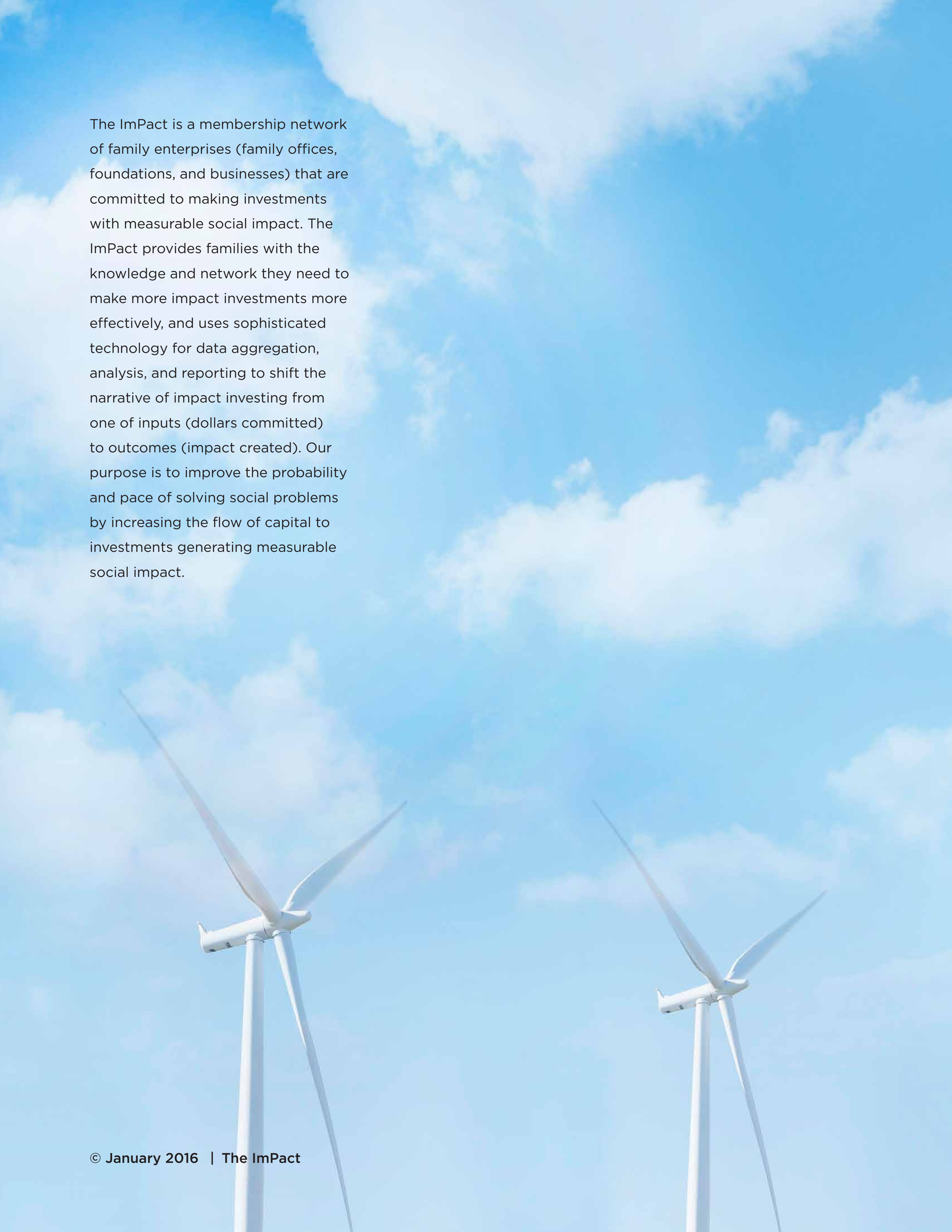
IMPACT INVESTING

FRAMEWORKS FOR FAMILIES

THE IMPACT



The ImPact is a membership network of family enterprises (family offices, foundations, and businesses) that are committed to making investments with measurable social impact. The ImPact provides families with the knowledge and network they need to make more impact investments more effectively, and uses sophisticated technology for data aggregation, analysis, and reporting to shift the narrative of impact investing from one of inputs (dollars committed) to outcomes (impact created). Our purpose is to improve the probability and pace of solving social problems by increasing the flow of capital to investments generating measurable social impact.

