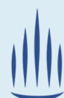
UNLOCKING PRIVATE ASSETS FOR IMPACT

How to increase the flow of private capital from wealthy individuals and families to impact-led enterprises in the UK

The final report of the Individual Impact Investing Commission
November 2022



The Beacon Collaborative

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The Beacon Collaborative and Big Society Capital who led the project, with the help of two independent consultants, would like to thank the 11 committed Commissioners and other contributors for keeping us tugging at the knots of this study, until we had worked them loose. The list of Commissioners can be found in the Appendix.

Two studies have run in parallel to this project, and we are grateful for their work and the shared learnings:

- "UK Catalytic Capital: Growing provision impact", written by The Change Coefficient, with support from ACF, Access – The Foundation for Social Investment and Big Society Capital.[1]
- "Bridging capital into communities: A practical guide for policy makers", written by the Impact Investing Institute, with support from DCMS and Big Society Capital.[2]

The views of a wide range of sector experts, both individuals and organisations, were sought on the recommendations and the overall direction of the report.

A valuable body of previous work has been published on impact investing in the UK and is referenced throughout this report. We have drawn from this to inform our work and enrich its outcomes.

Thanks to broad representation among our core Commission members and other important voices, we believe we have been able to capture the important role that wealthy individuals and families play in the burgeoning impact investing ecosystem.

EXECUTIVE SUMMARY

Impact investing is a significant market that is emerging rather than mature. It spans all asset classes and attracts investors of every category.

Its importance should not be understated. According to the Global Impact Investing Network (GIIN), accelerating the growth of impact investing is absolutely essential to attaining the Sustainable Development Goals (SDGs), which will allow humankind "to achieve a better and more sustainable future for all by eradicating poverty, ending world hunger, realising human rights for all, achieving gender equality, reducing environmental degradation and delivering a transformative blueprint for people, planet and prosperity". High Net Worth Individuals (HNWI) and families are important players in the ecosystem, a tour de force when it comes to their own entrepreneurial outlooks and imagination, and with an outsized role in supporting opportunities for social and environmental transformation by impact-led enterprises. They have the discretionary power to declare impact a priority.

Often acting as the cornerstone of some of the most promising new innovations to address the pressing challenges of our times, and paving the way for more institutional investment, we believe it is critical that more HNWI and families are attracted to impact investing, so that they can experience its rewards, unencumbered by perceived or actual barriers.

These important actors desire a more holistic and values-led approach to their wealth management, and demonstrate the flexibility, agency and appetite to act first and act fast for social change. This is something that sets them apart from other investor types. The younger generation of HNWI seek alignment between their consumption of goods and services, their investments and their philanthropy, with social purpose the thread that runs through.

It is equally important that all stakeholders in the ecosystem step up to the challenge and realise the opportunity for greater HNWI impact investing in the UK, by designing optimal conditions for the market to thrive and expand. This is much more about removing solvable impediments (such as low levels of awareness and know-how) than creating new regulatory efforts.

The UK already offers fertile soil for impact-led enterprises to start up, but their ongoing success and scale can be hampered by a financial infrastructure that is not sufficiently enterprise-centric, and excludes or deters some promising initiatives and the investors that might support them.

Equally, since the majority of HNWI use a number of advisors in their financial dealings, potential impact investors can be put off or held in decision paralysis by advice that is not investor-centric, because it leaves impact out of the conversation, or does not look for ways to work past the barriers that exist.

The prize of reducing or eliminating these resolvable constraints is greater social innovation at the pace, scale and prominence that are so clearly needed. **This could equate to an additional estimated £2-11 billion of private investment, if the barriers to HNWI impact investing were addressed.**

BARRIERS AND RECOMMENDATIONS

The barriers that HNWI and family investors experience are not dissimilar to those affecting other types of investor. However, they can be more keenly felt. This is because HNWI investors and some family offices do not typically have access to the same levels of resource as institutional investors or fund managers, and can be inhibited by any number of externalities from under-informed advisors, lack and cost of due diligence, lack of impact management data, and so on. This is a frustrating experience leading to a reduced pipeline of opportunities, stalled progress, or far more legwork than ought to be necessary.

In response to the identified barriers, 12 recommendations were agreed to be central to improving the impact investing ecosystem for HNWI and family investors in the UK. The barriers and recommendations identified by this Commission cluster around five key areas:

Impact investment knowledge and expertise, marketing and promotion

A lack of knowledge and understanding of impact investment is seen to be a key barrier to greater investment, extending to both potential investors and their advisors. The Commission believes that more resources should be dedicated to building and promoting knowledge and expertise among HNWI and those who advise them about investments. Additional individual and collective support can be created by connecting peers together through networks and events

Values-centred advice including impact investing options

Since fewer than 10% of advisors currently broach impact investing with clients, the Commission believes that giving advisors a mandate for raising awareness of impact investing will create more opportunities. HNWI should also be encouraged to challenge existing advisors not engaging in this.

Appropriate products and their availability

The impact investment product market is evolving. This Commission believes that it is necessary to increase the supply of attractive products to suit the diverse needs of HNWI impact investors, and advisors should work with HNWI to construct impactful portfolios.

Tax reliefs and related incentives and the need for innovation

The Commission believes that current incentives to invest are under-used, and that narrow eligibility constraints create confusion or inertia among potential investors. There is therefore a need to broaden eligibility criteria and to pilot innovations and incentives.

Impact investment through charitable giving vehicles

The Commission believes that there is a perceived barrier around Charity Commission constraints on individual and family foundations and Donor-Advised Funds (DAFs) to invest in impact. This needs to be overcome.

The importance and indeed the difficulty of understanding impact returns were also clearly cited as a significant barrier by the Commission. However, as it is such a vast and complex topic, it was recognised to be too specialised for this project. The fact is that gaining quality data on the actual or potential impact of an investment is hard work. However, standards for impact measurement and management have improved substantially in recent years, with recognised exemplars from GIIN's Impact Measurement and Management (IMM) guidelines,[3] and tools such as IRIS+[4] and others. No doubt there is more progress in the pipeline, as this is a live and recognised topic.

Our recommendations are set out in the table below, alongside a list of suggested actions for bringing them about.

TABLE OF RECOMMENDATIONS AND SUGGESTED ACTIONS

Barrier	Recommendation	Suggested Action
Lack of impact investment knowledge and expertise, marketing and promotion	**1 of 4. Create an open-access, collaborative, centralised website with information, directories and case studies specifically targeted at HNW**	Impact investing specialists should develop and curate a range of materials aimed at HNWI, that exemplify good and best practice (along the lines of the Good Finance website).
		Independent advocacy organisations should be tasked with developing and hosting the website.
		The Spear's 500 database should incorporate an index that lists impact investment advisors.
		HNWI need to be made aware of existing ways to find and compare funds via directories and other listings, and the website should signpost to platforms on which impact funds and enterprises are raising capital.
	2 of 4. Develop more accessible educational courses to increase confidence among advisors and HNWI	Knowledgeable and reputable sector organisations should develop training/learning programmes including bite-size courses on different impact investing topics.
		Ensure training programmes are signposted from the suggested website.

<table>
<tr><td rowspan="9">Lack of impact investment knowledge and expertise, marketing and promotion</td><td rowspan="5">3 of 4. Start a movement based on a collective impact model to raise awareness and drive forward change in impact investing by HNWI</td><td>Create a collective impact project with multiple interested parties, to raise the profile of impact investing among HNWI.</td></tr>
<tr><td>Engage HNWI with media reach and influencing power, to support and raise awareness of their impact investment journeys.</td></tr>
<tr><td>Next-generation HNWI impact investors should lead the specific call to their peers and older generations.</td></tr>
<tr><td>The initiative should include an emphasis on how impact investing can accelerate greater equality, diversity and inclusion.</td></tr>
<tr><td>Consider working with existing campaigns such as Make My Money Matter and consider the impact of other saving and investment pots.</td></tr>
<tr><td rowspan="4">4 of 4. Design networks and events at national and local level to attract, retain and support HNWI impact investors</td><td>Existing online communities of interest should be made more visible and additional ones should be encouraged to enable peer learning and mentoring, place-based action and co-funding around themes.</td></tr>
<tr><td>More angel investing groups and peer networks of impact investors should be encouraged, supported with tools created by industry bodies, such as an Impact toolkit.</td></tr>
<tr><td>Existing angel investing networks should be encouraged to incorporate impact investing discussion panels into event programmes.</td></tr>
<tr><td>Educational events with impact-led enterprises should be organised by angel investing and peer networks.</td></tr>
</table>

<table>
<tr><td rowspan="8">The need for values-centred advice, including impact investing options</td><td rowspan="3">1 of 2. Endorse professional accreditation for financial advisors to HNWI, ensuring they are qualified to offer impact investing advice</td><td>Investment and wealth management organisations providing professional advice to HNWI should require staff to undertake accredited impact investing training.</td></tr>
<tr><td>Trusted intermediaries and/or accreditation bodies should review and approve course materials.</td></tr>
<tr><td>The CFA’s impact investing certification (currently in development) is welcomed and should be promoted.</td></tr>
<tr><td rowspan="5">2 of 2. Require all advisors (financial, legal, tax and philanthropy) to establish their HNWI clients’ values and appetite for impact investment</td><td>The FCA’s Sustainability Disclosure Requirement (SDR) disclosures should include specific reference for advisors to consider impact investing, particularly for HNWI.</td></tr>
<tr><td>Regulatory bodies for advisors should embed the requirement for client conversations about appetite for impact investment.</td></tr>
<tr><td>Professional advisor firms should embed the requirement for client conversations about appetite for impact investment into their Know Your Customer (KYC) and compliance procedures.</td></tr>
<tr><td>HNWI should challenge existing advisors who are not engaging and offering a conversation on impact investment.</td></tr>
<tr><td>Advisors should be more willing to talk about concessionary returns where investors may be open to considering them.</td></tr>
</table>

<table>
<tr><td rowspan="2">Lack of appropriate products and their availability</td><td>1 of 2. Asset managers should create more impact products that suit the requirements of HNWI clients</td><td>Products should be developed across the risk/return spectrum to meet the wide range of impact needs, for example, pooled funds that accommodate blended finance and concessionary returns as well as market rate returns, liquid and illiquid investment vehicles and products targeting less-commonly invested themes (such as education or arts and culture).</td></tr>
<tr><td>2 of 2. Advisors should work with HNWI clients to consider how different impact products fit into a portfolio approach to impact investing</td><td>Once client suitability for an impact investing approach is determined, advisors should build diversification into investment portfolios to spread capital among a variety of investments, in an effort to balance risk-adjusted impact and financial returns as in traditional investment practice.</td></tr>
<tr><td rowspan="4">Limited understanding of tax reliefs and related incentives and the need for innovation</td><td rowspan="4">1 of 2. Maximise use of existing tax incentives and broaden application criteria</td><td>Professional advisors should familiarise themselves with existing tax incentives that support early-stage enterprises, so that wider use of them can be made by HNWI investors.</td></tr>
<tr><td>The eligibility criteria for EIS, SEIS and SITR should be made more inclusive of the different legal forms of impact-led enterprises.</td></tr>
<tr><td>SEIS/EIS-like incentives should be applicable to other forms of financing, outside equity raised through ordinary shares, so that more organisations can be included in their remit.</td></tr>
<tr><td>SITR should be extended for sufficient time to allow a dedicated joint Working Group to develop a replacement scheme.</td></tr>
</table>

Limited understanding of tax reliefs and related incentives and the need for innovation	**2 of 2. Government support in the form of grants, guarantees and matched funding should be increased and delivered through programmes that are accessible for private capital, such as angel investment networks, syndicates and funds**	Government should place impact investing at the heart of domestic strategy, and work closely with regulators and other stakeholders to achieve greater and faster development of impact investing.
		Extend the availability of grants as part of blended finance funds that are accessible to HNWI investors.
		Increase the number of Innovate UK investor partnership programmes on social and environmental themes that maximise use of grant and investment capital.
		Intermediaries supplying loan finance to the impact economy should be encouraged to assess whether undertaking the accreditation process to access guarantee schemes is suitable.
		Government should make a commitment to support further match-funding facilities like the Future Fund.

