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# IMPACT INVESTING

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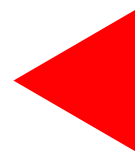
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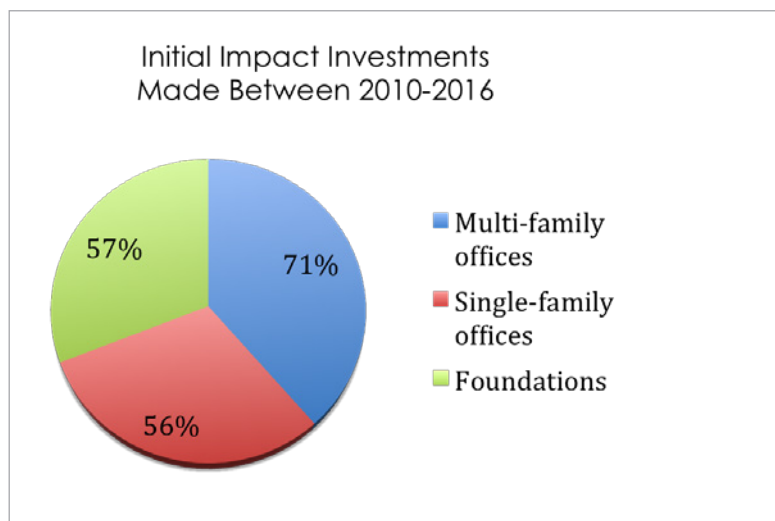


The rise of impact investing among family offices is indicative of how the lines of philanthropy and managing wealth are starting to blur. Impact investing provides a way for families to align their values with managing wealth while making a positive impact on the world.

Impact investments are made with an aim to generate both a financial return and measurable, positive social and environmental impact. This differs from the traditionally passive approach of

socially responsible investing, which typically employs positive or negative screens to avoid investments that are not in line with the values of the investors.

A 2017 Financial Times survey of 246 family offices and family-backed foundations around the world reveals that a majority made an initial impact investment between 2010 and 2016: multi-family offices (71%), single-family offices (56%) and foundations (57%).



Source: Financial Times, Investing for Global Impact 2017

While impact investing isn't new, its growing popularity in recent years is due in large part to the next generation and the way in which they view managing wealth and preserving legacies.

To that end The ImPact, a non-profit comprised of a network of wealthy families, was launched in 2013. It focuses on impact investing education. Inspired by Warren Buffett and Bill Gates' Giving Pledge, it asks that members commit to explore the impact of all of their investments and invest to create measurable social benefit.

Among The ImPact's co-founders are the younger heirs of some the most prominent families in the U.S., including Justin Rockefeller, the great, great grandson of John D. Rockefeller.

The term "impact investing" was, in fact, coined at an event hosted by the Rockefeller Foundation in 2007.

In this issue, MarketCurrents delves into the role impact investing plays among families of significant wealth. We investigate what is driving growth, how impact investing can engage the next generation, common and emerging asset classes, the intricacies of measuring impact, how to approach it initially and where it is headed.

# Growth Drivers



Molly Betournay, Director of ESG and Impact Investing at multi-family office Pathstone Federal Street, sees two things driving growth. The first is interest among Millennials.

Research by U.S. Trust shows that 85% of the high-net-worth Millennials it surveyed currently own or are interested in adding impact investments.

“We see that holding true in the families we work with,” Ms. Betournay says of Millennials.

The second is an increased general knowledge and understanding of impact investing. There is more media coverage of impact investing as well as more resources related to it, she explains. “Across the board we see clients increasing exposure to impact investing,” Ms. Betournay adds.

“I’ve seen exceptional expansion particularly over the last three or four years,” says Michael Lent, Founding Principal and Chief Investment Officer of Veris Wealth Partners. Mr. Lent, who has



“A lot of wealthy families are aware that they are in a privileged position and that they are in a position to address social issues.”

**Richard Clarke-Jervoise,**  
Partner, Stonehage Fleming and  
Head of Private Capital Investment Team

been involved in impact investing since the 1990s, also attributes the growth to two factors. The first is the socially conscious mindset of Millennials who, for example, are focused on climate change and social inequality.

