

2023



THE IMPACT

IMPACT INVESTMENT

Report on impact portfolios of Latin American families

This study was done in collaboration with the AEF and Latin American chapters of the GSG with the support of the IDB Invest.





The ImPact is a global community of families committed to mobilizing capital for impact investing. Our mission is to help families make impact investments more effectively.



IDB Invest, a member of the Inter-American Development Bank Group, is a multilateral development bank committed to promoting the economic development of its member countries in Latin America and the Caribbean through the private sector.



AEF is an association that brings together business families in Chile to share experiences of succession and governance and how they can positively impact society through these actions and the focus of investments.



The GSG is a global organization founded on the belief that, done well, investment can benefit people and the planet. They seek to put social and environmental impact at the core of business and investment decisions. The GSG works with more than 13 National Advisory Boards in different countries worldwide.

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Welcome

Globally, impact investment ecosystems have emerged and evolved over time, supported by purpose-driven organizations and individuals with deep conviction that capital can be strategically used to reduce social and environmental gaps. Social enterprises, social business accelerators, and impact investment funds represented a change in the way of doing business and demonstrated that this was not only possible but also urgently needed. In addition, many organizations in the traditional financial markets now understand that it is crucial to take into consideration social, environmental, and governance variables as part of the financial analysis to achieve better long term results and risk management. Today, we have a more developed impact investing industry; for example, we are seeing impact funds with strong track records and more established impact measurement and reporting tools.

In Latin America, we have seen a similar evolution of the impact investing ecosystem, however with less maturity, less diversity of investment opportunities, less sophistication, and overall, less capital allocated to impact investments when compared to the U.S. and Europe. This study aims to showcase the state of the impact investment portfolios of high-net-worth families in Latin America, with the objective to contribute to the development of this industry and serve as an inspiration for other investors from the region. The report also includes an overview of the main governance challenges faced by family offices in the region.

We are pleased to present a report of the findings in the inaugural edition of this survey, and we are eager to do this survey in the future with the valuable input of the various stakeholders in the region.

We look forward to months of collaboration and engagement for Latin America and the Caribbean!



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INTRODUCTION

From 2019 to 2021, The ImPact conducted two global studies to offer insights into the present state of impact investing. In these studies, we did not have a large representation from high-net-worth families in Latin America.

This data is critical to obtain a comprehensive understanding of the impact of these families in the region and the driving forces for investing with impact. Moreover, this information can support a better understanding of opportunities and hurdles to invest more capital in Latin America towards endeavors that address developmental disparities.

This study seeks to answer the following questions:

- 1. What are Latin American high-net-worth families' needs, interests, and structures to allocate more capital towards impact investing?**
- 2. What is the current size of high-net-worth families' direct and indirect impact investments in the region?**
- 3. What is the intended capital allocation by impact sector for 2023?**

For this survey, “**impact investment**” refers to any investment that intentionally integrates environmental, social, governance, and/or ethical aspects into the investment process and generates a positive impact along with a financial return.

In March 2023, a voluntary, anonymous, and self-reported survey was conducted among 65 high-net-worth families with investment structures in Latin America. Although the sample does not encompass the entire demographic of affluent families in the region, we are confident that the insights gained from this inaugural report offer valuable information regarding trends in interests, the size of impact investment portfolios, and families' intentions to invest for impact in the coming years.

The ImPact extends its gratitude to IDB Invest, a member of the Inter-American Development Bank Group, for its unwavering support. We also appreciate the collaborative efforts of the “Asociación de Empresas Familiares (AEF)” and the Latin American chapters of the Global Steering Group for Impact Investing (GSG).

KEY TAKEAWAYS OF THE STUDY

This inaugural survey of high-net-worth families in the Latam American region unveils that families in the region have considerable knowledge and are actively engaged in impact investing. There are, however, clear and specific barriers to greater capital allocation.

1. Impact Investors in the region are active and engaged, but there is an opportunity to increase the amount of capital directed towards impact investments. A notable 80% of surveyed families report having impact investments in their portfolios. However, the investments represent relatively small portions of their total assets.

- Participants disclose an estimated \$1.2 billion in impact investments¹, primarily from family portfolios.
- Nonetheless, in comparison with the size of their portfolios, impact investments remain modest. Most families report impact investments of up to \$20 million, while 43% of respondents reported total wealth exceeding \$200 million.
- On average, investment tickets are \$500,000, primarily allocated to private equity and venture capital.

2. Families in the region are committed to investing for impact to help solve the issues in their own region. Their primary motivation is to contribute to solving pressing issues affecting their countries, with impact investing as a meaningful tool to do so.

- Over 75% of families engage in impact investments in response to local concerns.
- This accounts for their intention to invest in sectors such as education, conservation/environmental protection, and health and wellness, which are also impact sectors with significant challenges in Latin America.
- Additionally, families strive to align their values with their investment portfolios to maintain a cohesive narrative and involve the younger generations in the family strategy.