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IMPACT INVESTING
FRAMEWORKS FOR FAMILIES

What do people really mean when they talk about "impact investing?" Why do people make impact investments, and how do they do it? What counts, and what doesn't?

This primer provides family enterprises with clear explanations of the "why," "how," and "what" of impact investing. The following pages will illuminate the diversity of the impact investing marketplace as it exists today, and provide families with a basic understanding of how they can start making more impact investments more effectively.*

What We Mean by "Impact Investing"

"Impact investing" refers to strategies that actively incorporate social and environmental factors into investment decisions. Impact investors intend to generate financial return *and* measurable social impact with their investments.[1]

Understanding the Diversity of Investors

There are several distinct forces motivating families to make impact investments. Each of these motivating forces may inspire very different kinds of impact investments. A family's impact investment strategy tends to be a function of the family's motivation(s) and the entities out of which they are making investments. Here are three major motivations that we see driving families to make impact investments:

Motivation 1: Values Alignment

Families want to align their investments with their values. Families—or specific members of families—see their investments as representations of their social and environmental values, and they want to be passionate and proud of the investments that they make. They wish to minimize the harm and maximize the good their investments actively create in the world.

Motivation 2: Social and Environmental Impact Drive Long-term Outperformance

Families believe social and environmental factors are major drivers of investment risk mitigation and success. They believe that investing in companies that are proactively responding to critical social and environmental factors like climate change, economic inequality, and resource scarcity will outperform companies that lag behind in addressing these issues. This outperformance may come in the form of reduced risk, reduced volatility, or business growth.

Motivation 3: Using Business to Address Specific Social and Environmental Challenges

Families believe in utilizing the dynamism of business and the scale of capital markets to address specific social and environmental challenges. They believe that investing in mission-driven businesses or lending to nonprofits with consistent revenues is a powerful complement to or amplifier of philanthropy.

A family's impact investment strategy tends to be a function of the family's motivation(s) and the entities out of which they are making investments.

*By "family enterprises," we mean family offices, family foundations, and family businesses.

> **Families often learn the approach(es) that best suit them through the iterative process of making investments, assessing the outcomes created by those investments, and refining their investment strategies.**

Investment Objectives, Needs, and Constraints

A family's motivations shape the *objectives* they set for their impact investments. Some families set very specific objectives, focused on social and environmental issues they are particularly passionate about: investing to cure a specific kind of cancer, or to catalyze sustainable economic development within an economically depressed neighborhood. Objectives can also be very broad (or multiple): reducing long-term portfolio volatility on a multigenerational trust, or reducing a family's investment exposure to fossil fuels without compromising financial returns.

Alongside of their objectives, families consider the kinds of investable assets they have to work with, and the entity structures that contain those assets—trusts, personal accounts, limited liability companies (LLCs), foundations, etc. Every family investment entity, whether it is collectively or individually owned, taxable or tax-exempt, will have its own specific *needs* and *constraints* that shape how a family makes impact investments.

Understanding the Diversity of Impact Investment Methods

There are three basic ways that families approach impact investing across their various asset-ownership structures. These

BASIC APPROACHES FOR FAMILY IMPACT INVESTING

	CARVE OUT	INTEGRATION	ALL-IN
Taxable Assets	Families set aside a portion of their assets to be specifically allocated to impact investments. These assets may be newly carved out, or be purposed from an existing carve out (e.g. a "cousins fund"). Families may wish for this carve out to be separately managed or advised	Families actively consider impact investments into their existing investment strategy and allocation	Families actively consider the social and environmental impact of all of their investable assets, and intend to create positive impact with all investments
Tax-Exempt Assets	Program-Related Investments (PRIs): Family foundations or donor advised funds (DAFs) dedicate a portion of their annual charitable distributions to investments in non-profit or for-profit organizations that generate some financial return Mission-Related Investments (MRIs): Family foundations/DAFs dedicate a portion of their endowments to investments aligned with their charitable missions	Family foundations/ DAFs integrate impact investments into the core investment strategies and asset allocations of their endowments	Family foundations/DAFs actively consider the social and environmental impact of all of the investable assets of their endowments, and intend to create positive impact with all investments Family foundations/ DAFs align/integrate investment decisions with programmatic/charitable distribution strategies
Operating Business	Family businesses develop special product/ service lines, or allocate a portion of their supply chains to social/environmental impact	Family businesses make sustainability improvements to core products/services, and/ or throughout their supply chains Families integrate sustainability management and governance practices into core operating model	Family businesses' core products and services generate positive social/ environmental impact ESG best practices operationalized in all elements of businesses Corporate structures reflect commitment to stakeholder interests beyond families' ownership

approaches are dynamic, and tend to evolve. Families may pursue one approach to impact investing within one of their family entities, and an entirely different approach within another entity. Families often learn the approach(es) that best suit them through the iterative process of making investments, assessing the outcomes created by those investments, and refining their investment strategies. Sometimes this is an orderly, deliberative process; sometimes, it is improvisational.

