FAMILY OFFICE
INVESTING FOR IMPACT
Collectibles: Alternative Investing Beyond Private Equity and Hedge Funds

WHEN MOST PEOPLE think of alternative investments, their minds go to hedge funds, private equity, and other structured financial products. However, collectibles are also a type of alternative investment — and, like all the others — come with their own set of rules and considerations.

The range of collectible items is ever expanding. Most people consider fine art and jewelry as collectibles, but historical documents, automobiles and watches may also be included in this category.

Though there are some differences in the mechanics, purchasing and owning collectibles requires involvement of specialists for provenance and authenticity, conservation and storage, and security and insurance.

Provenance and Authenticity
Provenance provides documentary evidence of the ownership, location and conservation of the collectible from the time it was created until the present. Without this, or with an incomplete “life history” of the item, due diligence of the buyer becomes a far more complicated and time consuming process. What possibly could be the concerns? To mention just a few: clear title, improper conservation processes, creditor claims, reclamation issues and of course, authenticity. Gone are the days when contemporary art could be authenticated by the artist-endowed foundation. As a result, the quality of the provenance is of prime importance, and interpreting the quality of the provenance is best left to an independent expert.

Conservation and Storage
Conservation is an ongoing process taking place over the lifetime of a collectible. The amount of conservation work to be performed is affected by the storage and handling of the item, as well as the type of collectible. In all cases, temperature and humidity controlled environments are important factors. Certain collectibles are simply more fragile than others — historical documents being one type that typically requires more care than others. In some cases, such as watches and automobiles, reconditioning can actually decrease the value of the item. So once again, the use of an expert is of paramount importance.

Security and Insurance
Other ongoing costs of building a valuable collection are security and insurance. The use of third party storage facilities is popular because of cost, space and security concerns. Insurers may require valuations on a regular basis, and will typically have to be satisfied that all of the factors discussed above are addressed. If part of the collection is to be kept in the client’s home, the insurance company will want to inspect the home’s adequacy for protecting the item.

Tax considerations are always part of investment planning, and collectibles require an understanding of sales and use taxes, capital gains taxes, as well as estate planning and liquidity. Unique collections require customized solutions, consult with your advisors on how to construct a plan that fits your collection.

For more information, please visit www.anchinprivateclient.com.
Philanthropy Is ‘Well Established’ Within Family Offices: Report

By DARSHINI SHAH

UBS and Campden Wealth surveyed 276 family offices between March and May 2016 for the Global Family Office Report 2016. A summary of the results, which were published in September 2016, is as below:

By the Numbers: Philanthropy

Philanthropy is “well established” within family offices, according to the report. “The average level of philanthropic giving by family offices responding to this question was 2.5 percent of their AUM over the past 12 months, although interviewees caution that this may not be representative of the entire family office community,” the report said.

Philanthropic Endowments for Those Who Are Engaged

Philanthropy is "well established" within family offices, according to the report. “The average level of philanthropic giving by family offices responding to this question was 2.5 percent of their AUM over the past 12 months, although interviewees caution that this may not be representative of the entire family office community," the report said.


Philanthropic Engagement by Region

Half of family offices surveyed in the U.S. said they were involved in philanthropy with a clear strategy and focus, the most among all regions, according to the report.

Source: The UBS/Campden Wealth Global Family Office Report 2016; Note: Due to rounding, totals may not add up to 100%
**Philanthropy — Future Intentions**

A third of family offices said they would increase allocations to philanthropy in the next year, according to the report.

<table>
<thead>
<tr>
<th>% of family offices</th>
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<tr>
<td>Increase by more than 2%</td>
<td>20%</td>
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<tr>
<td>Increase by less than 2%</td>
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<td>Remain the same</td>
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**Support of Philanthropic Causes**

Education was the most supported philanthropic cause, the report found.

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<thead>
<tr>
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<td>Education</td>
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<td>Children &amp; youth</td>
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<tr>
<td>Health</td>
<td>47%</td>
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<td>Arts &amp; culture</td>
<td>40%</td>
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<tr>
<td>Social enterprise</td>
<td>36%</td>
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<tr>
<td>Poverty</td>
<td>35%</td>
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<tr>
<td>Environmental</td>
<td>33%</td>
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<tr>
<td>Disaster relief</td>
<td>16%</td>
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<tr>
<td>Gender equality</td>
<td>13%</td>
</tr>
<tr>
<td>Faith-based giving</td>
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**Motivation to Undertake Philanthropy**

A "positive social impact" was the most widely-cited reason given by the families surveyed. Families are right to take real ownership, recognizing the benefits for family harmony and the possibilities for next generation involvement," the report said.

<table>
<thead>
<tr>
<th>% of family offices, multiple responses permitted</th>
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<tbody>
<tr>
<td>Positive social impact</td>
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<tr>
<td>Creating a philanthropic legacy</td>
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<tr>
<td>Involving the next generation</td>
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<tr>
<td>Family bonding and unity</td>
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<td>Positive environmental impact</td>
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<td>Sustainability</td>
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<td>Feel-good factor</td>
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<tr>
<td>Developing professional experience and life skills</td>
<td>13%</td>
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<tr>
<td>Reducing tax liabilities</td>
<td>13%</td>
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<tr>
<td>Reputation enhancement</td>
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<tr>
<td>Measurability</td>
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<td>Other (please specify)</td>
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<td>State in the statutes</td>
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Kellogg School of Management
Northwestern University’s business school became the J.L. Kellogg Graduate School of Management in 1979, thanks to a $10 million gift from the John L. and Helen Kellogg Foundation. The school is approaching 40 years with their name attached, even though its home has undergone a transformation and received far larger gifts. Contributions from the family foundation of alumnus and former Motorola CEO Chris Galvin and the estate of James Russell, among others, supported Kellogg’s new home, which press reports peg at $250 million.

Ross School of Business
In 2004, University of Michigan alumnus Stephen Ross gave $100 million toward a building for the B-school, which was renamed for him. He donated another $100 million to the school in 2013.

For Business School Naming Rights, the Price Is Only Going Up
By JANET LORIN
Tepper School of Business
Hedge fund billionaire and Carnegie Mellon alumnus David Tepper has committed more than $125 million to his alma mater over the last 14 years. That includes $67 million he gave in 2013 to support construction of a new home for the B-school, opening next year.

Booth School of Business
The University of Chicago renamed its school for alumnus David Booth after the investor made a $300 million donation in 2008.

Sloan School of Management
What was the real steal for business school naming rights? MIT renamed its school of management after the Alfred P. Sloan Foundation for a gift of more than $5 million in 1950.
Tiny, Ultra-Exclusive Resort in Nicaragua Has Big Social Mission

By NIKKI EKSTEIN
BY ANY MEASURE, Alfredo and Theresa Pellas have already transformed their home country of Nicaragua. With the help of 1,000-plus partnering nongovernmental organizations in the U.S. and beyond, their American Nicaraguan Foundation has served 265.5 million meals; built 19,936 homes; improved the health of 2,000 severely malnourished children; provided access to clean water for 81,000 Nicaraguans; and built or improved 128 schools, 55 community centers, 13 medical clinics, and 8 computer labs. For a country that was turned upside down by political revolutions and natural disasters in the late 20th century, it’s been a vital economic jump-start.

