

Doing Well by Doing Good – Impact Investing as a Mainstream Investment Philosophy

Forum Overview

Family Office Perspective

Peter M. Lupoff

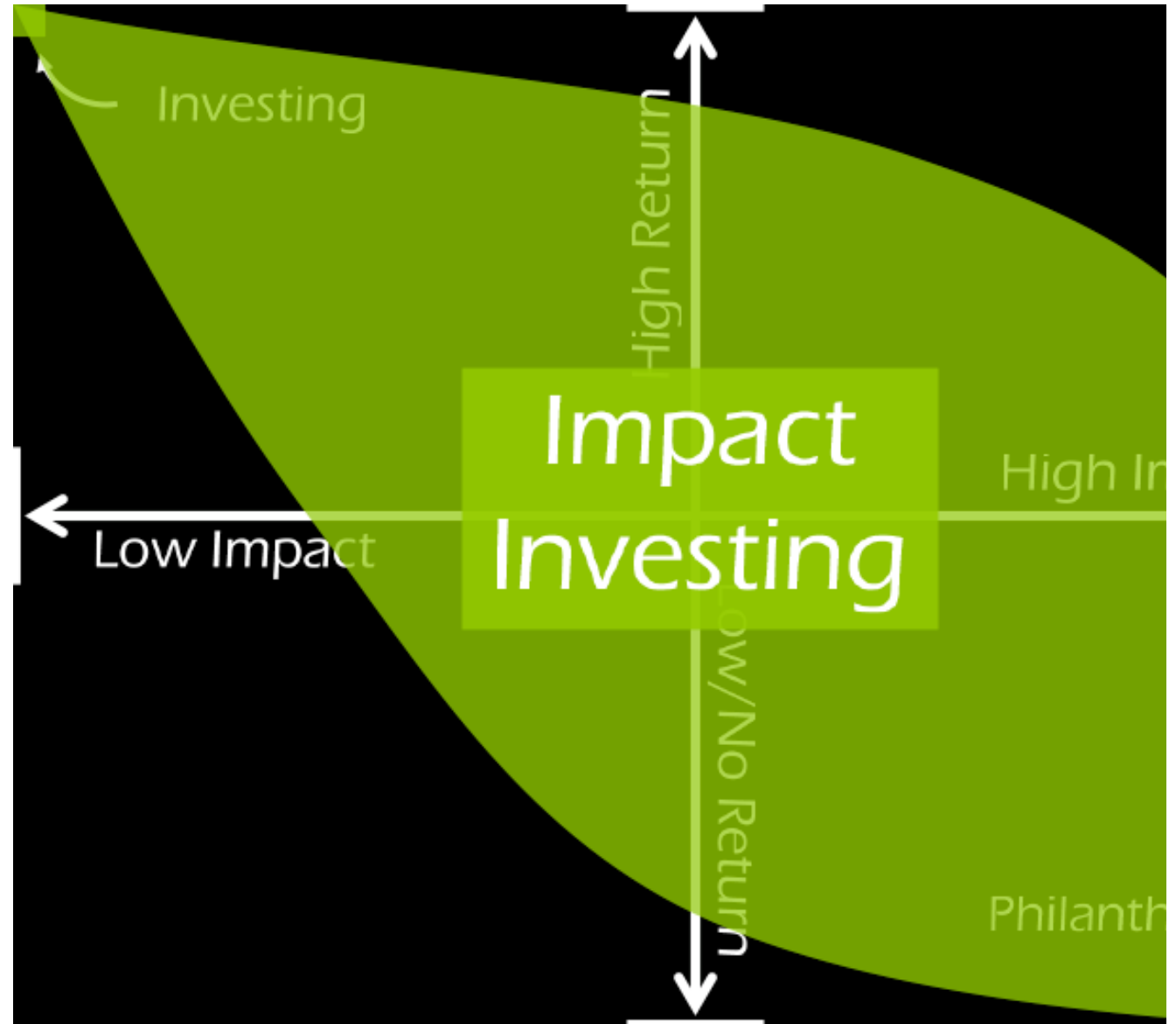
Yale School of Management

December 1, 2017

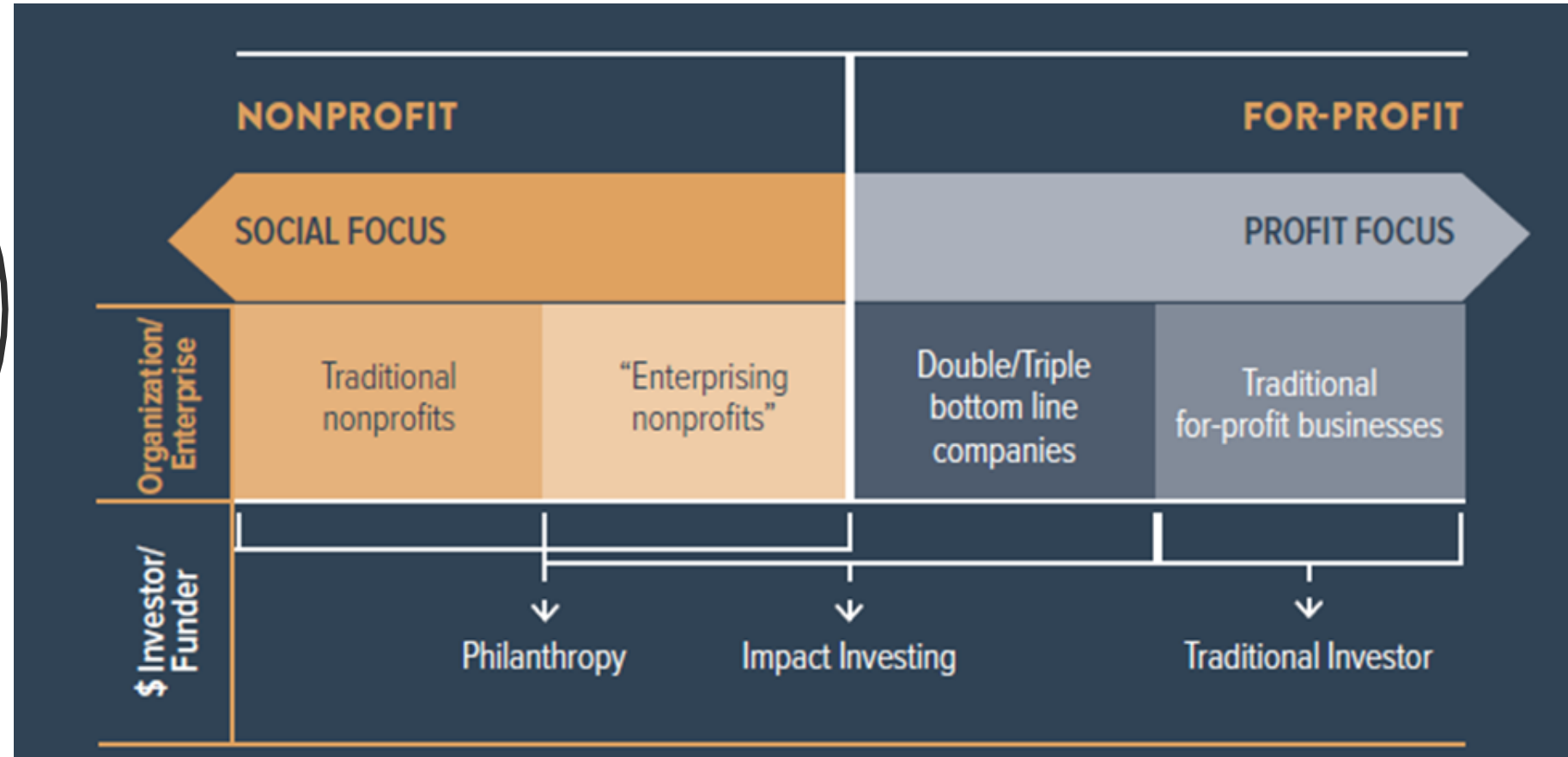
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Doing Well by Doing Good

- Impact investing seeks to generate a positive social or environmental impact alongside a financial return
- Seeking commercial solutions to social and/or environmental challenges
- Impact Investing affords a return of capital and cash return on capital, in addition to a “social” return. The cash (and social) returns have been good, proving that *you can do well by doing good*