The three basic approaches families may pursue are:

- Families carve out assets and specifically dedicate them to impact investments
- Families integrate impact investments into their existing investment strategies
- Families go "all-in" with all the assets and/or operations of a specific entity

See chart, page 4.

Comparing Apples to Apples in the Impact Investing Marketplace

A family's impact investment strategy determines the kinds of impact investments that a family makes, and the appropriate source of capital for those investments. A family's objectives, needs, and constraints and the reality of present or possible investment *opportunities* shape the specific form of a family's impact investment strategy.

The market of investable opportunities is a diverse but immature one, reflecting the disparate objectives, needs, and constraints of the investors deploying capital within it.

The simplest way to make sense of the diversity of investable opportunities within the impact investing marketplace is to sort the market by five basic categories: Asset Class, Sector, Geography, Impact Strategy and Return Profile:*

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IMPACT INVESTMENT CATEGORIES

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	Market-Rate
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
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Social Impact Bonds	Safety & Security	North America	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Sustainable Banking			

* The attributes listed for each category are intended to be illustrative, not definitive nor comprehensive.

> **Impact investments differ from conventional investments because they have an identifiable, intentional strategy for creating social and environmental impact and because their intended financial return may be atypical according to standard risk-return calculations.**

Categorizing investments by these five attributes enables investors to compare the financial performance and social impact of companies, funds, or enterprises to their peers, and avoids lumping together investments with inherently different financial and impact characteristics.

Impact investments differ from conventional investments because they have an identifiable, intentional strategy for creating social and environmental impact and because their intended financial return may be atypical according to standard risk-return calculations.

Asset Class

Today, families are actively making impact investments in every basic asset class. Here is a quick (and non-exhaustive) sample of the ways that families are investing for impact across asset classes:

Public Equity

The most common way for families to invest for impact is by investing in public equity funds that actively consider environmental and social factors in their selection of stocks. Some funds positively weight companies that are top performers on environmental, social, and governance (ESG) factors—a practice commonly referred to as "ESG investing" or "sustainable investing." Other funds negatively screen out companies with poor environmental and social performance, or that operate in certain "sin" sectors like alcohol, firearms, tobacco, and gambling—this practice has traditionally been called "socially responsible investing (SRI)." Unsatisfied by the impact of traditional screened funds, an emerging set of funds are investing in public companies whose core products or services directly address big problems in the world—developing, for example, super low cost HIV/AIDS drugs, or new renewable energy technologies.

Fixed Income

Families are buying municipal bonds targeted to sustainable infrastructure or community development, and lending directly to early stage companies or nonprofits with proven revenue streams.

Venture Capital / Private Equity

Through venture funds or direct investments, families are investing in early-stage, mission-driven companies that are attempting to tackle big problems in the world. These companies' core products or services may fight climate change, expand access to healthcare, create affordable housing, or reduce barriers to higher education for underserved students.

Real Estate and Real Assets

Real assets investments such as low and mixed income housing development, or investments in community resources such as school buildings, health care facilities, and greenmarkets are some of the oldest forms of impact investment. Families are also investing in sustainable buildings, conserving timberland and wetlands, and converting conventionally managed agricultural land to organic and sustainable production.

Social Impact Bonds (SIBs)

Though impact investing itself does not constitute a new, distinct asset class, its principles have given rise to a new financial instrument that some consider to be a new asset class: social impact bonds (SIBs). SIBs, or "pay for success" models, are a potentially catalytic but still unproven investment structure that align public and private interests to scale programs that address big social problems like prison recidivism, homelessness, and education achievement gaps. Private investors fund service providers to scale their preventive interventions within specific geographic areas. If the intervention is proven effective, and therefore reduces future costs to government, the government pays a fixed return on investment to those private investors.