<table>
<tr><td rowspan="5">Low uptake of Impact Investment through charitable giving vehicles</td><td>1 of 2. Individual and family foundation trustees should review their investment strategies and integrate an impact approach</td><td>Trustees should consult stakeholders about impact investing, and then follow the practical steps as outlined in the Impact Investing Institute's "Investing with impact in the endowment" paper.</td></tr>
<tr><td rowspan="4">2 of 2. DAF providers should review their service provision for clients with regard to impact investing</td><td>DAF providers should invest in training for staff, where necessary, to consider the suitability of impact investments.</td></tr>
<tr><td>DAF providers should ensure they have appropriate governance structures and processes to make investment decisions.</td></tr>
<tr><td>DAF providers should have conversations with clients about the opportunity to generate impact with grant-making and investments.</td></tr>
<tr><td>Policies should be put in place to deal with requests from donors to make impact investments.</td></tr>
</table>

These suggested actions will be further explored in consultation with industry partners and built into an action plan via a process, led by The Beacon Collaborative and Big Society Capital.

INTRODUCTION

Many HNWI investors see wealth management as a holistic exercise that should be more aligned with their values and address some of the most intractable challenges of our time. A large number of them are willing to progress beyond ethical and sustainable finance decisions towards those that intentionally embrace social and environmental transformation. They do so with tenacity, knowing that there is no panacea or proforma for social change.

They invest in impact, despite a number of issues that could create barriers for others wishing to be involved in impact investing, including:

- The increased complexity that can come with impact investing, and the personal demands it can place on individuals and family offices
- A marketplace that is still maturing and offers less supporting guidance and infrastructure to them as private investors, than it does to institutions

But we need more of them.

> *"Wealth owners all embark on a distinctive path when they invest in sustainability. Of course, investing in a new asset class, such as private equity, venture, or real estate, will involve a learning period. But impact investing is different: it cuts across all asset classes in the same way that risk and return does. It introduces the notion of impact, which is more difficult to measure than simply calculating financial returns. It raises questions that are deeply personal and meaningful for the families that sponsor them. It requires toolkits, including networks, expertise, and frameworks, different from those needed for assessing risk and return, and more difficult to build, in part because they need to be customized to reflect the theory of change and impact objective. All of this makes the journey that wealth owners take when they decide to focus on sustainable and impact investments more complex than simply adding a new asset class to the portfolio."*

Cambridge Associates, 2019 [5]

PROJECT BACKGROUND

In December 2021, The Beacon Collaborative and Big Society Capital came together to lay down the challenge to better understand what holds wealthy individuals and families back from impact investing.

While a rapidly growing[6] number of entrepreneurs and enterprises are seeking to tackle the systemic social and environmental issues facing our society, the financing, advisory and regulatory systems to support them remain at an early stage and the flow of capital is still small. The UK impact investment market is currently estimated at about £58 billion[7] or 3.3-8% of global impact AUM.[8]

A number of preceding and concurrent task forces and advisory groups have recognised the potential of impact investing in the UK, but raised concern about a recent lack of progress. In 2017, an independent Advisory Group appointed by the UK Government asserted that "the UK is now failing to keep pace in enabling individuals to make social impact investments, despite the availability of exceptional skills, competence and the entrepreneurial drive to build on an impressive track record of innovation".[9]

In addition, HNWI and family investors have not been explicitly consulted as a group to ascertain their experiences and desires vis-à-vis impact investing. As a significant minority with a unique role to play, the time is ripe to discover their thoughts, beliefs and wishes regarding impact investment.

With this primer the Individual Impact Investing Commission was formed, and set out over a period of six months to develop a better understanding of the barriers individuals and families with significant investable wealth encounter, and make recommendations to overcome these, to encourage and significantly increase their impact investing.

MEMBERS AND METHODOLOGY

The Commission was formed as a group of 11 leading impact investors, fund managers, advisors, advocates and experts in the HNWI investor world. Their experiences, ideas and requirements drive this report.

The work of the Commission took place over six months via a series of themed workshops, individual focus interviews and thought pieces. Individuality of voice was sought in terms of the experiences and visions of Commissioners, while consensus was reached in setting recommendations and writing this report. Given the complex and nuanced subject matter, points of tension or difference were welcomed and are included in the sidebars, or illustrated with direct quotes and viewpoints. A Working Group was set up to steer the process, distil insights and curate different member inputs.

The list of Commissioners can be found in the Appendix.

> ***"Everything we do and touch has an impact. That could be positive, negative, neutral or net positive. Most people, given a choice, would say yes to positive impact in all aspects of their lives."***

David Scott, Chairman at Tribe Impact Capital, Commissioner

DEFINITIONS AND SCOPE

> ***"As with traditional investment, impact investing is highly diverse. It isn't a single financial product, investor or even group of them. It is an ecosystem, connected by the shared motivation of investors and enterprises to improve outcomes for people and the planet."***

Sarah MacFarlane, Big Society Capital, Commissioner

Early on in the Commission, we heard from investors and experts that the definition of impact investing and its overall ecosystem can be confusing and difficult to navigate. This itself is an early barrier to entry. Time was therefore taken to look closely at the definition and scope adopted by this Commission.

Believing that the breadth of opportunities available to impact investors across the spectrum of capital is a positive, we intentionally adopted an approach that embraces a broad ecosystem.

This can be seen in the diagram below:

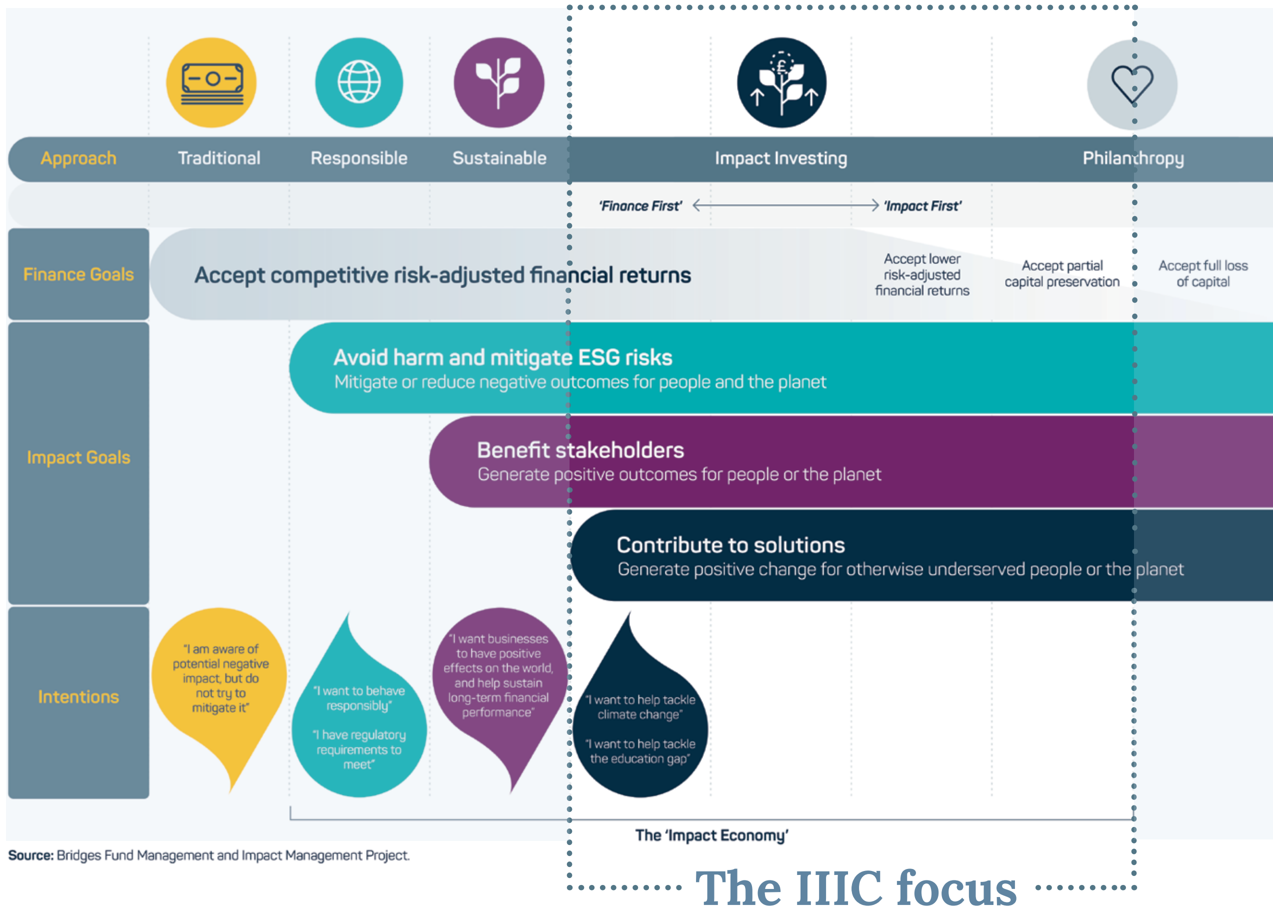


Image Credit: Impact Investing Institute – https://www.impactinvest.org.uk/wp-content/uploads/2020/11/Spectrum-of-capital-general-version.pdf

> *"Impact investing is quite a personal thing, and people need to be able to focus on the impact that they want to produce, and this could be different from one person to the next. A sliding scale of impact and financial returns allows investors to strike the balance that makes sense for them."*

Lyn Tomlinson, Head of Impact, Cazenove Capital, Commissioner

For this Commission, impact investing:

- Spans a range of financial returns, from optimising for market-rate, risk-adjusted financial returns to those willing to accept concessionary returns, recognising that investors may have different preferences (at different times) in terms of risk, return and impact
- Contributes to solutions, i.e. covers investing with the intention to achieve some social and environmental impact (across the whole gamut of causes)
- Is not restricted by the legal structure of the enterprise that can receive the investment, so long as that enterprise has impact objectives
- Includes all forms of finance instruments (loans, equity, etc.)

