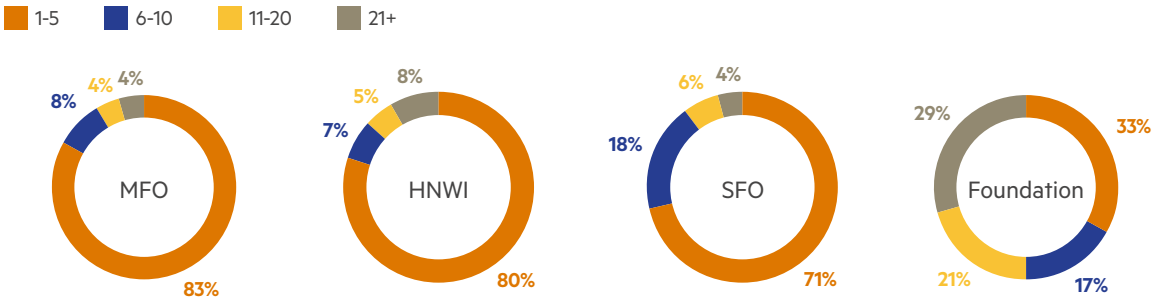


CHART 12

Does your due diligence differ for impact investing compared to 'traditional' investment decisions?

Base: All active in impact investing

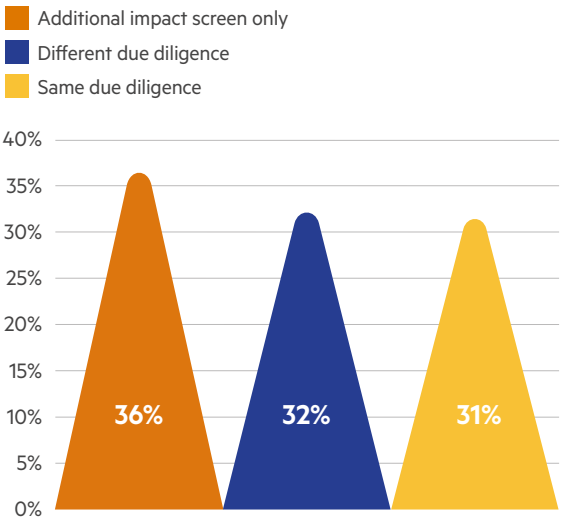


CHART 13

How do the financial parameters for impact investing compare with traditional investing?

Base: All active in impact investing

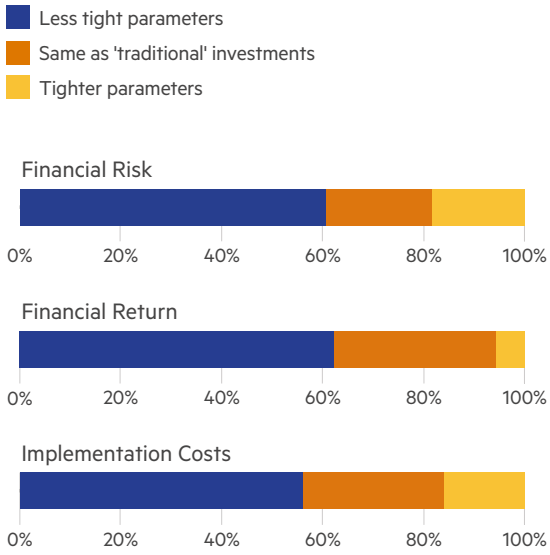


CHART 14

What (typically) triggers an early exit from an impact investment?

Base: All active in impact investing. Multiple responses allowed

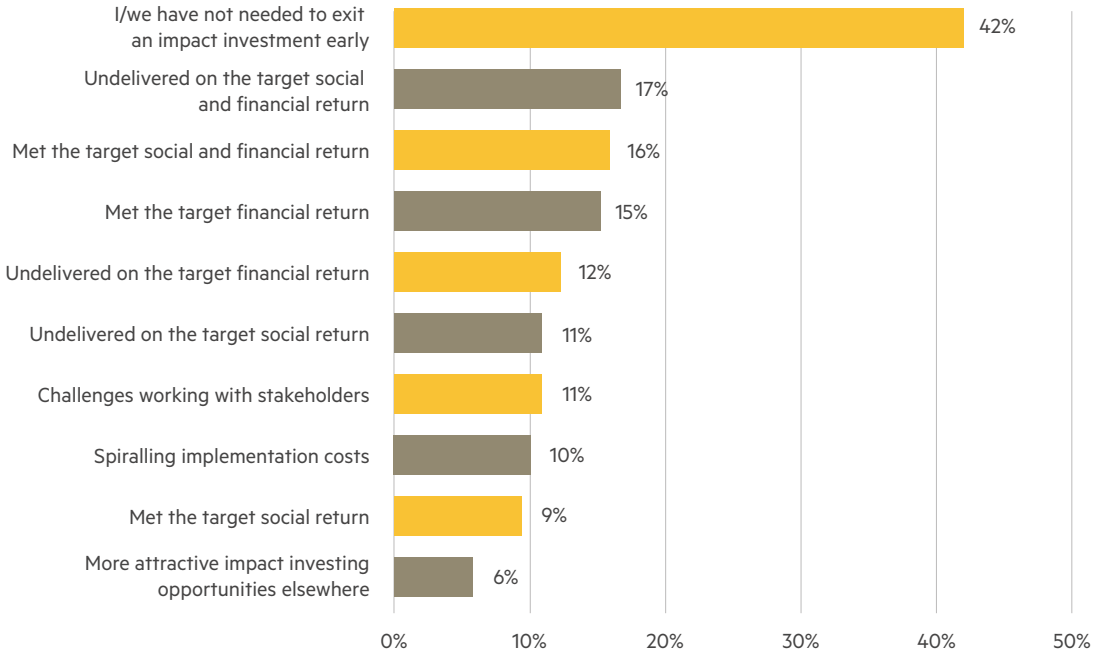


CHART 15

How long do you typically hold an impact investment for?

Base: All active in impact investing

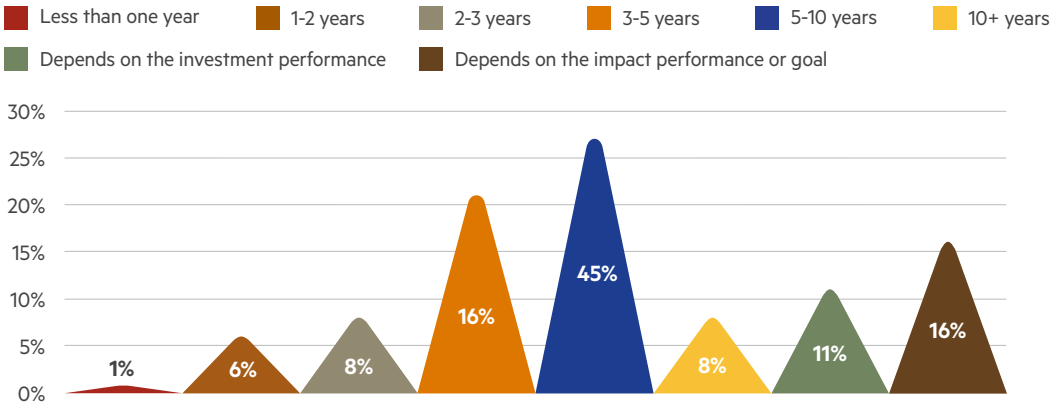
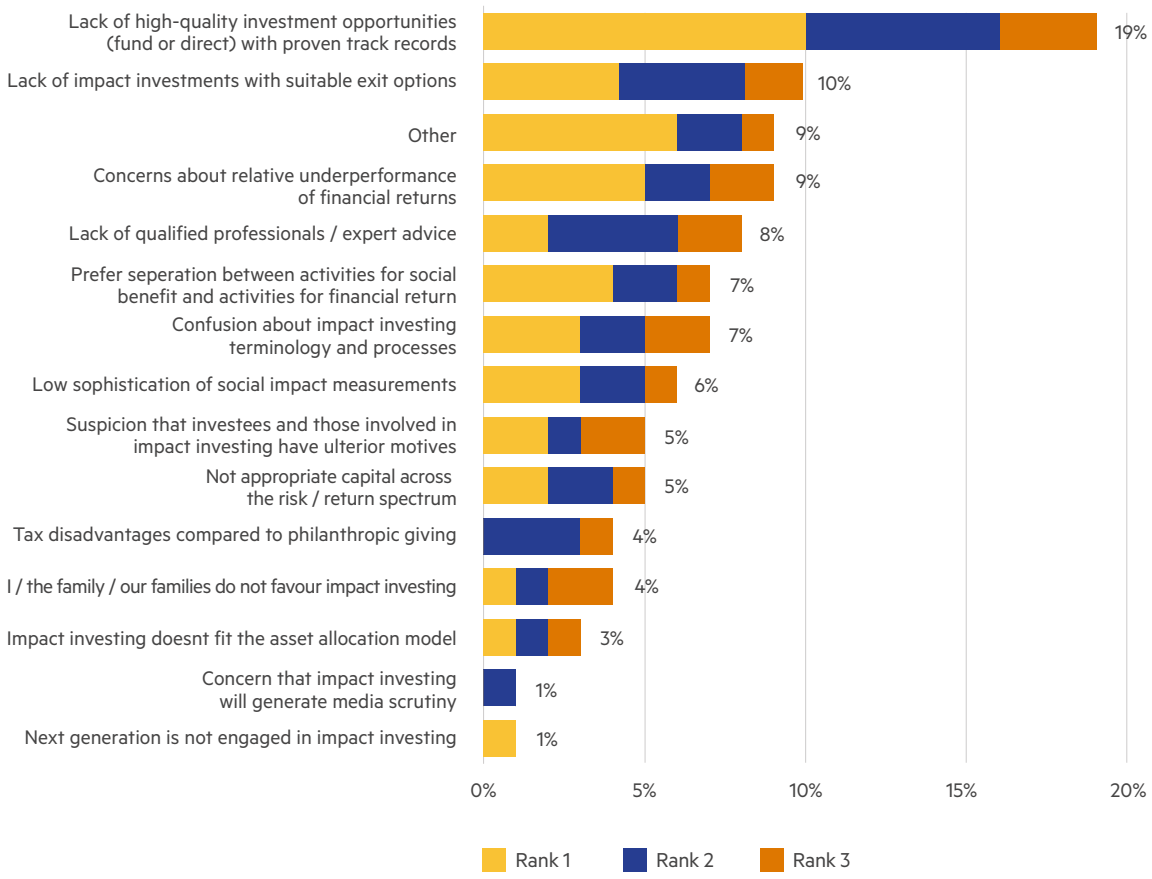


CHART 16

Which of the following are the major barriers to increasing your impact investments?

Base: All active in impact investing. Multiple responses allowed



In today's frenetic world, opportunities to observe and reflect are limited. Individuals update their social media hourly. The news cycle resets daily. Quarterly results still dominate the reporting cycle for corporations.

Taking the long view can be difficult. But to address our most complex social and environmental challenges requires enduring commitment and effort. For the individuals, families, and foundations committed to using their capital to address these issues, sharing their approaches and understanding others, is invaluable.

This research has always considered two leading methods – philanthropy and impact investing. Comparatively, philanthropy has been a force for good for millennia, whereas impact investing was christened only ten years ago, even if some had applied its principles well-beforehand.

Collecting data each year on both approaches sets this report apart. Moreover, it is exceptional to have done so over the past five years. Yet what is fundamentally unique is the quality and commitment of its respondents – and it is with appreciation of them that Barclays is pleased to continue our support of this publication.

Having reviewed the five-year data, it is encouraging to see the trends in how these groups are using their capital for financial, impact and philanthropic ambitions.

Activity in impact investing continues to rise. Most notably, we were heartened by the increasing percentage of respondents' investment portfolios being allocated to impact – the five-year analysis shows it has doubled over the period. Nonetheless, we still see considerable latent demand to initiate investors on the journey.

Investors are building the case for impact investing through their first-hand experience. Respondents are reporting that it is possible to make financial returns whilst generating societal impact. Interestingly, the five-year analysis shows that in most years, families have placed equal importance on both social and financial returns.

Philanthropy continues to play a central role. As impact investing activity has increased, it has not been at the expense of philanthropy, as the proportion of respondents active in philanthropy has remained stable. For many, these two approaches are seen as complementary for global impact.

Wealth with Intention

These, and many other findings, resonate with our observations, research, and conversations. Investors are becoming aware of the impact their wealth has on the world, and they have choices regarding how it is used – both philanthropically and in their investing. Many feel a responsibility given the growing inequalities and challenges our societies face.

Through both our well-established philanthropy service and now widely-recognised impact investing business, we are supporting clients in decisions about the impact of their wealth as it is invested, given and passed on. Barclays remains committed to enabling both individuals and organisations to use their wealth intentionally to protect and grow their assets, and to make a positive contribution to our world.

In this report, we hear directly from like-minded respondents and are presented with case studies highlighting the growing momentum, but importantly the challenges still ahead. Barclays applauds these individuals, families, and organisations for their contribution, and moreover sharing their experiences. We hope you are able to find the time to enjoy and reflect on the stories, insights and analysis within.

Barclays

Barclays is a transatlantic consumer and wholesale bank offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in our two home markets of the UK and the US.

With over 325 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 80,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

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Dena Brumpton
CEO, Savings, Investments & Wealth Management

Karen Frank
CEO, Private Bank & Overseas Services

CHAPTER 3: IMPACT CASE STUDIES

The FT Investing for Global Impact report has always included illuminating insights and candid perspectives shared by the eminent leaders in the impact field. Celebrating this fifth anniversary edition, the interviewees represent the largest cross-section of impact investment and philanthropic practitioners and social entrepreneurs.

This year features an exclusive interview with His Highness the Aga Khan, discussing – in his Jubilee year – his perspective on development, the important role of scalable, stable institutions and a call for vigilance against a progress 'back-slide'.

Opening the chapter is an interview with Sarah Butler-Sloss (of the Sainsbury family), internationally renowned for her work in Green Energy over the past 20 years. A Q&A feature with Maja Hoffmann is the first for FT Investing for Global Impact, exploring the connection between art patronage and philanthropy.

Another new feature for this fifth anniversary edition highlights a roundtable discussion among select representatives of the Impact Management Project, a global consortium of foundations, corporates and high-net-worth individuals. This feature illuminates a lively discussion among Bridges Fund Management, MARS, Ford Foundation, AXA Investment Managers and €162bn Dutch pension scheme PGGM.

Building on last year's successful split case study, which showcases both sides of the impact investing 'coin', the report features Omidyar Network (as investor) and education-tech social business Tinkergarten (its investee). Social entrepreneurship is again showcased in this chapter, featuring the inspirational work of Erwin Telemans, chief executive of CCBRT, Tanzania's largest provider of disability and rehabilitative care.

These interviews build on a library of knowledge accrued in previous editions with eminent philanthropists and social entrepreneurs. For more information on past editions of Investing for Global Impact, visit www.gistltd.com.

CASE STUDY

Sarah Butler-Sloss

Founder-director of Ashden Trust and Ashden Awards

Sarah Butler-Sloss founded Ashden Trust with her husband in 1989, which is one of the 18 charitable trusts and foundations established by members of the Sainsbury family. The Trust supports enterprises related to climate change, sustainable development, and improving the quality of life in poorer communities. Ms Butler-Sloss is chair of trustees at Ashden Trust.

