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# Philanthropy Impact MAGAZINE

Inspiring Philanthropy and Investing for Impact

## SUSTAINABLE IMPACT/ESG INVESTMENT AND PHILANTHROPIC GIVING – MEASURING IMPACT: A CACOPHONY OF RESPONSES AND VIEWPOINTS

## THIS ISSUE: EXEMPLARS/EXAMPLES AND ISSUES

THE FIRST ISSUE OF A THREE-PART SERIES

JOURNEY TO A FUTURE WHERE ALL INVESTMENT WILL CREATE A POSITIVE IMPACT FOR SOCIETY AND OUR PLANET: A CASE HISTORY

THE PROBLEM WITH GREENWASHING ISN'T METRICS, IT'S INTENTION

RESPONSIBLE INVESTMENT IS BOOMING: ADDRESSING KEY ISSUES

IMPACT MEASUREMENT – PROCEED WITH CAUTION

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## PHILANTHROPY IMPACT

**Vision** A world where individuals and families engage in philanthropy and social impact investment, supported by professional advisors.

**Mission** Growing philanthropy and social investment and encouraging impact investing by developing the skills and knowledge of professional advisors to (U)HNWI (Private Client, Wealth Management, IFAs, Tax, And Legal Advisors) about philanthropy and social impact investment.

We achieve our mission by delivering activities to support our members and key stakeholders.

**Centre of Excellence**

- Training for professional advisors: we offer bespoke CPD certified training courses for advisors, providing philanthropy and social investment advice to help them support their clients' social impact investment journey.
- Training for wealth advisors: we offer bespoke CPD certified training courses for wealth advisors as well as lawyers and other professional advisors with an interest in suitability issues and ESG investing.
- Training for major donor and corporate fundraisers: we offer bespoke CPD self-certified training courses for high-value fundraisers working with (U)HNWI, to help them understand the role of their professional advisors and to strengthen professional relationships that will transform their fundraising.
- Events: a comprehensive programme of self-certified CPD events, including networking among professional advisors, philanthropists and social impact investors.

**Publications and Research**

- Developing our 'body of knowledge'
- How-to best practice guides
- Technical content and analysis
- Case studies
- Philanthropy Impact Magazine
- Market research

**Philanthropy Impact Public Affairs**

- Advocacy: lobbying 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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The purpose of the magazine is to share information about philanthropy and social impact investment in a domestic and international context. We welcome articles, letters and other forms of contribution to philanthropy in Philanthropy Impact Magazine, and we reserve the right to amend them.

Please contact the Editor at editor@philanthropy-impact.org



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# EDITORIAL

## THE IMPACT OF NETWORKS, PARTNERSHIPS AND COMMUNITY: MY JOURNEY WITH PHILANTHROPY IMPACT

LAUREN HOLMES – WWW.THEHELVELLYNFOUNDATION.COM

My first direct connection with Philanthropy Impact was in January 2021. I had signed up to the mailing list the previous August, as my family and I were in the early stages of setting up a grant-making Foundation. We are 'new wealth', and by that, I mean that our wealth has been generated in the past 10 years. We don't have experience of giving or investing, we don't network with other philanthropists, and we don't understand the exciting and important changes taking place in the sector.

My first conversation was with Zofia Sochanik at Philanthropy Impact, who I had approached to ask about membership. Our first conversation went on for well over an hour! It was really the first time that I had spoken openly about wealth with anyone other than my family. It was a non-judgemental and encouraging space, and I left feeling lighter.

That conversation led to a Zoom call with Philanthropy Impact's CEO, John Pepin, and Chair of Trustees, Rennie Hoare. They so openly shared their advice, network and knowledge. As always, we left with five more people to speak to and 10 more things to read! In particular, we were connected with The Fore, The EPIC Foundation, and Flora and Fauna International, who have since been important sources of inspiration and partnership for us — on an individual level, as well as for our foundation.

Zofia, who is Director of Membership and Development at Philanthropy Impact, also suggested that I connect with another young millennial philanthropist who is further on in her journey of family philanthropy. This is when I met Kristina, who is Director of The Solberga Foundation and, from research, it seemed like we would have a lot of shared experiences. I've since had two video calls with Kristina, who has been so open with her story and so generous in sharing resources and contacts. Whilst I recognise the immense privilege that comes with wealth, it can be a lonely position in many ways, and Kristina reminded me that there is a whole community out there to support me, and my family, on this journey.

The network, the resources and the conversations that I've encountered through my journey since first contacting Philanthropy Impact have been incredibly informative but, more than anything, it is the confidence gained from being part of this community that has made the most difference over the last 10 months.

This magazine contains enlightening stories about achieving impact and living one's values, as well as discussing issues related to impact/ESG investment and philanthropic giving — especially as it relates to measuring impact and why measuring impact matters.

### LAUREN HOLMES – TRUSTEE, THE HELVELLYN FOUNDATION

Lauren began her professional career as a Secondary School Teacher of Spanish and Geography, and she continued her work with young people at an East London employability charity.

In 2019, she moved to Barcelona to undertake an MBA – an opportunity to develop her skills and knowledge, particularly around financial management and social impact, as well as get to know the beautiful city! Now she works at the EY Foundation, still driven by her passion for supporting young people.

In 2020, she and her family established The Helvellyn Foundation, which has been taking a collaborative and flexible approach to grant-making and partnership building.

Philanthropy Impact
Inspiring Philanthropy and Investing for Impact

## Maximising impact/ESG investment client satisfaction – addressing suitability issues

**Wealth advisors preparing for changing times Adding value to existing regulated suitability approaches to impact/ESG investing**

The trend towards impact/ESG investment is placing suitability issues at the heart of advisor/client conversations. This means moving beyond current discussions with clients about their investment objectives, their financial circumstances and their ability to bear risk.

Are you equipped to talk to your clients about their values, motivations, ambitions and goals – capturing their impact/ESG preferences? This training course will allow you to further develop your skills and competencies, putting you in a better position to fulfil your clients' needs, while preparing for potential regulatory change by FCA planning for equivalency with EU MiFID II suitability.

## WHY ATTEND THIS COURSE?

- Open the door to new *commercial opportunities*
- Receive *exclusive insights* from guest speakers about current industry dynamics and best practice
- Further develop your *skills and competencies* and enhance your business's responsible investment proposition
- Meet your clients' evolving preferences for *investing with positive impact*
- Improve *client engagement* levels and enhance your reputation
- Receive *CPD points* and a free copy of the Philanthropy Impact *online handbook* – your go-to resource for delivering an effective philanthropy advice service

## KEY LEARNING OUTCOMES

**By attending this workshop, you will:**

- Learn more about the nature and purpose of impact investing
- Develop impactful approaches to addressing a client's values, motivations, ambitions and goals
- Discover the benefits of incorporating suitability discussions into practice

**There is a need for highly specialised training...**

**...and our suitability training course is designed to deliver just that.**

## BOOK NOW TO OPEN THE DOOR TO NEW COMMERCIAL OPPORTUNITIES

To learn about our online Certified CPD training and bespoke in-house offerings contact:
zofia.sochanik@philanthropy-impact.org

## DISCOUNTS AVAILABLE FOR PHILANTHROPY IMPACT PARTNERS

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## LEARN WITH PHILANTHROPY IMPACT

**Philanthropy Impact is a UK charity, focused on inspiring philanthropy and impact investing.** Our mission is to grow modern philanthropy and social investment and encourage impact investing by developing the relevant skills and knowledge of professional advisors to ultra high net worth individuals.

**This course is intended for wealth advisors as well as lawyers and other professional advisors with an interest in suitability issues and ESG investing**

"WE WANTED TO KEEP THE IMPACT THEMES BROAD, AND TO DEMONSTRATE THAT IT IS POSSIBLE TO ACHIEVE COMPETITIVE RETURNS AND MEASURABLE IMPACT."

# JOURNEY TO A FUTURE WHERE ALL INVESTMENT WILL CREATE A POSITIVE IMPACT FOR SOCIETY AND OUR PLANET: A CASE HISTORY

ALEXANDER HOARE – WWW.SNOWBALL.IM

I approached impact investment from the perspective of a grant-giving philanthropist at the Golden Bottle Trust, which is the C. Hoare & Co charitable foundation. Whilst we had succeeded in making some systemic and catalytic grants, I felt that many grants were not achieving very much.

In 2010, the trustees empowered me to make social investments of up to 10 per cent of the endowment, and quite quickly afterwards they were encouraged enough to raise the limit to 20 per cent. The first investment was in equity, the second was in the pioneering Peterborough Prison Social Impact Bond, and then I found that at that time it was possible to earn 5 per cent on debt (loans to charities) whereas the bank was paying little or nothing on deposits, so we invested in some debt instruments (including a microfinance fund).

Within a few years, we had our first clear lesson: this was not a part-time activity but required both in-depth investment and impact measurement expertise. This finding prompted us, in 2015, to join up with another non-profit, Panahpur, which had committed to invest 100 per cent of its endowment into impact solutions. Together, we hired the professional team we needed to expand what we were doing, and to deliver our big ambitions to encourage others to invest in this way — and created Snowball. We were quickly joined by Friends Provident Foundation, Skagen Conscience Capital, Gower Street, and the Ian Taylor Foundation, who all wanted to align their assets with their missions. At the time, these partners had to take all investment decisions as the partnership was unregulated.

ALEXANDER HOARE

## TACKLING THE SDGS

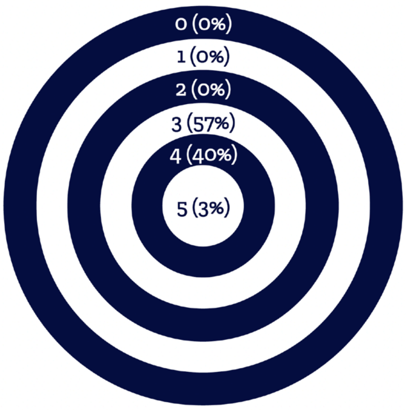
We built an investment portfolio whose capital contributed to tackling all 17 United Nation's Sustainable Development Goals (SDGs) intentionally and additionally. These goals will never be met with just philanthropic and taxpayer's money — it was and still is important to mobilise mainstream investment markets.

We wanted to keep the impact themes broad, and to demonstrate that it is possible to achieve competitive returns and measurable impact. The portfolio used cash and fixed income, public equities and private equities, and some venture finance. Importantly, the fund was designed to be evergreen (which is to say that we do not have to liquidate investments and wind up the fund at any particular time).

We were early members of the Impact Measurement Project — we adopted their methodology in order to contribute to a coalescing of standards, but we also added to their thinking in the way it can be applied in a multi-manager or "fund of funds" context. Part of this work involved designing an impact framework, and a simple visual to display the impact score of portfolio holdings and of the portfolio as a whole. This is our "bullseye". We later won two awards for the impact


management methodology we developed (Pensions for Purpose, 2019, Impact Strategy Award and Most Read Content for the first report we published on it).

**SNOWBALL IMPACT METHODOLOGY**




*The bullseye chart denotes the impact intensity of our portfolio by showing the % of the portfolio that sits in each ring of the bullseye. We aim to drive the impact score toward the centre of the bullseye.*

Having started to establish our track record delivering good financial returns and measurable impact, we wanted to review our structure and how it would support our momentum towards our overall mission. The difficulty with this form of partnership is that it is difficult to scale, as not all prospective investors want to sit as full partners, preferring to delegate to expert and active investment management, optimising for risk, return and impact. So, in 2019, Snowball was re-born as a conventional GP/LP-regulated fund with a much lower entry ticket (£150k). This was a key intermediate step in our journey towards making it possible for everyone to invest in solutions to improve society.

One merit of a familiar structure is that it is easier to compare with other such investments. We contend that an impact investment portfolio offers good risk-adjusted returns. The returns are lower than you can obtain in focused and leveraged funds, but our fund is very diverse across geographies and sectors and is not leveraged. Also, our fund held as part of any conventional portfolio should improve risk adjusted returns by diversifying exposures in the portfolio. Snowball delivered 7 per cent in the first six months of 2021, well ahead of our target of 6 per cent per annum. Markets have benefitted from much central bank support over the past 15 years — the true test of our conviction will be in next market correction, and we expect the value of holdings contributing to solutions to social issues to fare better than pure financial investments.

Snowball holds newly invested cash in public equities whilst awaiting the next private impact fund to close so we deploy quickly into impact. These are shares that would hold their own in mainstream investment markets, maximizing returns for a given level of risk, using ESG measurement metrics.

## NOT AN ESG INVESTMENT

Snowball, however, is not an ESG investment: instead, our requirement is that the funds we invest in are invested in companies whose products and services create a measurable and additional positive social outcome.

This means that the bulk of our investments are in instruments to which the conventional mainstream markets would not allocate (or not until very recently). Examples include Resonance social housing, including their Women in Safe Homes Fund; Circularity Capital; and The Yield Lab. These are intentional and measurable impact investments, and they differ from ordinary financial investments with an ESG label, or who are scoring ESG risk. The problems with ESG investing are being intensely discussed, with Tariq Fancy, Desiree Fixler and James Anderson sharing insider views to accelerate a much-needed focus on integrity and standards. Elsewhere, industry observers like Columbia Business School are highlighting the way that self-proclaimed ESG companies and funds are falling well short on their commitments. Reshaping finance has become an imperative and these ESG escapees have joined those of us who recognise that the short-term pursuit of profit whilst externalising and outsourcing the long-term costs of that profit has run its course.