Sector

Today, families are making impact investments across industries and sectors. They are investing in companies, funds, or bonds focused on energy and resource efficiency, education, healthcare, housing, food and agriculture. Access to finance, such as microcredit or insurance, was one of the earliest and fastest growing sectors of impact investment, and families continue to make significant investment in enterprises providing products and services to "base of the pyramid" customers all over the world. While certain sectors provide more intuitive opportunities for impact investment, in just about every sector investors are seeking opportunities to improve the financial performance of companies by improving their environmental, social, and governance practices.

Geography

Impact investments can be made almost anywhere in the world. While emerging markets and the three billion consumers at the "base of the pyramid" have been a focus of impact investing, families are increasingly recognizing impact investment opportunities in developed markets. Some families may be looking to address big national, or even global, challenges with their investments. Others are more geographically targeted, and make investments designed to serve specific neighborhoods, cities, or regions to which they are deeply committed.

Impact Strategy

One of the ways that impact investments differ from conventional investments is that impact investors can identify specific impact strategies in the companies, funds, and enterprises in which they invest. An impact strategy is the *way* a company, fund, or enterprise creates social and environmental impact. Some people refer to this as an investor's "theory of change." Families today are pursuing a range of impact strategies through their investments.

Some target companies whose core product or service creates specific and measurable social impact, such as energy systems that reduce overall greenhouse gas emissions, or education technologies that improve learning outcomes for at-risk students. Other families focus on investments that serve or empower specific groups of people: consumers at the base of the pyramid, women and girls, or smallholder farmers.

Many families make investments designed to benefit specific places—to spark economic development in downtrodden cities, or to conserve specific regions of wilderness. Some families pursue process-based impact strategies by investing in sustainable supply chains, fair trade, or organic food production.

Investors will often identify multiple impact strategies for a specific investment. The diversity of impact strategies that enterprises and their investors pursue is a major contributor to the richness of the impact investing marketplace. It can also be a source of confusion, or even tension, as participants or observers in the marketplace may not agree with the impact strategies that others are pursuing.

A family pursuing a place-based impact investment strategy might, for example, invest in a community loan fund that supports small businesses in an economically depressed part of town. That loan fund might support an auto-repair shop, or a family-run pizza restaurant—businesses that support the economic vitality of a community, but are not recognizable as impact enterprises to an observer focused on product-based social impact.

> A better question is, "What kind of financial return do impact investors intend to generate within specific investments, and do the returns of those investments match their intentions?"

This tension illuminates the inherent complexity at the heart of impact investing. Every business has social and environmental impact; some of that impact is positive and some of it is negative. Accounting for the total impact of a business is difficult, but as our methods for impact measurement and accounting improve, we should be able to assess with increasing clarity the net benefit (or harm) to society that specific investments create.

Return Profile

When people first learn about impact investing, they often have one burning question: "How do impact investments perform financially?" This is an obvious question, but not the most incisive one, given the diversity of objectives of impact investors, and the commensurate diversity of their impact investments across asset classes, sectors, geographies, and impact strategies.

A better question is, "What kind of financial return do impact investors expect from specific investments, and do the returns of those investments match their expectations?"

Some impact investors intend to generate "risk-adjusted market rates" of financial return. They are conscious and intentional about the social and environmental impact of their investments, but they do not intend to sacrifice financial return by making impact investments. These investors invest in companies or funds whose financial risk and return profile are consistent with other "conventional" investments in their asset class, sector, and geography.

The early data indicates that it is entirely possible for impact investors to achieve comparable or superior rates of financial return, compared to conventional investors.

A number of studies by leading academic and financial institutions have found that companies that focus on the environmental, social, and governance (ESG) issues most relevant to their industry outperform their competitors who do not carefully manage the same factors.[2]

In private markets, Cambridge Associates and the Global Impact Investing Network recently published a study of financial returns for impact-focused private equity funds, concluding that, in general, impact-focused funds perform comparably to conventional funds, and in certain vintages and specific fund categories (funds less than $100M, funds focused on emerging markets) impact-focused firms outperformed their conventional peers.[3]

Making impact investments does not require investors to sacrifice financial return. But some investors do consciously make investments whose intended financial return is lower than comparable conventional investments in the same asset class, sector, and geography. They do so because investing for concessionary financial return may enable them to achieve their impact objectives, such as helping nonprofit organizations scale their impact, or developing marketplaces for concepts previously thought to be uninvestable. Foundations, for example, regularly lend to nonprofit housing developers (or other mission-driven enterprises with strong revenues) at interest rates lower than those the market might set. Foundations can make these loans alongside grants, as part of their regular program funding, and so they may specifically intend to generate a "concessionary" financial return, but one that is entirely consistent with the foundation's objectives, needs, and constraints.

