Philanthropy Impact

Exploring the role of philanthropy as part of wealth management

Magazine

Issue 19: Spring 2018

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CHANGING TIMES

A commercial opportunity not to be missed by professional advisers – providing philanthropy and social investment advice

Philanthropy Impact

Vision: A world where individuals and families engage in philanthropy and social investment, supported by advisers.

Mission: Growing modern philanthropy by developing the skills and knowledge of professional advisers about philanthropy and social investment. We deliver our mission by delivering activities to support our members and key stakeholders.

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- Events: a comprehensive programme of events including networking among philanthropy and professional advisers
- Training sessions for professional advisers to help them support their clients' philanthropic journey
- Publications and Research: developing our 'body of knowledge'
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- Technical content & analysis
- Case studies
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- Market research

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- Advocacy: lobby for policies and regulations that encourage philanthropic giving and social investment
- Policy position submissions and papers
- Engagement with Government and key policy stakeholders

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Turning the conversation upside down:
start listening to bring purpose to the client relationship

Heiko Specking *www.specking.ch*

Heiko Specking

You need a reasonably profound connection with clients in order to better understand their individual interests. Knowing a client's personal motivation and ideas means the advisor or intermediary can provide a better service.

However, client talks are increasingly just reduced to the presentation of numbers, graphs and other technical information. Often, this information is shared as a one-way street and it is rare that an actual exchange takes place. In today's environment, this approach to client meetings may well be counterproductive. Clients are complaining that advisors don't ask the right questions and aren't interested in their needs, visions and ideas.

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To maintain and deepen the customer relationship, the narrative needs to change. Values and the personal vision of a client should become key elements in the dialogue. Often the client-advisor discussions are driven by the client's commitment to make a positive difference in the world. Hence, the issues of philanthropic engagement, sustainable investments, social-entrepreneurial investments or responsible

business strategies are topics which should be part of the regular conversation with a client, especially because they enable a more personal exchange.

The business case

Mutual personal understanding is a key component to a long-lasting, successful client relationship. Making your clients the centre of attention as opposed to their potential assets leads to a lasting connection, which may survive for generations. When enriching the dialogue by taking a more personal approach, you can expect to be seeing benefits over a three- to five-year time period.

Mutual personal understanding is a key component to a long-lasting, successful client relationship.

Some of the most important outcomes of a value-based client relationship are:

- A better understanding of the personal value proposition and the individual needs of the client
- Building mutual trust which benefits the client relationship and the potential for long-term business relations
- Providing an opportunity to engage different generations and align their diverse interests while building on family traditions
- Obtaining awareness about the client's perception of money
- Demonstrating the benefits of a holistic approach that encompasses social, political and economic thinking.

This different approach to the advisor-client relationship can also be extrapolated to prospective clients.

Learning more about a client's motivation and ideas also leads to enhanced business potential and the possibility of developing new income streams. The key benefits are:

- Maintaining clients and improving existing client relationships
- Discovering substantial cross-selling potential as discussions can reveal opportunities to provide different in-house services
- Increasing share-of-wallet
- Referrals within the client's peer group and business partners
- Facilitating client acquisition which can lead to new assets over time
- Donating within a strategic giving plan actually reduces the outflow of funds as donations are split over time.

Exploring client needs by listening carefully

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Often the institution has a ready-made trendy product, perhaps based on a corporate marketing strategy that the financial structuring department has come up with. Such initiatives then sit on the shelf and need to be sold. Client advisors therefore may not be able to inquire about the ideas of clients, but rather end up selling in-house products or investment structures from associated business partners.

Client interests though have actually shifted towards philanthropy and responsible investments. Wealthy individuals from all age ranges are utilising their fortune and business practices to make a positive difference for society or the environment. Although this is a much discussed topic, often it is not explicitly expressed to the advisor or intermediary so most advisors don't fully understand their clients in this respect.

So what are the possibilities of changing the paradigm within the conversation?

Basically it is about listening to the client – an art that seems to have been forgotten in the financial industry. To start the conversation, an open common sense question helps to break the ice. How do you perceive development in socially responsible investments in recent years? What is your understanding of the Social Development Goals? Have you thought about investing differently, reflecting your personal values? What experiences have you had in terms of philanthropy engagement? Would you like to start your own charitable endeavour? Are you aware of entrepreneurial-driven investments which combine social and financial returns?

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Rest assured, these are all very common sense questions and in this way, the client can be truly in the spotlight. It is vital to understand the story clients tell and to encourage further sharing. Personal values and purpose as well as the client's mid to long-term vision can then take centre stage. A lot of answers will contain surprising new information about the person or the family, which will benefit the depth of the relationship.

Vision and values: what drives the client?

A purpose-driven approach seems to be far more rewarding in the long run and also financially sound. It certainly increases happiness, as well as personal fulfilment and contentment in a broader sense.

We all have values and most of us have visions or ideas about our future. Unfortunately in today's environment, we take little time to reflect upon them. Re-introducing reflection in client conversations can encourage a different level of engagement, helping the dialogue to become more personal.

Knowing more about clients' needs and expectations as well as their personal passion helps advisors to design tailor-made solutions. Another outcome could be the realisation that different clients share a similar vision and could therefore be introduced to each other.

Understanding the spectrum of opportunities

Nowadays there is an array of options for donations or engaging, but many clients simply do not know these options. Others are already proficient in their giving practices and wish to expand their activities. Often they are keen to enlarge their knowledge base to understand more about measuring impact, their opportunities in professional giving, collaboration with peers or engaging with existing initiatives in the social or environmental field.

Wealthy individuals need to understand they have the choice to become engaged on various levels which would reflect their personal interest and ambitions. They can define their individual path to become active in a holistic way, while looking at the whole spectrum of opportunities.

A case for philanthropic engagement

Philanthropic engagement is a valid opportunity to make a difference. It is often a starting point during emergencies, but also consists of projects or innovative processes which support people and communities in need. Direct engagement with projects also provides important learning and can lead to further personalised activities, whether the approach is traditionally philanthropic or more entrepreneurial by participating actively in specific projects.

Conclusion

In short: it is all about personal relationships. We need to change the attitude towards the conversation. In order to make this happen, we need to be asking the right questions and listening carefully to the answers. Purpose, values and vision are central drivers for client engagements. Through these discussions, trust can flourish within the relationship and become the key to a long and rewarding relationship.