In 2016 alone, ANF allocated $5.8 million in cash and $90 million worth of in-kind goods toward helping Nicaragua’s poorest communities. In its 25 years of existence, ANF’s total impact has exceeded $1.8 billion.

Now the foundation is seeking a new, innovative way to reach potential donors: through a small, extremely luxurious resort that follows the goals of the nonprofit and offers an eco-friendly, ultra-exclusive experience.

The six-month-old Nekupe Sporting Resort & Retreat is a stunning eight-room countryside compound in the shadow of the Mombacho volcano, an hour and a half south of Managua. Unlike the backpacker lodges and surfing resorts on the country’s coast, Nekupe (or “heaven,” in the local language of Chorotega) is built to immerse travelers in Nicaragua’s little-known inland treasures: horseback riding along a series of lakes and mountains, clay shooting near a babbling brook, or sandboarding down an active volcano. It also has the goal of teaching moneyed visitors about ANF’s goals — including improving local employment opportunities, sustainable farming, and environmental stewardship. The owners have even reforested 1,300 acres around their property, which had been destroyed by slash-and-burn agriculture, and designated the land as a nature reserve, in hopes of conserving and regenerating local flora and fauna.

Nicaragua’s Wealthiest Family
Nekupe was founded by Alfredo and Theresa Pellas, who are among Nicaragua’s wealthiest couples. Alfredo’s great-grandfather made a fortune in shipping and sugar production in the late 1800s, and his brother, Carlos, tasked himself with rebuilding the family’s businesses following the Contra war in 1987. Alfredo and Theresa are more soft-spoken and private about their wealth than Carlos, who has proudly borne the moniker of Nicaragua’s first billionaire, but the siblings share an eye for hospitality. While Alfredo and Theresa were busy turning ANF into the country’s leading relief and development organization, Carlos was building the country’s first five-star resort, Mukul.

Mukul set the standard for luxury in Nicaragua, ensuring that local communities could benefit from the country’s burgeoning travel industry. But Nekupe and ANF take things to another level entirely.

“The whole story of ANF is what I call the ‘millennium,?’” Alfredo Pellas told Bloomberg. “It’s an economic and business model where we build homes but concentrate on villages,” he said. He doesn’t mean that figuratively. For ANF, building almost 20,000 homes for low-income families is just step one; providing water management solutions, improving education, and creating access to health care are what constitute a functional village.

Once a village is up and running, ANF gives it a tailor-made toolkit to help it thrive. “If the area is good for farming beans, we bring in an expert on beans to increase the
productivity of campesino [farming] families,” explained Pellas. Beans are just one example. He has a team of 29 technical staff to implement a long-term economic strategy for each village; a common theme is replacing slash-and-burn agriculture with sustainably sound and more efficient practices, such as beekeeping, small-scale animal husbandry, or bio-intensive farming.

The end goal? Multiplying locals’ income from $2 a day to upwards of $10. Only then will Pellas see his work as fully realized.

“We’ve managed ANF like a business from the beginning, with internal and external auditors and only 2 percent dedicated to internal overhead,” he said proudly. He and Theresa cover that overhead personally, while Carlos and other relatives are among the more significant annual donors.

Where Philanthropy and Luxury Collide
Nekupe was never supposed to be part of the ANF story. “We were thinking of it originally as our personal vacation home,” said Alfredo. But it took seven years to build the property, and in that time it evolved its own philanthropic missions.

For one thing, it became part of the sustainable farming narrative when the Pellases decided to reforest their 1,300 acres by planting more than 14,000 endemic teak, mahogany, and fruit trees. (The area had been blighted after years of destructive agriculture.) Now it’s designated as a nature reserve, with hopes that habitat restoration will bring back local populations of wild boar, iguanas, monkeys, and native birds.

Turning Nekupe into a hotel also created a significant source of local employment: 100 percent of the 143-person staff is Nicaraguan, with 80 percent coming from the immediate community of Nandaime. With just eight rooms, they form a staff-to-guest ratio of 9 to 1.

Rooms, which start at $750 per night (and come with meals), include four suites in the main house, each with spacious proportions and sumptuous, masculine furnishings: tufted leather headboards, dark-stained wood walls, gabled ceilings, and wall-to-wall windows. And four standalone villas are each themed after local trees, using
either the wood, fruit, or scent of indigenous species such as the madroño and jicaro.

“We wanted our clients to have very high-end luxurious accommodations that blend in with nature,” said Pellas, adding that “every move we made during construction, we made with respect to nature and the trees.”

An Escape From the World

No, your stay is not a sales pitch for ANF. And the room rates don’t turn into automatic ANF donations. In fact, the hotel and the foundation are registered separately and treated as different businesses. You can come here with zero social agenda and have a perfectly undisturbed getaway with no heavy-handed reminders of the real world outside Nekupe’s five-star bubble.

But Pellas believes that subtle exposure to ANF’s missions – be it interactions with the staff, an afternoon picking endemic crops in the property greenhouse, or a visit to the local school – will give travelers a deeper connection to the country they’re visiting. So he’s creating a series of programs, showcased in beautifully branded materials in each room, that allow guests to visit or volunteer with a series of ANF-funded projects.

“I imagine the type of clientele that we attract are also sensitive to the things that are happening in the places that they visit,” said Pellas, pointing to a growing class of socially engaged travelers. He thinks highly of his guests, both intellectually and professionally, imagining they’ll offer him support in the shape of both donations and creative problem-solving skills – say, a cost-effective connection for solar panels. Whatever people are interested in personally, he said, is a springboard for possible contributions with ANF, monetary or otherwise. And if one of those travelers happens to be the chief executive officer of a company looking to boost its charitable giving, he’ll consider it icing on a very tall, very carefully crafted cake.

“People can come here and enjoy Nicaragua, see how good the Nicaraguan people are, the tremendous character they have in everything they do,” he said. “And maybe then they will say, ‘OK, how can I help?’ Every client and every donation stands to change our country tremendously.”
Some of the 352,271 elephants estimated to remain in Africa.

Paul Allen Goes Digital to Save World's Most Endangered Animals

By NIKKI EKSTEIN
IF HE HAS his way, Paul Allen will cover 90,000 square miles of African territory with smart sensors and drones by the end of this year to bring hyper-connectivity to Africa’s most remote, wildlife-packed corners. It’s the biggest, tech-focused conservation project to date, a command-and-control system for rangers to record and respond to poaching threats from Kenya to Tanzania.

Named the Domain Awareness System (DAS), Allen is funding the project through his company Vulcan, and it’s as simple in concept as it is complex in execution. It’s not sexy – this is software, after all – and yet it’s the likely key to one of sexiest philanthropic causes of our time.

The basic idea: studying endangered animals’ movements in order to get ahead of poachers on a scale that allows Big Data to predict threats across entire regions.

Wildtech 101
For years, local rangers have protected wildlife with boots on the ground and sheer determination. Armed guards spend days and nights surrounding elephant herds and horned rhinos, while on the lookout for rogue trespassers.