Snowball is completely changing how we all think about investing. We are pioneering new ground as much as

**ALEXANDER HOARE – PARTNER AND DIRECTOR, C. HOARE & CO.**

Alexander is the first of the eleventh generation of Hoare family members to run the bank.
A graduate of the University of Edinburgh (B. Com (Hons) Marketing), he joined the bank in 1987 from PA Consulting Group where he worked as a Marketing Consultant. From 2001 to 2009, he was CEO of C. Hoare & Co.

Alexander is a leader in the field of social and impact investing, and a Founder Partner of Snowball LLP. He serves as President of the Groupement Européen de Banques; as a Patron of Royal Trinity Hospice; and as Chairman of the Trustees of Intermission Youth Theatre.

possible, being transparent and sharing our learning as we go. Our theory of change will be achieved by a systemic transformation of financial markets.

## FOCUS ON PURPOSE

According to the Global Impact Investing Network, the global impact investing market is $715 billion. Big Society Capital size the UK market at £6.4 billion, and their new strategy is to double it in five years. We think this is more than achievable. The pandemic and dramatically heightened awareness of the environmental crisis running up to COP26 (among other things) have prompted people to think about the purpose of their investments. The difficulty is that there is a gulf between thinking we can do better and putting our money to work in a new paradigm.

So far investors and families that consider society alongside profit have been in the vanguard. There are trustees of many foundations and charities who would like to invest in line with their purposes, but they have been outnumbered by more conservative colleagues wedded to the status quo. Most wealth managers are aware that the next generation would like to see at least some impact investing in their portfolios, but in general they focus on comparative performance (and their bonuses). And so progress is slow, but it is also sure. Snowball is gratified recently to have won new mandates from foundations like Bridge House Estates and the EIRIS Foundation, as well as from individuals and family offices. We hope this public recognition will convince some of the those who have been watching and waiting that it is OK to change with the times.

Putting the money to work appears to be less of a challenge. More and more entrepreneurial funds that tackle a broad range of social problems both in the UK and globally are crossing our desks.

At the next close (which is end of November 2021) the fund is set to be twice the size it was 18 months ago. We are speaking with potential cornerstone investors to increase our momentum whilst continuing to welcome new individuals, families and charities to invest with us. Our goal is to grow our investor base to the point at which we will be able to allow more people to access the intentional, measurable and additional impact investments we are making. An important benefit of investing through Snowball is that it gives individuals access to private equity holdings they could never obtain on their own unless they were seriously rich.

Returning to the Golden Bottle Trust where I started, it is pleasing to report that the endowment (~£19m) is 100 per cent invested for impact across four fund managers and some proprietary investments, and the performance has been very satisfactory for the charity. Our giving has also been fruitful, and an impact report can be found on the Hoares Bank website.

### SNOWBALL PORTFOLIO: FUND SPOTLIGHT
### ANANDA IMPACT FUNDS I & IV | PRIVATE EQUITY
### SDGs 3, 4, 8 & 10

**Founded in 2010, Ananda Impact Ventures was an early pioneer in impact venture capital.**

The manager's strategy is to invest in, and scale, impact driven for-profit enterprises across healthcare, education, sustainability & social justice. Snowball is invested in Ananda's first fund and has committed to the fourth fund.

Ananda invests in companies which are reaching underserved groups. The majority are explicitly committed to reaching vulnerable populations, such as children from a disadvantaged background (e.g. Third Space Learning, a one-on-one online numeracy tutoring programme for children on the Pupil Premium), older people (Careship, an affordable live-in care provider for elderly patients); and people with disabilities (e.g. Auticon, an IT consulting firm which provides employment for people with autism).

Ananda meets Snowball's financial return requirement for impact venture and growth equity. Impact is at the core of its operations; all its assets are invested for impact. Snowball believes that Ananda walks the walk when it comes to impact – for example, the manager's carry is tied to impact, it has an impact term sheet which is genuinely pioneering and an independent advisory committee which signs off on KPIs and targets.

### SNOWBALL PORTFOLIO: FUND SPOTLIGHT
### AQUA-SPARK | PRIVATE EQUITY | ENVIRONMENTAL SUSTAINABILITY | SDG 14 | c. €150 AUM (OPEN-ENDED FUND)

**Snowball invested in Aqua-Spark in January 2021.**

Aqua-Spark is a Dutch co-operative, launched in 2014, which invests in sustainable aquaculture businesses with a mission to move the aquaculture industry towards healthy, sustainable and affordable production. It will invest in 60-80 companies across the aquaculture value chain (eg. alternative feed ingredients, farming operations, health and disease prevention and farm management technology) to achieve wider systems change.

Example companies in its portfolio are Calysta (which turns methane gas into a protein which can be used in fishmeal), Sogn Aqua (a land-based Atlantic Halibut farm which showcases best aquaculture practices – eg. feed conversion ratio below 1:1, all materials are recyclable, humane practices, no chemicals or antibiotics, systems designed to replace nature and hydro powered) and Proteon Pharmaceuticals (which provides animal health solutions using bacteriophages, a healthy, natural alternative to antibiotics).

Snowball chose to invest in a mission-aligned manager achieving impact alongside a bolder ambition to change the aquaculture industry, whilst also addressing our limited portfolio exposure to SDG 14 (Life Under Water). As an open-ended fund, Snowball intends to scale this investment as they grow.

*“WHILE MANY A BANK AND WEALTH ADVISOR HAS DEVELOPED “PROPRIETARY” IMPACT MEASUREMENT METHODOLOGIES, THESE FRAMEWORKS HAVE FAILED TO ASSUAGE CLIENT AND OBSERVER CONCERNS AROUND GREENWASHING.”*

# THE PROBLEM WITH GREENWASHING ISN’T METRICS, IT’S INTENTION

ALEXANDRE BARKER AND ANNE DARDELET-SHEYBANI – WWW.EDMOND-DE-ROTHSCHILD.COM

High-net-worth individuals (HNWIs), in particular, show a strong interest in sustainable and impact investing, a characteristic shared even more widely among ultra-high-net-worth individuals (UHNWIs), with a majority of these two groups now declaring they plan to allocate 46 per cent of their wealth to sustainable and impact investing. Aspiring and current impact investors’ motivations for their decision to invest for impact include a personal sense of mission, impact investing’s efficiency relative to traditional tools such as philanthropy, and a desire to align their investments with their values. This trend appears to have acquired a post-pandemic momentum, with 35 per of UHNW families saying they felt more motivated to invest for impact as a result of the pandemic.

But wealth advisors — be they banks or other traditional providers of investment expertise — should be wary when responding to this rising demand with an impact offering of their own. While HNWIs and UHNWIs are indeed driven by an increased interest in sustainability in general, and many UHNWIs are looking to impact investing as a supplement to pre-existing philanthropic activities, all client categories largely feel misunderstood by their financial advisors when it comes to their sustainability and impact goals. While these client categories frequently express frustrations when it comes to impact measurements perceived as confusing or inconsistent across sectors or strategies, concerns are more generally shifting from financial performance to evidence of material impact. In response, they are quickly growing their own knowledge from alternative sources of expertise, such as their peers. It is up to the wealth management community to respond to these client frustrations if they wish to retain the status of trusted advisors.

## ROBUST IMPACT MEASUREMENT METHODOLOGIES ARE NOT ENOUGH

For investors and those who advise them, greenwashing is more than a question of confusing or unsatisfactory metrics. It is undeniable that the latter are part of the problem: investors, who require common indicators that are standardised across and within investment sectors are instead faced with impact reporting that varies widely, not only across sectors, but between investment managers as well. While many a bank and wealth advisor has developed “proprietary” impact measurement methodologies, these frameworks have failed to assuage client and observer concerns around greenwashing. In addition, investors often face a knowledge gap when it comes to impact measurement and reporting. Our family office clients often express difficulties in deploying capital when their internal investors’ advisors are themselves unfamiliar with investing for social or environmental impact, with few family offices having internal staff that carry out due diligence on impact investment deals. We believe this puts the onus on financial advisors to bridge this knowledge and measurement gap.

ALEXANDRE BARKER

ANNE DARDELET-SHEYBANI

Furthermore, research shows that over 40 per cent of UHNW and Millennial clients believe that their financial advisors do not understand their sustainability goals, despite an overwhelming majority of these client categories having sustainability objectives. So how do we as financial advisors provide our clients with investment solutions and data that are both convincing and speak to their specific intentions? This is often a point of discussion when it comes to our engagement-driven clients. What they expect from their financial advisor is an impact measurement framework that isn't just methodologically sound and provides consistent data, but that actually speaks to their own vision of society and of the future, and to their own system of values and their specific impact goals. This is a question of trust and understanding one's clients' motivations rather than one of data.

So far, wealth advisors seem to have focused on providing so-called "impact-labelled" investment solutions by designing measurement and reporting methodologies without fundamentally changing the way they assess client preferences and suitability, nor how they structure and match financial products with those preferences. Fighting greenwashing not only requires sound theories of change and evidence of impact, it also requires a thorough understanding of our clients, not only as investors but as individuals, entrepreneurs, family members, citizens and agents of change.

## THE NEED FOR A CLIENT-CENTRIC APPROACH TO IMPACT

We believe that to truly allay fears of greenwashing among investors, client intention needs to be put back at the centre when it comes to impact measurement as well as product design. While no one can claim to have perfected an impact framework that completely eliminates the risk of greenwashing, each of us could and should commit to remaining resolutely client-centric in our thinking rather than self-oriented.

Indeed, we believe that even the most robust of impact frameworks will fail to instill client trust if it does not fit the two following criteria: firstly, it must be in line with what clients conceive of as being true impact, which presupposes that a frank and open discussion about the client's values and impact goals has taken place, and that what they conceive of as being true impact has been duly captured. To do otherwise, financial advisors run the risk of their offering being perceived as an attempt to push a corporate agenda which is not in their best interest. Secondly, we need to ensure that our offering is in the "sweet spot" where we have both legitimacy and experience.

## ADVISING FROM A POSITION OF LEGITIMACY AND EXPERIENCE

Edmond de Rothschild has long been able to count on the pioneering vision and commitment of our family shareholder, and on the experience and expertise of its private equity team to offer concrete solutions to targeted environmental and social issues, by providing sustainable responses to targeted issues in the areas of agroforestry, resource efficiency and human capital. We can also count on the impact track record of the Edmond de Rothschild foundations, which have significant experience in launching and managing philanthropic initiatives in the arts, health, education and higher education, as well as impact entrepreneurship across the world.

This learning journey makes our offering a targeted one, with strong anchorage in the US, Europe, the Middle-East, Latin America and Africa. We are aware that this offering is not a one-size-fits-all, and some clients may very well not want to commit to some parts of our offering. But we believe that because it includes solutions that have been tried and tested, and created by investment teams in the field, with direct knowledge of beneficiaries, this offering is one we can present to clients from a place of legitimacy and experience, and is therefore more likely to be up to client expectations and grow trust.


### ALEXANDRE BARKER – JUNIOR PROJECT MANAGER PHILANTHROPY & ENGAGEMENT, EDMOND DE ROTHSCHILD

Alexandre graduated from the University of Geneva, where he read History and Japanese studies, and from the London School of Economics with a degree in International Relations. He started his career in a Geneva-based wealth manager's investment communication team, before joining a family office's advisory team, where he reported on the family's business and philanthropic activities. He now creates and curates content around engagement, sustainability and the wider world of wealth management at Edmond de Rothschild private banking, based out of Geneva.

### ANNE DARDELET-SHEYBANI – HEAD OF PHILANTHROPY & ENGAGEMENT, EDMOND DE ROTHSCHILD

An ESSEC Business School and Paris Bar Association graduate, Anne pursued a double degree at the crossroads of Business and Public Interest. She started her career as a Strategy and Legal Advisor in a European family business in the recycling industry, before moving to the commodity trading industry, where she coordinated a complex litigation and set up a public affairs cell. An impact-driven professional, she now helps wealthy entrepreneurs and families to build and accelerate their own engagement paths at Edmond de Rothschild private banking, based out of Geneva.

# RESPONSIBLE INVESTMENT IS BOOMING: ADDRESSING KEY ISSUES

JOHN DITCHFIELD – WWW.IMPACTLENS.COM

In the investment industry, greenwashing is the process of marketing an investment product as sustainable or responsible when, in practice, the investments do not promote a more sustainable or less environmentally destructive economic model.

Sustainability is development or economic activity that meets the current generation's needs but does not negatively impact the potential ability of future generations to meet their needs. Unfortunately, there is a great deal about contemporary society that is simply unsustainable. We are rapidly creating a far poorer environment, in terms of its ability to sustain a healthy life, than previous generations have enjoyed.

Overconsumption of finite resources, the emission of vast amounts of $CO_2$ into the atmosphere and over-exploitation of the oceans and land for farming and agriculture, are all having a dramatic impact on the health of the planet on which we depend.

The world's enormously profitable and influential investment industry has a role in all this as a significant shareholder in businesses that operate in unsustainable ways. Perhaps the most obvious example of this is the fossil fuel industry, which has been a source of enormous profits for the investment industry while supplying the world's demand for energy and commodities made from petrochemicals.