The Commission therefore adopted the following definition, based on the 2017 independent Advisory Group to the UK Government, but with the explicit inclusion of the words "and the environment" to denote that this is wider than some definitions of social impact investment:

> *"Investment in the shares or loan capital of companies and enterprises that not only measure and report their wider impact on society and the environment – but also hold themselves accountable for delivering and increasing positive impact."*

Independent Advisory Group, 2017[10]

By embracing this broad ecosystem, the Commission believes it has:

- Been inclusive of impact investors choosing a variety of mechanisms and vehicles, whether that is investing directly into enterprises and/or investing via funds and intermediaries
- Avoided placing impact investors into opposing camps, but along a continuum from finance first to impact first
- Taken the view that what constitutes an impact-led enterprise is not defined by its legal structure, but by its activities and goals

No More Either/Or

In the past it has been commonplace to describe investors as taking a finance-first or impact-first approach. Just as investment opportunities can sit at various points on the spectrum of capital, so can investors, especially those taking a portfolio approach and evaluating opportunities on their merits and their risks, from their finances to their potential for impact.

"Asking whether impact investing does or does not require an impact-for-return trade-off presents investors with a false choice. Focusing on that question not only keeps willing capital on the sidelines; it also prevents investors from developing realistic frameworks by which to measure success on both the impact front and the financial front." – Omidyar Network, 2018 [11]

HNWI are often first movers or early adopters, getting behind ideas that other investors wouldn't, and thereby catalysing a whole plethora of new social change opportunities led by innovative impact-led enterprises, that otherwise simply could not start up, survive or scale.

So it is important that those with the wealth to do so, put impact investments in their portfolios. They should be encouraged to select across the landscape of opportunity, according to their appetites and interests. In so doing, some will also cross paths with their philanthropy.

"There are many opportunities that will generate both direct impact for consumers and market-rate returns for investors. Learning to be comfortable in investing in opportunities that might offer below-market returns, in exchange for an opportunity to produce outsized market impact, is valuable." – Omidyar Network, 2018[12]

> *"I'm prepared to take more risk [with impact investing], because if I lose my investment I can just move it into the philanthropy column."*
>
> *Sir Harvey McGrath, former Chair of Big Society Capital, Chair of the Commission*

Where impact measurement and management fit

Impact measurement and management are complex. The Commission recognises that for some investors, impact returns may be the most challenging barrier to impact investment. [13]These challenges are industry-wide and, for this reason, the Commission has chosen not to focus on this area for the current project.

Our wider recommendation is that advisors need to draw on best practice in the industry, to help investors understand exactly what impact returns their investments will produce.

That said, we acknowledge that managing impact happens at an enterprise level and at an investor level, as stipulated by the work of the Impact Management Project (IMP). The IMP framework has four strategies or actions by which an investor can contribute to the impact of assets they invest in: signalling that impact matters, engaging actively, growing new and under-supplied capital markets, and flexibility of return/risk.

Evidencing investor contributions takes work. Wealth management firms are starting to use investor contributions to show the different types of impact achieved across client portfolios, and this is likely to expand in future. We recognise that there are different types of impact, delivered by different forms of capital – or investor contributions, and it is important that those claiming impact are intentional about it and attempt to measure/evidence it.[14]

HNWI

Finally, a word on High Net Worth Individuals (HNWI). This Commission accepts that a number of definitions of High Net Worth and Ultra High Net Worth are used in the literature. Some are based on income levels, some on assets or investable wealth, and thresholds or tiers vary. In turn, these variances in definition can affect the suitability of individuals for different investment opportunities.

This Commission has not adopted a specific definition, in order to be as inclusive as possible. We recognise that people with significant, surplus investable wealth are a vital part of growing the impact investing ecosystem, and uniquely positioned to advance its potential to bring about positive social and environmental change. In this report, HNWI is used as a shorthand for this diverse group.

THE IMPACT INVESTING LANDSCAPE

> *"Only a decade ago, impact investing struck most people in the finance community as a novel, even improbable concept."*

Bridgespan, April 2021[15]

Impact investing first emerged in 2007 as an "ethical" investment strategy. The phrase was coined by The Rockefeller Foundation,[16] and was defined as an investment strategy "mobilizing large pools of private capital from new sources to address the world's most critical problems".[17] These critical issues include both social and environmental themes.

Fifteen years on, impact investing has come a long way, but is still a significantly untapped opportunity. The impact investment market in the UK is dominated by investment/fund managers, insurance companies and private equity/venture capital firms which, combined, manage three quarters (75%) of the UK's impact capital.[18] Grant-making foundations are leading impact investors, while impact investing by HNWI and family offices is seen as a relatively small but highly effective portion of the overall market, with great potential to scale and drive further growth.

THE GLOBAL CONTEXT

According to GIIN, accelerating the growth of impact investing is absolutely essential to attaining the SDGs,[19] which will allow humankind "to achieve a better and more sustainable future for all by eradicating poverty, ending world hunger, realising human rights for all, achieving gender equality, reducing environmental degradation and delivering a transformative blueprint for people, planet and prosperity".[20]

We currently have eight more years to reach these goals, but this would take an estimated $5-7 trillion per annum globally, equalling approximately 5-7% of global assets under management (AUM). Today, global impact investments account for only 1-2% of AUM, and the UK 3.3-8% of that.[21]

> *"Impact investing is far more dynamic than conventional investing. It's an opportunity to help solve some of the world's greatest problems with great entrepreneurs, innovators and thinkers, along with gaining a relationship with great fund managers, foundations and development banks."*

Diane Isenberg, Ceniarth LLC

Nevertheless there is significant growth. Globally, the impact investing market was valued at $715 billion in 2019[22], while in 2020 it was valued at $2.281 trillion.[23]

The arrival of the global Coronavirus pandemic in 2020 further exacerbated global and local challenges and the urgency of response. Impact investing increased in 2020 as awareness of climate change, global inequality, and extreme challenges such as unequal access to healthcare, grew among investors and the public alike.[24] Yet at the same time the wealth divide also grew exponentially. Globally, the wealth of HNWI is increasing, and has doubled over the past 15 years.[25]

So what potential is there to unlock this growing wealth?

THE OPPORTUNITY TO UNLOCK MORE UK WEALTH FOR IMPACT INVESTING

> *"The UK has a strong tradition of innovation in finance to deliver impact as well as financial return. We are well placed to play a global leadership role in the growing impact investment market given our financial services scale, reach and expertise."*

Independent Advisory Group[26]

The UK context for impact investing is very positive. There are several factors that underpin this: world-leading financial capabilities, forward-thinking asset managers, rising interest among Millennials, a strong history of philanthropy, more people amassing significant wealth, and a Government that understands and supports the expansion of the social impact sector – backed by a committed regulator and a corporate reporting and governance framework that encourages transparency.[27]

This Commission believes that HNWI and families represent sizeable potential for greater impact investment. At the same time that the pandemic was accentuating global inequalities, stock market returns saw one billionaire minted every 30 hours around the world, according to a report by Oxfam.[28]

While global HNWI's wealth is increasing, the same picture is mirrored in the UK, where the typical income of the richest fifth increased by 9.1% from 2012 to 2021,[29] and the wealthiest 10% are estimated to hold about half of the total wealth (48.6%).[30] Wealth among UK-based billionaires increased by 21.7% over the last year, rising by £106.5 billion[31] to £597.2 billion according to the Sunday Times Rich List 2022.

UK wealth holders, with their diverse interests and values, have the capacity to embrace and bolster impact investing levels dramatically. Total UK AUM is currently estimated at £9.4 trillion.[32]

Respondents to a UK survey,[33] which included institutional investors (in the public, private and non-profit sectors) as well as individuals and family offices, anticipated a doubling of funds allocated to impact investing over the next five years (from £58 billion to about £100 billion, using the Impact Investing Institute's calculations).[34]

So who are the principal candidates for increasing impact investment?

Family offices

The number of families that have established their own wealth management advisory services, or family offices, has increased by an estimated 38% globally in the two years from 2017 to 2019, with approximately 7,300 family offices worldwide.[35] This growth is due to the rising number of Ultra High Net Worths.[36] The estimated total family office assets under management globally are $5.9 trillion (compared to $1.5 trillion for all global foundations).[37]

Family offices are an important target audience for those wishing to increase impact investing. Recent research found that not only are family offices growing in popularity among those inheriting wealth,[38] but over four fifths (82%) of family offices believe that the world's wealthiest individuals are going to increasingly focus on tackling global challenges.[39] A 2022 survey of UBS client global family offices found that one quarter (24%) make impact investments[40] and expect the proportion of their portfolios given over to this to grow by more than half (to 14%) by 2025.[41][42]

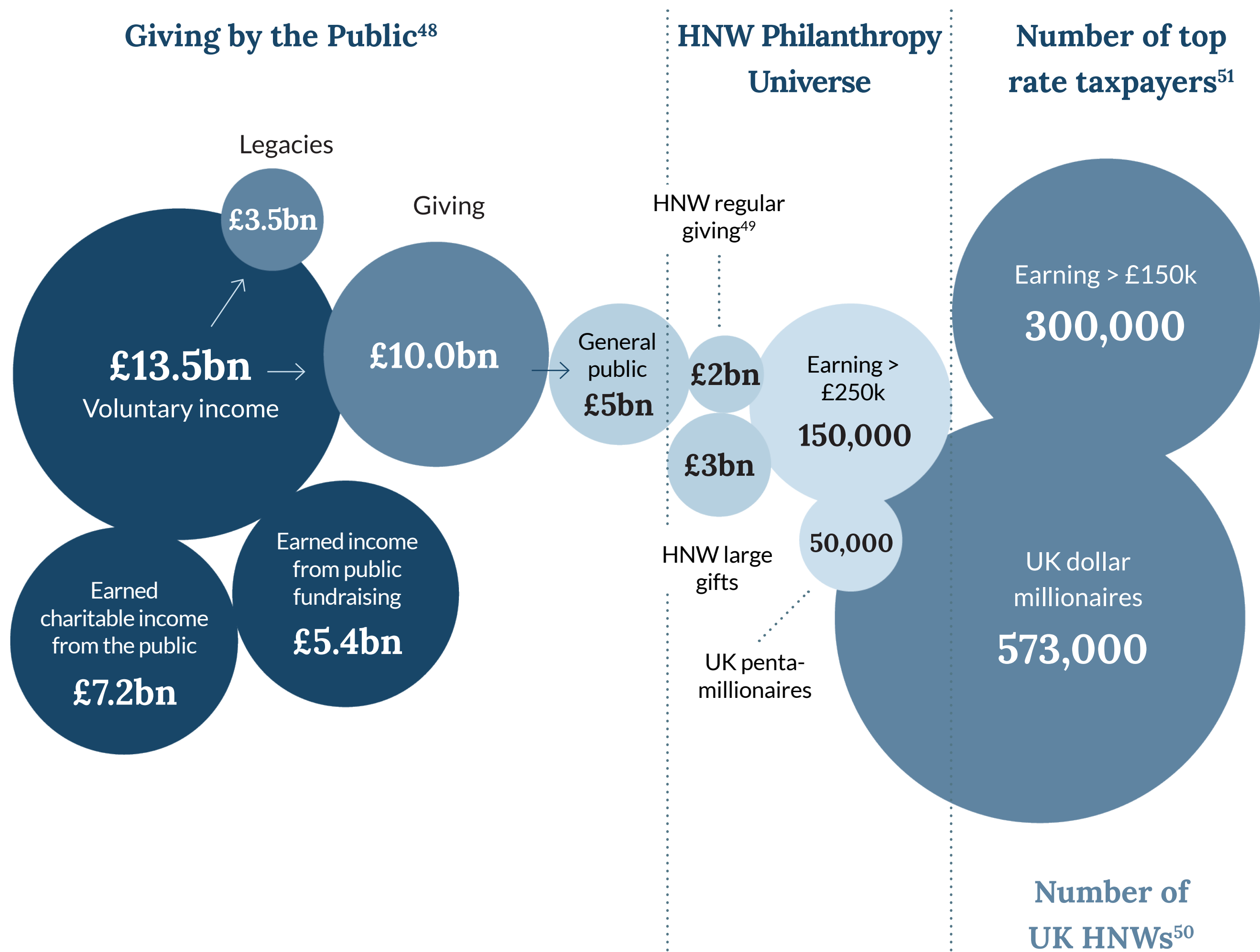
The number of impact investments is also growing, although it remains a relatively small part of portfolios. Global family offices had impact projects across six areas on average in 2021, versus four in 2020.[43]

