PART III

getting ready for the journey

designing and implementing a program

You should now have a clearer understanding of what impact investing is (Part I), as well as how it is used by your peers (Part II). At this stage, if you have decided to get involved in impact investing, you should begin to prepare for your investment journey. Part III will walk you through this process.

For many wealth holders, the first step is getting internal buy-in from the family. As this can prove a challenging undertaking, Chapter 8 will discuss peer strategies for getting the family on board. This can be skipped, if it is not relevant to you.

The amount of preparatory work undertaken before starting to build an impact investment portfolio differs between families, and depends on the size of the investment program, the chosen location and approach, and the degree of formality. Typically, this stage will include the following four steps, which correspond to the Chapters in this part of the Guide. You will start by crafting an overall vision of an impact investment program (Chapter 9), on the basis of which you will establish program objectives and key parameters (Chapter 10). Thereafter, you will develop investment guidelines and tools (Chapter 11), and, finally, will build the team to implement your program (Chapter 12).

Those who are not inclined to dedicate resources to designing a formal program and want to move to investing right away, can (after reading the next page), skip the remainder of this Part and move directly to Part IV, which describes the impact investment process.

9.3 DEVELOPING AN IMPACT THESIS

What Is My Definition of Impact and How Will I Achieve It?

Goals and location → Market and portfolio scans → **Impact thesis** → Financial profile

The next step is articulating your impact thesis — which means, determining the impact you want your investment program to have and how you will achieve it. This process is often referred to as a *Theory of Change* or *Path to Impact*, and it can take various forms and have different degrees of formality.

WHY DEVELOP AN IMPACT THESIS?

The impact thesis can be used at various stages of your impact investment program. It will facilitate the analysis of the strengths and weaknesses of your strategy and allow you to explain clearly, with examples and illustrations, your proposed concept and approach to internal and external stakeholders. When you start building an investment portfolio, it will help determine your investment criteria, as well as facilitating the impact evaluation of potential investees. Your impact thesis will also guide your investment-management and impact-assessment approach.

THE PROCESS

Development of an impact thesis can be split into four steps, as Figure 9.3.1 shows. You start with finding your personal *definition of impact* (Step 1), which is linked to your values and core beliefs. You will then determine your *impact strategy*, meaning what you will invest in, in order to achieve this goal (Step 2), and what *your role* in the investments will be (Step 3). And, finally, gaining an understanding of the organizations you will likely invest in, and your potential/desired impact, will lead you to determine the *target results* of the program (Step 4).

Figure 9.3.1: The Impact Thesis Development Process

Step 1	Step 2	Step 3	Step 4
Definition of impact →	Impact strategy →	Your role →	Target results

Step 1: DEFINITION OF IMPACT

What are your impact goals? Which social and environmental causes are most important to you? There is no right or wrong cause or definition of impact — it is a deeply personal decision, linked to (family) values, core beliefs, and/or organizational culture. It therefore requires the clarification of key family values. While this may sound straightforward, this exercise is often challenging for families, especially when values common to various members and generations need to be distilled. Many families engage consultants to help them navigate this process.

Articulating core values will help you decide which societal benefits you are planning to produce through your investment program. What will be your unique definition of *impact*? This is often expressed by the social or environmental challenge that you will try to address — be it reducing poverty, achieving universal access to healthcare, or better integration of people with disabilities. The two most common approaches are to focus on the *issues you care about the most*, or to focus on *areas that you know well*.

Start with societal issues you care about: Are you interested in poverty alleviation in Africa or Latin America, criminal justice in the UK, or climate-change mitigation globally? Have you been a successful entrepreneur? Do you believe in the power of entrepreneurship and want to foster it in others? *Pros:* Focusing on issues you are passionate about will make impact investing much more meaningful to you personally, and will help you to persist when things get tough — be it dealing with the actual investments or with possible resistance within the family. *Cons:* The learning curve may be steep and some of the pressing issues may not have market-based solutions (for example, human-rights advocacy or improving the quality of life of disabled children).

Start with your knowledge/experience: Identify the sectors/issues you know well. These could be the core focus areas of your foundation (for example, health and sanitation), family business (for example, food and agriculture), or an FO investment holding (for example, real estate). *Pros:* Leveraging your sector/issue expertise and networks will provide a major advantage in finding investment opportunities, as well as analyzing and managing them. As an expert in the field, you will be able to contribute not only capital, but also add strategic value to your investees. If the program can be related to the areas of current activity/focus for the family ecosystem, it will likely be of higher strategic importance and may, therefore, be more scalable. *Cons:* The particular sector may have a very narrow set of investment opportunities or limited impact.