## CHANGING TIMES

Since I started working as an investment adviser some 20 years ago, the landscape has changed dramatically. In the early 2000s, environmental or sustainable investment funds were scarce, with only a handful available to investors — early examples being Jupiter's Ecology Fund, launched in 1988, or the early EdenTree Responsible and Sustainable UK Equity Fund, also launched in 1988.

These were considered high-risk investment vehicles and were often faintly ridiculed by an industry built to maximize fees by generating the highest possible financial returns with little or no consideration for social or environmental impacts. Investors concerned about these issues would usually be politely informed that performance would suffer and that they would most likely lose most of their money.

JOHN DITCHFIELD

Today, the picture is somewhat different, with the industry racing to roll out new products and services that seek to offer sustainable, responsible or ESG-aligned investment opportunities. The trickle of new fund launches has become a flood as the investment industry pours energy and resources into reshaping products to meet the demand for sustainable investment options.

## RESPONSIBLE INVESTMENT BOOM

I regularly review a database of investment funds (OEICs/Unit Trusts FE Analytics), which includes ethical or sustainability-related claims within their fund documentation, and in the past 3 years this list has gone from just over 100 to close to 800 funds. And this does not include the vast range of Exchange Traded or tracker products built to follow ESG-linked indices.

In short, responsible investment is booming, with investors now facing an enormous range of investment options. The Investment Association (IA), which tracks new money going into investment funds across different sectors, found that between the first quarter of 2020 and the second quarter of 2021 funds under management for responsible investment funds grew by 151 per cent. And according to Morningstar, 2020 saw a record investment of over £200 billion into European sustainable retail investment products, which was roughly double the figure for 2019.



Individual investors are increasingly demanding financial products that take sustainability into account. The most recent Financial Lives Survey conducted by the Financial Conduct Authority, one of the UK's largest surveys that looks at public attitudes towards money and finance, saw 80 per cent of respondents wanting their money to "do some good", 71 per cent wanting to "invest in a way that is protecting the environment," and 71 per cent saying they would not put their money into "investments which are unethical".

> *"A PARTICULARLY LARGE US-BASED MANAGER, WHICH OFFERS A GLOBAL SUSTAINABILITY FUND, INCLUDES BOTH GOOGLE AND AMAZON WITHIN ITS TOP-TEN HOLDINGS."*

## CONFUSING TERMINOLOGY

However, the language and terminology that swirl around this part of the investment world are complex and confusing. Whilst fund labels such as "Cautious" or "Income" are relatively closely defined with specific parameters, the regulator and the various professional bodies have not, so far, offered definitions of concepts such as "sustainable", "responsible investing" or indeed "ethical" or "SRI investing" and this is leaving aside even more complex concepts such as "impact investing".

This position is unhelpful for clients and advisors, and, I believe, tends to undermine the industry's credibility in this area.

A notable example of this is the inclusion of very large consumer technology businesses, which are often major holdings in funds labeled as sustainable. It is certainly not unusual to find businesses such as Apple, Google, or even Amazon, within the top-ten holdings of funds badged as sustainable or even environmental.

A particularly large US-based manager, which offers a Global Sustainability Fund, includes both Google and Amazon within its top-ten holdings. They argue that these businesses have a sustainable business advantage. In a European context, this labeling of a fund as sustainable is potentially highly misleading. Is it credible to refer to Amazon or Google as sustainable when we consider the result of their business activities?

## THEMATIC FOCUS

Investment funds that align more closely with the definition of sustainability I've offered above tend to focus on particular themes, such as investing in companies that are moving to more sustainable practices in energy production and supply, waste management, and the provision of other services. Areas of focus tend to be energy efficiency and the shift away from fossil fuels and environmental services.

The US company Generac is an excellent example of typical fundholding. This company is a major provider of solar energy systems and domestic generators in the US and is committed to reducing power usage from fossil fuels. AO Smith the energy-efficient water heating and purification business, is another popular holding.

Overall, the leading sustainability-focused funds focus on businesses addressing environmental or sustainability challenges, such as the shift from fossil fuels to renewable energy or the exponential growth in waste management services.

The UK's financial regulator (FCA) has already made it clear that they plan to introduce new Sustainability Disclosure Requirements in line with systems within continental Europe. Their recent discussion paper 'Sustainability Disclosure Requirements (SDR) and investment labels' sets out the approach the regulator proposes to take with the introduction of product labels that will reflect the sustainability characteristics of investment products.

The FCA's proposal should improve transparency and help clarify the distinction between some of the significant categories of investment funds operating in this area.

### JOHN DITCHFIELD – CHAIRMAN & CO-FOUNDER, IMPACT LENS

John has worked in Responsible Investment for nearly 20 years. Throughout his career, John has supported individuals and organisations with the process of taking greater control of their investments. Impact Lens aids this mission by providing intermediaries with the information they need to serve their clients and allow them to build portfolios that reflect client ethics and values. Alongside his role at Impact Lens, he is currently Head of Responsible Investment and a Wealth Manager at Helm Godfrey.

# IMPACT MEASUREMENT – PROCEED WITH CAUTION

LEESA HARWOOD – WWW.BYTHEWAVES.CO.UK

**The role of philanthropists is much more complex than a balanced bank of measures, or portfolios crammed full of social, environmental or economic data. Impact metrics are essential but we should not become over-zealous about them**


According to the Grant Thornton 2018 Impact in Action report, "Impact measurement can no longer be viewed as a 'nice to have'." Charities can't exist for the sake of existing. As all charity trustees know, their role is not to protect the existence of the charity itself, but to ensure the optimal delivery of its charitable aims. The two are not always synonymous.

## IF YOU MEASURE IT, THEY WILL COME

Having established the importance of impact measurement as a governance imperative, the report goes on to explore the link between impact measurement and the propensity of funders to give. Impact measurement is a hot topic amongst charity fundraisers today. The more they measure, the more they can reassure donors that charities are tackling the problem they have been set up to solve. More measures must mean more money. It's a compelling and popular assumption.

Technology has significantly improved our capacity to collect and store data, measure impact and create sophisticated dashboards for funders. When I started fundraising for the March of Dimes Birth Defects foundation in the USA in 1991, we could not process data in the way we do today. Back then, we relied almost entirely on stories, case studies and in-person engagement with donors. Now, charities can collect, process and synthesise data on a scale that would have overwhelmed us 30 years ago. Donors are more cynical, demanding and sophisticated. The hypothesis is simple: give donors impact data and they'll give you their money.

## NO SILVER BULLET

LEESA HARWOOD

However, we should not become over-zealous about impact measurement. Whilst impact metrics are essential to quantify the scale of the problem and the solution for governance purposes, they are no silver bullet. And if, in a philanthropic context, data and impact measurement are our only answers, we might be asking the wrong questions. Because the role of philanthropists is much more complex than a balanced bank of measures, or portfolios crammed full of social, environmental or economic data.

The trend towards impact measurement has spawned an industry of research, insight and evaluation specialists. So, it is not surprising that the data hypothesis has gained and maintained so much traction. Now, philanthropists can commission portfolios promising measurable social returns on their philanthropic investments. They can quantify their kindness, offset their privilege or greenwash their pollution.

*"TODAY, THE PUBLIC SECTOR DOES NOT ROUTINELY TAKE A HIGH-RISK, HIGH-GAIN APPROACH TO SOCIAL AND ENVIRONMENTAL SOLUTIONS."*


At the same time, big charities are investing more and more in impact measurement, building entire teams to satisfy the growing demand for impact statistics to serve donor agendas.

## IMPACT MEASURES – TOO MUCH OF A GOOD THING

Data is important and metrics are helpful. But you can have too much of a good thing, and there is a risk that philanthropists and charities could focus on impact measurement too much, with damaging consequences.

To understand the scale of the risk, we must trace the evolution of some of our best loved charities back to their roots, before they became the big brand, big charity names we recognise today.

Founders like Eglantyne Jebb (Save the Children) and William Hillary (RNLI) were outliers, mavericks, innovators and risk takers. They set up charities to address problems that the establishment had failed to address; they were the grit in the establishment oyster. When Jebb and Hillary sought start-up funding 100 and 200 years ago respectively, they had no idea how many lives they would save, or what their social return on investment might be. They were social entrepreneurs, taking risks and asking their backers to do the same. They saw a problem, tested solutions, failed fast, learned lessons and moved forward until more lives were saved. Not a dashboard in sight.

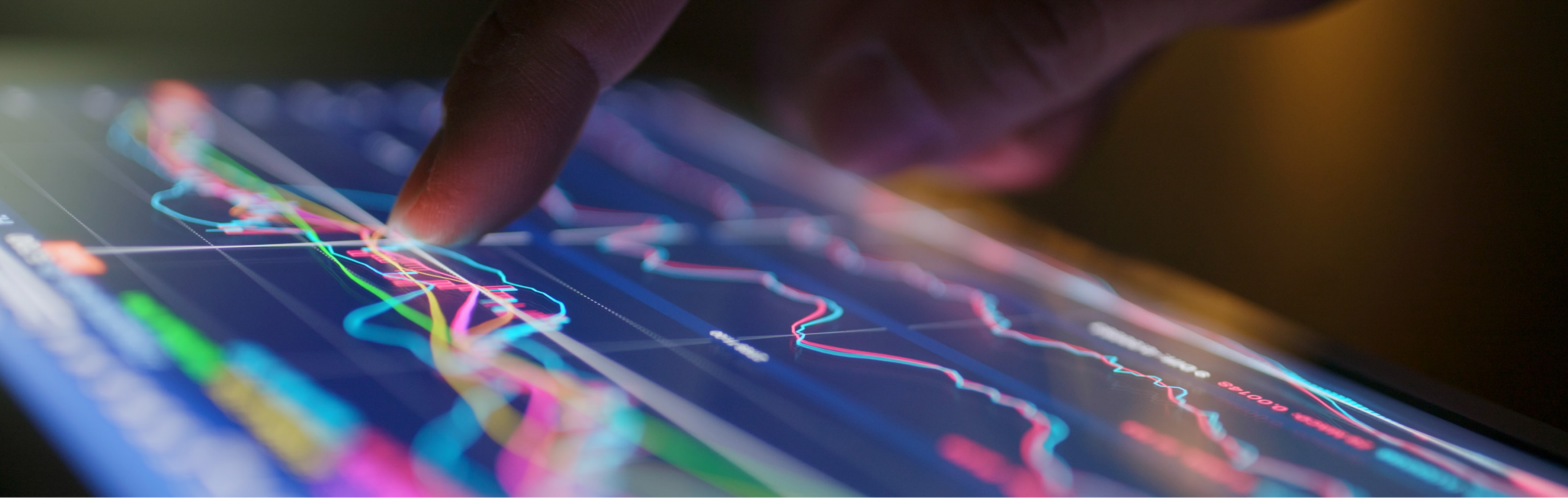
Today, the public sector does not routinely take a high-risk, high-gain approach to social and environmental solutions. Gambling with public money is a perilous political game. As many charities remain reliant on public funding, they jump through government impact reporting hoops, becoming more and more risk averse. Some charities might as well be part of the establishment itself, plugging gaps in and propping up struggling public services with neither the funding nor permission to be the grit in the oyster and shift paradigms.

If philanthropists also encourage charities to adopt a culture of excessive outcome measurement, they will inadvertently erode the ability of charities to experiment, fail then succeed. They will add another layer of risk aversion on top of already overly cautious public sector restrictions.

Then there is a danger that charities (in their eagerness to deliver the agendas of cautious funders demanding specific outcomes from predictable projects), focus on measuring existing, short-term activity (or process) rather than new, higher risk, longer term, longer tail, innovative projects without such certainty of immediate outcome. Consequently, charities are more likely to stick with what they know and aim for incremental improvement rather than transformational change — low risk with short-term, incremental gain.

Charities then become trapped in outdated business models, unable to evolve or experiment with their own operational architecture which inevitably leads to unimaginative solutions downstream. It is no coincidence that ground-breaking, global initiatives like Give Directly's Universal Basic Income 12-year pilot, and the world's first community entrepreneur lending platform, Kiva, originated outside the traditional charity sector where innovation on this scale is harder to achieve. Closer to home, UK fundraising initiatives like Serendipity — a digital platform that enables charities to collaborate to deliver a donor-focused, thematic philanthropic experience — have, ironically, been set up outside the charity sector. Serendipity's founders recognised that charities just couldn't attract funders to take a risk on a fundraising experiment of this nature, so they set up a for-profit company because it was easier to attract innovative, entrepreneurial backers in the private sector environment.

And yet, the world has never needed an innovative, non-establishment, socially and environmentally focused sector more. We already know that big problems need big solutions. The roads to environmental sustainability, financial, gender and race equity are littered with inadequate, low risk, incremental improvements. It is possible that with the best of intentions, over-use of restrictive impact measures by funders contributes to this problem.



## THE NEW PHILANTHROPIST MOVEMENT — RISE UP AND TAKE A RISK

So, what does this mean for funders and philanthropists? Should they abandon impact measurement altogether? Should they treat charities and non-profit organisations as unstructured, social skunkworks? No. Just as social and environmental impact measurement is not the single solution, nor is it the sole, root cause problem. In moderation, and with carefully considered metrics, impact measurement can help the sector to innovate and think big.