Nevertheless, financial return currently remains the top performance indicator for many family offices[44] and many are putting more time into due diligence around impact measurement and greenwashing.[45]

Generous Philanthropists

The UK has a strong tradition of philanthropy at all levels, including among the wealthy. Accurate estimates are hard to come by, but research indicates that major gifts[46] and giving by the wealthy are worth between £2 billion and £5 billion per annum.[47]

THE LANDSCAPE OF HNW GIVING IN THE UK IS COMPLEX



Philanthropists, given their focus on social and environmental outcomes, are a key potential source of additional impact investing capital, especially at the impact-first end of the spectrum of capital, or within blended finance structures (combinations of grant and investment capital).

> *"We need to pitch the recycling of money in impact investing i.e. it is like a form of philanthropy that keeps on giving."*

Matthew Bowcock, The Beacon Collaborative, Commissioner

> *"More philanthropists could become impact investors if they/their trustees could be confident in investing more widely with better clarity on interpreting UK regulation."*

Ceris Gardner, Maurice Turnor Gardner LLP, Commissioner

Foundations and Donor-Advised Funds

Many philanthropists have already dedicated large portions of their money for charitable purposes in the form of trusts and foundations or Donor-Advised Funds (DAFs). Indeed, the UK has a healthy population of individual and family foundations. Some of these already intentionally invest in impact,[52] but far more can be done.

Creating a charter for a new charity from the ground up can take a substantial investment of time, and DAFs are becoming a popular alternative vehicle for HNWI to execute their charitable goals, due to their simplicity, speed and ease of setting up. There are at least ten DAF providers in the UK with a combined £1.9 billion in assets under management.[53]

The UK Donor-Advised Fund market is recognised to be rapidly growing. According to the NPT UK 2021 Annual Report, charitable assets in DAFs grew by 8% from 2020 to 2021, with annual contributions increasing to £610 million. These contributions totalled 6% of total individual giving in the UK.[54]

> *"Already giving money away e.g. as a philanthropist with a DAF? Then impact investing is a way to make your funds go further, work harder and have more impact. If you have donated to a DAF you have already given the money away; investing it for impact leverages these funds."*

Sir Harvey McGrath, former Chair of Big Society Capital, Chair of the Commission

Individuals sometimes question the financial risk of making impact investments in personal portfolios. Investing funds already designated for charitable purposes as a route to exploring an impact investing approach, could help ease concerns of taking higher levels of financial risk. If an investment is not financially successful, but creates impact, a donor can mentally allocate this loss to charitable funds that would otherwise be used for non-repayable grants.

Next-generation HNWI investors

The next generation of HNWI is generally regarded as being more open to, and more focused on, sustainability issues and making a positive impact. 61% of the next-generation wealthy are regarded as "engaged" with sustainable investing, compared with 47% of their parents.[55] This is a view held by family offices as well, with nearly half (46%) of global family offices agreeing that: "The next generation is influencing investment decisions with the intention to have a positive impact on society", and 44% agreeing that "impact investment is being highly driven by the younger generations".[56]

In a 2017 report by HSBC Private Bank, one quarter (24%) of HNWI in their 20s cited "having a positive effect in the community" as their key priority, compared with 13% of HNWI in their 50s (who were far more likely to view their primary goal as "increasing personal wealth").[57]

This matters because nearly one quarter (23%) of millionaires are Millennials[58] and the 20 to 37-year-old group are set to inherit $30 trillion from their Baby Boomer parents.[59] In fact, global Millennial wealth was estimated at $24 trillion in 2020.[60] In the UK, the number of Millennial and Generation Z millionaires hit a record high, according to research released in February 2022, doubling in a year to 2,000.[61] On top of this, the so-called "Great Wealth Transfer" is expected to happen over the next 20 to 30 years, with £327 billion set to be transferred to the younger generation in the UK over the next decade, as either inheritance or gifts.[62,63]

Millennials, and younger investors in general, are key to the development of the impact investing movement, because it reflects many of their priorities and values.[64] But there are barriers to be overcome even with this audience; for example, nearly two fifths (38%) of

millennial HNWI reported getting "pushback" from financial advisors when trying to initiate impact investments.[65,66] In addition, though they may inherit, they may not have discretion to dictate how such funds are invested, as they may be held in trust or other structures with gatekeepers that need to be influenced.

Female HNWI are also a target market for impact investing, as research has found they are more conscious about investing responsibly than men.[67] Nearly one fifth (18%) of female investors consider themselves to already be impact investors, compared with 10% of male investors. [68]

Globally, more women now own significant wealth than ever before.[69] In 2018 the collective wealth of female billionaires as measured by Forbes topped $1 trillion,[70] while the number of female millionaires in Britain has been rising on the back of social trends such as inheritance and the increasing divorce rate, according to independent market analyst Datamonitor.[71] In 2020, the Sunday Times Rich List revealed that the UK is now home to more female billionaires than ever, numbering 25,[72] with a further 150 UK women with fortunes of more than £120 million.[73] And numbers of female millionaires in the UK are growing by 11% per annum.[74]

The size of the prize

The total size of the prize in the UK, if greater amounts of HNWI's wealth were to flow into impact investing, is estimated to be £2-11 billion.

The Size Of The Prize

We estimate that £2-11 billion of HNWI direct investment could be achieved in the UK if the barriers to impact investing were addressed. If HNWI and family offices were encouraged by incentives and supported by knowledgeable advisors, we could expect flows within this range.

Our estimates are based on insights into HNWI investment behaviour and expectations, as well as activity taking place in the UK's institutional investment market.

The most recent World Wealth Report shows the UK currently has 609,000 HNWI – those who qualify as US-dollar millionaires based on their investable assets.[75]

This group controls investable assets of about $2.1 trillion or £1.8 trillion.[76]

In its 2022 World Wealth Report, Capgemini surveyed global HNWI to determine what proportion of their assets they would commit to "sustainable investing". The report found that HNWI planned to allocate 46% of their portfolios to sustainable investment products by the end of 2021, and 26% indicated their interest in sustainable investing reflected their desire to "give back to society".[77] This aligns with research from The Beacon Collaborative, which identifies that 20% of HNWI in the UK give at levels above what Beacon defines as the "generosity threshold", meaning they already use significant amounts of their personal wealth for social and environmental benefit.[78]

If UK HNWI allocated 46% of their investments to the broad category of sustainable investments, that would equate to £828 billion. Among them, 26% of wealth holders might consider investing for social impact to fulfil their desire to give back.

If that 26% of UK HNWI were to allocate 1-5% of their sustainable investment portfolios to impact investment, that would equate to £2.1-10.8 billion.

Another way to calculate the prize, is to look at current impact investments as a proportion of assets under management. Research by EY and the Impact Investing Institute into the UK investment market, identified £58 billion of impact investment, excluding loan-based structures and private impact investment.[79] The Investment Association identifies total UK assets under management at £9.4 trillion,[80] which suggests impact investment accounts for 0.6% of all investment.

If we apply the same ratio to total HNWI assets, it would suggest a current market potential of £11.1 billion, providing the right conditions were met for wealthy individuals to access suitable investments.

While these are not direct comparisons – sustainable investing is not the same as impact investing, and institutional investors have different motivations and constraints from individual investors – they do provide some insight on the market potential. In particular, they show that supporting those who are highly motivated to use their personal wealth for societal benefit, could result in significant flows of assets into impact investment instruments. We might also expect an incremental gain, by creating the conditions for the wider wealthy population to engage directly in impact investment, in addition to investments within pension pots.

WHAT MAKES HNWI IMPORTANT TO IMPACT INVESTING?

HNWI investors are a diverse group of people that hail from a variety of cultural, economic and social backgrounds, as well as having varied professional and life experiences. Their interests and motivations are as broad as you could find in the general population.[81] Some will have inherited wealth, while others will have made their fortune themselves, and for many it's a combination of both paths.

This translates into a broad sweep of impact interests and objectives, which was felt by the Commission to be a positive in its own right. Yet despite this diversity, there are some common attributes that might help in understanding the HNWI impact investor's position and outlook.

The following unique attributes and behaviours were compiled both from the literature and from Commissioners, who were asked to describe what makes the significantly wealthy more likely to invest in impact:

1. **Their levels of wealth:**
    - The ability to invest large amounts that others cannot easily afford, and with great speed and flexibility
    - The capacity to be more adventurous in what they support and the way they support it (including having the capacity for more patient capital over a longer period or catalytic capital investments)[82]
2. **Their power and influence:**
    - Being executives and entrepreneurs with influence and power beyond their private investments,[83] many HNWI have greater appetite for problem solving and innovation, with the scope to make big changes in the world, including through impact investing
3. **Their financial outlook:**
    - Having greater choice, freedom and control over their money allows many HNWI to be more flexible in how they approach investment decisions and priorities[84]
    - Having multi-generational objectives that support a long-term strategy[85] and the desire to leave a lasting legacy
    - Being more tolerant of the risks involved in driving innovation
    - Possessing enhanced financial literacy and/or are used to taking financial advice
    - Having previous experience of e.g. venture capital and private equity

4. **Their appreciation of philanthropy and the purpose-led economy:**
    - Seeing impact investing on a spectrum with their philanthropy, or as an extension to it
    - Being sympathetic to the balancing act between profit and purpose, and are sometimes willing to accept concessionary (below-market) returns, even though advisors are reluctant to support this approach
    - Being receptive to the difficulties of evaluating impact
    - Being more receptive to loss or patient capital
    - Being more receptive to the need for blended finance

> ***"More active investors (rather than passive) bringing their networks and experience can be vital to early-stage enterprises getting access to opportunities."***

Sarah MacFarlane, Big Society Capital, Commissioner

Finding Your Way To Impact

My First Impact Investment – Sir Harvey McGrath, former Chair of Big Society Capital, Chair of the Commission

What drew you to impact investing initially?

I had already set up and funded a family charitable trust under the Charities Aid Foundation (CAF) umbrella, when I was approached by John Kingston. He was running Venturesome as a unit within CAF to develop social investment. So his initial pitch was this – provide funds from my trust to Venturesome, which would deploy them as working capital loans to a portfolio of social enterprises and charities. It expected some of these loans not to be repaid – 20-25% – but since I had already given away the funds to our charitable trust, losses were the equivalent of grants, and yet I would be able to recycle the repaid loans and make my charitable funds work harder. And I also was attracted by helping Venturesome develop this model, pioneering as it was.