Ms Butler-Sloss was an active member of the UN's International Sustainable Energy for All Practitioner Network. In 2001, she launched the Ashden Awards, which recognise and support those working on sustainable energy initiatives. She is co-founder of DivestInvest, a European lobbying group promoting the role of investors in transitioning to a zero-carbon economy.

The desire to improve social or environmental challenges is inherent in philanthropic endeavours, but with an abundance of routes to 'creating a positive impact' it can be difficult to identify how to do so in a way that galvanises the game-changers and instills positive sustainable change in any one sector.

Awards as Social Impact Launchpad

Sarah Butler-Sloss, a passionate environmental campaigner and member of the Sainsbury family, found that prestigious awards can be an excellent – and perhaps unusual – philanthropic tool, in certain circumstances. She says: "Awards are one process that works very well, although not to be gone into lightly. You need an exceptional judging panel and due diligence process to make sure those you put on a stage are the best in class, the pioneers and innovators. It's too much to be done as part of a family office; it is a separate type of organisation, which is why I set up a separate charity to run the Awards and its other related activities."

Ashden Trust, set up in 1989 and one of the Sainsbury Family Charitable Trusts, supports programmes that focus on climate change, sustainable development and making a positive impact on the quality of life in poorer communities.

Having trialled some initial awards for sustainable energy as part of the Whitley Awards in 2001, which recognises innovative wildlife conservation leaders, Butler-Sloss realised the potential of high-profile awards as a catalyst for promoting 'best of breed' enterprises, with associated media coverage helping them to make valuable contacts and to secure additional follow-on funding streams.

The result was founding the annual Ashden Awards for Sustainable Energy in 2003, which grew in such scale the awards became a charitable entity in their own right in 2004. Ashden Awards received 50% of their funding from Sainsbury family trusts and 50% from other trusts, foundations, corporates and government organisations.

Themes Combined: Energy and Women

To date, Ashden has awarded 205 winners, the first presented to one African clean energy pioneer at the 2001 Whitley Awards ceremony. Butler-Sloss says:

'The first awards were for those bringing clean energy to people with no forms of electricity or clean cooking. Both are vitally important and have profound development benefits by bringing electricity or clean cooking to people. We were largely looking at solar home systems and clean cookstoves, and how to make them affordable for people with no access to finance and who aren't able to borrow.'

'Without clean stoves to cook on or without electricity in the home, community or even health facilities or schools, people cannot lift themselves out of poverty,' she adds.

> **Awards are one process that works very well, although not to be gone into lightly. It's too much to be done as part of a family office; it is a separate type of organisation.**

Butler-Sloss suggests Selco in India as an example of a pioneer at that time. They combined microfinance with providing and installing solar home systems and panels on roofs with a few lights and a radio charger.

'For several years we have been raising the huge impact [this type of enterprise] has had on women and girls – the gender issue.'

A focus on the effects of having clean energy in the home on women and girls was included in the Ashden Awards for several years, primarily because it is the women and children that are in the home, responsible for cooking.

'Cooking on an unclean stove is killing 4.3 million people every year, so there is a huge health implication on bringing in a clean cooking stove to people's homes. Add this to the time that women spent collecting and then buying large amounts of wood or charcoal and you can see the knock-on effect on the health, livelihoods and wellbeing of women is huge,' Butler-Sloss says.

The Ashden Award for Clean Energy for Women and Girls, Butler-Sloss details, was funded by the UK Department for International Development (DIFID). The work done by the Ashden Awards helped to raise awareness about the issue of energy and women, alongside highlighting those that were doing exceptional work in the sector and assisting in their growth.

Support Beyond Awards

In spite of the phenomenal growth of the Ashden Awards, however, Butler-Sloss admits that she was naïve at the outset, believing that simply by providing a prize and related publicity, these 'best in class' enterprises would flourish.

'You have to do so much more,' she confirms. 'We set up a support programme for our winners and introduce them to soft-impacting investment finance. We tailor support to each of them to give them the best chance to grow.'

The team at Ashden has built a UK alumni network where the social entrepreneurs that receive a UK award are promoted via different mediums – films, events and conferences for example, and can collaborate and share their expertise to encourage others to follow.

'The award is just the beginning of the journey,' she adds. 'We are much more than an awards scheme. We realised awards weren't achieving everything we wanted and so we started a scheme to help the winners really grow and to reach their potential.'

A Demanding Process

To have the opportunity of receiving an award, grant applicants enter an extremely detailed process lasting almost an entire year. For months before the application process is opened to entrepreneurs, considerable research is carried out in each sector to ensure the right awards are offered. Stakeholders, partners and networks on the ground are consulted to provide insight into any significant developments and consequently Ashden award categories run for three to four years, with new awards introduced each year.

The next stage takes applicants through an extremely detailed questionnaire, which according to Butler-Sloss typically results in 200-250 applicants across the UK and international awards. She explains: 'We sift through those and try to bring it down to around 40 who are then asked

more detailed questions and for clarification on things that aren't clear from their initial application form.'

Based on these responses, the applications are shared with three to four assessors – leaders in their specialist field such as technologies, development, business or finance – whose reports go to the the two judging panels (one for the UK awards and one for the international awards), who select short lists of about 20 finalists.

> **If we are serious about solving climate change, we have got to have a shift in energy use but shift it on the capital that's out there and take that away from the bad guys.**

Butler-Sloss admits that this is where it gets much harder as there are twice as many finalists as there will be winners and each successful finalist is visited 'on the ground' by assessors to verify the application claims and ensure thorough due diligence. 'It is a serious undertaking, and that is just the beginning of it,' she says. 'We then have the support programme and that is where we have developed our reputation. The winners often go on and become the game-changers in the sector.'

Once the winner has been announced, the team plays a pivotal role in helping make that next step. Butler-Sloss adds: 'We very much help support them and spread what they are doing to others. It's not just talking to the sustainable energy or energy sector, but also to the agriculture, health and gender sectors for example. We try to educate different sectors about the benefit that one pioneering or innovative solution can have in so many other areas.'

This rigorous process, as with the awards, has had to evolve and develop over time, and since they started lots of lessons have been learned. One such lesson was what Butler-Sloss describes as 'rewarding too early'.

'In the early days we got really excited about early technical innovation that we thought was going to revolutionise rooftop wind. It was kind of a prototype and it just hadn't proved itself in the market. In our excitement we rewarded it too early, but we have learned from that and now ask that those applying have about a year's track record to show their products will sell and that the demand for them is there,' she explains.

The Evolution of Philanthropy

Philanthropy, is much more than giving grants, according to Butler-Sloss, and there is an increasing emphasis on the disconnect between investments and the social causes being supported.

'It is hugely important to be aware of your endowment and what your capital is doing, so not just focusing on grant-giving, but but treating the foundation as one integrated whole,' she exclaims. 'Think about what your investments are doing to the sectors you are supporting and make sure it's joined up.'

Butler-Sloss refers to a decision that she and her husband took almost a decade ago to no longer invest in anything relating to fossil fuels. Having been advised by solicitors for years to treat the investments in the endowment totally differently to the mission of the grant giving and merely as a tool to maximise the income for the foundation, as was encouraged by the charity commission, they were eventually advised to treat the endowments separate to grant-giving, with the endowment existing to allow them to give out charitably.

With a softening of the charity rules and as the majority of their grants were about sustainable development and mitigating climate change risks, the couple decided to sell out of their fossil fuel investments.

The 'game-changer', according to Butler-Sloss, came from the Rockefeller Brothers Fund (RBF), led by Justin and Valerie Rockefeller who were featured in last year's FT Investing for Global Impact report, which announced publicly its divest/invest strategy. 'I think it was brilliant and I salute them enormously, they are my heroes,' Butler-Sloss enthuses. 'At that point my brothers and I linked up with Ellen Dorsey who was doing the divest/invest campaign in the US and had been involved in RBF going public.'

Butler-Sloss and her brother ran an equivalent organisation in the UK and Europe and brought together as many philanthropists as possible to speak publicly about the fact that they were divesting away from fossil fuels and investing in clean-energy solutions. This resulted in them founding Europeans for DivestInvest, a lobbying group promoting the role of investors in transitioning to a zero-carbon economy.

'If we are serious about solving climate change, we have got to have a shift in energy use , and that involves a shift it on the capital that's out there and take that away from the bad guys. Huge efforts have been trying to change the mindset of fossil fuel companies to get them to go cleaner and it's been like hitting your head against a brick wall,' Butler-Sloss says. 'As philanthropists, people sometimes listen to us. Especially if we come together and shout about it.'

CASE STUDY

Scott Wu

Head of Investments, Omidyar Network

Scott Wu worked in investment banking, financial technology and venture capital before co-founding crowdfunding platform Upstart.com in 2012.

With a long-standing commitment to addressing global poverty and education, he has served on the Board of the US Committee for Refugees and Immigrants.

In 2013, he was named a White House Presidential Innovation Fellow, and senior adviser and entrepreneur-in-residence to the innovation funds of USAID. Mr Wu joined Omidyar Network in 2016 as Partner, and leads the firm's investment, finance, and legal operations.

'Fluid' and 'flexible' are two adjectives used when describing the approach of Omidyar Network, the Silicon Valley-headquartered impact investor set up by eBay's founder Pierre Omidyar and his wife, Pam, in 2004.

The philanthropic investment firm, a seed-funder and Series A investor in Tinkergarten, claims to start from the fundamental belief that 'people are inherently capable, but they often lack opportunity'.

From OFF to ON

The Omidyar Network – which changed its name from the Omidyar Family Foundation, 'OFF', to Omidyar Network, 'ON' in 2004 – considers itself to be a 'philanthropic investment firm'. As such, it believes passionately in leveraging the power of financial markets to create positive social impact at the scale and pace the current global challenges require.

The Omidyar Network portfolio is currently split roughly 50/50 between philanthropic grants and impact investments, and Mr Wu expects the latter will gain pace in the medium and longer term. 'I can see some signals that there will be growing for-profit investment,' he says. He witnesses many of Omidyar Network's portfolio managers allocating more of their budget towards the for-profit pool than the non-profit pool. Not only is the impact sector itself maturing, but companies that have taken early seed money are also requiring more as they grow, he explains. 'There are more opportunities in the sectors we're involved in that provide for-profit investing at even larger scale.'

Investment Approach

Omidyar Network focuses on five themes: education, emerging technology, financial inclusion, governance and citizen engagement and property rights. There is also a fledgling interest around digital identity.

Of these, governance and citizen engagement and financial inclusion are the most established, accounting for roughly half of the 2017 portfolio.

Most of the grants and investments are seed and early stage but the organisation is not averse to providing follow-on capital in the right circumstances – as was the case with Tinkergarten.

Mr Wu says the firm tries to offer bespoke solutions to its investees, rather than being wedded to any top-down strategy. 'It's fluid and on a needs and prioritised basis,' he says. 'We're not a big enough firm to have unlimited resources of human, financial or network capital that we can apply to every one of our (at this point) 300 portfolio companies.'

Yet the firm is not insignificant. Its global footprint is 150-strong across seven offices, organised by sector-based and geographical teams. That reach permits Omidyar Network to extend its capability beyond purely financial assistance and as such will not consider unsolicited pitches, preferring to cast its net within its broad network to find suitable opportunities.

'We provide executive coaching, external searches for senior executives, we have a research function and we have a marketing group that highlights the successes and what we're trying to achieve,' Mr Wu adds.

Tinkergarten Investment

So how did Tinkergarten land on the radar? Isabelle Hau is investment partner at Omidyar Network and board member for Tinkergarten.

She says that when a company is being talked about from multiple investor networks – in this case contacts in the US education space and a high-quality seed investor in the technology space – it is worth investigating.

She says: 'Tinkergarten had attracted two sets of investors at that particular juncture; one was a very high-quality early stage seed investor that we knew well, but without an impact plan, and also a number of former education contacts that had invested in the company.'

She adds that Omidyar Network has been able to use its prestige and contacts to increase Tinkergarten brand awareness. Overleaf, Mr Wu describes how 'core' to its portfolio the Tinkergarten investment is.

CASE STUDY

Brian and Meghan Fitzgerald

Co-Founders of Tinkergarten

Before starting Tinkergarten, Brian was VP of Product Development at Knewton, a global leader in adaptive learning, and prior to that was the VP/Intrapreneur of Audible Education (acquired by Amazon.com) where he developed products and services for Higher Education, K-12, and Early Learning. He was also part of the start-up team of Rocketmail, acquired by Yahoo.

Meghan has 16 years' experience as an educator, curriculum developer and school leader. She was an elementary school principal, a math/science specialist and a teacher in public and private schools in three states. She earned a BA with majors in English and Psychology at Amherst College, an MS in Educational Leadership at Bank Street College, and was trained as a Forest School leader at Bridgwater College, UK.

With careers in consumer technology and teaching, respectively, Brian and Meghan Fitzgerald developed a deep understanding of how play and time spent outdoors were both critical to child development.

At the same time, social, technological and academic trends were squeezing such valuable time, resulting in children being at risk of not developing the skills that are so important – creativity, collaboration, problem solving. From 1980-2013, children spent 50% less time outdoors, Meghan says, for example.

Replacing Simulation with Stimulation

Brian, who prior to Tinkergarten had built technological products for Amazon, Yahoo and Audible, explains: 'We were looking at the trends in education technology and what was interesting is that the products being developed were all designed to simulate what children do – play, experiment, take risks, fail and try again. For us, the answer was clear: focus on the first seven years of a child's life and allow them to do what they do naturally, but through a framework and set space for them to be able to build that foundation for the future and their lives.'

Meghan, who has been both a classroom teacher and head of school before founding Tinkergarten, adds: 'The importance is also realising that a certain kind of experience maps to brain development, which maps to readiness to learn. Helping parents see that and giving them an opening to understand that what seems really simple is actually really rich in terms of child development.'

Applying technology entrepreneurialism to 'effectively reverse-engineering Meghan's experience in education', Brian says, Tinkergarten sprung from providing a web-based platform to bring together interested community members, providing remote training and support for 'Tinkergarten leaders', who would facilitate outdoor play from a Tinkergarten curriculum for 18-month- to eight-year-olds. Drawing on Brian's network, Tinkergarten's chief technology officer is former CTO of MeetUp.com: 'Because MeetUp was such an analogue to what we were doing; the ability to find and connect a network with people online and then convene on the ground was a problem he'd been solving for 10 years,' says Brian.

Scaling and Measuring

Tinkergarten classes are currently running across 50 US states, facilitated by 1,400 'leaders' and getting 100,000 families outdoors – evidence that the model works in all communities; urban, suburban, rural.

Megan says: 'We have a very simple definition of nature – earth, sky and other species – and that can be achieved. From a child's perspective, we wanted to see nature everywhere and so, we were able to test out different settings that would be a perfect place for Tinkergarten – a nearby rooftop or the playground area in a local housing community, for example.'

The couple, unable to be in multiple locations at the same time, have personally trained other people to lead the classes and in order to ensure the classes in each different location are consistent.

'We had to train them all online, primarily through asynchronous and synchronous video and a lot of coaching,' Brian explains. 'We also collect ratings and feedback from the parents (who remain with their children during Tinkergarten classes) continuously after every one of these sessions so we are able to understand our ability to effectively train, support and then continue to deliver a consistent and high-quality learning experience.'

The results are encouraging: 85% of families report spending more time playing outdoors together as a direct result of participating in the classes and 80% of parents say their children repeat the play scenarios from Tinkergarten classes under independent play, the organisation states.

Currently US-based, Tinkergarten's global vision remains strong, its offering inherently scalable due to its technology roots and community-based employment model, the couple says.