But, it is important for philanthropists to realise how important their role is as a financial lifeline for transformational innovation in the charity sector. Few charities can afford to ringfence an innovation budget, or fund truly impactful R&D activity. If their funders are preoccupied with measuring the impact of existing, tactical activity, this will continue to be the case.

*"BIG PROBLEMS NEED BIG SOLUTIONS. AND THE CHARITY SECTOR HAS THE APPETITE, EXPERIENCE AND DNA TO MEET THE CHALLENGE."*

Few funding streams can or will support charities to unleash their transformational DNA. There is a real opportunity now for philanthropists to step up and raise the innovation bar: ringfence some of their philanthropic investment for high-risk, high-gain solutions; buy their chosen charities the time and headspace to think big and shift some paradigms. Big problems need big solutions. And the charity sector has the appetite, experience and DNA to meet the challenge. But only if its funders get the balance right between high and low-risk metrics across their portfolios. We all know that by setting the right measures, we can drive a game-changing culture. Philanthropists, your time has come!


### LEESA HARWOOD - OWNER, BY THE WAVES

Leesa has had a 30-year career in the charity sector, first as a Fundraiser in the USA with the March of Dimes and American Cancer Society, then with Save the Children UK, and Business in the Community. Most recently, she was Director of Lifesaving and Fundraising at the Royal National Lifeboat Institution, leading the UK's lifeboat and lifeguard rescue service as well as the fundraising team. Leesa now runs her own consultancy By the Waves. She advises philanthropists on how to give effectively, and works with charity leaders on how to generate income and build funding and operating models, as well as coaching and advising on leadership and governance. She is a Trustee at The Big Issue Foundation and Interim CEO at Jeans for Genes. From time to time, she writes for various publications about philanthropy, fundraising and charity leadership.


# IMPACT INVESTING & GREENWASHING – WHY MEASUREMENT MATTERS

ISOBEL MORTON AND EMMA GARNHAM – WWW.MACFARLANES.COM

**One solution to both the risk of greenwashing and the need to balance financial and non-financial factors when investing is ensuring you can measure the impact. But what does that mean?**

ESG investing is big news: from media headlines to new product launches to regulatory developments, there is significant focus on whether non-financial metrics can contribute to a better world and how such opportunities are marketed. On the ESG spectrum, a step below philanthropy is the concept of impact investment: investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return. Will the reality live up to the claims, or are we facing a barrage of greenwashing, with claims of ESG credentials unsupported or unproven? How do we measure 'success' when it comes to the assessment of non-financial outcomes?

Fiduciaries are being asked to balance beneficiary expectations and mandates for impact with a rapidly expanding and elegantly presented array of impact investment opportunities. How to digest the marketing, deliver on mandates and comply with their duties? There is an ongoing debate taking place about the extent to which charitable (and other) fiduciaries can take non-financial factors into account when exercising a power to invest, but the Charity Commission has been clear in its recently updated guidance that there will be instances where this is appropriate. What is clear is that any non-financial intended impact of an investment will need to be clearly identified (and justified in light of broader fiduciary duties) and subject to ongoing assessment.

One solution to both greenwashing risk and fiduciaries' balancing act is therefore ensuring you can measure the impact. But what does that mean?

ISOBEL MORTON

EMMA GARNHAM

## THE INVESTMENT PROCESS

The first question is: what is going be to measured? When considering the myriad of impact investment opportunities on offer, a clear, well-defined mandate for particular impacts is the first step towards having an impact that can be measured and an investment decision that is defensible, and an essential step in discharging fiduciary duties. A clear mandate will narrow the investable universe, save time and cost in diligencing and evaluating opportunities, and reduce the risk of being greenwashed.

With a clear mandate in place, how to evaluate impact investments? Critically, the initial evaluation is not just about the usual due diligence exercise but also sets the baseline for measuring an investment's impact over its holding period.

> *"THE RECENTLY ANNOUNCED CREATION OF AN INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB) AT COP26 IS INTENDED TO PROVIDE GLOBALLY ALIGNED AND ACCEPTED SUSTAINABILITY REPORTING STANDARDS."*


Fiduciaries considering impact investments should ensure a sound baseline is recorded in order to discharge their fiduciary duties.

When considering what a baseline should be, look back to the heart of impact investing — something that has a positive, measurable social or environmental impact. For example, we can measure, and see the positive impact of, the number of affordable housing units delivered to families living below the poverty line in a given year. We can also measure, and experience, the positive impact of replacing 1,000 megawatts of coal-fired electricity with 1,000 megawatts of wind-powered energy. And, over time, we can measure the change to these metrics — 10 per cent more housing units, 500 more megawatts of power by wind. Clear baselines like these make it easier to spot greenwashing — have the houses been delivered? Has the coal been replaced with wind turbines?

After investments are made, fiduciary duties and any mandate-specific reporting obligations dictate the need for appropriate ongoing monitoring and evaluation — also ensuring the initial investment was not mis-sold or greenwashed. But how to monitor and evaluate impact investments? This is where a clear baseline combined with quality data sources is needed to enable measurement of desired impacts.

## TOOLS FOR FIDUCIARIES

The second question is: how to measure the impact? The short answer: good data collection.

Regulatory developments such as the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (known as the SFDR) and the United Kingdom's own recently announced (but not yet enacted) Sustainability Disclosure Requirements (known as the SDR) can help with both initial evaluation and ongoing monitoring. The primary goal of these regulatory regimes, and supplementary regimes currently being developed, is to prevent greenwashing by prescribing easily comparable pre-contractual disclosures and ongoing reporting requirements. From 2022, for the SFDR, and post-2022, for the SDR, annual reporting of certain sustainability indicators and principal adverse impacts on sustainability measures will be required. Depending on the nature of the impacts investors are targeting, they may find this regulatory reporting a useful source for collecting the relevant data to measure impacts.

The recently announced creation of an International Sustainability Standards Board (ISSB) at COP26 is intended to provide globally aligned and accepted sustainability reporting standards. Globally aligned standards will be a powerful tool, particularly in the hands of investors with global portfolios, and it is hoped will help to mitigate some of the challenges posed by existing disparate regulatory and voluntary disclosure and reporting frameworks. However, this is still in development and challenges remain in the interim.

Another powerful tool is the dedicated impact investment due diligence questionnaire (DDQ). A tailored impact DDQ can support clear baselines (key at the investment evaluation phase) and provide an ongoing source of data for measuring non-financial performance (or non-performance) against impact objectives. Similarly, a side letter with mandated reporting may achieve a similar outcome if appropriately negotiated.


### ISOBEL MORTON – PARTNER AND HEAD OF ESG, MACFARLANES

Isobel is the partner responsible for the firm's strategy relating to environmental, social and governance (ESG) issues, with a particular focus on environmental sustainability. Prior to taking on this role in May 2021, Isobel had 13 years' experience as a Private Client Lawyer at the firm, spending three years as a partner. Isobel has oversight of the ESG-related work being undertaken across the firm is chair of Macfarlanes' ESG steering committee.

Prior to taking on an ESG-focused role, Isobel advised on a wide range of tax and estate planning issues for domestic and international clients. She developed a particular focus on emerging approaches to wealth management.

Isobel is the partner champion for the environmental committee, which leads the firm's sustainable business agenda, and also for the company's Balance network, a forum providing networking and peer support for all staff managing careers and home lives, to achieve a sustainable work-life balance. She is also a trained mentor for the firm's mentoring schemes.

## COMMON MEASUREMENT CHALLENGES

The third question, then, is: what if we cannot source ‘good’ data? Well, that is not the end.

The underlying data needed to measure and evaluate impacts is not always readily available. As a rule of thumb, be sceptical of products or service providers who are unable to support at least a basic impact DDQ or meet most regulatory reporting requirements under the SFDR for their investment opportunity. Where underlying data is not available today, do not be afraid to ask questions: why not? What is the plan to collect this? Are there reasonable, verifiable estimates? Not all impacts are measurable today, but that does not mean this will be the same tomorrow.

*“BUT FOREWARNED IS FOREARMED; AN INVESTOR MAY CONSIDER REQUESTING THE DATA UNDERLYING SUCH REGULATORY REPORTING TO MAKE THEIR OWN COMPARISONS.”*

The SFDR and SDR originate from the same desire — to prevent greenwashing. But that will not stop the European Union and United Kingdom regulatory requirements for ESG and impact-oriented products and services diverging. Be conscious that as regulatory divergence grows, so too does comparability complexity of prescribed reporting data – you may end up comparing apples in England with *les pommes de terre* in France. But forewarned is forearmed; an investor may consider requesting the data underlying such regulatory reporting to make their own comparisons. However, this may be a shortlived fear — the creation of the ISSB suggests a global appreciation of the power of comparable data and reporting as a tool to prevent greenwashing and inform better ESG and impact investment decision-making.

When considering whether to pursue measurable data beyond what is readily provided through regulatory reporting and DDQs, fiduciaries should be mindful of costs, as data collection, verification and analysis costs may become disproportionate.

True impact investments can contribute to a better world. To ensure the impact investments selected are not just greenwashing and marketing puffery, of which failure to identify would risk breaching fiduciary duties, investors should evaluate and monitor impact claims against positive, measurable metrics as far as possible. Measuring your impact — that is a quantifiable contribution to a better world.


### EMMA GARNHAM - NEW ZEALAND-QUALIFIED LAWYER, MACFARLANES

Emma advises clients in all aspects of work relating to both regulated and unregulated funds and has advised managers on fund formation, and institutional investors on investments into private equity and hedge funds.

In addition to advice on the structuring, establishment and operation of investment funds, Emma also assists clients with investment management agreements, depositary agreements, platform and distribution arrangements. She also advises clients in relation to ongoing regulatory matters, including the application of the UCITS directive, AIFMD, MiFID II and the Benchmarks Regulation.

Emma has previously spent time on secondment with Goldman Sachs International.

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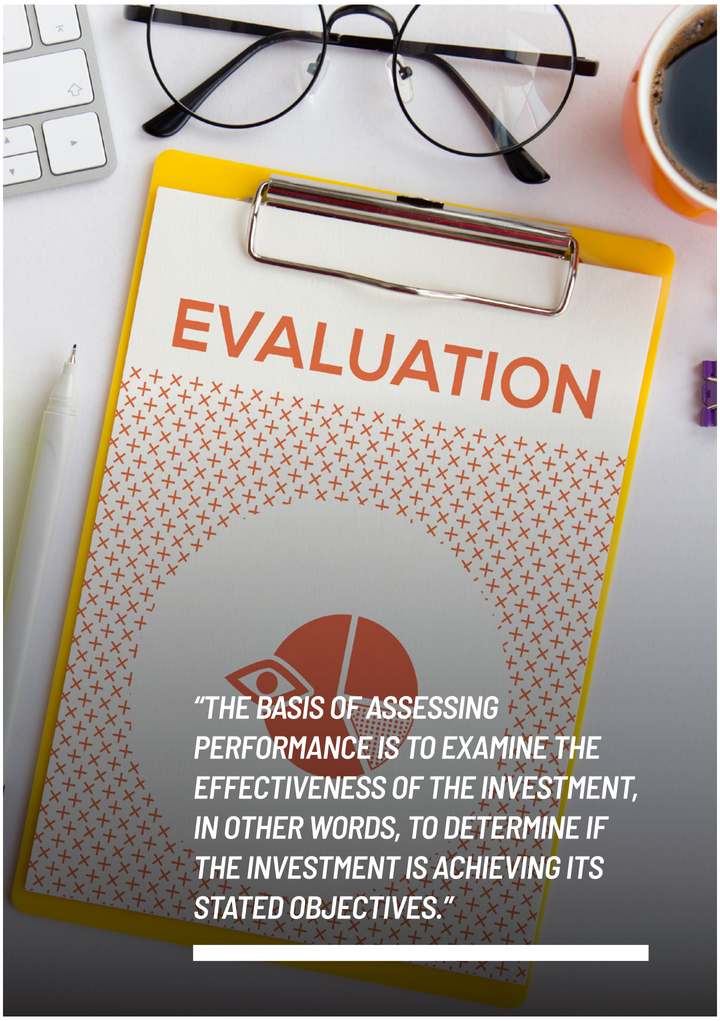
# IMPACT MEASUREMENT AND THE ROLE OF EVALUATION

MICHAEL REYNOLDS – WWW.AUBINIMPACT.COM

**Being able to assess the performance of an investment is at the heart of impact investing, but determining if an investment is achieving its stated objectives within often complex contexts requires a broader approach**




There is a multitude of frameworks and tools to help assess the performance of an impact investment. These are often based on simple and standardised metrics that allow comparison of the performance of investments on the impact side similar to those available for assessing financial returns. But assessing financial returns is a much easier proposition, and while metrics may be available and suitable for some forms of decision-making, it is difficult to imagine a set of metrics that can capture the complexity of the contexts within which most investments take place.