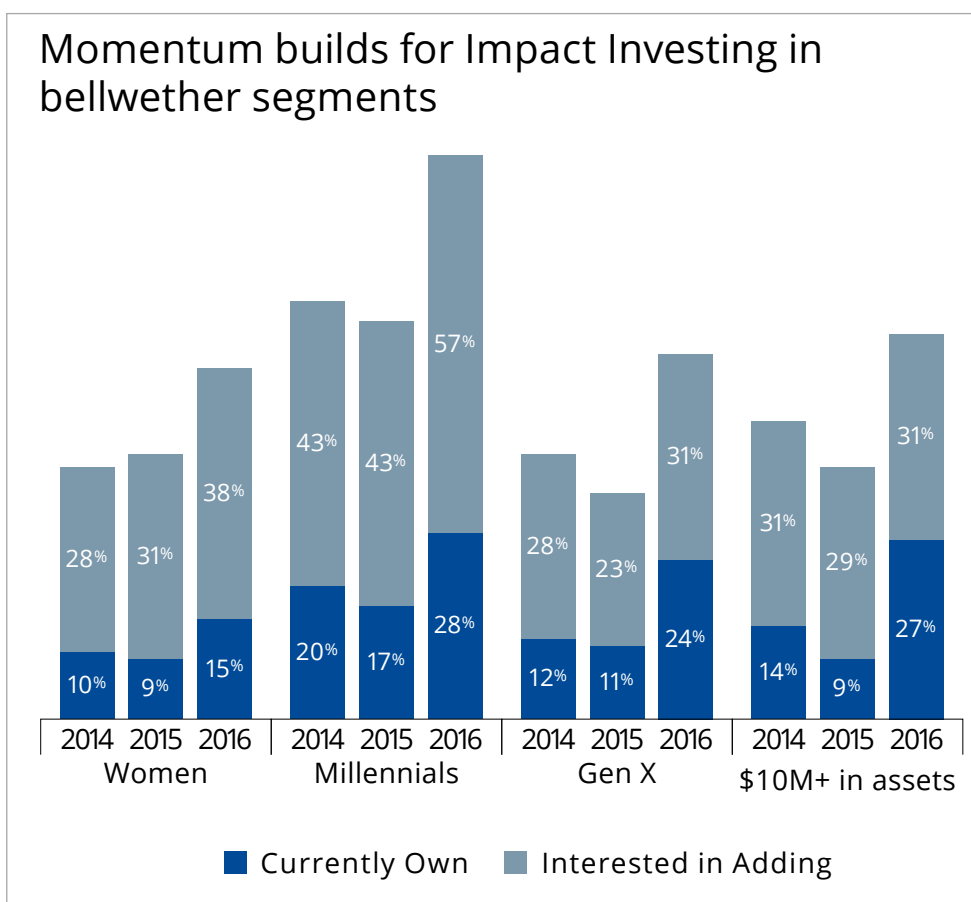
The second is that in some families the second generation is now taking over key positions within family offices. These Baby Boomers also have a socially conscious mindset.

A study of ultra high net worth U.K. and international families by multi-family office Stonehage Fleming found that 82% believe there is a link between

preserving wealth and benefiting society. It also found that 39% are likely to demonstrate their philanthropy via impact investing. The study includes families with first generation wealth and those with long established wealth.

“A lot of wealthy families are aware that they are in a privileged position and that they are in a position to address social issues,” says Richard Clarke-Jervoise, Partner at Stonehage Fleming and Head of the Private Capital Investment team.

“One of the objectives of any family of wealth is to connect wealth to the community,” says Charles Lowenhaupt