Benefit To Each Other

> **Don't let the lifeblood of capital dictate your strategy.**

Scott Wu

'Tinkergarten is actually quite core to our wider US education strategy. It emphasises the importance of early child development education and play-based education, so we felt this was a very strong fit for that.

When we look at a potential investment we look across the returns continuum – so all the way from a grant to a non-profit where we expect to basically donate all of our money, all the way up to a market-based risk investment and everything in between. If we accept a below-commercial rate of return, we need to expect a system-wide or market-wide impact in order to justify taking that lower return and vice versa.

With Tinkergarten, this opportunity happened to be a developed world, domestic US organisation that was for-profit, from which we expect to generate commercial returns. But in this case, we believe we will all have large and significant market-based, system-wide impact through scalability, the technology application underpinning everything – an innovative new childhood education strategy.'

> **Remaining true to what you want to build and what you know can happen is really essential.**

Brian and Meghan Fitzgerald

'Having public visibility helps with interest in the company from an investment point of view. The ability to find public venues to speak credibly about the work we're doing has been really helpful. What we are doing is not only trying to build a business from the ground up, but also to make a significant impact from an education standpoint. So getting into the right rooms with the right types of people and then be engaged in the right dialogue has been helpful.

We leave those kinds of events with really well aligned, potentially strategic partners and those partnerships are going to help us to amplify our impact tremendously. That's something that we are investing in more and more as an organisation.

There are a lot of things that are required in order to take a start-up and make it successful and sustainable – not least the combination of ensuring that there's financial sustainability and also keeping true to our vision and continuing to make impact.

What we've always admired and respected deeply is Omidyar Network's ability to take a long view and to help us to ensure that at each step along away, you know, that we're focusing on the impact side as well as the financial sustainability side.'

Advice

'Our advice to social entrepreneurs and founders of organisations in impact sectors is to really focus on the qualities that will lead to your success and how you drive the highest impact.

Think less about how you want to engage with Omidyar Network as an impact investor or the sector as a whole; think about what problem you're trying to solve, how to drive towards success and make an impact on addressing that problem.

Another piece of advice would be to not let the lifeblood of capital dictate your strategy. We often see organisations present a different set of goals or objectives when the next investor turns up, or even different locations they want to participate in. These organisations are too quick to shift with every potential money source available to them, in order to fit, to acquire that next cheque.

It is a very challenging world, even more challenging than some of the frontier markets we talk about where we apply a lot of our capital, and we still have to apply that drive, vision, and business instinct that are requisite, not just to survive, but to survive and succeed.'

Key Challenges

'In the commercial world, there's probably a higher preponderance of entrepreneurs; those who stake their ground in new businesses, probably have years of experience with prior organisations or more opportunities that they've achieved in the past and they might even have led other start-ups.

In the social enterprise world, it tends to be a little bit younger, a little less experienced. That seems to be one challenge of operating in this social marketplace.

This next generation of graduates are coming out of school and want to address the world's problems. They are willing to take the risk, to go to exotic places with very little infrastructure, very little capital support. So that combination makes it very challenging and tricky [as an investor], but at the same time really encouraging and exciting for the future.'

'One thing that has helped us along the way is remaining true to our vision and our 'compass', if you will, from what we want the company to be. It sounds a little trite to say it, but what I mean is in 200 conversations with 200 [potential investors] who have opinions about what it takes to make a great business or a sustainable thing, you're going to have a lot of opinions to contend with.

If you didn't have the compass you may be sent in many strange directions, directions that either you don't want to go in or you're not capable of going in or is simply not consistent with your own vision.

I do think that no matter who you are or who you know, you don't have to have a strong network or a lot of experience to have that awareness. It does, however, take discipline and when you're being met with a series of "no, thank yous" or "we're not sures" you might recoil, completely shift gears, or doubt. Remaining true to what you want to build and what you know can happen is really essential.'

'The fundraising process is a very time-consuming and arduous process. There have been at least 200 conversations with investors throughout the course of trying to build the company. Helping to narrow that field, in terms of finding a way to navigate to the types of investors who are the ones that you would be aligned with in the first place, would save time and have been an advantage.

Also a little insight into knowing that it's going to be an arduous process and the chance to really be reminded of how deeply you need to believe in what you are creating. Many of those conversations result in a "no" or a "no, thank you" and it is important that you absorb that as a gift because that was not a match, and that you learn and improve as a result, despite it being hard to endure.

In those moments of doubt, you really need to believe that the world needs and wants what you are creating and that this is really just a process. When a product is yours, it's very personal and that kind of reminding and coaching is really important.'

CASE STUDY

His Highness the Aga Khan

This year marks the Diamond Jubilee of His Highness the Aga Khan, the 49th hereditary Imam (spiritual leader) to an estimated 15 million Shia Imami Ismaili Muslims around the world.

In 1957, he succeeded his grandfather, Sir Sultan Mahomed Shah Aga Khan. In 1967, he established the Aga Khan Foundation, and later on the Aga Khan Development Network, a series of specialist non-denominational agencies.

The AKDN works to improve the quality of life for those in the poorest parts of Asia, Africa, the Middle East and Central Asia, and to emphasise Islam as a thinking, spiritual faith that teaches tolerance, upholds human dignity and which supports Pluralism.

He spent his early childhood in Nairobi, Kenya, and then attended Le Rosey School in Switzerland for nine years. He graduated from Harvard University in 1959 with a BA Honors Degree in Islamic History.

He is internationally multi-awarded for his work, including the UN Champion of Global Change Award, Asia Society's Game Changer Lifetime Achievement Award, the Andrew Carnegie Medal of Philanthropy and the Global Pluralism Award.

As an undergraduate studying Islamic History at Harvard University in 1957, Prince Shah Karim Al Hussaini received the news that his grandfather, Sir Sultan Mahomed Shah Aga Khan, had died. With this passing, the hereditary title of the Aga Khan, Imam to 15 million Shia Ismaili Muslims around the world – head of an institution more than 1,400 years old – was passed down to the 20-year-old. 'That had an incredible impact on me,' the now 81-year-old recalls.

His role is unique among global royalty in that the Aga Khan does not rule a geographic territory. Acknowledged as a direct descendent of the prophet Muhammad, instead the role is of spiritual leader of the Shia Ismaili Muslim population, a multi-ethnic community concentrated in Central Asia, the Middle East, South Asia, sub-Saharan Africa, Europe and North America, with governance over the Nizari Ismaili places of worship and its institutions.

Leading Through Global Division

The accession bypassed his father and his uncle, who were in direct line to succession, with his grandfather's rationale being that the 'fundamentally altered conditions in the world [have] provoked many changes, including the discoveries of atomic science' and therefore required the leadership of 'a young man who has been brought up and developed...in the midst of the new age'[1]. It also earned the 20-year-old the moniker: 'the Atomic Imam'.

In conversation, the Aga Khan acknowledges 'the world at that time was driven by a number of centrifugal forces', not least a large number of countries in Africa and Asia transitioning through decolonisation to self-governance, and 'a large part of the Muslim population behind the Iron Curtain' with the Cold War – and 'it really was very cold', he quips; the year of the Aga Khan's accession in 1957, the Soviet Union claimed missile superiority over the United States and invited it to a missile 'shooting match', for example[2].

With responsibility for millions of people consisting of a dispersed community with diverse cultures, languages and nationalities, and at a time of stark polarisation, atomic threat and post-colonial fragility, the Aga Khan set out his leadership vision. These focussed on universal education, multilingualism and civil organisation (as a means of addressing poverty).

He says: 'From my point of view, the question was essentially what do those [socio-political] forces mean in terms of the nature of the colonial states after independence. That was a very different situation for example in Africa to a situation like in Bangladesh where the community is Bengali of origin.' He adds: 'In 1957, economic development was part of political thought. It was very polarised. That clearly caused a number of difficult situations for the countries I work in.'

Approach to Social Impact

Inheriting a family tradition of service in international affairs, and presiding over more than 10 disparate development agencies, the Aga Khan drew these entities together to form the Aga Khan Development Network (AKDN), one of the largest private development networks in the world.

He says: 'I started by looking at the future of these institutions and programs and asking how they're going to evolve in a new economic and political environment. Most of these programs grew into national programs or at least strong regional programs.

In each situation we had to adapt to the political changes that were taking place. Some were very problematic, and others were very smooth indeed, so it was a case-by-case situation.'

He continues: 'I tried to create what I would call a net system where development, as far as we're concerned, can act as a net in a given situation rather than just on a thematic basis on a particular issue. We found that premise is by far the strongest in terms of the longevity of its impact.'

> **I consider civil society in its wider sense as probably the most important factor that I have to deal with because it contains a number of key factors in quality of life, health, economic support.**

Since 1957, the Aga Khan has been involved in complex political and economic changes which have affected his Nizari Ismaili followers, including the independence of African countries from colonial rule, expulsion of Asians from Uganda, the independence of Central Asian countries such as Tajikistan from the former Soviet Union and the continuous turmoil in Afghanistan and Pakistan.

Stating that 'if I were to describe my role, it would be first as an observer,' the Aga Khan stresses the importance of careful listening in order to make considered long-term strategic development decisions. He explains: 'The people we're working with, 99.9% of the time they know their problems, they don't necessarily know the solutions, but they know the problems – they live them. So listening is the basis of everything we try to do in the development field. The basis is listen, listen, listen, listen, listen.'

Funding and Measurement

Each AKDN organisation has an individual mandate that ranges from the fields of health and education to architecture, rural development and the promotion of private-sector enterprise. While the Aga Khan's inherited wealth lists him as within the top 10 wealthiest royals in the world, according to Fortune, this is distinctly separate from the AKDN's funding sources.

The institutional wealth is derived from contributions from Ismaili followers (10% or more 'dasond' on their personal wealth is donated), from partnerships with foundations, governments and others, and from financial return in agencies such as the Aga Khan Fund for Economic Development (AKFED), where the mandate permits it. AKFED, for example, is a for-profit organisation that focuses on socially responsible and economically viable development initiatives spanning financial services, industry, media, aviation and tourism promotion. According to the AKDN it generates revenues of $4.1bn[3], which are reinvested[4].

The Aga Khan's sphere of influence is vast, spanning heads of state, titans of industry and leaders in the development field. Asked what impression he had of how approaches to development had changed, he says that the measurement of philanthropic efforts has seen a big shift.

He says: 'My good fortune is to be able to read and talk to men and women at the centre of the changing process. We're able to share thoughts, discuss priorities, discuss things that have failed and have succeeded, and compare records. It wasn't the case in the 1960s but most of them today measure outcomes.'

'I remember in the early days, the idea of measuring philanthropic outcomes...one was looked at with a jaundiced view. It was quite funny, everyone wanted to disappear under the table.'

Having worked with the Ford Foundation, Rockefeller Foundation and others leading impact measurement, the Aga Khan says that "it doesn't always have to be measured, but if you can measure it in meaningful ways, it's probably one of the good parameters to have in hand". However, he says it is just one of those parameters in development; "in the end, you ask yourself – there must be a purpose. What is the purpose of doing that? And if the purpose of doing that is a solid one [you go ahead]," he says.

Institutional Support for a Civil Society

In the AKDN, the Aga Khan's commitment to institutions is evident. He says: 'I consider civil society in its wider sense probably the most important factor that I have to deal with because it contains a number of key factors in quality of life, health, economic support. Our premise is that there isn't one system, one action that achieves goals. You really have to have a net of interventions.'

In the post-colonial world, his tool of preference is the institution, which if trusted and proven over the long-term and credible to those it serves, can directly impact improvements to civil society, he says.

'I'm a great believer in anchoring civil society cases in institutions,' he says. 'Civil society in the developing world is very fragile, and it does not have the resources it would need to be more effective. So I've always worried about countries with extremes of wealth and extremes of poverty. In that situation, you're looking at how you redress the basics of economic stability, of family resources, etc. I've tried to encourage our institutions to build stability. We have to be solid and we have to be

credible. Scale is not necessarily the right thing in these environments, but what is important is to be solidly professional,' he explains.

The Aga Khan notes that of their partners – foundations, government agencies and others – 'many are based in the industrialised world, whereas we are based in the developing world, so we start very often from different premises'.

This returns to the issue of scale and long-term sustainability in development, where the Aga Khan advocates using the 'net' of resources to support a whole supply chain or ecosystem. For example, looking beyond a micro-credit programme to SME financing, to education, skills development and beyond.

He explains: 'If we bring in a micro-credit program to a very small community, it will have a small impact, but all alone it's not going to change the long-term economic standing of that community.'

Changing Values, Embracing Pluralism?

Going into 2018, the world appears more fragmented, contentious and divided in terms of socio-politics, including religious frictions and clashes around the world. Yet, the message of the Aga Khan is one of Pluralism, respect for diversity that supports and sustains inclusive societies for the full participation of all people in political, economic and cultural life.

The Aga Khan says that while the reasons preventing Pluralism are deep-rooted and multifaceted – a viscous blend of geography, economic standing, ethnicity, religion, tribalism and more – tackling these challenging issues 'is critical to peace and development; without it, you go nowhere'.

Last year, he opened a Global Centre for Pluralism in Ottawa, Canada (on the site of a former war museum), designed to research and champion Pluralism globally.

The Aga Khan explains: 'I'm a great believer in dialogue. I think societies need to be led by organisations that are not living in a monologue world. It's learning from the multiplicity of voices that I think you can hope to get quality governing.'

'In a number of countries we need dialogue, and for that we need media. We need the media to be sophisticated in the way they look at and analyse Pluralism and to give it the right position within society. Black and white is not part of human society; it just isn't.'

His outlook – in this Jubilee year – is optimistic; the strides in political discourse since the Cold War era, and the 'much wider acceptance of pragmatism in economic development' from institutions such as the IMF and World Bank, have been considerable. He already sees the seeds of Pluralism taking root due to 'changing values systems' in its favour.

In discussing changing approaches to aid, the Aga Khan says: 'To begin with, aid was essentially an economic phenomenon. It's widening now into civil society and even into culture, which gives a certain standing to these societies that have often been looked upon a just poor, when these are historic societies rich in knowledge, culture and values. I see that as a very positive sign.'

Black and white is not part of human society, it just isn't. We need the media to be sophisticated in the way they look at and analyse Pluralism and to give it the right position within society.

However, entering 2018 there can be no complacency. He says: 'To be very frank, one of my main concerns is the permanency of change. I think we can achieve change with human resources and economics, but my question is, how stable? What is the longevity of this process of change? I'm fearful of the slide back. And I haven't seen it, but I'm fearful of it, I really am. Because that's the annulment of every premise that we're working on.

But the reality of the world we're working in is that it could always happen. Political instability, a crisis, a war – all these things can impact the countries in which we're working.' Of course, the work of bringing about large-scale, sustainable social change is never 'done'. In acknowledging what success means to him, the Aga Khan says simply: 'What I look for is a positive outcome.'

1 https://en.wikipedia.org/wiki/Aga_Khan_IV
2 https://en.wikipedia.org/wiki/Timeline_of_events_in_the_Cold_War#1957
3 AKDN brochure, p13
4 http://www.akdn.org/about-us/his-highness-aga-khan-0

CASE STUDY

Erwin Telemans

CEO of Social Enterprise, Comprehensive Community-Based Rehabilitation in Tanzania (CCBRT)

CCBRT is Tanzania's largest provider of disability and rehabilitative care, working to improve the lives of Tanzania's most marginalised people.

Born in Zaire (now the Demographic Republic of Congo) and growing up in Belgium and around Africa, Erwin Telemans joined CCBRT 12 years ago, taking over from one of the co-founders.