Doing Well
by Doing
Good



Source: Case Foundation

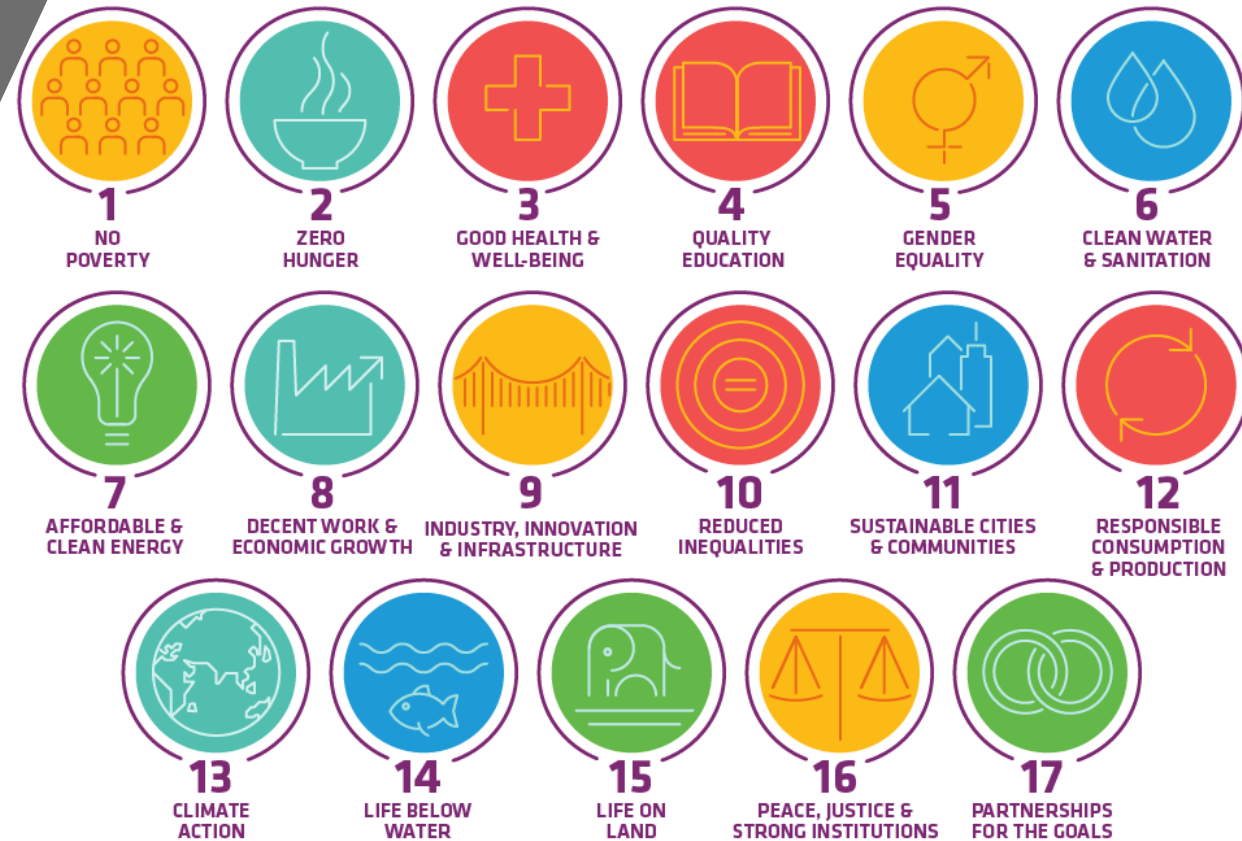
Doing Well by Doing Good



Triple Bottom Line

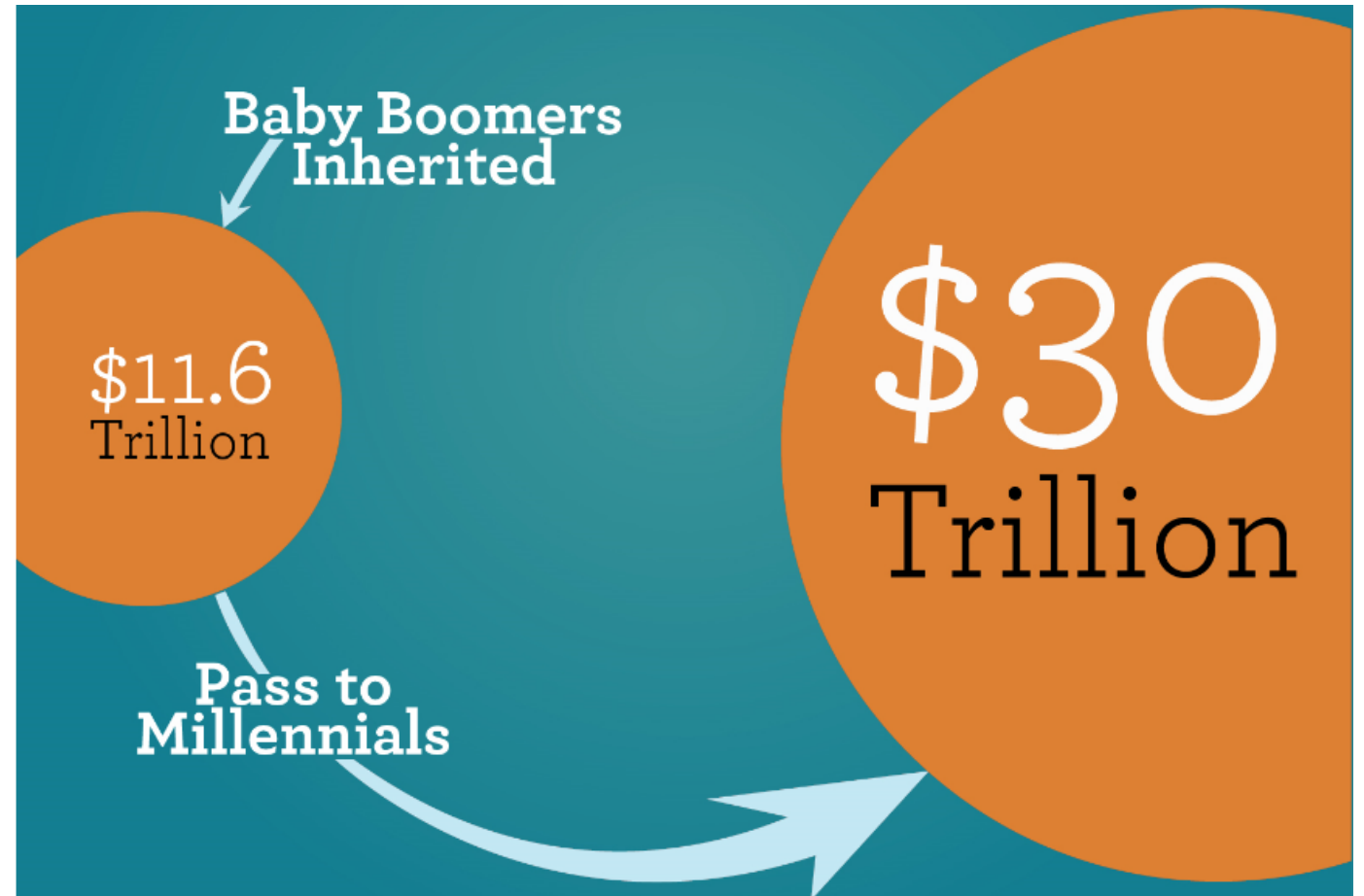
Impact Investing Market Size and Potential

- Investors plan to commit \$25.9bn in assets to Impact Investing in 2017
- In 2016, participants* committed a total \$22.1 billion across 7,951 impact investment deals