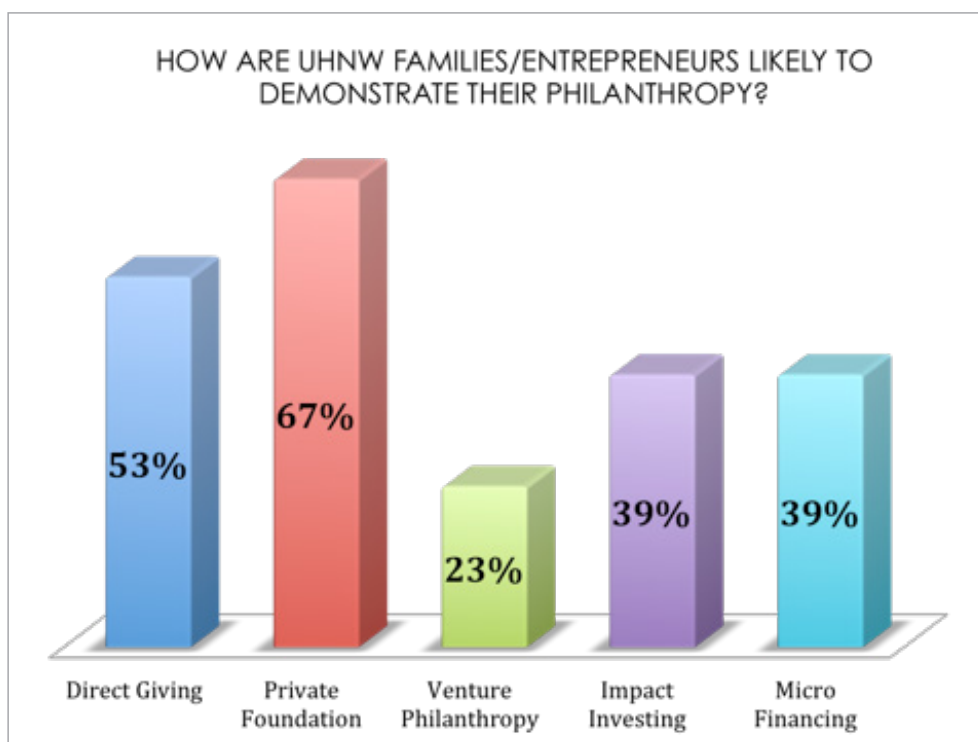
Source: 2016 U.S. Trust Insights on Wealth and Worth



Founder and Chairman of Lowenhaupt Global Advisors. He maintains that this can't be done with passive investing. "That is part of the appeal of impact investing."

"Impact investing takes you down to the very tree in the forest," he adds.

Mr. Clarke-Jervoise also points to recent political events, such as the surprise outcomes of the Brexit vote and the U.S. presidential election, contributing to the focus on impact investing. Both have shone a spotlight on increasing social inequality.



Source: Stonehage Fleming, Four Pillars of Capital for the Twenty First Century report

# ENGAGING THE NEXT GENERATION



Impact investing is also a way to get the next generation involved. It can facilitate the education of younger generations on a family's beliefs as well as governance and operations.

"The best way to get them to focus is to talk about something they are passionate about," says Brendan Holt Dunn, CEO of multi-family office Holdun Family Office (Bahamas) Limited.



**"The best way to get them to focus is to talk about something they are passionate about."**

**Brendan Holt Dunn,**  
CEO, Holdun Family Office (Bahamas) Limited

Mr. Clarke-Jervoise also sees impact investing as a way to get the next generation involved in how a family runs its affairs. "The struggle is to get future generations to engage in conversations and, more broadly, to engage in how the family runs its affairs," he adds.

Stonehage Fleming has begun to see a dialogue around investments with purpose between older and younger generations, which in many cases can provide cement to the relationship between the two.

It can also teach the young about investing. Forty to 50 years ago when teaching the next generation about investing an investment counselor would be brought in, says Mr.

Lowenhaupt. "Each stock had a story about it. That's how you got your children comfortable with investing," he explains.

Today, impact investing is a way for families to teach their children about investing. "It's a good way to raise the next generation," Mr. Lowenhaupt adds.

Impact investing encompasses a broad range of asset classes. Among them are public equity, private equity, direct investments and fixed income, such as green bonds and impact bonds, says Ms. Betournay.

Mr. Clarke-Jervoise says that sectors within the impact investing private equity realm include financial inclusion, access to healthcare and education, affordable housing as well as infrastructure for under-served communities, and a host of environmentally focused sectors.

Mr. Lent also says that traditionally impact investing asset classes have included private equity, private debt and real assets. Veris is starting to see more interest in community loan funds which, for example, facilitate affordable housing.