In some cases, the return profile of impact investments can defy simple characterization as "market-rate" or "concessionary." Entrepreneurs and investors are starting to develop new investment structures, such as social impact bonds, whose risk-return profile or time horizon defy conventional market pricing. These "off-market" investment opportunities are rare, but may become increasingly common as the pace of innovation in the market accelerates.

The takeaway is clear: self-identified impact investors seek a range of return profiles in their investments, depending on the asset classes, sectors, geographies, and impact strategies that fit their objectives, needs, and constraints, and the investment opportunities available to them in the marketplace.

Impact Investment Examples Across Categories

Let's look at some examples of impact investments that families have made that clearly demonstrate the diversity of the marketplace. These are not investment recommendations; they are simply examples of investments that families have made that show the range of ways that families are investing for social and environmental impact:

The takeaway is clear: self-identified impact investors seek a range of return profiles in their investments, depending on the asset classes, sectors, geographies, and impact strategies that fit their objectives, needs, and constraints.

GENERATION IM GLOBAL EQUITY FUND

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	**Sustainable Consumer Products**	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	**Agriculture & Food**	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	**Energy & Resource Efficiency**	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	North America	**ESG-Screened**	
Cash	**Healthcare & Wellness**	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	**Global**		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Sustainable Banking			

Generation is an investment manager dedicated to "sustainable capitalism." They have a long-term investment focus, based on the principle that companies with exceptional environmental and social sustainability programs will outperform in the long-term. The Generation IM Global Equity fund invests in public equities, across sectors. A rigorous sustainability analysis informs stock selection. The fund intends to generate risk-adjusted financial return superior to its conventional competitors, so its return profile is "market-rate."

ROOT CAPITAL

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	**Sub-Saharan Africa**	Product-Based	Market-Rate
Fixed Income	Environmental Conservation	Middle East & North Africa	**People-Based**	**Concessionary**
Private Equity	Sustainable Consumer Products	**Central & South America**	**Place-Based**	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	**Process-Based**	
Real Assets	**Agriculture & Food**	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	North America	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Sustainable Banking			

Root Capital is a U.S.-based NGO that invests in agricultural enterprises in Africa and Latin America. Investors lend money to Root Capital, and Root Capital, in turn, lends money to cooperative enterprises that support smallholder farmers in Africa and Latin America. Root Capital has a three-pronged impact strategy: its work supports smallholder farmers ("people-based"), in specific poor countries ("place-based"), through the funding of fair trade ("process-based"). Investors who lend money to Root Capital do so at cheaper interest rates than the market might otherwise give to Root Capital, so the financial return that investors receive on their investment is considered "concessionary" or "below market-rate."

VOX CAPITAL

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	**Product-Based**	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	**People-Based**	Concessionary
Private Equity	Sustainable Consumer Products	**Central & South America**	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	North America	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Sustainable Banking			

Vox Capital is a venture capital firm based in Brazil. Vox invests in early-stage businesses that provide essential services to the poor, "base of the pyramid" residents of Brazil's *favelas*. Vox pursues both product and place-based impact strategies: Vox invests in healthcare, education, and financial services companies whose core product or service improve the livelihoods of poor Brazilians. Vox intends to generate financial returns comparable or better than other venture capital firms in Brazil, so its financial return profile is "market-rate."

QUIDNET ENERGY

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	**Product-Based**	Market-Rate
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	Place-Based	**Off-Market**
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	**Energy & Resource Efficiency**	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	**North America**	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Sustainable Banking			

Quidnet Energy is a start-up company developing an innovative method for energy storage on the U.S. electrical grid. Quidnet's energy storage method is promising but unproven, so a group of family foundations have provided specialized funding to the company to test and expand their technology. This includes a mixture of recoverable grant funding, program-related Investments (PRIs), and conventional seed funding. This innovating funding structure, harmonizing investments with a range of stated return expectations, gives Quidnet an "Off-Market" return profile.