CAROL SCHWARTZ, AUSTRALIA

empowering women by all means possible

Carol Schwartz is a scion of the Australian Besen dynasty, but she did not need to lean on the prospect of inherited wealth or a guaranteed position in the family company. Soon after graduating in Law from Monash University, she set up her own aerobics studio in central Melbourne, demonstrating her entrepreneurial spirit from the outset. Today, Carol (jointly with her husband, Alan) is a co-owner and director of Qualitas, a US$500m property investment and advisory company, and is a director of a number of Australian companies, including Stockland, Bank of Melbourne, Yarra Capital Partners, and the Trawalla Group.

However, although traditional business has allowed her to build her experience and skill set, her passion in a social sense is helping other women to attain a similar position of independence, and this has shaped her philanthropic and impact investment journey.

In 2004, Carol and her husband established the Trawalla Foundation, which grants and invests in social enterprises and non-profit organizations that demonstrate innovation in their areas of social impact and promote women into leadership roles. Carol is also the founding Chair of the Women's Leadership Institute of Australia, a non-profit that helps talented women attain leadership roles.

Carol, jointly with fellow trustees, determined that the Trawalla Foundation ought to have an ambitious investment strategy for the foundation endowment. A gender filter is applied to all investments, excluding companies whose percentage of female Board members is less than 25%, which supports leadership opportunities for Australian women.

The impact investment strategy has, similarly, been influenced by aspirations to economic independence for Australian women. One such example is an A$1m investment in capital notes for Good Start Early Learning, a chain of daycare centers. Today, Good Start is one of the largest social enterprises in Australia, providing daycare services to approximately 72,000 children and their families through 660 centers, and employing around 13,000 staff, mostly women. As of end-2015, 22% of the Trawalla Foundation's endowment is in impact investments, including the social impact bond issued by The Benevolent Society for the Resilient Families program, and investment that allows for the expansion of an online petition platform, Change.org (see p.98 for portfolio details and performance).

'You actually get a double bang for your buck when you can invest in a way that proves the concept of for-profit, mission-driven businesses,' Carol states. You are focused on the social impact you want to see in the business, and then you also have the investment returns to use as philanthropic grants.'

Carol follows the same principle when managing her private wealth. For example, one of the equity investments in the couple's private portfolio — a small transport company — recruits and trains women as drivers in order to encourage diversity in the business. In 2012, Carol helped to set up Scale Investors, a network of female wealth holders investing in women-led businesses. The network currently consists of 80 members and has invested in six ventures. Many of these female-led businesses include a strong social component — for example, an outsourced workforce solution employing seniors and well-qualified women with children at home, who cannot work full-time. 'This network is teaching women confidence, courage, and risk-taking. It's really exciting to see these women investors absolutely excel at due diligence' and then put their money behind their conviction. It is time we controlled the way our wealth is managed.'

Carol believes that entrepreneurial FOs and family foundations are very well positioned to prove the concept of social entrepreneurship and inspire prospective impact investors: 'Investing our own money, we can afford to be a little more adventurous and, hopefully, show a good example to others.'

chapter 10. DESIGN OF THE PROGRAM

10.2 DETERMININIG KEY PROGRAM PARAMETERS

What Is My Investment Strategy?

Designing an impact investment program means deciding on the key parameters. The previous steps would have equipped you with the understanding of your personal, impact and financial objectives, which can now be translated into a pragmatic strategy aimed at achieving them. This and the next page will walk you through the key parameters of an investment program, which need to be determined at this stage. The Tools & Resources section (p.114) contains further information on the interrelationship between the parameters, and p.115 provides a summary of an investment strategy of Omidyar Network, the philanthropic investment firm of Pierre and Pam Omidyar.

TIME HORIZON

By when do you need to have the results from the program, in terms of impact and financial returns? The decision may be based on the time that is necessary to generate the intended impact or personal preferences of the family member driving the initiative. If you are planning to build a demonstration portfolio, you may require results more quickly.

SIZE OF THE PROGRAM

How much capital do you plan to allocate to impact investing? Determine the initial amount you feel comfortable investing.