“We see [impact investing] in essentially all asset classes,” says Mr. Lent. “It is possible to do impact investing in all asset classes.”

In addition to private equity, Mr. Dunn also points to venture capital as a typical asset class. Impact investing often involves smaller companies with societal and environmental impact that need capital and funding, he explains.

Often families think of private equity or sometimes direct investments when approaching impact investing, according to Ms. Betournay. When clients have a specific idea in mind such as clean technology, for example, “We use that to open a broader conversation for a portfolio.”

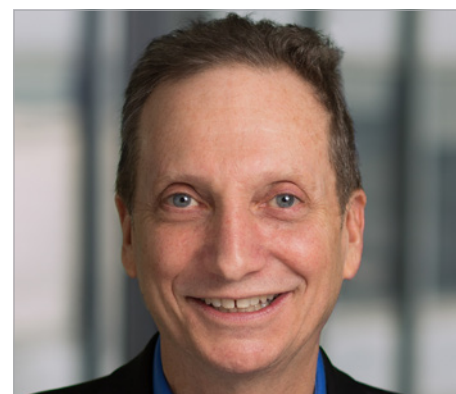
Others might not have an idea of where to begin so a starting point might be with public equity. Pathstone explores whether or not there are companies that give investors pause or those that resonate when rebalancing an equity portfolio with impact investing in mind.

This could involve excluding sectors or companies that do not align with investors’ missions or values. Perhaps

a family has big energy names in their portfolio. The next step would be to transition out of fossil fuels. “We have a number of clients interested in climate change,” Ms. Betournay adds.

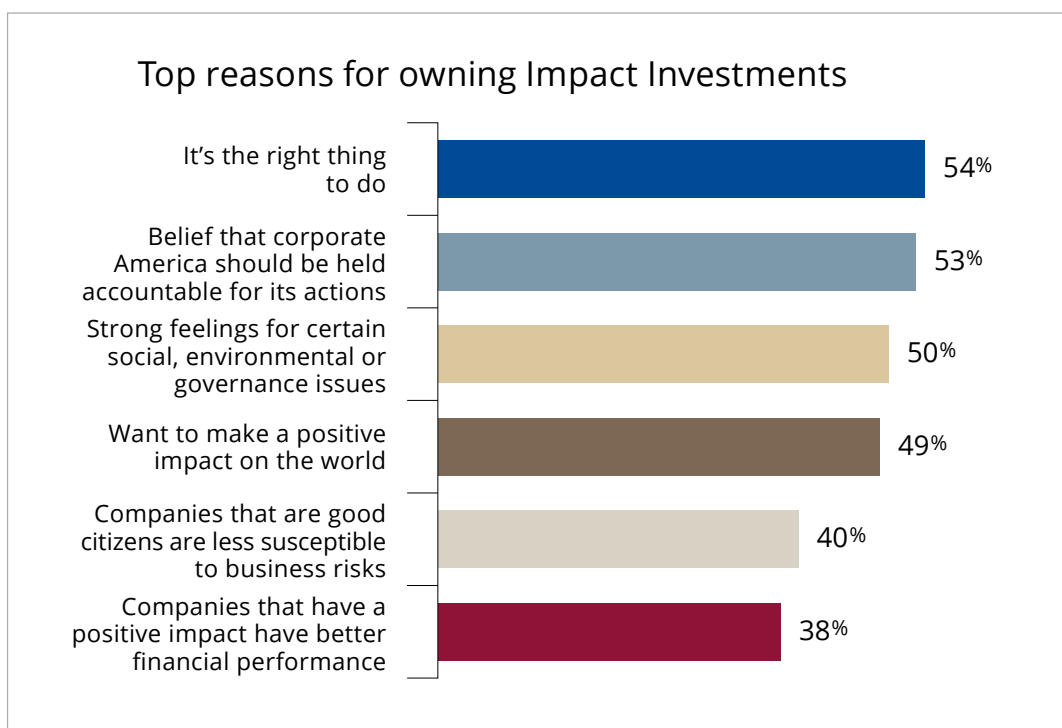
There are also cultural differences among families around the world in how they partake in impact investing. There is resistance among families in Asia, such as China, to participate in syndicated investments, Mr. Lowenhaupt says. They often prefer to invest directly in a company that does good.