*GIIN Survey Participants

Greatest Generational Transition in Wealth as Driver





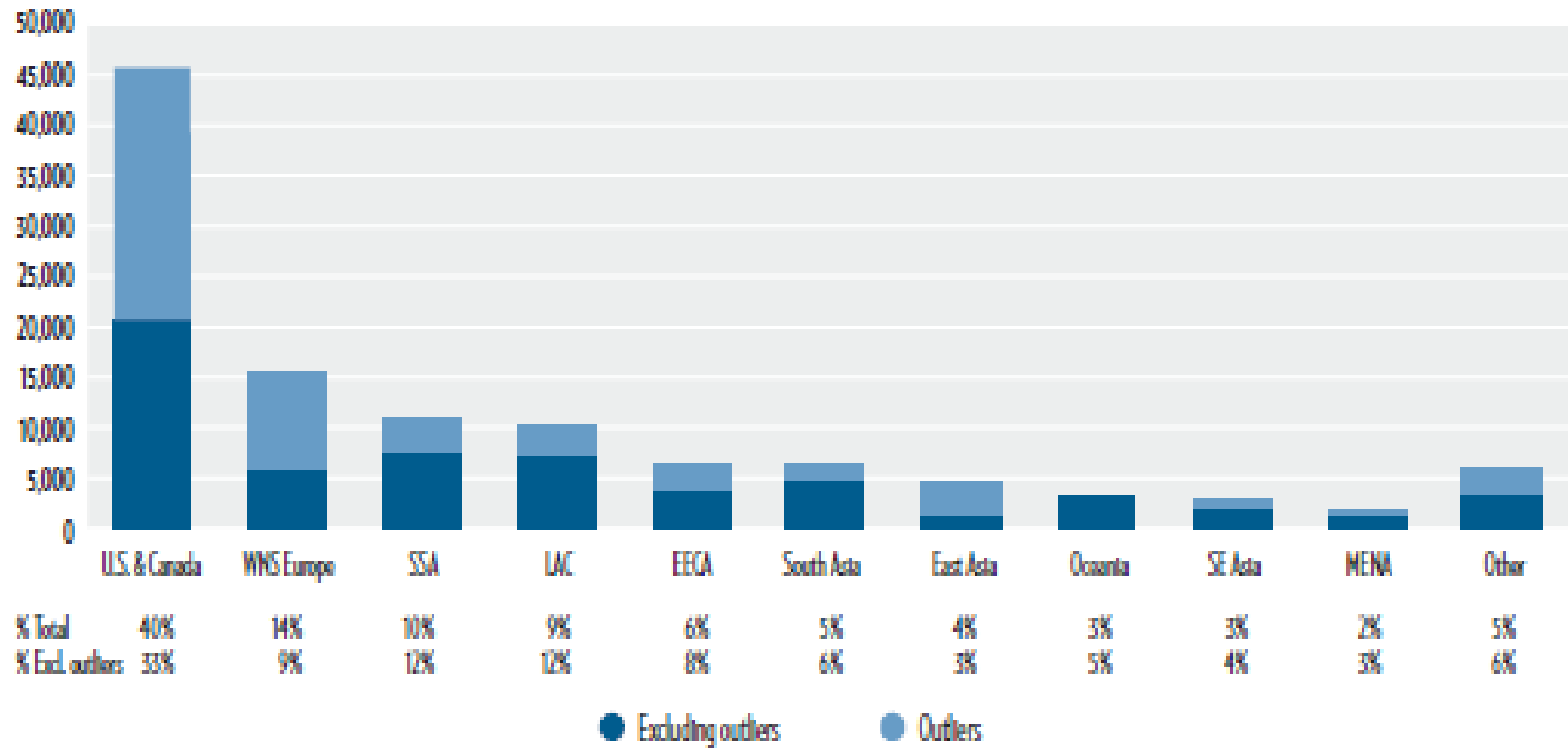
Greatest Generational Transition in Wealth as Driver

- Millennials have now surpassed the Baby Boomers as the nation's largest demographic segment
- \$30 trillion passing to them through inheritance over the next 30 years
- The largest generational transfer of wealth, is expected to peak between 2031 and 2045, during which 10% of total wealth in the US will be changing hands every 5 years. Further, approximately 70% of this wealth will be controlled by women by 2031