3. Families report the lack of impact investment opportunities and experienced wealth managers and advisors as key challenges. Nearly 50% of families struggle to identify adequate impact investment opportunities aligned with their financial and impact objectives.

- Responses indicate a lack of investment opportunities that satisfy families' financial and impact goals.

¹ Estimated amount based on the average of the ranges stated in the survey.

- Another significant hurdle is the limited experience of investment fund managers and wealth advisors in executing impact investment strategies. Merely 20% of families report having access to specialized managers in this field.

4. There is room and energy for more impact investments in 2023. Despite unfavorable economic conditions in the region, affluent families anticipate allocating more capital for impact investments as they work on professionalizing their family investment structures.

- 70% of surveyed families plan to make impact investments in the coming year. By 2023, they expect to deploy \$352 million in impact investments.
- The most frequently cited goal for making impact investments in 2023 is enhancing portfolio diversification.
- Furthermore, 50% of families recognize the importance of involving new generations in investment decisions, and the role that impact investing has on this, which promises continued interest and capital deployment for impact.
- The professionalization of investment and management teams is a priority for this year, given that 40% of families have investment structures established less than ten years ago.



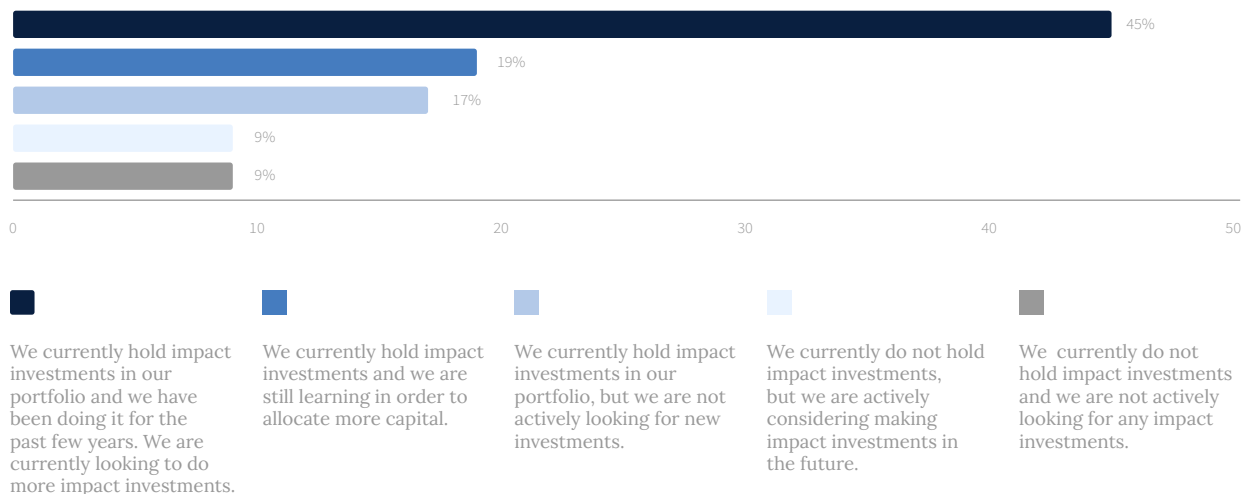
KEY TAKE-AWAYS OF THE SURVEY

Impact Investors in the region are active and engaged, but there is an opportunity to increase the amount of capital directed towards impact investments.

High-net-worth families in the region demonstrate active engagement in impact investing, indicating a solid awareness of the need to incorporate the impact variable in investment decisions. A significant **80% of families report that they currently hold impact investments in their portfolios** and 45% report having impact investments in their portfolios for several years and are actively pursuing to increase them.

Figure 1: Active investors

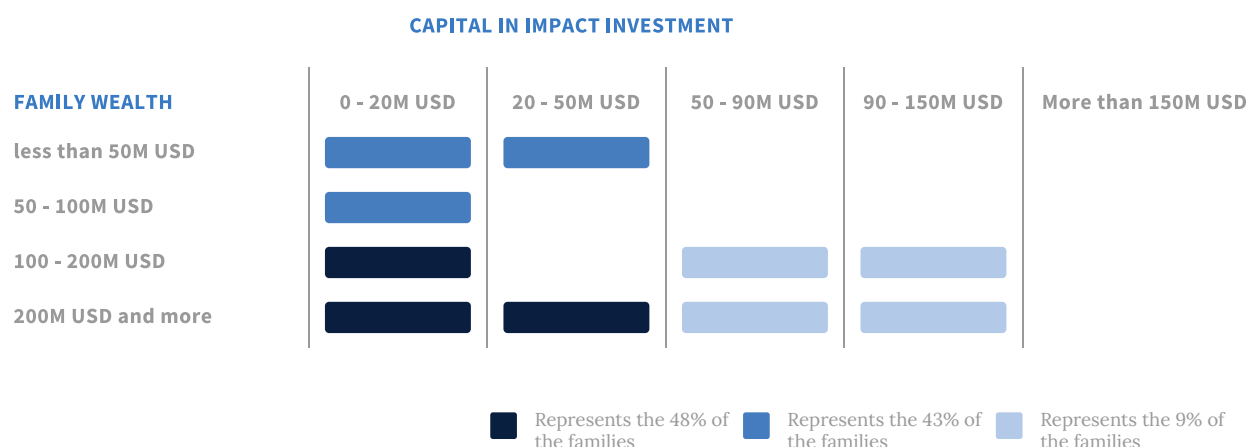
Which of the following best describes your experience investing with impact?