Families in the U.S., on the other hand, are more comfortable investing with managers who do this for them, according to Mr. Lowenhaupt.



**“It is possible to do impact investing in all asset classes.”**

**Michael Lent,**  
Founding Principal and CIO,  
Veris Wealth Partners



Source: 2016 U.S. Trust Insights on Wealth and Worth



In addition to performing traditional due diligence on the investments, impact investing involves measuring the intended impact.

Veris, for example, looks at the objective of the management or ownership of a firm or fund, how they are monitoring it and how they report on it. “Family offices want to know it’s a good investment and the impact of it,” Mr. Lent explains.

“There is an attempt by a number of organizations to set a standard,” he adds. “A lot of managers and funds are not necessarily using these standards.”

In many ways measuring impact is still in the infancy stage, though it is rapidly developing.

Clients want to know the story of the investment, Mr. Lent says. Because the measurement of impact is still in the early stages, “You have to find the best possible options for clients,” he adds.

Impact can be measured in a myriad of ways, including creating proprietary methods, using existing standardized methodologies or a combination of both.

One existing standard is the Global Impact Investing Rating System (GIIRS), which rates the social and environmental impact of a company or fund.

The Impact Reporting and Investment Standards (IRIS), an initiative of non-profit Global Impact Investing Network (GIIN) since 2009, provides a catalog of generally accepted performance metrics that measure social, environmental and financial results. IRIS was first developed by the Rockefeller Foundation, the Acumen Fund and B Lab in 2008.

UBS Asset Management, meanwhile, is building a global model that will measure the impact of public equities in regards to their activities related to climate change, water, food security and health.

This is a pioneering approach in that it is using science-based metrics, according to Dinah Koehler, ScD, Executive Director, Sustainable Investment Research, Sustainable Investors Team at UBS Asset Management.

“We are leveraging environmental science to build models of what a company does and how it effects the environment and human health,” she explains. “We are using 40 years of scientific research to establish those causal relationships.”

To do this, UBS is working with researchers at Harvard University and the City University of New York to create the impact measurement methodology.

In essence, UBS is developing a model that will measure whether a publicly-traded company is sustainable or not. The model will allow for the development of public equities investing strategies with an impact measurement component, Dr. Koehler adds.

Pathstone looks at the underlying philosophy of a fund manager in relation to Environmental, Social and Governance (ESG) criteria and impact, with a preference for managers that believe that considering environmental or social factors adds value, Ms. Betournay explains. ESG criteria take into account the effect that a company’s operations have socially and on the environment.

Pathstone then evaluates a manager’s process for considering environmental and social information and reviews the environmental and social characteristics of companies in the portfolio to look for consistency between philosophy, process and portfolio. Pathstone also looks at transparency, such as ESG ratings.

While there is a robust universe of traditional private equity funds, with impact specific private equity there tend to be more newer strategies with shorter track records, Ms. Betournay points out. This means digging deeper. “From a due



“We are leveraging environmental science to build models of what a company does and how it effects the environment and human health.”

**Dinah Koehler,**  
ScD, Executive Director,  
Sustainable Investment Research,  
Sustainable Investors Team, UBS Asset Management

diligence perspective sometimes we have to look a little harder,” she explains.

She also cautions that because of the growth of impact investing and the number of new entrants, it is important for investors new to it to beware of greenwashing. This occurs when an investment product or company portrays itself as sustainable or environmentally responsible, but isn't.

“There must be an intent for it to be impactful,” Mr. Clarke-Jervoise says. This focus must come right from the top of the organization involved. He adds that if greenwashing is involved it too comes from the top.



“From a due diligence perspective sometimes we have to look a little harder.”

**Molly Betournay,**

Director, ESG and Impact Investing, Pathstone Federal Street



# PORTRAIT OF AN IMPACT INVESTMENT: WISHING STEP PICTURES



Wishing Step Pictures produces documentary films that aim to drive positive social change. Its current project is the Abolish film and campaign. The documentary highlights modern slavery and focuses on the rescue of slaves.