LYME TIMBER COMPANY

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	**Market-Rate**
Fixed Income	**Environmental Conservation**	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	**Place-Based**	Off-Market
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	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Sustainable Banking			

Lyme Limber is a timberland investment management organization (TIMO) that invests in timberland, a "real asset," in the U.S. and Canada. Lyme pursues place-based and process-based impact strategies: it invests in land with distinct conservation value and through the sale of conservation easements and the implementation of sustainable timber and land management practices, Lyme ensures that the land it purchases is both permanently conserved and capable of generating sustainable income. Lyme intends to generate financial returns comparable to or better than other conventional (non-conservation focused) TIMOs, so its return profile is "market-rate."

So how do families actually put all of these pieces together to consciously and intentionally make impact investments? The answer, of course, is, "Each in their own way."

Putting the Pieces Together: Stages of the Family Office Impact Investor

So how do families actually put all of these pieces together to invest consciously and intentionally for impact? The answer, of course, is, "Each in their own way." But there is a generalizable multi-phase process that families follow (or, aspire to follow) as they work to deploy capital for positive social impact. The seven phases are:

1. Explore
2. Reflect
3. Assess
4. Strategize
5. Invest
6. Measure
7. Optimize

Families tend to work through these phases in a dynamic, sometimes convoluted cycle. This cycle does not always begin with Phase 1 ("Explore") and does not always proceed in a fixed order. The nature of a family's movement through these phases is determined by family structure and the approach to impact investing the family employs. Here is what happens in each phase, and key questions families may ask as they work through them:

1. Explore

During this phase, families discover and build an initial understanding of the principles and practices of impact investing. Families may be learning about the concept for the first time, or beginning to actively engage with the concept with an eye towards eventually deploying capital.

Key Questions:

- What, exactly, is impact investing?
- What resources—networks, advisors, content—are available to us to learn more?
- How are our peers making impact investments today? What can we learn from their experiences?
- Are our existing family networks and advisors equipped to educate us on the topic of impact investing?
- Are our investment managers / staff well equipped to implement an impact investment strategy, or do we need to outsource this investment function?
- What immediately available impact investment opportunities exist within our current investment structures and deal flow networks?

2. Reflect

During this phase, families identify their motivations—why they wish to make impact investments, and how those investments might fit within their broader "portfolio" of impact (philanthropy, work, advocacy, etc). Families consider what financial, social and environmental outcomes they want their investments to have, in order to determine their specific impact investment objectives.

Key Questions:

- Why are we considering making impact investments?
- What social and environmental challenges are we passionate about as a family? How are we uniquely positioned as a family to address those issues?
- What are we already doing through our philanthropy, business, and advocacy to address the challenges we are passionate about? In what ways are we satisfied with the outcomes we are generating through those efforts, and in what ways do we want more?
- What are the values that we share across and within generations of our family? Are their sectors, themes, or impact strategies that particularly align with those values?
- What are our emotional and operational "sticking points" as we consider making these investments?

3. Assess

In this phase, a family assesses the resources they control (financial, social, intellectual, etc); the value (financial and social) those resources create; and the ownership and decision-making structures that manage those resources. In this phase, families determine the specific needs and constraints that govern their asset owning entities, and consider how those needs and constraints shape the kinds of investments made through each respective entity.

Key Questions:

- What assets do we own, and in what structures do we own them?
- Are there any investments in our current portfolio that we consider to be impact investments? If so, are we actively tracking their social and environmental impact?
- Who makes decisions about how assets are invested within our different investment entities?
- What needs determine how our existing assets are currently invested? Do we need to grow our assets, or just preserve our wealth? What level of liquidity do we need to maintain within our different investment entities?
- What are the legal and operational constraints that shape the way assets are invested within our investment entities?
- How do our investments, philanthropy, activism/advocacy, work, and consumption reflect our sense of identity, values, and the impact we wish to have in the world?
- What tools are available to us to understand the social, environmental, and financial outcomes that our investments create, and how can we collect better data from the investments we already own?

4. Strategize

In this phase, families develop an actionable impact investing strategy, guided by an understanding of their personal motivations and objectives, and the needs and constraints of their asset-owning entities. Impact investing strategies will come in all shapes and flavors: they may be narrow or comprehensive, short-term or long-term. Families tend to be best served by creating something that is immediately actionable and intentionally iterative. Families may formalize their impact investment strategy in an Investment Policy Statement (IPS), or revise an existing IPS to include social and environmental impact.