Mr Telemans is a qualified physiotherapist. In his early career, he worked for Christian aid organisation CBM, which also focuses on supporting people with disabilities in developing countries.

Few humanitarians might claim to have been inspired by a Japanese car manufacturer, yet Erwin Telemans, chief executive of Comprehensive Community Based Rehabilitation in Tanzania (CCBRT) has based the model of 'lean management' he applies to hospitals – treating tens of thousands of patients a year – on lessons from the factory floor of automotive giant Toyota.

'Because Africa is thirsty for a different way of doing things. I introduced lean management; the way Toyota manages its production lines,' he explains.

'It's removing waste throughout the entire process, making everything get to the root cause of the problems, not hiding them and creating a problem-solving culture. It's a major shift in African management methodology.'

Estimates suggest 4.2 million people in Tanzania have a disability, rendering them among the most marginalised in society due to stigma, limited access within their physical environments and a lack of awareness about possible treatment. Women, children and those in rural areas are typically worst off, the CCBRT annual report claims.

Tackling this problem is CCBRT, a social enterprise with an expanding for-profit division where rich patients subsidise the poor. 'It's like a better version of Robin Hood,' says Mr Telemans, in echoes of last year's interview with Dr Enrique Steiger of Swisscross Foundation.

From Prevention through to Aftercare

The backbone of the organisation is the CCBRT Disability Hospital, a 200-bed hospital in Dar es Salaam, the former capital and largest city in Tanzania, where patients are given life-changing treatment at heavily subsidised costs.

In addition, CCBRT works with 32 partner facilities across the country, training medical staff, helping patients once they leave the hospital and supporting local infrastructure.

The organisation has several areas of focus: treating clubfoot; cleft lip/palate surgery; maternal and new-born health; obstetric fistula; ophthalmology; optometry; physical rehabilitation; and prosthetics and orthotics.

In 2016, the hospital and its affiliates performed over 10,000 surgeries across Tanzania. Claiming to be one of just two hospitals in Africa applying this new method of lean management, Mr Telemans stresses the need for leading from the top – from strategy, to management at all levels, through the day-to-day actions of people on the front line.

He believes the widely acknowledged concept of lean management to be often misguided. 'Lean is too often wrongly affiliated with reducing manpower, yet the contrary is true,' he says, explaining that the focus should be on stripping out fat, not resource.

Rather than just about cutting back numbers, he says this particular style of management is about getting to the root cause of the problems, not hiding them, applying metrics in a scientific manner to help identify issues throughout the process and improving transparency.

'In saving a lot of resources that can be used elsewhere, satisfaction and engagement go up.'

Rethinking 'Pyramid-style' Management

From its infancy in Toyota plants across Japan, the concept is travelling globally, he says, first permeating the healthcare sector in the US, with Europe and now the UK following suit. 'I know the NHS is struggling hugely and looking for innovative ways to improve engagement, and lean management is one methodology they are looking at,' he notes.

Desperate to offer 'hands-on' help rather than from the ivory tower of a desk shuffling paperwork, Mr Telemans's approach is seen as groundbreaking – and not just by African standards. He says traditional management is typically dictatorial, pyramid-style, where the leaders at the top believe they know the solutions but are so far removed from the problem, they lose traction.

While efficiency, staff engagement and heightened levels of ownership are just some of the benefits of his approach the CEO also describes the scalability that becomes possible with a more inclusive model.

Taking the helm 12 years ago, the rate of progress appears to be accelerating year on year, with the numbers speaking for themselves.

From 2013-2016 alone, the maternal mortality rate in the country reduced by 40% and the stillbirth rate by 15%; the number of women recovering successfully from CCBRT's fistula treatments is up to 94% – surpassing the 70% target set by the International Federation of Gynaecology and Obstetrics; and people with disabilities' perceptions of mainstream accessibility grew from 51% in 2015 to 80% just two years later.

> **It's extremely expensive to raise 'free' [grant-donated] money. I have more [grant] writers than doctors!**

Having almost quadrupled CCBRT's income (since 2009) under his stewardship, Mr Telemans explains that it is not just the management style that has propelled the institution's success, but the focus on immediacy.

'Being lean helped but the expansion is driven by the massive need in front of you,' he says. 'When you're born in the UK, you don't see clubfeet in the street or people walking around with clefts in adulthood. In Africa, it's a massive problem. When you're confronted with thousands of kids in front of you, you scale to look at not 10 children but 10,000 children.'

He explains the key to preventing permanent disability is to catch problems as early as possible. 'I have been confronted by too many birth defects that don't need to lead to disability. Birth defects, if tackled directly after birth, can be dealt with so the person can live a full life.'

He gives the example of former England and Liverpool star midfielder Stephen Gerrard, who was born with clubfeet, or congenital talipes equinovarus, but early treatment enabled him to overcome the condition, allowing him to live a clearly healthy, active life.

In Africa, he says children left untreated are shunned by society; ostracised for being a 'burden', literally hidden from the community to avoid shaming their family, with disabilities often viewed as being a curse or punishment for a supposedly unfaithful wife, for example.

Philanthropic 'Free' Money Too Expensive?

From the likes of the Vodafone Foundation in partnership with USAID and Johnson & Johnson, 66% of funding comes from philanthropic sources. Yet Mr Telemans argues traditional philanthropy is no longer fit for purpose.

'It's extremely expensive to raise free money,' he jests that he has more grant writers than doctors, he is mindful of a funding model where 'the bulk of your money comes in around Christmastime'. He adds: 'We submit almost 150 proposals annually and submit more than 180 reports to these donors every year; it needs to end. Free money has become too expensive to receive. And the field is so desperate for change, I see it coming within the next 15 years.'

Mr Telemans is another social entrepreneur trying to overturn the dependency model, 'So you are more in control and can react very quickly, become better and more independent'.

He describes a scenario where a piece of equipment may break down, such as a washing machine. Repairs and replacements demand cost research and a donor approval process, as opposed to CCBRT generating its own money, freeing it to be unconstrained and responsible for flexibly matching its spending with its liabilities.

In seeking partnerships with corporates such as Johnson & Johnson Services, there are limitations Mr Telemans is striving to overcome. 'In a way, traditional aid keeps the people poor,' he says, and donning his physiotherapist hat, adds: 'You can compare it with insoles for the flatfooted. They don't help; they weaken the foot muscles and when you remove the insoles, their muscles are worse than before.'

Providing a regulatory and policy framework to private and third sector fundraising, he says, should be the role of government, willing all sides to work in tandem, rather than an either/or situation. 'A government loan could never replace [private and third sector work] because you need competition to deliver quality,' he says.

Power of the Rising Middle Class

As such, this cross-subsidy model has created a new order of funding, where wealthier members of society support those more vulnerable, desperate for care through the for-profit clinics that form part of the Disability Hospital, which he opened in 2005.

The initiative is growing further, with two new operating theatres and a bigger car park set to open in the spring, aimed squarely at the country's growing middle class; those with some disposable income, who are time-poor, need quick and high-quality service, yet are community minded.

Mr Telemans explains: 'The rich will always travel away and the poor are becoming poorer. But you have a middle class that is rising very quickly. So why would a Jaguar driver who is also developing cataracts and will also require a new hip or knee not want to also enjoy those services in his country?'

> **When you're confronted with thousands of kids in front of you, you scale to look at not 10 children but 10,000 children.**

'I think keep that money in the country; develop your doctors and services so your Jaguar driver can contribute to the economy, and use those revenues and profits to reinvest into the treatment of those who cannot afford it.'

He likens the model to different airline cabin classes, saying: 'In the front you have first class and in the back, economy class. But we are using the same doctor in the front of the cockpit, the same engines in the air, and are going in the same direction. It's just that after take-off, they close the curtains so those in the back don't see all the nice services on offer in the front.'

The growing prominence of social enterprises, growing awareness of consumer spending power and an increasing appetite for that consumerism to represent a positive social or environmental impact is translating into action, Mr Telemans believes.

He says in about 50% of cases, patients visiting CCBRT medical centres are influenced by these powerful motivators – they can afford to go elsewhere, but choose not to, knowing the social impact of that decision.

'People want to do something good. It's not enough to have Gucci glasses on your head. It's nice to know you have an impact on society,' he adds.

A Proportionate Subsidisation Model

Similarly, while CCBRT applies 'Robin-Hood-style' charges for certain services, they continue to be heavily subsidised and the payment is proportionate to the patient's circumstances and complexity of treatment provided.

For example, women who have developed obstetric fistula – where obstructed labour leads to a hole in the birth canal, forming between the vagina and rectum, ureter or bladder – top the list of those benefiting from free treatment.

For 95% of women suffering this condition, they face stillbirth and prolonged incontinence, subsequently cast out from their community and rejected by their husbands.

Operations are lengthy – from 30 minutes to four hours – and to charge those in need of such a surgery but without means to pay for it, he says, 'I would consider a crime'.

Other free patients include children under five. He says the benefits of this approach are twofold: first, the child is ultimately more treatable the earlier you catch most of the conditions; second, if it were not free, the child might not be brought for medical diagnosis and treatment until age 12 or so, at which point the surgery is more complicated, more expensive and offers little chance of 100% success. The result would prove to be a false economy, Mr Telemans says.

For instance, clubfoot surgery at age 12 might cost $1,000 and while the feet may look better, the child will still be in permanent pain.

He claims since the 'free under-fives' policy was introduced in 2008, the hospital has seen a 50% uplift in the number of children accessing their services.

Building For The Future

As Mr Telemans strives to redesign how his social enterprise is funded, he is mindful of the importance of traditional models of financial support. With the imminent expansion of the new medical clinic, with its particular target the rising middle class, he admits having to concede a traditional bank loan before his donors would take the request seriously, having first asked them for $7m to build, equip and staff the facility.

'I said: "I want to build a clinic for the middle class; a sustainable solution that will help the poor forever, by asking you once for a favour". The traditional donors almost – literally – choked.'

Having secured $3m from traditional bank funding, which demonstrated a robust business plan, his other backers were reassured by this and amenable to the request.

He is still about $750,000 short even as construction nears completion, but is dogged in his vision and commitment. He is hopeful the shortfall will be covered; 'Otherwise we will have to turn away a lot of patients,' he adds. The new facility provides a 300% increase in resource capacity and space.

With a training academy to develop the next generation of skilled healthcare workers next on his list of priorities, Mr Telemans' resolve to ensure CCBRT's future sustainability and financial independence from philanthropy – by building a virtuous cycle between the community, bridging the wealth divide – is infectious.

Anna Lawlor
Editor/Facilitator,
The Financial Times

Clara Barby
Partner,
Bridges Fund Management

Kate Wylie
Global Vice President Sustainability
Mars, Incorporated

FT Investing for Global Impact brought together select representatives from the Impact Management Project - a global consortium of 1000+ organisations spanning foundations, corporates, and high-net-worth individuals.

They are working together to agree on basic principles and procedures of how non-financial impact is measured; a convention for social/environmental impact akin to accountancy rules for measuring financial impact.

▶ While the Impact Management Project is of course collaborative, what do you see as your organisation's principal contribution(s) to this important dialogue?

Piet Klop. To try and test whether impact investing logic does in fact apply to institutional investors that play by different rules than mission-driven impact investors. Ultimately, what we can bring to the Impact Management Project and impact investing itself is scale.

Graham MacMillan. Two contributions: (1) providing much-needed grant and advisory support to jump-start and disseminate the project with a broad range of stakeholders; (2) to test, in a way that is most appropriate for our institution, how to best organise and design a portfolio for impact.

Shade Duffy. Sharing our experience as an asset manager interested in the mainstreaming and development of impact investing at scale. Plus, sharing the perspectives of our institutional investor clients, some of which are newly exposed to impact investing.

Kate Wylie. To test how the thinking and work can be applied internally to a multinational corporation. We provide an alternative perspective beyond those from the financial/investor sector.

Clara Barby. As with PGGM and Ford, the fact that we're a practitioner has meant we can ride the bike while we build it. In collaboration with a deliberately diverse group of leading sponsors, Bridges also brought the idea and energy to get the project off the ground and facilitated it.

This involved structuring sessions to enable more than 1000+ organisations globally to find consensus about how we talk about and manage 'impact'.

We sometimes had more than 80 organisations on global conference calls at one time, ranging from a social evaluator in South Africa to BlackRock in New York to a for-profit startup in Brazil. And there were healthy debates; for example, is impact risk different from financial risk? Is it impact if it would have happened anyway?

We played back the consensus publicly, ran surveys, invited further comment and now, in phase two of the project, we're working with practitioners to apply the shared convention, fine tune it, and turn it into training materials. There are modules emerging here that would plug neatly into executive education programs and financial management qualifications.

▶ What do you consider to have been the key drivers for family offices and foundations taking impact measurement more seriously and businesses giving greater consideration to their 'more-than-financial' impact?

Graham MacMillan. Given this time of increased social and environmental insecurity, foundations are increasingly exploring ways to enhance their impact. As part of this process, many are looking to all of their assets, including their endowments, as a vehicle to advance their missions.

Graham MacMillan
Senior Program Officer
of Mission Investments,
Ford Foundation

Piet Klop
Senior Advisor
Responsible Investment,
PGGM

Shade Duffy
Head of Corporate Governance,
Responsible Investment
AXA Investment Managers UK Limited

Shade Duffy. There are a range of factors but from an investment or enterprise perspective we are seeing that impact investing is usually targeting gaps and challenges which in themselves are often potentially huge, addressable market opportunities.

For example, around 800m people globally suffer from undernourishment, 2.3bn people do not have access to satisfactory sanitation, and around 3bn people live in poverty or on low incomes. Companies that can cater for these needs profitably will have significant opportunities to grow over a sustained period of time.

From an asset-owner perspective, a range of factors have led to more interest in this strategy from clients who want to shift their investment strategy to encompass both profit and impact returns.

These include the availability of impact investment funds delivering market-rate financial returns; investment opportunities at a size and scale feasible for institutional investors; and greater participation of established and mainstream asset managers in this space.

Piet Klop. For us, the need to rebuild trust in the financial sector and pension system by proving that pension investments can serve real social/environmental needs is a key driver. There is also increased impact-related appetite among pension fund participants and trustees; impact itself is a source of motivation and innovation; and increasing evidence that impact can be had at market-rate returns.

Clara Barby. Our effects on people and planet – our 'impact' – can be a carrot and a stick. The carrot is that understanding impact and its link to business models can create growth opportunities; the stick is that ignoring impact can materially increase risk.

I think the big driver for businesses to take this much more seriously today is that technology is making it easier to share data about those effects more quickly and widely, so that managing impact is now actually possible.

And this is why we need a shared convention – in other words, agreement between people who experience impact and the businesses and their investors that create it – about the sort of data that matters and how we share it with one another.

This is where the agreed-upon 'five dimensions of impact' under the Impact Management Project come in: who experiences an effect, what positive or negative outcomes it relates to, how much of it occurs, our contribution to it and the risk that it's different than expected.

Kate Wylie. The business case for sustainable development is clear and includes cost savings, risk reduction, growth as well as talent retention and recruitment.

For example, developing sustainable sourcing strategies helps drive supply security, protects our reputation, and builds mutual benefits for Mars and those within our supply chain, strengthening supply-chain resilience and saving future costs.

Within our operations we can save costs, ensure energy supply security, strengthen associate engagement and improve how we attract, recruit and retain talent.

Within Sales and Marketing, sustainable development can act as a growth driver, and improve customer and consumer relationships. More broadly, we can build stronger, deeper relationships with our external stakeholders – and build the business our investors want.