The level of awareness and interest in impact investing from families in the region is promising. A mere 10% of respondents identified lack of knowledge as the primary barrier to allocating capital for impact investments. This is attributable to the increasing number of players in the impact investment ecosystem in recent years, who have fostered knowledge dissemination and the adoption of best practices to integrate the impact variable into the investment decision-making processes.

“Families report close to USD 1.2 billion in impact investments in their investment portfolios.”

Figure 2: Challenge: Increasing impact investments in relation to equity

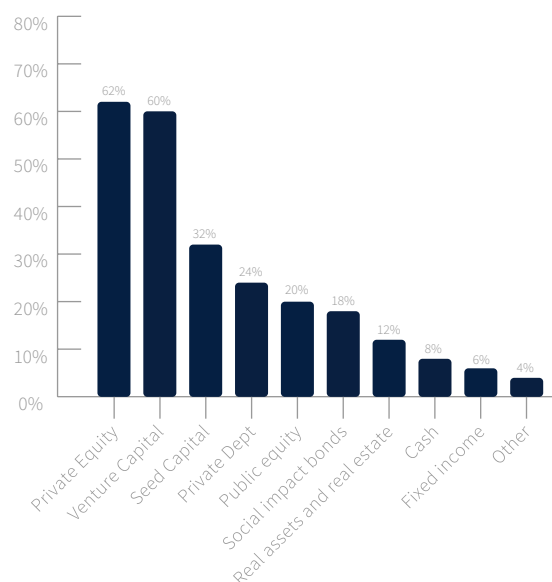


Nevertheless, the capital allocated in impact investing is still conservative in relation to the reported wealth. Participants report investments of approximately \$1.2 billion¹ in impact assets, mainly from family portfolios where 70% of the families use a single-family office structure. This investment amount would represent about 18%² of the reported wealth among participants. Moreover, nearly two-thirds of the highest net-worth families (\$100 million or more) report a maximum of \$20 million in impact assets in their portfolios.

Regarding asset classes for impact investing, private equity stands out as the favorite choice, followed closely by venture capital and seed funding. Examining the average investment size for impact investments reveals a focus on the \$200,000 to \$1 million range.

Figure 3: Families as crucial actors in the development of innovation and entrepreneurship financing

What are the top three asset classes you invest in to generate impact?
(Select up to three options)



“Private Equity and Venture Capital are the types of asset class most used for impact investing in Latin America.”

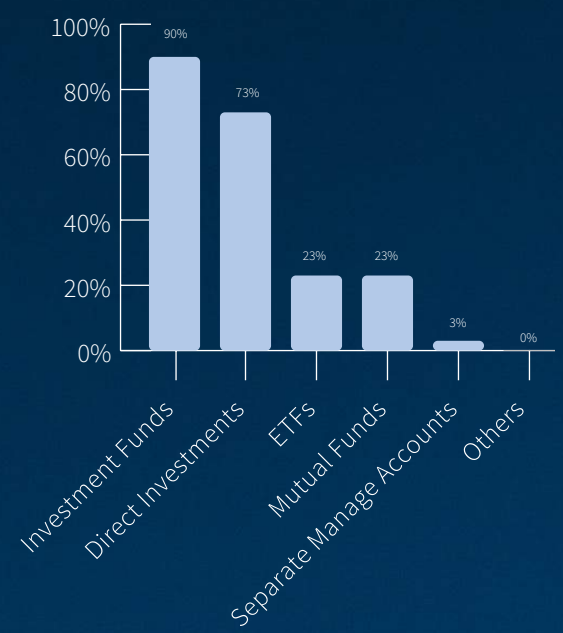
¹ Estimated amount based on the average of the ranges stated in the survey.

² Percentage calculated using the estimated amount based on the average of the ranges stated in the survey for the total net worth of the families.

These tendencies underscore the vital role that family offices play in the region as sources of funding for innovation and entrepreneurship and as drivers of impact investment ecosystems. The primary mechanisms for channeling capital into impact investments are investment funds, accounting for 90%, followed by direct investments.

Figure 4: Diversifying via funds while also engaging in direct investments

What investment structures do you use or consider for impact investing?
(Select all that apply)



Families in the region are committed to investing for impact to help solve the issues in their own countries

A significant takeaway from this study is the dedication of high-net-worth families in the region to address the most pressing social and environmental issues in their own countries using business and investment models as solutions.

Latin America is home to some of the most unequal countries globally¹ and grapples with the challenge of combating poverty and improving the well-being of its population.