Debunking Misperception- Facts, Innovation

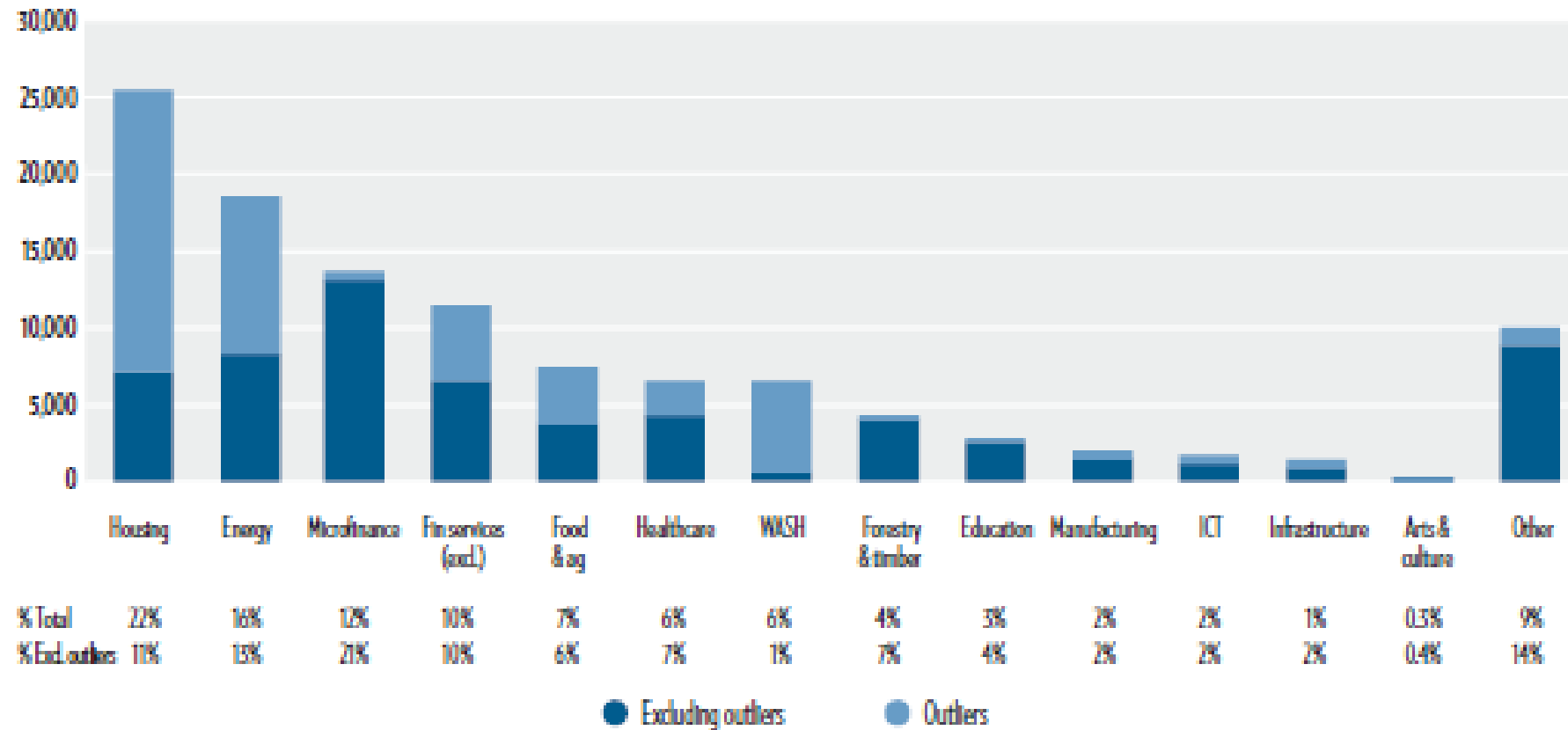
- **Portfolio profits and impact are mutually exclusive** – some view investment portfolios in two distinct buckets: one dedicated to returns and one to philanthropy, the former subsidizing the latter
 - Impact Investing seeks to deliver both desirable returns and a defined social impact, negating the binary “make impact or make profit” mentality.
- **Impact investing is philanthropy** – Impact Investing is investing with an inherent expectation of financial return
 - It is not giving money away to solve social or environmental problems
 - It is neither philanthropy, nor based on grant-making
 - It is also not dedicated to funding public sector projects. However, it can cater to different risk-return preferences within the same structure and draw investors from both the public and private sectors (blended finance) to catalyze innovation
- **Impact investing implies financial sacrifices** – Impact investing need not entail sacrificing financial returns for social or environmental benefits
 - A range of expected financial returns, from market-rate to concessionary, can be achieved depending on the particular investment and predicated on the investors’ requirements
- **High returns imply low impact** – Higher financial returns need not have a negative effect on the quality of the Impact Investment
 - Financial returns aren’t inversely correlated with impact generation
- **Impact Investing is only in poor countries** – The variety of Impact objectives allows the investor to target problems in poor countries as well as those purported “well-off”
 - Social and environments solutions are called for worldwide