Heiko Specking *has over 25 years of experience in the fields of social environmental investments, philanthropy advisory and long-term business development.*

Having worked for service providers in the field of ethical investments, he joined a Multi-Family Office in Zurich to set up their charity services, guiding the clients in their philanthropic efforts and managing their projects globally. He headed the Philanthropy and Social Responsible Investment Advisory at Credit Suisse Solution Partners advising the premium clients of the bank in respect of their charitable engagement and social investing activities. In 2014 Heiko set up specking+partners ltd., a firm serving individuals, foundations, intermediaries and corporations internationally in respect of their responsible engagements.

He is on the board of the Light for the World Association in Switzerland, supporting eye health services and the inclusion of disadvantaged people in developing countries. Being a committee member of the Zurich chapter of Philanthropy Impact, he moderates regular roundtable discussions. On a voluntary basis he strategically supports various charitable initiatives and start-ups with a social impact in Switzerland and the UK.

He holds an MBA in Business Administration from the University of Frankfurt/Main and is a qualified trust and estate practitioner (TEP).

Case Study:
achieving impact – philanthropy at C. Hoare and Co

Alexander Hoare *www.hoaresbank.co.uk*

Alexander Hoare

The Hoare family's involvement in both banking and philanthropy began almost 350 years ago. The two strands were twinned at the very start and remain closely connected today. Our philanthropy began with running a profitable business. By doing so, we were able to help start Westminster Hospital, support injured veterans of the Battle of Waterloo and found an impact investment fund.

The family established the Golden Bottle Trust (GBT) in 1985. It binds together the family diaspora, it increases staff charitable giving and it allows the partners to donate to causes which resonate with them. There have been many successes, particularly with small charities where a small cash injection and some consultancy can go a long way. The GBT has given away £17 million since it was founded and it has built an endowment of £17 million.

Non-financial contributions also play an important role. Every partner also gives their time and expertise which is often a more valuable contribution than money alone – it is just more difficult to measure. I find I spend a lot of time each week on things which have little direct relevance to my day job, in the belief that what comes around goes around.

Furthering our impact

The GBT does a lot of great work, but to have real impact, we need to harness more of our customers as well as staff. At the moment, there are three ways in which we engage with our customers philanthropically: by hosting evening talks; by offering our donor-advised fund; and by facilitating appropriate introductions.

Our evening talks are a way of showcasing charities and social enterprises. I have been told countless times by customers that attending these talks changed the course of their philanthropic activities. I once visited a customer in Sri Lanka, a year after the tsunami, and she confided that just giving two talks at the bank had raised enough money to re-build her entire village.

We launched a donor-advised fund, the Master Charitable Trust (MCT) in 2011. Its purpose is to allow customers to give without the administration, cost and time involved in setting up a trust or a foundation. Customers can set up a sub-fund under the MCT umbrella with just three forms, and start to give immediately. There are over 50 giving funds, the largest of which stands at over £10 million, and we have overseen donations of £30 million.

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The final strand is the most difficult. We try to listen to our customers and offer introductions and opportunities as they arise. This relies on customers to tell us what they may be interested in and also in a good deal of serendipity, but it is very satisfactory when it transpires.

Changing mainstream finance

I like to think that we have done some good in terms of best practice and mobilising money. However, we are small in number. There is a missing opportunity which I am now engaged on and which could change the face of mainstream finance: how the endowment is invested.

In 2011, I carved out an allocation of 10% of the GBT endowment and started making social loans, social equity investments and later, venture philanthropy investments. The results were encouraging so the allocation increased to 20%. Good work was being achieved in civil society and we could also see that we would get our money back with a financial return. The return was probably going to be less than the traditional, mainstream markets, but it had a very attractive characteristic: it was uncorrelated with other returns, being predicated by outcomes in schools and hospitals, not the activity of central banks and politicians.

Uncorrelated real returns should find a place in any portfolio. It wasn't reasonable to increase the GBT exposure much more as the returns would cease to be uncorrelated, so what next?

Project Snowball

Eighteen months ago, the GBT entered into a partnership with another charity, Panahpur, and we each contributed between £2–3 million of social investments towards the project: "Project Snowball llp". Since then, Friends Provident Foundation and a family charity have joined – both at the same level – and another family office joined last month.

Our intention is to scale up our project and eventually list some shares on a recognised exchange. That will give IFAs and wealth managers an answer for their millennial clients who want to invest according to their values. We believe that this will lead to other mainstream institutions following suit and making social investment more readily available to their clients.

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The future of philanthropy at the bank

At the moment, we give money and intangibles, harness customers and staff, and are also trying to change wealth management. Project Snowball has enough funds to step up our activities, and at the start of the year we appointed Rennie Hoare as Head of Philanthropy at the bank. Rennie will help staff and customers with their philanthropy, and we also hope that he will help the GBT trustees identify causes where they can have significant impact.

Many are unbothered by philanthropy and social investment, but it's important to me for various reasons. Firstly, the partners have no financial incentive to make the bank bigger than it is, but we are motivated to generate more profits so that we can make a greater social impact. Secondly, although it is satisfactory to run an ethical bank and pay our taxes, I think more is required. The philanthropy story is part of the bank having a social purpose greater than banking – we want the bank to be a good citizen, as well as good bank. Finally, if we get the expression of our social purpose right, we may manage to continue to recruit millennial customers and staff and carry on the good work!

***Alexander Hoare** joined the bank in 1987 from PA Consulting where he was in the Computers and Telecommunications Division. He was appointed a partner in 1990 and led the Investment Management department. He then became chief executive from 2001 to 2009 and is one of six unlimited liability Partners of C. Hoare & Co.*

He is a patron of Trinity Hospice where he was a trustee for many years. In the past he has been president of the Groupement European de Banques, a trustee of Training for Life, a non-executive director of Jupiter Green Investment Trust plc and a member of the Finance and Advisory Committee at Westminster Abbey.

Alexander is a trustee of the Golden Bottle Trust and has responsibility for investing up to 20% of the endowment in social investments.

He is married, with one son, and participates in a variety of sports including real tennis and sailing.

Philanthropy and development: from philanthropic intent to practice

Maximilian Martin *www.lombardodier.com/philanthropy*

Maximilian Martin

If you advise a philanthropist who wishes to engage in development, the space can seem daunting. The amounts deployed by state actors are large, raising the question of how one can make a difference.

According to preliminary OECD data, the UK provided US$18 billion in net Official Development Assistance (ODA) in 2016. This makes the country one of only six members of the Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee (DAC) that actually met the United Nations target of 0.7% of gross national income (GNI) in ODA in 2016. Around the world, institutionalised private philanthropies on the other hand accounted for roughly 5% of ODA, or just under $8 billion per year, according to the recently released OECD report, *Private Philanthropy for Development*.

The question is, what is the most effective strategic perspective for philanthropists, and how can advisors help?