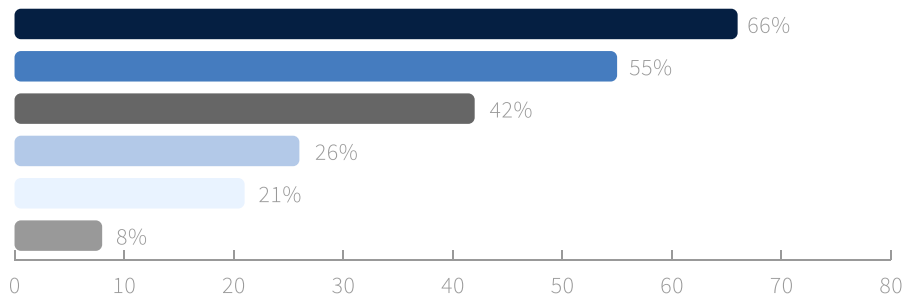
When surveyed about their motivations for impact investing, two-thirds of the participating families identified the urgency to solve significant social problems as the primary reason. The second most frequently cited motivation is the aspiration to align personal and family values with their investments. This finding indicates that high-net-worth families in the region recognize the potential of impact investing to align their values with their capital deployment and reinforce their commitment to sustainability and human welfare.

“Impact investments has opened up a very enriching path for us in which the family has become involved and has created a space of convergence of the different generations.”

Family member from the region, 4th generation

Figure 5: Commitment to solving local problems

What are the main motivations to engage in impact investing?
(Select all that apply)



I understand the urgency of solving current social challenges and I want to make investments that benefit others.

I want to align my values with my personal/family investments.

I believe that by including impact investing in my personal/family portfolio the younger generations will be more engaged.

I want to add new strategies to achieve social or environmental goals that I otherwise pursue through my philanthropic work.

I want to manage the financial risk of my portfolio by incorporating social and environmental issues as part of the investment process.

We have not identified reasons why we should or want to mobilize capital for impact investments

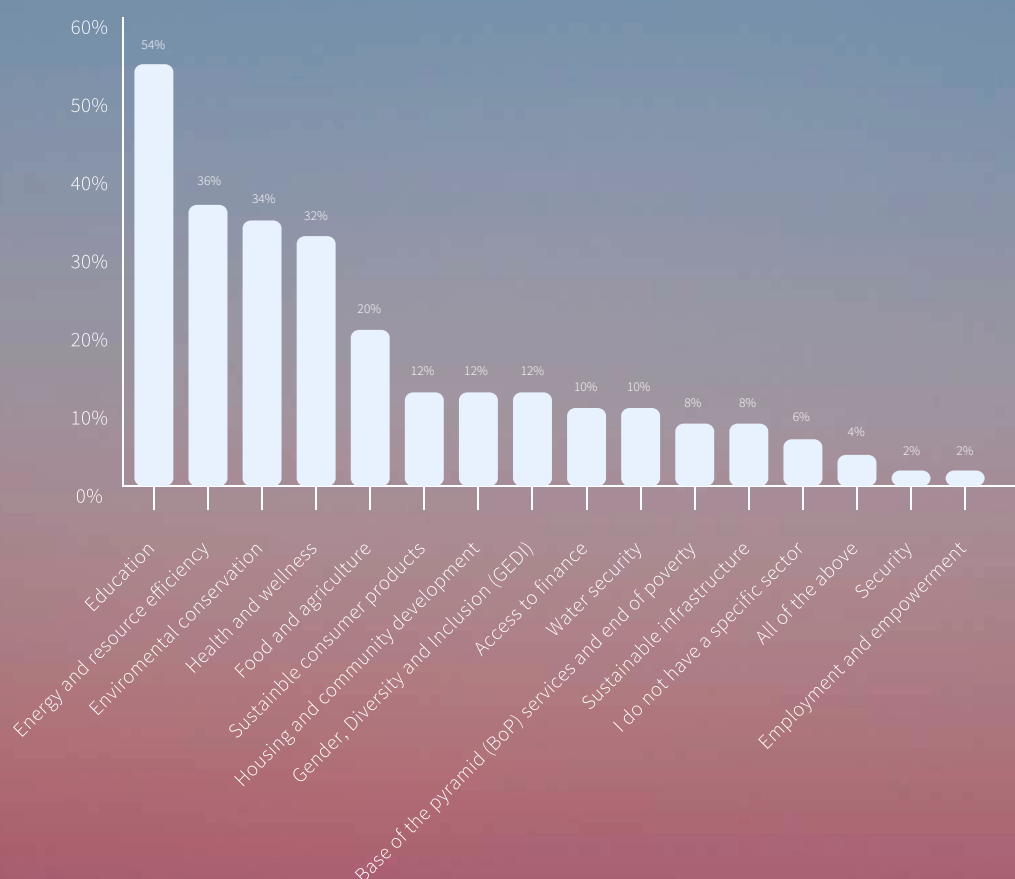
¹ See the global inequality map by Our World in Data, figures as of 2019. <https://ourworldindata.org/grapher/economic-inequality-gini-index>

Education emerges as the primary impact sector of focus and interest for impact investing. The investment choices of families align with the findings from organizations such as the UN and the OECD¹, which emphasize investment in high-quality, early, and education for the base of the pyramid as one of the main methods to reduce inequality and promote growth. A 2020 study conducted by The ImPact revealed that education is also one of the top three impact sectors of interest globally, along with other areas, such as food security and energy.