▶ In what ways were the different priorities, functions and perspectives of foundations negotiated within this collaborative project?

Clara Barby. One of the most effective ways that we 'negotiated' differences was by always grounding the discussion in the perspective of people (and the planet) experiencing impact. We ran focus groups in Bolivia, Belgium, Myanmar and the UK asking what people experiencing impact want the organisations that serve them to care about and manage.

This enabled us to reach consensus that understanding impact means understanding performance across five dimensions (who, what, how much, contribution and risk).

> **The IMP [framework] takes away the mystery that seems to arise when impact is discussed and designed.**
>
> **Graham MacMillan, Ford Foundation**

We were then able to discuss how different priorities will lead to different goals and performance across these dimensions. For example, participants concluded that the type of contribution that an organisation makes is driven by its constraints as much as its intentions.

A large pension fund has some very different constraints from an individual investor or a small social business. Being clear about what those constraints are can help everyone to recognise what role different organisations are best positioned to play in the overall system.

▶ Given the vast levels of wealth and influence that family offices and family-owned foundations have, how does IMP specifically ensure its solutions support and inform this valuable demographic? How does IMP ensure the unique perspectives of this demographic are taken into account in the course of its work?

Clara Barby. Anthos, one of Europe's largest family offices, was a project sponsor and advisor, having co-authored a practitioner's journey to impact management with Bridges Ventures the previous year.

One example of families' influence on the discussion was explicit inclusion of defining and sharing 'intentions' as part of the impact management process.

For many families, we heard that understanding the intentions of other organisations in the value chain such as the frontline businesses they're investing in, can be a shortcut to knowing whether impact is likely to be managed as a family would want it to be.

Shade Duffy. Family offices and foundations want to attract new capital to impact investing. Without it, none of us can meet the scale of the challenges we face, as identified by the UN Sustainable Development Goals. IMP aims to help make it a credible space for new investor types.

In addition, family offices and foundations are equally interested in developing this common convention and they have been proactive in contributing to the discussions.

Piet Klop. I agree. The value of IMP lies in its unifying nature, inclusive of family offices and foundations. It is important that concessional and mission-driven investors mobilise institutional investments if we are to make a dent in the world's problems.

I believe that traditionally it was private wealth that was best served by the different impact initiatives, frameworks and indicators. The 'crossover' from the traditional impact investment community to the institutional investment side, in my mind, is what sets IMP apart from other initiatives.

▶ What are the biggest barriers to adopting shared impact fundamentals?

Piet Klop. Biggest barriers are complexity and data intensity. This is especially so for investors that pursue impact as a secondary objective (with obvious limitations to the resources they want to dedicate to impact measurement).

The obvious complexity of social and environmental issues requires a special kind of courage that doesn't come naturally to the impact in-crowd, i.e. to keep things as simple as possible, and to go with the 80-20 rule, and to just start rather than hold out for the perfect approach.

Graham MacMillan. Managing qualitative versus quantitative; managing impact over time; overcoming complexity; and moving the needle on data aggregation to more easily benchmark and understand market norms for impact are all considerations.

Clara Barby. I agree on the challenge of collecting data, as well as aggregating and consolidating it – this is going to get easier the more widely the Impact Management Project is recognised. If existing data

solutions can use the Impact Management Project to position themselves according to the type of impact data they provide/aggregate/assure, investors can then pick and choose the combination of tools they need to have a comprehensive view.

Shade Duffy. Establishing a common convention that works across and takes account of the needs of a range of stakeholders, different geographies, enterprise size, impact outcomes, targets and so forth is quite ambitious. However, achieving the objectives of IMP will help to bring transparency and credibility to the impact investing space which will help drive its long-term success.

Kate Wylie. I think one of the biggest barriers is organisational diversity. As companies, institutions, and foundations take on board the fundamentals from IMP, there is the potential they might 'tweak' the framework for their own internal use.

> **Any change, if significant enough, faces barriers. To evolve into a truly sustainable business at this scale...requires immense transformation.**
>
> **Kate Wylie, MARS**

When this occurs – within a large organisation, across multiple organisations or multiple geographies – there is the risk that the uniform frameworks designed within IMP will start to evolve, potentially ending up in a different place than where they started. This might not be an issue as long as the fundamentals are still there, but something to keep an eye on.

Anna Lawlor. Are there 'actors' in the ecosystem who are served by the status quo who will need challenging – and do you think this can and will happen?

Graham MacMillan. The biggest barrier is inertia of existing institutional impact investors that currently move the market so that there are important signals of uptake and usage.

Much of this market is currently being met by an impact advisory marketplace that has not achieved a uniform approach, which hampers scale. We believe that the entire market will benefit when a more common approach/framework is utilised and that impact and investment advisors can engage with clients from this.

▶ What challenges or barriers did you experience from within your own organisation in helping it to embrace its own 'more-than-financial' impact? How did these internal issues highlight challenges and solutions within your contribution to IMP and the wider impact discussion?

Shade Duffy. The key discussions continue to be around impact reporting and measurement; to be able to assess impact returns in the same way that investors can objectively assess an investment's financial returns. We believe that IMP, as it develops, will help to standardise the type of information available and spur innovation to address these critical questions around impact returns.

Piet Klop. Reluctance to accept that impact can be had at market-rate returns; ultimately, an ambivalence about trusting scenarios and projections rather than past performance and historical data. Also, regulator and self-imposed constraints as to liquidity, deal size and track record etc.

More specifically to IMP, questions arose as to what our 'real' impact is or can be, especially in liquid markets, and whether we actually know enough about the impact we support/generate (we don't). Also, whether we can move, and how, from 'directional' objectives to absolute impact goals – even as we may not be able to manage our portfolio for maximum impact.

Graham MacMillan. In many ways it's an issue of form and function, which is likely a challenge almost all participating/supporting organisations face. Prior to this effort, there was really no common approach, so each organisation had its own idiosyncratic solution which fit its own needs. Coupled with the vintage of any particular organisation's impact measurement approach meant that much consideration needed to be given to how to adapt to these new frameworks.

Kate Wylie. Mars is committed to becoming sustainable in a generation. However, any change, if significant enough, faces barriers. To evolve into a truly sustainable business at the scale that's required for a business the size of Mars requires immense transformation.

One key criteria to achieving this is ensuring our 100,000+ associates embrace the transformation and engage. This requires that we make it clear and actionable for them, as well as for our external partners and suppliers, to drive the change. We need clear, consistent language, transparent measurement and reporting, and the monitoring and then rewarding of success. This is the purpose of IMP and why I became initially interested in the project.

▶ What has been the most surprising or game-changing perspective or information shared by another IMP contributor that challenged your thinking or changed your view on impact, in an important way?

Graham MacMillan. The language and approach to risk is quite different and challenging. So often risk is largely associated with the investment component of any transaction and the implications of risk on the investment's ability to perform financially.

The Impact Management Project has really looked at risk from an impact lens which is to say that risk in this framework is really related to the impact achieved or not achieved, and how this get considered when constructing a transaction or portfolio.

Shade Duffy. It has been interesting to be involved in discussions where the concept of impact is broadened beyond a focus on the intended positive effect of an investment to also encompass measuring any negative effects generated by an enterprise.

This view is refreshing and would encourage better management of any risks to the achievement of the intended impact objective.

> **From an investment or enterprise perspective, we are seeing that impact investing is usually targeting gaps and challenges which in themselves are often potentially huge, addressable market opportunities.**
>
> **Shade Duffy, AXA Investment Mangers**

Kate Wylie. I was fascinated by the dialogue within the investment community – something we aren't often exposed to as a privately owned business – and it was helpful to evaluate the differences and similarities.

For example, Mars takes both an impact and a risk-based approach. In simplest terms: impacts are how our business activities affect the world and the people we connect with, and the risks or vulnerabilities are how the activities of the planet and people we connect with affect our business. We have to analyse and address both.

So, for example we have greenhouse gas targets for our full value chain that are in line with climate science because we need to address the climate change vulnerabilities that affect our business and its extended supply chain.

Piet Klop. Game changing is the sharp distinction between the impact by the investee (enterprise, company) and the investor (capital provider). This is key and removes a lot of ambiguity from the debate. Also important is the definition of impact itself, which extends from negative screening to active ownership to actually providing capital to underserved markets or themes.

Clara Barby. I agree with Piet that the split between enterprise and investor contribution was one of the more important insights that emerged. This project has put to bed the false argument about whether an angel investor providing risk capital to a start-up social enterprise is achieving more or less impact than a public-equity investor using shareholder activism to get a big company to do less harm.

I also agree with Graham that the widespread agreement that consideration of impact risk should be standard practice is also a game-changer. There are few existing examples or guidance on impact risk and therefore a real opportunity for the Impact Management Project to provide support in this area.

But more surprising than both of these was the basic recognition that almost every business – and therefore every investor – has both good and bad impact. I mean, even the most fastidious social enterprise still has a carbon footprint.

We've learned that impact management requires us to understand and share information about both our positive and negative impacts. This means that the conversation about impact management spans all businesses and investors, not just mission-driven ones. The objective of IMP was to 'move the needle' on how impact is discussed, measured and managed.

▶ To what extent do you feel this has been achieved, and to what extent does this still need to be scaled and integrated more broadly?

Piet Klop. Time will tell but a very encouraging sign is the sheer number of investor who signed up to the project. IMP does need to be propagated and sustained and gain traction among institutional investors in particular.

Graham MacMillan. In many ways, the IMP takes away the mystery that seems to arise when impact is

discussed and designed. In so many institutions and contexts, the language and approach is virtually unique to those people in that place at that time.

The IMP cuts through all of this and creates a logical, rational and efficient way to help virtually all institutions engaged in impact investing to approach impact in a consistent way. If adopted – and there are many encouraging signs – this will create great scale, not least because so many different, existing practitioners will convert to using the same consistent language and approach.

> **I hope it will remove the 'greenwash' and noise from the debate, so that social returns can be reported much like financial returns.**
>
> **Piet Klop, PGGM**

Shade Duffy. I agree, and it has also been successful in getting a wide range of impact stakeholders to coalesce around the need to adopt a common convention around impact investing.

There still remains work around its adoption and the development of shared tools and resources to test the use of the framework in practice. We will know it is successful when the language of the IMP and resources developed therein are used broadly within the industry.

Clara Barby. I echo Piet and Graham's comments and would highlight Graham's point about IMP taking away the mystery that seems to arise when impact is discussed; it provides shared fundamentals for all of us to observe.

We can scale this practice through training, which is why there's a focus on working with membership networks and executive education programmes in Phase 2.

The other key to widespread traction is to make it easy for people. One way we're doing this is to be clear that this effort doesn't need to replace existing bespoke impact management approaches and tools.

It just asks people to reflect on their approach and tools and ensure that the five dimensions are observable. For example, some people are confident in their management of 'who' they affect but have done far less to consider impact risk. Another way is to work in partnership with existing tools and standards such as GRI, PRI, B Lab, the SDGs and the Poverty Probability Index – to make it clear what they tell businesses and investors about the five dimensions of impact.

Kate Wylie. Where I think the rubber hits the road is ensuring a consistent roll out. How do we maintain this alignment and consistency as this starts to be used? This is a primary focus of phase 2.

▶ Given that we are poised to see the biggest transfer of wealth between generations (Baby Boomers and Gen X/Millennials) across the world, how are organisations such as IMP communicating 'impact' to these younger demographics both in the mainstream and within wealthy (and therefore influential) families?

Kate Wylie. Aligning the way social and environmental impact is rigorously and credibly reported will ensure that everyone can see the true impact of their investments. Over time this will highlight successful, profitable and impactful investment opportunities and encourage capital to flow in this direction.

Graham MacMillan. The IMP, in many ways, is a modern-day articulation of values that, for the next generation of investors, must manifest itself in new product offerings and new approaches to wealth management.

The more that IMP is easily learned and deployed across wealth management platforms, the more likely that it will help shape and influence the next wave of wealth holders, many of whose values are so aligned with impact intent.

Piet Klop. What I hope it will do is remove the greenwash and the noise from the debate, so that social returns can eventually be reported much like financial returns, and thus feed the desire and the logic that finance really should serve real needs.

Clara Barby. I also strongly echo Graham's point about the Impact Management Project helping the next generation of investors to translate their values into the sort of impact performance they're looking for.

One thing we're doing in Phase 2 to foster this is working with wealth managers and advisors to test additional questions for a standard client due diligence questionnaire, which can uncover an asset owner's impact preferences as well as their financial goals.

Maja Hoffmann

Founder of the
LUMA Foundation

Maja Hoffmann is a contemporary art collector, and a supporter and producer of international art, film, publishing and environmental projects. She is founder of the LUMA Foundation, President of the Kunsthalle Zurich Foundation and Vice-President of the Council of the Emanuel Hoffmann-Stiftung in Basel.

The LUMA Foundation launches and produces cultural and art projects worldwide, including supporting a number of art-based international initiatives and institutional projects, such as the Venice Biennale. It is currently developing a new contemporary art centre in the Parc des Ateliers in Arles (France).

▶ There is a long, distinguished history between philanthropic support and cultivation of the Arts (visual arts, fine art, performance art etc); is the Arts a good example of where philanthropy is the most suitable model for creating social impact?

Philanthropy is the sustainable model to support the work of artists and the institutions that work with them and show them to a public. For philanthropic producers it is a requirement to not get immediate return exceeding the initial investment, whereas for others this is not the case – in fact, just the contrary.

For me, making art is a cultural endeavour which sometimes makes social impact, and it is certainly a great feeling to undertake bold productions for the greater good, but sometimes it is also a barely audible internal voice only heard by the artist that needs to get detected and germinate first, which is really what I like about art; it is complex and volatile, and changes the way we look at ourselves and at the world.

> **As our planetary resources are becoming scarcer, knowledge on the other hand is boundless and must be shared.**

▶ What are your thoughts on impact investing, and is there a place for impact investing (pursuit of both financial and social return) when applied to art and culture?

I believe that the environment and the human rights causes, for example, produce easier measurable examples of success and results for impact investors, but these can often happen best through art and culture.

Investing in the Arts, (which asks both for social and financial returns for the artist, the institution and the investor) can be tricky for several reasons:

- Size really matters. Impact bonds are related to large-scale operations like energy and microfinance, where the returns, both financial and social, are more tangible. But most cultural institutions or art projects are small-scale and fragile, and do not get access to the larger scale.
- Speed: The things needed to get a good financial return do not have the same speed as investing in social change and in a better world. The project holder often has pressing needs, while the financial institution has more time.
- Reputational risk: These days, just by the mere fact of existing, your non-profit runs the risk of financial improprieties and misunderstandings or management mistakes. The learning curve and the trust curve are very steep. Art in itself is also a risky endeavour.
- Measuring success: Last year, which was one of the most impressive financial years for the art world ever, it is calculated that the entire turnover (that could be traced) was around £35 billion. These figures could actually only be 50% accurate, below or above that figure. There are two art worlds; the one that makes money and the one that asks for it. So how does one measure social impact, and the other measure financial return?
- Opportunity: What someone working in art and culture sees as opportunity, someone in the financial world probably sees as risk. Art can be an amazing investment; the Walking Man of Giacometti that Commerzbank acquired when it took over Dresdner Bank in 2009 had been estimated to sell for £12-18 million. In eight minutes the sculpture sold for £58 million. That is a pretty good financial return! But it has nothing to do with philanthropy, nor does it make any kind of social impact.