Allen’s DAS uses technology to go the distance that humans cannot. It relies on three funnels of information: ranger radios, animal tracker tags, and a variety of environmental sensors such as camera traps and satellites. This being the product of the world’s 10th-richest software developer, it sends everything back to a centralized computer system, which projects specific threats onto a map of the monitored region, displayed on large screens in a closed circuit-like security room.

For instance, if a poacher were to break through a geofence sensor set up by a ranger in a highly-trafficked corridor, an icon of a rifle would flag the threat as well as any micro-chipped elephants and radio-carrying rangers in the vicinity.

Think of DAS as similar to a comprehensive camera system in Vegas casinos, with park managers replacing pit bosses on the hunt for cheats and camo-sporting rangers in place of the security guards that flank blackjack tables. Except in this case, when alerts strike, managers aren’t preventing the hemorrhage of a couple hundred thousand dollars; they’re dispatching help to save one of 352,271 estimated remaining elephants, or one of 30,000 surviving rhinoceroses.

“By nature, I am attracted to tough problems – problems that, by definition, require innovative and dramatic solutions,” said Allen from his office in Seattle, where his philanthropic company, Vulcan Inc., is based. “[The DAS project] is the ideal combination of two of my interests – technology and the preservation of [the savannah elephant,] one of Africa’s most iconic species.”

High-Profile Partners
DAS was first put into the wild in October 2016, when Ted Schmitt, lead program manager at Vulcan, and his team deployed the technology at the Lewa Conservancy, a 55,000-acre preserve in Kenya. Then it was brought to Odzala National Park, founded in 1935 and one of Africa’s oldest national parks in the Republic of Congo. Six other African conservation sites in partnership with Save the Elephants, African Parks Network, and Wildlife Conservation Society soon followed.

But its most high-profile partner is Singita, the network of standard-setting luxury safari lodges run by conservation guru Luke Bailes. If DAS is the un-sexiest player in this space, Singita is the very sexiest – it has 12 properties spread across Tanzania, Zimbabwe, and South Africa – and the lodges have the most sumptuous design, the largest wine collection, and often the highest price tag among its competitive set.

DAS was installed at the five-lodge Singita Grumeti reserve in March, using sensors to illuminate a key corridor for poachers intent on crossing to the neighboring Serengeti.
Bailes calls the system a “revelation and a game-changer.” He said the “layered approach of technology and boots on the ground enables Singita Grumeti to significantly enhance its effectiveness in dealing with poaching.”

Part of the success is Vulcan’s holistic approach: Schmitt’s team developed the software and provided capital for equipment and hardware, and they’ve also invested in training, technical input, support, setup, mentoring, and guidance. Though the partnership is just two months old, “the impact has been significant,” Bailes said.

**The Elephant in the Room**

According to Schmitt, DAS happened almost by accident. In January 2014, the Vulcan team had been dispatched to Kasane, Botswana, to help kick off the first pan-African elephant census in more than 40 years. “We had all of the best and most famous scientists that do wildlife research and census-taking come together, trying to address a common problem.”

The issue: how to survey hundreds of thousands of square miles in order to get an accurate idea as to how many elephants are still living and how many have died? Ultimately, the group decided to systematically fly in grid-like patterns over 17 African countries, carefully threading and weaving above the continent, photographing herds and carcasses, and counting the old-fashioned way.

There was talk of using drones, but the area’s scope was too large for the battery-powered devices, and researchers feared the technology wasn’t consistent enough. The situation was too urgent for any technological mishaps, Schmitt said.

In the end, his team came away with two major insights. First, the population of savannah elephants has declined by 30 percent in the last seven years, primarily due to ivory poaching. Second, having tons of data on elephant poaching is useless unless conservationists can make sense of it in real time. It’s precisely the type of nut that Schmitt and Allen live to crack.

**Software Saves the Day**

Schmitt’s first instinct was to harness as much data as possible, casting a wide net across the African savannah. “But what a lot of [park managers] were telling us was that they were already overwhelmed by the information they had. They couldn’t use it effectively.” What they needed was a way to aggregate and visualize data. They needed software.

“All of the tools that are out there are designed for the military,” Schmitt said. “They’re very expensive, for highly trained individuals, and not suited to the wildlife and conservation domains.” Rangers were instead using a decades-old system.

Building DAS took about 12 months and the partnership of many on-the-ground organizations who gave feedback. Threats differ by location, it turns out: In Tanzania, wildlife snares and bush-meat hunters are a big problem, while ivory poaching is a more common issue in Kenya. Then there...
are less malicious issues, such as bush fires, or a cow that has wandered from a local farm to big game predators.

Schmitt and his team designed a system capable of recognizing all these factors. Some can be reported by rangers over radio; others can be picked up by seismic sensors, satellites, drones, camera traps, and speed detectors.

“With every type of enforcement, the most urgent task is figuring out where the bad guys are,” Allen said. “You might have the best people and equipment money can buy, but unless you know where to direct your response, you’re essentially powerless. The intel this system provides will help conservancies use their limited resources much more effectively.”

**Early Results and Next Steps**

It will take two to five years to get real measurements from conservationists, but the feedback for DAS has been promising already. Though no animals have yet been saved as a direct result of DAS, rangers in two separate cases were able to use DAS alerts to intercept poachers who had already made a kill.

Poachers are not the only significant threat to wildlife in Africa. The system has helped rangers in Kenya prevent human-wildlife conflict by spelling out which farms’ cattle are most likely to roam into conservation areas. By working with locals to rein in the livestock, rangers can prevent retaliatory killings by farmers that happen when, say, a lion preys on that wandering cow.

Bailes’s Singita is just one glowing report card of several. “The area managers we’ve been working with feel that this is a game-changer,” Schmitt said. “They know they’ve needed something like this. And they’re pretty no-nonsense — they’ll kick something out quickly if it’s not useful.”

What’s been surprising to the Vulcan team is how DAS has unified conservationists who had previously been focused only on their individual reserves. “All of these groups are now sharing best practices with each other, more now than they ever had been. They’d all been doing the best they can in their regions, but stepping back and exchanging information has proved to have tremendous value in itself,” said Schmitt.

The next hurdle is bringing connectivity to places that still don’t have it, such as the jungles and forests of Congo. Enhancing connectivity where it exists but is low will also be key; it’s what will allow DAS to show alerts in real-time (rather than on a delay). Then, Schmitt said, comes the exciting part: “Once you have more and better data, you get to this place where we have real expertise. Where you can ask, ‘How do you analyze data and call up patterns and proactively identify threats?’” If Big Data is step one, machine learning is the very big step two.

For his part, Allen is happy to let his team run wild. “I’ve spent time with these park rangers, so I’m familiar with how difficult their work is. Providing this kind of tool to help them defend endangered species is incredibly fulfilling.”

Sabora Tented Camp, another Singita property in the Grumeti conservancy.

Singita Faru Faru, one of five lodges Singita owns on the Grumeti conservancy.
How to Engage the Next Generation in Philanthropy

Lauren Benenati, director of family education at GenSpring Family Offices, was interviewed on May 24 by Darshini Shah.