Energy efficiency and environmental conservation are other notable areas of interest, aligning with regional priorities as the sector embarks on the journey to neutralize emissions to fight climate change.

Figure 6: Interests aligned with the region's problems

What are the three top impact sectors and interest areas that you are currently invested in or intend to invest in in the future?
(Select up to three options)



¹ OECD (2017), Educational Opportunity for All: Overcoming Inequality throughout the Life Course, Educational Research and Innovation, OECD Publishing, Paris, <https://doi.org/10.1787/9789264287457-en>.

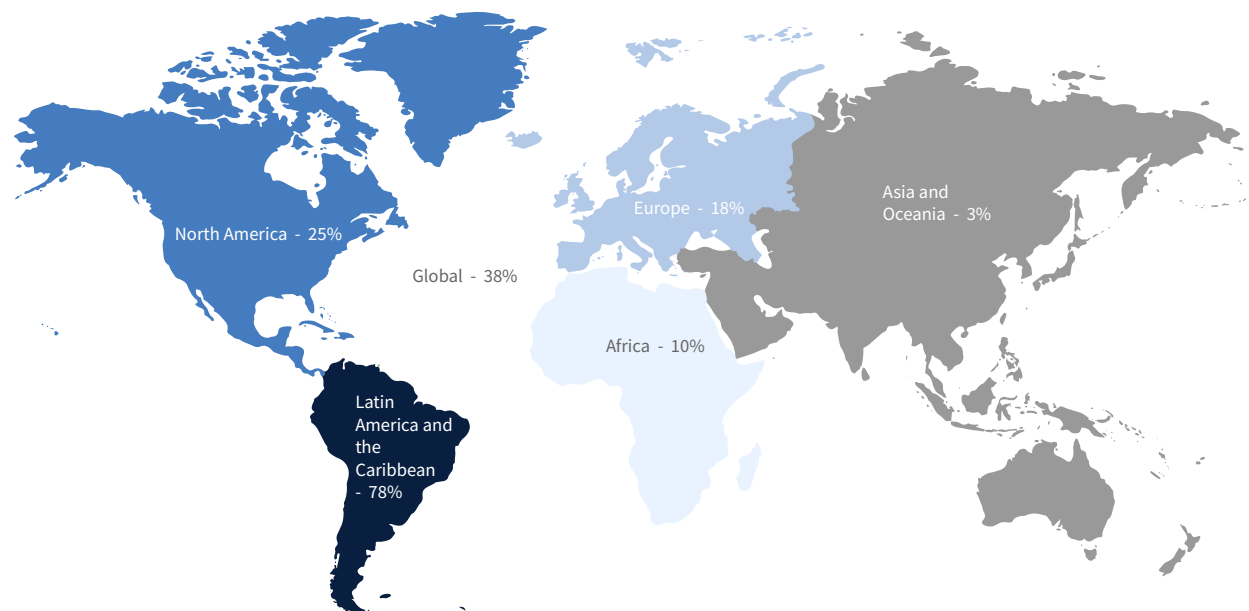
It is important to highlight the region of focus for making impact investments, Latin America being the region where most of the impact investments are concentrated.

Furthermore, the results indicate that impact investments can serve as a means to engage new generations in family strategies. Four out of ten families surveyed cite this as one of the primary motivations.

Multiple studies suggest that younger generations¹, particularly Millennials and Generation Z family members, are increasingly interested in investing in social and environmental causes.

Figure 7: Preference for local investments

In which geographies have you made impact investments or are you actively considering potential impact investments?
(Select all that apply)



78%

of the families are interested in Latin America and the Caribbean as geographies for impact investing.

¹ For instance, a study by Fidelity Charitable revealed that six out of ten millennial investors actively maintain impact investments in their portfolios. <https://www.fidelitycharitable.org/insights/insights-into-impact-investing-for-2022-and-beyond.html>