The tools available in philanthropy

For starters, it helps to consider the context and the tools. Society seems to be reaching an inflection point along a number of dimensions such as inequality, climate change, geo-strategy and nuclear confrontation, as well as social peace and inter-ethnic relations.

The good news is that we also have powerful new tools at our disposal to tackle these challenges. Social entrepreneurship, impact measurement and innovative finance are three powerful ways to solve issues from a new angle.

Philanthropists are also being enabled to back new propositions through the availability of more information at lower processing cost, alongside capital markets being committed to invest in ways that are positive for the world as well as profitable, and entrepreneurs being celebrated as legitimate disruptors of the status quo.

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Take, for example, Sea Shepherd UK, a registered marine conservation charity with the remit to conserve and protect ecosystems and species, and one of the grantees of a sub-fund of the Swiss umbrella foundation Fondation Philanthropia (like a UK donor-advised fund). Highlighting that 'development' is a wide-ranging subject, Sea Shepherd's mission to end the destruction of habitat and wildlife around the UK's coastline and across the world's oceans is aligned directly with the United Nation's Sustainable Development Goal 14 (SDG), to "Conserve and sustainably use the oceans, seas and marine resources for sustainable development."

Would the organisation's innovative 'direct-action' tactics to investigate, document and take action to expose and confront illegal activities committed against marine wildlife and habitats always sit well with the approach inherent to ODA? We notice that it is a very effective complement to efforts such as the Foreign & Commonwealth Office's Barren Isles Marine Protected Area in Madagascar, which aims to secure fisheries management rights for traditional fishing communities to help protect biodiversity while supporting livelihoods.

The four rules of thumb for effective philanthropy in development

According to the United Nations Conference on Trade and Development (UNCTAD), achieving the SDGs will cost between $5 to 7 trillion, with an estimated investment gap in developing countries of $2.5 trillion. Put differently, we will not run out of either work or the need to innovate in development any time soon. There are a few rules of thumb though that help to derive a holistic, strategic perspective.

A philanthropist's competitive advantage is the combination of capital and passion. Rule #1 is: Emotion fuels your commitment. Find out what your passion is. The best way for an advisor to help identify it is to ask a series of questions including: What is your motivation for giving? What issues are dear to you? What does success look like – what impact would you like to achieve? What kind of engagement are you considering? With whom? And so on.

A philanthropist's competitive advantage is the combination of capital and passion

Moreover, philanthropists are not acting in a vacuum. So, rule #2 is: Scope what is already being done, and take a view on partnering. According to the Association of Charitable Foundations' Giving Trends 2017, the UK's top 300 foundation grant-makers made grants of £2.9 billion last year. According to the 2016 Wealth-X report, philanthropy is now the top interest for 36.3% of ultra high net worth individuals (UHNW), ahead of sport (34.5%) and education (19.8%; possible to list several top priorities). UHNW individuals with self-made fortunes represented almost 70% of major donors, demonstrating the philanthropy space as dynamic, with lots of entrants. Some could be potential partners for your philanthropic endeavours. The advisor's job is to help clarify how to proceed, and what kind of 'partnership' is best suited.

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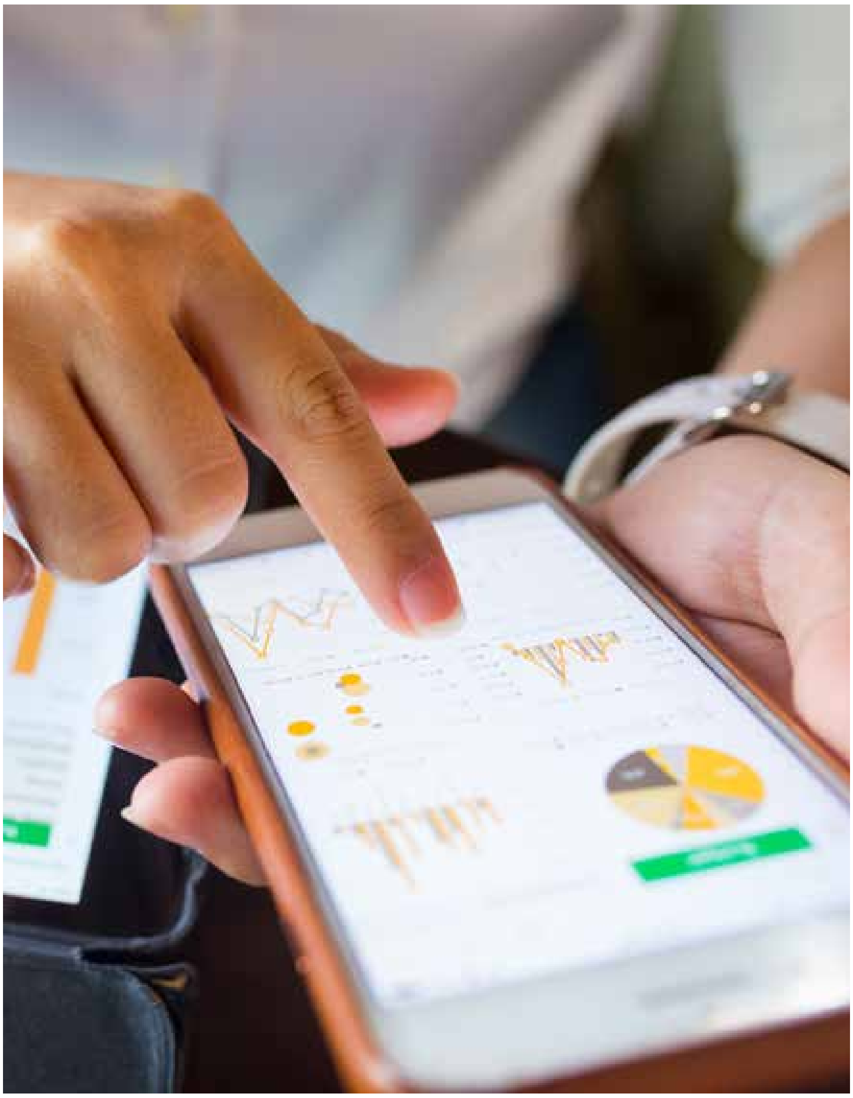
There are many ways to drive impact. One might argue that the total official remittances to developing countries of $429 billion (2016) recorded by the World Bank are at least as powerful in driving progress as the $462 billion in ODA recorded by OECD for 2013–2015. Rule #3: Make sure to consider all the tools in the box. Setting up a foundation that makes grants is one of several options to engage in the social change ecosystem. How do your objectives fit with other pathways such as impact investing, crowd-funding platforms, or donor collaboratives? In the United States, donor-advised funds seem to outpace the growth of other philanthropic structures. Rising regulatory requirements for charities bring the question of donor-advised fund vs. independent foundation to the fore.