Q: What percentage of families that GenSpring works with are involved in philanthropy?
A: The vast majority of our clients are engaged in philanthropy in some way, whether that involves a family foundation, check-book philanthropy, or donating their time or volunteering on boards.

Q: What is the incentive behind philanthropy with the families that you work with?
A: Everybody’s reasons are different. We certainly see a desire to create a legacy and to pass down the family’s values to the next generation. With the older generation, there is a sense of duty when it comes to philanthropy and certainly for tax purposes as well. We are really encouraging our families to engage in shared philanthropy – that is, that the first generation is really involving the kids and their grandkids in the giving processes.

Q: Why are you encouraging that?
A: It’s a great way to encourage them and for them to have an opportunity to acquire financial and life skills. If the second or third generation is involved in the family’s foundation, for example, it gives them an opportunity to understand investments, the importance of due diligence and then simply gaining life skills by sitting through meetings and making shared decisions. So it’s a great forum and you’re doing it for a great reason – to make a difference in the world.

Q: How do you prepare the younger generation for philanthropy?
A: Start early. It’s never too early to teach kids about the importance of giving back if that is something that is important to your family. We encourage families to give their kids an allowance. Divide the allowance into four buckets:
To help others. Or when you are in a library, art museum, or you come across a homeless person, use it as an opportunity to discuss donating your time and/or money. Then, when they dropped off all the toys, the younger generation realized the impact the donation had on the less fortunate children.

Let the children decide where the ‘give’ money goes. That is key; let them decide what cause is important to them. Tell them about all the choices they have – about the different options available to them. Ask them: Do you want to help the community? The environment? Have them do the research and pick out a charity. Once the children complete their research, follow through by letting them make their donation to the organization of their choosing. If you force a child to get involved in something that he or she just isn’t interested in, or you ignore causes that are close to their hearts, then they are just going to lose that interest.

Encourage young children to get first-hand experiences. For example, take them to a soup kitchen. Or have them run a lemonade stand business and then donate a portion of the profit to a charity. Get the children to talk to the charity and ask questions such as how the money they are donating will make a difference. And then revisit the organization at a later date and check on the impact the donation is making.

Take advantage of teachable moments when you are out in the world. So if you’re in a low-income neighborhood or you come across a homeless person, use it as an opportunity to discuss donating your time and/or money to help others. Or when you are in a library, art museum or hospital, kids often don’t understand that it takes financial contributions to maintain these facilities for everyone’s benefit or enjoyment.

Then, talk about the situation rather than avoiding the conversation. Help kids understand the differences in the world. Share stories. Show them where and how the first generation donates their time and effort and money, and why. This often sticks in children’s memories, gives them pride and inspires them to give.

And remember that actions speak louder than words. If you want your child to be involved with philanthropy, then tell them and show them through your own actions. For example, one of the families that we work with told us that for their mother’s 50th birthday she requested that each person, instead of a gift for her, bring a toy that they could donate to charity. Then, when they dropped off all the toys, the younger generation realized the impact the donation had on the less fortunate children.

Q: Is there anything else that families should/can do to get the younger generation involved?
A: We think it’s quite important to create a formal philanthropic mission statement. It reflects the interests, passions and values of each family member and creates a roadmap for working toward those goals. When everybody has an input – every adult family member typically participates – there is a shared commitment to the mission. You remember why you are there. A lot of time, families will outline the types or organization and the locations of organizations. And then this mission statement gives them a guideline and helps them direct their giving in years to come.

Q: Are there ever situations where the younger generation’s interests don’t align with the first generation’s? And how do you avoid that?
A: We always end up with one statement for a family. They all work together. Putting together this mission statement usually doesn’t happen in one sitting. And sometimes the act of putting together the mission statement brings the family closer than the mission statement itself. And then the mission statement provides that guideline for future generations, and usually provides flexibility as well.

Also, once the children get older, we encourage families to create junior boards for their foundations. This gives them the freedom to explore the different types of giving that they want, while still abiding by the philanthropic mission.

Q: What challenges do you face when putting together this mission statement?
A: Just getting everybody together is a challenge, especially as the family becomes exponentially larger with every generation. The generational differences are absolutely challenging. We really encourage families to remember why they want to participate in philanthropy in the first place – a lot of the time, it’s to bring the family together and to create that legacy and to have family cohesiveness.

Q: Do you see a difference in the thinking between the older and younger generation?
A: The types of causes family members give to can differ between the generations. For example, we see younger generation family members giving more to environmental causes than the older generation, which tend to donate more to the arts and museums and hospitals. The younger generation also tend to donate money around the world, while the older generation typically tend to give to their local community. But again, it’s all in line with the philanthropic mission statement.

LAUREN BENENATI AT A GLANCE:
Age: 32 • Education: Bachelor’s Degree in Industrial and Labor Relations from Cornell University • Residence: Jupiter, Florida • Hobbies: Yoga, spending time at the beach and with her dogs • Favorite holiday destination: Hawaii
How Philanthropy Can Turn the Younger Generation Into Wealth Managers

Paul & Wesley Karger, founders of TwinFocus Capital, were interviewed on May 18 by Darshini Shah.

Q: Give me a background on TwinFocus Capital.
A: TwinFocus was founded in 2006. We manage about $4.5 billion for 30 core families around the world. Roughly 70 percent of capital we oversee is for families based in the U.S.

Q: How many of those families are involved in philanthropy?
A: I would say most. And that’s because the families we work with are typically first-generation wealth who seem to be more charitably inclined, which is what is fueling this global philanthropic boom. A lot of these individuals say: “I worked hard and got lucky. I am not necessarily smarter than the next guy, but I was in the right place at the right time. It’s my turn to give back. But, what is the right amount to donate? How much should I fund my foundation? How do I get my kids involved? How do I teach the responsibilities of wealth?”

Q: And what is the answer?
A: Many times, early on, families write checks towards philanthropic causes without any formal structure in place; almost like a shotgun approach. We come in and help them formalize and institutionalize the program. We help them set up a family foundation so we’re thinking through it all from a tax perspective as well on how best to fund that foundation. We work with the family and their children to develop a mission statement, and vet possible causes and organizations. Additionally, we use the foundation — which is sometimes the first large pool of capital that the children have transparency into – as a means to get children involved in the investment process to prepare them to make their own thoughtful capital market decisions one day.

For example, in the U.S., a foundation has to give away 5 percent of the assets per year. This is mandatory. Before, when December rolled around, many of these families would be asking their kids: “Hey, we want to give some money...
“It’s not just about pulling on the heart strings. It is mainly about doing good, getting the family more involved, but structured properly.”

away.” It is like spray and pray. But, if you go to three children and tell them that you have, say, $50,000 to give away, often, given the magnitude, the children want to get involved. For example, we’re planning a family summit this summer with a handful of families where we will be discussing philanthropic mission statements and possible donee organizations.

**Q: What should this mission statement look like?**

**A:** It can be broad. You know, one child may wish to donate to environmental causes, another to the LGBT community. Each of the children will petition the board, pitch their idea and everyone has a vote. We then make a collective decision based on the interest of the group defined by the foundation’s mission statement.