What was your first experience like?

I was initially a sceptic, arguing that the loss experience would be worse than Venturesome expected. In reality, loan losses were lower than expected, the rate of recycling was higher, so more impact was achieved for my pound. Venturesome was completely transparent about the credit process, impact assessment and problem situations, and open to feedback on any of this.

What did you learn from this?

This experience showed me that funding a portfolio of loans in this way could be a highly effective way to leverage my philanthropy, and led in turn to my becoming an investor in Bridges Sustainable Growth Funds, which provided equity investment into businesses focused on improving health and wellbeing, education and skills, and sustainable living in under-served communities.

Through these investments I have seen the potential of the profit-with-purpose model to develop, sustain and scale interventions that have both changed lives and communities for the better, and produced good returns for their investors.

Of course, they need effective support with all of the above.

In addition, there are a number of characteristics that make HNWI and family offices important to impact investing. The “added value” of HNWI investors is:

- They are more likely to be able to leverage other forms of capital – advice, expertise, networks, mentoring and positive influence [86]
- They may have direct field, community or local experience, or want to participate on the ground in the impact areas they support
- They can be a vital first port of call, as well as long-term partners for impact-led organisations that otherwise could not start up, survive or scale
- They will and do fund where governments and institutions won’t, bringing to life the ideas and innovations that otherwise would not happen

The Commission also felt that there were further key points to highlight when it comes to HNWI, some of which we have incorporated in our recommendations:

- HNWI would benefit from having greater information about impact investing in general, and about the specific themes they are interested in
- They need help and advice to avoid impact-washing traps, and to focus clearly on the outcomes they might expect themselves OR delegate this to an appropriately qualified and experienced advisor who can execute their mandate effectively
- They can and should demand greater professionalism from those that advise and support them (whether from large institutions or independent impartial advisors)

> *“You want to have an impact, so let’s think about how you have an impact with everything that you own.’ And that’s not just your assets, it’s also your voice.”*

Lyn Tomlinson, Head of Impact, Cazenove Capital, Commissioner

Money Psychology

Money is more than a transactional commodity, it is bonded with personality, emotion, conditionings and cultures.

The Implementation Taskforce[87] found that even people with higher incomes said they don't have sufficient money for social impact investments, while research by The Beacon Collaborative showed that a significant number of HNWI held back from more philanthropic giving, due to the fear of not having enough for their and their children's futures.

This Commission recognises that everyone brings a different financial psychology to their impact investing, and it is important to embrace this and encourage the widest participation possible.

So what are the psychological variables that encourage some individuals and families with significant wealth into impact investing? An exciting new investment field? Another route to financial success? Is it about influencing social change? What about protection and legacy?

The concepts of protecting your and your family's future alongside the future of the society and planet they will live in, and of leaving the world a better place, were powerful ones for this Commission. But the safety motivator was stronger still. Psychological safety came up – we are on the brink of a range of disasters that can only be tackled by intensive human action. For us to cope with this mentally as well as physically and practically, money and ingenuity are needed, and in fast and furious supply. If you have substantial investable private assets, this feels like a very big call to action.

In addition, impact investing creates its own virtuous circle, which is an excellent complement to, or instigator of, personal venture philanthropy. Return of capital as well as return on capital can allow you to use the same money many times. The fact that humans are naturally averse to loss, makes this a psychological win-win.

> *"What is the point of having significant wealth but remaining focused on making more of it? What do you need more money for? Surely the point of extreme riches is to bring about the change that no-one else can. To break significant new ground."*

Diane Isenberg, Ceniarth LLC

BARRIERS AND RECOMMENDATIONS

WHAT HOLDS HNWI BACK?
HOW MIGHT WE CHANGE THINGS?

Many of the barriers to growing impact investing are common across investor groups.

This Commission approached the issue through the lens of a private investor with significant personal or family wealth, and with the hypothesis that actions can be taken to reduce or remove major barriers, to enable and encourage greater levels of investing for impact by these actors.

The barriers cluster around key areas:

- Lack of impact investment knowledge and expertise, marketing and promotion
- Inadequate values-centred advice, including impact investing options
- Availability of appropriate products
- Limited understanding of tax reliefs and related incentives and the need for innovation
- Lack of clarity and low uptake of impact investment through charitable giving structures

A number of additional barriers were identified that have a broader application than HNWI, and that the sector needs to solve for all audiences. Therefore, the Commission did not delve deeper for this project.

They were:

- Identifying, measuring and reporting impact[88]
- Semantics and the lack of an agreed universal definition of impact investing
- Insufficient capital being directed to places or communities with high needs (which could be due to lack of Government incentives for target areas)

These are important issues that the impact investing sector needs to tackle, and improvements in these areas will likely have a beneficial effect on greater impact investing by HNWI.

It should be noted that the following recommendations for overcoming these barriers don't stand alone in one area, with many positioning across several areas. We have endeavoured to allocate them on a best-fit approach.

IMPROVING IMPACT INVESTMENT KNOWLEDGE AND EXPERTISE, MARKETING AND PROMOTION

A stymying lack of knowledge and expertise among potential investors and their advisors holds back impact investing

In 2017 the independent Advisory Group noted "a low level of awareness and understanding among investors", reporting also that "the belief that financial returns must be sacrificed" held some investors back.[89] Significantly, widely held misunderstandings about impact investing **were seen as more difficult hurdles to overcome than any lack of product or opportunity.** [90]

A Centapse survey in 2017 found a low awareness of "social impact investing" among people with above-average investable wealth in the UK.[91] Nearly two thirds (64%) of UK individuals with above-average wealth[92] cited "I don't know enough" as a reason not to participate. Nearly one quarter (23%) said "No-one I know has a social impact investment" while one fifth stated that "Social impact investing is still too new".[93]

While learning guides and internal committees focused on impact investing have since been launched at mainstream investment firms, a UBS survey of global family offices in 2021 concluded that: "There's evidently a need for more education as people are concerned about whether they know enough about SI."[94] While, in 2022, more than a quarter (27%) of global family offices that still don't invest sustainably, blamed the lack of standard definitions of sustainability as a barrier to investing.[95]

Research among UK HNWI advisors meanwhile found it "more likely that advisors accentuate perceived barriers to social impact investment to avoid having to engage with it".[96] Yet advisors will need to upskill and adapt to the impact investing needs of new generations and wealth holders: 86% of heirs in global family offices have stated their intention to fire their parents' investment advisors once they inherited their wealth[97], while over 70% of female inheritors fire their financial advisors within one year of financial control.[98]

Key to this will be enabling advisors to talk to HNWI clients about impact investing using a shared language. Where topics of ESG (Environmental, Social and Governance) are raised with clients, this can lead to discussions explaining how impact investing is different.

> *"You can assess an investment opportunity through the lens of ESG-related issues and standards. This approach questions 'how' any company, organisation or fund is operating. This is important, but when you see the rising costs of living in society impacting those on lower incomes (fuel poverty rises and use of food banks increasing) and other issues such as lack of supply of affordable homes or challenges with elderly care – if you want to contribute to solutions to these, there are investment opportunities that achieve impact and create positive change, alongside a sustainable financial return."*

Sarah MacFarlane, Big Society Capital, Commissioner

Seeking out knowledge about social impact investing has been shown to be a very powerful predictor of potential future or further social impact investing.[99] Case studies and visualisations have been found to be particularly effective at showing how complex issues, such as impact investing, work at a human level.[100]

The Impact Investing Institute, Big Society Capital, Philanthropy Impact and Good Finance, among others, all provide a wealth of information on the subject of impact investing in the UK, as well as international organisations such as GIIN.

There are also further information projects coming online or in development, which will need greater signposting. For example, the Philanthropy Impact/Beacon Collaborative Directory of Resources (funded by City Bridge Trust and Golden Bottle Trust), which will include a listing of qualified impact investing advisors, in addition to support and assistance for professional advisors to better support and inform their HNWI clients in their philanthropy and social investment.

While the volume of materials and resources has developed, particularly at a global level,[101] the Commission felt that this was not yet effectively targeted or disseminated to the HNWI and family office audience in the UK. And while global paid membership platforms such as Toniic, Conduit Connect and Mission Investors Exchange[102] provide information and networking opportunities for HNWI, family offices and foundation asset owners, there is no single trusted, open-access source of knowledge focused on the HNWI standpoint and accessible to a UK audience. The result is that investors who might be interested, give up too soon.

Recommendation 1:

Create an open-access, collaborative, centralised website with information, directories and case studies targeted at HNWI

- Impact investing specialists should develop and curate a range of materials (including case studies and visualisations) specifically aimed at HNWI that exemplify good and best practice (along the lines of the Good Finance website)
- Independent advocacy organisations should be tasked with developing and hosting the website[103]
- The Spear's 500 database (a definitive guide to the top private client advisors) should incorporate an index that lists impact investment advisors
- HNWI need to be made aware of existing ways to find and compare funds via directories and other listings, and the website should signpost to platforms on which impact funds and enterprises are raising capital

The independent Advisory Group report, "Growing a culture of social impact investing in the UK"[104] recommended that industry stakeholders publish educational guidance on social impact investment with reference to the others' work to ensure consistency. We endorse this recommendation and ask for such guidance to be accessible for HNWI.

Recommendation 2:

Develop more accessible educational courses to increase confidence among advisors as well as be accessible for HNWI

- Knowledgeable and reputable sector organisations[105] should develop training/learning programmes that include short, bite-size courses on different topics within impact investing for interested individuals, right up to CPD for advisors
- Ensure these are signposted from the suggested one-stop-shop website

THE POWER OF PEER NETWORKS SHOULD BE HARNESSED

Many studies[106] acknowledge the vital role of peer support in encouraging more impact investing:

> *"With so much uncharted territory around impact-first investing, relationships take on an outsized role. The next step involves cultivating those relationships, especially with your existing trusted networks and with diverse stakeholders proximate to the investments you seek to make..."*

Bridgespan, "Back to the Frontier", 2021[107]

Investors are accustomed to "tapping friends and peers for advice, particularly when evaluating unfamiliar investment opportunities"[108] but perhaps lack wider opportunities to network.

The act of sharing information helps newer investors to "avoid repeating mistakes others have made, share investment opportunities, serve as sounding boards, and partner on key opportunities".[109] In fact, it has been observed that "some of the wealth owners who are quickest to succeed in this space had building and maintaining a network of trusted peers as an explicit component of their strategy".[110]

Since impact investing is still a relatively nascent and poorly understood area, peer support and acknowledgement of early difficulties, dilemmas and setbacks, as well as success stories, can have an inordinate effect on early-stage investors, who might otherwise give up at the first hurdle.[111]

There are existing networks and communities such as Toniic, Conduit Connect and Angel investment syndicates, but more can be done in this arena. Both investors and advisors need to see – or visualise – what is possible, and this is best done through other investors telling their stories. This can be through events, online or in person, communication of various types, and also through belonging to networks or membership organisations such as Toniic. But the unifying feature is how important it is to see or hear from examples or case studies.