The Abolish Foundation will assist and help fund the rescues as well as the rehabilitation of freed slaves. The foundation develops and implements the campaign component of the Abolish documentary.

Wishing Step Pictures Ltd. is incorporated in Bermuda as a segregated account company. Each project is linked to its own class of shares. Abolish Films, for example, is linked to Abolish Film Shares, explains Kim Carter, President of Wishing Step.

Investors are issued non-voting participating shares in a segregated account. Wishing Step Pictures is issued voting non-participating shares, which allows it to manage the production.

“We know there is a lot of money being passed on to Millennials,” says Neil Glass, Producer who oversees finance. “They want to make a return on their investment while also making a difference.”

Income from net profits is returned to investors until 130% of their investment is realized. Wishing Step does not receive any income from the profits until investors are paid 130% of their investment. Investors start receiving returns immediately from net distribution profits. This includes pre-sales.

The remaining profits will be split among investors (40%) Wishing Step Pictures (40%) and NGO partners (10%) - half to partner organization Not for Sale and the other half to The Abolish Foundation. The remaining 10% will be allocated as discretionary bonuses to members of the film crew or as donations to NGOs.

“Abolish will allow investors to contribute to diminishing slave labor in manufacturing supply chains,” says Zabi Yaqueen, Producer and Counsel.

Impact is measured in several ways. Social impact analytics firm Harmony Institute has been providing feedback. “Harmony Institute and other similar organizations for the first time, using data analytics collected online and through social networks, can provide detailed analysis of the ways in which films have had a measurable impact - for example, whether they influenced politicians, were issue pioneers, or used as educational content on the subject matter,” Mr. Yaqueen explains.

The Abolish film and campaign also includes an app, Free2Work, that allows consumers to scan barcodes of products to see whether slave labor was used in a product’s supply chain, Mr. Glass adds.

Users of the app will be able to put pressure on companies that have bad

ratings. The app will be updated to allow users via Twitter to send tweets to a company expressing, for example, that they won’t use a product because of a bad rating. If a rating goes up in the wake of that pressure it has had an impact.

“But ultimately our objective is to work collaboratively with corporations and share with them the information about their supply chains so that they can play a positive role in eliminating the use of forced labor from their supply chains,” Mr. Yaqueen says.

Graphika, an organization that maps social influence, has also provided a report that maps out the key individuals and organizations on Twitter who can help reach a broad audience in the distribution of the film as well as social impact outreach.



“Abolish will allow investors to contribute to diminishing slave labor in manufacturing supply chains.”

**Zabi Yaqueen,**  
Producer and Counsel, Wishing Step Pictures

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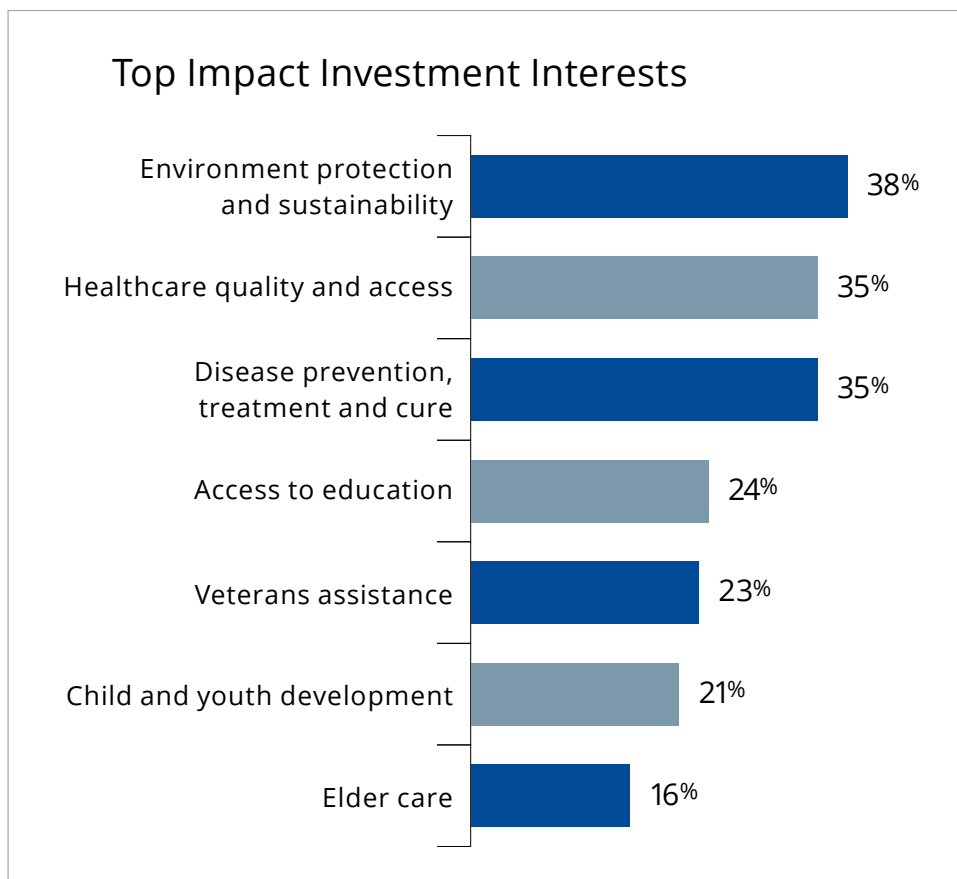
# HOW TO APPROACH IMPACT INVESTING