**Q: What are the different incentives for philanthropy?**

**A:** It’s not just about pulling on the heart strings. It is mainly about doing good, getting the family more involved, but structured properly. There are also tax incentives for U.S. tax residents.

It’s also an opportunity to teach children to think about investments, and creating accountability because you don’t want the organizations who are receiving the gifts to just squander it. We also use this as a way to teach the younger generation how to manage wealth. They’ve got these assets in a foundation that need to be invested in some way, shape or form. So, mum and dad may not be ready to tell their children that they’ve got $100 million in the bank, but they may be ready to say, “Look, we’ve got $1 million in a family foundation; let’s think of a way to invest this to benefit others.”

**Q: At what age does the younger generation get involved?**

**A:** Every family is different and a big part is how these kids grow up. Is there a correct age to discuss wealth? I don’t know. But what I do know is that it all starts at home. It’s values that you, as a parent, instill. You’re not philanthropic just because of tax reasons — that’s secondary, because you really are giving the money away and you don’t get a 1-for-1 write-off against your tax bill.

**Q: Is there a difference in thinking about philanthropy between generations and how do you reconcile those differences?**

**A:** This is where the mission statement really helps. In most cases, the matriarch and patriarch are not concerned whether the kids believe in the same causes that they do, but more about the values that they instilled, about being socially responsible and being good social citizens. I think the first generation just want their kids to be engaged and not just donate to some willy-nilly charity. And then in some cases, the kids actually end up working for the family foundation.

In many cases, we’ll introduce light-touch philanthropy – i.e. instead of bringing a 15-year old into the board of the family foundations, we give them a budget to allocate and they can start thinking about where they want to donate, say, $5,000 gifts. So you can start small. ●
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For information, please contact Ellen Israelson at 212.752.8277 or ellen@jcfny.org, or visit jcfny.org.
Millennials Are the Catalyst in Move Toward Impact Investing: Report

By DARSHINI SHAH

UBS and Campden Wealth surveyed 276 family offices between March and May 2016 for the Global Family Office Report 2016. A summary of the results, which were published in September 2016, is as below:

Involvement in Impact Investing

Almost a third of family offices are either somewhat or highly active in impact investing, according to the report. A further 30 percent said that while they were not currently active, this was likely to change in the future, the report said.

Views on Impact Investing

Millennials were the catalyst in the move towards impact investing, according to the Global Family Office Report 2016. Two-thirds of family offices surveyed agreed that families with children born after 1980 would see an increase in requests to participate in impact investing. "But this isn't just a change led by the next generation, there is something more deliberate at work," the report said. "Nearly half of family offices (47 percent) believe that impact investing is a more efficient use of funds to achieve social impact than philanthropy."

Source: The UBS/Campden Wealth Global Family Office Report 2016; Note: Due to rounding, totals may not add up to 100%
Q&A
Moving Impact Investing From Hope to Proof and From Proof to Scale

Matthew Weatherley-White
Matthew Weatherley-White, managing director at The Caprock Group, was interviewed on May 17 by Darshini Shah.

Q: Give me a little bit of background on what The Caprock Group does.
A: Caprock Group is a fairly traditional multi-family office. We provide single-family office services to more than one family. We currently work with about 125 families around the world. We advise on about $3 billion of capital and we’re aiming for $4 billion by year-end.

Q: How many of those families are involved in philanthropy and/or impact investing?
A: All the families that we work with have demonstrated or have clearly articulated a philanthropic intent. It’s one of the screens we use before we accept any family to work with. Of that $3 billion of assets that we work with, roughly one-third has been deployed with an impact mandate, and the remainder has been deployed conventionally. And yet, over the past two years, we have heard from more and more of these conventional investors that they want to know what we are doing with impact investing.

Q: Is there a big difference in the thought processes by the older generation versus the younger generation when it comes to impact investing?
A: Yes, and it’s not exclusive to just a generational thing. I went out for dinner the other night with three Dartmouth students who are graduating and all of whom are starting on their careers either in Wall Street or consulting. I asked them what they thought. One of them said: “Oh, I would definitely sacrifice financial performance as long as I know my money was making a positive impact in the world.”

Another, who was raised without a lot of resources in her family, said: “Oh, I’m not sure. I need to make some money because I need to pay off my student debts.”

There is a big-picture trend that the wealth transfer between the wealthy first generation to their children will result in a shift in the investment processes. What we see with our families is not purely the younger generation being involved in impact investing. For example, in one of the families we work with, the patron of the family — who made all of his money digging oil wells — he was the one who, at age 80, said: “I want to use my money to support these at-risk communities where I made all my money in rural Colorado. And I want to do it as an investor, not as a philanthropist.”

Q: How do you introduce families to impact investing?
A: When families who have a philanthropic aspect to their wealth-management strategy first hear of impact investing, their first reaction is always almost the same: “I don’t want to sacrifice financial performance.” That is the instinctive, conditioned response. Yet, when we frame it differently — when we say: “Well, you’re already investing for philanthropy, but you’re giving all your money away. That’s a 100 percent loss of capital. What would you think about doing a similar strategy which helps a cause, but also getting some notional return on capital from that investment?” When you put it that way, most people see it as “Ah, that’s a different way of thinking about philanthropy — earning a financial return on capital that would otherwise be given away.” And that opens up the conversation to impact investing — pursuing a positive financial performance as well as creating a positive impact.

One thing to emphasize — it’s not an either/or when it comes to philanthropy and impact investing; it’s a yes/and.

Q: Talk me through the process of a family going from: “Okay, I want to do impact investing” to actually investing in that particular project.
A: Within Caprock, we solve for a client’s financial needs first and pursue impact to the optimal extent possible within that primary objective. So, we determine an after-tax target rate of return for the family and then we start reverse-engineering from an allocation perspective by filling in all of the asset classes. Once we have that infrastructure in place, we do a deep-dive into a family’s mission.

We have found that families are typically motivated to do impact investing along two primary axes. The first is: What problem am I trying to solve in the world? Is it environmental, like a sustainable food chain or technology related to climate change? Is it a social issue like affordable housing or education? The second axis is: Where in the world am I trying to solve that problem? We see everything from hyper-local investors to total generalists. For example, we serve one client who invests in sustainable organic food systems in the Pacific northwest of the U.S. and we serve another who wants to invest in “access to essential services” in emerging and frontier markets.

So once we have those factors in place, we do a landscape overview of the available investments, which solve for both the mission question and the financial question.

The interesting thing is when you look at the portfolio that we build, if you don’t look deep enough to understand the impact component, it would look like a totally conventional portfolio — public fixed income, a layer of public equities, some private debt, early-stage venture capital, private equity, hedge funds, some real assets, etc.

These portfolios would look similar to the range of bespoke portfolios that we create for the families who do not have an impact focus. Yet, you look one layer down, and suddenly you start seeing — as you would with, for example, the Ford Foundation — totally fascinating projects that are being funded through the capital markets.

Q: What do you feel the barriers for investors are when it comes to impact investing?
A: You know, in a traditional investing world, no one would ever say “I might risk losing my money therefore I am...”
never going to invest this way.” People invest in hedge funds and early-stage technology all the time, with perfectly reasonable expectations that there is going to be some loss of capital. And it doesn’t bother anybody. And suddenly you put the label ‘impact’ on it, and everybody goes: “Oh! I don’t want to lose money in impact.” It’s fascinating... and frustrating.