Finally, in a changing world, philanthropists are encouraged to monitor how the possibilities are evolving, and to keep some options open. Efficiency is important and options to drive results change. For example, the OECD report found that private philanthropies in development primarily deploy capital through well-known large organisations, with the GAVI Alliance, World Health Organisation, UNICEF, PATH and Rotary International topping the list in terms of volumes.

In practice, going through re-allocators is today often the most efficient way to finance small organisations on the ground, where donors are not present. As the digital transformation continues, new options to bridge the global-local gap, including via Big Data and algorithmic grant-making will come on stream at some point. When they do, it will be time to revisit how to translate the philanthropist's initial vision into results. Therefore, it is best to keep some flexibility so it will be easy to re-adjust.

Conclusion: be systematic, not dogmatic

Social change and development are multi-faceted, and so are the interventions with the highest likelihood to bring about the targeted results. There is no one-size-fits-all for philanthropists who are, or want to become, active in development. The most important piece of advice is to take the time to locate advisors who act in the donor's best interests and are technically competent.

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Being systematic without being dogmatic helps to marry passion, strategy and structure in ways that drive real progress on the ground.

Dr Maximilian Martin *is Lombard Odier's global head of philanthropy and recently led the International Committee of the Red Cross (ICRC)'s 'Program for Humanitarian Impact Investment' for Lombard Odier, who were a co-sponsor. He is also the founder of Impact Economy, and a visiting lecturer at the University of St Gallen. In 2003, Maximilian created Europe's first university course on social entrepreneurship. From 2004–2009, he created and led the philanthropic services and impact investing offering for UBS, including creating its philanthropy forum and the Visionaris social entrepreneurship awards. In 2011, he founded the impact investment advisory firm Impact Economy. In 2013, the UK Cabinet Office invited him to write the Primer on impact investing 'Status of the Social Impact Investing Market' for the G8 policy makers' conference, which considered the potential and development options for this new branch of the financial industry for the first time. In 2014, he created the Apparel Innovation Consortium (AIC). Published by Springer in 2016, his book 'Building the Impact Economy: Our Future, Yea or Nay' develops a comprehensive framework for creating sustainable new business approaches.*

Maximilian holds an MA in anthropology from Indiana University, an MPA from Harvard University and a PhD in (economic) anthropology from the University of Hamburg. Other employers and lecturing appointments have included McKinsey & Company, Schwab Foundation for Social Entrepreneurship, UBS, Harvard University, the University of Geneva and the University of St Gallen. He has also served as founding faculty in residence at Ashoka University, training senior faculty in Asia and the Americas on social entrepreneurship, and serves on the advisory board of the Emmy Award-winning series on climate change 'Years of Living Dangerously', produced by James Cameron and Arnold Schwarzenegger.

Why you need a philanthropy advisor on your team

Emma Beeston *www.emmabeeston.co.uk*

Emma Beeston

***Emma Beeston** advises philanthropists and funders on effective giving including grant-making strategy and practice. Recent clients include Oak Foundation, Trafford Youth Trust, AIM Foundation and Comic Relief. Emma teaches on the 'Advising Donors' module of the University of Kent's Masters in Philanthropic Studies; CASS Business School's Masters in Grant making, Philanthropy and Social Investment; and delivers training for the Association of Charitable Foundations.*

When selecting candidates from a large pile of job applications, we don't just pick someone out at random because they are probably all equally good. And I think you would be concerned if your financial advisor told you to go ahead and invest in any company you generally liked the look of.

But this is what often happens when private client advisors talk about philanthropy. Time is carefully spent talking about financial planning, tax implications and the appropriate mechanism for giving. But the actual decision of which charity to support gets little focus. Time and again I hear that giving to charity is easy and it is up to the client to just pick something they feel connected to.

Is giving as simple as you think?

If you think giving is simple, try this exercise. Imagine you have £1 million and you want to do something about homelessness because you feel concerned about this issue. Where do you start?

It matters that your money isn't wasted, but you haven't got time to independently research into the greatest areas of need or the gaps in support, so do you start by using some of your £1 million to commission that research?

Perhaps instead you prefer to go directly to organisations already working in homelessness, but a charity commission search will show you that nearly two thousand charities are supporting the homeless in some way, and that's just in England and Wales.

So, to narrow your focus, you could select geographically on your local town. But there are still lots of charities offering a huge range of activities: food banks, soup runs, outreach, night shelters, hostels, creative arts, drop-in centres, job clubs, advice services and deposit bond schemes. How will you choose between them? Which ones are most effective?

And then you might consider that supporting just one of these services might be nothing more than a sticking plaster. Wouldn't it be better to tackle the root cause of homelessness and shift your focus towards affordable housing provision, campaigning for improved security in the private rental sector or challenging the benefits policies? But will £1 million make any difference at the systemic level? Perhaps instead you could look at emerging alternative models, like social impact bonds, so your money supports a new system?

And then there's the nagging doubts: you don't know enough about the sector and it feels wrong to impose a solution when you should be listening to those affected. But who do you listen to and how do you find the time… the research idea is looking sensible again.

Working out how best to give your money away – in a way that makes a real difference – can be overwhelming. We could still argue that in this complex situation the best thing is not to think about it too much and just ask your client to pick a cause they care about or support a 'safe sounding' household name. But if you do this, you are doing your clients a disservice. The more strategically thoughtful philanthropy is, the more rewarding it is. And the more informed and engaged a philanthropist becomes, the more impact their giving will have.

Conclusion

The research is clear that offering philanthropy advice is good for firms and will increasingly be sought after by clients. Don't limit yourself to offering services that only discuss tax and structures. If you are not yet equipped to go deeper into giving strategies and content, then an independent philanthropy advisor like myself can train teams or work in partnership. Either way, individuals and families need help to navigate all the choices and implications that philanthropy entails so that their giving is not just a financial transaction, but also a rewarding investment.

Supporting the social impact ambitions of your clients: insights from Financial Times Investing for Global Impact 2018

Damian Payiatakis and Alexander Joshi *Barclays.com*

Damian Payiatakis

Alexander Joshi

What impact does my wealth have on the world? What do I want it to have? What if my investments could achieve more than financial returns? How can my giving be smarter and more impactful?

These questions are emerging more frequently from clients and are regularly discussed in the investment and philanthropic communities. With growing recognition of the impact that all capital makes, especially in investing, individuals, charities and foundations are seeking new possibilities in how to invest, pass on and donate their capital.