Approaching impact investing for the first time is a matter of looking at what a family's values and beliefs are as they relate to charitable donations and taking it one step further and examining investments that fit with that, Mr. Dunn says.

"It still needs to be a sound investment," he warns. "Does the investment have the potential for positive return as well as impact?"

"Each family or individual has their own values and beliefs," says Mr. Dunn. The



Source: 2016 U.S. Trust Insights on Wealth and Worth

Holt Foundation, for example, focuses on health and education.

The process involves a conversation with and among family members to uncover what their priorities are, Mr. Lent says. “Each family or family office or family foundation will find their own focus.”

Mr. Lent adds that typically a decision is made to carve out a percentage of family assets dedicated to impact investments. “Sometimes younger generations get their own carve out,” he maintains.

When embarking on impact investing with a family, Stonehage Fleming starts with getting a sense of what they are trying to achieve. “A lot of families have specific goals with philanthropy,” Mr. Clarke-Jervoise says. “In a similar way, we seek to understand what a family is looking to achieve with its impact investments.”

Pathstone’s first step when working with families is education. “A lot of what we do first is explaining what impact and ESG investing is and myth busting,” Ms. Betournay explains. There might be a perception among some family members that there is a performance trade off or that fees are higher. Pathstone works through these questions and shows that these

strategies tend to perform in line or better and the fees should be comparable.

The second step Pathstone takes is looking at what investments a family currently owns. If, for example, a family has a foundation does its mission align with their portfolio?

“Figure out what is important and start there,” Ms. Betournay says. It takes time to transition from traditional portfolios to mission aligned, she explains, adding that it is important to start out small.

The first question for families to answer is what kind of impact they want to have, says Mr. Lowenhaupt. Impact investing can also ensure that a family is on the same page.

“Families are not monolithic,” he points out. Families should ask each individual how they want to have an impact. Mr. Lowenhaupt advises that family offices should open their infrastructure to allow individuals to decide how they want to have an impact.

**“Families are not monolithic.”**

**Charles Lowenhaupt,**  
Founder and Chairman, Lowenhaupt Global Advisors





Impact investing shows no sign of slowing down. A 2016 survey by Campden Wealth Research and UBS found that 62% of family offices are active or expect to be active in impact investing.

But despite substantial growth, impact investing is still in the maturation phase. And as it matures so will the ways in which impact can be measured.

More sound investments choices will also continue to enter the scene, which will give family offices additional opportunities to use a range of strategies. This is good news for families whose values and visions are as diverse as the expanding universe of impact investments.

Mr. Lent sees gender lens investing, which aims to promote gender equality, on the rise. "That's a significant trend we are seeing a lot of demand for." A lot of women are coming into significant wealth and seeing gender inequality,

he explains. "Diversity is important to business success."

Another trend Mr. Lent points to is investing in climate change solutions. He adds that there are now more opportunities to do so that are sound investments.