Here’s the way I look at it: over the past 10 years, impact investing has moved from hope to proof, and now we are trying to move from proof to scale. There are some really open questions around what that is going to look like: absorptive capacity being a primary question mark. It’s easy, for example, to say: “Hey I’m going to invest in a handful of organic baby food companies because of consumer demand, blue-sky pricing, revenue growth, etc.” But what happens when the whole category becomes really, really big? What happens to performance at that point? Does it become much more margin-driven rather than mission-driven? Similarly, with the absorptive capacity in emerging and frontier markets – it’s one thing to have the first off-grid solar-power leasing company; what happens when there are 10 of them all competing for market share in Uganda? I don’t think we know the answers to that yet. I would also suggest that if that is the future, then the use of the word “impact” becomes a distinction in search of a difference; the term “impact” becomes meaningless, because that method of investing and operating simply becomes business. Which would be amazing.

The dearth of talent is another big problem. There are not a lot of asset managers who really understand impact investing. So, we’re seeing a number of firms scrambling right now to meet market demands with high-quality products. This lack of talent is perhaps the biggest sticking point. To be a really effective impact investor, you have to sort of be a mix between Mother Teresa and Warren Buffett and MacGyver! And there aren’t many people like that; there just aren’t that many – to use Charlie Munger’s phrase – ‘expert generalists.’ My expectation is – and we’re starting to see that already – is that the talent hunt will accelerate.

I also think the potential of lowering of standards is really high. One of the things that Wall Street and the City do really well is commoditize product strategies. By doing that – in order to sell it better – we really run the risk of lowering standards, which would be truly unfortunate.

Q: What trends do you see in impact investing?
A: A few years ago, I was speaking to a brand-name firm who had announced the launch a new impact fund. They were actually quite conservative on how much money they could raise, relative to their experience in other sectors. They thought they could raise $250 million. Fast-forward two years, and you’ve got TPG with a $2 billion fund. And you’ve got the Leonardo DiCaprio foundation that has a soft target for up to a $2 billion-pledged mandate targeting alternative and renewable energy projects. So scale of capital is accelerating, and it’s changing really fast.

The other big trend we see is that most of the foundations that we speak with have initiated some kind of journey or exploration towards impact investing and are in the process of making a decision to move that to 100 percent of their portfolios. Most of them start off with a carve-out. For example, even the Ford Foundation has publicly said that its objective is to move its $12 billion corpus toward impact, and start with a 10 percent carve-out.

Q: Does this transition — from a 10 percent carve-out to a portfolio that is wholly dedicated to impact — take a long time?
A: We call this “conversion cadence,” and it’s all over the board. It really reflects the temperament of the investor.
have one client who was so impatient, whose moral steering power of capital was so powerful, that he wanted it done as soon as possible. And on the other hand, we have another client with a $300 million portfolio who has an intention to moving to 100 percent intended with no timeline in mind, no sense of urgency.

**Q: What areas of impact investing are particularly interesting?**

**A:** I’d like to answer that from the perspective of “interesting,” not necessarily “most financially attractive.” Through that lens, look at the technology sector. We celebrate disruption. We celebrate when new companies emerge and destroy their competitors. We celebrate that culture. And yet, in the energy world, we hate it. I mean – what is solar power? Solar power is a technology play. It’s not an energy play. More jobs were created in solar in 2016 than in the oil and gas exploration and production. But we don’t see solar as technology, so we don’t celebrate it as technology. It’s a cognitive bias against this idea of creating durable, measurable, environmental value with capital markets. It’s this bias against using capital markets to create environment value.

Similarly, take a look at micro-finance, and some related lending strategies. It’s a very well-known industry at this point. It’s mature. And yet, when you look at the default rates in micro-finance and you look at the nominal yield in a micro-finance portfolio, and compare that to the default rate and nominal yield in a publicly traded debt market, there is a total disconnect. Most diversified, public-debt, investment-grade portfolios are going to be yielding somewhere south of 3 percent now. Micro-finance? You can get 4.25 percent with a similar or somewhat lower default rate. Maybe there is a little bit of an illiquidity premium there because bonds aren’t tradeable. Maybe there is a little bit of a market intel premium in there because you are investing in unfamiliar markets. But still, there is mispriced risk.

I think that might be the best lens to put on this: the idea of mispriced risk. After all, isn’t that what we as investors are constantly seeking?

**Q: Is impact investing becoming more mainstream?**

**A:** Mainstream means different things to different people. For some people, it’s institutional-scale capital being pointed at the problems that the world is facing. For others, it means there is retail accessibility, i.e. the democratization of products that have access to impact. To me, mainstreaming impact investing means overcoming this embedded, institutional resistance to this notion that capitalism and the capital markets can be harnessed to create non-financial value. Until the capital markets shift enough – until the impact idea is not treated with distinctive derision – I don’t think we’ll see true mainstream, at least as I define it. I think we’ll see productization. I think we’ll see more big Wall Street firms come to market with more impact products. But that’s more about the pull function – clients want the products and Wall Street is really good at selling stuff that people want. This is not the same as becoming mainstream. This is just meeting demand, rather than evolving the capital markets.

**Q: So what needs to happen for impact investing to become mainstream?**

**A:** It’s a push-pull function. The pull from the clients and investors and the push from the big firms will, at some point, come together. I talk about the evolution of the capital markets a lot, the idea that capitalism isn’t some static system, frozen in a Milton Friedman time warp.

You know, it wasn’t that long ago when collectively, we as a global economy, concluded that colonialism was a perfectly reasonable way to organize global trade and economic activity. And it was even more recently that we thought child labor was a great way to hold down labor costs! And these things are utterly unacceptable now.

So, the market-driven economy can and will reflect the prevailing cultural morals of the participants in the market. So at some point, this bifurcation of personal and financial values will start to close.

More foundations are looking at their impact investment capital as their research and development capital. And that is such a great way to think about it. Every firm in the world has R&D capital and they’re never going to know whether it has a positive return on it. But R&D is how they grow, how they become better and faster. You have to invest in R&D. This notion that impact investing can be the R&D capital of capital markets – that is powerful.

And then, what I said earlier – about moving from hope to proof, and then from proof to scale – this impact investment capital as R&D capital is how we move to scale. Because we then have this R&D that is testing business models and testing investment strategies.

One last point: every investment has some sort of impact, positive or negative. Right now, most market participants have tacitly agreed that we should invest with no regard for the environmental or social consequences of doing so. And I get it: not every investment will have a positive impact. But I think that what we are seeing is a shift towards owning that reality, simply recognizing this fact. And once you get to that point, once the markets offer investors the opportunity to understand and choose their impact, then nothing will ever be the same again.