Recommendation 3:

Start a movement based on a collective impact model[112] to raise awareness and drive forward change in impact investing by HNWI

- Create a collective impact project involving multiple interested parties, working in close and continual collaboration, to raise the profile of impact investing among HNWI
- Engage HNWI with media reach and influencing power, to support and raise awareness of their impact investment journeys
- Next-generation HNWI impact investors should lead the specific call to their peers and older generations
- The initiative should include an emphasis on how impact investing can accelerate greater equality, diversity and inclusion
- The movement should consider working with existing movements, such as the Make My Money Matter campaign, that could pursue a similar objective of considering the impact of other saving and investment pots, outside a pension

Recommendation 4:

Design networks and events at national and local level to attract, retain and support HNWI impact investors

- Existing online communities of interest (for example, Toniic and PYM in the Netherlands) should be made more visible by industry partners (and via the suggested website – see Recommendation 1), and additional ones should be encouraged to enable peer learning and mentoring, place-based action and co-funding around themes
- More angel investing groups and peer networks of impact investors should be encouraged, and empowered by organisations such as the UK Business Angels Association, and supported with tools created by industry bodies, such as an Impact toolkit[113]
- Existing angel investing networks should be encouraged to incorporate impact investing discussion panels into event programmes
- Educational events, including pitching events with impact-led enterprises, should be organised by angel investing and peer networks

In addition, we endorse the following recommendation from The Beacon Collaborative, supported by members of its Organisations Council[114], to:

- Establish a Philanthropy Commissioner

but for this role to be extended to embrace both philanthropy and impact investing (a Philanthropy and Impact Investing Commissioner)

MANDATING A VALUES-CENTRED APPROACH TO ADVICE

> *"Establish first what the individual is interested in – the cause, geography, the impact, the financial return."*

Scott Greenhalgh, Chair of Certitude and former Executive Chair, Bridges Evergreen, Commissioner

Fewer than 10% of advisors broach impact investing with clients

Advisors can be the gateway for HNWI wishing to invest in impact, but research has shown that in reality many advisors can act as a barrier. Research published in 2017 found that having a financial advisor makes people less likely to have prior knowledge or engagement with social impact investment.[115] While in 2021, professional fund managers are still seen as a major barrier to more impact investing happening within family offices.[116]

This may be due to mistaken beliefs about what advisors are, and are not, allowed to discuss with clients. Previous research has identified that some independent financial advisors labour under the mistaken belief that they are not permitted to talk to clients about non-financial investment motivations;[117] leading to fewer than 10% discussing it with a majority of clients.[118]

There's also a concern that advisors can be more motivated by financial returns than their clients, and believe that impact investing automatically means sacrificing returns; perhaps driven by traditionally having their compensation tied to returns.[119]

The field of impact investing is complex and still relatively new, requiring advanced knowledge and specialist skills,[120] which are currently not widely available in the UK. This means that financial and wealth advisors, asset managers and other professionals are hampered in developing expertise in impact investing, by a lack of educational resources for themselves and for clients.[121]

Yet many advisors are keen to learn more about impact investing. One study found that 58% believed that training and continuing professional development (CPD) would help them offer impact investment to their clients.[122] In the UK, nearly half (45%) of independent financial advisors say they believe their business would be more successful if they offered impact investing to their clients.[123]

Recommendation 5:

Endorse professional accreditation for financial advisors to HNWI, ensuring they are qualified to offer impact investing advice

- Investment and wealth management organisations providing professional advice to HNWI, should require staff to undertake accredited impact investing training
- Trusted intermediaries and/or accreditation bodies should review and approve course materials to give investors confidence in quality of training
- The CFA's impact investing certification (currently in development) is welcomed by the Commission and should be promoted

MARKET OR MANDATE?

Should market forces be left to operate such that clients' choices drive more development, diversity and competition among financial advisors offering impact investment? Or should regulation be brought in, to ensure that impact is added to the mandatory suitability assessment that financial advisors must put in place with their investors?

Some fear that Government regulation can "crowd out" market forces and consumer interests, with the market consequently operating less efficiently. Others make the point that unblocking a clear and obvious major barrier at scale and speed, is the only way to open up the field. The investor can always say no to impact, but they won't know what to reject if no-one asks them the question. In that sense, market forces cannot apply until consumer interests are better represented.

Commissioners were split between supporting market dynamics or making impact a compulsory component of the investor suitability assessment. Some wanted the stick approach, while others favoured the carrot.

Why regulate?
With professional advisors playing a critical gateway role to impact investing, but fewer than 10% broaching the subject with clients (despite feeling that doing so would be beneficial and in spite of client interest), it can be argued that market forces do not currently apply.

To put what is at stake here into context: the whole of the impact investment market currently represents less than 1% of total AUM, and is predicted to take five years to grow to 2%. Growth could be stronger, especially in light of targets the Government has set as guidance for Local Government Pension Schemes (LGPS) to invest 5% in local areas, as part of the Levelling Up agenda.[124]

But Government targets are neither mandatory nor a ceiling. What is needed is the appetite and ambition for change.

ADVISORS DON'T INCLUDE VALUES OR IMPACT INVESTING APPROACHES WHEN TALKING TO CLIENTS

> *"Financial advisors should realise that one of the most powerful ways to bond with clients, and across multiple generations, is to explore with them how their wealth might relate to their values. Instead of prompting clients with, "How did the markets do?", they could open a new dimension in the relationship by asking, "What is the money for?"*
>
> *Jamie Broderick, Board member of Impact Investing Institute, Commissioner*

While those in the know realise that values-based touchstones are just as important as strategic financial reviews, this is not the case for many advisors who lack the confidence, skills and knowledge to have these conversations.

Advisors need more information and training possibilities around impact investing, in order to fulfil their responsibilities in this area. Wealth managers are exhorted to: 1. Understand clients' desired impact and identify the corresponding approach; 2. Gauge clients' expectations; 3. Understand clients' risk tolerance. But these are difficult things to do without the right information, training and support.

There is a need for changes to be made to how client-advisor conversations are conducted, and for enhanced training.

There are a limited number of CPD courses in this area. Worthstone runs the ACT (Adviser Competency Training) for IFAs working in social investment, and Philanthropy Impact has also recently launched a new sustainability training course delivered in partnership with PIMFA, to support advisors and lawyers with understanding impact investing and ESG, and having suitability conversations that involve values, while preparing for potential FCA regulatory change.

As we write this report, the FCA is developing policy for implementing Sustainability Disclosure Requirement (SDR) disclosures for asset managers and FCA-regulated asset owners. This stipulates that advisors should consider sustainability matters in their investment advice and reflect consumer sustainability-related needs and preferences, and is warmly welcomed by the Commission.

Recommendation 6:

Require all advisors (financial, legal, tax and philanthropy) to establish their HNWI clients' values and appetite for impact investment

- The FCA's Sustainability Disclosure Requirement (SDR) should include specific reference for advisors to consider impact investing, particularly for HNWI
- Regulatory bodies for advisors should embed the requirement for a client conversation about appetite for impact investment
- Professional advisor firms should embed the requirement for a client conversation about appetite for impact investment into their Know Your Customer (KYC) and compliance procedures
- HNWI should challenge existing advisors who are not engaging and offering a conversation on impact investment
- Advisors should be more willing to talk about concessionary returns where investors may be open to considering them

DEVELOPING APPROPRIATE PRODUCTS AND INCREASING THEIR AVAILABILITY AND PROFILE

The impact investment product market is still in development

The overall impact investment product market is still maturing. While there are many innovative examples of products in recent years, some remain under-subscribed, which inhibits their ability to achieve targeted impact.

In a 2021 survey of UK capital managers,[125] 69% considered the "Presence of high-quality impact investing opportunities" to be a "moderate" (37%) or "significant" (32%) challenge; while 78% considered "Appropriate capital across risk/return spectrum" to be a "moderate" (54%) or "significant" (24%) challenge. While two thirds (67%) of the world's leading impact investors[126] cited "Few accessible impact investing fund products" as a "significant" (26%) or "moderate" (41%) challenge when investing through asset managers in 2021.

More can and must be done to make investors and advisors aware of available products that could be included in their portfolios.

While in broad terms the Commission agrees with the sentiment expressed by the Implementation Taskforce in 2019[127] – that lack of product to satisfy diverse investors' needs is not as significant a barrier to participation as the knowledge and promotion of them – some barriers were seen to remain:

- Suitable products are not as accessible as they need to be (with regard to requirements such as minimum investment size, liquidity and flexibility)
- Diverse products, that meet the varied impact objectives of different investors and fit within their portfolios, are hard to find

Project Snowball is an example case study featured by the Impact Management Project (IMP), which shows how constructing a diversified high-quality impact portfolio may be achieved for individual investors, spreading risk and increasing return.

Impact investment products are not always the same as traditional investment products, and their nuances and complexities need to be better understood; for example, products that adopt a blended finance structuring approach.[128] As has been discussed, different people have different requirements on their capital, such as expectation of financial return or repayment. Blended finance is an approach to finding the right mix of resources to enable greater impact.

A blended structure can take several forms:

- Grant capital and investment capital combined at a fund level, with the grant providing cover for any capital loss
- Investment capital taking different forms such as equity (may also be a first-loss layer) and different hierarchies of repayable debt

These types of structure can enable a mix of public, private and philanthropic investors to participate.

If the impact product market is understood more widely, and demand increases, asset managers will respond, resulting in greater availability and accessibility of products. A greater understanding of available products will be built up through training and education, though there are still gaps that need to be addressed.

Recommendation 7:

Asset managers should create more impact products that suit the requirements of HNWI clients

- Products should be developed across the risk/return spectrum to meet the wide range of impact needs, for example, pooled funds that accommodate blended finance and concessionary returns as well as market rate returns, liquid and illiquid investment vehicles and products targeting less-commonly invested themes (such as education or arts and culture)

Recommendation 8:

Advisors should work with HNWI clients to consider how different impact products fit into a portfolio approach to impact investing

- Once client suitability for an impact investing approach is determined, advisors should build diversification into investment portfolios to spread capital among a variety of investments, in an effort to balance risk-adjusted impact and financial returns as in traditional investment practice[129]

MAKING BETTER USE OF TAX RELIEFS AND RELATED INCENTIVES AND ENCOURAGING INNOVATION

Current incentives to invest are under-utilised, and narrow constraints create confusion or inertia

The importance of effective Government commitment, support and incentives for impact investing cannot be overstated. There are a number of incentives intended to encourage more individual investment in enterprises. They include:

- EIS – The Enterprise Investment Scheme, launched in 1993, incentivises individuals to invest equity in start-ups in the UK for income tax relief of 30% up to £1 million in the same year. EIS investments are not subject to capital gains or inheritance tax.[130] Companies can benefit from up to £5 million in one year up to a maximum of £12 million (including amounts received from other venture capital schemes). [131]
- SEIS – The Seed Enterprise Investment Scheme, launched in 2012, is similar to EIS but incentivises individuals to invest in very early-stage businesses in the UK, attracting initial income tax relief of 50%.