In complex contexts, it can also be appropriate to use qualitative techniques to tell the story of an impact investment and its results and to see how they unfold over time. Such an approach involves more than a dashboard and can complement, reinforce and help explain the metrics the dashboard contains. To tell the story, qualitative assessment of the results – often seen as the poor cousin of quantitative work – needs to be undertaken in a timely, cost-effective and rigorous manner. Inevitably data will be collected and analysed using a mix of qualitative and quantitative methods to get a more complete picture, and allow methodological triangulation of the evidence.

## THE BREADTH AND QUALITY OF RESULTS

The basis of assessing performance is to examine the effectiveness of the investment, in other words, to determine if the investment is achieving its stated objectives. These objectives could be set at any stage along the results continuum from initial outputs to impact (the ultimate difference the investment makes). Definitions of impact usually look beyond the narrow focus on objectives to examine the broader effects of an investment.


MICHAEL REYNOLDS

A broader approach is aligned with one of the principles of the SDGs, the idea that the goals are explicitly interrelated. For example, with the risk of stating the obvious, changes in poverty rates (SDG 1) may have impacts on the level of hunger (SDG 2) or health status (SDG 3). Such relationships may be positive or negative, intentional or unintentional, and may change over time, but the broader implications of the investment need to be assessed. This may lead to identifying a larger impact than was otherwise envisaged. A broad assessment will also help identify any negative effects so that they can be addressed. At the same time, the broad influence of an investment means that it is important for it to be coherent with other activities being undertaken in the same country, sector or institution.

The broader view also allows the investor to assess other dimensions of performance on the pathway to impact — in other words, to assess the quality of the results achieved. For example, any investment needs to be assessed in terms of its relevance to the


priorities of the people it is trying to help. This issue can be linked to the central tenet of the 2030 Agenda, “leaving no one behind”. It is important to know what works, but also for whom.

When assessing the quality of results, a key issue relates to the costs of achieving them. How efficient has the investment been in terms of the costs and timeliness? How well are resources being used? Could the contribution to the SDGs be even greater with the same money or could the same results be achieved with less?

Finally, one of the crucial, yet difficult to assess, dimensions of high-quality results is sustainability. Often overlooked when making assessments of results, sustainability is at the centre of the 2030 Agenda and the SDGs, and it is equally important for ensuring that the benefits of the impact investment last.

## EVALUATION AS PART OF THE SOLUTION

The dimensions of performance described above — effectiveness, impact, coherence, relevance, efficiency and sustainability — are the basic evaluation criteria established by the Development Assistance Committee of the OECD. These criteria are designed to make evaluative judgments of performance. While they are designed for traditional aid programmes, they can also be the basis for assessing impact investments and philanthropic giving. They are not intended to be applied in a rigid manner but are to be adapted to the specific type of evaluation being conducted as well as to the object of that evaluation.

The field of evaluation exists to help understand this complex world and to make judgements on what works, what doesn’t and for whom. Most importantly, it can also examine the question of why it worked, the basis for learning, adapting, improving and ultimately contributing more to the SDGs. Learning is essential for formative evaluations undertaken during the implementation of an activity so that improvements can be made. It is also essential for a summative evaluation undertaken at the end of an activity so that lessons can be learned for others undertaking similar work.

An evaluation is not always the same as a review or an assessment. Evaluation has its own norms and standards, such as those developed by the United Nations Evaluation Group. National and regional evaluation societies also provide guidelines, principles and definitions to support their members in their work. Principles are often aimed at ensuring that evaluations are impartial, credible and useful. Guidelines covering important ethical considerations for conducting evaluations are also produced.

Evaluation can be an important part of the range of tools available for measurement of results and a wide range of methodologies, approaches, methods and tools have been developed. It may not be important to capture the complexity inherent in an impact activity on a regular basis, but at some point in the investment cycle there needs to be a more thorough assessment of impact to get a complete understanding of the difference that is being made.

Impact investing can benefit from rigorous evaluation in the right circumstances, and also the other way around. Evaluation is embracing ideas from the business sector, including big data and stronger business intelligence. If we really want to know the full impact of the investments being made, as well as the quality of that impact, independent evaluation can help. Moreover, if we are to make significant progress on the SDGs, then ensuring the highest quality of impact is essential.


### MICHAEL REYNOLDS – DIRECTOR/ EVALUATOR, AUBIN IMPACT

Michael is a Development Economist with 30 years’ experience working with international development organisations. Formerly a Senior Evaluator for the United Nations Development Programme and the World Food Programme, Michael has led, conducted, managed and supported independent evaluations in over thirty countries. He established Aubin Impact in 2020 to help identify and understand the results of work supporting the 2030 Agenda and the United Nations’ Sustainable Development Goals.

*"THE MOVE TOWARDS RESPONSIBLE INVESTMENT IS A POSITIVE ONE – FOR ALL THE CRITICISM, IT IS PROGRESS. BUT ONE OF THE ISSUES THAT RESPONSIBLE INVESTORS ARE FACING, AMONGST OTHERS, IS AROUND DATA."*

# INVESTORS CAN'T GO IT ALONE: PARTNERING FOR BETTER DATA

HENNA HEMNANI – WWW.EMPOWERWEB.ORG

**The big picture ambitions of the private sector and the third sector have never been more aligned. For me, it follows they should be finding ways to work together. This article expands on one such opportunity for collaboration – but I urge people to look for more**

I spent over five years in the fund management industry working as a junior portfolio manager. Recently, I made the decision to pursue a personal passion and joined a small foundation, EMpower, who support local grassroots organisations in emerging market countries. This move made me very conscious of the differences between the private and nonprofit worlds — but I also began to see the similarities, and how the two sectors can inform each other.

The move towards responsible investment is a positive one — for all the criticism, it is progress. But one of the issues that responsible investors are facing, amongst others, is around data. This includes the quality of data that inputs into investment decisions (your outcomes can only be as good as your inputs) and impact measurement data, as investors are faced with the challenge of needing to demonstrate the outcomes of their actions and work.

I believe partnering with NGOs, particularly with local community-based organisations, can help investors address some of their data issues, and therefore make a greater impact. My experience on both sides of the fence has helped me to see two avenues for this, detailed below. Neither of these areas is served by the traditional donor/charity relationship; a new approach is needed.

## PARTNERING WITH GRASSROOTS ORGANISATIONS TO GATHER HIGH-QUALITY DATA

Investors can deepen and enhance their country research and analysis through a unique lens. In addition to looking at countries from an economic, political and financial market perspective, by partnering with nonprofits — particularly with local community-based organisations — investors will gain a social perspective, giving them a more complete picture of a country, and a better understanding of the societies they are investing in. This is important, especially as investors increasingly care about both financial and social returns.

It is also becoming more widely accepted that the non-financial performance of a country can have material financial consequences. From a risk point of view, key factors in how well a country copes are its level of resilience and existing gaps in its social system.

Understanding a country from a social perspective can help build the durability of investment portfolios in the face of both existing and potential exposures. It can help to identify risks and

HENNA HEMNANI

opportunities. These insights are far reaching — beyond interest, partnership with local organisations can inform CSR strategies, enhance ESG integration and/or risk management, and drive active engagement agendas.

The financial sector is often seeking quantitative data, and understandably so, and progress is being made here. But the reality is that social issues will always have a qualitative element, and a partnership of this nature gives access to this qualitative social data on the most urgent social issues.

## SUPPORTING GRASSROOTS ORGANISATIONS TO STRENGTHEN IMPACT MEASUREMENT

Philanthropists and responsible investors should support local organisations for many reasons, and measuring impact is one of them. As investors struggle with this measurement, connecting with local organisations can help them do this most effectively. These organisations are the ones implementing programmes on the ground and are best positioned to look at what is and isn't working. And with the data they provide and share, donors and funders can better adapt and learn. Local organisations know best what to measure, and working with them is a means of improving the state of data management and business intelligence across the private and third sectors.

## A NEW APPROACH

Learnings from a recent EMpower initiative could suggest creating a new type of partnership between an NGO and an investor. EMpower, which was founded by emerging market finance professionals 21 years ago, provides grants to approximately 100 community NGOs in 15 emerging market countries. 18 months ago, EMpower launched a pilot partnership with Pictet Asset Management. The genesis of the collaboration was to provide emerging market investors with grassroots insights into social challenges in these countries and perspectives from youth as to how their lives can be improved.

The idea is that the expertise of an active, knowledge-based philanthropic institution helps to garner additional context on social sector issues that affect youth in key emerging markets, and this privileged access to data at a community and country level can improve responsible investment decisions. Through a high level of engagement with expert staff and partners, investors are provided with rich opportunities for learning and exchange, and donor education, as well as an understanding of global philanthropy trends.

As an example, we engaged with Pictet on South Africa, as this is a country of interest to them. We arranged for Robert Simpson, Pictet Asset Management Portfolio Manager, to visit one of the local organisations we support, called Mamelani, in Cape Town. This local group was founded by youth community development workers to serve the many homeless young people in Cape Town townships who had grown up in institutional care — often orphaned due to the country's AIDS epidemic. Robert spent time with Mamelani's director, Gerald Jacob, and the experience helped him to more fully appreciate the social factors and individual circumstances that left so many South African youth homeless and struggling. He also saw their limitless potential when they have the right opportunities and support.

"I can't believe the investment industry doesn't do this more," Robert said of the collaboration and experience.

For us, a key learning from the pilot was that NGOs (particularly smaller ones working at a community level) are not always equipped to provide the kind of data that fund management companies are looking for. And although there may be a shared goal of creating impact, there is often a large dissonance in terms of organisational size, complexity, language and, of course, capital. It is important EMpower do not try to play the part of an ESG data and research provider — that is not our business. Instead, let's stick to what we know and what we are good at — after all, that is exactly where the value add comes from. The idea is to take themes that are relevant to the responsible investment agenda and explore whether EMpower's data from its partnerships with NGOs can provide relevant data to Pictet.

We want to thank Pictet who are now formally supporting this initiative — EMpower for EM Investors.

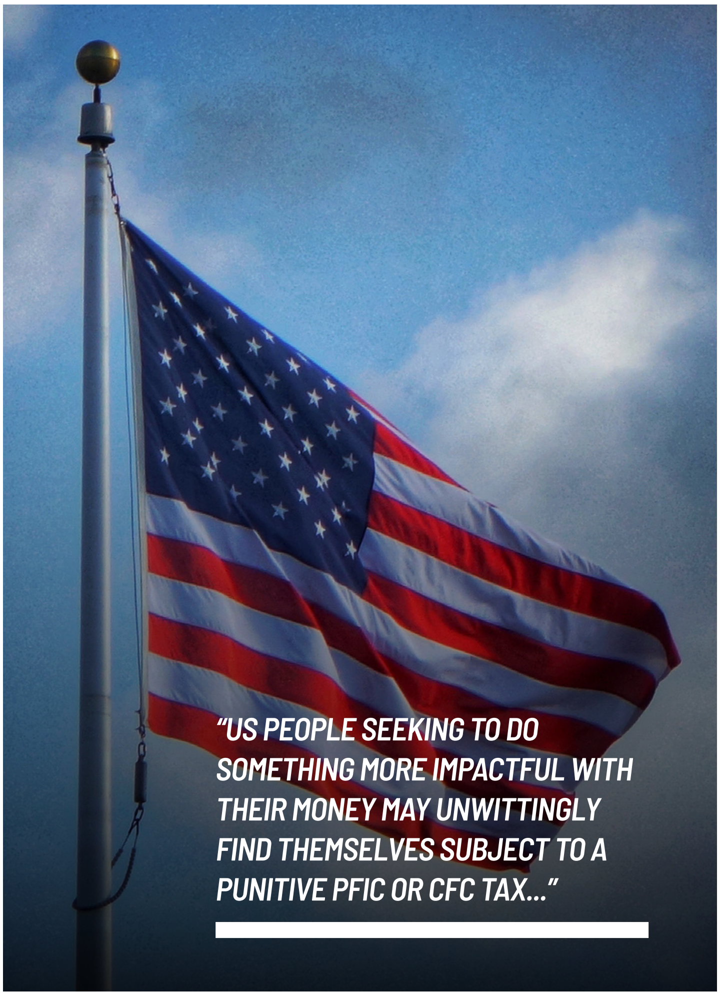
Having worked in both sectors, I would love to make joint approaches work. By connecting insights and resources across sectors, we can bring together the contributions of many. Let's work alongside finance professionals — an engine for change — and channel the finance sector's resources toward more informed responsible investing, by offering high-touch engagement and deeper connections with communities. Let's work alongside the local experts. They know better than anyone what's really happening in their communities, and have powerful insights around best practices, and what it takes to put big ideas into action. Let's weave these contributions together. At a time when our world needs shared efforts more than ever, let's connect many forces for change to create a better world, and make responsible investing more effective.

**HENNA HEMNANI – DEVELOPMENT MANAGER FOR EAST AND SOUTH-EAST ASIA, EMPOWER**

Henna focuses on managing existing and developing new corporate relationships in East and South-East Asia for EMpower, The Emerging Markets Foundation, based in Singapore. Prior to joining EMpower, Henna worked as a Junior Portfolio Manager at Premier Miton Investors in the UK. Henna holds a BSc in Physics from the University of Bristol, is a CFA Charterholder and recently completed the Certificate in ESG Investing.