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**MATTHEW WEATHERLEY-WHITE AT A GLANCE:**

**Age:** 53  
**Professional background:** The Caprock Group, Smith Barney  
**Education:** Phillips Academy Andover, Dartmouth College  
**Residence:** Boise, Idaho  
**Hobbies:** Mountaineering, extreme skiing, endurance trail running, cycling, writing and loving my daughter!  
**Favorite book:** Meditations by Marcus Aurelius
Family Offices Could Fill Funding Gap for Minority-Owned Businesses

Donray Von, co-founder and managing partner at Currency Worldwide LLC; Founder, Castleberry & Co., was interviewed on June 2 by Emily Chasan.

Q: You previously partnered in a joint venture with Nick Gross, son of billionaire Bill Gross, formerly of Pimco. How did that come about and what did you learn working alongside the Gross family?
A: After 20 years in the music business, where I worked with everyone from Outkast to The Roots, I met a musician whose father was Bill Gross. Nick and I became partners and 18 months later, the music venture was performing pretty well, so Bill gave us several million dollars to start a technology-focused venture fund. We made eight investments with that fund, and so far, have had three exits. I learned investor tendencies from co-investing next to some substantial funds and family offices, like Shari Redstone, TPG Growth and Wellington Management. Analyzing how they executed deals in a variety of industries was invaluable, but it also showed me that there was a significant gap in access to capital for small- and medium-sized businesses outside of the tech world, particularly those run by women and people of color. It became clear to me that there was an opportunity to turn diversity into alpha.

Q: You launched Currency this month, an online lending platform to connect family offices with small and minority-owned businesses. Why do you think family offices would make good partners for a diverse group of entrepreneurs?
A: Because as investors, family offices are nimble. Once you provide them the evidence of the market opportunity, they often have fewer hurdles to deploy capital, compared with large institutional funds. They also often bring sector
experience, relevant networks and can make strong board members. Family offices will also grow with you, because if an investment shows traction, a family office could provide follow-on capital and syndicate your deal to other investors.

**Q: Minority-owned businesses often face a different set of challenges with access to capital. How have you seen that play out?**

**A:** While co-investing, I got to see several companies’ capital stack. For those companies, it was: equity, some form of a term loan and a liquidity option, like factoring. When I looked at small business’ capital stack – those owned by women, people of color, veterans, LGBTQ and disabled – in most cases, there was only sweat equity and their in-laws’ credit card. But small and minority businesses are the backbone of our economy and centers of sustainable job creation. So, there is a national, and really global, missed opportunity, if we allow those businesses to continue to struggle by not giving them the tools to become larger and more profitable. Our solution is to get people investing in what I call “the circulation economy,” where the top of the market is motivated to share resources downstream to create value.

**Q: How can this circulation economy become an opportunity for family offices?**

**A:** I’ve been working with the Small Business Administration and the Milken Institute on their PLUM Initiative (Partnership for Lending to Underserved Markets). Michael Milken refers to places like Baltimore, Detroit and Los Angeles as domestic emerging markets; noting we don’t have to go all the way to India or China to find investments or outsized returns. We want to create an opportunity for family offices and other investors, to activate their dry-powder in a risk-reduced asset-based way, by providing credit or loans to these companies that help them to build up their capital stack.

**Q: What kind of impact do you think improved capital for small businesses could have on the economy?**

**A:** We have Fortune 500 companies and municipalities sending us small vendors that need to access liquidity. Fundamentally, when companies look at their inclusion initiatives for suppliers, lack of capital is the biggest issue for a small business when a Fortune 500 company wants to engage. And if you look across the Fortune 500, which aim to spend about 20 percent of their almost $2 trillion dollar supply chain with small and minority vendors, that number is coming up short across the board. Those businesses don’t have the scalability required, and for banks, even if they want to do the transaction, the underwriting limits are a huge barrier. Currency’s approach is to underwrite the transaction, and not the business owner’s personal assets. By succeeding we will expand the entire economy.

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**DONRAY VON AT A GLANCE:**

**Age:** 46 • **Based in:** Los Angeles, California • **Hometown:** Atlanta, Georgia • **Favorite recent movie:** Arrival • **Recommended book:** Screw Business As Usual by Richard Branson • **Favorite restaurant:** My Two Cents, Los Angeles • **Favorite toy:** Canon 7D • **Favorite sports team:** Atlanta Falcons • **Best investment advice:** Write your destination in pen, but your journey in pencil.
Q&A

UBS’s Oncology Fund ‘Encapsulates’ a New Era of Impact Investing

Simon Smiles, chief investment officer of ultra high net worth at UBS, was interviewed via email on June 12 by Darshini Shah.

Q: The UBS/Campden Wealth report on family offices in 2016 found that more than half of the family offices surveyed are not currently active in impact investing. Why is that the case? Why is it not becoming more mainstream?
A: In the past, impact investing has often been pitched to investors as being the right thing to do, with less focus on the underlying investment case. However, many family offices and ultra high net worth investors already have philanthropic foundations organized around their core values. Historically, impact investment also got caught in the middle, as clients characterized it as neither a financial investment nor a charitable donation.

The good news is that this is changing. The asset class is coming of age as new investment products are developed, explicitly targeting both attractive financial performance and positive social impact. Millennials are helping to drive this change amongst wealthy families, but there is growing recognition at all levels that impact investing is an increasingly appealing way to invest.

Q: What trends are you seeing in impact investing?
A: A survey conducted as part of UBS’s Unlimited project found that nearly nine in 10 millennials consider wealth to be more about experiences and impact than possessions or cash. This generation is leading a wider movement amongst our clients towards investments that have purpose, such as positive social or environmental returns, as well as potentially attractive financial returns as well.

When we look at our ultra high net worth and family office clients, we are seeing rising interest in impact investing. The 2016 Family Office Report noted that 30 percent of those surveyed are likely to become active in the impact investing space. Larger investors are recognizing how...
impact investments’ traits align with their own. Ultra high net worth clients often have long-term time horizons that chime with those of impact investments. The wealthiest clients typically exploit the premium offered by illiquid instruments such as private market impact investments. And ultra clients frequently demand thematic investments that focus on their affinities. Impact investing is part and parcel of this thematic approach.

There are some obstacles to impact investing that the industry is overcoming. These include measurement of where investment demand is most needed, missed opportunities to connect those in need with willing private investors and transparency on social investment returns. As technology leads to cheaper collection of big data, and extreme connection enables better matches between parties, we expect these headwinds to impact investing will abate.

Q: Tell me about UBS’s oncology fund and how that launch came about.
A: The inspiration for the oncology fund started at the dinner table. The president of our wealth management business and our global CIO broke bread in Boston with some of the world’s leading cancer experts. These researchers explained how a cure for cancer was possible, if the money was available to support vital research.

The UBS Oncology Fund was born, and its $471 million fundraising made this the largest health care impact investment in history. The fund works by channeling money into the most promising early stage academic research, then supporting first-stage clinical trials of the resulting treatments across a portfolio of early-stage companies. Approved drugs are then sold either direct to market, or wholesale.

The fund also aims to distribute a 1 percent royalty fee from successful oncology drugs, seeking to reinvest these funds into more cutting-edge research. In addition, investors have the potential to also make positive financial returns if any of the portfolio companies are bought out. Success has already come as one of the fund’s underlying investment companies were acquired, generating a multiple return on invested capital.