With growing recognition of the impact that all capital makes, especially in investing, individuals, charities and foundations are seeking new possibilities in how to invest, pass on and donate their capital.

Yet often they aren't clear about how they want to use their capital for their financial, impact and philanthropic ambitions. Unfortunately, nor have advisors been equipped to effectively ask or support them.

At Barclays, the foundation of our wealth business is to proactively partner with clients to utilise their wealth to achieve their ambitions. As such, it has been natural to complement our well-established philanthropy service with an impact-investing business to enable our clients to consider this fuller set of ambitions. Upon its launch in 2016, we also recognised we needed to better understand what our clients – individuals, family offices and foundations – wanted to achieve.

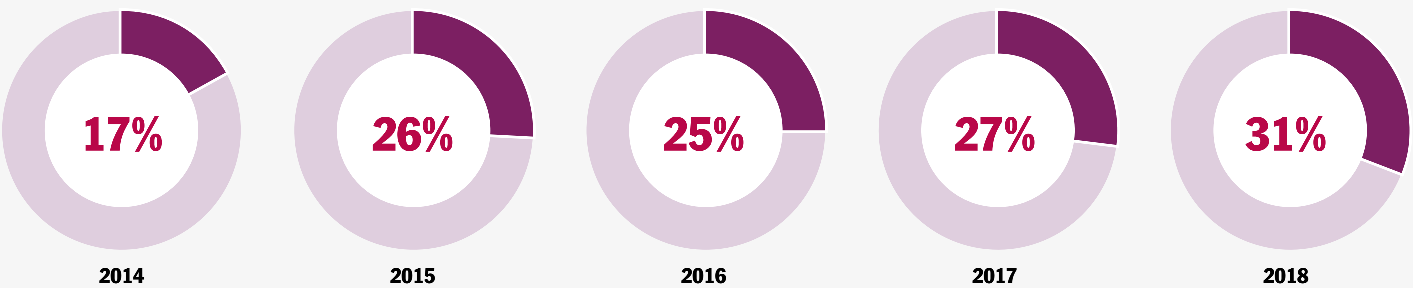
Luckily, we've been involved in supporting the annual Investing for Global Impact research, conducted by the *Financial Times*. Uniquely, this research collects data from these groups on both impact investing and philanthropy and has done so over the past five years. Having reached this milestone, the report includes a retrospective of the research, which is due to be released imminently.

Here, we highlight some key findings from 2018 and longer trends, and reflect on what advisors can do to support clients in their giving and investing.

Impact-investing growth isn't at philanthropy's expense

During the last five years, the most significant trend is the emergence and accelerating growth of impact

Fiure 1: What proportion of your assets under management is currently allocated to impact investing?
FT Investing for Global Impact 2018

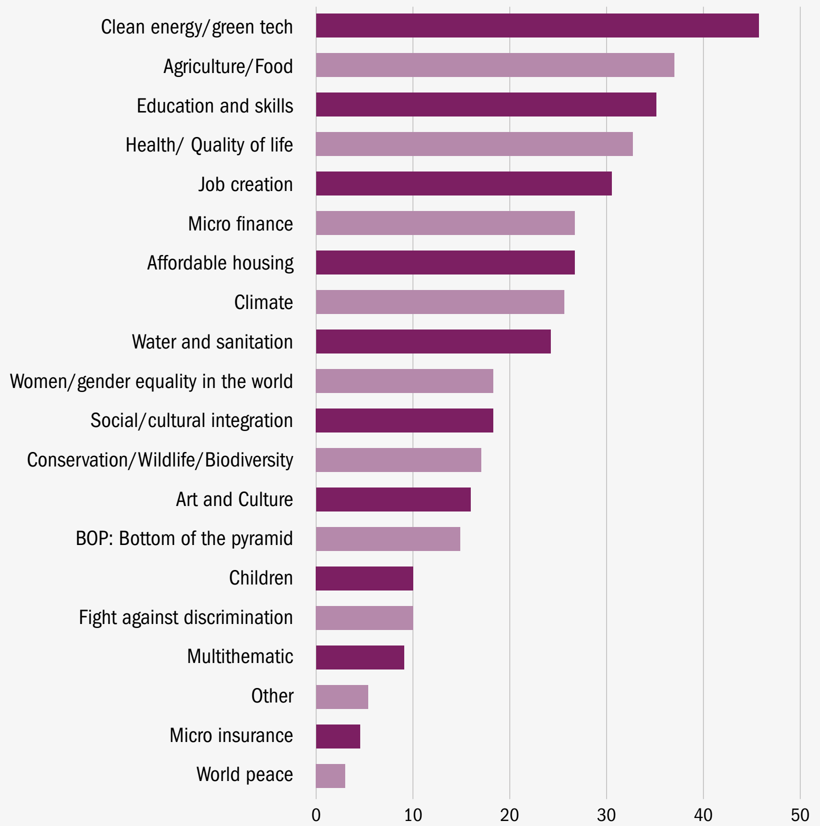


investing. At this point, 54% of all respondents are active in impact investing. Moreover, the percentage of respondents' investment portfolios being allocated to impact has nearly doubled. However, there remains a considerable opportunity to move investors along this journey given the average proportion was 31% of portfolio assets in 2018 *(Figure 1)*.

Importantly, this increase in impact investing has not been at the expense of philanthropy – which has stayed consistently high. Over the five-year period, 51–59% of individuals and families, and 70–81% of foundations have been active in philanthropy.

With these approaches established and being used by clients, advisors will need to be conversant in both. Notably, it can be useful to understand the starting point for clients' interest. Clients primarily looking to invest will want impact to be considered to help protect and grow their assets. Others will be passionate about a specific cause or outcome and want to determine how giving or investing their capital can address it.

Figure 2: Which themes are you invested in / do you plan to invest in?
FT Investing for Global Impact 2018



Connecting with investors on themes and causes that resonate

As humans, we identify and connect with stories – therefore having narratives around a range of themes can be an effective way of contextualising impact investing and philanthropy.

While focusing on a clear cause or issue isn't a novel idea for philanthropy, we've recognised how important this is when discussing impact investing, which can be diverted into the technical or conceptual aspects of investing.

But, for impact investing, what themes should advisors focus on in discussions with clients?

This year, clean energy/green tech has been the most popular (in 46% of respondent portfolios). Over the past five years, it has been among the top three most invested themes, along with agriculture/food and education *(Figure 2)*. Over time though, themes have become far less concentrated – for example, job creation and social/cultural cohesion have become increasingly popular.

This year, clean energy/green tech [theme] has been the most popular (in 46% of respondent portfolios). Over the past five years, it has been among the top three most invested themes, along with agriculture/food and education.