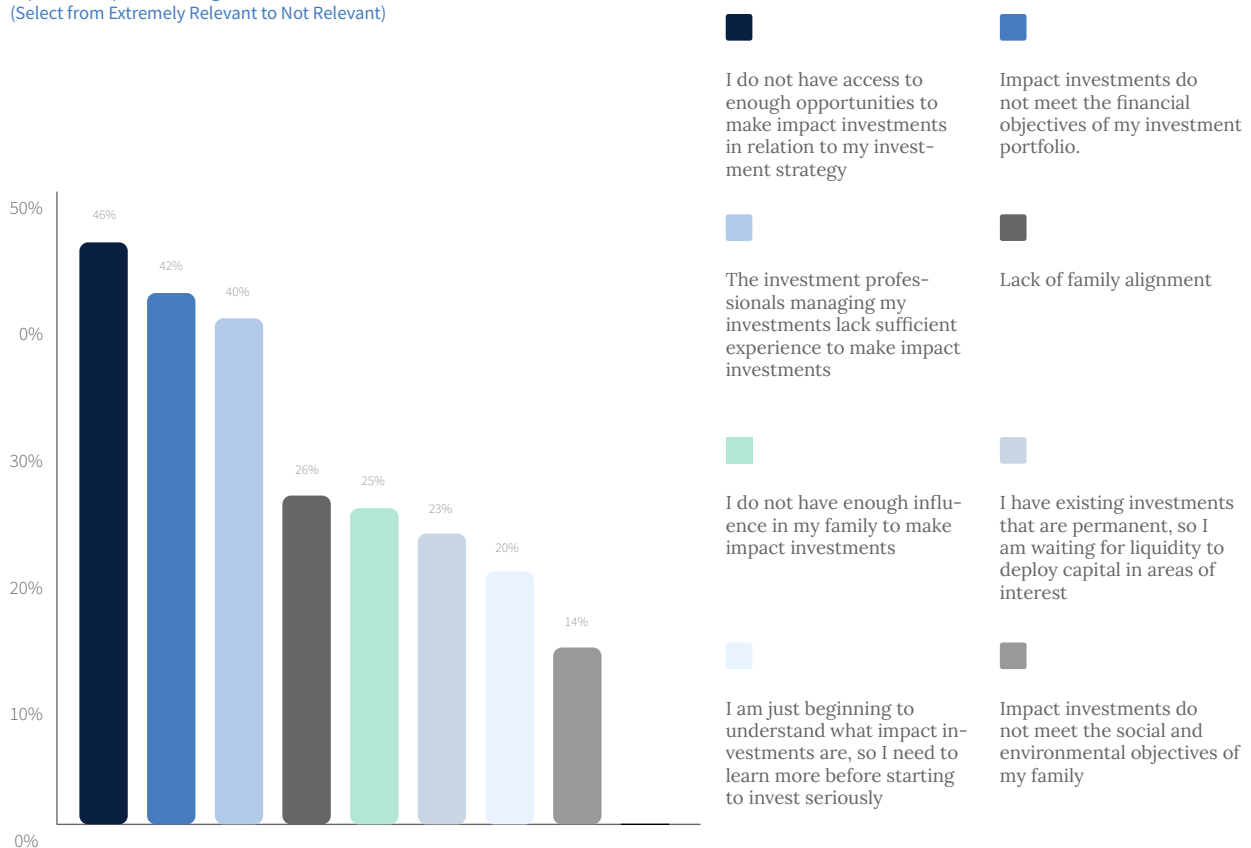
Families report the lack of impact investment opportunities and experienced wealth managers and advisors as a key challenge

High-net-worth families in Latin America report challenges in finding impact investment opportunities that align with their return and impact objectives, explaining partially the current allocated capital, which represents less than 20%¹ of the approximate wealth reported by participants. This confirms a global trend.

Furthermore, families pinpoint the lack of impact investing expertise among professionals managing their investments as a significant barrier to allocating more capital towards impact investing. The survey reveals that 61% of families rely on private banking specialists or wealth managers with no expertise in impact investing, followed by non-specialized in-house teams. A mere 13% utilize managers with expertise in this area.

Figure 8: The primary hurdles

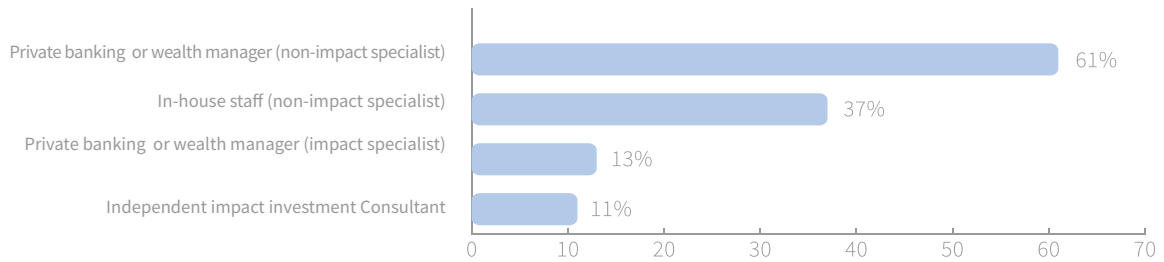
What are the biggest challenges you and your family face in allocating more capital for impact investing?
(Select from Extremely Relevant to Not Relevant)



¹ Percentage calculated using the estimated amount based on the average of the ranges stated in the survey for the total net worth of the families.