# PLAYING A NEW GAME BY OLD RULES

JAIME MCLEMORE – WWW.WITHERSWORLDWIDE.COM




US tax legislation for individual and charity investors – implications of impact investing

Impact investing means different things to different people. For people in the charitable sector, it often means a better way to use charitable funds without depleting resources. For those in financial services it can mean another approach to investing that provides both a social and financial return for their clients. And for the next generation of wealth holders, it may the new way of investing full stop. But for those of us in the tax field, it also means another potential trap for the unwary. While all of the enthusiasm for impact investing and its potential to really change how people employ capital is well-deserved, the same care given to other types of investments must be given to the tax consequences of impact investments.

## US INDIVIDUALS OUTSIDE THE US

For US individuals based outside of the US, the situation is particularly tricky. As a quick reminder, the United States is rather unique in its taxation approach, in which, very generally, US citizens (and green card holders) are taxed on their worldwide income and gains regardless of where they live and regardless of the source. There are a number of bilateral tax treaties in place to help mitigate the risk of double taxation by allowing US taxpayers to take credits for taxes paid to, for example, HMRC in the UK, but these do not alleviate all adverse tax exposure and certainly do not override certain domestic rules relating to investments.

US people outside the US may be (and hopefully are) already aware of the various adverse US tax regimes that potentially apply to the investments they make, namely the Passive Foreign Investment Company (PFIC) and Controlled Foreign Corporation (CFC) regimes. Now before the reader gets worried that this will become a tax treatise, the author does not intend to go into chapter and verse on the intricacies and complications of these regimes. I make note of them here only to point out that, despite being incredibly counter-intuitive, impact investments made with all the best intentions may in fact be caught as investments in PFICs or CFCs and subject to a more punitive tax rate as a result, not to mention extremely onerous reporting requirements. The fact that these investments are compliant with local rules and perhaps even taxed more favourably under something like the Enterprise Investment Scheme in the UK makes no difference to the IRS. US people seeking to do something more impactful with their money may unwittingly find themselves subject to a punitive PFIC or CFC tax, only because the vehicle through which they are investing is not structured with US investors in mind.

JAIME MCLEMORE

## CHARITY OVER IMPACT INVESTMENT?

These same US individuals may reasonably decide that due to the philanthropic nature of impact investing, perhaps a charitable vehicle is better suited to making these investments, thus avoiding the complication of the PFIC and CFC regimes. There is certainly some merit to this thinking, and it is the case that US charities are not subject to the same restrictions as US individuals when it comes to investments. That does not mean that restrictions do not exist.

*"PRIS ARE PROBABLY AS CLOSE AS THE US TAX RULES GET TO DEFINING AND FORMALLY RECOGNISING AN IMPACT INVESTMENT."*


In order to obtain income tax relief in the US, US taxpayers must make their charitable contributions to charities that organised in the US and registered with the IRS as tax-exempt charitable entities. For US taxpayers also resident in the UK and subject to UK income tax, obtaining dual tax relief on charitable contributions requires a charitable structure with both US and UK status, sometimes called a dual-qualified charity. If the dual-qualified charity has a large donor base or is set up to administer donor-advised funds, then impact investing can be done in a relatively straightforward manner. However, the individual donor is unlikely to have control over those investments.

## PRIVATE FOUNDATIONS

If the charity is more like a family foundation funded by one individual or a small group, it will be classified as a private foundation for US tax purposes. A private foundation structure allows the individual donor to have more control over the activities of the charity, including investments, because the donor probably sits on the board of the charity and may even retain certain founder's rights. But that level of control comes at a regulatory price, since private foundations are subject to a number of restrictions that affect how the charity's assets can be invested.

Private foundations are prohibited from having 'excess business holdings', which generally is holding more than 20 pe cent of a business enterprise, when combined with the holdings of other related persons, like donors and trustees. Private foundations are also prohibited from entering into any commercial arrangements with 'disqualified persons', which again includes its donors and trustees and their family members. Therefore, it is critical that any impact investments do not fall afoul of these two rules, which are extremely wide in their application. In addition, a private foundation must make annual charitable expenditures equal to or greater than 5 per cent of the value of the private foundation's net investment assets. In practice, this means that a private foundation must maintain at least some of its investments in highly liquid form in order to meet this required minimum distribution.

## PROGRAMME-RELATED INVESTMENTS

Some private foundations, such as the Bill & Melinda Gates Foundation, achieve their impact investing goals through the use of programme-related investments ('PRIs'), which are investments rather than grants related to a private foundation's charitable purpose, but without the expectation of a significant financial return. PRIs are probably as close as the US tax rules get to defining and formally recognising an impact investment. However, in practice, very few private foundations make PRIs and even fewer maintain PRI programmes, due in large part to the complex legal and reporting requirements that apply to PRIs. Moreover, if the nature of PRI changes significantly after the PRI is first made, the investment can be classified as a 'jeopardy investment' and subject the private foundation to an excise tax, which may actively discourage a private foundation from making a PRI in the first place.

It is clear that US tax legislation for both individual and charity investors has not kept pace with the development of impact investing, which does not fit very neatly into either category of investment or philanthropy, but rather occupies some space in between. While we wait for legislators to address this gap, potential investors need to be aware of the traps that exist in order not to diminish the impact they are trying to achieve.


### JAIME MCLEMORE – PARTNER, PRIVATE CLIENT AND TAX TEAM, WITHERS LLP

Jaime advises on US and international tax and estate planning, particularly for families and trusts with US/UK cross-border concerns.

Jaime devotes a large part of her practice to advising individuals and families in relation to their philanthropic goals and charitable structuring for both individuals and nonprofit organisations. She has extensive experience with the establishment and operation of US charitable vehicles, including those that form part of dual-qualified charitable structures, which attract tax-efficient contributions from US persons outside the US. She also advises non-US charities in relation to US investments and fundraising.

Jaime frequently works with individuals seeking to renounce US citizenship or abandon long-term permanent residence in the US. She provides US tax compliance advice to individuals and assists them through the relevant IRS disclosure procedures, when necessary. In addition, she advises both individuals and entities on their FATCA obligations.


# MEASURING THE IMPACT OF PHILANTHROPY – WHY IT MATTERS AND HOW IT CAN BE IMPROVED

ROLF ALTER AND TIMO UNGER – MAECENATA.EU

**Why is measuring impact a challenging but valuable practice for philanthropic foundations, and what potential improvements can be made?**

Demonstrating impact is typically meant to be a sign of the efficiency, effectiveness, transparency and legitimacy of those who take action. True, those in business and government, philanthropy and in many ways civil society more generally are increasingly feeling the pressure to deliver and document impact. In fact, *how* philanthropy is performed and to what extent the activities of philanthropic foundations result in *measurable impact* seems increasingly to be overtaking *doing good* as the underlying driver of engagement. Whereas proponents are adducing increased accountability, more critical voices argue that philanthropic foundations should first invest in clarifying the approaches to measurement: what the objectives are of their engagement, what are appropriate indicators and which data capture these dimensions. Against the backdrop of this controversial debate, this article seeks to focus on the question of why measuring impact is a challenging but valuable practice for philanthropic foundations, and to propose potential improvements.

## PHILANTHROPIC FOUNDATIONS – BETWEEN BENIGN DISINTEREST AND INCREASED SCRUTINY

ROLF ALTER

TIMO UNGER

For centuries, philanthropic foundations have been engaged in domains where government has had little incentive or failed to deliver. Examples include providing welfare services such as care and relief to the underprivileged, but also spending resources on cultural and scientific endeavours. The indications are that the question of whether philanthropy actually *delivered* on its ambitions were not as prevalent, since *good intentions* were considered sufficient to justify the project's actions. Even as little as 25 years ago, Wolfgang Seibel referred to the nonprofit sector, of which philanthropies are undeniable a part, as an environment in which "failure and interest in ignorance about failure may be flourishing".

Today, philanthropy is more diversified than ever, substituting and increasingly complementing governmental undersupply. Looking at the purposes of philanthropy, tackling complex problems for the public good, such as health, education, poverty and most recently climate change, lie at the core of its raison d'être. In contrast to former times, however, interest in their *impact* has risen rapidly in the last two decades.


What is behind this trend? Could it be greater competition among foundations and founders, more awareness of efficiency and effectiveness, more calls for demonstrating legitimacy, greater public scrutiny or simply copying what is happening elsewhere — striving for productivity improvement in business and better public service delivery in government? The fact is that ranging from advice literature, philanthropy advisory organisations, to an array of research centres around the globe, the shift from benign disinterest towards increasing scrutiny has affected philanthropic foundations' self-understanding with regard to their missions and their concomitant degree of professionalisation.

*"IMPACT MEASUREMENT ALSO CARRIES RISKS, AS BUSINESS AND GOVERNMENT HAVE LONG DISCOVERED."*

As part of the technocratic approach to philanthropy, measuring impact is ultimately about demonstrating results and establishing whether interventions of philanthropic foundations — grant-making or operations — have led to the desired effect. As such, it is no surprise that its emergence can be traced back to a wish for better informed decision-making by using scientific evidence, discourses on rationalisation and quantification, i.e. effectiveness and efficiency, and so to a socio-political development which was coined by Michael Power in 1999 as "the audit society".

Beyond the famous quote credited to Peter Drucker on measuring — "What gets measured gets managed" — adopting practices of impact measurement brings additional advantages for philanthropies to the fore. On the one hand, modelling their practices on those of other sectors — ie. corporations and public agencies —is arguably a source of building legitimacy. On the other hand, impact measurement holds unquestionable potential for philanthropies to becoming "learning organisations", ie. experimenting, learning from mistakes and exchanging good practices.

Impact measurement also carries risks, as business and government have long discovered. Small and large-scale philanthropies are likewise affected, although in different ways. The former might be insufficiently able to cope with the specialist skills and the financial and temporal burden associated with the collection, analysis and reporting of data. The latter, backed by an evaluation department or evaluation partner, might keep their hands off complex problems as — freely adapted from Peter Drucker — they don't manage what they can't measure. Both *overextending* and *cherry-picking* in this way are consequences of the tendency towards an increased use of metrics which might negatively affect a philanthropy's overall outcome vis-a-vis its ultimate customers, ie. its beneficiaries.

Most of all, meaningful measurement approaches require clarity in the definition of objectives. "Doing good" and "helping" are hardly sufficient mandates for a strategy or project. The who, when and what needs to be specified. And, yes, the how of dealing with qualitative objectives which may be as important as quantified targets. Supporting better listening, better dialogue, better understanding — isn't that what needs urgently to be addressed? What are the metrics here?

## HOW IMPACT MEASUREMENT MIGHT BETTER SERVE PHILANTHROPIC FOUNDATIONS

Aligning the complex problems philanthropic foundations seek to solve with the idea of measuring impact along standardised indicators seems somewhat challenging. In addition, measuring procedures are getting even more ambiguous in the ever-growing field of partnerships with actors across sectors. The following three propositions outline how impact measurement might better serve philanthropic foundations and their missions.

**Improve Framework Conditions for Measurement.** The quality of impact measurement is partly dependent on existing framework conditions. Despite impact being an unmistakeable part of the noise floor of a buzzing eco-system, relevant literature alludes to


room for improvement, as it remains often under-utilised and rather symbolic in *situ*, eg. regarding funding, or providing too short a time period for evaluative purposes. Consequently, philanthropies might be well-advised to take into account the development of better measurement conditions.

**Consider De-Standardising Indicators.** Although numerical or statistical information is indispensable as a common scientific standard of excellence, there are other forms of evidence which might be more suitable to the complex environment in which philanthropies operate. As Carol Weiss noted back in 2004, not opting for standardised or fixed indicators, but understanding the *task*, the *situation*, and the *mission* of what is being evaluated are distinctive attributes of good evaluation. Thus, ranging from anecdotal evidence and case-studies to using credible counterfactual interpretations, bringing to the fore tailor-made, context- and beneficiary-sensitive approaches to measurement practice might be worthwhile.

**Use results as starting point for learning.** The usefulness of impact measurement does not stop with receiving the findings. A recent analysis by Stockmann et al (2020) on the use of evaluations by nonprofits shows "that evaluation results usually do not play a major role in providing knowledge for decision-making". Accordingly, it might be valuable to reconsider how handling the results could be improved, eg. in the context of peer-learning.

For obvious reasons the propositions presented above can only serve as a baseline. Serious impact measurement, the opposite of what Ray Pawson once called "fake handbags", is an extremely difficult practice. However, improving the framework conditions, specifying objectives, making participation of beneficiaries the rule, de-standardising indicators where available, qualitative value-based assessments and the increasing use of measurement results as useful knowledge for further decision-making are seen as important pillars to improve the practice of impact measurement for philanthropic foundations.

## ROOM FOR IMPROVEMENT

Impact measurement matters, but there is vast room for improvement, making research and conversations about its application, quality and the post-processing of impact measurement and its results more than worthwhile. Increasing public scrutiny, a rise in social distrust around philanthropic practices as well as a demand for more granular answers in the light of future public problems will require philanthropies to engage more proactively in this regard. Nevertheless, without clarifying the objectives of philanthropic engagement at the level of strategies and major projects, measurement remains a vain endeavour.

The Philanthropy.Insight Project demonstrates the critical importance of spelling out the values driving philanthropic engagement, without which measurement looks like putting the cart before the horse. Introspection — or, more analytically, self-evaluation — by foundations is essential for strengthening trust and responsibility of future philanthropic practice.