- CITR – Community Investment Tax Relief, launched in 2002, incentivises individuals and organisations to invest in CDFIs (Community Development Finance Institutions). The tax relief is worth up to 25% of the value of the investment in the CDFI, spread over five years (5% per year).[132] Note that CITR is also available for investment through an organisation, so could be appropriate for individuals using corporate structures.
- SITR – Social Investment Tax Relief, launched in 2014, encourages individuals to invest in charities and social enterprises, with income tax relief of 30% of the investment.[133] The future of SITR past April 2023 is currently unknown.

The success of these schemes varies. The Impact Investing Institute[134] has explored the success and failures of these schemes in detail, and found that there were some barriers faced in their use (summarised below):

- EIS and SEIS have been semi-successful in bringing in new impact investment. In 2020/21 a total of £1.7 billion was raised through EIS, benefiting 3,755 companies – this was down 12% on the previous year, likely due to Covid.[135] In the same year (2020/21) a total of £175 million was raised through SEIS, benefiting just over 2,000 companies – a decrease of 4% on the previous year.[136] EIS and SEIS investments can be tricky for impact-led enterprises however, and uptake has therefore been lower than might have been hoped for.[137] Many social enterprises fail to meet the requirements due to their legal form/business structure, while others find that the schemes don't fulfil their specific needs.[138]
- CITR appears to be better understood than other social investment tax incentives by investors and advisors,[139] and has facilitated capital investment into 35 UK CDFIs, which in turn mobilise investment into marginalised communities. In 2021 more than £228 million was invested by CDFIs in UK communities, an increase of almost one third (32%) on the year before.[140] HNWI have invested about £107 million via CDFIs.[141] Other research in 2018 has put forward a number of recommendations to make CITR more effective,[142] though the policy has not been updated since 2002. Work is ongoing with HM Treasury to prioritise a review of CITR.
- While SITR was seen by many to be the tax incentive with the most potential to appeal to HNWI impact investors, it underperformed in initial delivery, raising just over £5 million in its first three years, rather than the £83 million that was anticipated[143] (though in total to 2021 it has raised £15.8 million).[144] It has been ineffective, in particular, in delivering the expected investment into disadvantaged communities. SITR sadly failed to gain traction with investors, and despite efforts to extend its use, its future past April 2023 is

unknown.[145] SITR is seen as too similar to EIS, while still not meeting the specific needs of social sector organisations.[146] SITR has also suffered from a lack of awareness; slow administrative processes; unclear or insufficient guidance on its use; and complex eligibility restrictions (including a cap on assets, which excludes arts organisations with inalienable collections or heritage buildings).[147] In fact, one of the main issues is that promising sectors, for example community energy, are restricted from using SITR.

It should be noted that each of these schemes has restrictions: SEIS/EIS is restricted to legal form (companies limited by shares); SITR has a list of excluded investment activities as mentioned above and, in many cases, the particular type of financing (equity, loans etc.). Presumably, these restrictions were imposed to narrow the targets and avoid risk of tax avoidance, but the effect has been to hamper investment and confuse investors.

Impact-led enterprises adopt a wide range of organisation structure, and need diverse forms of financing, including equity, loans, convertible loans, payment by results and quasi-equity. As a result, impact enterprises find it difficult to know what form to take, as each option closes off certain financing avenues. Investors are confused about reliefs and incentives available, and incentives fail to achieve their policy objectives, because they are too narrowly defined or inadequately promoted. Unsurprisingly, many wealth advisors are either ignorant about, or confused by, the incentives, so do not propose or recommend them to their clients.

This Commission puts forward that confusion and lack of clarity about eligibility criteria of various incentives inhibit greater impact investing. One way around this would be to broaden existing eligibility criteria, as recommended below. Another idea put forward by some Commission members, is to develop a "label" for impact-led enterprises that would make different legal forms eligible for these kinds of tax reliefs and incentives (**see "I-Enterprise label" sidebar**).

Recommendation 9:

Maximise use of existing tax incentives and broaden application criteria

- Professional advisors should familiarise themselves with existing tax incentives that support early-stage enterprises, so that wider use of them can be made by HNWI investors. This is particularly applicable to the use of SITR and CITR, which were set up to specifically support impact-led enterprises. For example, investing into an individual CDFI, typically via a loan, attracts tax relief via CITR.

- The eligibility criteria for EIS, SEIS and SITR (while still in legislation) should be made more inclusive of the different legal forms of impact-led enterprises. This could be achieved by Government widening the qualification criteria for different forms of enterprise, types of investment and size of enterprise.
- SEIS/EIS-like incentives should also be applicable to other forms of financing, outside equity raised through ordinary shares, such as preference shares, debt (although satisfied by SITR in part), quasi-equity and bridging capital, so that more organisations can be included in their remit.
- SITR should be extended for sufficient time to allow a dedicated joint Working Group involving Treasury and representative organisations to develop a replacement scheme, ensuring consultation with individual investors and professional advisors to HNWI.

> *"To my mind EIS offers a tried, tested and understood mechanism (by investors, HMRC, policy makers and companies/advisors) for early-stage/innovation investing. Expanding the definitions (of company form and instrument) to embrace a range of early-stage impact investments seems eminently do-able."*

Scott Greenhalgh, Chair of Certitude and former Executive Chair, Bridges Evergreen, Commissioner

"I-ENTERPRISE" LABEL

It is absolutely clear that organisations that balance profit with impact, adopt a wide range of operating structures. At the same time, they need diverse forms of financing across their life cycles, including equity, loans, convertible loans, payment by results and on occasions quasi-equity.

This Commission believes that impact-led enterprises should not find themselves in a position where their legal status impedes them from securing the financing they need and that investors are prepared to offer.

When enterprises find it difficult to know what legal form to take without closing off future financing channels, or investors are confused about the reliefs or incentives available and advisors are unaware of how to bridge this gap, the market is stymied.

One innovative solution would be to create a broad definition of enterprises that are impact-led. To minimise abuse this could require a certification, similar to B-Corp certification. Enterprises that qualify (perhaps called "i-enterprises") are able to take advantage of targeted incentive schemes that Government or other major funders may choose to introduce.

These could include:

- Additional tax relief (50% as per SEIS) for investment in i-enterprises in levelling up places for a period of time
- Non-dilutive R&D grant funding from Innovate UK, matching EIS equity investment, for i-enterprises targeting public health issues
- Guarantees of return of 90% of capital for unsecured loans to arts and culture i-enterprises

Instead of a blunt policy instrument, that has to be tightly constrained by type of organisation or investment, the Government would have at its disposal a flexible policy tool that it can deploy to incentivise investment in impact-led enterprises, to achieve certain environmental or social goals.

Given that this has been undertaken in other countries, such as the Société à Mission in France and the US Public Benefit Corporation, the time seems ripe for the UK to follow suit.

GOVERNMENT MUST PLAY ITS PART IN INCREASING ACCESS TO INCENTIVES

The Adebowale Commission on Social Investment recommended that: "The government, in consultation with the devolved administrations, should develop a UK-wide social investment strategy to provide renewed clarity and purpose to the social investment market."[148] This Commission endorses that recommendation in relation to impact investing.

Governments can play a vital role in supporting the development of impact investing, through seed funding, match-funding and other methods, leading to "crowding in" of private investment. This is mainly achieved through three mechanisms: grants, guarantees and match-funding, examples of which are given below:[149]

Grants

- Access – The Foundation for Social Investment is delivering The Growth Fund, a £45 million fund with a £22.5 million grant from The National Lottery Community Fund and £22.5 million investment capital from Big Society Capital, providing repayable finance of up to £150,000 to 505 organisations in their early stages of development. Grants as part of blended finance funds are seen as particularly suitable for early-stage enterprises, as blended finance structures can de-risk investments, with the grant element acting as a first-loss layer to absorb losses, improving the risk/return profile for the investor.
- Innovate UK, the UK's innovation agency, offers a great example of thematic grant funding programmes that can be unlocked by eligible investment partners. Innovate UK's objective is to channel grant funding in alignment with equity capital from private investors, trusting that the impact of the grant will be maximised due to investment partners' vested interest to take care of their own investment capital. From an investor perspective, there is direct benefit in leveraging non-dilutive grant funding, while focusing equity capital on commercial use. Moreover, Innovate UK validates technologies through its independent pool of expert assessors. Investment partners include venture capital funds as well as institutional angel networks – both raise capital from certified HNWI and sophisticated individual investors.

Guarantees

- The Recovery Loan Scheme, a Government scheme aimed at supporting access to finance for UK small businesses, provides a guarantee for approved lenders for 70% of the finance. The Recovery Loan Fund,[150] a £21.5 million fund delivered by Social Investment Business, backed by the Recovery Loan Scheme guarantee, provides loans of £100,000 to £1.5 million to charities and social enterprises that are improving people's lives or the environment they live in, across the UK. The guarantee underwrites a proportion of any losses that the investor might have, by enabling them to take more risk with their lending.

Match-funding

- The Future Fund[151] administered by the British Business Bank, is a Government scheme to support UK-based companies, with funds ranging from £125,000 to £5 million, by equal match-funding for private investors. The scheme delivered an initial commitment of £250 million of new Government funding for pre-revenue, pre-profit start-ups unlocked by private investment on a match-funded basis.

EVERYBODY WINS

(Paul Tselentis, 24Haymarket, Commissioner)

An under-appreciated and under-utilised opportunity involves engaging with the various UK Research and Innovation (UKRI, formerly Innovate UK) investor partnership programmes, many of which have an impact imperative. 24Haymarket views these partnerships as “win-win” from the perspective of all stakeholders.

UKRI’s objective is to channel its grant funding packages (orientated towards financing innovative R&D projects) in alignment with the equity capital of pre-vetted private investors, knowing that these institutions will be responsible caretakers of both their own investment capital and the UKRI grant investment, maximising the impact of the grant.

From the investment partner’s perspective, there is both the direct benefit of being able to “leverage” your equity investment with non-dilutive grant funding, so that your own equity capital is focused on commercial uses, and the advantage of gaining access to UKRI’s technical validation. After all, it considers many grant applications in a particular technology vertical area, and has the resources to establish differentiation.

From the founder’s/company’s perspective, they can access incremental capital (often the UKRI partnership programmes are willing to match-fund eligible equity capital on a 1:1 basis) for a set level of dilution, and not have to compromise continued investment in technology for the sake of commercialisation investment.

24Haymarket has participated in three such partnership programmes with UKRI around the themes of Precision Medicine, Food Production Automation and Healthy Ageing, making several equity investments in companies that have been able to unlock grant match-funding. Among the investments are: Mogrify (bioinformatics-driven approach for new cell therapy discovery), Feebris (remote care platform), Dogtooth Technologies (robotic soft fruit harvesting), Radar Healthcare (compliance software for care homes), Brain in Hand (assisted living for autism sufferers), with more exciting opportunities in the pipeline.