Impact Investment AUM by Geography



Source: GINN

Impact Investing AUM by Sector



Source: GINN

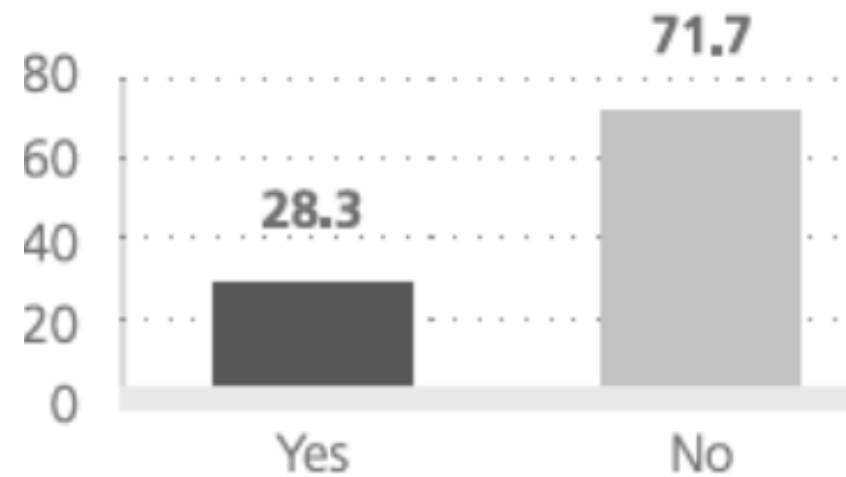
Family Office's Growing Interest

| | Decrease | Remain the same | Increase | Don't know |
|---|----------|-----------------|----------|------------|
| Return targets | 2.8 | 61.0 | 19.9 | 16.3 |
| Risk | 10.7 | 60.7 | 13.6 | 15.0 |
| Allocation to more liquid strategies (e.g. cash, fixed income) | 13.5 | 54.6 | 13.5 | 18.4 |
| Investment manager expectations | 2.9 | 53.2 | 25.9 | 18.0 |
| Allocation to illiquid investment strategies (e.g. private equity, hedge funds) | 8.4 | 49.7 | 23.8 | 18.2 |
| Allocation to impact / environment, social and governance investments | 2.1 | 39.0 | 40.4 | 18.4 |

Source: The UBS/Campden Wealth Global Family Office Report 2017

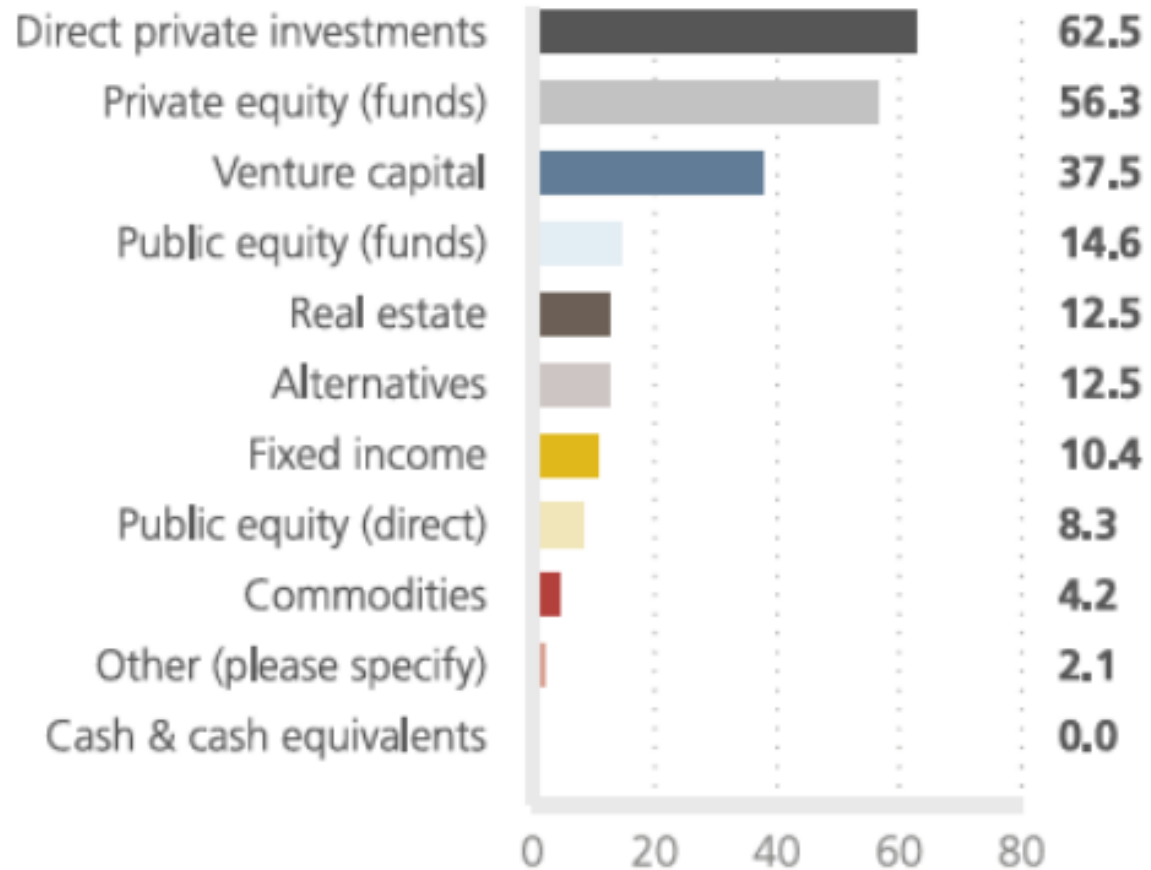
Note: Due to rounding, totals may not add up to 100%