Key Questions:

- What is the best immediate entry-point into impact investing for us?
- What kinds of investments give us the best chance to achieve our desired objectives, while also meeting our needs?
- Given our specific objectives and needs, what assets / which entities should we use to make impact investments?
- How do we view our impact investments relative to our "conventional" investments? Do we wish to assess and manage our impact investments separately, or integrate them into our broader asset allocation and investment strategy?
- Are we well equipped to manage our impact investments after we have made them?
- What tools and processes do we have to assess the outcomes of our impact investments and refine our strategy over time?

5. Invest

In this phase, families actually make impact investments! Families may make these investments across asset classes, sectors, geographies, impact strategies, and return profiles.

Key Questions:

- Do we have an impact investment strategy? If so, how immediately actionable is the impact investing strategy we created—do the available deals align with our objectives, needs, and constraints?
- What high quality sources of deal flow are available to us?

- Are our internal or external investment advisers and officers able to manage any unique diligence aspects, deal structures, or regulatory requirements particular to the impact investments we make?

6. Measure

In this phase, a family gathers and assesses performance and impact data from the investments they have made, to determine whether the investments are achieving their objectives and satisfying the needs determined within their impact investment strategy. When this assessment happens, and the nature of the data (quantitative and qualitative) families consider as a part of it, depend on the asset class, sector, geography, return profile, and impact strategy of the investment(s) under consideration.

Key Questions:

- What are the existing industry standards for measuring and monitoring impact for the kinds of impact investments we have made? Do those measurement standards help us understand if our investments have achieved their specific objectives?
- Have our impact investments achieved our specific objectives, and met our specific needs? Why or why not?
- How have our impact investments performed (financial and impact) relative to their "peers" in the same asset class, sector, geography, impact strategy, and / or return profile?
- What data would give us a better understanding of the performance of our impact investments? How could we get that data?

7. Optimize

In this phase, families use the data they have gathered and the experiences they have gained through the process of making and monitoring investments to revise and/or expand their impact investment strategy, in order to continually pursue better outcomes with their investments. These revisions may be minor tweaks or constitute fundamental shifts in the style of impact investing pursued, depending on the extent to which families' learnings inspire a return to the "Reflect" and/or "Assess" stages.

Key Questions

- How could our impact investments better achieve our objectives and meet our needs?
- Should we be investing more or different assets for impact?
- Should we change the ownership, management, or oversight structures that govern our impact investments?
- Who else can we learn from as we iterate on our impact investment strategy?

Where to Next?

Whether they are just dipping their toes in the water, or ready to dive in, families can make more impact investments more effectively. We hope that this primer may help families begin this process, by providing simple frameworks through which families can understand their motivations and identify sensible and, ideally, immediate ways to get started, or to do more. In the coming months, The ImPact will be releasing more detailed content exploring the many ways that families are making impact investments today, and what they envision for the future. Like many families reading this, we have only just begun...

ENDNOTES

[1] The Global Impact Investing Network (GIIN), the major industry association for impact investing, defines impact investments in the following way: "Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." For more information, visit http://thegiin.org/impact-investing

[2] See Khan, Mozzafar et al., "Corporate Sustainability: First Evidence on Materiality," Harvard Business School (2015); Clark, Gordon et al., "From the Stockholder to the Stakeholder," University of Oxford and Arabesque Partners (2015); "Sustainable Reality," Morgan Stanley (2015).

[3] "Introducing the Impact Investing Benchmark," Cambridge Associates and the Global Impact Investing Network (2015).

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RESOURCES

To learn more about topics explored in this Framework, see:

"Impact Investing: Family Office Primer," World Economic Forum (2014)

A Short Guide to Impact Investing, Case Foundation (2014)

Guide to Impact Investing for Family Offices, Julia Balandina Jaquier (2011)

The Power of Impact Investing, Judith Rodin and Margot Brandenburg (2014)

The Impact Investor, Cathy Clark, Jed Emerson, and Ben Thornley (2014)

"Construction of an Impact Portfolio," Jed Emerson and Lindsay Smalling (2015)

"A Portfolio Approach to Impact Investment," Yasemin Saltuk and Ali El Idrissi, J.P. Morgan (2012)

For an exhaustive list of resources on impact investing, visit the Global Impact Investing Network's (GIIN) Knowledge Center.

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