Recommendation 10:

Government support in the form of grants, guarantees and matched funding should be increased and delivered through programmes that are accessible for private capital, such as angel investment networks, syndicates and funds

- Government should place impact investing at the heart of domestic strategy, and work closely with regulators and other stakeholders to achieve greater, faster development of impact investing [152]
- Extend the availability of grants as part of blended finance funds that are accessible to HNWI investors, like The National Lottery supporting The Growth Fund, or Nesta's Arts & Culture Impact Fund
- Increase the number of Innovate UK investor partnership programmes on social and environmental impact themes that maximise use of grant and investment capital
- Intermediaries supplying loan finance to the impact economy should be encouraged to assess whether undertaking the accreditation process to access guarantee schemes such as the Recovery Loan Scheme is suitable
- Government should make a commitment to support further match-funding facilities like The Future Fund

New incentives for impact investment need to be scalable and adaptable, while encouraging risk-taking but avoiding dependency. Capital for impact-led enterprises needs to be "cheaper, more flexible and more patient"[153] than mainstream investment.

INNOVATING INCENTIVES

Could Government explore the use of new innovative tax and other incentives to attract HNWI investment?

Consider developing inheritance tax legislation that incentivises impact investments. For example:

- Enabling a deduction to the value of an estate, whereby investments into impact-led enterprises, regardless of the investment structure benefit from business relief
- Benefit from a reduced inheritance tax rate if a legacy commitment to impact investment is made, similar to charity relief

Encourage place-based investing as part of Levelling Up, to encourage more investment into disadvantaged areas of the UK. This could be achieved by:

- Creating a model to invest in a pool of CDFIs similar to the CIEF (Community Investment Enterprise Facility[154]) fund model, that is accessible to individual investors
- Exploring other financing vehicles to invest locally, for example, Community Municipal Investments (CMI) enabling investment into local councils

INCREASING IMPACT INVESTMENT THROUGH CHARITABLE GIVING VEHICLES

There is a perceived barrier around Charity Commission regulation on charitable entities investing for impact

Individuals and families often commit a portion of their wealth to a charitable foundation or Donor-Advised Funds (DAFs) to pursue philanthropic impact objectives. Once funds are committed to a foundation or DAF, they are no longer legally owned by the individual(s) or organisations transferring the funding in, and are dedicated for charitable purposes. Some of these charitable entities already invest for impact, but there are still vast untapped resources that could relatively easily be unlocked here.

The top 150 philanthropically funded family and personal foundations in the UK have £58.6 billion in net assets.[155] Only 11% of the Top 300 foundations reported social and programme related investments (PRI) in 2019/20, unchanged since 2017/18.[156] Investing just 5% of the assets of individual and family foundations would create about an extra £2.9 billion, and act as a signal for further crowding in of impact investment.

DAFs, as previously mentioned, are an alternative to an individual or family standalone charitable foundation. The fund is invested with a DAF provider, attracts immediate tax relief, and grants can then be made out of the fund at the donor's discretion. While total assets in DAFs in the UK are estimated at £1.9 billion as at December 2020,[157] the proportion of DAF funds currently invested for impact is unknown, but is likely to be small. If 5% of assets in DAFs were committed to impact investing, this would create an extra £95 million.

There's an opportunity for DAF providers to take "a more proactive and principled stand on the big issues of our time"[158] in their investment strategies.[159] In the United States, DAFs are considered to be the easiest outsourcing path to impact-first investing,[160] while in the UK this has not been the case. This could be due, in part, to the perceived regulatory barriers to doing so.[161] Regulations – particularly around trustee responsibilities – are constantly evolving.

A recent judgement, Butler-Sloss v Charity Commission (2022)[162], clarifies the existing legal principles governing the investment duties and power of charity trustees, making it clear that **both individual and family foundations and DAF trustees can invest in impact.**[163] This has been helpful in clarifying the fiduciary responsibility of trustees in making investment decisions that align with a charity's charitable objects. The judgement empowers trustees to not only consider their impact by having an exclusionary approach – that is, operating a policy of exclusions for certain forms of potentially harmful investments that directly conflict with a charity's purposes – but also, in considering whether an investment is in the best interests of a charity, it might be prudent for charity trustees to consider the social or environmental impact of an investment more extensively. Above all, the judgement resolves the paradoxical situation of charities' investments contradicting the aims of their charitable work. Charity Commission guidance will be updated to reflect the new ruling.

Recommendation 11:

Individual and family foundation trustees should review their investment strategies and integrate an impact approach

Trustees should consult stakeholders about impact investing, and then follow the practical steps as outlined in the Impact Investing Institute's "Investing with Impact in the Endowment" paper:[164]

- Obtain an internal mandate for impact investing
- Establish financial and impact requirements for the endowment
- Update the Investment Policy Statement
- Integrate impact and investment at board and staff level to deliver the strategy
- Work with investment advisors, investment managers and asset managers with skills and experience in impact

Growth in the DAF market is expected to continue, from donor demand as well as increased awareness among wealth managers, lawyers and accountants who advise donors.[165] It is important that DAF providers consider their responsibilities regarding impact investing (discussing, assessing, making and managing impact investments) and are prepared to meet their clients' needs. Providers will need to think about governance structures and business processes, alongside keeping in line with regulation. For example, the financial promotions regime does not prevent DAFs from making impact investments, but it has practical implications on communications for DAF service providers that need to be carefully considered.

Recommendation 12:

DAF providers should review their service provision for clients with regard to impact investing

- DAF providers should invest in training for staff, where necessary, to consider the suitability of impact investments
- DAF providers should ensure they have appropriate governance structures and processes to make investment decisions
- DAF providers should have conversations with clients about the opportunity to generate impact with grant-making and investments
- Policies should be put in place to deal with requests from donors to make impact investments

JOIN US IN COLLECTIVE ACTION

Private wealth holders can provide a crucial boost to individual impact investing – first by testing the waters with a modest initial commitment, then by going bigger as they gain experience. This can lay the ground for institutional capital to follow once investible models are proven. Alternatively, impact investments might preserve capital, while leaving some returns on the table in exchange for social or environmental benefit. There's never been a better or more urgent time to get started.[166]

This Commission hopes that this report will offer those organisations working with HNWI and family investors, greater clarity of the barriers they experience and the improvements they seek, mobilising them to review their practices and the information they publish accordingly. In turn this will create a virtuous circle of action and reaction:

> ***"If rising demand and advisor engagement, and a supportive regulatory environment, lead to the expansion of quality products and offerings, the corporate world is likely to be more engaged. This will increase the number and scale of investment opportunities and likely lead to advances in impact measurement and reporting. That in turn should lead to higher demand, creating a virtuous circle that will drive the market forward."***

Independent Advisory Group, 2017[167]

The next step forward will require a commitment to creating an ecosystem for impact investing to thrive at increasing scale, and a continuing commitment from the financial services industry to work with Government, regulators, the companies invested in and the social sector, to bring investing with impact into the mainstream.[168]

If you are a key player in this marketplace, a financial, tax or wealth advisor or a fund manager, a family office or a HNWI investor or potential investor, please consider what influence you can bring to this collective effort. Could you bring our Recommendations in front of your strategy review committees and your boards, share this report and link to it from your websites?

Please get in touch with us if you have other ideas of how this work can be amplified and lead to further initiatives:
iiic@beaconcollaborative.org.uk

These initiatives will be further explored by The Beacon Collaborative and Big Society Capital.

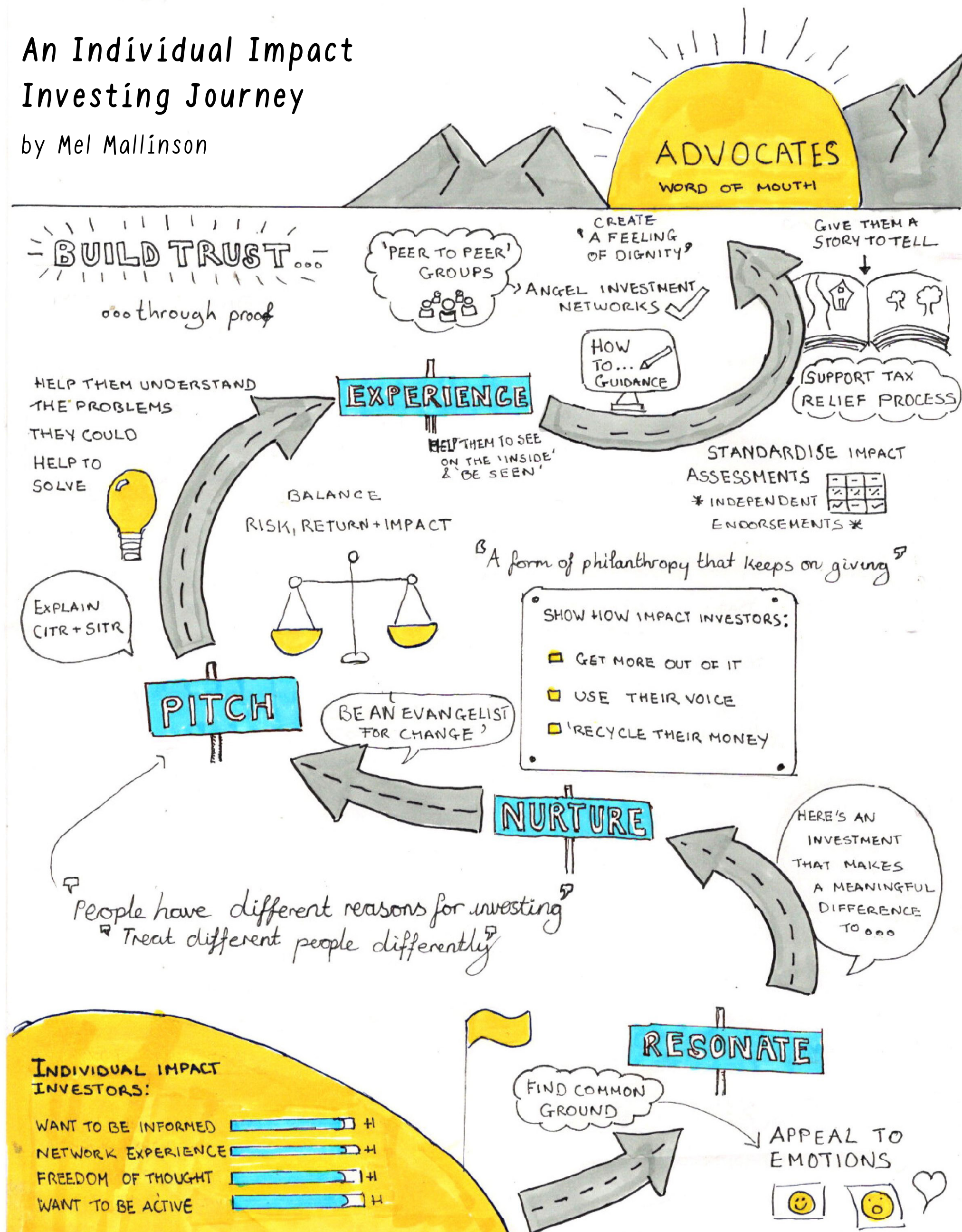
> *“Sometimes we find ourselves in a position where we have to defend impact investments, in the sense that there is not a trade-off in terms of return on investment… it’s a financial product like any other, but actually, it’s a better financial product”*

Cansu Deniz Bayrak, Bethnal Green Ventures,
Commissioner

> *“It’s about what difference you’re making with your investment, rather than spreading the risk with an efficient frontier.”*

Sherry Coutu, Entrepreneur and Philanthropist,
Commissioner

Sketchnote



APPENDIX

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Sketchnote by Melanie Malinson

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