Clients can therefore be engaged around a wide set of topics. Usefully, with a broadening range of investment products that also focus on these themes, it is frequently possible to translate these discussions into portfolio decisions. This does mean advisors will need to be more aware of these investment options and how they address these themes.

Expectations of advisors

For most of these respondents, advisors play a central role in managing and deploying their capital. Unfortunately, in 2018 the response continues to be mixed on whether advisors are valuable.

- In receiving information about impact investing, 69% of investors found specialist financial advisors to be useful or essential. From generalists, this drops to 39%.
- In sourcing philanthropic opportunities, only 24% of respondents use external advice. For impact investing, 19% use an external impact

investment consultant and 20% a non-impact specific advisor.

- A lack of qualified staff/expert advice was identified as one of the top three reasons detracting engagement in philanthropy by 7% of family offices and 13% of foundations.

These figures illustrate the gap that advisors, particularly non-specialist advisors, must bridge if they are to more effectively support clients. For our advisors, we've been incorporating these considerations throughout our business – enhancing advisor education, standardising client discovery documentation and developing impact product due diligence.

Starting the conversation with clients

The findings from *Investing for Global Impact* resonate with our observations, conversations and own in-depth research into investors. While it provides invaluable evidence and an excellent benchmark for clients to understand what others are doing, having the conversations can feel daunting to many advisors.

When our advisors have initiated such a conversation, they have frequently been surprised by the depth and insight they have garnered about the client more broadly. As well, clients have commented on the satisfaction from being able to discuss and share their wider concerns and interests.

In line with the Impact Management Project[1], the starting topic is the clients' intentions. These intentions can range from broad commitments (I want my investments to avoid harming people or planet), to more detailed objectives (I want to use my capital to address a climate change) to specific outcomes (I want to help tackle the education gap for pre-teen children in the frontier markets). In all cases, the fundamental theme is what impact clients want their wealth to achieve – and then working from that starting point.

Conclusion

The good news is that clients are increasingly aware of the impact their capital has on the world and many feel a stronger responsibility given the growing inequalities and challenges our societies face. They have choices regarding how it is used – both philanthropically and in their investing – and by whom they are advised. Impact investments, like all other investments, can fall as well as rise in value.

Damian Payiatakis *is the head of Impact Investing for Barclays, which is enabling clients to protect and grow their assets in a way that also generates societal impact.*

He leads the effort for Barclays to offer this new possibility to clients – ranging from mainstream investors, families, charities and foundations – to incorporate impact into their portfolios across asset classes.

This work has been recognised by the UK Cabinet Office's Social Investment Awards in 2016 for Market Building, and by Investment Week's Sustainable Investment Awards in 2016 for Innovation in Research & Methodology and in 2017 for Fund Innovation for the launch of the Barclays Multi-Impact Growth Fund.

Previously, Damian was responsible for delivering a strategic transformation across Barclays Investment Management business with 16 offices across UK, Europe and Asia. Prior to Barclays he spent over ten years in various boutique strategy and change consultancies.

Alexander Joshi *is a behavioural finance specialist at Barclays, working to better understand investors and their motivations, preferences and goals, and the role that emotions play in investment decisions around impact investing and philanthropy.*

Alex works on research initiatives, using the understanding of clients that behavioural finance gives, to better tailor impact propositions to their needs and wants. He also uses these insights to inform the way Barclays communicates around social impact with clients and the wider industry.

Previously, Alex worked at a behavioural economics consultancy, designing behavioural experiments to better understand the behaviour of, and protect, consumers across a wide variety of markets.

[1] *The Impact Management Project (www.impactmanagementproject.com) is an initiative of over 700 impact investing practitioners from across geographies and disciplines building a consensus on how to talk about, measure and manage impact.*

Awakening the millennial philanthropist – a guide for professional advisors

Lauren Janus *www.thoughtfulphilanthropy.com*

Lauren Janus

By encouraging your clients' millennial children to think about philanthropy now, you stand a better chance of keeping them as clients in the future.

Over 90% of heirs will change financial advisors promptly after receiving their inheritance, according to the Institute for Preparing Heirs. Nearly 70% of that inherited wealth will go directly to women, who have distinct ideas about money when compared to their male counterparts. In particular, research shows women are especially interested in using their wealth for charitable activities.

Over 90% of heirs will change financial advisors promptly after receiving their inheritance, according to the Institute for Preparing Heirs.

It stands to reason that these young women and men will increasingly be looking for philanthropic advice alongside financial and legal services. By working with your clients' millennial daughters and sons to explore their philanthropic passions now, you not only prepare the next generation for their coming wealth, you also deepen your relationship with them whilst expanding your service offerings. In the end, you'll be giving millennial heirs more reasons to stick with you for the long term.

The millennial wealth transfer

If your clients plan to pass wealth onto their millennial children, they are far from alone. New research from mutual insurer Royal London found that British millennials can expect to inherit over £400 billion in the coming years. This isn't the US$30 trillion wealth transfer that American millennials will enjoy, but it's still highly significant.

The Institute for Fiscal Studies points to the growing importance of inheritance in the UK, with nearly half of UK households over the age of 80 expecting to leave their heirs an inheritance of £150,000 or more.

A millennial approach to philanthropy

Here in the UK, millennials are more than twice as likely to donate to a charity than those aged 55 and older. But that doesn't mean that this generation is interested in giving the same way their parents and grandparents have.

- Members of the UK millennial generation are the most likely to choose a charity based on a recommendation from their peer network. Fundraisers, crowd-sourcing and social media events such as #nomakeupselfie and the Ice Bucket Challenge are examples of the power of millennials to raise millions of pounds by urging each other on.

  Millennials, "want impact they can see, and they want to know that their own involvement has contributed to that impact," according to the 2012 NextGen Donors Report.

- Millennials want to see more than glossy photos and vague promises of 'good work' done by charities. Instead, they are more focused on data and impact than earlier generations. Millennials, "want impact they can see, and they want to know that their own involvement has contributed to that impact," according to the 2012 NextGen Donors Report.
- Millennials are also more willing to give to those outside of their social and economic class. The UK Charities Aid Foundation's 2017 report found that while the older generations typically give to hospitals and religious organisations, millennials are more likely to give to mental health charities, homeless and refugee organisations.

Starting the conversation

Clients with millennial children

Your more philanthropic clients may have already thought about how to pass their charitable values onto their children. They may well be looking for guidance, especially since many people with significant wealth fear raising self-indulgent children with little sense of giving back.

Let your clients know that you're happy to be a resource and a sounding board for them and their children as they discuss the philosophy and practice of charitable giving. Proactively offer resources such as the *Philanthropy Impact website www.philanthropy-impact.org* and the book, *Raising Charitable Children,* and connect clients with philanthropic advisors who can help them and their children define and research a charitable focus.

