Impact Investing:
Its role in family succession planning and wealth management

Paul Cheng *(www.sharedimpact.org)*

At the core of most successful family-owned businesses is a set of shared values. These values can bring family members and employees together to work for a common goal. Yet the issue of family succession generates fear and apprehension because it involves major changes in the ownership and management structure of an organisation, which can then spill over into consequences for family relationships (for better or worse).

Over the next decade, there will be a massive inter-generational transfer of wealth as one generation passes on, and another inherits, family assets. It is estimated that the volume of money at stake here is in the trillions of dollars. As a result, many family offices are now grappling with how best to manage the process of handing the baton from one generation to the next.

Although rarely talked about in this context, the most forward-thinking family offices are realising that impact investing can play a useful role in aligning the conversations between one generation and the next. Why?

Every generation needs to find for itself its purpose. Gen Y and the Millennials (those born from 1980 onwards) are driving a new global movement around social entrepreneurship, impact investing and new ways to collaborate and deploy capital for social purpose. More broadly, it seems that the task of rethinking our political, business and civil society institutions is at the heart of this new generation's core purpose. This is a quiet revolution, but it is unmistakable.

Millennials don't just want to be successful, they want to be significant.

The values of this generation also differ in significant ways to the previous 'Boomer Generation'. There is a subtle shift in mindset and psychology. This can be seen in a number of trends and attitudes.

For example, Millennials never grew up expecting to work in a traditional 9 to 5 corporate job setting. Indeed, the idea of a corporate hierarchy is abhorrent to them. Instead, their natural tendency is towards self-employment and entrepreneurship. The astonishing growth of social entrepreneurship is an aspect of this new paradigm.

More profoundly, this generation has a markedly different notion of what success actually means.

Paul Cheng

For Millennials, success is not just a narrow notion of individual accomplishment, but rather a sense of collective achievement. Or to put it another way, Millennials don't just want to be successful, they want to be significant. Moreover, this is reflected in their approach to both investments and philanthropy - there is a shift from merely 'feel good' to 'do good'. This shift is as dramatic as going from analogue to digital. It is more thoughtful and strategic - and, in contrast to their parents, Millennials expect a much higher level of strategic thinking from their advisors.

The power of a family business impact investment strategy is that it benefits from the wisdom and experience of the older generations while being coupled with the enthusiasm, innovation and energy of the younger generations.

Taking all of the above, many family offices are finding that structuring inter-generational conversations around impact investing is a useful technique in broaching an awkward conversation amongst family members with very different outlooks on life. Impact investing is seen by the older generation as a means of transferring both sound money-making principles and a socially responsible perspective to the younger generations.

Moreover, family businesses often have a long-term perspective, having the aim of longevity and succession, and impact investment is by its nature interested in long-term benefits, so the two are very compatible. It is almost a cliche to note that long-term thinking is correlated to long-term profits. With a long time horizon (fifteen years or more), financial and social returns go hand-in-hand.

The power of a family business impact investment strategy is that it benefits from the wisdom and experience of the older generations while being coupled with the enthusiasm, innovation and energy of the younger generations. This can make for a well-rounded, multi-skilled and cohesive investment team!

Furthermore, with impact investing, not only do family business members develop a strong social responsibility ethic, but the family is drawn together even further as a unit through the process.

Impact investing can, and in many cases would do well to, be embraced as a holistic approach to investment, as it can tie into the brand and ethos of a company, enhancing operations and the bottom line. To date, relatively few family businesses have directed their entire investment portfolio towards impact investing, yet this is a rewarding angle, both financially and in terms of the degree of social and environmental impact.

Over the next decade, this represents one of the most exciting areas of new business development for wealth managers. It is also a way for smart wealth managers to transcend the typical financial relationship with their clients. Wealth managers often report that their most rewarding conversations with their clients are about philanthropy, impact and leaving a meaningful legacy.

The opportunity for wealth managers is that they get to play an active role in shaping not only a new financial services industry, but in redefining the mainstream investment industry itself in a way that brings together both financial and non-financial impact.

Such conversations frequently lead to far deeper client relationships – which can indeed be long-term profitable for the advisor. It takes time to establish trust and credibility with a philanthropist. So it pays to invest in relationship building, not single transactions – in 'lines, not dots'.

It is important to appreciate that Millennials approach all investing through the lens of impact. In a sense, they see all investments as impact investing, stretching along a wide spectrum of financial returns and impacts. Like any prudent investor, they seek to manage risk with an appropriate asset allocation. But at the heart of their approach to investment selection is an emphasis on social enterprises, not asset classes. Millennials seek to invest in robust enterprises – whatever their tax status, size, or business – that can perform reliably for people, communities and the planet.

They also evaluate investments not only by assessing financial risk, but also through thinking about the 'social impact risk' of an enterprise; namely, the probability of that enterprise achieving, or not achieving, specified impacts on society or on particular sets of beneficiaries.

Millennials believe that enterprises that provide superior performance on both social impact and financial dimensions are identified through thoughtful analysis of an enterprise's fundamentals – broad social contribution, market opportunity, management team, and business model, including revenue reliability - as compared against peers and understood within a larger industry, sector and market context.

Wealth managers are, therefore, presented with both a challenge and an opportunity by the emergence of impact investing. The challenge is to adapt orthodox investment approaches to the next generation's investment preferences which entail a broader reckoning of risk and return than traditional investments.

The opportunity for wealth managers is that they get to play an active role in shaping not only a new financial services industry, but in redefining the mainstream investment industry itself in a way that brings together both financial and non-financial impact. This is, literally, an opportunity that comes once in a generation.

Paul Cheng is the Chair of the Board of Trustees of SharedImpact.

SharedImpact is the world's first global donor-advised fund. Headquartered in London, with offices in New York City and Hong Kong, SharedImpact provides philanthropists, foundations and family offices with access to social investment expertise and cross-border tax planning.

It does this by providing donor-advised funds services to philanthropists and corporates, injecting liquidity into the social investment market through secondary market activity, and offering a range of social investment products through access to its proprietary online trading platform for social investments. SharedImpact is the first charity in the United Kingdom which has been specifically approved by the Charity Commission to promote the social investment market.

He is the former Head of CAF Venturesome (a pioneering social investment fund in the UK) and is currently the Chair of the European Social Investment Taskforce (a high-level, inter-governmental working group which connects Prime Ministerial offices throughout the European Union on matters of social investment policy). He is a regular industry commentator on social finance matters both in the UK and around the world. He also serves on the Board of Trustees of the LankellyChase Foundation (a £125 million grant-making trust) and The Foundry (www.aplaceforchange.co.uk)*, and is a BMW Foundation Young Global Leader.*

He is known for his systems approach to building a new financial services industry around charities and social enterprises, and his advice is widely sought by philanthropists, corporates and senior policy-makers.

Previously, he worked as a corporate finance lawyer with the international law firm Slaughter and May, and as a business strategist for Microsoft. He holds an MBA from The Kellogg School of Management, and a law degree from Oxford University.