LINK TO OTHER FAMILY ORGANIZATIONS/ACTIVITIES

Is it important that your investment program is closely aligned with the other areas of the family business, foundation, or FO? For example, should a foundation provide grants to the early-stage, impact-driven businesses and hand over the more successful and, therefore, investable ones to the impact investment program for further scale-up? Should a family business provide access to market to some of the investees of the Impact Investment program, create joint ventures, or even take them over?

REGIONAL FOCUS

Which regions will you invest in? Focusing on one or just a few regions will enable the development of local networks and knowledge of the legal, cultural, and other specifics. This is particularly important in direct investing, and will considerably reduce the associated risk. The disadvantage is a higher dependency on the economic environment of one region, and, potentially, an insufficient set of investment opportunities.

SECTOR/IMPACT THEME

Do you want to focus your impact investment program on one or a few specific issues or adopt a broader approach? The advantage of a focused strategy is the ability to develop specific knowledge, and sector-related networks. The disadvantage is that you will be less diversified and, therefore, less shielded from sector-specific risks. You may also find it difficult to generate sufficient investment opportunities.

INVEST DIRECTLY OR VIA INTERMEDIARIES?

Determine the desired degree of separation between you and the impact-driven enterprises. Investors who prefer a more hands-off approach, require a high degree of diversification, or are simply cautious at the beginning of their impact investment journey, may choose to allocate capital to financial intermediaries (funds, community banks, asset management companies). Those who already have strong in-house capabilities and local resources, or are prepared to build them, often opt for direct investing. Building mixed portfolios is also a viable solution.

APPROACH

Decide whether you will start with a carve-out, integration, or leveraged approach (see explanation on p.44). Some wealth holders also link the decision to a more in-depth discussion of the purpose of wealth and the holistic alignment of it with family values. Even if you decide to start with a carve-out as your (initial) approach, explore the question as to how the desire for positive impact should affect the way that other assets are managed.

INSTRUMENTS/ASSET CLASSES

You will need to decide whether you want to limit your impact investing to a specific asset class (for example, private equity or bonds) or use a mix of various instruments/asset classes.

INVESTEE PROFILE

This will help to determine which kind of organizations you would like to fund, in terms of the stage of their development, organizational form, and business model. At this stage, it is important not to be too narrow in terms of focus, in order to avoid limiting unnecessarily the number of investment opportunities.

FINANCIAL-RETURN EXPECTATIONS

Based on your initial reflections on your financial objectives and constraints, and impact goals, as well as the other parameters of the program, you can determine the target portfolio returns. If you decide to allocate capital to several asset classes, you may want to set return expectations for each asset class.

NUMBER OF INVESTMENTS

100 5 20

You need to consider how diversified your strategy needs to be in respect of the number of deals in the portfolio. The decision will be based on a balance of such factors as the implementation cost, your impact thesis, and the available set of investment opportunities.

TIPS

1. **Build in flexibility:** As it may be difficult to recognize the available set of investment opportunities at the strategy stage, do not set overly rigid parameters; allow flexibility to adjust the strategy as you start investing and learn about the field and what works for you.

2. **Check for contradictions:** One of the key dangers at this stage is setting contradictory parameters, making the program objectives unachievable. Cross-check whether the features of the program fit together (see p.114 for further information).

3. **Prioritize and iterate:** To mitigate the above risk, start with the core parameters, which should not change (it may be an impact theme, a geographic focus and/or the size of the program). As you advance to the other features, you can check them against the core parameter(s) and adjust in case they contradict.

4. **Get support:** Engage an experienced consultant to act as sparring partner, spot contradictory objectives, point out the implications of each of the choices, and provide insight into the realities of impact investment. That will increase the chances that the strategy will attain a good balance between ambition and pragmatism.

5. **Find the middle ground:** The decision to invest directly or through intermediaries is of key importance. If the direct-investment benefits are important to you, but you do not yet have the capacity to engage directly, you can choose an intermediate option, such as seeding a fund, setting up a pledge fund[1], or joining an investment syndicate. Appendix 2 explains these options.

6. **Verify:** If you are in a formal environment where strategy changes will require lengthy approvals, you may want to verify your program features by doing a limited market scan to provide assurance that your strategy is realistic. You can then seek the final green light for the strategy.

7. **Involve the implementation team:** If your implementation team is not yet formed, you may want to limit the strategy exercise to core features, which will help you determine what kind of people you need to hire. When the team is in place, you can jointly complete the exercise.

8. **Remain engaged:** Even if you outsource the development of a strategy to your team or a consultant, stay involved in the process so that it truly reflects your values and takes into account personal and strategic considerations.