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If the family already has a family foundation, they should start discussions about family values and philanthropic traditions early. This guide from the National Center for Family Philanthropy in the US includes some useful questions to start the conversation.

Millennials/next-gen clients

Your millennial/next-gen clients (or those with client parents) may already have some ideas about their own philanthropy. The research shows that as a whole, millennials are passionate, result-oriented and engaged. Prepare by reading some of the latest ideas on this generation's approach to giving, such as the newly released book entitled *Generation Impact: How Next Gen Donors Are Revolutionizing Giving.*

Then, sit down for a conversation. For those who aren't so keen on philanthropy yet (or just haven't thought about it), take some time to get to know them and their interests. What did this young person study in school? How does he spend his spare time? Perhaps your client is a surfer so giving to an organisation that protects sea life or coastal waters could be of interest at some point. Maybe she's an animal lover – has she ever considered supporting an animal sanctuary?

Even if millennials aren't interested in parting with any money yet, you can still encourage them to explore their passions by volunteering, or even just following a few charities on social media for a while. Let them know that you're there for them when – and if – they want to talk more about charitable giving.

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For those millennials ready to give philanthropy a try on their terms, your conversation with them will be a bit different. You might start by asking them questions like:

- Are there issues you're particularly passionate about? How are you involved in these issues right now?
- Tell me about a charity you donated to in the last couple of years. What attracted you to them?
- Are you interested in giving just money to the cause or causes you care about? Or are you also interested in sharing your talents and time?

If the young person is quite new to philanthropy or is interested in learning about various approaches to giving, you can help them test the waters. Groups like The Young Funding Network and The Philanthropy Club offer excellent opportunities for millennials to network and collaborate with like-minded peers. Both organise regular events for younger people to meet in fun, casual locations and learn about innovative funding opportunities. The Philanthropy Club even offers opportunities for young people to combine their talents to tackle challenges facing local charities.

Working towards a giving strategy

Before launching a philanthropic journey, your client will want to outline his or her values and general objections. For many people, giving is an emotional response to a particular appeal or an exciting new approach to giving. There's nothing wrong with letting your heart guide your charitable wallet. But at the end of the day, people who give haphazardly can be left to wonder what their overall charitable impact has been. Many people will wish they started with a giving objective and strategy of how to get there. As we know, millennials are especially interested in seeing the impact their money creates.

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This is of course where a philanthropic advisor can be useful. Philanthropic advising is increasingly being integrated into the wealth planning of high net-worth individuals in the UK and Europe. Philanthropic advisors can help clients define their philanthropic goals and understand how the charitable sector is addressing specific causes. Better informed givers are more impactful givers, after all.

Exploring approaches to creating charitable impact

Once your client has outlined some basic values and objectives of their own giving, you – ideally with the help of a philanthropic advisor – can help them explore the wide variety of approaches to creating charitable impact.

Traditional charities

Britain has a rich history of charitable work and many well-established charitable bodies that carry it out. Charities dedicated to a range of pressing issues – from cancer to international development – raise millions of pounds each year and their work touches thousands. Gifts to these larger, household name organisations could be put to good use, and some millennials will want to support them for emotional or practical reasons.

But if you and your clients scratch the surface a bit, you'll find a wealth of smaller, more targeted charities in urgent need of funding. Community foundations continue their growth across the country and are excellent sources of information on local needs and charities. GiveWell, based in the US, publishes regular rigorous research on the effectiveness of charities working mostly in the international health sector.

Finally, you and your clients would also do well to watch the charity news by following publications such as Third Sector and the various newspapers' charity sections. These media outlets tend to highlight innovative charities while educating readers about charity scams and abuses.

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Micro-lending and micro-gifting

Nobel Prize winner Muhammad Yunus was the first to introduce micro-lending as a means for the extremely poor to access the credit they needed to build businesses. Since Yunus launched the Grameen Bank in Bangladesh, microlending has taken off as an engaging way for people with even just a few pounds to see the impact of their giving. Charities like Kiva.org are terrific places – particularly for people new to charitable giving – to get their feet wet with micro-lending. There, 'Lenders' can choose from a range of people they can lend to. When the loan is repaid, the site makes it easy to pick a new person and project to fund.

Websites like donorschoose.org and globalgiving.org work in a similar way, except that they connect individuals and charities with donors rather than lenders. American school teachers use Donors Choose to post requests for specific supplies for their classrooms. Donors at a certain level receive thank you packs from the teacher and his or her students. For the newbie philanthropist, micro-lending and gifting can be a useful and fulfilling way to get a feel for the range of projects and issues philanthropy can address.

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Impact investing

The Global Impact Investing Network (GIIN) defines impact investments as investments made into companies, organisations and funds with the intention of generating social and environmental impact alongside financial return. The ideal is that an impact investor recoups his or her initial investment alongside a profit, which may or may not be less than what that investment could have generated from a traditional investment.

The impact investment sector is still relatively young, but it's growing fast with quite a few advocates behind it, including many in the millennial generation. In fact, a World Economy Forum study found that 36% of millennials believe that the primary focus of business should be to 'improve society' – slightly more than those who believed the major goal of business should be to generate profit.

There are a range of ways your clients can dip their toes into impact investing and make it part of a larger philanthropic strategy. You could start by reading *The Shareholder Action Guide,* and give a copy to your more progressive millennial clients. If shareholder advocacy is outside of their comfort zone, talk with them about ways to design their portfolios so they don't include industries that don't align with their values. And if they're ready to make the leap into full-on impact investing, you'll want to set aside time to review investment options for them like those listed on the Social Stock Exchange or consider the growing number of impact mutual funds.

Settling on vehicles for giving

Once your millennial clients have developed a rough strategy – or at least general guidelines – for their philanthropy, you'll want to help them settle on the best way to manage and distribute their gifting.

Family foundations and private charities

Private foundations and charities are always an option for managing an individual or family's giving. However, these structures require significant paperwork and on-going administration, including due diligence of those it funds. Private foundations have to file annual reports with the Charity Commission, which can cost thousands of pounds a year to prepare.

Before launching a brand new charity, encourage your clients to think realistically about the kind of back-end work they're willing to put in. Millennials in particular may feel they are too busy with their careers, families and lives in general to dedicate time to managing a foundation.

Donor-advised funds (DAF)

For millennials who simply want to begin gifting, a donor-advised fund is an excellent option. In addition to being increasingly popular in the UK, DAFs take very little paperwork to establish and the tax reporting is significantly less complicated than that of a private foundation. Even better, a range of asset types can be donated to a DAF, including stocks and even fine art. All that, and a DAF can be up and going in a week or two, compared to the months it typically takes to establish a foundation.