Ms. Betournay has observed a lot of interest among Millennials around income equality and social justice, while Mr. Dunn sees artificial intelligence and alternative energy as spaces to watch. Artificial intelligence, for example, can enhance the quality of life for people, he says.

Dr. Koehler sees more large players, such as big banks, entering the impact investing arena.

Mr. Clarke-Jervoise says impacting investing is becoming more mainstream. He adds there are now a growing number of experienced and sizable players. "Its time has finally come," he says.

MarketCurrents interviewed Brad Reifler, Founder and Cole Reifler, President of Forefront Capital about the growth of impact investing and the role it plays at the firm.

---

**Q. Why is impact investing gaining popularity among families and individuals of significant wealth at this point in time?**

**A.** Impact investing has always existed, but in the past five years it has become increasingly more popular. This increase in popularity is due to two things:

- **Wealth transfer:** We are experiencing the largest wealth transfer in history, with almost \$30 trillion of assets passing from Baby Boomers to Millennials. Wealthy Millennials who are inheriting money from their families are much more inclined to make a difference than their parents or grandparents. Social

impact has been a strong theme among Millennials and they are more focused on impact than wealth preservation or appreciation.

- **Profitability:** For years, impact investing was considered philanthropic - a donation rather than an investment. Recently, impact investing has changed from being a donation to an investment, aligning



**Brad Reifler,**  
Founder, Forefront Income Trust

social change with profitability. This notion that impact investing can be profitable has made it much more lucrative for wealthy families and their heirs.

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**Q. What is the investing strategy of the Forefront Income Trust (FIT) and why was it launched?**

**A.** Forefront Income Trust was launched to change the landscape on Wall Street. For years, Wall Street limited non-accredited investors from investing in specific strategies and opportunities that have outperformed pensions and 401(k)s. The government allows non-accredited investors to gamble and play lotto, but limit them from investing like the wealthy, arguing that they are not sophisticated enough to understand the strategies.



**Cole Reifler,**  
President, Forefront Capital

FIT was launched to go against this notion, giving non-accredited investors access to a portfolio of sophisticated, risk-mitigated opportunities, leveling the playing field by giving everyone an equal opportunity.

We also realized that brokers and advisors put themselves in front of clients in most cases and make money regardless if the client makes money. Forefront decided that the client should come first. We have created a fee structure where we charge no management fee and make no money until our investors make 8%. This has not been done before.

We fell in love with the direct lending space and realized that we could originate and structure lending opportunities better than most boutique firms on Wall Street. Unlike most direct lending funds, we originate and create the paper rather than buying from secondary sources, giving us the opportunity to structure it with multiple levels of collateral, limiting our downside and giving our shareholders safety.

Since 2008 banks are unwilling to lend, opening up the opportunity for Forefront to lend to mid-size businesses at high interest rates, with little downside by utilizing multiple layers of collateral and personal guarantees.



**Q. What is the philanthropic component of FIT?**

**A.** Forefront has made a formal partnership with Easter Seals Dixon Center and has pledged them \$3 million to help military and veteran families. Forefront understands the importance of philanthropy and has made it their mission to help those in need.

---

**Q. Cole you recently launched Arora, which aims to help close the gender-lending gap. What was the impetus behind the launch and how does it work?**

**A.** After launching FIT with the notion to help solve wealth inequality, I met my co-founder Gerardo Porteny-Backal who told me about the problems women face in business. (Mr. Porteny-Backal is President and Founder of Women at The Forefront, a financial technology platform, and the Young Minds for Gender Equality Foundation). He loved what I was doing at Forefront, and told me we could not only help with wealth inequality but gender inequality as well. I was sold as it is my passion to combine business with impact.

We launched Arora ([www.arora.gives](http://www.arora.gives)) to help women business owners gain access to financing as well as free educational tools to enhance their lives. There is a \$260 billion gender-lending gap, meaning that women who deserve loans are not given them because of their gender.

Our goal is to expand internationally and provide women around the world with access to financing as well as educational tools.



**Gerardo Porteny-Backal,**  
Co-Founder and President of Arora

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than the rest of the  
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