Room to Grow



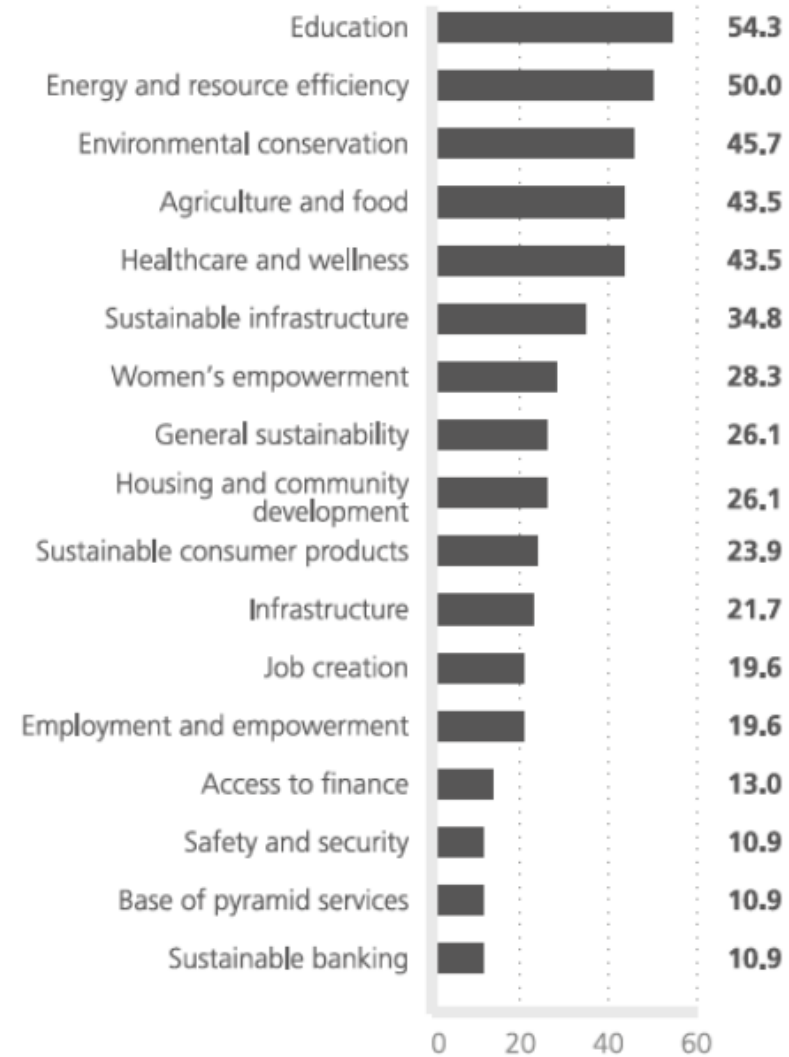
Source: The UBS/Campden Wealth Global Family Office Report 2017

How Family
Offices
Participate,
Prioritize



Source: The UBS/Campden Wealth Global Family Office Report 2017

How Family Offices Participate, Prioritize



Source: The UBS/Campden Wealth Global Family Office Report 2017

Perceived Challenges to Large Scale Capital Inflows




Source: The UBS/Campden Wealth Global Family Office Report 2017

Perceived Challenges to Large Scale Capital Inflows

| | | Severity of challenge | | Degree of progress | |
|---|--|----------------------------|-----------------------|----------------------|---------------|
| | | Very significant challenge | Significant challenge | Significant progress | Some progress |
| | | n = 184–201 | | n = 175–195 | |
| 1 | Appropriate capital across the risk/return spectrum | 17% | 35% | 10% | 63% |
| 2 | Suitable exit options | 13% | 34% | 7% | 53% |
| 3 | High-quality investment opportunities (fund or direct) with track record | 11% | 31% | 17% | 69% |
| 4 | Common understanding of definition and segmentation of impact investing market | 11% | 36% | 11% | 71% |
| 5 | Sophistication of impact measurement practice | 10% | 28% | 10% | 76% |
| 6 | Research and data on products and performance | 9% | 31% | 15% | 74% |
| 7 | Government support for the market | 7% | 29% | 13% | 47% |
| 8 | Professionals with relevant skill sets | 6% | 23% | 18% | 72% |
| 9 | Innovative deal/fund structures to accommodate investors' or investees' needs | 6% | 27% | 19% | 65% |

Source: GIIN



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