### DR ROLF ALTER - SENIOR FELLOW, HERTIE SCHOOL BERLIN; SENIOR RESEARCH ASSOCIATE, MAECENATA FOUNDATION

Rolf is an economist and heads the Philanthropy Insight project at the Maecenata Foundation. His research interests include institutional and regulatory reform, productivity, innovation, results-based budgeting, transparency, integrity, philanthropy, and the civil society perspective on public government.

He worked for over 25 years as a Director in the field of public governance for the OECD in Paris and previously for the IMF in Washington, for the German Ministry of Economic Affairs in Bonn and as a member of the advisory committee of the Global Risk Report of the World Economic Forum. He is a Senior Fellow at the Hertie School in Berlin.

Rolf received his doctorate from the University of Göttingen and received an h.c. Doctorate from the Hungarian National University and, in 2016, the O.P. Dwivedi Award from the International Association of Schools and Institutes of Administration (IASIA) for his outstanding contribution to public administration and politics.

### TIMO UNGER - RESEARCH ASSOCIATE, MAECENATA FOUNDATION

Timo has a BA degree in Sociology and Political Science from the University of Würzburg. At the Hertie School, he specialised in the governance, cultures and institutional arrangements of public and non-profit organisations.

During his Professional Year within the Research and Innovation Unit at the German Federal Ministry of Labour and Social Affairs, he focused on the strategic development of the Network for Interdisciplinary Social Policy Research. He also coordinated a multi-stakeholder social innovation project at the Goethe-Institut in Paris.

At the Maecenata Foundation, he currently works on the modalities of a trust-driven concept of philanthropic practice. Timo holds a scholarship from the Friedrich-Ebert-Stiftung.

# COLLABORATION IS THE KEY

RICHARD FEINER – SPS.COLUMBIA.EDU

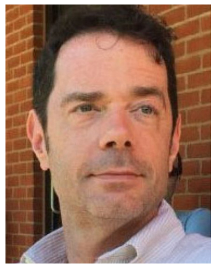
**Working together, the worlds of sustainability/ESG-aligned investment and philanthropy can combine skills, resources and expertise to create positive social impact**

A recent McKinsey study finds a defining competitive business strategy for long-term focused public companies to be the prioritisation of environmental, social and governance (ESG) initiatives as a way to address the needs of a range of stake-holders, not just those who own shares in the business. An ESG-compliant sustainability focus benefits a company with improved revenue growth, reduced costs, optimised investment decisions, improved employee productivity, and reduced regulatory and legal interventions. To achieve these outcomes, the article cites the willingness of leadership at the American retailer Walmart to undertake "environmental projects with negligible financial returns if managers agree [...] that those projects will yield other significant benefits to stakeholders".

This is further confirmation of the growing importance within the private sector of ESG-aligned value creation as a pathway to satisfying customers, engaging and motivating employees, maintaining good relations with communities — and realising long-term value for investors. To make possible the enabling environment for ESG-aligned value creation for the benefit of all stakeholders, as well as to re-establish public trust in the private sector, these companies seek out "those projects that yield significant benefits to stakeholders" often via corporate social responsibility practices and, increasingly, shared value creation partnerships with nonprofits and social enterprises. Collaborations with a range of stakeholders, including philanthropies and their nonprofit partners, make possible company actions on validating their ESG/sustainability agenda — informing value-focused decisions, helping combat claims of sustainability greenwashing and maintaining good community partner relations.

## A PURPOSE-DRIVEN APPROACH

These McKinsey findings parallel the financial advisory industry focus on ESG criteria as the way to move beyond reliance on maximising profit and shareholder wealth as measures of value, which typically have been captured via profitability ratios such as profit margin, return on assets, return on equity and other ratios based on price for publicly traded companies. A major US investment and financial services firm now pursues a purpose-driven approach in its investment fund products, which integrates a range of ESG/sustainability metrics (KPIs), ranging from the percentage of women on a portfolio companies board of directors (gender diversity), to carbon intensity (a measure of a portfolio's exposure to carbon-intensive companies), to rankings of companies with high scores on a corporate equality index (an outside measurement tool of a company's policies and practices in support of LGBTQ equity).



RICHARD FEINER

The private sector and the financial investment industry are connected by an ESG/sustainability feedback loop: customers increasingly demand a company focus on sustainability and social impact, thereby catalysing the investor community to prioritise ESG criteria in their investments and financial advisory services. In response to client demand, the investment industry seeks ESG/sustainability-aligned opportunities with businesses and social ventures, which can help make progress on a long-desired goal for common agreement on a set of metrics or performance indicators to guide sustainable investment decisions. This goal is proving exceedingly difficult, given the

"THE WORLDS OF SUSTAINABLE/ESG INVESTING AND PHILANTHROPY ARE ALSO INCREASINGLY INFORMED BY A "VALUE IS WHOLE" APPROACH FOR DECISION-MAKING AND RESOURCE ALLOCATION."


diversity among the recipients of ESG investing, which include social ventures and the mission-aligned commercial ventures of nonprofits.

## THE MANTRA OF 'IMPACT'

Though clearly different in their methods, sustainable/ESG investing and philanthropy both are committed to the act of impact measurement. In fact, the world of nonprofit organisations, philanthropy and social enterprise has long been preoccupied with the mantra of "impact", or demonstrating both quantifiable outputs and qualifiable outcomes, to address complex social problems such as poverty and inequality. This focus on impact metrics is driven both by funders — who want to know whether their funds are making a difference or might be better spent elsewhere — and committed nonprofit leaders and social entrepreneurs looking for solutions to pressing societal problems. It is also driven by an increasing professionalisation of the sector, which has led to the emergence of common administrative norms and the use of credentialed experts such as auditors and evaluators.

The worlds of sustainable/ESG investing and philanthropy are also increasingly informed by a "value is whole" approach for decision-making and resource allocation. ESG investing balances finance-first and impact-first priorities, where economic value and social/environmental value are co-dependent; rather than a trade-off, both are needed to produce value for society. While traditional philanthropy achieves impact through concessionary investments (grants) to support and advance shared missions and to improve social value, venture philanthropy and impact investing are now opening up philanthropy to new market-derived mechanisms that, as Lester Salamon states, mobilise and distribute private resources for social or environmental impact.

Due to a growing commonality of goals, philanthropies and nonprofits can bring skills, resources and expertise in the impact-first assessment of the ESG/sustainability investment agenda. Similar to private sector collaboration with trusted nonprofit partners on shared value creation, partnerships with philanthropy stakeholders would provide ESG/sustainability investments with direct exposure to the voices and values of clients and community, which can assist in efforts to verify and validate qualitative social value metrics. And, as philanthropy, nonprofits and social ventures increasingly engage with new sources of philanthropic financial capital — grants but also debt/loan, equity and hybrid financial instruments — the investment community can help to determine metrics to validate the additive value of these new market-derived philanthropic mechanisms that aim to produce positive social impact which would not be possible without them.

## PHILANTHROPY SHOULD NOT BE MARGINAL

Partnerships with the ESG/sustainability investment community could also help philanthropy and nonprofits to venture into a philanthropic marketplace that is perhaps beyond their comfort zone. They could help philanthropy to achieve recognition as an essential, value-additive part of the economy, and help further the integration of ESG/sustainability criteria in the determination and assessment of positive social impact. As Clara Miller writes, "money and mission were never meant to be apart", and philanthropy should not be marginal, separate and protected from the economy.

Rather than a sector-isolated pursuit, the ESG investment community and philanthropies with their nonprofit partners and stakeholders should collaborate to inform the metrics/measurements that each can employ in impact reporting and verification. In addition to helping counter claims of impact "greenwashing," these collaborations can increase ESG/sustainability-aligned activity throughout the entire investment industry and encourage the private sector to adopt similarly aligned business practices. They can also encourage philanthropy and nonprofits to engage more with new venture philanthropy-informed mechanisms, thereby making possible new ways to pursue mission — not more 'business-like' but more 'business-friendly'.

ESG investing and philanthropy owe their clients, their donors and society at large nothing less than these types of collaboration to help make possible positive social impact.

**RICHARD FEINER – ADJUNCT LECTURER, NONPROFIT MANAGEMENT, COLUMBIA UNIVERSITY, NEW YORK**

As well as his role as a lecturer, Richard is a member of the G20 Health & Development Partnership, a coalition that advocates for health security commitments from G20 donor countries. Richard also serves as Philanthropy Advisor for start-up social ventures, including Webblen, an online platform to catalyse civic engagement to rebuild communities, and the US Coalition on Sustainability and their SustainChain technology, which accelerates collective action to achieve the SDGs.

# BIG TECH – GOOD TECH?

YULIA CHALYKH – LINKEDIN.COM/IN/YULIA-CHALYKH/

The role of tech corporations in sustainable development

The power of big tech corporations in our digital society is hard to overestimate. Tech giants (Google, Apple, Meta, TikTok, Microsoft, Amazon etc) are the dominant players in their respective areas of technology and provide services to millions and even billions of users. They have entered multiple areas of our lives and they tend to extend their influence yet further, whether we like it or not — that's just the reality.

Several years ago, tech corporations went very serious about ESG: Amazon is now the world's largest corporate purchaser of renewable energy; Google has matched 100 per cent of its global energy consumption with renewables; other tech companies are shifting towards carbon-neutral or even carbon-free energy sources. And they aren't stopping there. Big tech is trying not only to develop their ESG strategy so it becomes a new normal, but also to contribute to socially important issues outside of their organisations and core activities to have more impact on the wider community.

Why do they need it? Can tech giants empower society with tools to drive a more sustainable future? Or is it all marketing and the so-often-mentioned phenomenon of "greenwashing"? Is it part of a branding strategy or are there solid economic reasons for tech corporations to "go green" and to be "the good guy"?

## WHY IS BIG TECH INVOLVED?

YULIA CHALYKH

Tech corporations undoubtedly have significant influence over large audiences — there are almost 700 million active global users of Tiktok, more than 300 million active Amazon customer accounts worldwide and 2 billion users of Youtube. The majority of those audiences are Millennials and Gen Z.

One important factor behind the impact activity of big tech is the attitude of the next generations of workers and investors towards sustainability: 90 per cent of Millennials asked for sustainable investment options as part of their saving plans. Gen Z is changing the way they shop and consume, paying increasing attention to such factors as company values and principles, consumer safety, ethicacy of the business, sustainability and impact on climate.

The whole existence of big tech corporations depends on their audience and they want to be aligned with the values of the customer. Big tech needs not only to satisfy the demands of the new progressive generation but also to be forward thinking, creative and innovative to make sure they stay relevant in a highly competitive environment. New generations of users expect the companies to go above and beyond in developing sustainable practices and products. That's why tech giants are constantly looking for new ways to participate in

*"BIG TECH HAS POWERFUL NETWORKS, RESOURCES AND TECHNOLOGIES FOR CREATING SCALABLE SOLUTIONS AND DEVELOPING LONG-TERM SUSTAINABLE IMPACT."*


the sustainability agenda and to address the pressing social and environmental problems.

## HOW IS BIG TECH INVOLVED?

There is a whole spectrum of socially important activities that big tech corporations already play a role in. Let's take a closer look:

**Being an ESG-oriented company.** This trend moved from "nice to have" to becoming an essential component of the companies' strategies. Big tech pays a lot of attention to the consideration of environmental, social and governance factors within the company. This includes, for example, minimising the environmental footprint of the operations and supply chain. Meta is committed to accelerating the renewable energy transition and has achieved 100 per cent renewable energy for their global operations; both Google and Meta are aiming to reach net zero emissions across their value chain in 2030. Apple is joining this effort developing more sustainable products: 90 per cent of iPhone 13 packaging uses 90 per cent less plastic than iPhone 6s packaging.

**Driving sustainability initiatives leveraging company's technology** – social good projects, climate tech development etc. In 2020, as part of the initiative to protect wildlife, Meta worked with the World Wildlife Fund to launch a new feature on Facebook to prevent wildlife trafficking online and educate users on the impacts of wildlife exploitation. Google is reducing city transport emissions with Maps and AI: cities have free access to Google's unique mapping data and insights so they can make sustainable decisions regarding cleaner transport policies and infrastructure programs. By visiting the Green Zone on Google Arts & Culture, people can discover a wide range of exhibitors and stories. This includes Conservation Volunteers in the UK, who connect people to the green spaces that form a vital part of a healthy community.

**Impact /community investment.** Tech corporations support socially oriented businesses, 'green' startups, create SDG-focused mentoring programmes and proactively invest in climate mitigation solutions. For example, in 2019, Google launched an acceleration programme to provide access to resources and tools for social impact startups who aim to help solve the UN's Sustainable Development Goals. Apple and partners have created the $200 million Restore Fund to make investments in natural climate solutions, and their Power for Impact programme has funded projects with clear carbon, ecological and social benefits. In 2019, Amazon created the Right Now Climate Fund, a $100 million fund to restore and conserve forests, wetlands and grasslands around the world.

## WHAT'S NEXT?

We can see that big tech goes beyond just operating responsibility by initiating socially important activities, spreading awareness about social and climate issues, leveraging their tech solutions and creating new tools, frameworks and systems for sustainable development. Tech giants have made a big step towards sustainability. However, it is just the beginning of the journey. They can and should build new tools and capabilities for sustainability and keep seeking new opportunities to drive positive impact. Tech giants are more dynamic in comparison to governments and other international organisations, they have far more resources than NGOs and they should be a driving force for positive change.