This high-asset art world has nothing to do with my foundation, or the way I see art and culture. I don't deal with art and artists in this way. With LUMA I have always collected work from younger artists, or artists from my generation who were on the cutting edge, making art history and then taking it apart again, which up-front appears to be a pretty bad investment.

> **Years ago an art institution would have never taken the risk of creating such a hybrid program [as Atelier Luma]. Today, it is essential.**

What I find interesting is that a good social impact strategy can potentially be one of the pillars of strengthening social entrepreneurship, but LUMA is quite unique in the art world to be involved with such matters.

▶ You are involved in several foundations supporting the Arts – not least the LUMA Foundation, LUMA Arles and Emanuel Hoffmann Foundation. How do you ensure that such philanthropic support overwhelmingly serves the public?

Serving the public is serving the greater good. In France, for a private foundation to be concerned with the greater good is considered with suspicion. Whether it be through the LUMA Foundation in Switzerland with LUMA Westbau in the heart of Zurich, or ELEVATION 10493, a nature-based contemporary art biennale I helped to create in Gstaad, or my foundation's ongoing work in London with Tate Modern, in New York with the New Museum of Contemporary Art or the Swiss Institute and beyond.

I think global but support local, and usually in a place I live or have a personal connection with. If you work where people know you, I find you work much harder.

Also, you are more informed as to what is urgent, and who you can ask to help. I chose to develop our main LUMA project in Arles, where I grew up because I want its inhabitants to be the first to benefit from it.

LUMA Arles is committed to working with local craftsmen, builders and suppliers as much as possible. This explains why I asked that we create the conditions in which companies from Arles can actively take part in this project alongside us. We have both international standards and local roots.

▶ How do you measure successes in your philanthropic ventures?

Financial profit is not the right tool to measure success. Sustainability is the goal. There is by definition a distance between the non-profit world and commercial business, for all the obvious reasons.

This always makes the support of non-profits by profit-making business tricky, as even if the visions can align, the goals don't. Those who run a business are custodians of the wealth it generates and are responsible for its financial health. Those of non-profit do not want their proceeds to exceed the investments.

▶ Has the social impact been incorporated in the production of LUMA Arles, or is it solely in the 'finished product' and legacy?

Since we started to build in 2014 social impact is included in the process of the project. We were mindful of the environment, with the renovated construction, the Garden and the new Gehry-designed Resource Building since onset of the process.

The LUMA Foundation provided the seed funding to launch the project. LUMA Arles is committed to working with local artisans, contractors, and suppliers and has developed a program with the Chambre de Commerce et d'Industrie to engage local companies.

> **The distance between them always makes the support of non-profits by profit-making business tricky, as even if the visions can align, the [inherent motivations] don't.**

To date, eight companies selected to work on Les Forges are from Arles and the region (78% of the global market), 11 companies from Arles and the region have been involved on the renovation of the Mécanique Générale (that is 56% of the global market). Seven companies from Arles and the region have been involved in the renovation of the Formation (that is 61% of the global market).

▶ You are internationally influential in the Arts, but you are not particularly high-profile. What are your thoughts on using a public profile – and the amplification of a message that affords – as itself a tool for change and to inspire peers?

Personally, I prefer a more reflective and collaborative approach to the work I do, than having a high public profile. When it is useful for the enterprise, I step to the front. I am the Founder, and I accept this responsibility, and tell the story – but not my story – the story of the birth of a new institution.

> **[Millennials] will grow into their work in an age where resources are scarce, but knowledge is abundant and can be shared.**

I learned from my father, who was a great mentor to environmentalists, that you need to stand up for what you believe in, but then you also need to stand back and let the experts do their work. I learned that, as with nature, great things take a long time, and don't always turn out the way you planned.

▶ You were born into a family passionate about art. In what way has that family legacy informed your life's path and the mission of your own LUMA Foundation?

I grew up in Arles because of my father Luc Hoffmann's great enthusiasm for nature. He was a naturalist turned environmentalist, and co-founded the World Wildlife Fund and devoted his life to research and mentoring.

When I was in my 20s, I made a documentary in the Sahara about the Mauretanian 'fishermen in the desert' and accompanied my father on his trips.

Today, my foundation in Arles works very closely with the Tour du Valat on ground-breaking research around new bio-sourced materials through our social impact research arm, atelier LUMA.

> **Philanthropy is the sustainable model to support the work of artists and the institutions that work with them.**

My grandmother, Maja Sacher, with whom I share my name, was herself collecting emerging art, and created the Emanuel Hoffmann Foundation in 1933 to commemorate her husband, who passed away too early. She had dreamt of being an architect like her father but became a sculptor instead. It was by observing the art that surrounded my grandmother that I realised that art works could energise the space around them.

I always felt very privileged that she at one point decided that my youth was a welcome addition to her foundation, and I learned that art, while a very private practice, needed to be supported for the greater good.

Today, the notion of community is important for all young artists, whatever their geographic location. Especially those born after 1990, they grew up conscious in a world of political, economic, environmental and religious and cultural crisis.

> **I think global but support local.**

From September 11th to the world economic crash of 2008 to serial terrorism, severe climate change and the unbelievable depth of racial and economic inequality. They will grow into their work in an age where resources are scarce, but knowledge is abundant and can be shared.

Young artists today cannot be indifferent. Bertold Brecht said: 'Art is not a mirror held up to reality but a hammer with which to shape it'. I think we are at the threshold of something new, and that we cannot define right now, and that my generation will certainly not see the result of.

Cleary Gottlieb is delighted to support the 2018 Investing for Global Impact report. Since the first edition in 2014, this report has provided valuable insight into the latest initiatives and trends driving the impressive growth of impact investing.

Cleary Gottlieb recognises the importance of impact investing as a tool of positive social change, and we are pleased to have worked with clients during this period of rapid growth. The evolution of impact investment strategies has played a key role in this growth, attracting new investment capital and increasing the effectiveness of that capital as a driver of social change.

Impact Momentum

While early initiatives focused on attaching environmental, social and governance policies to existing investment strategies, in recent years we have helped investors and asset managers to successfully raise funds specifically targeting impact investment, with investment parameters demanding tangible social impact as well as competitive investment returns. The spectrum of active impact investors that we work with now includes family offices, foundations, pension funds, alternative asset managers and other institutional investors, and we have been privileged to work on transactions at the forefront of this new wave, around the world, including in Sub-Saharan Africa, the Middle East and Latin America.

The momentum towards direct social impact investment has given rise to some interesting issues and challenges, and we have helped clients to develop their response. For example, we have worked with clients to define 'social impact', and to develop tangible methods of evaluating and assessing the success of such investments. A related innovation has been the adoption by asset managers of a 'founders' board' in the investment review process, comprising well-known impact investors, philanthropists and representatives of cornerstone investors. The board is tasked with an impact-specific investment evaluation and oversight role. Another approach, suitable for some types of managed funds, has seen asset managers introduce a separate 'hurdle' for social impact, which must be cleared before carry will be achieved by investment managers. We expect that the use of such techniques and structures will continue to evolve.

In parallel with the rise of direct impact investment in private companies, we have also seen its emergence in public companies, led by impact investors (or pooled funds of investors), for the purpose of using the investment position to drive change in some of the world's largest traded companies. A number of these techniques have been borrowed from the playbooks of traditional activist investors.

With investment capital playing an ever-increasing role in driving positive social change, governments and regulators have considered ways in which they might support and encourage impact investment. The EU recently published the final report of its High-Level Expert Group on Sustainable Finance, which sets out strategic recommendations for a financial system that supports sustainable investments, including proposals requiring financial institutions and companies to disclose how sustainability is factored into their decision-making as well as creating an EU-wide label for green investment funds. We expect to see increased governmental support and direction for impact investment in coming years, and are continually monitoring the implications of such changes.

We are excited by the possibilities for investment capital to make a positive social contribution, while delivering competitive returns. We look forward to continuing to support and work with those seeking to explore this area and develop new ways to contribute to the growth and performance of impact investing.

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CHAPTER 4: PERFORMANCE & DETERMINING SUCCESS

What makes a successful impact investment? For our respondents, one that 'achieves the principle investment objective' is on par with an investment that 'exceeds the social objective'. On a one-to-three ranking, these twin barometers for success far outstrip other – perhaps 'softer' - metrics for success, such as 'setting the bar for best practice in impact investing' and creating a 'positive collaboration with stakeholders'.

Disparity in Barometers of Success

Interestingly, our respondents appear to be satisfied with financial returns matching their targets but hold the social return of their impact investments to a higher standard, expecting the social return to 'exceed' the targeted objective in order to be considered a success.

By this barometer, only 19% of the respondents might consider their impact investments successful, as that is the proportion whose social performance 'exceeded expectations' compared with their social objectives (the same 'ballpark' figure over the past three FT surveys).

Considering that just over two-thirds of respondents this year report that their impact investments have 'met expectations' – with a cumulative 87% enjoying social returns in line with or exceeding their objectives at the outset – it seems a little strange to set the bar for success differently for social and financial returns.

This is especially so when, in terms of priorities, family offices said it was 'equally important to generate both social impact and financial return' from their impact investments, while foundations prioritise 'social return, though financial return is targeted'. Similarly, overall financial performance of impact investments 'met expectations' for 76% of the respondents and 'exceeded expectations' for 9% (compared with 19% for the social performance). So, fewer are overshooting the financial targets on their impact investments.

Measurement Red Herring?

Could it be that our respondents are more confident in the way that the financial element of their impact investments is forecast and measured, and therefore feel this is more accurate at the target-setting stage than for the social element of their impact investments?

This suspicion that social impact targets are set too conservatively could explain an expectation for them to smash such targets in order to be considered 'successful' in their mission.

In the freehand section of the survey, respondents gave reasons for any element of their impact investments falling below their expectations, including 'timeframes too optimistic' and several noting 'higher costs than expected'and difficulties with implementation.

However, as we saw in Chapter 1, social impact measurement was a significant barrier to respondents increasing their engagement with philanthropy but was not among the principal barriers to respondents increasing their allocation to impact investments

CHART 17

How do the following rank in your perception of a successful impact investment?

Base: All active in impact investing

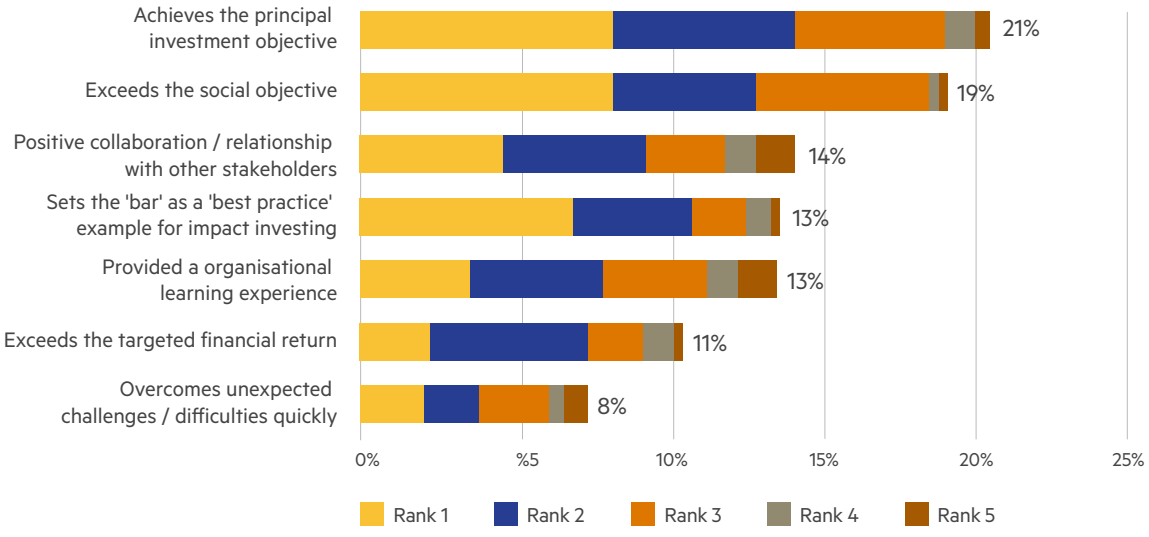


CHART 18

The average financial return on impact investments compared with expected returns.

Base: All active in impact investing

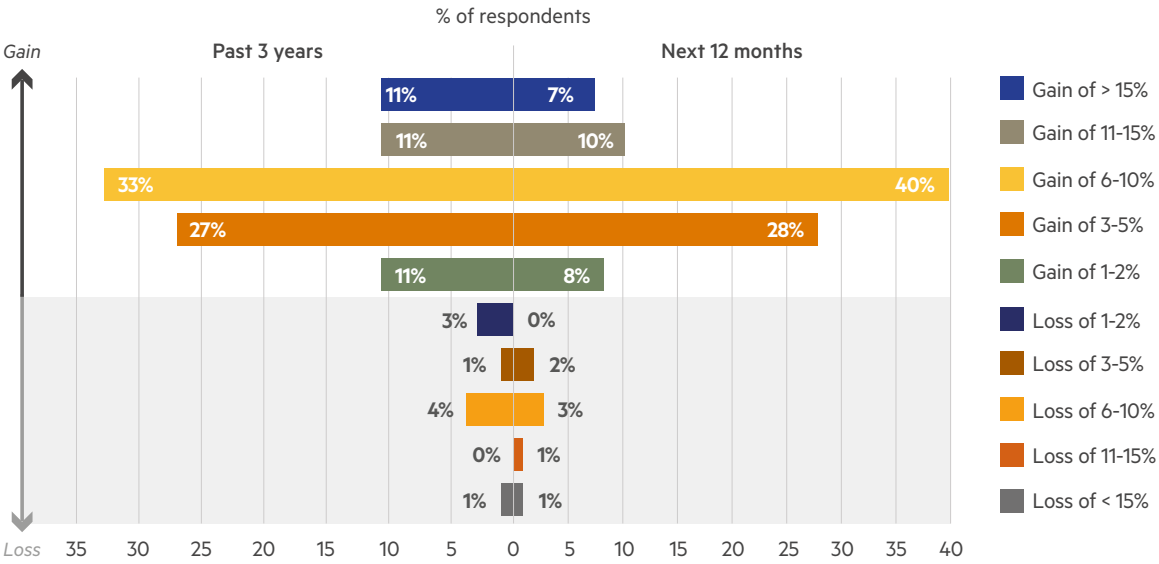
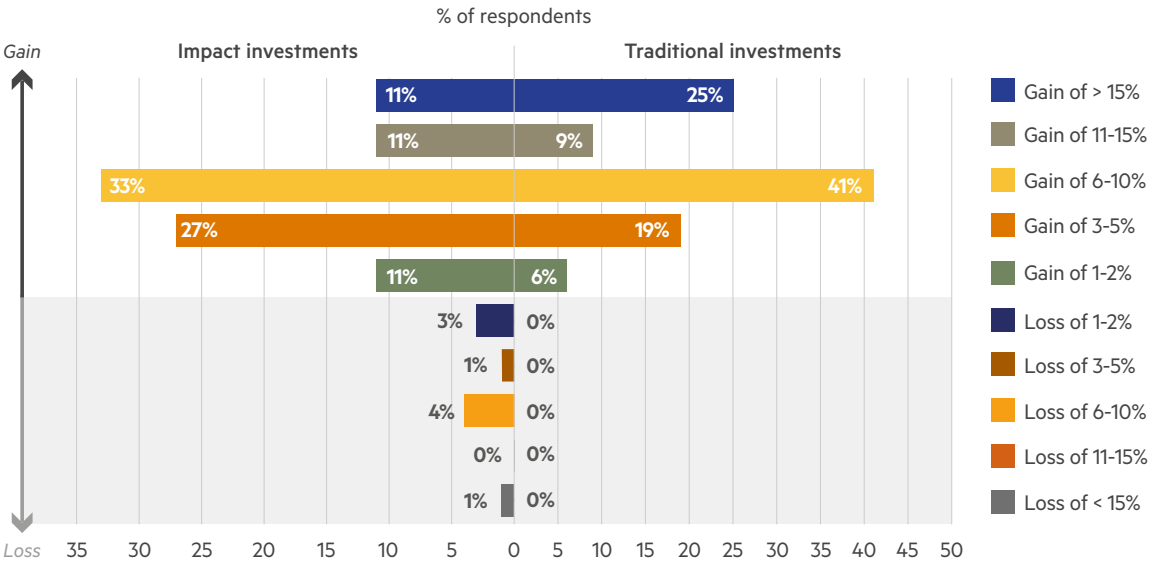


CHART 19

The average annual financial return of impact investments compared to traditional investments – over the previous 3 years.