We believe the fund encapsulates the new era of impact investing, where investors can generate positive returns to society alongside favorable financial returns.

Q: What kinds of investors can make the biggest impact with this kind of investment?
A: In short, we strongly feel that impact investing is for all investors. The case is strong for investing with a dual bottom line of financial and social returns to move from niche idea to the mainstream.

To put the scope of the opportunity for growth in context: private market impact investment funds raised $11.3 billion in 2016, according to the Global Impact Investing Network. That compares to around $65,000 billion of world public equity market capitalization, roughly $120,000 billion of value in global fixed income markets, and an estimated $250,000 billion of private household financial wealth.

Awareness of global economic imbalances is rising and investors are becoming more aware of how impact investing can help solve these problems. We are adamant that with education, connections and readily available data on financial and social returns, the scores of private investors that have never committed to impact investments before will begin to put capital to work in this field. Mobilizing private capital for social good is our exact aim at UBS. It underpins our five-year commitment to encourage $5 billion of client assets, into impact investments that support the UN Sustainable Development Goals (SDGs).

Q: And are family offices interested in investments that support the UN SDGs?
A: Yes. Clients are increasingly keen to understand where private capital can play the most critical role in supporting the fulfilment of the SDGs. In our January 2017 white paper for the World Economic Forum meeting in Davos, we identified a number of SDGs where private investment capital could play a critical role. Many of these themes – like zero hunger and climate action – dovetail with our clients’ personal and philanthropic passions.

Others appeal to our entrepreneurial clients – their experiences in building and running successful businesses underscore the commercial sense in investments in good health and well-being, or affordable and clean energy. And these industry leaders increasingly want to invest in human or innovation capital, which aligns with other SDGs like the quality education goal, as well as the industry, innovation and infrastructure objective.

SIMON SMILES AT A GLANCE:
 Age: 39 • Education: First class honors in Economics and Finance, University of Sydney; PhD, Australian National University • Residence: Zurich, Switzerland • Hobbies: Tennis, skiing, cooking • Favorite book: For Whom the Bell Tolls by Ernest Hemingway • Favorite movie: Apocalypse Now • What people don’t know about me: I love tattoos
Q&A

No Trade-Off Between Doing Good and Doing Well: Phillips Foundation

Q: The foundation has almost all of its $60 million in mission-aligned investments. Can you tell us a little about that journey?
A: We had to find the right financial advisers who could help us achieve our goal of reaching 100 percent value alignment across the foundation’s corpus. Since making that move, we have achieved better financial returns and feel like we are serving as good stewards of the foundation’s full assets — making an impact not just with our 5 percent in annual grant-making but with the whole platform under our direction.

Q: What are some of the investments?
A: Our goal is: “First, do no harm,” which we achieve through screens. Then, when we can find opportunities to create measurable social and/or environmental impact through our investable assets, that’s even better.

Our first direct impact investment was $500,000 in a social business in Uganda, which helped it respond to a U.S. Department store’s purchase order for jewelry. The Ugandan organization purchased raw materials, doubled the number of women employed and paid back the low-interest loan within a year, and we made 5 percent. Those are the types of double-bottom-line, win-win investments we seek out and deem successful as a philanthropic institution. I had been involved in the startup of this particular non-profit social business and knew it well, which is how we chose it as a pilot impact investment.

We invest for impact across asset classes, too. One example in our private equity portfolio is The Vistria Group, which targets the education, health-care and financial services sectors. To provide a fixed income example, we have recently invested in MCE Social Capital, due to their guarantor model and strong impact reporting.

Q: How has your performance been as you’ve moved toward mission-driven investment? Why should family offices get more involved in impact investing?
A: Impact investing is just good investing. We see it as not only a positive way to steward capital but also as risk mitigation. When you’re investing in companies that pursue ethical practices and are conscious of their impact, they’re more sustainable. We have not seen a trade-off between doing good and doing well.

Q: What advice would you give to those families just venturing out in impact investing? What risks should they be looking out for?
A: The best advice I can give is to find families more experienced in the space and learn from them or co-invest. Also, start somewhere that makes sense for you, like within an industry you already understand or an opportunity related to the family business. There are so many networks in this arena, too, which can really help with the learning curve. We have found a lot of value in The ImPact, for example, which was specifically created for family offices interested in impact investing. ●
THE FORD FOUNDATION is committing $1 billion of its endowment over the next 10 years to money managers who invest in affordable housing and financial services for people in developing countries.

The move marks a shift by the New York-based nonprofit, from investing its $12 billion endowment in traditional assets to funds aligned with its mission that also aim to earn market-rate returns, the foundation said in a statement April 5.

“We believe the time has come to step up and put our money where our mouth is,” Ford Foundation President Darren Walker said in a conference call last week. “If we as a society are going to solve the world’s problems, every sector needs to play a role.”

Guidance from the U.S. Treasury Department in 2015 clarified that foundations can consider their mission as part of prudent investment decisions, removing concerns that doing so would conflict with their fiduciary duty to act in the foundation’s best interest, Walker said. The size of Ford Foundation’s commitment will hopefully push others to make similar pledges, he said.

There are more than 86,700 grant-making foundations in the U.S. and they control more than $865 billion in assets, according to the Foundation Center, which has tracked foundation data through 2014. But only a small percentage of them have matched their endowment strategies with the social causes they support, such as investing in companies that protect the environment.

Most foundations that pursue mission-related investments apply less than 5 percent of their endowments toward it, according to a 2016 study of 29 foundations by the University of Pennsylvania. An early exception is the Heron Foundation, which is deploying 100 percent of its $273 million endowment in investments that fight poverty.

The Ford Foundation’s portfolio saw an annual return of 3 percent for the fiscal year ended Dec. 31, 2015, according to documents filed in March.

The foundation has already built expertise in the mission-aligned investment areas it is targeting for its endowment, Walker said.

It has supported affordable housing and financial inclusion projects for years, backing microfinance, savings and insurance products to help individuals in developing countries. The foundation currently has $75 million in program-related investments in affordable housing and $77 million in financial inclusion, which do not seek market returns.

The foundation will invest the $1 billion over 10 years by gradually shifting money into funds that seek to earn “not only attractive financial returns but concrete social returns as well,” according to its April 5 statement.

Impact Investing Assets Top $114 Billion, Led By Housing

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>$25b</td>
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<tr>
<td>Energy</td>
<td>$19b</td>
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<tr>
<td>Microfinance</td>
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<td>Financial Services</td>
<td>$12b</td>
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<tr>
<td>Food &amp; Agriculture</td>
<td>$8b</td>
</tr>
</tbody>
</table>

Source: GIIN

Investors put at least $22 billion into nearly 8,000 impact investments in 2016, bringing total assets in the sector up to about $114 billion, according to the Global Impact Investing Network’s annual survey released May 17. At the end of 2016, the greatest share of all impact investments under management — about 22 percent — was in housing. About a quarter of the 209 investors polled by GIIN said they planned to boost allocations to food and agriculture in 2017. GIIN expects impact investors to put about $25.9 billion to work in 2017.

Note: These are the five sectors that had the most amounted allocated to by impact investors.