Big tech has powerful networks, resources and technologies for creating scalable solutions and developing long-term sustainable impact. They can use their platforms to educate people, inspire action and facilitate a global impact. Some might debate the underlying reasons for big tech to be so involved in the sustainability agenda, but I believe the most important thing is the action, the impact and the final outcome that hopefully means long-lasting positive change to the environment and society.

**YULIA CHALYKH – PARTNER SOLUTIONS MANAGER, META, AND INVESTOR**

Yulia shares almost 10 years of tech experience between Google and Meta, working in digital marketing, sales, strategy development and partnerships. She was also part of an SDG & Startups Investment project, managing the funding workstream for SDG Startups and working with external investors to explore co-investment opportunities. Yulia is passionate about ESG and Impact Investing, Impact VCs and driving businesses towards the United Nations' Sustainable Development Goals.

*"COMPANIES WHICH PERFORM BADLY ON ESG FACTORS ARE SEEING A REDUCTION IN THEIR VALUE; MOST NOTABLY THOSE WITH BIG CARBON FOOTPRINTS..."*

# ESG: A DISTRACTION OR A REVOLUTION?

DAVID STEAD – MAANCH.COM

ESG as part of an organisation's impact strategy

ESG is headlining in the media — both ESG investment and in the corporate world. But it's not new; nor should it be treated as something separate from the rest of a business or investment strategy. ESG is a useful acronym but, in essence, focusing on performing well in these areas is just good practice for any investor or business organisation.

## WHY YOU CAN'T IGNORE ESG – NOW OR EVER

The underlying issues for society, the environment and good governance, have been with us a long time, as have the clearly negative impacts of ignoring these areas or not addressing them properly. Many companies and banks have been hit by huge fines or share price falls over the decades due to their poor governance, environmental damage or unethical practices, and these outcomes are bad for all stakeholders. These are not trivial amounts and certainly can't be seen as "just a cost of doing business". In 2010, the total compensation paid out by BP for the Deepwater Horizon oil spill was a mind-boggling $65BN! (see some of the largest fines here). It can't be sound business or investing practice to ignore ESG-related issues; now or at any time in the last few decades.

## SO WHAT'S NEW? WHAT'S DRIVING THE ESG OBSESSION NOW?

A number of things, of course. What's really changed in recent years is the high profile of ESG across boardrooms and the media, the widespread acceptance of the urgency for more climate action, and the growing evidence to show that strong performance in ESG-related factors doesn't mean sacrificing investment returns but can actually lead to higher returns. In addition, because of these factors, we have seen a rapid increase in the number of new 'ESG funds'; asset managers are responding to both market demand and stakeholder pressure, and these new funds add to the big ESG inflow figures over the last few years.

It also makes economic sense. Companies which perform badly on ESG factors are seeing a reduction in their value; most notably those with big carbon footprints, those with unacceptable behaviours in their organisation or by their suppliers, those with weak governance of customer data, or countless other examples of poor ESG-related practices. That weakness in ESG performance seems to have a more direct impact on share price, reputation and investor sentiment than ever before; and therefore a higher risk for a company's investors.

## AGAINST 'ESG-WASHING'

I think there is another wave in the evolution of ESG which is extremely current right now. That is, the growing pressure to be genuine about ESG and cut out 'ESG-washing' — not just in the superficial 'dressing up' of funds as being ESG-focused, but also highlighting a gap between words and actions at leadership levels. This includes instances when a corporate leader or investor preaches about the importance of protecting the planet and vulnerable people but the reality of business practices in their own organisation tells a different story. There are many examples, with one of the most prominent being the recent complaints of harassment at Blackrock which don't fit well with the demands from Larry Fink, CEO of Blackrock, for robust and ethical corporate practices from any company wanting Blackrock's support.

DAVID STEAD


There's also a strong commercial interest at play which may underpin much of the ESG fund growth and accusations of ESG-washing. ESG funds generally have higher fees. They are a lucrative line of business, especially if little additional work is done to identify positive impact companies or put pressure on those with ESG-related issues. For example, reports show a big misalignment between many portfolio companies in an ESG fund and the Paris climate targets — in the case of Influence Map's analysis of ESG and climate-themed equity funds from earlier this year, this amounted to 71 per cent of the broad ESG equity funds assessed.

## ESG AS OPPORTUNITY NOT JUST RISK MANAGEMENT

It's not just about risk. There are profitable opportunities for investors and organisations who use their competencies for social or environmental good. A bank using its technology and networks for greater financial inclusion; a data consultancy helping to fight fraud; a retailer driving out human slavery and poor working conditions from its supply chain whilst increasing quality and security of supply. The examples are endless. In short, investors and companies who prioritise environmental, social and governance issues will generate profits — both financially and for people and planet.

## ESG AND IMPACT; DIFFERENT AND YET...

A point often missed is that measuring impact is not simple or quick. Not only do we need to assess the change in outcomes over a number of years to identify evidence-based progress, but we also need to invest in additional due diligence up front. Impact investment funds tend to be private market focused and often commit to this added level of interrogation required; but it seems unlikely that the rapidly expanding number of 'ESG funds' will follow suit. Although ESG and impact are not the same, with the latter intending to create a positive change in outcomes through targeted investment rather than a broader satisfaction of ESG criteria, they do appear to be merging at least in the general usage of the terms. In my mind, ESG factors should fall within an overall impact strategy for an investor or company, because as we have seen in the above examples, performing well or badly against ESG measures heavily influences the net impact of a fund or company on people, or the planet.

Robust impact assessment requires many things. Following the IMP (Impact Management Project) principles for example, we can ask: what is most material in terms of impact for that company and its sector? Where is the genuine additionality from its own actions? How are positive and negative impacts being measured effectively across the business? As the recent letter from the FCA suggests, many fund owners are unlikely to be investing the resources, tools and expertise needed to fully justify their claims of impact and positive ESG performance. Do they want the extra margin and brand kudos without the costs of the in-depth assessment required?


### DAVID STEAD – CHIEF MARKETING OFFICER, MAANCH

David aims to inspire and enable impact-driven investment, corporate responsibility and philanthropy to drive the allocation of resources to positive social and environmental impact. He has worked across the "social finance spectrum", utilising grants, loans, impact investing and ESG funds to create impact portfolios and programmes.

As an ex-CEO/Executive Director, he draws on a wealth of senior leadership, commercial and consulting experience from the NFP, professional services and investment banking sectors.
David is on the Board of the Royal Commonwealth Society, IESE Foundation and European Social Catalyst Fund. He is a regular speaker and writer for leading publications like the *FT, Nossa Capital* and *Philanthropy Impact*.

He has expertise in impact investing, social investment, philanthropy, ESG/SDG investing, corporate responsibility and grant-making.


## WHERE ARE WE NOW ON THE ESG JOURNEY?

From a market niche as long ago as the 1970s, we are now moving through the waves of media noise, growing stakeholder expectations, the search for better data and greater scrutiny. More trust in the underlying claims of ESG funds and corporate promises is needed, but we will then see unstoppable traction in the market, and ESG becoming the norm.

## SO, REVOLUTION OR DISTRACTION?

It has been a long evolution that has accelerated very quickly in the last few years. And with this growth has come much froth and confusion as well as genuine progress towards responsible business and investing. What's clear is that ESG is on an upward trajectory and if we can ensure authenticity, and improve the quality of ESG practices in terms of evidence-based performance, it will be a good thing for everyone.

"WHEN DEALING WITH LISTED INVESTMENTS, MANY OF THE UNDERLYING HOLDINGS WILL LIKELY BE LARGE MULTINATIONALS THAT HAVE A COMPLEX WEB OF INTERCONNECTED IMPACTS."


# IMPACT MEASUREMENT IN INVESTMENT PORTFOLIOS

KATE ELLIOT – RATHBONEGREENBANK.COM

**For most charities, impact measurement and reporting are likely to be focused on their own programmes of work or grant-giving activities. However, for those with reserves or endowments held within investment portfolios, there is another potential angle of impact measurement to consider: the impact of their investments**

If the money from a charity's investments is held in cash at the bank, the impact is likely to be negligible and neutral. If it is invested in a focused impact investment portfolio, then measurement and reporting is hopefully already in place. However, if investments are held in a portfolio of listed stocks and shares then there is the potential for significant impacts — positive or negative — that may be being overlooked.

When looking at the impact of investments, there are two primary dimensions to consider:

- the impact of the investments themselves, ie. what impact is being generated by investee enterprises and how can this be attributed back to the investor?
- the impact of the investor, ie. what impact is being created by the investor's actions in the market and relationships with investee enterprises?

## INVESTMENT IMPACT

If we leave aside impact investing and instead think about more traditional forms of investment that focus on listed markets (eg. listed equity and fixed income) then it is extremely unlikely that an investment portfolio will consist of enterprises that are intentionally creating a positive impact. Most, if not all, holdings within such portfolios will be profit-driven enterprises that may have a secondary goal of generating positive social or environment returns alongside financial ones.

This makes impact assessment difficult. While companies are increasingly reporting environmental, social and governance (ESG) data, very few are even thinking about impact outcomes or how to measure them. Nor should we necessarily expect them to devote significant resource to something which is not part of their mission or business model.

When dealing with listed investments, many of the underlying holdings will likely be large multinationals that have a complex web of interconnected impacts. It is therefore important to look at the overall net impact of an enterprise, rather than taking too narrow a focus or looking solely at positive impacts without considering negative impacts. Not doing so can lead to perverse outcomes; a tobacco company that is viewed as having a positive social impact because it is a good employer, for example, or a renewable energy company that has a strongly positive environmental impact but is involved in widespread land rights disputes with indigenous communities.

KATE ELLIOT

The other barrier to impact assessment in listed investments is the challenge of attributing impact back to the investor. Even if we were to be able to accurately capture the full impact of a company, how do we then work out what proportion a given investor 'owns' or has contributed to that impact?

It is, of course, possible to calculate the percentage of each company that an investor owns (using either share capital in issue or overall enterprise value) and then use this to calculate an equivalent percentage of that company's impact linked to the investment. However, when an investor is buying and selling investments in the secondary market rather than providing primary capital to an organisation, it becomes more difficult to claim a direct link between the portfolio investment and the impact being generated by the investee enterprise. This is because money is not flowing from the investor to the enterprise itself.

One way to deal with these challenges is to measure the impact of investments at a high level, focusing on material negative impacts and positive alignment with sustainability, ethical or values-based themes. At Greenbank we use a set of eight sustainable development themes to do this, covering areas such as energy and climate, inclusive economies and decent work. The Sustainable Development Goals (SDGs) are also commonly used to categorise investments across a portfolio.

## INVESTOR IMPACT

For listed investments, this is the area that tends have the greatest potential for creating positive impact that can be measured and, importantly, attributed to the investor. Charities managing their own investments can consider this dimension of impact when making decisions on investment strategy. Charities that have appointed an investment manager to invest on their behalf can ask questions and understand if, and how, that investment manager is generating impact through their own actions.

Using the framework set out by the Impact Management Project, investor impact can be broken down into four categories: signal that impact matters; engage actively; grow new or under-supplied capital markets; and provide flexibility on risk-adjusted returns:

- **Signal:** investors systematically integrate considerations of positive and negative enterprise impacts into their investment decisions and communicate this to the market. As such approaches move into the mainstream, companies are becoming increasingly aware that their ability to access capital is contingent on proper management of their social and environmental impacts.
- **Engage:** investors use their position as part owners of organisations to push for positive change, either by addressing issues of concern or encouraging best practice. This can involve a range of activities from informal dialogue through to meetings with company boards or the filing of AGM resolutions. Often it involves collaboration between groups of investors, NGOs and other stakeholders.
- **Grow:** investment actions that reduce the cost of capital for enterprises with a positive impact, enabling them to increase their impact further. For instance, within public markets, there are innovative examples of green and sustainability bonds where the interest rate payable to investors is dependent on the company's achievement of sustainability goals.
- **Flexible:** investment actions that meet the requirements for growing new impact markets, with the additional requirement that lower risk-adjusted returns may be accepted in return for high anticipated social or environmental returns. This is typically restricted to impact-first investment strategies in private markets, though there are examples of listed charity bonds where investors may accept a lower interest rate than they would for a profit-seeking enterprise with a comparable financial, liquidity and risk profile.

Impact measurement of investments may seem like an overwhelming challenge, but you do not need to implement all elements on day one. Initial steps that charities could undertake include identifying and seeking to minimise the potential negative impacts of investee enterprises; asking your investment manager how they integrate impact considerations into their investment decisions and practices; and developing a public responsible investment policy that clearly signals to the market the importance of impact considerations.

**KATE ELLIOT – HEAD OF ETHICAL, SUSTAINABLE AND IMPACT RESEARCH, RATHBONE GREENBANK**

Kate oversees the development and implementation of the ethical, sustainable and impact research team's sustainability assessment framework, analysing investments against a range of environmental, social and governance criteria. She joined Rathbones in 2007 after graduating from the University of Bristol with a Master's in Philosophy and Mathematics.

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