Base: All active in impact investing, then all not active in impact investing



(that was overwhelmingly the lack of high-quality investment opportunities, via funds or direct, with proven track records).

In Chapter 3, we also saw that since the FT survey began there has been a downward trend in respondents citing social impact measurement challenges or impact investing terminology being a barrier to seeking future impact investments for their portfolio. As such, it is all the more perplexing as to why there should be different barometers of impact success for the financial and the social element of respondents' respective portfolios.

Performance Parity

The vast majority of respondents achieved a positive financial return over the past three years, with the most typical average return being a gain of 6-10%. By comparison, only 9% of respondents reported making any financial loss from impact investing over the period.

The bigger question, really, is whether such financial gains are achieving a market-rate, risk-adjusted financial return for investors (alongside the social impact, which we have already seen are meeting or beating their intended targets).

The average annual return of respondents' 'traditional' investments (seeking financial returns only) over the past three years found the most typical average return was a gain of 6-10% here too. The proportion of respondents reporting a gain of more than 15% for the period was far higher for traditional investments, 25% of respondents compared to 11% for their impact investments.

While the financial returns derived from impact investments were found to be compelling when compared with the returns from traditional investments, it is notable that no financial losses were reported for traditional investments at all (compared with 7% of losses recorded for impact investments). Considering the dual target inherent in impact investing, such comparisons will further bolster the 'business case' for impact investing.

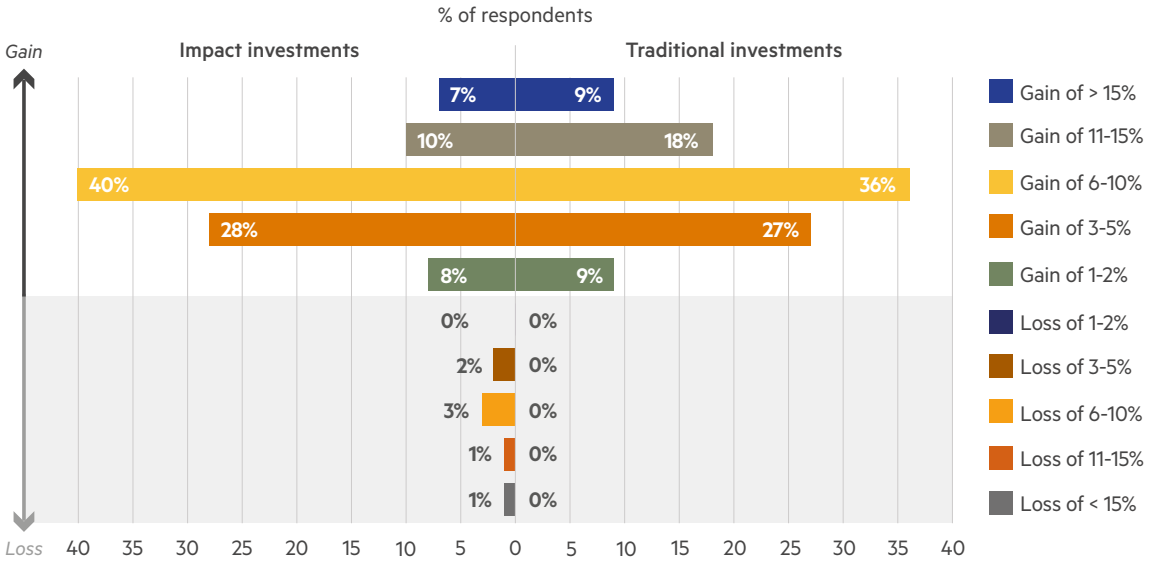
In terms of the forecast financial returns for the coming 12 months, the majority of respondents (68%) expect their impact investments to achieve the 3-10% range, which mirrors historic returns achieved. Likewise, only 7% expect to realise a financial loss from their impact investments.

In terms of their traditional investments, the majority of respondents (36%) are forecasting a gain of 6-10%, with

CHART 20

The expected financial return over next 12 months for impact investments compared with traditional investments

Base: All active in impact investing, then all not active in impact investing



27% expecting a gain of 3-5%. Respondents are more bullish about their traditional investments in the 12-month short-run, with 18% of them forecasting a gain of 11-15%, compared with 10% feeling so bullish about the financial element of their impact investments over the next 12 months.

The majority (54%) have not exited an impact investment in the past three years, and as we have seen in Chapter 2, most respondents are holding impact investments longer than expected. For those that have exited an impact investment, 45% were exited via a fund, 39% through direct equity holding and 31% through direct investment debt.

Interestingly, the top Rank 2 reason preventing respondents from increasing their impact investment holdings is 'lack of impact investments with suitable exit opportunities', highlighting the challenges presented by the largely illiquid marketplace.

As we have seen in this chapter, the investment instrument options are increasing and the impact field is maturing, but it certainly isn't on par with the options available for traditional financial-return only investments.

CHART 21

How did the overall financial performance of your impact investments compare to:

Base: All active in impact investing

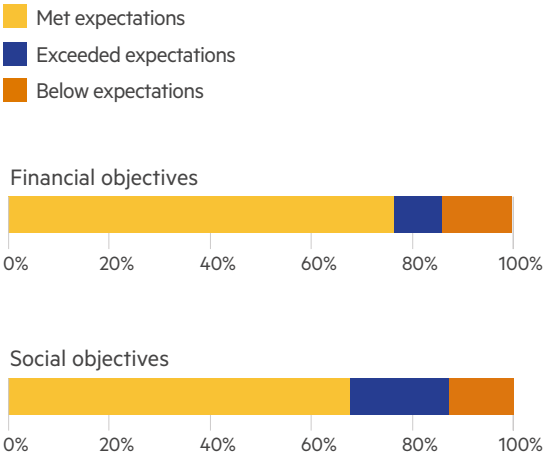
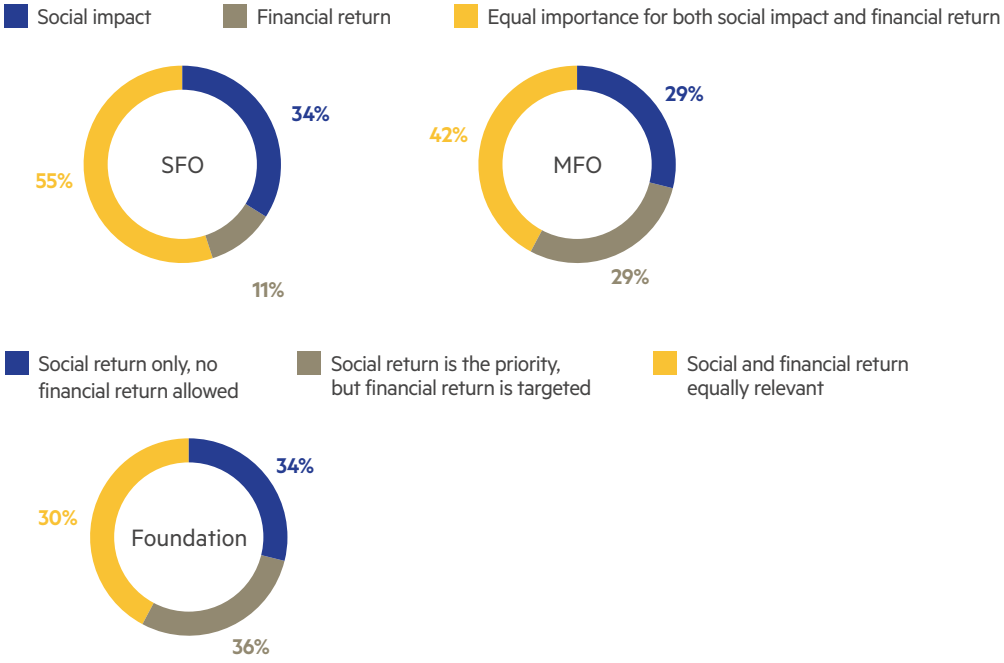


CHART 22

What is your organisation's overarching priority?

Base: All active in impact investing: single-family offices, then multi-family offices then foundations



CHAPTER 5:
A FIVE-YEAR RETROSPECTIVE

The past five years have witnessed a boom in global wealth. Surging back from the 12.6% loss resulting from the financial crisis of 2007, total global wealth has stormed ahead to $280 trillion in 2017, 27% higher than a decade earlier. There are now a record 2,257 billionaires in the world, a 55% increase in the past five years, according to the Hurun Global Rich List 2017.

Despite a low-economic global growth environment with high socio-political headwinds, the number of millionaires since this report began in 2014 has been increasing. Squabbles about millionaire measurement and definition aside, the number of millionaires in 2014 was in the region of 14.6 million. As we enter 2018, that bracket has reached a record high of 16.5 million – if not higher.

Globally, the inter-generational wealth transfer between 'Baby-Boomers' and their next generations will be the largest in global history. Geographically, concentrated wealth in Asia is growing at the fastest rate; there are now more billionaires in China (609 in total) than any other country, surpassing the US (at 552).

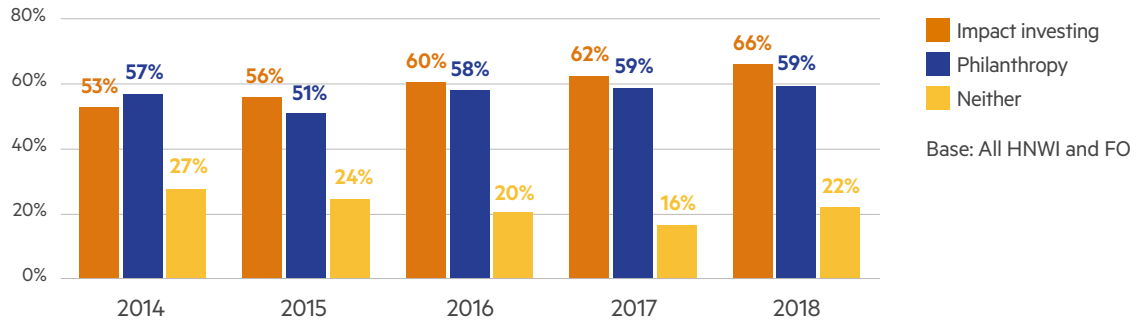
This creation of such vast new wealth – and the concentration of wealth – has fueled the growth of the family office sector; the 2016 EY Family Office Guide estimates there are more than 10,000 single-family offices worldwide, half of which have been established in the past 15 years. The number of multi-family offices is also reported to be growing, with increased competition among private wealth management firms.

In this five-year anniversary edition of the FT Investing in Global Impact report, we have collated and analysed the vast data sets to seek to identify trend behavior of family offices and foundations.

Since launching in 2014, this report has garnered increasingly large volumes of respondents, increasing by 111%, from 154 to 325 respondents this year. Given the changing wealth landscape described above, it is perhaps unsurprising that we are seeing shifts in the way wealth is redistributed for social benefit and impact by wealthy families and individuals.

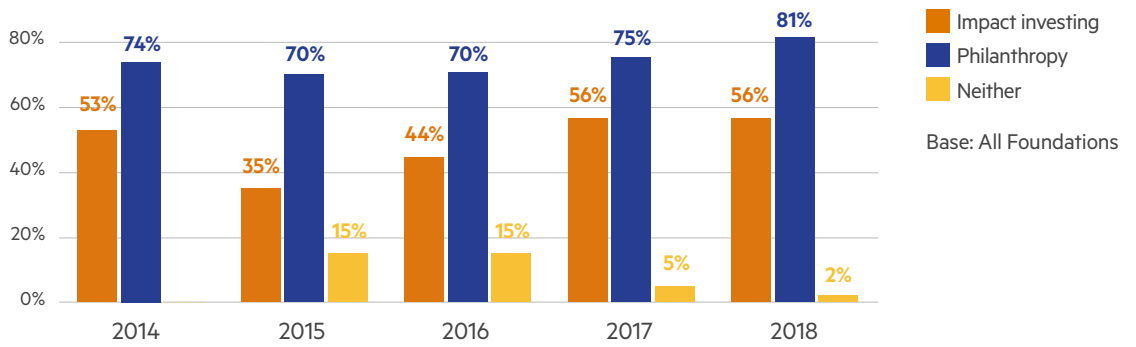
CHART 1

In which are you / your family office active?



Base: All HNWI and FO

In which is your foundation active?



Base: All Foundations

Over the past five years, the general trend for how many respondents are active in impact investing as well as philanthropy has been an upward trajectory, with impact investing outstripping philanthropy since the 2015 report.

A similar growth trend is seen over five years with foundations, though foundation respondents have always reported being more active in philanthropy than impact investing, and with a more stark upward swing in the latter over the five years. The proportion of respondents' total investment portfolios (or assets under management) that is allocated to impact investing has also doubled over the past five years (to 31%). All of the survey evidence from the start of this report in 2014 indicates that 'giving back' to society and creating a positive social/environmental impact is increasing in line with the increased wealth of respondents.

Motivations Fuelling Social Impact

'Contributing to sustainable development', 'a responsibility to make the world a better place' and reflecting the 'values of the family' have consistently been the leading major motivations for respondents making impact investments. While this year these themes retain their position with respondents, the trend over the past three years has been downwards for each.

By contrast, the broader concept of 'giving back' has gained traction over the period. Also, the newly introduced themes of 'addressing specific societal issues more effectively than donating philanthropically' and 'influencing how the capital markets and financial systems operate' have both trended upwards over the past two years.

The importance of understanding the motivations behind impact investing is that financial services and advisers can increasingly tailor the services and financial instruments available for targeting both financial and social return on investment to align more accurately with such motivations. For family offices, their priorities for impact investments over the past five years have closely alternated between a focus on social impact first, and the equal importance of generating social and financial return.