Before launching a brand new charity, encourage your clients to think realistically about the kind of back-end work they're willing to put in. Millennials in particular may feel they are too busy with their careers, families and lives in general to dedicate time to managing a foundation.

Conclusion

You've worked hard to build a relationship with your clients. You can demonstrate your enduring value to their family by helping your clients' children become informed, involved philanthropists even before they inherit significant wealth. By demonstrating your willingness to be a resource and guide for these millennial and next gen givers, you will strengthen your relationships with your existing clients, and build trust with those who will ultimately inherit their parents' gifts.

Lauren Janus *is the director of Thoughtful Philanthropy, a philanthropic advising service based in Edinburgh. Lauren partners with other professional advisers so they can offer charitable giving advice to their clients. Lauren has 20 years of experience in the non-profit sector in both the US and the UK. She has an MBA from the University of California, Davis, and a passion for helping donors act on their passions through informed charitable giving. You can follow Lauren on Twitter at @laurenjanus and visit www.thoughtfulphilanthropy.com for more information.*

How lawyers can support the search for social impact of their clients

Julie Wynne *www.froriep.com/en*

Julie Wynne

Today's social challenges are immense and will not be resolved by the traditional financial and business sectors. New ways of doing business and investing are in demand in addition to a more sophisticated philanthropy. More and more clients want to align money and business with values and social impact goals and use various approaches to do so, be it philanthropy, social entrepreneurship, mission-driven businesses or responsible investment.

A new generation of philanthropists is emerging, who are more educated and strategic in the field of philanthropy, ready to take innovative approaches and keen to push the boundaries in charitable giving. As they seek to deepen and expand their philanthropic footprint over time, they need more support from their advisor to establish the right philanthropic vehicle and a good governance to ensure efficiency and effectiveness.

Philanthropists are more sophisticated and are looking to outcome-oriented philanthropy to enable them to pursue evidence-based strategies; monitoring progress towards outcomes and assessing their success in achieving them. They need help from their advisors to have a good understanding of the operations on the ground and to identify good metrics to measure the impact of their actions.

Social entrepreneurship

Instead of looking only for charitable giving, some clients are also keen to develop more entrepreneurial projects with the goal of addressing pressing social challenges and meeting social needs in an innovative way – all while serving the general interest and common good for the benefit of the community. In doing so, social entrepreneurs target social impact primarily rather than profit maximisation to contribute to inclusive and sustainable growth.

Legal systems are just one of many such complex systems that social entrepreneurs must navigate in order to be successful. The question of determining the appropriate corporate legal structure for socially-oriented businesses is a common issue facing many social entrepreneurs. To advise them properly, their legal advisors need expertise and experience in the field to be able to recommend a vehicle which fits their requirements for impact as investors and/or philanthropists.

Business as a force for good

Alongside the development of social entrepreneurship, there is also an increasing demand from clients for developing businesses with a triple bottom-line approach.

As an example, the B Corp certification by B Lab is expanding in all continents, giving birth to legislation with new legal forms or status – embedding impact into the purpose and organisation of companies. Entrepreneurs willing to apply for that certification commit to higher standards of social and environmental performance, transparency and accountability. The B Corps performance standards measure a company's impact on all its stakeholders (e.g. workers, suppliers, community, customers and the environment). Unlike traditional corporations, certified B Corporations are legally required to consider the impact of their decisions not only on their shareholders, but also on their stakeholders.

Responsible investment

Clients want to use their investment power as a way to pursue investment returns while making an array of social and environmental impacts. There is a large range of choice in the field of sustainable finance through sustainable funds, green bonds, impact investing, micro-finance and credits for sustainable projects.

Meanwhile, social entrepreneurs and non-profit organisations need more public funding, blended finance options and patient capital in general. Philanthropic support and aid are not sufficient to tackle the global current challenges. Blended finance is a new way of seeking to bridge the gap between the efficiency and scale of market-based approaches and the social impact of traditional philanthropy. It has enormous potential to help increase the financing needed by attracting investors who would not have otherwise financed projects. It shifts the risk-return profile of the projects and demonstrates that investments in developing countries are viable.

Role for legal advisors

To support these new approaches, a holistic and coherent approach is needed, bringing together various perspectives such as social impact, access to funding and access to markets.

The legal advisors of social entrepreneurs need to embrace different fields of law, such as corporate and commercial law, non-profit law as well as banking and finance law to be able to improve the support that leads to enterprise scaling.

They should also offer a wider scope of services beyond pure legal advice. Lawyers should transform themselves into a variety of roles – advisor, counsellor and ambassador of the social venture – with a good understanding of access to financing networks, market information, business development services and market infrastructure.

Conclusion

It is only by being agile, open to innovation and creative that lawyers can help their clients reach their full potential. To do so and considering that social entrepreneurship law is still nascent, it is key for legal practitioners to work together throughout the ecosystem, building bridges between organisations and being involved in networks such as GIIN (Global Impact Investing Network), the Impact Investing Legal Working Group, Sistema B or the European Social Enterprise Law Association. And being active personally in the community will enable them to have a better understanding of the various interests at stake for social entrepreneurs as well as sharing information and accelerating change.

***Julie Wynne** is a partner at the Swiss law firm FRORIEP and the head of its Charities and Social Enterprise practice. She is a highly regarded lawyer in the field of non-profit organisations and mission-driven companies.*

Julie advises non-profit organisations, B Corps and social enterprises for their set-up and tax issues and assists them with mergers, reorganisations, joint ventures and other forms of collaborative working, as well as constitutional reviews. In addition, she regularly provides advices on grant-making, fundraising, intellectual property, corporate philanthropy and governance.

Julie contributes substantial time and expertise pro bono in the non-profit and social entrepreneurship sector. She is a board member of B Lab (Switzerland) and of the European Social Enterprise Law Association. She is also co-chair of STEP Philanthropy Advisors Steering Committee and a member of the Legal Advisory Board of Sustainable Finance Geneva.

Join Us

> *'I believe Philanthropy Impact has a key contribution to make as a forum to encourage more – and more effective – philanthropy and social investment through the exchange of ideas, spreading knowledge and improving the professional advice available. This is more important than ever.'*
>
> LORD JANVRIN Senior Adviser
> HSBC Private Bank (UK) Ltd

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- 20% discount on advertising
- 20% discount on event fees for employees and partners who are non-members
- First priority for hosting, chairing and speaking at events; and for contributing articles for our magazine
- Feature the Philanthropy Impact logo in your marketing material

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