Figure 9: There is a perceived lack of capital managers specializing in impact investments

Advisor/Consultant Information you work with: (Select all that apply)



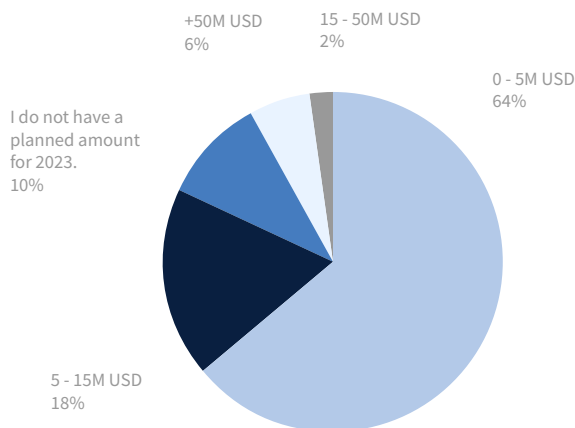
There is room and energy for more impact investments during 2023

Despite the challenges mentioned above, the interest of high-net-worth families in Latin America for allocating capital for future impact investments is noteworthy. Over 70% of the families surveyed anticipate making investments that positively affect society and the environment in 2023.

In 2023, nearly two-thirds of participants plan to individually invest up to \$5 million in impact investments. Although the amounts remain relatively low compared to overall family wealth and investable assets. **If intentions are realized, these investments in 2023 would total an estimated \$352 million for the participating families.** These new investments would lead to a 29.3% increase in capital allocated for impact assets, reaching approximately \$1.5 billion by the end of 2023.

Figure 10: Planning more capital for impact investments

How much capital do you plan to deploy for impact investing in 2023?



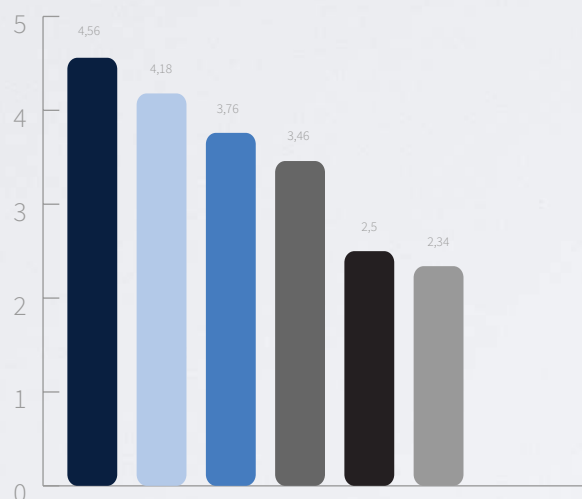
“Impact investing has been very important in our family, because it has enabled us to have the best conversations we have had as siblings.”

Family member from the region, 2nd generation

In addition to their social and environmental concerns, families in the region have the immediate objective of enhancing portfolio diversification through impact investments, signaling a growing interest in this investment approach. A generational shift is also apparent: participating families report prioritizing the engagement and education of newer generations in the investment and decision-making process, as well as the establishment or development of a professional team for the family office. The professionalization of family structures presents a significant challenge given the new demands of the industry and specialized investment sectors.

Figure 11: Families' goals for 2023

What are the priorities for 2023 as a family?
(Sort the options from highest to lowest)



Build a more diversified portfolio and make more impact investments



Involve new generations in the investment process and decisions



Build a professional team and the family office structure



Generate instances that contribute to the union and family purpose



Initiate and/or formalize a succession process in the family business or family office.

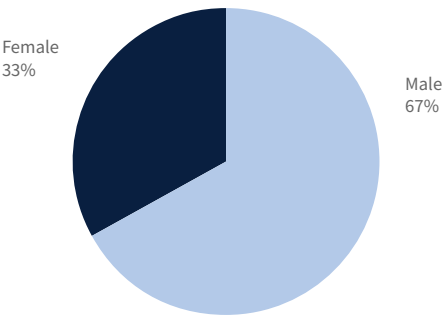


To establish a family protocol and/or shareholders' agreement

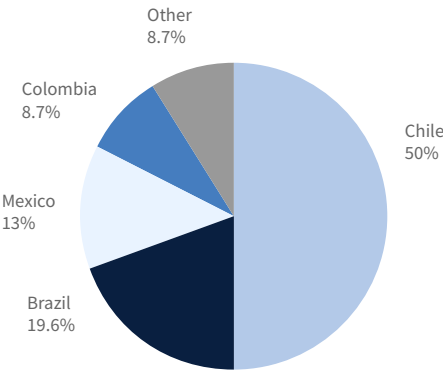
PROFILE OF PARTICIPANTS

For this first survey, 65 high-net-worth families participated voluntarily and anonymously. Profile of the participants below:

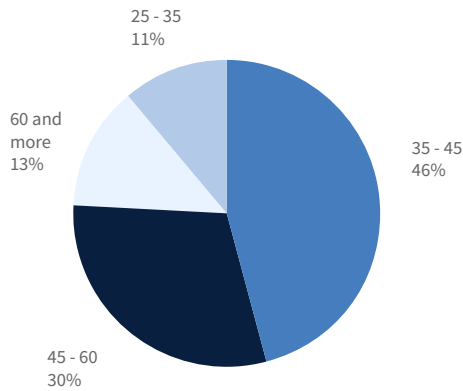
GENDER



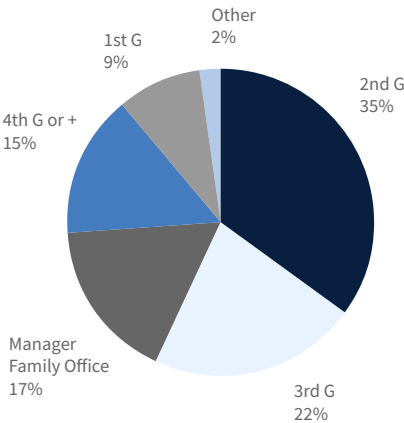
COUNTRY OF RESIDENCE



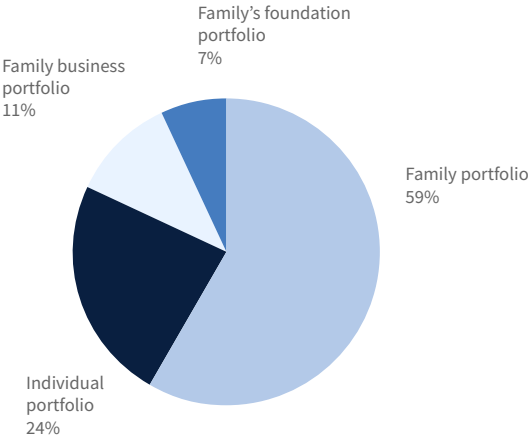
AGE



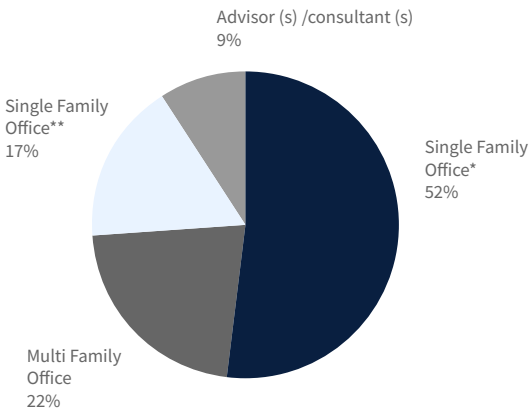
FAMILY GENERATION



SOURCE OF CAPITAL TO MAKE IMPACT INVESTING

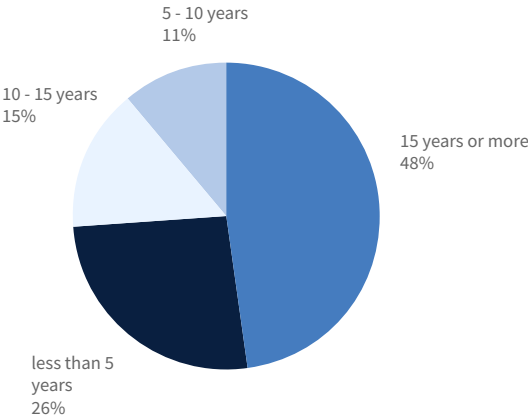


FAMILY STRUCTURE



* with family principals leading/involved
** with non family principals involved, led by executives and Family Principals in the board

EXISTENCE YEARS OF THE FAMILY STRUCTURE





METHODOLOGY

Respondents provided anonymous answers to questions about their impact investing activities and interests in March 2023. All survey data was voluntarily submitted by representatives or executives of family investment portfolios, including family offices or family foundations. The survey employed multiple-choice questions, a preference matrix, and the option for participants to rank preferences by their level of importance.

ACKNOWLEDGMENTS

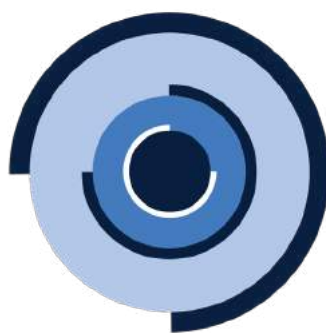
The ImPact extends its gratitude to the participants for completing the survey; IDB Invest for its support and dedication to mobilizing impact capital in the region; our local partners AEF and GSG, and the numerous organizations that helped promote the survey to reach more investors in the region.

We believe that the results of this inaugural survey present an optimistic assessment of high-net-worth families' interest in utilizing their capital to address the region's primary issues. The information also enables us to pinpoint the main obstacles that families face in deploying capital and could serve as a signal to banks and fund managers that there is a distinct demand from high-net-worth families for financial intermediaries specializing in impact investing and for products that align their social and environmental interests with their investment portfolios. We believe that this demand will continue to grow as families evolve and make progress to further align their investments with their values and impact goals.

Credits:

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THE IMPACT

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