CHART 2

What are your major motivations for your impact investments? (Highest ranked responses)

Base: All active in impact investing. Multiple responses allowed

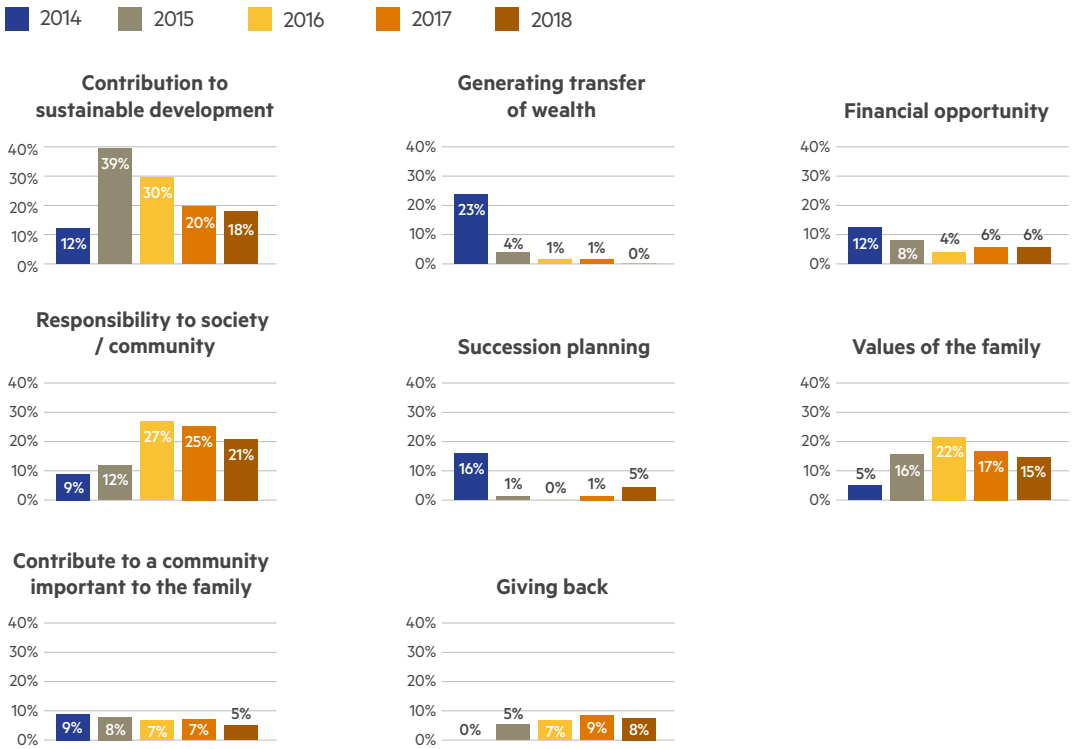
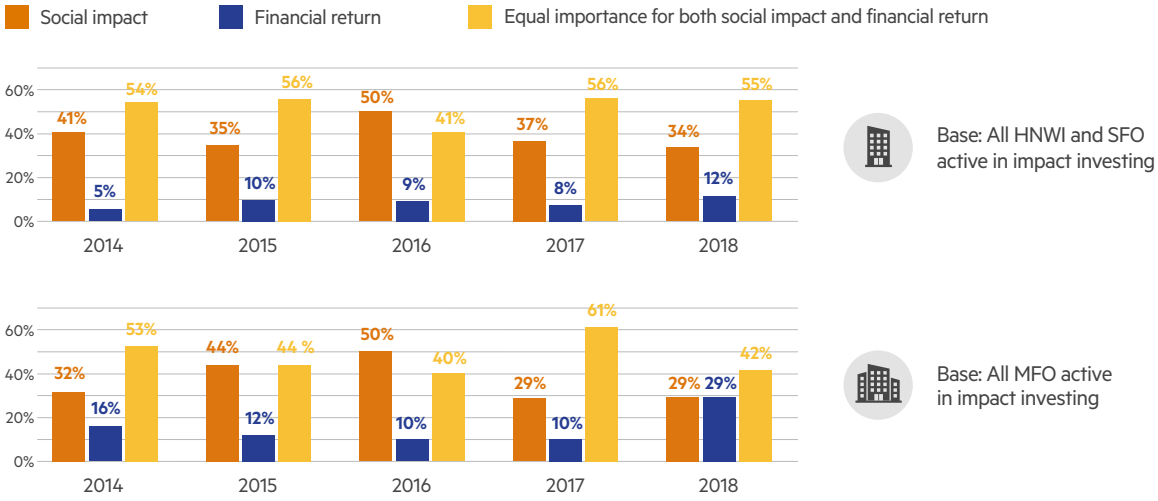


CHART 3

What is the top priority for your impact investments?



What is the top priority for your foundation?

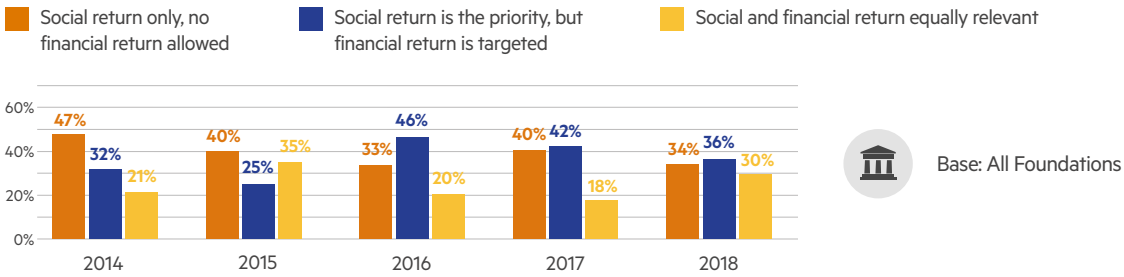


CHART 4

Which of the following are you currently invested in or planning to invest in over the next 12 months?

Base: All active in impact investing. Multiple responses allowed

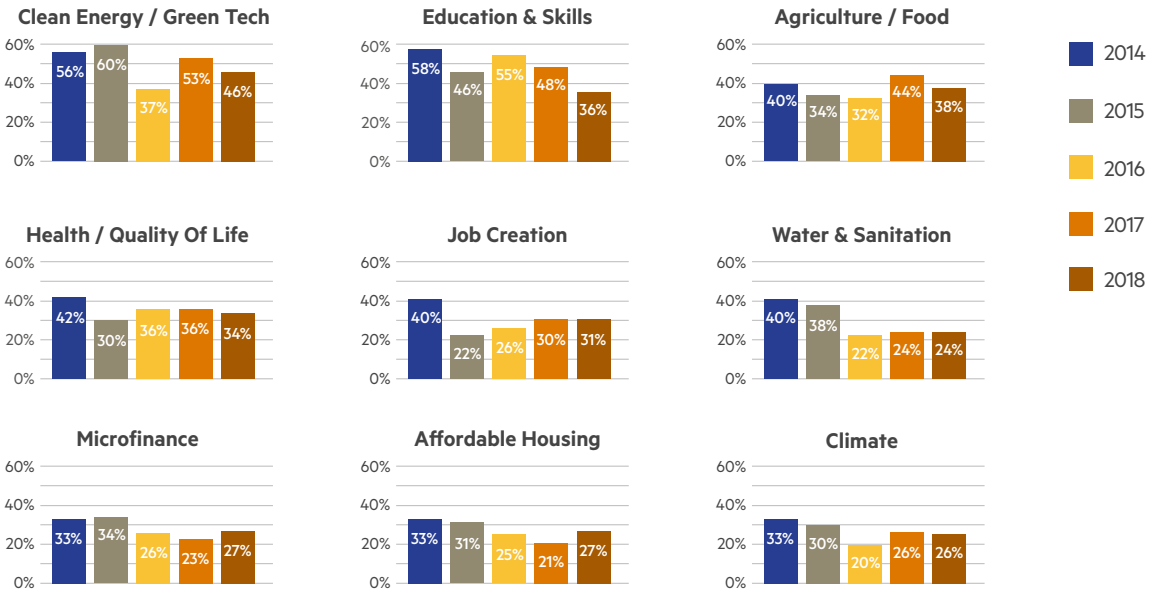
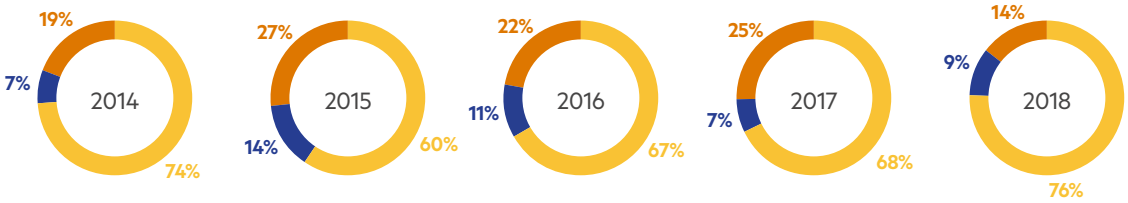


CHART 5

How did the overall financial performance of your impact investments compare to your financial objectives?

Base: All active in impact investing — Met expectations — Exceeded expectations — Below expectations



How did the social performance of your impact investments compare to your social objectives?

Base: All active in impact investing — Met expectations — Exceeded expectations — Below expectations

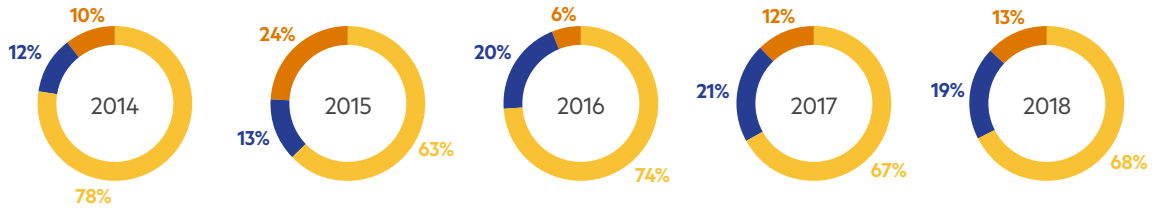
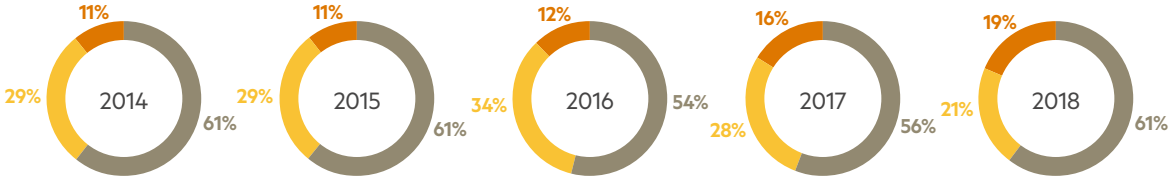


CHART 6

How do the parameters for impact investing compare with traditional investing (financial risk)?

Base: All active in impact investing — Same as 'traditional' investments — Less tight parameters — Tighter parameters



How do the parameters for impact investing compare with traditional investing (financial return)?

Base: All active in impact investing — Same as 'traditional' investments — Less tight parameters — Tighter parameters

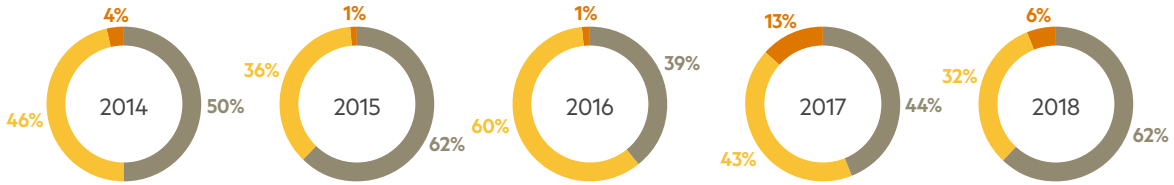


CHART 7

What proportion of your assets under management is currently allocated to impact investing?

Base: All HNWI and FO active in impact investing

Over the five-year period, financial return has not been the priority for family offices, and recorded a downward trend – until this year. In 2018, the number of respondents prioritising financial return in their impact investing tripled (from 10% last year to 29% this year), putting it on par with respondents prioritising social impact.

This uptick could reflect increasing participation in this project by high-net-worth individuals who, the survey found, apply principles of impact investing more broadly, with higher expectations of using the pursuit of profit for positive social/environmental purpose.

Performance Expectations

The financial performance of respondents' impact investments is increasingly exceeding their expectations, as is social performance. Over the past five years, the FT survey has also found that those reporting financial performance as falling below their expectations has steadily declined.

By contrast, this segment has increased over the past three years in respect to social performance falling below expectations. Overall, both financial and social performance of impact investments continue to 'meet expectations' far beyond those reporting performance as exceeding or falling below their expectations.

Interestingly, this survey has found that respondents have a higher propensity to apply looser parameters to their impact investment performance (i.e. return) - compared with traditional investments – than they apply to the financial risk element of those investments. Over the past five years, there has been an upward trend from respondents applying tighter parameters to the financial risk element of their impact investments (than they would traditional investments), with this element almost doubling to 19%. This appears at odds with how financial performance is meeting or exceeding expectations for impact investments, but may reflect changes to portfolio construction and risk appetite more generally.

In the search for financial return in a low-economic global growth environment with high socio-political headwinds, family offices have been increasing the exposure of their traditional investments to 'alternatives' such as private equity. As we have seen elsewhere in the report, private equity continues to dominate as the favoured tool for impact investing (though it has declined over the period).

However, over the past five years there has been a considerable upward trend in respondents reporting a 'lack of direct opportunities' (from 9% to 22% in Rank 1, over the period). Combining this with trend data showing respondents increasingly favouring impact investments at 'seed/startup' phase and continuing to invest in 'early-stage capital', we could hypothesise that the greater financial risk inherent in these investment phases increases with access to a limited pool of private equity opportunities.

Thematic Giving

Throughout the research period, Clean Energy/Green Tech and Education/Skills have continued to be favoured by respondents for their philanthropic engagement and impact investments. That said, the proportion of respondents engaging with these themes has been in decline, while themes relating to Job Creation and Social/Cultural Cohesion have increased over the past four years.

Education has long benefited from philanthropic giving, as a source of 'giving back' to institutions that benefactors felt supported by or as a source of improving livelihoods (jobs, economy) and life wellbeing of others through improved access to education and skills.

With the pressing and timely demands of climate change – and perhaps in response to its loud, public denouncers – Clean Energy/Green Tech is an unsurprising cause célèbre for some, and an attractive impact investment theme for others, as technological capabilities abound in the Digital Age and governments encourage the combination of tech and environmental sustainability (or penalise less environmentally sustainable businesses and initiatives).

Interestingly, themes of Water & Sanitation, World Peace and Gender Equality have trended downwards over the period, which is perhaps surprising given the heightened conflict-related risk factors globally during the period; the UN says we are witnessing a 25-year peak in global violence. According to the United Nations OCHA World Humanitarian Data and Trends Report, between 2015 and 2016 an additional 300,000 people were displaced by conflict pushing the number of people forced from their homes by conflict to a record 65.6 million worldwide. Globally, there were 278 political conflicts in 2006; 10 years later, the number of political conflicts had risen sharply to 402. This compounds an economic cost, estimated to now sap the global economy of $14 trillion per year.

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Partner and Lead Sponsor

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LifeGate and **GIST** collaborate on several projects to generate profound impact for communities and individuals. **LifeGate** in Italy is a point of reference for sustainable development. It supports companies in improving their social and environmental impact through energy efficiency projects, renewable energy provision, as well as strategic communication. Through its media network, which engages a community of over 6 million contacts, LifeGate supports its audience and customers to embrace a sustainable lifestyle. **GIST** is a partner for international impact engagements. Find us at **www.lifegate.com**.

SEREIN was established by families to provide specialist expertise and infrastructure aimed at empowering the members to assume control of their legacy. Based on first-hand experience in understanding the myriad of challenges which the responsibilities of custodianship bring, other families can also benefit from shared insights and expertise. The desire to sustain a family's legacy for future generations encompasses everything that is important to the family. Creating a positive social and environmental impact which makes a difference to all beings is at the heart of a family's legacy. **SEREIN** and **GIST** are jointly exploring holistic solutions to generate a profound impact for families and selected communities. Discover more at **www.sereinprivate.com**.

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